



**Northern Territory Auditor-General's Office**

*Auditing for Parliament*

# **March 2019**

## **Report to the Legislative Assembly**

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<http://www.nt.gov.au/ago/>

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## **March 2019 Report to the Legislative Assembly**

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**Northern Territory Auditor-General's Office**  
Auditing for Parliament

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

20 March 2019

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 28 February 2019 and I request that you table the report in the Legislative Assembly.

This report presents the results of financial statements audits completed during the period. A number of performance management system audits designed to test the adequacy of performance management systems within agencies as they related to strategic goals presented in Budget Paper 3 or to specific programs or projects were completed and the findings included in this report.

The report also presents the findings from audits of information technology systems that were undertaken to assess whether access to those systems together with controls over data maintained within such systems were adequate.

My report contains my findings relating to one matter referred under the *Public Information Act 2010*.

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 13 separate audits and other tasks completed during the period 1 November 2018 to 28 February 2019. 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;
- Performance Management Systems Audits; and
- One matter referred under the *Public Information Act 2010*.

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 after 31 October 2018 and before 28 February 2019.

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 1995* provides a legislative requirement for the Auditor-General to report to the Legislative Assembly on at least an annual basis. This is the third report provided for tabling within the Legislative Assembly for the year ending 30 June 2019, my last report was tabled during November 2018.

# 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 1995* 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 2010* 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 1995* 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, 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 (NTG) 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 1995* also requires that the Auditor-General has regard to those standards.

## The Public Account

The Public Account is defined in the *Financial Management Act 1995* 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 1993* for the proper, efficient and economic administration of his or her agency. Under section 13 (2)(b) of the *Financial Management Act 1995*, 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 1995* to include “*the methods and procedures adopted within an agency to promote operational efficiency, effectiveness and economy*”.

Section 15 of the *Audit Act 1995* 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 1995* 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 statement 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.

## 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.

## Guide to Using this Report cont...

### 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.

### 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.

## Guide to Using this Report cont...

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 ASA705 *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 2, establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

- a) the nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and
- b) the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

### **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 1995*, 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 1995*. 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 'unmodified 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.

### 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.



## Guide to Using this Report cont...

### ***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 2010 Referrals***

The *Public Information Act 2010* 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.

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## **Reports on the Results of Audits, Reviews and Assessments**

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# Board of the Museum and Art Gallery of the Northern Territory

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

### *Background*

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

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

### *Scope and Objectives*

The objective of the audit was to complete sufficient audit verification to enable an opinion to be expressed upon the financial statements of the Board of the Museum and Art Gallery of the Northern Territory for the year ended 30 June 2018.

### *Audit Opinion*

The audit of the Board of the Museum and Art Gallery of the Northern Territory 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*

Consistent with the previous year, the main revenue sources are grants and subsidies whilst the majority of expenditure is incurred as a result of employee expenses, property management costs and purchases of goods and services.

The Board recognised a net surplus of \$790 thousand during the year (2017: net deficit of \$31 thousand). Grants and subsidies revenue was \$1.231 million higher than last year which is largely attributable to the receipt of grant funding to deliver the Megafauna Central Facility and operate the augmented reality project at Megafauna Central.

Operating and management costs were \$294 thousand higher than the prior year predominantly due to opening Megafauna Central. Employee expenses were \$201 thousand higher than the prior year due to the employment of personnel at Megafauna Central.

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

### Financial Performance for the year

	2018	2017
	\$'000	\$'000
<b>Income</b>		
Sales of goods and/or services	255	255
Current grants and subsidies	9,932	8,701
Other	286	305
<b>Total income</b>	<b>10,473</b>	<b>9,261</b>
<b>Expenditure</b>		
Employee expenses	(5,062)	(4,861)
Supplies and services	(3,202)	(2,908)
Depreciation and amortisation	(30)	(65)
Property management	(1,389)	(1,458)
<b>Total expenditure</b>	<b>(9,683)</b>	<b>(9,292)</b>
<b>Surplus/(deficit)</b>	<b>790</b>	<b>(31)</b>

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

### Financial Position at year end

	2018	2017
	\$'000	\$'000
Cash and cash equivalents	2,369	1,311
Receivables and other current assets	102	313
Less current liabilities	(1,536)	(1,417)
<b>Working Capital</b>	<b>935</b>	<b>207</b>
Add non-current assets	123	109
Less non-current liabilities	-	-
<b>Net Assets</b>	<b>1,058</b>	<b>316</b>
Represented by:		
Accumulated funds	817	27
Capital	241	289
<b>Equity</b>	<b>1,058</b>	<b>316</b>

# Cobourg Peninsula Sanctuary and Marine Park Board

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

### *Background*

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

### *Scope and Objectives*

The objective of the audit was to complete sufficient audit verification to enable an opinion to be expressed upon the financial statements of the Cobourg Peninsula Sanctuary and Marine Park Board for the year ended 30 June 2018.

### *Audit Opinion*

The audit of the Cobourg Peninsula Sanctuary and Marine Park Board for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 8 February 2019.

### *Audit Observations*

The audit did not identify any material weaknesses in controls.

### *Performance Overview*

The Board reported a surplus of \$14 thousand compared to prior year's surplus of \$26 thousand. The movement of \$12 thousand is attributed to:

- Gross income of \$453 thousand (2017: \$460 thousand) which decreased from the prior year by \$7 thousand. This was mainly attributed to a decrease of \$29 thousand in park income offset by an increase of \$22 thousand in goods and services received free of charge. The increase in goods and services income was fully offset by the associated expenditure.
- Total expenses of \$439 thousand (2017: \$434 thousand). The increase in expenses of \$5 thousand is mainly due to the increase in goods and services received free of charge as noted above of \$22 thousand and other expenses of \$4 thousand. This increase was offset by a decrease in payments to Traditional Owners of \$21 thousand.
- The Board continues to hold a strong net asset position. As at 30 June 2018 the net asset position was \$275 thousand (2017: \$261 thousand). The net assets at 30 June 2018 comprised:
  - Cash and cash equivalents of \$242 thousand;
  - Trade and other receivables of \$187 thousand; offset by
  - Trade and other payables of \$154 thousand.



# Cobourg Peninsula Sanctuary and Marine Park Board cont...

## Financial Performance for the year

	2018	2017
	\$'000	\$'000
<b>Income</b>		
Park income	288	317
Payments to Traditional Owners	(242)	(263)
Other revenue	165	143
<b>Total income</b>	<b>211</b>	<b>197</b>
<b>Expenditure</b>		
Operational costs	(197)	(171)
<b>Total expenditure</b>	<b>(197)</b>	<b>(171)</b>
<b>Surplus</b>	<b>14</b>	<b>26</b>

## Cobourg Peninsula Sanctuary and Marine Park Board cont...

### Financial Position at year end

	2018	2017
	\$'000	\$'000
Cash and cash equivalents	242	239
Receivables and other current assets	187	170
Less current liabilities	(154)	(148)
<b>Working Capital</b>	<b>275</b>	<b>261</b>
Add non-current assets	-	-
Less non-current liabilities	-	-
<b>Net Assets</b>	<b>275</b>	<b>261</b>
Represented by:		
Accumulated funds	275	261
<b>Equity</b>	<b>275</b>	<b>261</b>

# Department of Health

## eProcurement

### *Background*

The Department of Health (the Agency) is in the process of “*replacing Health’s current procurement system, Qantel with Technology One’s Procurement suite. The project is managed and sponsored by NT Health’s Purchasing Department. It will include a full Health Procurement capability including ordering, reordering, stock order lists and contracts management. The project is expected to be complete by March 2017.*” [Department of Health Annual Report for 2016]

As at November 2016, the project was expected to be completed by March 2017.

The Agency’s Annual Report for 2017 stated: “*Health Procurement Project’s Supply Chain Implementation of the Health Procurement System is well underway with the first roll out at Central Australia Health Service sites. This system will provide NT Health with greater visibility of purchases and allow for more detailed reporting and spend analysis of consumables.*”

### *Scope and Objectives*

The objective of this review was to assess the following areas of control in relation to the Health Procurement Project’s Supply Chain Management software:

- general computer controls (including change control, information security, resilience and operations);
- key application controls, including restriction of access to sensitive functions; key workflow controls; data input controls and adequacy of reporting;
- interface controls with source systems and Government Accounting System (GAS); and
- achievement of defined benefits and project deliverables.

The audit focussed on the Technology One Procurement suite which has been rolled out to provide the Agency “*with greater visibility of purchases and allow for more detailed reporting and spend analysis of consumables.*” [Department of Health Annual Report 2017]

This audit obtained an update on the approach being taken in relation to monitoring and addressing any outstanding issues arising from the implementation of the system and assessed the following functions:

- information security management;
- user access management;
- systems change management;
- data interface controls; and
- backup and recovery.

## Department of Health cont...

The audit findings are based on a review of documentation, limited testing and evaluation of general computer controls across the relevant application, database and operating system, and discussions with relevant personnel within the Agency.

### ***Audit Opinion***

Based on the scope of testing performed, except for matters reported to management, key general computer controls tested pertaining to the operation of application and general IT controls at the Agency in relation to the Health Procurement system appeared to have been implemented and working effectively throughout the audit period. The following scope areas were identified as requiring additional or enhanced controls:

- User account management process;
- Segregation of duties (procurement process);
- System security settings;
- Benefit management;
- Service continuity;
- Electronic data interface; and
- Usability.

### ***Recommendations***

The observations from my audit resulted in the following recommendations to the Agency:

- Review and disable unnecessary administration accounts;
- Develop, implement and communicate policies, processes and procedures to periodically review access privileges;
- Design and implement appropriate controls to ensure adequate segregation of duties;
- Align application level password requirements to the NTG ICT Access Standard policy;
- Strengthen governance and monitoring controls in relation to roles and responsibilities of third party service providers;
- Develop and implement a process to ensure the benefits of the project are measured, monitored and reported;
- Enhance the Business Continuity Plan and undertake testing of the effectiveness of the Disaster Recovery Plan;
- Define and document the processes applicable to interfaces between the eProcurement system and other integral across-government systems;
- Investigate the user of error logging as a detection control;
- Implement formal controls to review the accuracy and consistency of supplier master datasets; and
- Investigate user concerns in relation to alleged inefficiencies caused by the eProcurement system.

## Department of Health cont...

### *Audit Observations*

#### *Deficiencies were identified in the user account management processes*

The ICT Access Standard stipulates that a review of system access and privileges occur at least annually and when personnel change roles. At the time of my audit, a periodic user access review process had not yet been formally defined.

In the absence of robust controls to review and manage user accounts, there is an increased risk that user and system authentication will not be appropriately managed or secured leading to disclosure of information to unauthorised parties and the ability of unauthorised users to potentially perform unauthorised or inappropriate actions.

#### *The Health Procurement system allows a user to both initiate and approve a purchase requisition*

The Health Procurement system user access profiles were designed to permit each user's access in alignment with the functional responsibilities of their position.

Observation of the documented controls applicable to access design and system control testing confirmed that a user with a financial authority to both raise and approve a purchase requisition related to stock items allows the user to self-approve requisitions with no secondary review and approval process by another user.

The lack of segregation of duties can lead to an increased risk of fraud and error occurring and remaining undetected.

#### *Application level password configuration did not comply with the ICT Access Standard password criteria*

The ICT Access Standard requires agencies to use passphrases that have minimum requirements pertaining to length, character sets, password expiry and password history.

The Health Procurement system allows a new account to be tied to a Windows Active Directory account or as a local account. It was identified that the password criteria for local accounts was not consistent with the ICT Access Standard.

#### *There are no controls in place to ensure that third party monitoring controls continue to operate effectively*

The Agency relies on the Health Procurement software provider for ensuring that there are appropriate controls in place in relation to:

- information security;
- backups;
- disaster avoidance;
- infrastructure monitoring;
- access to the application server;
- outsourcing of services;
- software updates and releases; and
- database management.

## Department of Health cont...

Although these controls are defined in the provider's contract, there is no ongoing compliance report, audit report or other control currently in place to monitor that the third party controls continue to operate effectively.

In the absence of third party monitoring controls, there is an increased risk that the Agency is not aware of third party control deficiencies.

### *There is no formal process to measure the benefits realised from implementing the Health Procurement system*

The Health Procurement Project Business Case dated April 2014 was established as part of the initiation of the overall project. The benefits associated with implementing the Health Procurement System, as defined in the Business Case, included:

- greater stock visibility, stock control, stock values and reporting capabilities across the Territory;
- reduced time spent by clinical personnel undertaking procurement of consumables;
- improved quality of data used to support purchasing decisions;
- improved stock visibility and reporting capabilities;
- enablement of technology advancements required to adopt the National E-Health Transition Authority's e-Health standards for Infrastructure and Health Information;
- streamlined critical supply chain processes;
- elimination of manual processes and duplication of effort;
- simplified integration and interfacing to internal and external entities;
- automation of high volume transactions; and
- traceability of the end-to-end order processes from initial procurement to delivery to shelf and use within clinical services.

The benefits from the implementation of the Health Procurement system were not being actively monitored at the time of my audit.

The review identified a number of matters that may cause the full benefits of the system not to be realised.

## Department of Health cont...

*There is no current defined business recovery time objective for the targeted duration of “time” within which a business process must be restored*

The Health Procurement system managed by the service provider is distributed across two geographically dispersed data centres in Australia in an active / active configuration to provide dual redundancy at both the machine and data centre level.

The contract between the Agency and the service provider established that the service provider is to provide Disaster Avoidance measures for system resilience purposes. Reliance is placed on these measures to ensure the Health Procurement system can be recovered in a timely manner.

At the time of my audit:

- there were no formally defined and documented recovery time objectives established for the Health Procurement system in the Business Continuity Plan;
- there was no control in place to ensure that third party disaster avoidance processes are continuing to operate effectively; and
- there was no evidence of a Disaster Response Plan being tested/verified to confirm the system can be restored in line with business objectives.

*Controls associated with the interface between the Health Procurement system and the GAS and the Electronic Invoice Management System (EIMS) have not been formally defined*

The Health Procurement system interfaces with both the GAS and EIMS systems.

There were a number of control activities in place to detect issues with the electronic data interfaces. Although controls were implemented and appear to be effective, the controls had not been formally defined by the Agency.

In the absence of governance documentation describing how the Health Procurement system interfaces with GAS and EIMS, there is a risk of misuse and improper management of the Health Procurement System, GAS and EIMS. There is a further risk that users and management will not have a clear and consistent understanding of control activities (including how they operate) or established practices and standards applicable to system interfaces.

*No error alerts exist to detect batch interface errors*

Data is sent and received from the Health Procurement system folder for communication to GAS and EIMS. The communication between the systems is facilitated by the middleware data messaging system.

Currently, an informal review of the files received on the application file server is conducted to confirm that there have been no errors in the transmission of data from the application to the middleware data messaging system.

There is no automated email alert or established formal periodic monitoring control.

Reliance on the informal monitoring control presents an increased risk that errors in the batch interface will not be detected in a timely manner.

## Department of Health cont...

### *There are no controls in place to identify inaccurate vendor master data*

Supplier details are defined in EIMS however the supplier data captured in the Health Procurement system is used to create and submit a purchase order. There is currently no electronic data interface or formal periodic reconciliation process to ensure that the two data sets are consistent.

In the absence of a process to confirm the consistency of supplier data between the two systems, there is a risk that purchase orders may be raised to an incorrect or unapproved supplier.

### *Users have expressed concerns with the efficiency of the cloud based application*

Enquiry of personnel identified user concerns regarding the time it takes to perform tasks within the cloud based application.

Inefficiencies when utilising cloud based applications can cause a strain on resources leading to operational and financial impacts on the Agency and increase the risk that users will avoid using the applications where alternative means exist.



## Department of Health cont...

### **The Department of Health has commented:**

The Department of Health note the findings of the audit and have implemented a number of actions including;

- relevant system changes to ensure segregation of duties;
- daily monitoring of error logs for interfaces;
- documenting errors encountered and associated resolutions;
- review of supplier master data with updates to occur on an as-needs basis.

In addition, the Department will continue to progress a number of recommendations including the transition of the system administration functions to the Digital Health Services (DHS) branch, periodic review and update of user accounts, and update to the business continuity plan.

# Department of Housing and Community Development

## Procurement Compliance

### *Background*

The Department of Housing and Community Development (the Agency) is required to comply with the NTG Procurement Framework. Previous Agency initiated internal audits and independent external audits of the Agency's procurement processes identified deficiencies in the procurement practices when evaluated against past and current procurement requirements.

### *Scope and Objective*

This performance management system audit assessed compliance by the Agency with the NTG Procurement Framework through assessing the systems, controls and processes in place at the Agency to manage the procurement process.

This audit was directed to transactions within the 21-month period from 1 January 2017 to 30 September 2018 during which the new Procurement Rules were introduced rather than auditing areas of procurement previously subject to detailed scrutiny. In addition, procurement items that were previously identified and tested during the 2016/17 and 2017/18 agency compliance audits conducted by my Office were excluded from the scope of this audit.

The primary objective of the audit was to identify the systems and processes in place at the Agency to manage the procurement of goods and services and to assess whether these systems enable the Agency to determine whether the procurement process is efficient, effective and undertaken with economy.

The fieldwork supporting this audit was conducted between September 2018 and November 2018.

### *Index*

The report on this audit is structured as follows:

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Agency Procurement Environment	Refer page 39
Planning Lifecycle	Refer page 39
Sourcing Lifecycle	Refer page 39
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Contract Management Lifecycle	Refer page 42
Stimulus Program	Refer page 43

# Department of Housing and Community Development cont...

## ***Audit Opinion***

The findings from my audit identified control deficiencies and weakness across the procurement lifecycle and non-compliance with the Procurement Rules. At the time of my audit, the Agency was unable to demonstrate that the systems, controls and process in place are adequate to manage the procurement process.

## ***Recommendations***

The observations from my audit resulted in a number of recommendations being provided to management which are presented below.

- Consider what controls need to be strengthened to ensure compliance with the NTG Procurement Framework.
- Formally document the business risks associated with the procurement function. These risks should then be assessed and mitigating controls identified, developed and implemented.
- Consider what documented processes and controls need to be established to ensure compliance with the Contract Management Rules.
- Ensure the documented processes around the composition and management of the Assessment Panel are strictly adhered to and the risks that the tender assessment process is, or is perceived to be, not conducted with due probity are appropriately mitigated.
- Establish a register of individuals who have completed all training requirements and demonstrated ongoing compliance with the Procurement Framework from which to select Assessment Panel members.
- Introduce and deliver training to relevant personnel, together with ongoing communication about roles and responsibilities and to promote awareness of new and strengthened procurement requirements.
- Introduce processes to ensure documentation supporting procurement sourcing, evaluation and awarding processes and decisions is completed, retained and easily retrieved.
- Ensure documentary records are maintained consistently in a secure records management system and managed in accordance with the NTG Records Management Policy.
- Introduce regular reconciliations of the information contained in the procurement and purchasing systems.
- Ensure processes are consistent across all procurement activities and that all necessary information is provided to those ultimately responsible for making procurement decisions.

## Department of Housing and Community Development cont...

### *Audit Observations*

In addressing the audit objective, the current policies and procedures in place at the Agency were reviewed. This provided an understanding of practical application of the processes which was then used to document the processes that occur during the procurement life cycle. Supporting documentation was then obtained from the Agency in order to test the existence and effectiveness of processes and procedures as they specifically applied to the Procurement Rules.

Due to the minimal procurement requirements for Tier 1 activities, the audit focused on Tier 2 activities and above. Tier 2 and above procurement activity is required to be conducted using Agencies Purchase Requisitions Online (APRO), an across-government technology-based purchasing system.

During the January 2017 to September 2018 period, 179 tenders were awarded. The procurement activity subject to audit scrutiny is detailed in Table 1.

*Table 1: Tier 2 -5 Agency Procurement Activity*

	1 Jan 17 – 30 Jun 2017		1 Jul 17 – 30 Jun 18		1 Jul 18 – 30 Sep 18	
	(6 months)		(12 months)		(3 months)	
	#	\$	#	\$	#	\$
<b>Tier 2</b>	13	635,834	114	7,418,646	9	744,893
<b>Tier 3</b>	17	5,011,666	8	1,438,518	1	408,188
<b>Tier 4</b>	11	6,928,561	5	7,613,237	1	1,399,408
<b>Tier 5</b>	0	0	0	0	0	0

*Source: Department of Housing and Community Development Procurement and Contracts Unit*

The majority of these contracts relate to the repair and maintenance of public housing dwellings.

An audit sample of 31 tenders was selected from the above population of 179 tenders. This sample was then scrutinised against the Procurement Rules to test for compliance. Of the 31 tenders selected, departures from the Procurement Rules were identified in 27 tenders.

In addition to the tender activity presented in the above table, existing period panel contracts (across-government or existing Agency tenders) were utilised 83 times to fulfil program obligations valued at \$210,072,570. Of significance was the \$69 million Stimulus Package which was announced in February 2018.

The Agency's 2018/19 Procurement Management Plan has forecast a further 97 significant procurement activities to be undertaken, with an estimated value of \$186 million.

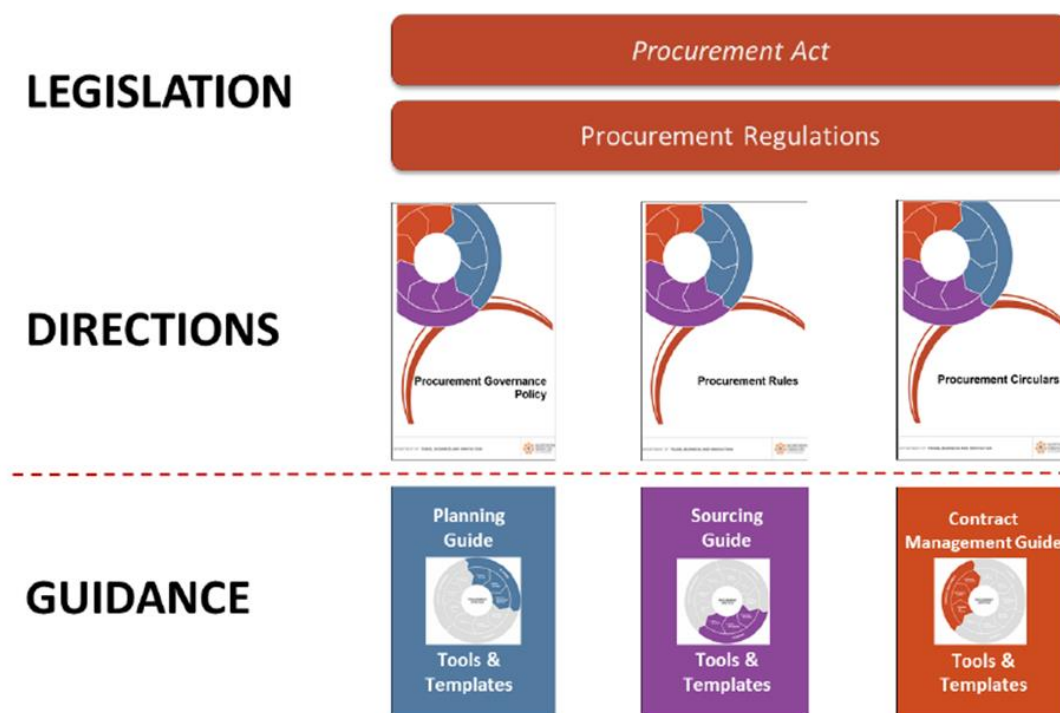
In November 2018, the NTG announced a new \$100 million public housing stimulus program to be delivered by June 2020.

# Department of Housing and Community Development cont...

## Procurement Framework

Being an NTG agency, the Agency is required to comply with the NTG legislative framework. The Procurement Framework is governed by the following legislative and policy instruments, as presented in Figure 1.

Figure 1: Procurement Framework



Source: Department of Trade, Business and Innovation Procurement Governance Policy v1.1

The Legislation and Directions establish the mandatory requirements that all NTG agencies must follow during procurement activities. Guidance documentation provides additional information to agencies on recommended approaches that may be adopted to enhance an agency's procurement control environment. The Guidance documentation is not mandatory and each agency is encouraged to establish processes specifically relevant to the agency that are consistent with the Legislation and Directions.

The Procurement Rules provide the mandatory requirements, exceptions, exemptions and process options for all NTG agencies and agency personnel when undertaking procurement activities. There are 29 documented rules, grouped into four categories, being General (which are overall rules to be applied across all stages of the procurement lifecycle), Planning, Sourcing and Contract Management. Procurement activities are split into tiers based on their estimated total GST inclusive value. This determines the appropriate procurement method that is to be applied.

## Department of Housing and Community Development cont...

The Procurement Governance Policy presented five '*Procurement Principles*' that must be applied to every procurement activity, irrespective of value and risk, as summarised in Table 2.

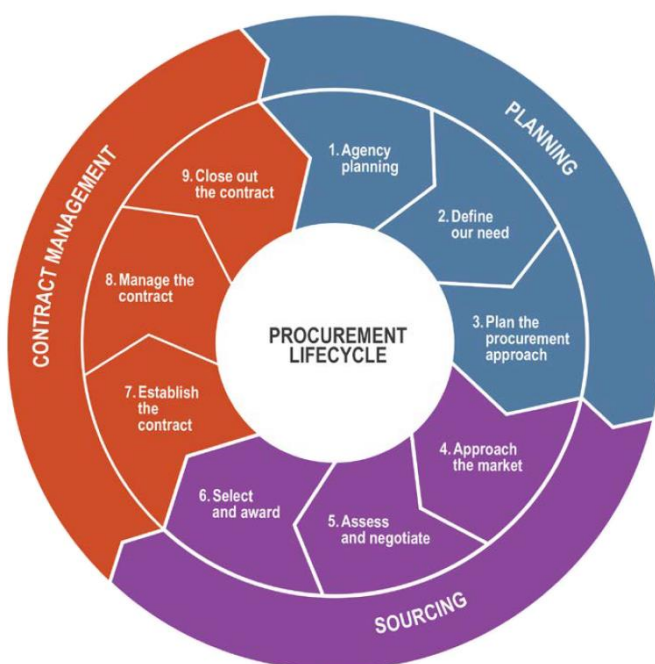
Table 2: Procurement Principles (at the time of the audit)

Principle	Objective
1. VALUE FOR TERRITORY	Procurement expenditure is a key driver in the cost effective realisation of NTG economic, social, environmental and cultural objectives.
2. ETHICAL BEHAVIOUR AND FAIR DEALING	Procurement activities instil confidence in business, industry and the public as to the probity, accountability and efficacy of NTG Procurement Framework.
3. OPEN AND EFFECTIVE COMPETITION	Procurement activities foster a competitive and innovative business environment to drive opportunities for the NT.
4. ENHANCING THE CAPABILITIES OF TERRITORY ENTERPRISES AND INDUSTRIES	Procurement activities support the growth, development, and sustainability of Territory enterprises and industries.
5. ENVIRONMENTAL PROTECTION	Procurement activities promote the protection of the environment through harm minimisation and sustainable practices.

Source: Department of Trade, Business and Innovation Procurement Rules v1.2

The detailed processes within the Planning, Sourcing and Contract Management categories are presented in Figure 2.

Figure 2: Procurement Lifecycle



Source: Department of Trade, Business and Innovation Procurement Rules v1.2

## Department of Housing and Community Development cont...

### Agency Procurement Environment

The procurement framework is currently supported by the Procurement and Contracts Unit (PCU) which also monitors the Agency's compliance with the procurement framework. The Procurement and Contract delegations have been developed in consultation with the relevant Business Units and are reviewed on an as needs basis.

The 2018/19 Agency Procurement Management Plan, which is revised and submitted annually to the Procurement Review Board, documents the anticipated procurement activity for the next 12 months. It also states that the Agency has "*conducted a number of reviews and audits*" during the 2017/18 financial year.

The planned procurement audits completed were the mandatory 'Value for Territory' Internal Audits (May 2018 and October 2018) and the Urban Stimulus Program High Level Review (February 2018). The Governance and Information Management Unit has yet to formally assess the audit results and document the business risks associated with the procurement area.

### Planning Lifecycle

The Planning Lifecycle encompasses the Agency specific procurement strategic planning, identification of procurement needs and the establishment of appropriate procurement approaches.

The procurement of goods and services can be initiated by any Agency officer however, the majority of the Agency's procurement activity occurs within the operational business units.

Agency personnel are directed to the Agency's intranet site for guidance as to the appropriate procurement process for Tier 2 and above procurement activity. The site provides detailed process flow charts and templates to assist personnel in ensuring compliance with the Procurement Rules. Agency personnel are required to submit an approved Procurement Registration Form to the PCU in order for APRO to be accurately populated and to verify that the procurement rules are being met.

Testing of procurement documentation relevant to the Planning lifecycle found a number of required forms were unable to be produced for audit scrutiny or were incomplete.

All Tier 2 procurement activities are managed by the PCU to the award stage. PCU personnel will assist the requesting officer during the planning and sourcing stages, however compliance with the Procurement Rules is the responsibility of the requesting officer.

All tenders that are estimated to be Tier 3 and above are notified to the Contract and Procurement Services (CAPS) business unit within the Department of Corporate and Information Services (DCIS) to be released via Tender Documents On Line. The CAPS business unit then continues to manage the Sourcing Lifecycle, once the planning stage has been completed.

## Department of Housing and Community Development cont...

During induction of new personnel into the Agency, a Conflict of Interest declaration form is required to be completed, following which an annual review is undertaken to identify any conflicts of interest. Where a conflict of interest arises, managers are informed to ensure relevant action can be taken to mitigate any perceived risks. Declared conflicts of interest are recorded and monitored by the Human Resources team. A Conflict of Interest declaration is also required to be completed at the beginning of each tender as part of the planning process. It is then the responsibility of the individual personnel to complete a declaration should a conflict arise during the remaining process. The declarations are then maintained within the tender's TRM file.

For a number of procurement activities selected for audit testing, the Agency was unable to provide Conflict of Interest declarations and Project Specific Procurement Plans. I was not provided with a Certificate of Exemption pertaining to one select tender.

In October 2017, a Tier 2 tender was verbally entered into for the provision of housing maintenance and tenancy management services. The tender had not been approved by the authorised delegate and was not compliant with any of the Procurement Rules, notably:

- APRO was not utilised;
- planning and sourcing documentation had not been prepared; and
- the tender had not been gazetted.

A Notification of Acceptance, including a formal contract was subsequently provided to the contractor in January 2018. The total expenditure incurred for this tender to 30 September 2018 was unable to be provided.



## Department of Housing and Community Development cont...

### *Sourcing Lifecycle*

The Sourcing Lifecycle involves the process of inviting relevant parties to submit tender offers, the subsequent assessment of the relevant contractors, contract negotiations and culminates with the awarding of contracts.

As detailed in the Planning Lifecycle above, tenders of Tier 3 and higher are managed by the DCIS CAPS team. Only Tier 2 tenders are monitored by the PCU.

During the Sourcing Lifecycle, contractors are assessed and appropriate negotiations undertaken. As part of this process, Assessment Panels are established. Personnel on each Assessment Panel are selected based on the specifics of the individual tender. This is intended to ensure that personnel with appropriate and relevant skill sets are assessing the responses to the tenders. Once the Assessment Panel members have been selected, and detailed within the Procurement Assessment Report, APRO is then to be updated to reflect this information.

The role of the Assessment Panel Chair is to guide and assist the Panel in determining the successful contractor once all tenders have been adequately assessed. As such, the Chair is required to possess relevant expertise and experience applicable to the specific tender being assessed.

The admissibility of contractors' submissions are assessed by the Panel to ensure all those that have applied for the tender have an equal opportunity.

The Procurement Assessment Recommendation is reviewed, endorsed by the Chief Procurement Officer and approved by the appropriate delegate. On completion of the assessment process, the Assessment Panel is to ensure the Panel Assessment Report is completed and submitted to the Procurement and Contract Unit to support the decision to awarding the tender.

Once a successful contractor has been selected, they are notified in writing. Those that have been deemed unsuccessful are also notified and are provided the opportunity to meet with Agency personnel to gain an understanding of the basis for their offer being unsuccessful.

Testing of procurement documentation relevant to the sourcing lifecycle found documentary evidence of the deliberations and outcomes from the tender assessment could be enhanced and, in some cases, was not able to be produced for audit scrutiny. APRO had not been updated to accurately reflect the composition of the assessment panel in a number of instances. Processes could also be enhanced in relation to risk identification and the implementation of controls and processes to mitigate risks.

## Department of Housing and Community Development cont...

### *Complaints Management*

The Agency Procurement Management Plan refers to a 'Procurement Complaints Management Procedure', that was due for implementation in July 2018. At the time of audit completion the Procurement Complaints Management Procedure was in draft and yet to be actively implemented.

The Agency's current Complaints Policy (effective 31 January 2017) has not been consistently applied across the procurement function of the Agency. The Complaints Policy requires the maintenance of electronic records of complaints. Agency personnel advised that, at the time of my audit, verbal complaints were not being recorded. There is no centralised record keeping or monitoring of procurement or contract related complaints, investigation findings or complaint resolutions. Records that have been maintained are stored within TRIM rather than recorded in a central register. Enquiries made as to complaints received during the scope of my audit revealed no procurement related complaints had been formally documented during the audit period. As such no complaints related documentation was available for audit scrutiny.

The SharePoint Procurement Complaint Register, used by the Department of Trade, Business and Innovation, has been in trial at the Agency from August 2018 and is intended to centralise all procurement and contract related complaints. At the time of this audit, Agency personnel had yet to receive structured training to support the operation of this register.

### *Contract Management Lifecycle*

The Contract Management Lifecycle commences once the tender has been awarded to a contractor. This lifecycle involves the establishment, execution and closure of formal contracts and the subsequent review of contractor performance.

The Agency's Contract Management Unit was merged with the existing Procurement Unit in September 2018 to form the PCU. The PCU manages all contracts relating to the Agency's assets (as maintained/recorded in ASNEX). This management function includes the preparation of a Contract Management Plan and contractor performance reports in accordance with the terms and conditions of the tender or contract documentation.

As the newly formed PCU was recently established at time of this audit, I was unable to assess the effectiveness of the actual processes in place within the newly formed business unit. As such, the following audit commentary is based on the organisational structure in place at the time the procurement activity took place.

Review of the operations of the former Contract Management Unit established that the business unit did not have formal documented processes or procedures in place governing its operations.

Once a contract was awarded, a handover process occurred from the Procurement Unit to either the Contract Management Unit or the relevant Agency business unit, where the contracts were not asset related. The tender data for asset related contracts is entered in ASNEX by Contract Management Unit personnel.

Although the majority of contracts were managed by the Contracts Management Unit, the Procurement Unit had historically monitored all tenders that were not asset related and were not processed through ASNEX. This process is conducted manually by extracting data from APRO and the Government Accounting System (GAS), which is then maintained in a spreadsheet.

## Department of Housing and Community Development cont...

All other contracts are maintained through ASNEX. The transaction data contained in ASNEX is then uploaded into GAS, allowing the Agency's Finance Unit to conduct monthly reconciliations between the two systems.

Results of audit testing found that contract management plans were not in place and processes to review and report upon contractor performance were not followed consistently.

All awarded tenders are recorded within the APRO system. The current process of reflecting this information in ASNEX is performed manually. At the time of the audit there was no process in place reconciling the information contained in APRO and ASNEX to ensure consistency and compliance with the procurement process.

Opportunities exist for the Agency to strengthen its estimation processes. A number of contracts were subject to variation of price and scope which, had the additional requirements been identified at the outset of the procurement, would have resulted in the procurement being undertaken within a higher financial tier.

### *Stimulus Program*

The \$69 million Stimulus Program announced in February 2018, was to have funds committed by June 2018. Due to the need for timely delivery, an operational working group ('Housing Stimulus Team') was established. The recruitment process identified individuals with the desired experience and expertise who were sourced from both within and outside the NT public sector. The selected 15-member team comprised personnel with backgrounds in construction, procurement, finance and project management. This team was predominantly responsible for the full procurement lifecycle apart from the responsibility for awarding new tenders which remained with the PCU or CAPS depending on the estimated Tier value.

The team reported to the Director of Major Projects and collaborated with PCU, however was not required to report to PCU. Process maps, additional business rules and templates were developed specifically for the team to utilise, with procurement specific training being provided.

The Housing Stimulus Team was provided with specific processes and supporting documentation in addition to the Procurement Framework. Included within these processes was a request for an exemption from Procurement Rule 16.2, relating to the use of alternative conditions of offer and conditions of contract in the request for offer. The memorandum being relied upon for this exemption, although signed by the appropriate delegate within the Department of Trade, Business and Innovation, does not indicate if the exemption was approved or denied.

The additional business rules specific to this Program required that the Assessment Panel be sourced from an approved list of individuals with a variety of skills. Instances were identified where replacement personnel were utilised without prior approval of an appropriate delegate.

## Department of Housing and Community Development cont...

### **The Department of Local Government, Housing and Community Development has commented:**

The Department acknowledges deficiencies within its procurement processes, and has already implemented a series of structural changes within its procurement group to address these deficiencies, including the amalgamation of the procurement and contract teams, and bringing the procurement life cycle together to strengthen the end-to-end procurement process.

The Central Procurement Unit has engaged a consultant to work with Departmental staff to review and update procurement and contract management processes, governance, systems, and staffing, including the building of procurement and contract management capability across the Department.

The objective of this engagement is to examine the Department's procurement and contract management processes, practices and systems to clearly identify and address areas for improvement to support the Central Procurement Unit in actively cultivating knowledge and awareness, good governance principles and compliance with the NT Government Procurement Framework and Department's Procurement and Contracts Delegations across the agency.

The consultant is working with the Central Procurement Unit to address areas of deficiency highlighted in recent audits, as follows:

- No single reliable source for contract information;
- Poor understanding and clarity of contract management roles and responsibilities;
- Inability to provide supporting evidence/documentation for audit purposes;
- Failure, on occasions, to obtain/document appropriate delegate approval;
- Failure to systematically follow NT Government procurement rules; and
- Identify a program of initiatives across process, governance, people/capability and systems to address the identified deficiencies.

The above deficiencies has seen an agreed Action Plan implemented to address the following priorities:

- Establish a Contract Management System to provide a centralised reporting system for procurement and contracts;
- Develop and implement a robust compliance check process with a view to closing contract management documentation gaps for all open contracts;
- Develop a range of process flows, guides, factsheets, checklists tools and templates to create standardised and consistent procurement processes and improve in areas where team capability development is required; and
- Develop capability training packs to reiterate policy, business rules, roles and responsibilities across the procurement lifecycle.

## Department of Housing and Community Development cont...

### **The Department of Local Government, Housing and Community Development comments continued:**

The department remains committed to:

- Fostering a more collaborative approach between the procurement function and program areas to improve the three phases of the procurement cycle; and
- Strengthening the support and guidance that is provided to employees involved in the procurement lifecycle to ensure they fully understand probity and confidentiality requirements.

The department has developed a new procurement functional model and governance framework which clearly describes roles and responsibilities in respect to key stakeholders in procurement, how business units interface with the Central Procurement Unit and establish workflow processes to manage and support procurement.

The Department acknowledges that significant improvements are required to ensure we meet our obligations and to be an exemplar for procurement and contract management in the NT Government.

# Department of the Attorney-General and Justice

## VERITAS Program (Integrated Case Management System)

### *Background*

The Integrated Justice Information System (IJIS) is a business critical system that is the primary information tool for the justice environment in the NT, supporting and aiding reporting on the justice business processes associated with police apprehension, prosecution, courts, correctional services and fines recovery. The Department of the Attorney-General and Justice (the Agency) is the custodian of the system and major stakeholders include Northern Territory Police, Fire and Emergency Services, the Department of Infrastructure, Planning and Logistics, and the Department of Trade, Business and Innovation. IJIS has undergone significant upgrades, enhancements, and maintenance and support programs to meet the changing legislative needs of the justice system in the Northern Territory and as part of this transformation, IJIS is now positioned to be modernised as part of the VERITAS Program and is a major initiative of the Agency.

The VERITAS Program (approved by business case submission in 2015) is delivering the modernisation of IJIS and transformation from the mainframe to more contemporary solutions. The program has been assigned recurring funding of \$2.7 million per annum for six years to deliver the Agency's new business operating model and solution architecture (both defined in 2015). This includes projects to implement a range of applications that will replace IJIS functionality and changes to business practices. Key application components include a case management system, master data management solution, fines recovery management system and prosecution services solution, all of which are expected to be integrated using the whole of government enterprise service bus. Although the approach being adopted by the Agency is to minimise customisation of applications, it is expected that significant configuration will be required to fully implement the solutions within the complex across-agency justice environment.

The VERITAS Program has now progressed into its third year and to date has delivered a number of benefits to the local and supreme courts through the implementation of the Integrated Case Management System (ICMS) components into productive use as well as a data reference point for other justice departments through the Master Data Management (MDM) solution in productive use. While progress has occurred, this audit assessed the current state of implementation of general computer controls and progress against original plan.

### *Scope and Objectives*

The objectives of the audit were to:

- understand the current progress of the VERITAS Program against the defined budget and stated objectives;
- assess the design and implementation of general computer controls over ICMS implemented at the Northern Territory Civil and Administrative Tribunal known as Odyssey and the MDM solution; and
- understand the current progress of remediation activities underway as a result of the 2016 audit of the implementation of security controls.

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

The audit scope included:

- reviewing the progress of the Veritas Program against the defined budget and stated objectives;
- determining the status of actions taken in response to the findings from my 2016 audit;
- evaluating key IT general computer controls designed to protect the integrity of financial transactions; and
- evaluating key IT controls designed to protect data confidentiality and integrity.

The scope of this assignment did not include the assessment of appropriateness of functional access within applications. The audit findings are based on a review of documentation, system configuration and discussions with relevant Agency personnel.

### ***Audit Opinion***

Based on the scope of testing performed, except for matters reported to management, key general computer controls tested in relation to information security, change management and information technology operations appeared to have been implemented throughout the audit period. A significant number of opportunities for improvement were identified including a number of technology audit issues previously raised in 2016 that have not been remediated.

### ***Recommendations***

My audit resulted in recommendations provided to management as presented below.

- Define a security strategy for the VERITAS Program and consider the necessary level of resourcing to ensure adequate security capabilities are available.
- Establish formal processes for the creation of new user accounts, changes to account privileges and disabling of accounts.
- Implement a formal change control policy and processes to govern all changes made to the Agency's systems.
- Define and implement security logging and monitoring requirements.
- Define and implement appropriate password security settings that are consistent with the NTG ICT Access Standard.
- Agree a process with Data Centre Services to periodically test the backup and restoration process for the VERITAS environment.
- Implement a process to review user access and define an identity and access management strategy.
- Review developer access to production servers and applications.
- Define security controls for platforms, review privileges assigned to user roles and enable audit logs.
- Restrict access to the root account.



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

### *Audit Observations*

#### *Progress of the VERITAS Program*

Assessment of the progress of the VERITAS Program against the planned timeline and budget objectives established at the beginning of the program identified that the overall project timeline has deviated from plan due to a number of factors, as described below.

- The MDM business case estimate has deviated from plan by \$500,000 due to an approved change request.
- There have been delays gaining access to data currently housed within IJIS for pre-migration analysis for migration requirements definition. Delays in access to this data have contributed to delays to the timelines for the deployment of ICMS components and planned benefits realisation by up to four months.
- Requirements for the development of some two way interfaces between IJIS and ICMS deployment planning resulted in ongoing discussions and delays in decision making regarding the development of these interfaces which may contribute to delays to the overall Program timeline and benefits realisation.

In an attempt to mitigate the risk of these delays on ICMS timelines and budget, a number of other civil project components have been brought forward. While the items noted above have had an impact to the timing and delivery of components of the project in the short to medium term, it is not yet clear how much of an impact these delays will have on the overall timeline and budget.

All delays have been appropriately reported through agreed project reporting lines. Assessment of the progress against budget of the program identified that key items are being tracked at individual project level for monthly reporting to the project board and quarterly reporting is in place to report on the overall progress of the VERITAS Program as a whole. Tracking of spend against critical delivery items is performed within both reporting types.

#### *Responsibility for ICMS and MDM General Computer Controls has not been formally defined*

Responsibility of general computer controls for the VERITAS Program applications and environment is a shared responsibility between the VERITAS Program team and the DCIS. The VERITAS Program team are responsible for the applications while DCIS is responsible for the management of the infrastructure.

A number of observations were made where the responsibility sat with the VERITAS Program team and separately, with DCIS, including technical and process control related findings. Key observations included lack of defined processes surrounding the management of the applications. While these processes have not been formalised, some ad-hoc processes were observed in operation.



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

### *The VERITAS Program information security strategy, activities, deliverables and resourcing have not been defined*

A number of security assessment activities were undertaken in 2014 prior to the definition of the future VERITAS Solution Architecture to support a high level understanding of:

- information security risks associated with the legacy IJIS environment;
- classification of information within IJIS;
- gaps in security policies, procedures and standards for the Agency; and
- security control requirements that would need to be considered when defining a future state solution.

This analysis highlighted a number of information security risks associated with the legacy IJIS environment.

While it is acknowledged that the above mentioned information security technical requirements defined as part of the IJIS security assessment activities were taken into consideration for the VERITAS Program, limited further work to define how information security risks will be delivered and managed has been undertaken since the solution moved from design into production. Information security activities, deliverables and resourcing are yet to be defined at the project level.

Without adequate planning for ongoing operational security requirements and resourcing within the VERITAS Program, there is an increased risk that the solutions will not adequately and consistently address security risks relevant to the VERITAS Program. As a security strategy was not defined before the procurement processes, there is an increased likelihood that unnecessary costs will be incurred to work with vendors to accommodate changes.

### *User access assignment and revocation processes across the MDM application have not been implemented*

Evaluation of the access creation and revocation processes for the MDM application identified that these processes have not been documented and formally implemented. Current processes involve requests via email, however, it was observed that this approach has not been effective as demonstrated by the existence of user identities within the system that no longer require access to the MDM application.

In the absence of a formal process to revoke user access in a timely manner, or acquire formal approval for their creation, there is an increased risk of unauthorised users being created in the system or an unwanted user remaining in the system.

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

### *System change control policies and procedures have not been defined and implemented*

As reported in 2016, change control policies, procedures or work practices that direct and guide how changes should be governed and controlled for the production ICMS and MDM applications have not been formalised. Application changes performed over ICMS and MDM in production environments and non-production environments are performed by the vendor based on email requests. The vendor bundles these changes and issues a new software release once email approval is received. It was further noted that the Agency's change management processes are still in the process of being defined and formalised.

If change control policies, procedures and work practices are not defined, there is a risk that changes may be made which do not meet business requirements or that create a negative impact on the Agency or reliability of the production systems.

### *No defined strategy exists for information security logging and event monitoring*

As reported in 2016, a strategy has not been defined regarding security event monitoring associated with the VERITAS environment. Logging is enabled within the ICMS and MDM applications to track user activity, however the requirements for what should be monitored and the monitoring processes are not defined. Detailed logs are recorded for each application and are used on a reactive basis to troubleshoot issues.

If security events are not monitored within the ICMS and MDM applications, abnormal user activity and instances of invalid data changes or record viewing may not be identified and investigated in a timely manner.

### *Deficiencies exist in password security requirements for local users within ICMS and MDM applications*

The access mechanism for standard business user accounts to authenticate to the ICMS and MDM applications are mostly managed through the centralised NT government active directory. This means that the ICMS and MDM applications inherit password settings from the Active directory for standard business user accounts.

It was observed that the ICMS and MDM applications both have local user accounts, including privileged administrative users, with their password requirements configured at the application level, not using centrally controlled credentials. The applications allow users to create passwords that do not comply with the parameters required by the NTG ICT Access Standard.

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

### *Disaster recovery procedures have not been tested for the ICMS and MDM applications*

Data Centre Services is responsible for performing backups and recovery testing of both the IJIS and VERITAS Program environments. Full recovery testing from backup tapes has only been performed once for IJIS and has not been performed for the ICMS and MDM applications to verify the effectiveness of backups or to validate information technology disaster recovery capabilities.

Data Centre Services maintains an infrastructure focused IT disaster recovery plan for the mainframe, however there is no specific IT disaster recovery plan defined for how to partially or fully recover and verify the applications and its components within the VERITAS Program.

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

### *There is no periodic review process undertaken to confirm that user access is appropriate across the ICMS and MDM applications*

There is no formal process to undertake a periodic review of user access to confirm appropriateness of user access to sensitive functions and data objects within the ICMS and MDM applications. Such a process is important to identify and remove excessive access which may have been provided to a user or sensitive access remaining with a user following a change in position with a consequential change in access requirements.

Without undertaking periodic reviews to validate access assigned to sensitive permissions within the ICMS and MDM applications, there is a risk that users may have unnecessary or excessive access that could lead to unauthorised use of the system, unauthorised access to data or a security breach.

### *Segregation of duties risks applicable to developers for the MDM application are not effectively managed*

Segregation of duties risks specific to developer access have not been formally considered and addressed within user management processes. Currently, developers have been assigned access to development, test and production environments giving them end-to-end access to develop and promote changes into the production application.

Whilst I acknowledge that the MDM user base is small, without appropriate management of segregation of duties between environments, there is a risk that inappropriate changes will intentionally or inadvertently be made to the application.

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

### *Information security configuration weaknesses exist within the SQL databases supporting the ICMS and MDM applications*

Security weaknesses were observed within the SQL databases supporting the MDM application. Allowing the unnecessary access to critical stored procedures and sensitive objects within the databases increases the risk that malicious activity will occur and remain undetected.

Failure to record adequate audit logs at the database layer results in limited accountability over key security events, such as privileged actions, changes to configuration and changes to user permissions.

### *Information security weaknesses exist within the operating system server supporting the MDM application*

Security weaknesses were identified within the operating system server supporting the MDM application that present the following risks to the VERITAS environment:

- Without adequate password policies, there is an increased risk of inappropriate access to the server resulting in an increased risk of compromise of the integrity of application information.
- The current configuration allows users to login to the root account directly and remotely. This reduces accountability and increases the likelihood of the account being compromised via a malicious action through access to the server network.

I note that these weaknesses are partially mitigated due to other security controls in place within the DCIS environment.

### *Status of 2016 Findings*

The following table provides an overview of the status of previous findings from the 2016 review (reported in my November 2016 Report to the Legislative Assembly):

Previous Finding	Status
Information security requirements, activities, deliverables and resources had not been defined.	Not Addressed
Change control policies and procedures required development and implementation.	Not Addressed
No defined strategy existed for information security logging and event monitoring.	Not Addressed
Patching of applications was not consistently performed or monitored.	Resolved
No disaster recovery plan existed for IJIS and disaster recovery procedures had not been tested.	Partially resolved
There was no periodic review process undertaken to confirm that user access was appropriate.	Not Addressed

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

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

The following comments are provided for incorporation into the March 2019 Report to the Legislative Assembly in relation to the Department of the Attorney-General and Justice Information Technology Audit VERITAS Program (Integrated Case Management System).

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

1. Progress of the VERITAS Program.
  - 1.1. The ICMS project for Local and Supreme Courts (Project Odyssey) was provided with access to IJIS data in December 2018 for data analysis and definition of data migration to the new system Odyssey Case manager system (CMS).
  - 1.2. The configuration of Odyssey case manager for civil cases has advanced and attention is now being placed on setting up the system for criminal cases.
  - 1.3. The Department is in discussion with the Odyssey Case Manager vendor to strengthen internal security controls within the application. The resolution of this matter together with the coordination of the implementation of the Attorney Manager module for the Office of the Director of Public Prosecution is likely to impact the project timeline.
2. Responsibility for ICMS and MDM General Computer Controls have not been defined.
  - 2.1. The ICMS and the MDM are currently in the implementation phase with only the Northern Territory Civil and Administrative Tribunal currently using the Odyssey CMS. The VERITAS Program team has commenced a process to define a support model for the management of applications and infrastructure. This includes establishing formal processes, roles and responsibilities and, separation of duties for general computer controls.
3. The VERITAS program information security strategy, activities, deliverables and resourcing have not been defined.
  - 3.1. The VERITAS program team have progressed the following:
    - 3.1.1. Conducted a security controls review of the applications and are progressing with remediating the vulnerabilities identified by the review;
    - 3.1.2. Established a secure vLAN to isolate the Odyssey application from the rest of the NTG network;
    - 3.1.3. Established a process to periodically review and manage access to the development and testing environments;
    - 3.1.4. Implemented security controls for data conversion activities;
    - 3.1.5. Commenced development of policies and procedures to manage security in the new environment.

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

### **The Department of the Attorney-General and Justice comments continued:**

4. User Access assignment and revocation processes across the MDM application have not been implemented.
  - 4.1. This action has been completed and processes are now in operation.
5. System change control policies and procedures have not been defined and implemented.
  - 5.1. Program VERITAS has setup interim change control procedures to manage changes to the applications environments. These procedures will be reviewed and aligned with the Department's change management policy.
6. No defined strategy exists for information security and event monitoring.
  - 6.1. Program VERITAS is implementing the All of Government ICT Logging Standard. As part of the security controls review, the VERITAS Program team are testing the event monitoring module that is provided with the Odyssey application. This activity will determine what security events are monitored by the application.
  - 6.2. For security events identified by the ICT Logging standard but not monitored by the applications, a 3<sup>rd</sup> party product will be implemented.
7. Deficiencies exist in password security requirements for local users within ICMS and MDM applications.
  - 7.1. Program VERITAS has implemented NT Government Active Directory authentication to the ICMS and MDM for users that have an authorised ePass account. Password security settings now comply with the Northern Territory Government ICT Access Standard.
8. Disaster recovery procedures have not been tested for ICMS and MDM applications.
  - 8.1. Program VERITAS has commenced discussions with Data Centre Services (DCS) to set up a disaster recovery environment for the MDM and ICMS within the DCS Disaster Recovery Site that is currently being established.
  - 8.2. Testing of backup and restore of applications and data will be undertaken after the server moves to the Government Data Centre is completed.
9. No periodic review process undertaken to confirm that user access is appropriate across the ICMS and MDM applications.
  - 9.1. A procedure for System Administrators to periodically review user access levels and privileges is in operation.

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

### **The Department of the Attorney-General and Justice comments continued:**

10. Segregation of duties risks applicable to developers for the MDM application are not effectively managed.
  - 10.1. The review process to confirm appropriate user access also reviews developer access to the production servers by the Developer. As the systems are in the implementation phase there is a need to provide developer/s access to the production environment.
  - 10.2. It is anticipated that the need for a Developer will end when the implementation stage is completed.
11. Information security configuration weaknesses exist within the SOL databases supporting the ICMS and MDM applications.
  - 11.1. Security controls required to harden the applications will be progressively implemented with due consideration being given to minimising change to the environment during the server moves from the Chan Data Centre to the Government Data Centre.
12. Information security weaknesses exist within the operating system server supporting the MDM application.
  - 12.1. DCS manages the server supporting the MDM application. DCS has controls in place to manage security events and login information.
13. Status of 2016 Findings.
  - 13.1. Program VERITAS projects that are currently being implemented are to replace functions in IJIS. Audit matters raised in 2016 are being addressed as part of the VERITAS implementation. Comments made above refer to work in progress relating to the previous findings.



# Department of Trade, Business and Innovation

## Darwin Luxury Hotel and Water Theme Park

### *Background*

The Darwin Luxury Hotel and Water Theme Park are government facilitated projects.

As government facilitated projects, the Northern Territory Government (NTG) aims to assist the private sector to deliver these projects by ensuring project risks are allocated (short term and long-term) to parties best placed to manage and mitigate the risks. Through the facilitation of private sector projects, the NTG aims to access private sector delivery expertise and leverage private sector capital.

Government facilitated projects are pursued by the NTG where the NTG has identified a market gap not currently addressed by the private sector and considers that these projects would result in a sufficiently large economic opportunity to warrant government intervention through project facilitation.

The Darwin Luxury Hotel and Water Theme Park are two developments considered to contribute to the revitalising Darwin Central Business District (CBD) initiative. Both projects are being managed through the Strategic Infrastructure and Projects (SIP) business unit that is a part of the Department of Trade, Business and Innovation (the Agency).

### *Scope and Objective*

The primary objective of the performance management system audits related to the Darwin Luxury Hotel and Water Theme Park projects was to evaluate the performance management systems in place at the Agency that enable it to assess whether the objectives of the projects are being achieved economically, efficiently and effectively.

As neither project has Major Project Status, the Major Project Status Policy Framework does not apply. Neither project is consistent with government procurement, consequently the Northern Territory Government (NTG) Procurement Framework also does not apply. The NT Infrastructure Strategy, released in 2017, had as a key outcome, the development of the Northern Territory Project Development Framework (NTPDF). At the time of this report, the NTPDF was yet to be endorsed and implemented across government. Consequently the performance management processes have been assessed against established practice. Established practice would entail:

- Determining the strategic need for the project;
- Preparing a strategic business case and options that could address the strategic need;
- Preparation of a detailed fully costed business case including a cost benefit analysis, risk assessment, identification of the project scope; expected outcomes; procurement approach and delivery model to support consideration by the ultimate decision-maker/s;
- Considering the procurement options and identifying the delivery and funding model to support the project;
- Monitoring and management of project delivery; and
- Evaluation of the project.



# Department of Trade, Business and Innovation cont...

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## Department of Trade, Business and Innovation cont...

### *Audit Opinion*

The primary objective of the performance management system audits was to assess the performance management systems in place at the Agency that enable it to manage the identified projects. Based on the scope of testing performed, except for matters reported to management, elements of a performance management system are implemented and working effectively in relation to the identified projects.

### **Darwin Luxury Hotel – Audit Opinion**

Elements of a performance management system are in place however there remain some areas where processes could be enhanced and improved documentation could be retained. The Evaluation Plans, Probity Plan and the establishment of the governance arrangements were well structured. The governance documents, assessments, reports and documentation maintained by the Agency were mostly comprehensive. The identification, assessment and documentation of risks and mitigating strategies could be improved as could the analysis of the costs and benefits to the Territory. Formal guidance and processes are required to ensure a robust competitive process is undertaken by the Agency to seek and evaluate the responses from private sector proponents at each phase of the competitive process.

### **Water Theme Park – Audit Opinion**

Elements of the performance management process that were undertaken comprehensively for this project and represent examples of good practice include the strategic planning process, preparation of the detailed business case and the identification, assessment and documentation of risks and mitigating actions. The governance documents, assessments, reports and documentation maintained by the Agency were mostly comprehensive. There remain some areas where processes could be enhanced and improved documentation could be retained.

The competitive process associated with the Water Theme Park is ongoing at the time of this report.

# Department of Trade, Business and Innovation cont...

## *Recommendations*

In February 2018 considerable effort was put in by the Agency to establish a draft NTPDF. The draft NTPDF identified the key features of such a framework as:

- Strategic Assessment and Planning (determining the strategic need; options assessment and strategic business case);
- Project development (preparing a detailed business case; delivery options analysis; funding model development; final business case and recommended delivery approach);
- Prioritisation and Project Delivery (prioritisation and investment decision; project delivery); and
- Project Implementation and Evaluation.

The delay in implementing a framework against which to consistently assess significant projects contributes to perceptions pertaining to a lack of transparency and an absence of probity and due diligence underpinning decisions.

There are a number of recommendations that are applicable to all significant projects whether government facilitated or government delivered. These recommendations have been raised at the conclusion of previous audits of major projects and include:

- Implementation of a formal project development framework;
- Enhancing research processes to support the identified strategic need;
- Ensuring a comprehensive business case is developed to support the decision to move into a procurement / competitive process;
- Undertaking a comprehensive cost / benefit analysis of the impacts on the Territory;
- Clarifying the terms and scope when engaging a probity specialist;
- Considering whether additional guidance would benefit evaluation committees;
- Ensuring risks are comprehensively identified, assessed and recorded together with relevant mitigating strategies;
- Improving documentation evidencing management of conflicts of interest and evaluation committee deliberations; and
- Implementation of a performance management system that enables the Agency to measure and assess whether, or to what extent, the NTG's objectives are being achieved.

Two key recommendations, being the implementation of a project development framework and the implementation of a performance management system by which to assess the achievement of the NTG's objectives, are applicable at an Agency level to all projects.

Whilst I recognise that there can be relevant project specific reasons supporting changes to procurement and decision making processes and, in some instances, deviation from established processes, the implementation of a formal project development framework would support consistency in research, evaluation, record keeping and risk management processes.

## Department of Trade, Business and Innovation cont...

### *Audit Observations*

#### Darwin Luxury Hotel

##### *Project Overview*

In August 2015, the then Chief Minister announced that a request for expressions of interest (EOI) would be released for a luxury hotel development. The development was to:

- boost the Territory's economy;
- drive the development of North Australia; and
- assist in building a \$2.2 billion visitor economy by 2020.

Site investigation commenced in September 2015 with the NTG announcing Jervois Park (near the Darwin Waterfront precinct) as a potential site. It was expected that the EOI process would help narrow down potential sites and design concepts.

The procurement process was developed as a two-phase process involving an EOI where proponents are shortlisted. Shortlisted proponents would then be invited to submit fully developed and costed final bids.

The EOI opened on 14 October 2015. Following the Request for Detailed Proposals (RFDP) process and related evaluation, Landbridge Infrastructure Group Australia (Landbridge) was announced as the preferred proponent. On 3 August 2016, the NTG and Landbridge signed a Heads of Agreement to develop a luxury hotel in Darwin. The NTG announced the project will deliver a \$250 million Westin luxury hotel.

As a government facilitated project, the development was planned to be overseen by the Office of Major Projects, Infrastructure and Investments (OMPII) within the Department of the Chief Minister. Following machinery of government changes in September 2016, OMPPII was transferred to the newly created Department of Trade, Business and Innovation and the division was renamed SIP.

Negative feedback was received from the public regarding the site when it appeared that the hotel would restrict public access along the length of a section of foreshore with pedestrians and traffic re-routed behind the hotel. In response to stakeholder and community feedback, the site of the development is no longer intended to be located at Jervois Park, which will remain as public open space. The luxury hotel will be developed on waterfront land comprising part of the former Toga site.

In addition to offering 2.9 hectares of the former Toga site for the development, the NTG agreed to provide up to \$10.0 million toward connecting services to the site and \$7.3 million towards public infrastructure elements including a skywalk to facilitate connectivity to the Darwin CBD.

## Department of Trade, Business and Innovation cont...

Figure 1: Toga Site (red outline)



Source: Department of Trade, Business and Innovation

Landbridge finalised its concept design incorporating early stage public and stakeholder feedback and lodged its works application with the Development Consent Authority with approval being granted on 6 July 2018. The first phase of development works, being the construction of the seawall, was awarded to a local construction company on 20 December 2018. These works are expected to be completed in the latter part of 2019. The development is expected to be completed by 2022.

Figure 2: Darwin Luxury Hotel Timeline

2015	Aug 15: NTG announced intention to facilitate the development of a Luxury Hotel
	Oct 15 – Mar 16: EOI Phase
2016	Mar 16 – Jun 16: RFP Phase
	1 Jun 16: Media Release announcing additional Toga land site offer by NTG
	28 Jul 16: Toga site valuation performed
	Jun 16 – Aug 16: Evaluation Phase
	Aug 16: NTG and Landbridge signed a binding Heads of Agreement to negotiate the develop a luxury hotel in Darwin
2017	2017: Development Agreement Negotiations
2018	Apr 18: NTG and Landbridge signed a Development Agreement to develop a luxury hotel in Darwin
2019	Mar 19: Construction expected to commence
2022	2022: Expected operational date

Source: NTAGO Developed

## Department of Trade, Business and Innovation cont...

### *Conceptual and Planning Phases*

In October 2013, a professional firm was engaged to undertake high-level desktop research to determine the potential gap between the required financial returns from the construction costs of a 5 to 6 star hotel and the likely cash flow from the hotel. The scope of the study included:

- undertaking a review of tourist accommodation data to access reasonable occupancy and room rates for the luxury hotel;
- development of high level cash flow projections;
- assessment of likely high level construction costs;
- analysis of the potential gap between the required rate of return on construction costs and potential cash flow from the hotel; and
- assessment of the potential impact of including the hotel within a mixed apartment/hotel development.

It was estimated that if the NTG were to design and deliver the project, the costs would be in the vicinity of \$150 million to \$165 million.

### *Options Analysis and Preparation of Business Case*

In October 2015, another professional firm was engaged by the NTG to conduct a market analysis of the Darwin luxury hotel market segment to support the EOI process.

The report confirmed that a gap exists in the Darwin market for the luxury hotel product considering that the existing luxury hotel product in Darwin is not equivalent to other domestic markets. Based on the research and analysis, the report detailed the following three options that the luxury market could potentially sustain:

- Boutique Luxury Hotel – 40-80 room luxury boutique hotel that aligns with the uniqueness of the broader tourism experience in Darwin and the NT.
- Integrated Resort or Mixed-Use Development – 80-160 room luxury hotel that is embedded in a broader mixed-use development that could include retail, residential, gaming or a combination of uses.
- Traditional Luxury Hotel – 200-300 room hotel with associated restaurant/s, bar and events space.

The report emphasised that the three potential options represent hotel products that are not currently in the market, rather than recommendations for the type of product required to meet the strategic need.

There was no business case or equivalent document prepared at this time or throughout the process that clearly documents the key objectives, performance outcomes, benefits or risks associated with the options or alternative approaches to delivering the project. A detailed business case would include detailed analysis of the costs, economic and qualitative benefits, risks, impacts and potential delivery models and is intended to provide evidence that the preferred option is the best feasible solution to address the strategic need and deliver the intended outcomes.

## Department of Trade, Business and Innovation cont...

Noting this was to be a government facilitated project, and would not have been undertaken by the NTG if there was insufficient private sector interest, I do not consider the development of a public sector comparator to be relevant or necessary in relation to this project.

Site investigation commenced soon after the development was announced in September 2015 with the NTG announcing Jervois Park (near the Darwin Waterfront development) as a potential site. The costs associated with the provision of any incentives, such as the agreement to waive or reimburse stamp duty attributable to land transactions, were not clearly defined in order to establish an acceptable cost and negotiating position for the NTG.

### *Procurement Process*

A competitive procurement process involving the EOI, RFDP and Binding Agreement phases was used by SIP to select a preferred proponent for the development of the project on the basis that this approach should enable the Territory to benefit from private sector knowledge and capabilities to optimise development of the project.

An Evaluation Committee was formed to undertake the evaluation of the procurement process and comprised representatives from stakeholder agencies. There was one independent (non-government) member appointed to the Evaluation Committee.

The Evaluation Committee was supported by an advisory panel, which included specialists in law, finance and civil construction projects. To assist in establishing a competitive framework throughout the EOI and RFDP phases, an Evaluation Plan was developed to provide guidance to the Evaluation Committee.

The terms of reference required the Evaluation Committee members to be free from conflicts of interest and to adhere to the confidentiality requirements. All Evaluation Committee members were required to confirm they were free from conflicts of interest. The role of the Evaluation Committee was to evaluate and recommend proponents for advancement to the subsequent phases in the competitive process.

The Evaluation Report and final Probity Report stated that potential conflicts of interest were dealt with appropriately and that the Evaluation Committee's conduct and the integrity of the process was in accordance with the agreed procurement plan and evaluation methodology.

A project specific Steering Committee was established. The Evaluation Committee reported directly to the Steering Committee during the competitive process. The primary focus of the Steering Committee was to oversee the delivery of the project through a competitive public process. The Steering Committee had responsibility for approving the probity plans and evaluation plans and making decisions on key matters. The Agency advised that the Terms of Reference applicable to the Steering Committee do not require formal declaration from members that no conflicts of interest exist, the requirement is that if conflicts of interest do exist, they are to be declared. Whilst I note this explanation and that the Terms of Reference have been fully complied with in that regard, better practice would be to require members to attest that no conflicts exist, or where there are unavoidable conflicts of interest, that these have been adequately addressed through defined actions.



## Department of Trade, Business and Innovation cont...

### EOI

On 22 August 2015, the Government announced its intention to engage in an EOI process to facilitate the development of a luxury hotel development in Darwin. The EOI outlined that the project *“seeks the development of a world class luxury hotel in Darwin. This will meet a gap in the hotel accommodation market and serve as a key enabler of continued and long-term economic growth.”* The EOI listed elements that proponents were required to address within their responses and provided some guidance to present a minimum expectation of the level of luxury.

The EOI included specific details pertaining to the location of the potential NTG owned site that would be available for the construction of the luxury hotel. The NTG was willing to consider alternative sites identified by proponents as part of the individual proposals.

An NTG employee tasked with reviewing the cost estimates within the Detailed Proposals recommended that the Agency confirm the quality of fit-out, finishes and furniture, fittings and equipment being required by the proposal. The Evaluation Committee documented a range of concerns regarding the adequacy of responses in addressing the requirements of the Project during the EOI phase. This indicates that information provided to the market may not have been sufficient.

The EOI phase opened on 14 October 2015 and closed on 26 February 2016.

A probity auditor was appointed to provide independent scrutiny of the EOI and RFDP processes and to attend all the formal meetings of the evaluation committee. The probity auditor was formally engaged by the Agency on 6 November 2015 with the formal engagement letter issued by the probity auditor to the Agency on 18 November 2015. Consequently a probity auditor was not available for a period of three weeks after the commencement of the EOI. The Probity Plan and documentation refers to work performed by a probity advisor, not a probity auditor.

The Evaluation Plan established the Evaluation Committee's responsibility for reviewing all accepted EOIs in accordance with the requirements of the Evaluation Plan and the Evaluation Committee's responsibility for recommending a shortlist of proponents to be invited to participate in the RFDP Phase. The EOI evaluation process was as outlined below:

- individual Evaluation Committee members were to independently assess responses to the request for EOI against the established evaluation criteria;
- the legal advisor was to review the responses to the request for EOI and provide a report to assist the Evaluation Committee in its evaluation;
- if requests for clarification from proponents were sought, the process documented in the Evaluation Plan was to be observed;
- the Evaluation Committee was to meet to discuss the members' individual assessments and agree a consolidated Evaluation Committee assessment;
- the Project Lead was to prepare the EOI Phase Evaluation Report for the Evaluation Committee members to review and sign as evidence of their agreement with the content; and
- the finalised EOI Phase Evaluation Report was to then be provided to the Minister for consideration and approval.



## Department of Trade, Business and Innovation cont...

At the start of the Evaluation Committee meetings, each member was required to complete a declaration of conflict of interests disclosing potential conflicts (names/entity/relationships). This is consistent with the Probity Plan. According to the Evaluation Committee report, the probity advisor noted *"the inevitability of potential conflicts given the size and nature of Darwin"* and determined the conflicts to be manageable and not of a nature which would compromise the outcome of the evaluation process.

Following the Evaluation Committee's collective evaluation of the proposals, four proponents were invited to submit fully developed and costed detailed binding proposals by 30 June 2016, thus entering the RFDP Phase.

A signed version of the EOI Evaluation report was provided.

The proponents were notified of the results of the EOI evaluation process on 11 March 2016.

### **RFDP**

The RFDP phase opened on 16 March 2016 and closed on 26 June 2018.

In the first week of the release of the RFDP, one proponent withdrew from the RFDP phase, leaving three proponents to submit responses to the RFDP.

On 1 June 2016, late in the Detailed Proposal Phase, the NTG announced it would make available another site for the luxury hotel development, hereafter referred to as the Toga site. Proponents were advised of the additional NTG owned land adjacent to Jervois Park that could be made available for the purposes of the project. The land was valued on 4 July 2016, after the completion of the RFDP process.

According to the governance reporting structure, the Evaluation Committee was tasked to report to the Steering Committee on the results of the evaluation process.

In a meeting held on 9 June 2016, the Steering Committee expressed some concern over the inclusion of the offer of the Toga site to shortlisted proponents as there was limited information to provide to proponents about the specific location or size of the additional land. Had the additional land been announced earlier, the responses from the proponents during the EOI phase may have been different. No documentation was provided to demonstrate how the risks were mitigated after being identified or how proposed actions were deemed appropriate to sufficiently mitigate identified risks.

An Evaluation Plan was developed establishing the evaluation process which would be conducted during the RFDP phase including the procedures for the receipt of Detailed Proposals and the evaluation and selection of a preferred proponent. The evaluation process was consistent with the evaluation process applied during the EOI phase.

A Probity Plan was developed to support the Detailed Proposal Phase.

All declared potential conflicts were determined to be manageable and were recorded and included in the Evaluation Report in accordance with the requirements of the Probity Plan (Confidentiality and Conflicts of Interest). Whilst the Probity Plan proposed an approach for managing identified conflicts of interest, there was no documentary evidence as to how the reported conflicts were sufficiently mitigated.

## Department of Trade, Business and Innovation cont...

A Detailed Proposal Phase Evaluation Report was prepared, dated 11 July 2016. The report did not present a preferred recommendation. As there was no recommended position, I am unable to confirm that the documentation supported the selection of the preferred proponent.

### *Risk Assessment*

A report drafted by the legal advisor on 4 July 2016 presented all legal issues attributable to each of the Detailed Proposals and related Deeds of Agreement submitted by proponents as part of the RFDP phase on 27 June 2016.

A financial comparison was produced by a financial advisor in early July 2016 as part of the evaluation process. The financial analysis summarised the assumptions presented in each of the three detailed proposals resulting in the projected income, margin, construction costs and NTG contribution (proposed by each proponent). No commentary or analysis was included with the financial comparison.

The two unsuccessful proponents were notified in August 2016.

Negotiations commenced with the preferred proponent.

### *Contracts and Agreements*

On 3 August 2016, the NTG and the successful proponent executed a binding Heads of Agreement in relation to the Darwin Luxury Hotel Development.

A negotiation process (Approvals and Risk Reduction Agreement process) ensued between the preferred proponent and the NTG with the preferred proponent confirming on 31 October 2018 that all conditions precedent had been either waived or satisfied by both parties.

### *Cost to the Territory*

The financial cost to the Territory constitutes the contribution of \$17.3 million for Territory Works, the contribution of the Toga site valued at \$21.8 million (per the valuation report) and NTG costs associated with the competitive process. The value of the project to the Territory had not been quantified however a demonstrable return to the Territory through increased employment and visitor numbers has been identified.

The NTG budget included an allocation of \$2.6 million as operational expenditure across three financial years commencing 2015-2018 to support the Agency's costs associated with the competitive process relating to the project.

At the time of my audit, costs incurred to date totalled \$1.1 million and the expected cost to the Territory of the project was \$40.2 million. As the acceptable cost of the project was not determined at the planning stage, I am unable to determine to what extent the actual costs are consistent with planned costs.

## Department of Trade, Business and Innovation cont...

### *Governance and Oversight Groups*

During the EOI and RFDP phases, a project specific Steering Committee was established. The primary focus of the Steering Committee was to oversee the delivery of the project through a competitive public process. The Steering Committee had responsibility for approving the probity plans and evaluation plans and making decisions on key matters.

The Evaluation Committee reported directly to the Steering Committee during the competitive process of the project. The role of the Evaluation Committee was to evaluate and recommend proponents for advancement to the subsequent phases in the competitive process.

The Evaluation Committee was assisted by the Advisory Committee. The role of the Advisory Committee was to evaluate responses from proponents and provide observations to the Evaluation Committee.

Following the signing of the Heads of Agreement with the selected preferred proponent, a Project Control Group (PCG) was established on 25 August 2016. The PCG includes representatives of the preferred proponent and representatives from stakeholder agencies. The PCG was established to oversee and facilitate the project across all NTG agencies involved in the delivery of the project. The purpose of the PCG is to meet and discuss identified risks and identify potential actions to be taken to fully or partially mitigate these risks.

Minutes of meetings of the Steering Committee and PCG evidenced that members attended to matters articulated in their terms of reference.

The Evaluation Committee did not keep any minutes of the meetings held. I note the advice from Agency representatives that a detailed account of all discussions is included in the Evaluation Report. The purpose of recording and maintaining minutes in a timely manner is to, among other uses, inform the decision-makers of deliberations; provide evidence that matters were discussed in the event of dispute; and serve as a record in the event the process is subject to independent scrutiny. Should there have been significant unintended changes to the composition of the Evaluation Committee during the process, there would have been no record of earlier deliberations.

### *Probity Process*

The role of the probity auditor, as defined in the Probity Plan, was to evaluate whether fairness and impartiality were observed throughout the competitive procurement, that the criteria were consistently applied to all proposals and to provide assurance that the competitive process:

- ensured each bidder was treated fairly and impartially;
- ensured confidentiality and security aspects were observed; and
- established and applied an appropriate evaluation methodology incorporating outlined processes for the evaluation of EOI and RFDP phases.

Probity Plans were developed relevant to the EOI phase and the RFDP phase. In each of the Probity Plans, the role of the probity auditor was defined. The probity auditor was involved in all phases of the competitive process. As part of the probity process, a Final Probity Report was issued on 16 August 2016 following the conclusion of the RFDP phase.

## Department of Trade, Business and Innovation cont...

In summary, the findings within the Final Probity Report were that the level of compliance with regard to the approved probity and evaluation plans was adequate; that the Evaluation Committee had followed the evaluation methodology as described in the EOI and RFDP Evaluation Plans; and that potential conflicts of interests were dealt with appropriately.

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

### *Management and Record Keeping*

The Agency has not established any specific management or record keeping systems or processes to support the project. If there are amendments or updates to contracts or agreements, the updated versions are stored electronically and communicated to appropriate parties. A single hard copy of each contract and agreement is retained securely at the Agency. In the absence of a standalone project document management system, the Agency currently uses the across-government document management system, Territory Records Manager (TRM). All requests for information were addressed by the Agency in a timely manner.

The data security processes in place, both electronic and physical, appear reasonable and appropriate. From observations during the audit, all confidential data was password protected.

### *Performance Reporting*

There is no evidence of formal processes constituting a performance management system in place within the Agency to assess (now or in the future) whether, or to what extent, the project has contributed to achieving the three objectives established in the EOI and announced in the media release.

The Agency did not establish any performance targets to measure the extent to which the project realises its objectives economically, efficiently and effectively.

A comparison of the extent to which the objectives had been realised at the time of the audit to the key requirements outlined in the EOI is presented in Table 1.

Table 1: Analysis of Project Objectives

NTG Objective based on the EOI	Current state at time of audit
Financial capacity to deliver a luxury hotel as articulated in the development vision	The preferred proponent had sufficient cash balances as at 30 December 2015. Construction is yet to commence.
Capability to operate a luxury hotel as articulated in the development vision	The preferred proponent has partnered with Westin Hotels & Resorts which is part of the Marriott International hotel chain.
Timeframes for project delivery	Hotel completion was scheduled for 2020 however due to design changes requested by the NTG, the completion date has been rescheduled to 2022.

Source: NTAGO Developed

# Department of Trade, Business and Innovation cont...

## Water Theme Park

### Project Overview

In 2017, the Chief Minister announced the development of a Water Theme Park as a potential project in Darwin CBD. It was intended to be an international standard Water Theme Park located in the inner Darwin area which would encourage tourists to visit the Territory and stay longer while also improving the liveability of Darwin. The announcement of the project was in response to the Darwin Major Business Group's suggestion that this project would help to revitalise the Darwin CBD.

In April 2017 it was announced that funding had been committed for a pre-feasibility study for a Water Theme Park in the Darwin CBD. The preferred location for the Water Theme Park was within Lot 10177, at the Darwin Waterfront, adjacent to Stokes Hill.

The NTG advised that the initial work to investigate the viability of a Water Theme Park has been positive. Additional work to develop the business case for the project is expected to include:

- testing of market capacity and interest, and potential visitations;
- potential revenue, costs and specifications for the project; and
- an assessment of the broader economic benefits and outcomes.

In August 2017, the NTG announced the detailed business case for the Darwin Water Theme Park found the project to be commercially attractive for a private sector investor to build, own and operate.

Consistent with the procurement process used for the Darwin Luxury Hotel development, the procurement process for the Water Theme Park was to use a two phase competitive process with calls for EOI followed by a request for detailed proposals.

In May 2018, the NTG announced it was seeking EOI from proponents and had nominated a site option at the Stokes Hill area. The EOI closed on 22 August 2018.

The NTG has allocated \$1.725 million in the 2017/2018 and 2018/2019 budgets to support the delivery of the project through a competitive process.

Figure 3: Darwin Water Theme Park Timeline

2017	NTG announced the development of a water park as a potential project in Darwin CBD
	Apr 17: Prefeasibility Study
	Oct 17: Detailed Business Case
	Oct 17: NTG announced Stokes Hill Waterfront site for the project
2018	May 18 – Aug 18: EOI Phase
	Nov 18: Structured Engagement Process Commenced
	Dec 18: Change to procurement method

Source: NTAGO Developed

## Department of Trade, Business and Innovation cont...

### *Conceptual and Planning Phases*

The Darwin Major Business Group identified the Water Theme Park project during the 2016/17 Economic Summit process as one that had potential to revitalise the Darwin CBD. In January 2017, a professional firm was engaged to conduct a pre-feasibility study assessing the merit in facilitating the development of a major Water Theme Park in the Darwin area. The study focused on conducting a market assessment in relation to tourism demand for this type of experience in general and specifically encompassed the following:

- Determining the level of demand for Water Theme Park experiences in Australia and overseas and identifying whether demand is growing or declining including whether there is scope to create a new market.
- Identification of visitor target markets and an estimate of the number of visitors that could be attracted to the Water Theme Park which would deliver a financial return.
- Estimating the size of the investment required and potential commercial opportunity for the development of a Water Theme Park in Darwin.
- Assessing current and emerging consumer behaviour trends to determine whether the Water Theme Park can take advantage of these and increase the popularity of the proposed Water Theme Park.

The study undertaken indicated that the development of a Water Theme Park would “*potentially strengthen the tourism offering of Darwin due to the profile and quality of the development and this will represent a major statement of intent in terms of the provision of leisure and entertainment in Darwin*” (Pre-Feasibility Study for Tourism Infrastructure Investment, 2017)

The study recommended the Agency take the following further research steps to enable the NTG to formulate a refined proposition that could be presented to potential operators:

- Undertake primary consumer research to match the Water Theme Park product to different markets;
- Identification of site(s);
- Refine/enhance/expand the initial design concept and phasing approach based on the outcomes of the primary research; and
- Undertake an economic impact assessment to estimate the likely impact that the development of a Water Theme Park in Darwin is likely to have on job creation and gross economic value.

## Department of Trade, Business and Innovation cont...

### *Options Analysis and Preparation of Business Case*

Following on from the recommendations, the Agency engaged a consultant in August 2017 to develop a detailed business case for a Darwin Water Theme Park. The following were the key objectives of the detailed business case:

- Confirm market demand for the development of a Water Theme Park in Darwin through primary consumer research (both visitor and residential) and refine projections of patronage, market segmentation and price positioning based on these outcomes.
- Analyse the most appropriate site(s) in Darwin for development.
- Define a reference project, through the development of a high level masterplan, layout and design concept in sufficient detail so as to enable design and construction costing to be developed and operational, maintenance and reinvestment costs determined.
- Enable the NTG to further assess the proposal including any recommendations regarding investment facilitation and attraction.

The objectives in the Project Specific Procurement Plan for the detailed business case were consistent with the recommendations identified in the pre-feasibility study. The report confirmed that the proposed Darwin Water Theme Park meets the key objectives of the business case for the proposed project. The recommendation to proceed with the project was based on a clear market gap, ideal location and climate and robust business opportunity. The report also recommended a development site, currently owned by the NTG, as the most suitable site out of five potential sites. The value of the site was estimated by an independent valuer to be approximately \$17.5 million as at 13 October 2017. I consider the financial analysis prepared by the lead advisor to be sufficient to enable effective consideration of the costs and benefits associated with the Water Theme Park by the PCG.

Whilst the detailed business case includes a comprehensive cost analysis, a cost benefit analysis to the Territory was not produced during the planning or procurement process. The Agency advised that, as the NTG is seeking a commercial solution by the private sector, the return to the Territory would be demonstrated through a broader economic return resulting from increased employment opportunities and visitor numbers rather than a direct financial return to the Territory.

### *Procurement Process*

The competitive procurement process involving EOI, RFDP and Binding Agreement phases was used by SIP to select a preferred proponent for the development of the Water Theme Park on the basis that this approach should enable the Territory to benefit from private sector knowledge and capabilities to optimise development of the project.

An Evaluation Committee was formed to evaluate the responses and comprised representatives from stakeholder agencies. There was one independent (non-government) committee member appointed to the Evaluation Committee.

To assist in establishing a competitive framework throughout the EOI and RFDP phases, an Evaluation Plan was developed to provide guidance to the Evaluation Committee with input from the probity advisor and the legal advisor.



## Department of Trade, Business and Innovation cont...

A probity auditor was appointed to provide independent scrutiny of the NTG's adherence to the Evaluation Plan during the EOI and RFDP phases and to attend all the formal meetings of the Evaluation Committee.

### EOI

In May 2018, the NTG announced the commencement of the EOI process to facilitate the development of a Water Theme Park in Darwin. The EOI outlined that the project "*represents an important element in the Northern Territory Government's vision to:*

- *Grow and strengthen the Darwin CBD*
- *Improve the liveability of Darwin by providing a large scale family attraction and event destination*
- *Add to Darwin's tourism competitive strengths by providing another significant reason for tourists to visit Darwin and stay longer in the Northern Territory*
- *Stimulate and unlock additional investment in the local economy*
- *Create enduring direct and indirect employment opportunities."*

The EOI included specific details pertaining to the location of the potential NTG owned site that would be available for the construction of the Water Theme Park. NTG was willing to consider sites identified by proponents as part of the individual proposals. Proponents were provided with an Information Memorandum based on the detailed business case which provided specific information on the site, market analysis and financial projections.

The EOI phase opened on 21 May 2018 and closed on 22 August 2018.

The Evaluation Plan established the Evaluation Committee's responsibility for reviewing all accepted responses to the EOI in accordance with the requirements of the Evaluation Plan and the Evaluation Committee's responsibility for recommending, to the Steering Committee, a shortlist of proponents to be invited to participate in the RFDP Phase.

All Evaluation Committee members were required to confirm they were free from conflicts of interest and to adhere to the confidentiality requirements.

The Evaluation Committee was assisted by a lead advisor and a legal advisor. The role of the advisors was to evaluate responses from proponents and provide observations to the Evaluation Committee.

The Evaluation Committee did not keep any minutes of the meetings held. I note the advice from Agency representatives that a detailed account of all discussions is included in the Evaluation Report. The purpose of recording and maintaining minutes in a timely manner is to, among other uses, inform the decision-makers of deliberations; provide evidence that matters were discussed in the event of dispute and serve as record in the event the process is subject to independent scrutiny.



## Department of Trade, Business and Innovation cont...

The EOI evaluation process was as outlined below:

- individual Evaluation Committee members were to independently assess responses to the request for EOI against the established evaluation criteria;
- the appointed advisors were to review the responses to the request for EOI and provide a report to the Evaluation Committee containing advice to assist the Evaluation Committee in its evaluation;
- the Evaluation Committee was to meet to discuss the members' individual assessments and agree a consolidated Evaluation Committee assessment;
- if requests for clarification from proponents were sought, there would be an opportunity to review and revise the assessment;
- the Evaluation Committee Chair was to prepare the EOI Phase Evaluation Report for the Evaluation Committee members to review and sign as evidence of their agreement with the content;
- the finalised EOI Phase Evaluation Report was to then be provided to the Steering Committee for consideration and approval; and
- the Steering Committee was to provide a recommendation to the Minister/Cabinet for consideration and approval.

The proposals received were assessed by the Evaluation Committee as either non-compliant or not sufficiently meeting the objectives of the EOI. Consequently, on 13 September 2018, the Evaluation Committee recommended that the competitive process be terminated and that specific proponents be approached to test interest in future engagement.

The proponents were notified of the termination of the evaluation process in November 2018.

On 14 November 2018, a structured engagement process was announced through a media release by the NTG. The media release noted that the Agency intended to engage with some proponents that were part of the EOI process and others to ensure that the Territory achieves the best possible outcome. A draft Structured Engagement Process planning document was developed which identifies a process flowchart and four topical areas that require discussion and research in order to be able to proceed with the project.

### *Risk Assessment*

A comprehensive risk register was developed in relation to the project. The risks had clearly been analysed and assessed and mitigating treatments identified and documented.

A report drafted by the legal advisor on 31 August 2018 presented a comprehensive assessment of the responses to the evaluation criteria of Corporate Suitability and Commercial Model.

As part of the evaluation process, the lead advisor produced a report for the Evaluation Committee which summarised an analysis of the strengths, weaknesses, opportunities and threats associated with each proposal against the five criteria provided in the EOI document. The lead advisor noted that there was a general lack of operational awareness with all the submissions and recommended that proponents selected to proceed to the RFDP phase should strengthen their proposals.

## Department of Trade, Business and Innovation cont...

### *Cost to the Territory*

As the project is yet to proceed, the financial cost to the Territory is currently unable to be determined. At the time of my audit, project related costs incurred to date totalled approximately \$662 thousand. The value of the project to the Territory had not been quantified however a demonstrable return to the Territory through increased employment and visitor numbers has been identified.

### *Governance and Oversight Groups*

Currently, one single Territory steering committee (Major Projects Sub-Committee of JSC COORD) exists to enable comprehensive oversight of all active and planned major projects including an improved understanding of how projects will potentially interact with each other.

The Evaluation Committee reported directly to the Major Projects Sub-Committee of JSC COORD during the competitive process of the project. The role of the Evaluation Committee was to evaluate and recommend proponents for advancement to the subsequent phases in the competitive process.

A PCG was established as a working group dedicated to the project. It included representatives from stakeholder agencies. The purpose of the PCG was to meet and discuss identified risks and identify potential actions to be taken to fully or partially mitigate these risks.

### *Probity Process*

The role of the probity advisor, as defined in the Probity Plan, was to provide assurance that a fair, equitable and consistent process was applied to the evaluation of all responses to the EOI. The probity advisor was appointed on 14 March 2018, before the commencement of the EOI. As part of the probity process, a Final Probity Report was issued on 13 September 2018.

In summary, the findings within the Final Probity Report were that, subject to limitations noted in the report, there was no observation of non-compliance with the Probity Plan and Evaluation Plan. The probity advisor sighted all conflict of interest and confidentiality deeds of members of the assessment panel and other procurement participants and noted that all had been declared appropriately. The probity advisor noted that all probity advice sought by the Evaluation Committee was acted upon consistently with the advice.

### *Management and Record Keeping*

The Agency has not established any specific management or record keeping systems or processes to support the project. In the absence of a standalone project document management system, the Agency currently uses the across-government agency document management system TRM. All key documentation required for audit purposes was provided in a timely manner.

The data security processes in place, both electronic and physical, appear reasonable and appropriate. From observations during the audit, all confidential data was password protected.

### *Performance Reporting*

There is no evidence of formal processes constituting a performance management system in place within the Agency to measure and assess whether, or to what extent, the NTG's objectives for the project are being achieved economically, efficiently and effectively.

## Department of Trade, Business and Innovation cont...

### **The Department of Trade, Business and Innovation has commented:**

The Department of Trade, Business and Innovation notes the findings of the Auditor-General's performance management system audits and makes the following high level comments:

- While a formal project development framework has not been promulgated, a consistent framework and structure is adopted for the delivery of all Strategic Infrastructure and Projects facilitated investment projects, which incorporates the flexibility for continuous improvement based on prior project learnings. The framework is based on the National Guidelines promulgated by Infrastructure Australia and drawn from frameworks in other jurisdictions. The approach ensures that the delivery of projects aligns with best practice project management to secure cost efficient, accountable and transparent outcomes.
- Planning is a key feature in the delivery of facilitated investment projects. The planning phase can involve, as was the case for both the Darwin Luxury Hotel and Water Theme Park,
  - market demand and scoping studies to inform the identification of project scope and feasibility; and
  - as useful and where there is identified added value, market, financial and economic impact assessments, land valuations, geotechnical investigations etc. for project delivery.
- Detailed cost benefit analyses require the procurement of expert consultants and are both timely, costly and often somewhat arbitrary given the difficulty in quantifying many benefits of a project. These practicalities mean that a risk based approach is adopted in determining the level and extent of the business case commissioned.
- Irrespective, the Agency's processes and documents demonstrate that during the course of the project life-cycle, and at the appropriate stages of the project, the various project options, their respective costs, benefits and risks, along with potential delivery models, are appropriately considered to inform key project decisions.
- The experience of this Agency is that driving competitive tension results in better value for money outcomes than pre-empting the capacity for market innovation and pre-maturely alerting the market to the value and types of support that Government might be willing to contribute.
- The Agency is very conscious of and takes very seriously process accountability and probity. The Agency considers that robust protocols presently exist for the identification and management of conflict situations, and is not aware of any inappropriate handling of conflict situations in the delivery of past projects.

## Department of Trade, Business and Innovation cont...

### **The Department of Trade, Business and Innovation comments continued:**

- Approaching the market with prescriptive inputs focused requirements (e.g. the quality of furnishes, fittings and equipment for hotel rooms) defeats one of the key purposes of private sector delivery, stifles innovation and exposes government to higher levels of ongoing operating risks (private sector would either be unwilling to accept fit-for-purpose risk, or else impose a significant cost premium for doing so). For these, the focus needs to be on outcomes and not inputs.
- The Agency advises that Evaluation Reports are finalised immediately following the Evaluation Committee meetings and comprehensively capture the meeting discussions and outcomes. The Agency does not see value in expending time and resources on creating a second document which is effectively a duplicate of the Evaluation Report.
- Performance reporting regarding achievement of Government objectives in the context of major Government facilitated enabling infrastructure projects is inherently complicated due to relatively long lead times between project delivery and realisation of the associated broader economic benefit. This is further heightened by difficulties in attributing particular economic outcomes to particular projects.
- As projects advance from construction to operations, assessments will be undertaken on the extent to which the Territory's broader project objectives have been achieved.

# Department of Treasury and Finance

## Northern Territory Infrastructure Development Fund

### *Background*

In November 2014, the NTG committed to allocating a portion of the proceeds from the sale of the Territory Insurance Office to fund a long-term strategic infrastructure initiative. On 6 October 2015, the former Chief Minister and the former Treasurer of the Northern Territory announced the creation of the Northern Territory Infrastructure Development Fund (NTIDF). Excerpts from the media release stated:

- *“Using \$200 million from the sale of the Territory Insurance Office as a financial cornerstone, the fund will seek a further \$800 million of capital from other Australian and overseas investors to create a \$1 billion investment pool.*
- *The fund will be used to invest in infrastructure projects across the Territory, creating revenue for the fund, essential infrastructure for Territorians and new jobs across the whole economy.*
- *The fund will be financially independent of government, with no risk to Territory taxpayers.*
- *The fund will seek to invest in a diversified portfolio of infrastructure related projects, such as roads, hospitals, schools and agricultural projects.*
- *Revenues will be re-invested into the fund, providing the opportunity to create a self-sustaining pool of capital available for new infrastructure investment.*
- *The Board of the Fund will appoint an independent commercial infrastructure fund manager, responsible for making investment decisions.”*

The NTIDF is an Australian infrastructure fund, established by the NTG, which was intended to invest primarily in Northern Territory related infrastructure assets and in projects outside the Northern Territory where those projects will deliver benefits to the Northern Territory.

### *Scope and Objective*

The objective of the performance management system audit was to examine:

- how the Northern Territory accounts for its \$200 million investment in the NTIDF; and
- the performance management system in place at the Department of Treasury and Finance (the Agency) to assess whether the intended objectives from the Northern Territory's investment into the NTIDF are realised efficiently, effectively and with economy.

The audit involved gaining an understanding of the structure and operations of the NTIDF including the funding structure, risks and potential returns to the Northern Territory.

The audit covered the period 1 May 2015 to 30 June 2018.

### *Limitations*

The audit did not look at the systems or performance of non-government entities.

On 30 October 2018, the NTG announced that the NTIDF was to be wound up. My audit did not review the arrangements or obligations of the NTG as a result of this decision.

## Department of Treasury and Finance cont...

### *Index*

The report on this audit is structured as follows:

Audit Opinion	Refer page 78
Recommendations	Refer page 78
Audit Observations	Refer page 79
Purpose of the NTIDF	Refer page 79
Structure of the Fund	Refer page 80
Obligations of the Territory	Refer page 87
Returns to the Territory	Refer page 91
Further Contributions by the Territory	Refer page 92
Financial Reporting	Refer page 92
Risk Management	Refer page 93
Performance Management System	Refer page 93

### *Audit Opinion*

The objective of the performance management system audit was to examine how the Northern Territory accounts for its \$200 million investment in the Northern Territory Infrastructure Development Fund and the performance management system in place to ensure that the Northern Territory, through the NTIDF, realises its objectives economically, efficiently and effectively. The audit involved gaining an understanding of the structure and operations of the NTIDF including the funding structure, risks and potential returns to the Northern Territory.

At the time of my audit, the Agency was unable to demonstrate that an adequate performance management system was in place to ensure that the intended objectives were being realised economically, efficiently and effectively.

### *Recommendations*

As my audit was underway prior to the announcement on 30 October 2018 that the NTIDF was to be wound up, some of my recommendations will no longer be relevant once the dissolution of the NTIDF is effective. The recommendations do, however, identify key elements of an effective performance management system that should be taken into consideration should similar initiatives be established through NTG agencies. I recommended the Agency:

- implement a formal system for maintaining oversight of the performance of the NTIDF including establishing a system for assessing the extent to which the Territory's intended objectives have been achieved in terms of effectiveness, efficiency and economy;
- actively seek to obtain the required reports by their due date and communicate the non-compliance to those required to report;

## Department of Treasury and Finance cont...

- develop and implement a process to ensure appropriate clauses are included in future financial arrangements to explicitly provide for the Territory to conduct or seek an independent review of the investment and/or application of funds drawn from the Public Account including how those funds have been applied; and
- develop and implement a process to ensure risks associated with the investment of funds are identified, assessed and documented and, to the extent necessary, risk mitigation strategies are determined and enacted.

### Audit Observations

#### Purpose of the NTIDF

In May 2015 the NTG sought investment opportunities that “*will support the development of infrastructure using the proceeds of the sale of TIO and the long term lease of the Port of Darwin.*” (NTG Media Release, 17 June 2016) To support this objective, NTG contracted a consulting company, Granite Capital Pty Ltd, to “*develop and propose a concept for the creation of a self-sustaining pool of infrastructure capital for the Northern Territory.*” The recommendations from this report were presented in July 2015.

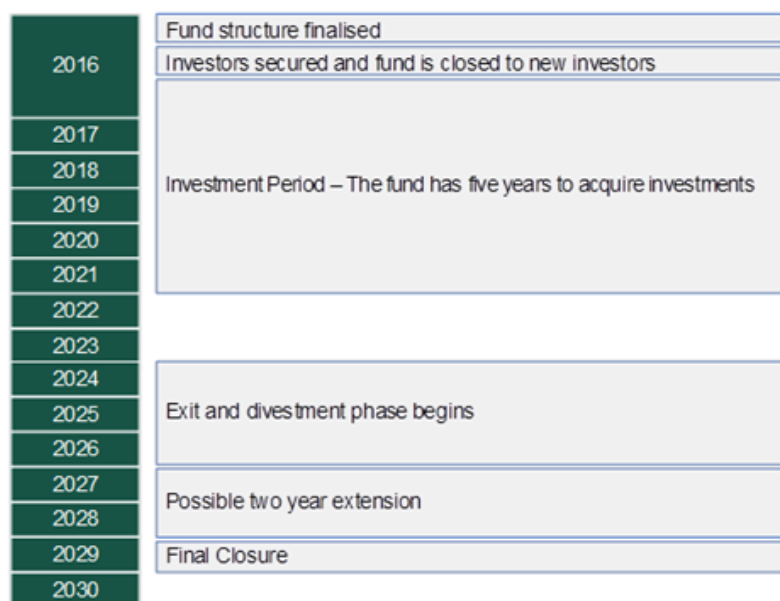
The NTG approved the establishment of the NTIDF in September 2015 as publically announced in October 2015. The Agency had responsibility for establishment of the NTIDF.

An NTIDF Fact Sheet, publically released by the Agency, documented that “*the key objective of the NTIDF is to be a long-term investor in a diversified portfolio of infrastructure assets that will:*

- *generate attractive risk-adjusted returns for all investors; and*
- *support the long term economic growth and development of the Northern Territory by investing in appropriate infrastructure projects.*” (NTIDF Fact Sheet)

The planned timeline for the major milestones related to the NTIDF are presented in Figure 1.

Figure 1: NTIDF Major Milestones Timeline



Source: NTAGO Developed



## Department of Treasury and Finance cont...

### Structure of the Fund

The NTIDF is “structured as a traditional 10 year closed end commercial infrastructure fund, which is an arrangement that will be familiar to most institutional investors. Investors will be able to buy a fixed amount of units in the fund up until the close date. The units will not be redeemable, but they could potentially be on-sold to other investors”. (NTIDF Fact Sheet)

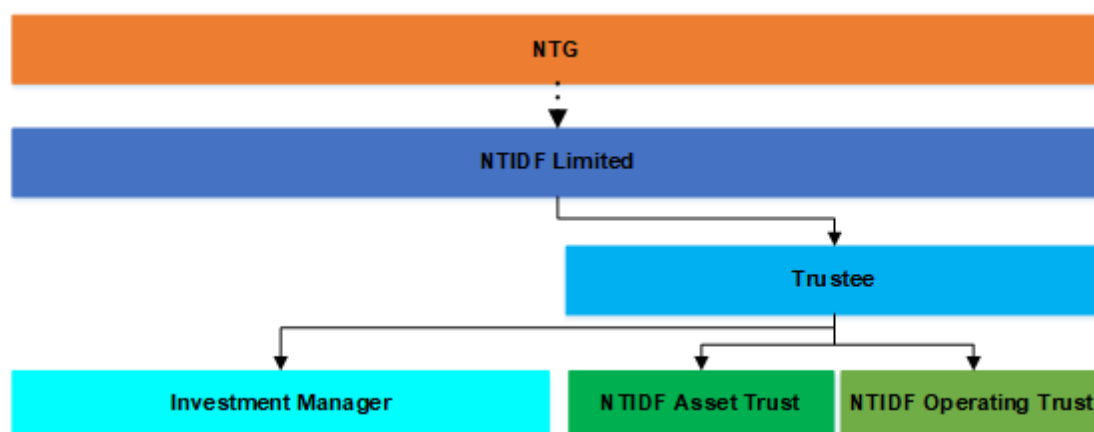
Upon establishment, the NTIDF was intended to operate at arms-length from the NTG.

An Interim Board was appointed in September 2015 with remuneration in line with the maximum amount under the *Assembly Members and Statutory Officers (Remuneration and Other Entitlements) Act 2006* and rates schedule for senior commercial and assets management Board members. The Interim Board comprised four members: the Chair, who was a Director of the consulting company proposing the fund structure, an NTG representative and two members independent of the NTG.

The Interim Board was responsible for progressing the establishment of the NTIDF in accordance with key objectives. This included finalising the proposed structure of the NTIDF and selecting the NTIDF’s Investment Manager and Trustee.

The structure of the NTIDF was determined by the Interim Board and is depicted below.

Figure 2: NTIDF Structure



Source: NTAGO Developed

For the purpose of this report, the Fund refers to, and is comprised of, the following entities:

- NTIDF Limited
- NTIDF Asset Trust
- NTIDF Operating Trust

NTIDF Limited is a public company limited by guarantee under the *Corporations Act 2001*, and was registered in the Northern Territory on 27 April 2016. The NTIDF is governed by the Board of Directors of NTIDF Limited. It is the role of the NTIDF Board to provide governance and oversight of the Fund.



## Department of Treasury and Finance cont...

The NTIDF Asset Trust and the NTIDF Operating Trust are both unregistered managed investment schemes under the *Corporations Act 2001* and operate as for-profit unit trusts. The Trust Deeds of both the NTIDF Asset Trust and NTIDF Operating Trust were signed on 5 December 2016 and the ABNs were registered on 21 December 2016.

The following entities are directly involved in the operations of the Fund:

- One Funds Management Limited as Trustee.
- Infrastructure Capital Group Limited as the Investment Manager.

The NTIDF Board appointed the Trustee and the Trustee was responsible for appointing the Investment Manager.

The Trustee was contracted through a Subscription Agreement signed by the NTG (as the Subscriber) and One Funds Management Limited (as Trustee) on 6 December 2016.

The entities involved in the establishment and operation of the NTIDF are presented in Figure 3.

Figure 3: Key entities involved in the management/operation of the NTIDF

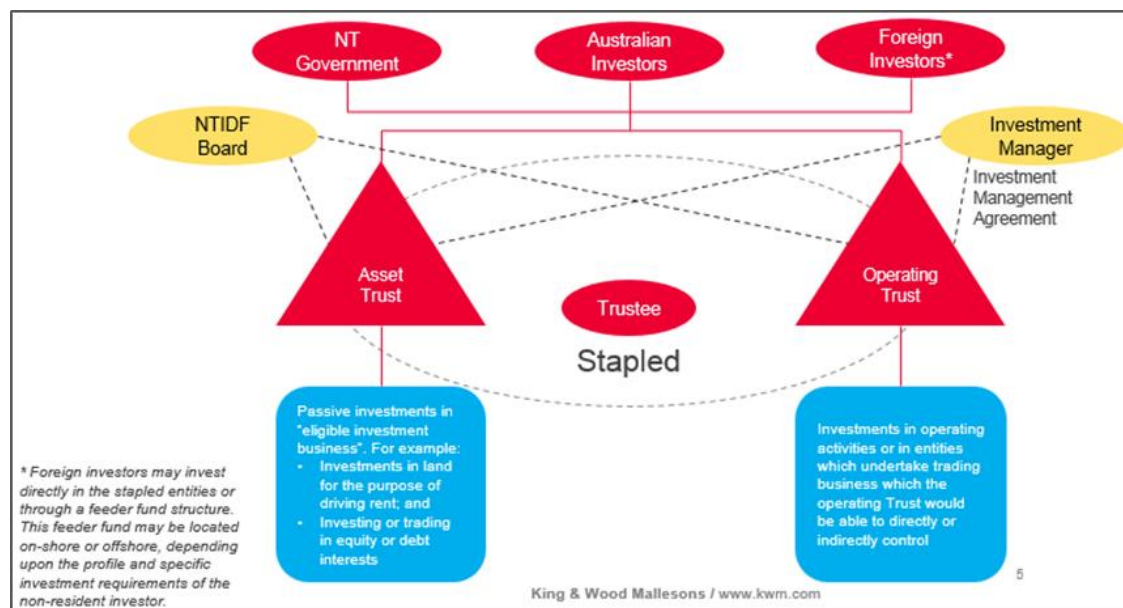
Entity	Purpose
<b>Investor (NTG)</b>	The NTG is the sole investor in the NTIDF and has committed \$202.5 million to the NTIDF for the purpose of investment and meeting the costs to administer the funds. The committed investment is drawn down by the NTIDF as required, and is used to fund operational expenses and investments. In exchange, the NTG receives units in the fund.
<b>Northern Territory Infrastructure Development Fund Limited (NTIDF Limited)</b>	NTIDF Limited is governed by the Board of Directors of NTIDF Limited. The NTIDF Board is responsible for managing the operations of the fund, considering investment recommendations from the investment manager, and providing instructions to the trustee in regards to the appointment of the investment manager. The NTIDF Board retains a right of veto over all investments and divestments.
<b>Trustee</b>	One Funds Management Limited, as the Trustee and Custodian of the NTIDF Trusts, is responsible for managing the assets of the trust in accordance with the Trust Deeds and ensuring the NTIDF Trusts conform to all legislative and regulatory requirements. One Investment Group provides registry, accounting and administration services to the NTIDF as required.
<b>Investment Manager</b>	Infrastructure Capital Group (ICG), as the investment manager, is responsible for developing a pipeline of projects, and for undertaking due diligence on potential projects and preparing investment recommendations to the NTIDF Board.
<b>NTIDF Asset Trust</b>	The investment objective of the NTIDF Operating Trust is to build a diversified portfolio of mature infrastructure investments that support the long term economic growth and development of the Northern Territory by investing in appropriate infrastructure projects.
<b>NTIDF Operating Trust</b>	The investment objective of the NTIDF Operating Trust is to build a diversified portfolio of mature infrastructure investments that support the long term economic growth and development of the Northern Territory by investing in appropriate infrastructure projects.

Source: NTAGO Developed

## Department of Treasury and Finance cont...

The Interim Board released a request for expressions of interest for the role of Investment Manager in December 2016. The role of Investment Manager was awarded to Infrastructure Capital Group. An Investment Management Agreement was signed between One Funds Management Limited (Trustee), Infrastructure Capital Group (Investment Manager) and NTIDF Limited on 8 December 2016. By the end of December 2016, the NTIDF was established and fully operational. The interrelationships between the entities are presented in Figure 4.

Figure 4: NTIDF Structure



Source: Department of Treasury and Finance

## Department of Treasury and Finance cont...

A summary of the events is outlined in Figure 5.

Figure 5: NTIDF Establishment Timeline

2015	May-15: Granite Capital Pty Ltd was contracted by the Agency to develop and propose a concept for the creation of a self-sustaining pool of infrastructure capital for the Northern Territory.
	Jul-15: Granite Capital Pty Ltd presented its report, recommending that the NTG establish the NTIDF.
	Sep-15: NTG announced the creation of the NTIDF, committing \$200 million from the sale of the Territory Insurance Office as a financial cornerstone of the fund.
	Sep-15: Interim Board appointed.
2016	Dec-15: The Interim Board of the NTIDF sought Expressions of Interest for the role of investment manager.
	Apr-16: The Constitution of NTIDF Limited was signed by the Board Chairman and NTG Board Member.
	May-16: The Interim Board were appointed as Board Members of NTIDF Limited.
	Jun-16: One further Board Member of NTIDF Limited was appointed by the NTIDF Board.
	Dec-16: The Trustee was contracted through a Subscription Agreement signed by the NTG.
	Dec-16: The Asset Trust was established with the Asset Trust Deed signed by the Trustee and NTIDF Limited
	Dec-16: The Operating Trust was established with the Operating Trust Deed signed by the Trustee and NTIDF Limited.
	Dec-16: The Investment Manager was contracted through an Investment Management Agreement signed by the Trustee and NTIDF Limited.

Source: NTAGO Developed

## Department of Treasury and Finance cont...

### *Oversight by the Agency*

There are various governing documents in place with regard to the Fund and the entities involved. These include the:

- NTIDF Limited Constitution;
- Trust Deeds of the NTIDF Asset Trust and NTIDF Operating Trust;
- Investment Management Agreement; and
- Subscription Agreement.

The role of the NTG in relation to the structure of the Fund is that of an investor. The Territory's investment is facilitated through contractual arrangements via a Subscription Agreement. The contractual agreements and signing authorities, as they relate to the NTG, are documented in Figure 6.

Figure 6: Involvement of the NTG as a result of the NTIDF

Entity	Document	Involvement of NTG
NTIDF Limited	NTIDF Constitution	The Constitution requires that at least one member of the Board of Directors is an NTG Director. The Treasurer of the Northern Territory has the ability to nominate the NTG Director.
Trustee	Subscription Agreement 6 December 2016	The Subscription Agreement specifies total funds of \$202,500,000 as being committed by the Territory to be invested in the Fund.
Investment Manager	Investment Management Agreement 8 December 2016	NTG had no role in establishing the contract. There are no reporting requirements between the Investment Manager and the NTG.
NTIDF Asset Trust	Asset Trust Deed 5 December 2016	NTG is a Holder of units in the trust. The Holders invest in the fund through the purchase of units. The Trust Deed establishes the rights and obligations of the Holder. The Holder is entitled to an income distribution based on the units held and unit's earnings. NTG holds 100% of the trust units.
NTIDF Operating Trust	Operating Trust Deed 5 December 2016	NTG being a Holder of units in the Fund is also considered a party in the Trust Deeds as the Trust Deeds have laid out the rights and obligations of a Holder.

Source: NTAGO Developed

## Department of Treasury and Finance cont...

### *NTIDF Limited*

NTIDF Limited was established as an independent Company by the Interim Board and approved by the NTG. The purpose of NTIDF Limited is to establish and oversee the Fund in order to support the long term economic growth and development of the Northern Territory by investing in appropriate infrastructure projects.

NTIDF Limited is governed by the NTIDF Constitution. The Constitution of NTIDF Limited was signed by the Chair and the NTG Board Member on 21 April 2016. The Agency advised that the company secretary, Boardroom Ltd, had received copies of the NTIDF Constitution signed by the remaining Directors.

From June 2016, following the appointment of an additional independent Director, the NTIDF Board consisted of five Directors. Four Directors were independent of the NTG and one was an NTG representative, being the Under Treasurer. The membership of the NTIDF Board remained unchanged at the conclusion of my audit fieldwork on 15 November 2018 and comprised the Chair, NTG Representative and three independent Directors.

At the time of writing this report, the Chairman, NTG Representative and one Independent Director remain on the Board.

The Constitution requires that at least one of the board of directors is an NTG Director. The Treasurer of the Northern Territory has the ability to nominate the NTG Director.

The Constitution does not contain any clauses pertaining to reporting requirements of the Fund, other than meeting the requirements of the *Corporations Act 2001*.

### *NTIDF Asset Trust Deed and NTIDF Operating Trust Deed*

The Trust Deeds of the NTIDF Asset Trust and NTIDF Operating Trust were entered into between One Funds Management Limited (as Trustee) and NTIDF Limited (as Sponsor) on 5 December 2016. With reference to the Trust Deeds, the NTG is a Holder, being a Holder of Units in each Trust. Holders invest in the fund through the purchase of units and are entitled to an income distribution based on the units held and the Trusts' earnings. NTG currently holds 100% of the trust units.

The Trust Deeds contain a clause in relation to reporting by the Trustee which requires reports to be distributed to Holders. The Trustee is required to distribute:

- a) audited annual accounts at the end of each Financial Year;
  - b) a descriptive report on the investments held on a quarterly basis; and
- any other information a Holder reasonably requests.

The Trust Deeds provide for audited annual accounts for each year ended 30 June to be provided to the Agency by 31 October. Representatives of the Agency received audited annual accounts (requirement a) for the year ended 30 June 2017 from the Trustee. As at 18 December 2018, audited annual accounts for 30 June 2018 had not been received by the Agency. Agency representatives have advised me that they have sought the audited financial statements from the Trustee. The Trustee has not provided the Agency with descriptive reports on the investments (requirement b). The Agency advised that no requests for further information have been made by the NTG as Holder (requirement c).

## Department of Treasury and Finance cont...

### *Subscription Agreement*

The Subscription Agreement was entered into between the NTG, represented by the Central Holding Authority (as Subscriber), and One Funds Management Limited (as Trustee) on 6 December 2016. The Subscription Agreement establishes the responsibilities of both the Trustee and Subscriber regarding the committed funds. The Subscription Agreement contains information relating to committed funds; drawdowns; warranties; and reporting.

#### a) Committed Funds

The Subscription Agreement specifies a total of \$202,500,000 as being funds committed by the Territory to be invested in the Fund.

#### b) Drawdowns

The committed funds are held by the Subscriber and are provided to the Fund in instalments over time. The Trustee can draw the committed funds as required.

#### c) Warranties

The Subscription Agreement includes warranties relating to both the Trustee and Subscriber. One of the warranties applicable to the Subscriber is that the Subscriber cannot rely on statements and representation made by the Trustee or Manager of any Fund except as set out in the Trust Deed. The Subscriber is required to make its own enquiries, in particular in relation to the potential returns from and risks associated with an investment in each Fund.

#### d) Reporting

The Trustee is to prepare and provide to the Subscriber the following reports in accordance with the frequency set out below:

- a) updates on the Trust's assets and investment performance on a quarterly basis;
- b) disclosure of conflicts of interest within seven days of the Trustee becoming aware of the conflict; and
- c) report of any capital expenditure that is inconsistent with the Investment Instructions and Objectives within seven days of the Trustee committing to that expenditure.

The Fund made its first investment in February 2018, and as such the first substantive report should have been received within 60 days of the March 2018 quarter in accordance with the reporting requirements of the Trust Deeds. The Agency did not receive any quarterly reports.

Agency representatives advised they were not aware of any conflicts of interest (item b) nor any capital expenditure that is inconsistent with the Investment Instructions and Objectives of the Investment Management Agreement (item c).

Representatives of the Agency advised that attendance by Agency personnel as observers at NTIDF Board meetings provided the Agency with a good understanding of the performance of the Territory's investment. Notwithstanding this assertion, there were no processes to monitor and formally assess the achievement of the NTG's intended objectives as a result of establishing the Fund.

## Department of Treasury and Finance cont...

Of the governance documents summarised above, none explicitly provide for the NTG to conduct or seek an independent review of the Fund and its operations. Better practice would involve financial arrangements entered into by the NTG including a specific provision for the NTG to conduct a detailed review or audit of the application of funds, if required, to ensure the funds are being used to meet the objectives of the NTG.

The Subscription Agreement does not appear to provide any conditions that enable the Holder to unilaterally void or withdraw the \$202.5 million commitment. The Trustee can cancel the amount of any undrawn commitment of a holder at any time.

The Holder can request the redemption of any amounts already invested but the redemption decision is at the discretion of the Board (as Sponsor) and Trustee. If a Holder wishes to have some or all of its Units redeemed, it must submit a redemption request to the Trustee in accordance with the Trust Deeds however, the Trustee does not have an obligation to accept a redemption request.

### *Investment Manager*

The Investment Management Agreement was entered into between One Funds Management Limited (as Trustee), Infrastructure Capital Group Limited (as Investment Manager) and NTIDF Limited (as NTIDF Board) on 8 December 2016. There are no reporting requirements between the Investment Manager and the NTG.

### *Obligations of the Territory*

The key obligation is the commitment by the Territory for a total of \$202,500,000 to be invested in the Fund. The Trust Deeds provide mechanisms for early termination of the two Trusts, those being:

- a resolution of the majority of Holders on the ninth anniversary of the Foundation Investor Date and at two year intervals thereafter; or
- a date specified by the Trustee with consent from the Sponsor,

following which the NTG's obligation to invest further funds is also terminated.

The funds are held by Central Holding Authority until the Trustee requests a drawdown in accordance with the agreement. The provisions relating to a drawdown are documented in the Subscription Agreement and the Trust Deeds (refer also to Governance and Oversight section of this report). The Agency is responsible for administering the NTG's payments in response to a Drawdown Notice.

Investor Commitments are to be drawn down in instalments over time, as determined by the Trustee. Before any of the committed funds are paid over to the Fund via the Trustee, the Trustee has to complete a Drawdown Notice. The Trustee must give the Subscriber at least ten business days' notice before a call is due for payment.

If the Territory fails to pay a Drawdown Notice, then the consequences range from paying interest and other costs associated with the non-payment through to NTG's rights being suspended and the requirement to forfeit or sell a portion or all of the NTG's units.

## Department of Treasury and Finance cont...

Representatives of the Agency confirmed that there are formal processes in place to ensure that the NTG complies with its contractual arrangements under the Subscription Agreement and Trust Deeds. The processes implemented by the Agency are relevant only to drawdown transactions and are listed below.

- A drawdown notice in the form specified in the Trust Deeds is sent by the Trustee to the NTG, addressed to the Central Holding Authority.
- After ensuring the Drawdown Notice has been properly prepared by the Trustee, a memorandum is prepared seeking approval from the Under Treasurer to approve the requested drawdown;
- Before the approval by the Under Treasurer, the memorandum is approved by the Assistant Under Treasurer and the General Manager of Northern Territory Treasury Corporation;
- The Drawdown Notice is paid within 10 business days upon its receipt;
- The Agency ensures that unit certificates are issued by the Trustee after the NTG has transferred the funds; and
- The Agency ensures that a record is maintained of all drawdowns and unit certificates.

A walkthrough of the processes involved in a drawdown transaction was performed and the processes undertaken were consistent with the above process. The Agency advised that they are not aware of any Drawdown Notice that was not paid by the Territory in accordance with the Subscription Agreement and the Trust Deeds.

As at 30 June 2018, \$13,000,200 had been drawn down.

All of the costs associated with the Fund after it was established have been incurred by the Fund and are paid from the drawdown amounts.



## Department of Treasury and Finance cont...

The NTG is liable for the following costs:

Figure 7: Expenditure paid by the NTG

Entity	Document	NTG's Obligations
NTIDF Limited	NTIDF Constitution	The Directors are entitled to remuneration as approved by the Directors. Expenses since the full establishment of the Board are incurred by the Fund. The NTG, as the sole investor, has been responsible for all of the operating costs of the Fund via the drawdowns.
Trustee	Subscription Agreement 6 December 2016	All costs, charges, expenses and outgoings incurred by the Trustee or the Sponsor in the proper performance of its duties are payable or reimbursable out of Assets.  The Trustee is entitled to be paid a trustee fee equal to the higher of 0.02% per annum on the Gross Value of the Assets; or \$48,000 per annum.  The Trustee is entitled to be paid an establishment fee of \$10,000.
Investment Manager	Investment Management Agreement 8 December 2016	All costs, charges, expenses and outgoings incurred by the Manager in the proper performance of its duties are payable or reimbursable out of Assets.  The Manager is entitled to receive a management fee of 0.0080 of the net asset value and a commitment fee of 0.0050 of the commitment amount.
NTIDF Asset Trust	Asset Trust Deed 5 December 2016	All costs, charges, expenses and outgoings reasonably and properly incurred by the Trustee or the Sponsor in the proper performance of its duties in relation to the Trust are payable or reimbursable out of the Trust.
NTIDF Operating Trust	Operational Trust Deed 5 December 2016	All costs, charges, expenses and outgoings reasonably and properly incurred by the Trustee or the Sponsor in the proper performance of its duties in relation to the Trust are payable or reimbursable out of The Trust.

Source: NTAGO Developed

In addition to the expenditure items in the table above, other costs incurred by the NTG related to the pre-establishment costs of the Fund, such as legal fees and consultant fees.

## Department of Treasury and Finance cont...

The table below shows the timeline of the drawdowns, the expenses incurred by the Fund and the costs incurred directly by NTG since establishment.

Figure 8: Expenditure by year

Description	Transfer Date	Amount (\$)
Pre-establishment costs	2014-15	176,000
<b>Total for the year ended 30 June 2015</b>		<b>176,000</b>
<b>Life to date cost as at 30 June 2015</b>		<b>176,000</b>
Pre-establishment costs	2015-16	495,620
<b>Total for the year ended 30 June 2016</b>		<b>495,620</b>
<b>Life to date cost as at 30 June 2016</b>		<b>671,620</b>
Pre-establishment costs	2016-17	66,000
Loan Agreement	25-Jul-16	500,000
Settling of Trusts	29-Nov- 16	200
1st drawdown	3-Jan-17	1,000,000
2nd drawdown	20-Apr-17	500,000
<b>Total for the year ended 30 June 2017</b>		<b>2,066,200</b>
<b>Life to date cost as at 30 June 2017</b>		<b>2,737,820</b>
3rd drawdown	10-Jul-17	500,000
4th drawdown	2-Jan-18	500,000
5th drawdown	2-Feb-18	9,500,000
6th drawdown	21 May-18	500,000
<b>Total for the year ended 30 June 2018</b>		<b>11,000,000</b>
<b>Life to date cost as at 30 June 2018</b>		<b>13,737,820</b>

Source: NTAGO Developed

## Department of Treasury and Finance cont...

### Returns to the Territory

The governing documents are not consistent with regard to the expected rate of return.

Figure 9: NTG Required Rate of Return

Entity	Document	NTG Required Rate of Return
NTIDF Limited	NTIDF Constitution	To ensure the NTIDF generates attractive risk-adjusted returns for all Unitholders.
Trustee	Subscription Agreement 6 December 2016	There are no clauses pertaining to the rate of return.
Investment Manager	Investment Management Agreement 8 December 2016	The Funds are to comprise long-term investments with an overall risk-adjusted internal rate of return in the order of 8% to 14%. The Funds as a whole will target a sustainable cash yield over the medium term in the order to 4% to 7% per annum, with relatively low volatility over the long term.
NTIDF Asset Trust	Asset Trust Deed 5 December 2016	There are no clauses pertaining to the rate of return.
NTIDF Operating Trust	Operating Trust Deed 5 December 2016	There are no clauses pertaining to the rate of return.

Source: NTAGO Developed

The only governing document that quantifies the expected rate of return is the Investment Management Agreement.

Representatives of the Agency confirmed that, at the time of my audit, there had been no income received by the Agency for the year ended 30 June 2018.

## Department of Treasury and Finance cont...

### Returns on Undrawn commitment

The undrawn commitment was \$189,499,800 [being the agreed \$202,500,000 less the \$13,000,200 already drawn down] at the time of my audit with the funds held by the Central Holding Authority. These funds are managed by Northern Territory Treasury Corporation and are invested with JANA in a managed portfolio. Representatives of the Agency confirmed the Central Holding Authority has earned \$5.28 million (2.61%) from this investment for the year ended 30 June 2018.

The cumulative value of the investment relating to the Fund at each financial year end as recorded in the general ledger of the Central Holding Authority is presented in Figure 10.

Figure 10: Undrawn Commitment

Financial Year	Beginning Balance (\$)	Transfers In / (Out) (\$)	Drawdowns (\$)	Gains/ (losses) (\$)	Ending Balance (\$)
	a	b	c	d	e = a+b+c+d
2014-15	215,000,000	-	-	(99,709)	214,900,291
2015-16	214,900,291	95,000,000	-	4,888,017	314,788,308
2016-17	314,788,308	(115,000,000)	(2,000,200)	7,434,526	205,222,634
2017-18	205,222,634	-	(11,000,000)	5,280,024	199,502,658

Source: NTAGO Developed

### Further Contributions by the Territory

At the time my audit commenced, the further contributions that the Territory was expected to make related to the undrawn commitment contained in the Subscription Agreement. The value of the undrawn commitment is equal to the Commitment Amount of \$202,500,000 less total drawdowns of \$13,000,200 as at 30 June 2018 being \$189,499,800.

The Agency confirmed that any income earned on the undrawn amount does not become payable to the Fund, it remains within the Central Holding Authority.

### Financial Reporting

The Central Holding Authority's investment relating to the Fund is recognised as part of Securities (current) under the Investments, Loans and Placements line item in the Treasurer's Annual Financial Report. This includes both the drawn down investment and the investment of the undrawn commitment amount.

The accounting policy disclosed in the Treasurer's Annual Financial Report states that the investment is initially recorded at cost and subsequently measured at amortised cost or at net market value, after deducting estimated costs of realisation at reporting date.

## Department of Treasury and Finance cont...

### Risk Management

As noted above the key objective of the Fund is “*to be a long-term investor in a diversified portfolio of infrastructure assets*”.

The Trust Deeds state that infrastructure assets may include “greenfield” developments (new projects), “brownfield” projects (where pre-existing facilities are modified, upgraded or expanded) as well as the purchase of government assets, capital investments in existing companies and other infrastructure related investments.

The Investment Management Agreement provides that:

- no more than 30% of the total investment can be invested outside of the Territory.
- no more than 20% of the total investment can be invested overseas.

There are no Value for Territory requirements in any of the agreements to which the NTG is a party.

As the NTIDF was established as an independent fund, there are no specific NTG obligations to approve any investments made by the Fund or to assist the investments to succeed.

Specific risks relating to the Fund are not documented in the Agency’s risk register.

### Performance Management System

At the time of my audit, the Agency had a number of informal processes in place to monitor the extent to which investments made or proposed by the NTIDF comply with the objectives established in the NTIDF Constitution and the Investment Management Agreement. These processes include attendance by Agency representatives (as observers) at meetings of the NTIDF Board and internal processes to ensure requests for drawdowns are appropriately actioned.

Evidence of a formal system within the Agency to measure and assess the performance of the NTIDF against the Territory’s objectives could not be obtained.

In the absence of a formal performance management system within the Agency to maintain oversight of the NTIDF, there is an increased risk that the Agency will not know if, or to what extent, the Territory’s performance objectives have been realised.

There is no evidence of formal processes constituting a performance management system, in place within the Agency to measure and assess whether, or to what extent, the NTG’s objectives underpinning the establishment of the Fund are being achieved.

As identified earlier in this report, the Agency did not establish any performance targets to measure the extent to which the NTIDF realises its objectives economically, efficiently and effectively.

## Department of Treasury and Finance cont...

A comparison of the extent to which the objectives had been realised at the time of the audit to the key requirements outlined in a Media Release dated 6 October 2015 is presented in Figure 11.

Figure 11: Performance Analysis

NTG Objective (based on the Media Release dated 6 October 2015 announcing the creation of the NTIDF)	Current state at time of audit
Using \$200 million from the sale of the Territory Insurance Office as a financial cornerstone, the fund will seek a further \$800 million of capital from other Australian and overseas investors to create a \$1 billion investment pool.	At the time of audit fieldwork, no third parties had invested in the Fund.
The fund will be used to invest in infrastructure projects across the Territory, creating revenue for the fund, essential infrastructure for Territorians and new jobs across the whole economy.	Of the total drawdowns of \$13 million, \$9.5 million was drawn down for investment and \$3.5 million was drawn down to meet operational expenses of the Fund.
The fund will be financially independent of government, with no risk to Territory taxpayers.	<p>The Agency presently has a number of informal processes in place to monitor the extent to which investments made or proposed by the NTIDF comply with the objectives established in the NTIDF Constitution and the Investment Management Agreement.</p> <p>Specific risks relating to the Fund have not been identified and recorded in the Agency's risk register.</p> <p>As the sole investor in the Fund, the Territory continues to bear all operating and investment risks associated with the Fund.</p>
The fund will seek to invest in a diversified portfolio of infrastructure related projects, such as roads, hospitals, schools and agricultural projects.	At the time of audit fieldwork, the Fund had made one investment.
Revenues will be re-invested into the fund, providing the opportunity to create a self-sustaining pool of capital available for new infrastructure investment.	The first returns on investment were not due until after 30 June 2018 and consequently at the time of the audit there was no evidence available to support this objective.
The Board of the Fund will appoint an independent commercial infrastructure fund manager, responsible for making investment decisions.	The Investment Manager was contracted through an Investment Management Agreement in December 2016.

Source: NTAGO Developed

## Department of Treasury and Finance cont...

### **The Department of Treasury and Finance has commented:**

The Northern Territory Government's intention in establishing the NTIDF was for it to be a fully independent infrastructure investment fund, with government's role essentially that of a unitholder or investor. Having a fully independent structure was considered a critical element if the Fund was to have any prospects of attracting external investment.

This is reflected in the structure of the NTIDF ultimately implemented, whereby government did not have the power to dictate what projects the NTIDF would invest in, nor have the power to veto any investment decisions that were duly recommended by the independent Investment Manager and approved by the NTIDF Board.

DTF's role in establishing the NTIDF was to ensure that the structure selected was established with appropriate governance, so that each party had clearly defined roles, while maintaining government at arm's length from the management, oversight, operation and investment making processes of the NTIDF.

DTF does not believe the overall audit finding is representative of the independent structure of the Fund that was established and provides the following comments in response to the four specific recommendations identified by the Audit.

#### *1. Implement a formal system for maintaining oversight of the performance of the NTIDF*

Once the formal governance structure of the NTIDF was established, it was DTF's primary responsibility to ensure that sufficient funding was appropriately set aside to meet government's commitment to investing in the NTIDF, and to ensure no funds were committed without first obtaining assurance that either the expenses to be reimbursed were appropriate or that investments were made in line with the objectives of the NTIDF.

DTF had a robust system in place to ensure that prior to transferring any funding to the NTIDF, a determination was received from the independent Trustee that the funds requested were reasonable expenses of the NTIDF, or were for investments that had validly been recommended by the Investment Manager and had not been vetoed by the NTIDF Board.

In addition, as identified by Audit, DTF had established a number of processes to monitor the extent to which investments ultimately made by the NTIDF were in accordance with the objectives of the Fund. These processes included attendance at Board meetings as observers; access to Board papers that included detailed reports from the Trustee and Investment Manager; and regular correspondence and meetings with relevant parties.

These combined processes enabled the agency to closely monitor the performance of the NTIDF. It was primarily this close monitoring of performance and constant discussions with the NTIDF Board contributed to the assessment from all parties that the NTIDF should be wound up.

## Department of Treasury and Finance cont...

### **The Department of Treasury and Finance comments continued:**

2. *Actively seek to obtain required reports by their due date and communicate the non-compliance to those required to report*

DTF did receive regular, far more detailed reporting on the NTIDF and its investments from the Trustee than required under the subscription agreement and trust deeds. This reporting was comprehensive and provided sufficient information for DTF and government to form an informed view of how the Territory's investment in the NTIDF was performing.

Financial reports received from the Trustee included:

- monthly financial statements including statement of Profit and Loss; Balance Sheet; Statement of Cash Flows
- supporting documents including any invoices received and paid; formation costs; creditors; cash flow workings; ledger reports
- tables showing every expense paid out of the trusts, including date, description, amount, and category of expense
- once the NTIDF had made its only investment, being convertible notes in NT Beverages, the Trustee's reports included details such as amount paid, face value, interest rate, and amount of interest receivable

While the 2017 audited annual accounts were prepared and provided in a timely manner, as identified by audit, the 2018 audited annual accounts were not provided by the Trustee in the timeframe required. However, this was known by DTF, which followed up at regular intervals with the Trustee. The Trustee advised DTF that the delay was due to the fact that the NTIDF had been wound up and, as required by accounting standards, the financial statements were required to be prepared on a wind-up basis rather than on a going concern basis.

DTF can advise that the audited annual accounts for 2018 have subsequently been finalised, with no matters of note provided by the NTIDF's auditor. Aside from following up with the Trustee, DTF had little control over the timeliness of the 2018 accounts. Given that drafts had been provided and the reasons for the delay had been communicated, it is considered by DTF that the delay in finalising the 2018 accounts had no bearing on the performance of the NTIDF.

3. *Ensure the Northern Territory Government has the ability to independently review the application of funds*

DTF acknowledges that it is usual practice for government in financial arrangements to be able to seek an independent review of the investment and/or application of funds drawn from the public account, including how those funds have been applied and this recommendation will be duly considered in the event that any future investment fund of this nature is proposed by Government.



## Department of Treasury and Finance cont...

### **The Department of Treasury and Finance comments continued:**

In relation to the NTIDF, as part of the Fund's governance, a Trust structure was established, with the Trustee acting as an independent custodian on behalf of investors. Prior to issuing any drawdown notice requesting funds from investors, the independent Trustee was required to ensure the application of the funds was consistent with the objectives of the NTIDF and was for either eligible operating expenses or an investment that had been duly recommended by the Investment Manager and not vetoed by the NTIDF Board.

It was therefore considered that having the ability to independently review the application of funds already existed. Furthermore, having the ability for government to conduct or seek an independent review or audit of the application of funds by a party other than the Trustee was considered contrary to the independent nature of the NTIDF and the objective of attracting third party investors.

**4. *Ensure risks associated with the investment of funds are identified assessed and documented***

As noted above, there were robust frameworks in place that were designed to mitigate the risk of the Investment Manager entering into an investment that was not compliant with the objectives documented within the NTIDF Constitution, Trust Deeds and the Investment Management Agreement, and processes to ensure that funds were only provided to the NTIDF trustee following receipt of a duly executed drawdown notice in accordance with government's contractual commitments under the subscription agreement.

Other than this, DTF had no ability to dictate what investments the NTIDF made, or any ability to veto proposed investments. As such, there was little ability for DTF to manage the risks associated with the specific investments that the NTIDF contemplated and ultimately made.

DTF also had appropriate risk management strategies in place in relation to the investment of undrawn funds that were held in the Central Holding Authority, similar to those risk strategies employed in other financial investments held by government (e.g. Conditions of Service Reserve).

# Desert Knowledge Australia

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

### ***Background***

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

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

### ***Scope and Objectives***

The objective of the audit was to complete sufficient audit verification to enable an opinion to be expressed upon the financial statements of Desert Knowledge Australia for the year ended 30 June 2018.

### ***Audit Opinion***

The audit of the Desert Knowledge Australia for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 9 November 2018.

### ***Audit Observations***

The audit did not identify any material weaknesses in controls.

### ***Performance Overview***

Desert Knowledge Australia reported a deficit of \$936 thousand compared to the prior year's deficit of \$811 thousand. The deficit reflects:

- Total income of \$1,882 thousand (2017: \$1,468 thousand) which increased from the prior year by \$414 thousand largely attributable to increases of: \$356 thousand in grant funding; \$60 thousand in Solar Centre electricity sales; and \$58 thousand in other income, partially offset by a decrease in interest revenue of \$21 thousand.
- Total expenses of \$2,818 thousand (2017: \$2,279 thousand). The increase in expenses of \$539 thousand is mainly due to an increase in employee expenses of \$552 thousand and an increase of \$163 thousand in consultant expenses partially offset by a decrease in other expenses of \$110 thousand.

# Desert Knowledge Australia cont...

## Financial Performance for the year

	2018	2017
	\$'000	\$'000
<b>Income</b>		
Grants – Northern Territory Government	1,202	845
Rent received	142	144
Interest revenue	33	54
Solar Centre revenue	136	114
Other	369	311
<b>Total income</b>	<b>1,882</b>	<b>1,468</b>
<b>Expenditure</b>		
Employee expenses	(1,290)	(738)
Depreciation and amortisation	(427)	(419)
Board costs	(24)	(16)
Consultants	(313)	(150)
Media/marketing/advertising	(54)	(42)
Travel	(54)	(35)
Desert Knowledge Precinct	(389)	(394)
Solar Centre maintenance	54	(54)
Other	(321)	(431)
<b>Total expenditure</b>	<b>(2,818)</b>	<b>(2,279)</b>
<b>Deficit</b>	<b>(936)</b>	<b>(811)</b>

## Desert Knowledge Australia cont...

### Financial Position at year end

	2018	2017
	\$'000	\$'000
Cash and cash equivalents	1,618	1,814
Receivables and other current assets	145	139
Less current liabilities	(1,137)	(634)
<b>Working Capital</b>	<b>626</b>	<b>1,319</b>
Add non-current assets	12,256	12,610
Less non-current liabilities	(2,266)	(2,377)
<b>Net Assets</b>	<b>10,616</b>	<b>11,552</b>
Represented by:		
Retained earnings	7,809	7,809
Capital	2,807	3,743
<b>Equity</b>	<b>10,616</b>	<b>11,552</b>

# Nitmiluk (Katherine Gorge) National Park Board

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

### ***Background***

The Nitmiluk (Katherine Gorge) National Park Board (the Board) was formed in 1989 under the *Nitmiluk (Katherine Gorge) National Park Act 1989* to acknowledge and secure the rights of those Aboriginals who are the traditional owners of certain land in the Northern Territory of Australia, and certain other Aboriginals, to occupy and use that land, to establish a National Park comprising that land [to be known as the Nitmiluk (Katherine Gorge) National Park] and to provide for the management and control of that Park and certain other land and for related purposes.

### ***Scope and Objectives***

The objective of the audit was to complete sufficient audit verification to enable an opinion to be expressed upon the financial statements of Nitmiluk (Katherine Gorge) National Park Board for the year ended 30 June 2018.

### ***Audit Opinion***

The audit of the Nitmiluk (Katherine Gorge) National Park Board for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 8 January 2019.

### ***Audit Observations***

#### ***Performance Overview***

Total revenue for the year increased by \$76 thousand to \$1.140 million (2017: \$1.064 million) comprising park income of \$981 thousand and other revenue, being goods and services received free of charge of \$159 thousand. Park income increased by \$17 thousand and goods and services received free of charge increased by \$59 thousand.

Total expenses also increased by \$76 thousand to \$1,140 thousand (2017: \$1,064 thousand). Goods and services received free of charge are recognised as both income and expenditure, consequently there was a corresponding increase of \$59 thousand in related expenditure. Payments of administrative and personnel costs through the former Department of Tourism and Culture increased by approximately \$7 thousand. As any operating surplus is fully distributed to Traditional Owners, these payments increased by \$9 thousand.

Total receivables of \$231 thousand (2017: \$316 thousand) decreased from the prior year by \$85 thousand reflecting a decrease in accrued revenue because April 2018 revenue was invoiced in 2017-18. Total payables of \$231 thousand (2017: \$316 thousand) decreased from the prior year by \$85 thousand consistent with the movement in receivables.

## Nitmiluk (Katherine Gorge) National Park Board cont...

### Financial Performance for the year

	2018	2017
	\$'000	\$'000
<b>Income</b>		
Park income	981	964
Less payments to Traditional Owners	(618)	(609)
Less payments to the former Department of Tourism and Culture	(363)	(355)
Other revenue [goods and services received free of charge]	159	100
<b>Total income</b>	<b>159</b>	<b>100</b>
<b>Expenditure</b>		
Operational costs [goods and services received free of charge]	(159)	(100)
<b>Total expenditure</b>	<b>(159)</b>	<b>(100)</b>
<b>Surplus</b>	<b>-</b>	<b>-</b>

# Nitmiluk (Katherine Gorge) National Park Board cont...

## Financial Position at year end

	2018	2017
	\$'000	\$'000
Cash and cash equivalents	-	-
Receivables and other current assets	231	316
Less current liabilities	(231)	(316)
<b>Working Capital</b>	-	-
Add non-current assets	-	-
Less non-current liabilities	-	-
<b>Net Assets</b>	-	-
Represented by:		
Accumulated funds	-	-
<b>Equity</b>	-	-

## Selected Agencies

### Evaluation of Performance Management Systems

#### Background

Performance management system audits are designed to determine whether the processes in place at an agency enable the Accountable Officer to assess whether the agency's objectives are being achieved economically, efficiently and effectively.

Budget Paper 3 provides accrual and output-based information for NTG agencies including output statements for each agency and associated key performance indicators.

The 2017/18 Budget Paper 3 explains that:

*"An outcome is provided for each output group with a description for each output (business line for GBDs).*

*Key performance indicators are provided with estimates identified for each measure. The indicators are focused on presenting measures that are meaningful, nationally consistent and most relevant to assessing the achievement of the stated outcome."* (page 6)

*"The framework provides a consistent basis for the 2017 Budget, including output structures and key performance indicators for each agency. Agency annual reports record actual performance and provide explanations of significant variations..."*

Thus, there should be a direct correlation between the output groups and outcome, key performance indicators and the performance information in the Agency's annual report. To enable accurate performance reporting, an Agency should have a performance management system that enables the Agency to assess whether its objectives (outputs) are being achieved efficiently, effectively and with economy.

#### Scope and Objectives

This audit assessed whether the following components of a performance management system are implemented and operating effectively within the selected agencies in relation to the Agencies stated strategic goal selected for testing:

- A strategic plan exists for the Agency;
- The strategic plan reflects the Agency's strategic goals as stated in Budget Paper 3;
- Business plans exist for each Output Group within the Agency;
- The relevant business plan provides actions and performance targets aligned with the Agency's strategic plan;
- There is a process for determining the performance measure appropriate to each strategic objective;
- Performance is actively monitored during the course of year within the Agency;
- Performance results are reported to those accountable within the Agency; and
- Performance results are reported in the Agency's Annual Report and are accompanied by sufficient explanatory information that enables a reader to independently form a conclusion on the Agency's performance.



## Selected Agencies cont...

This audit concentrated on performance management systems and processes related to selected strategic goal/s of two agencies as included in Budget Paper 3. Audits were performed in each of the following agencies:

- Department of Environment and Natural Resources
- The former Department of Tourism and Culture

The fieldwork supporting these audits was conducted in October 2018 and February 2019.

The performance management process is presented in Figure 1.

Figure 1: Evaluation of Performance Management System Process Flow



## Selected Agencies cont...

### *Audit Opinion*

Whilst both audits identified that the selected Agencies had invested time, effort and resources to establish relevant performance measures and are implementing further systems, processes and controls to support achievement of outcomes and improved reporting, some opportunities exist to enhance performance management systems and processes related to the selected strategic outcomes.

### *Recommendations*

As detailed below, a number of recommendations to enhance the effectiveness of the Agencies' performance management systems were raised as a result of these audits.

- Design, document and implement an approach for the development of the Strategic Plan that includes the processes by which progress against the Strategic Plan will be monitored and reported upon.
- Ensure externally published strategic issues, outcomes, outputs, key performance indicators and organisational structures are consistent and aligned with those used internally to manage the performance of the Agency.
- Confirm that existing performance measures are specific, measurable, achievable, relevant and timely.
- Establish a system for actively monitoring actual performance against targeted performance during the course of the year and at year-end, including regular management reporting in relation to performance measures.
- Perform program evaluations to determine whether policy outcomes are being achieved efficiently and effectively.
- Establish a documented quality assurance process to ensure performance results and the accompanying narrative reported in the Annual Report are complete, accurate and supported by evidence.
- Enhance analysis of performance within the Annual Report through the inclusion of variance analysis and additional explanatory information relating to performance measures. Analysis should involve comparison of actual results against the original budget and the revised budget (estimate) and include a trend analysis presenting past actual results.
- Consideration could be given to enhanced recordkeeping and reduced reliance on manual systems.

## Selected Agencies cont...

### *Audit Observations*

#### Strategic Plan

Alignment between the strategic goals stated in Budget Paper 3 and those included in the Strategic Plans and corporate documents could be improved. The members of the Legislative Assembly that support the Appropriation Bill consider what an agency has stated it will deliver, as presented in Budget Paper 3, in return for the appropriation it receives. The content within an agency's Strategic Plan should align to the strategic issues and outputs in presented within Budget Papers. Externally published outcomes and key performance indicators should be consistent with internal targets established in business unit plans and personnel plans. Strategic Plans should be regularly reviewed and updated where required to reflect changing priorities and incorporate the Agency's strategic issues as documented in Budget Paper 3.

Development and/or documentation of an end-to-end process to support the management and achievement of strategic goals would include:

- identification of stakeholders required for the development of the Strategic Plan;
- identifying appropriate performance measures;
- ensuring the performance measures are consistent throughout agency corporate documentation (Budget Paper 3; Strategic Plan; Business Unit Plans; and personnel plans);
- allocating responsibility for each performance measure;
- communicating performance measures, roles and responsibilities;
- defining processes for monitoring progress and achievements against the Strategic Plan;
- embedding quality control requirements around the collation and analysis of performance data;
- establishing required reporting; and
- establishment of an approval process required for the endorsement of the Strategic Plan.

#### Business Plan

Development of a Business Plan (for each division, unit or operational area within the Agency) assists in achieving the key strategic goals (which are referred to as objectives) contained within the Agency's Strategic Plan.

A well-established Business Plan should:

- align the operational goals and activities with the strategic goals in the Strategic Plan and the strategic issues and outputs in Budget Paper 3;
- include details of what will be done and how it will be done;
- define the outputs expected from achievement of the strategic goals;
- include performance measures and targets; and
- detail how and when the performance measures will be monitored and reported upon.

Inclusion of the above details will enable responsibilities to be assigned to performance measures and enable the Agency to regularly report its progress toward achieving its strategic goals.

## Selected Agencies cont...

It may be beneficial to users of corporate documentation for agencies to demonstrate clear alignment and consistent terminology between the business structure; output groups; outputs; and strategic responsibilities presented within business plans, strategic plans, annual reports and budget papers.

### Performance Measures

Key performance indicators (also referred to as key performance measures or targets) need to be developed and specified in the Business Plans for an Agency's business divisions/units to enable the Agency to assess and monitor how efficiently, effectively and economically it is achieving its strategic goals.

A well-established key performance indicator should:

- align with the Strategic Plan and Business Plan;
- be Specific, Measurable, Achievable, Realistic and Timely;
- be comprehensively defined to avoid ambiguity which can arise from differing interpretations;
- identify who is responsible for meeting the key performance indicator;
- detail how and when performance will be monitored and reported; and
- be regularly reviewed (and revised if necessary) to ensure it remains meaningful and relevant.

To ensure that personnel and resources are adequately directed towards achievement of the published key performance indicators established in Budget Paper 3, as endorsed by the Legislative Assembly through the approval of the Agency's appropriation, a process should be implemented to ensure consistency between internal targets and those committed to within Budget Paper 3.

In particular, it is recommended that an Agency:

- develop definitions to ensure that performance information is accurately and consistently captured and reported;
- develop key performance indicators that are performance oriented and which are aligned to the strategic goals stated in the agency's Strategic Plan and Budget Paper 3;
- consider the agency's current priorities and challenges to ensure that established performance targets are realistic; and
- select key performance indicators that demonstrate how efficiently and effectively the agency is delivering against the outcomes attributed to its output groups.

## Selected Agencies cont...

### Monitoring Performance

It is important for Agencies to develop appropriate processes to periodically monitor performance against key performance indicators. There exist opportunities to improve the systems and processes for recording, monitoring and reporting performance.

For each key deliverable area, an Agency should establish clear guidance on:

- the type of data to be captured and reported;
- whose responsibility it is to capture, collate, review and report the data;
- how performance results are to be calculated based on the data;
- who the results will be reported to; and
- how frequently the results will be reported.

Agencies should develop and implement systems enabling quality reviews of data and reports to be performed to ensure the accuracy, completeness and timeliness of data. Documentary evidence should be retained to demonstrate the quality review process has been undertaken, who undertook the review and what was checked.

Quality assurance processes should be designed and implemented to ensure quarterly performance results are consistent with the performance results and accompanying narrative reported within the Agency's Annual Report. An effective quality assurance policy would clearly document defined roles and responsibilities and monitoring and quality control requirements.

### Performance Evaluation

Performance evaluation is intended to determine whether required outcomes are being achieved in an economical, efficient and effective manner. Performance evaluation requires establishment of a formal process to evaluate existing programs and ascertain whether the qualitative and quantitative outcomes have been attained or whether remedial actions and improvement opportunities can be implemented.

The key performance indicators included in Budget Paper 3 should form the basis against which the evaluation is undertaken.

It is important for Agencies to develop appropriate processes to periodically monitor performance against key performance measures and targets. Performance monitoring throughout the year allows the Agency to undertake corrective action sufficiently early if actual performance is consistent with targeted performance.

### Continuous Reporting

Currently, there is heavy reliance on manual systems for recordkeeping of performance measures. I recommended that recordkeeping practices be reviewed and enhanced to reduce the risk of manual errors occurring and remaining undetected.

## Selected Agencies cont...

### Annual Reporting

The performance content of the Annual Report has greater relevance where there is a comparison of actual results against the original budget in addition to inclusion of a trend analysis of actual results from prior years to assist users in evaluating the Agency's performance. An informative and useful Annual Report would:

- report actual performance against performance measures and targets specified in the original budget for the year;
- use the key performance indicators from the Strategic Plan and Budget Paper 3 to undertake the performance review;
- provide explanatory information to enable users of the reports to comprehend the performance measures reported and understand the narration associated with key achievements presented by the Agency.

All results reported in the Agency's Annual Report should be verified to their original source and reviewed by an appropriately knowledgeable employee independent of the employee preparing the Annual Report. Anomalies should be investigated and resolved prior to publication or sufficiently explained within the Annual Report.

Agencies should consider what additional explanatory information may be required to enable users of the reports to understand the performance measures reported, how the actions of the Agency affect the achievement of the performance measures and the cause of any variance between budgeted performance measures and actual results. Providing an analysis of the performance trends over time would also enable a user of the report to understand, independently conclude and formulate a view on the Agency's performance. Established practice is for performance information to be presented for a three to five year time series.

Reporting against the original Budget and providing explanations for any amendments in budget during the year contributes to increased transparency and accountability. Better practice would require actual performance results to be reported against the Original Budget and, if applicable, Revised Budget/Estimate with amendments explained within the Annual Report.

## Selected Agencies cont...

**The Department of Environment and Natural Resources has commented:**

The Department acknowledges the audit findings and recommendations to strengthen its existing performance management systems and processes. The Department is currently working towards implementing the identified improvements.

**The Department of Tourism, Sport and Culture has commented:**

The Department notes the audit recommendations and will continue work to further strengthen its performance management systems.

# Surveyors Board of the Northern Territory of Australia

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

### ***Background***

The Surveyors Board of the Northern Territory of Australia (the Board) was formed under the *Licensed Surveyors Act 1983* (the Act).

The Board consists of the Surveyor-General and four members and, under the Act, is required to prepare a report on its operations within six months immediately following the end of the financial year. The *Financial Management Act 1995* applies as if the Board were a Government Business Division thus the report must be prepared within two months following the end of the financial year.

The Board regulates the practice of land boundary surveying and the registration of land boundary surveyors.

### ***Scope and Objectives***

The objective of the audit was to complete sufficient audit verification to enable an opinion to be expressed upon the financial statements of the Surveyors Board of the Northern Territory of Australia for the year ended 30 June 2018.

### ***Audit Opinion***

The audit of the Surveyors Board of the Northern Territory of Australia for the year ended 30 June 2018 resulted in an unmodified independent audit opinion, which was issued on 29 November 2018.

### ***Audit Observations***

The Board's accounting and control procedures were found to be generally satisfactory.

### ***Performance Overview***

The Board has reported an operating deficit of \$1,539 for the year ended 30 June 2018. This is a decrease in the deficit compared to prior year. This was largely due to a slight increase in revenue from subscription fees during the year and a decrease in expenditure for supplies and services.



# Surveyors Board of the Northern Territory of Australia cont...

## Financial Performance for the year

	2018	2017
	\$'000	\$'000
<b>Income</b>		
Income from fees	14	14
Services received free of charge	31	30
<b>Total income</b>	<b>45</b>	<b>44</b>
<b>Expenditure</b>		
Services received free of charge	(31)	(30)
Audit expenses	(9)	(6)
Supplies and services	(7)	(12)
<b>Total expenditure</b>	<b>(47)</b>	<b>(48)</b>
<b>Deficit</b>	<b>(2)</b>	<b>(4)</b>

## Surveyors Board of the Northern Territory of Australia cont...

### Financial Position at year end

	2018	2017
	\$'000	\$'000
Cash and cash equivalents	64	64
Receivables and other current assets	-	-
Less current liabilities	(9)	(7)
<b>Working Capital</b>	<b>55</b>	<b>57</b>
Add non-current assets	-	-
Less non-current liabilities	-	-
<b>Net Assets</b>	<b>55</b>	<b>57</b>
Represented by:		
Accumulated funds	55	57
<b>Equity</b>	<b>55</b>	<b>57</b>

# Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010*

## Background

The *Public Information Act 2010* (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).

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.

## Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010* cont...

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.

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

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

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

There has been one matter referred since my November 2018 Report to the Legislative Assembly.

# Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010* cont...

## Referral of a complaint to the Auditor-General – ANZAC Precinct

On 2 November 2018 a Member of the Legislative Assembly referred a matter to the Auditor-General in relation to the contents of a flyer entitled “Why the National Aboriginal Art Gallery is being built at the ANZAC Precinct”. The allegation was that a specific statement within the flyer contravened the provisions of the Act, in particular section 6(2)(c). The flyer was provided to an undisclosed number of persons through distribution into letter boxes of residents throughout Alice Springs. The referral was accompanied by a pdf copy of the flyer and specifically identified the following statement from the flyer:

*“Anzac Precinct is:*

*The only CBD site that allows for at least 40,000 sqm to create a world-class precinct, with an iconic architecturally designed building that connects to the natural landscape as the centrepiece, plenty of room for open community green space and car parking.”*

The allegation was that the statement may include misleading and incorrect information as part of the proposed site, being ANZAC Oval, is not owned or controlled by the NTG.

## **Review of Allegation**

After examining the specific statement on the flyer, I formed the opinion that the content has not contravened the requirements of the Act.

A Media Release dated 23 August 2018 entitled “*Tourism Businesses Show Support for Anzac Hill Precinct as the Site for the National Aboriginal Art Gallery*” stated that the NTG intended to use the “*Anzac Oval and the old school site*”.

The flyer states the location and size of the proposed site, it does not refer to ownership of all or part of the proposed site.

Notwithstanding the sensitivity relating to the site and ownership of the land, it is also a fact (although not stated in the flyer) that the NTG has the legal right to compulsorily acquire land that is needed for projects under the *Lands Acquisition Act 1978*.

## **Conclusion**

Following from the above, I concluded that the referred content within the flyer does not represent a contravention of the provisions of the *Public Information Act 2010* and the Public Information Regulations.

## **Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010* 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 made no recommendations.

## Appendices

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# Appendix 1: Audit Opinion Reports Issued Since 31 October 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
Board of the Museum and Art Gallery of the Northern Territory	12 February 19	9 November 18	30 September 17
Cobourg Peninsula Sanctuary and Marine Park Board	Not yet tabled	8 February 19	12 March 18
Common Funds of the Public Trustee	13 February 19	30 November 18	4 December 17
Desert Knowledge Australia	28 November 18	9 November 18	26 October 17
Nitmiluk (Katherine Gorge) National Park Board	12 February 19	8 January 19	19 December 17
Surveyors Board of the Northern Territory of Australia	13 February 19	29 November 18	20 December 17
Not yet tabled – as at 28 February 2019			

## Appendix 1: Audit Opinion Reports Issued Since 31 October 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 2017
<i>Interstate Road Transport Act 1985</i>	31 December 18	29 November 18	7 November 17
<i>National Land Transport Act 2014</i>			
Black Spot Program	31 December 18	13 December 18	3 November 17
Infrastructure Investment Program	31 December 18	21 December 18	21 December 17
Roads to Recovery	31 October 18	7 November 18	3 November 17

## Appendix 2: Status of Audit Activity

In addition to the routine audits, primarily being end of year audits of agencies and audits of financial statements, the following audits and reviews were identified as not yet complete in my November 2018 Report to the Legislative Assembly:

**Department of Environment and Natural Resources**

Evaluation of Performance Management Systems Refer page 104

**Department of Health**

eProcurement Refer page 27

**Department of Housing and Community Development**

Procurement Compliance Refer page 34

**Department of the Attorney-General and Justice**

VERITAS Program (Integrated Case Management System) Refer page 46

**Department of Tourism and Culture**

Evaluation of Performance Management Systems Refer page 104

**Department of Trade, Business and Innovation**

Darwin Luxury Hotel and Water Theme Park Refer page 56

**Department of Treasury and Finance**

Northern Territory Infrastructure Development Fund Refer page 77

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## Appendix 3: Proposed Audit Activity in the Six Months Ending 30 June 2019

In addition to the routine audits, primarily being agency compliance audits and audits of financial statements conducted at entities with a 31 December financial year end, the following audits have been scheduled for the period:

### **Department of Corporate and Information Services**

Cyber Security

### **Department of Education**

NAPLAN Data Analytics and Cause Analysis

Student Administration Management System

### **Department of the Attorney-General and Justice**

Fine Recovery Process

### **Department of Trade, Business and Innovation**

Local Jobs Fund

### **Department of Treasury and Finance**

Financial Integrity and Transparency

### **Territory Families**

Procurement Compliance

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## Appendix 4: Abbreviations

APRO	Agency Purchase Requisitions Online
ASNEX	Asset System
CAPS	Contract and Procurement Services
CBD	Central Business District
DCIS	Department of Corporate and Information Services
EIMS	Electronic Invoice Management System
EOI	Expression of Interest
GAS	Government Accounting System
GBD	Government Business Division
ICMS	Integrated Case Management System
IJIS	Integrated Justice Information System
IT	Information Technology
JSC COORD	Jobs Standing Committee of Coordination Major Projects Sub-committee
MDM	Master Data Management
NT	Northern Territory
NTAGO	Northern Territory Auditor-General's Office
NTG	Northern Territory Government
NTIDF	Northern Territory Infrastructure Development Fund
NTPDF	Northern Territory Project Development Framework
OMPII	Office of Major Projects, Infrastructure and Investments
PCG	Project Control Group
PCU	Procurement and Contracts Unit
RFDP	Request for Detailed Proposals
SIP	Strategic Infrastructure and Projects
TRIM	Territory Records Information Management
TRM	Territory Records Manager

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