Northern Territory Auditor-General's Office

Auditing for Parliament

November 2019

Report to the

Legislative Assembly

https://ago.nt.gov.au

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November 2019 Report to the Legislative Assembly

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

28 November 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 month period ended 31 October 2019 and I request that you table the report in the Legislative Assembly.

This report also presents the results of financial statements audits completed during the period. The report presents the results of reviews that were performed to assess the adequacy of selected aspects of end of year financial reporting and controls over accounting and material financial transactions at 20 Northern Territory Government agencies.

A number of performance management system audits were completed during the four months and the findings included in this report. These audits are designed to test the adequacy of performance management systems within agencies as they related to strategic goals presented in Budget Paper No. 3 or to specific programs or projects.

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 44 separate audits and other tasks completed during the period 1 August 2019 to 31 October 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
- *Public Information Act 2010* Referrals.

The report presents the results of reviews that were performed to assess the adequacy of selected aspects of end of year financial reporting and controls over accounting and material financial transactions at 20 Northern Territory Government agencies. Findings arising from these audits have been reported to the affected agencies to enable them to address identified control weaknesses. The end of year reviews of the Public Account are undertaken in accordance with section 13 of the *Audit Act 1995* and provide support to the audit of the Treasurer's Annual Financial Statement. The focus for these reviews is primarily the end of year financial data consolidated into the Treasurer's Annual Financial Statement. The results of the audit of the Treasurer's Annual Financial Statement for the year ended 30 June 2019 are presented in this report.

This report presents the results of 20 financial statements audits completed during the period.

Three performance management system audits were completed during the four months and the findings included in this report. These audits are designed to test the adequacy of performance management systems within agencies as they related to strategic goals presented in Budget Paper No. 3 or to specific programs or projects.

One matter was referred under the *Public Information Act 2010*. The results of my inquiries in relation to this matter are included within this report.

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 second report provided for tabling within the Legislative Assembly for the year ending 30 June 2020. The last report was tabled during August 2019.

A number of audits scheduled to be commenced and completed in the period 1 July 2019 to 31 December 2019 are still to be completed. The outcomes of these audits (listed in Appendix 2) will be presented in the next report to the Legislative Assembly.

The Role and Responsibilities of the Auditor-General

Responsibilities of the Auditor-General

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

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

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

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

Audits by my Office are conducted in accordance with Australian Auditing Standards. Those standards are issued by the Australian Auditing and Assurance Standards Board, a Commonwealth statutory body established under the *Australian Securities and Investments Commission Act 2001*. Auditing Standards issued by the Board have the force of law in respect of audits of corporations that fall within the ambit of the *Corporations Act 2001*, while the *Audit Act 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 statements audits, compliance audits or performance management system audits.

Internal Audit

Treasurer's Direction Part 3, Section 2 requires an Accountable Officer to ensure his/her Agency has an adequate internal audit capacity. Internal audit is a management tool designed to provide assurance to Accountable Officers that systems and internal controls operating within Agencies are adequate and effective. Internal audit carries out its functions by undertaking audits, reviews and other related tasks for improving the performance of organisations. The Accountable Officer is ultimately responsible for selection of audit topics, risk management and audit frameworks and the delivery of internal audit services.

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 ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 2, establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

a) the nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and

b) the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

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. [ASA 705, 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. [ASA 705, 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. [ASA 705, 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. [ASA 705, 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 'unqualified audit opinion' means that the Auditor-General is satisfied that the Agency or entity has prepared its financial statements in accordance with Australian Accounting Standards and other mandatory financial reporting requirements or, in the case of acquittal audits, the relevant legislation or the agreement under which funding was provided. It also means that the Auditor-General believes that the report is free of material error and that there was nothing that limited the scope of the audit. If any of these conditions should not be met, a 'modified audit opinion' is issued together with an explanation of why a modified audit opinion was issued.

Within this report, the audit opinions, key audit matters and summaries of audit observations represent the more important matters relating to each audit. By targeting these sections, readers can quickly understand the major issues faced by a particular agency or entity or by the public sector more broadly.

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 2019

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. The Museum and Art Gallery of the Northern Territory consists of:

- the ground and facilities prescribed by the Museum and Art Gallery of the Northern Territory Regulations 2014 (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 procedures 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 2019.

Audit Opinion

The audit of the Board of the Museum and Art Gallery of the Northern Territory for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 4 October 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Board recognised a net surplus of $104,000 during the year ended 30 June 2019 (2018: $790.000).

The Board’s main revenue sources are grants and subsidies. Significant expenditure categories are employee expenses, property management costs and purchases of supplies and services.

Grant income for 2019 decreased by $246,000 when compared to 2018 (2019: $9,686,000, 2018: $9,932,000) due to a decrease in grant funding of $246,000 from the NT Government. The Board also experienced a decrease in revenue from other grants of $238,000 which was offset by an increase in Commonwealth grants of $238,000.

Employee expenses increased by $408,000 (2019: $5,470,000, 2018: $5,062,000) as the Board created a new position of Engagement Officer and employed additional Visitor Experience Officers in Alice Springs with the opening of the new Mega Fauna Central. The Board also employed a Rock Art Project Officer and Annelid Key Officer in temporary positions on projects and created a new Development Officer position.

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

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Income		
Sales of goods and/or services	546	255
Current grants and subsidies	9,686	9,932
Other	212	286
Total income	**10,444**	**10,473**
Expenditure		
Employee expenses	(5,470)	(5,062)
Supplies and services	(3,276)	(3,202)
Depreciation and amortisation	(19)	(30)
Property management	(1,575)	(1,389)
Total expenditure	**(10,340)**	**(9,683)**
Surplus	**104**	**790**

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

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	1,972	2,369
Receivables and other current assets	301	102
Less current liabilities	(1,270)	(1,536)
Working Capital	**1,003**	**935**
Add non-current assets	159	123
Less non-current liabilities	-	-
Net Assets	**1,162**	**1,058**
Represented by:		
Accumulated funds	921	817
Capital	241	241
Equity	**1,162**	**1,058**

Central Australia Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

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

The host Agency is the Department of Health.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Central Australia Health Service for the year ended 30 June 2019.

Audit Opinion

The audit of the Central Australia Health Service for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 1 October 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Service incurred a net surplus of $2.8 million for the year ended 30 June 2019. An analysis of key balances from the financial statements of the Service over the past five years is presented below.

	2019 $'000	2018 $'000	2017 $'000	2016 $'000	2015 $'000
Net surplus/(deficit)	2,765	(21,601)	(932)	(4,616)	(28,082)
Add back depreciation	12,718	12,393	12,186	10,480	8,757
Net surplus/(deficit) before depreciation	**15,483**	**(9,208)**	**11,254**	**5,864**	**(19,325)**
Total current assets	96,471	71,669	76,027	60,690	48,759
Total current liabilities	(96,141)	(85,452)	(79,826)	(73,112)	(59,620)
Working capital surplus/(deficit)	**330**	**(13,783)**	**(3,799)**	**(12,422)**	**(10,861)**

Central Australia Health Service cont...

Revenue

Total revenue for the Service increased by approximately $21.5 million from the prior year. The increase of $21.5 million is mainly attributed to an increase in Activity Based Funding, and adjustments to the cross border accrued revenue calculation. Health data upon which the accrued revenue and expenditure calculation was previously based was approximately three years old. This changed in the 2019 financial year with cross border revenue and expenditure data available up until the end of the 2018 financial period leading to adjustments to the revenue and expenditure balances accrued in previous years to ensure the calculation is reflective of the most recent available data.

Expenditure

Total expenditure decreased by approximately $2.9 million from the prior year. Employee expenses increased by approximately $12.1 million due to an increase in full-time equivalent staff in combination with an increase in salaries generally due to the existing enterprise bargaining agreement. Purchases of goods and services decreased this year by approximately $11.8 million from prior year due to the cross border accrued expenditure calculation being more accurately calculated than in previous years (as reported above).

Assets

Total assets increased by $25.3 million from the prior year largely due to an increase in receivables by $14.6 million. The increase was a result of the increase in the accrued revenue for cross border patient charges.

Liabilities

In respect to total liabilities, these have increased by $10.7 million from the prior year. This increase is primarily attributed to an increase in payables of $8.4 million resulting from the increases in cross border accrued expenditure.

Equity

Equity increased by $14.7 million from the prior year, mainly resulting from the transfer of capital works of $11.87 million from the Department of Infrastructure, Planning and Logistics.

Central Australia Health Service cont…

Financial Performance for the year

	2019	2018
	$'000	$'000
Income		
Sales of goods and/or services	233,205	216,816
Current grants and subsidies	191,955	186,917
Other	339	319
Total income	**425,499**	**404,052**
Expenditure		
Employee expenses	(264,587)	(252,463)
Repairs and maintenance	(5,954)	(11,254)
Supplies and services	(120,628)	(132,163)
Depreciation and amortisation	(12,718)	(12,393)
Interest expense	(36)	(35)
Grants and subsidies	(18,811)	(17,345)
Total expenditure	**(422,734)**	**(425,653)**
Surplus/(Deficit)	**2,765**	**(21,601)**

Central Australia Health Service cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	31,929	19,447
Receivables and other current assets	64,542	52,222
Less current liabilities	(96,141)	(85,452)
Working Capital	**330**	**(13,783)**
Add non-current assets	217,387	216,858
Less non-current liabilities	(659)	(753)
Net Assets	**217,058**	**202,322**
Represented by:		
Accumulated funds	(79,888)	(83,036)
Capital	286,692	275,104
Asset revaluation reserve	10,254	10,254
Equity	**217,058**	**202,322**

Darwin Waterfront Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

Darwin Waterfront Corporation (the Corporation) was established pursuant to the *Darwin Waterfront Corporation Act 2006* to develop, manage and service the Darwin Waterfront Precinct (the Precinct) for the benefit of the community and to promote the Precinct as a place of residence and business and as a venue for public events and entertainment.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Darwin Waterfront Corporation for the year ended 30 June 2019.

Audit Opinion

The audit of the Darwin Waterfront Corporation for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 26 September 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Corporation reported a deficit of $3.022 million compared to prior year's deficit of $1.125 million. The increase in the deficit of $1.897 million primarily resulted from an increase in depreciation expense attributable to the higher asset values following the revaluation increment recognised as at 30 June 2018.

Whilst the Corporation had a negative working capital position of $2.1 million (2018: $3.0 million), overall the Corporation continues to hold a strong net asset position. As at 30 June 2019, the net asset position of the Corporation was $191.9 million (2017: $193.5 million).

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

- **Territory Availability Payment** (TAP) (2019: $3.2 million, 2018: $3.1 million). The TAP is paid quarterly in arrears and covers capital, interest, return on equity (part) and maintenance costs.
- **Territory Operating Payment** (TOP) (2019: $4.0 million, 2018: $3.7 million). The TOP is an operational subsidy paid quarterly in advance and is based on the fixed 25 year budget which can only be increased with the Territory's approval.
- **Territory Efficiency Payment** (TEP) (2019 nil, 2018: nil). The TEP is a capped annual bonus payment to the Operator of the Darwin Convention Centre where there are demonstrated savings between the actual revenue and expenditure and the base business case operating contribution for that operating year measured against the subsidy portion of the TOP.
- **Territory Incentive Payment** (TIP) (2019: $0.8 million, 2018: $0.8 million). The TIP is paid annually and is assessed against the base 2005 business case to encourage the Operator to exceed the levels of performance established in the business case.

Darwin Waterfront Corporation cont…

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Income		
Sales of goods and/or services	3,397	3,335
Current grants and subsidies	21,836	22,147
Other	1,039	838
Total income	**26,272**	**26,320**
Expenditure		
Territory availability payments	(3,229)	(3,133)
Territory efficiency payments	-	-
Territory incentive payments	(839)	(828)
Territory operating payments	(3,998)	(3,663)
Agent service arrangements	(880)	(916)
Depreciation and amortisation	(6,730)	(4,737)
Employee expenses	(1,192)	(1,207)
Finance costs	(4,952)	(5,110)
Property maintenance	(3,942)	(4,077)
Other	(3,532)	(3,774)
Total expenditure	**(29,294)**	**(27,445)**
Deficit	**(3,022)**	**(1,125)**

Darwin Waterfront Corporation cont…

Financial Position at year end

	2019	2018
	$'000	$'000
Cash and cash equivalents	1,800	5,496
Receivables and other current assets	1,000	661
Less current liabilities	(4,926)	(9,140)
Working Capital	**(2,126)**	**(2,983)**
Add non-current assets	264,175	269,476
Less non-current liabilities	(70,153)	(72,942)
Net Assets	**191,896**	**193,551**
Represented by:		
Accumulated funds	(32,264)	(29,242)
Reserves	44,088	44,360
Capital	180,072	178,433
Equity	**191,896**	**193,551**

Darwin Waterfront Corporation cont…

The Darwin Waterfront Corporation has commented:

The 2019 financial year reports a surplus of \$3.7 million when excluding the depreciation and amortisation expense of \$6.7 million, the surplus mainly relates to a capital grant received of \$2.5 million. The capital grant is used to reduce the principal component of the finance lease liability in respect of the Darwin Convention Centre.

Data Centre Services

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Data Centre Services for the year ended 30 June 2019.

Audit Opinion

The audit of Data Centre Services for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 17 September 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Data Centre Services generated a net surplus before tax of $4.5 million in 2018-19, which was $0.5 million more than the budget estimate of $4.0 million.

Total income of $25.8 million (2018: $24.9 million) increased from the prior year by $0.9 million. The increase in income is attributable to a one-off insurance settlement received during the year for damages caused by a faulty fire alarm in 2018-19. Total expenses of $21.3 million (2018: $20.7 million) increased from the prior year by $0.6 million. This increase in expenditure is predominantly due to an increase of $0.7 million in purchases of goods and services relating to software licensing charges and contract resources. There has also been an increase in the depreciation expense of $0.2 million as a result of asset acquisitions incurred during the prior year, hence depreciation being applied for the first full year in 2019. This increase has been offset by a $0.2 million decline in impairment losses, as a result of a disk that was written off during the 2017/18 financial year.

Data Centre Services will pay an income tax equivalent of $1.3 million and return a dividend of $1.6 million to the Government for the year ended 30 June 2019. A special dividend of $1.0 million was returned as a contribution to the Chan Data Centre Relocation Project.

As at 30 June 2019, the net asset position of Data Centre Services was $22.4 million (2018: $21.8 million).

Data Centre Services cont…

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Income		
Sales of goods and/or services	24,769	24,723
Other	1,000	150
Total income	**25,769**	**24,873**
Expenditure		
Operational costs	(12,510)	(11,832)
Employee expenses	(6,604)	(6,653)
Depreciation and amortisation	(2,181)	(1,977)
Impairment losses	-	(233)
Total expenditure	**(21,295)**	**(20,695)**
Surplus	**4,474**	**4,178**
Income tax expense	(1,342)	(1,253)
Surplus after income tax expense	**3,132**	**2,925**
Dividends	(1,566)	(1,462)
Special dividend	(1,000)	(3,000)
Net surplus/(deficit)	**566**	**(1,537)**

Data Centre Services cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	9,226	6,284
Receivables and other current assets	4,893	6,157
Less current liabilities	(4,914)	(4,457)
Working Capital	**9,205**	**7,984**
Add non-current assets	13,178	13,833
Less non-current liabilities	-	-
Net Assets	**22,383**	**21,817**
Represented by:		
Accumulated funds	20,917	20,351
Capital	1,466	1,466
Equity	**22,383**	**21,817**

Data Centre Services cont…

Data Centre Services has commented:

Data Centre Services' financial statement audit received an unmodified audit opinion with no material weaknesses in controls identified.

Department of Education

NAPLAN Data Analytics and Cause Analysis

Background

Budget Paper 3 provides accrual and output-based information for Northern Territory Government (NTG) agencies including output statements for each Agency and associated key performance indicators (KPIs). The 2018/19 Budget Paper 3 explains that, for each Agency, an outcome is provided for each output group and KPIs are provided with estimates identified for each measure. The KPIs provide a basis for assessing the achievement of the stated outcome. Agencies' annual reports record actual performance and provide explanations of significant variations. Thus, there should be a direct correlation between the output groups and outcomes, KPIs and the performance information in the Agency's annual report. To enable accurate performance reporting, NTG agencies should have a performance management system that enables the agency to assess whether its objectives (outputs) are being achieved efficiently, effectively and with economy.

The Department of Education (the Agency) is responsible for the delivery of *"quality services and educational programs to children and young people across the Northern Territory that give every child the opportunity to engage, grow and achieve".* [2018/19 Budget Paper 3]

The Government Education output group has the outcome: *"Improved education outcomes for students, particularly Aboriginal students, in all key learning areas".* To support this outcome, the Agency identified the following KPIs in the 2018/19 Budget Paper 3:

Table 1 – Department of Education KPI extract from Budget Paper 3

Year level	2017-18 Budget	2018-19 Budget
NAPLAN – students achieving national minimum standard		
Reading – non-Aboriginal students:		
year 3	94%	94%
year 5	92%	94%
year 7	94%	94%
year 9	91%	91%
Reading – Aboriginal students:		
year 3	52%	52%
year 5	50%	50%
year 7	55%	55%
year 9	45%	45%

Department of Education cont…

Year level	2017-18 Budget	2018-19 Budget
NAPLAN – students achieving national minimum standard		
Numeracy – non-Aboriginal students:		
year 3	94%	94%
year 5	92%	96%
year 7	93%	94%
year 9	93%	95%
Numeracy – Aboriginal students:		
year 3	58%	58%
year 5	54%	54%
year 7	61%	61%
year 9	61%	61%

Source: NTG 2018/19 Budget Paper 3

The National Assessment Program – Literacy and Numeracy (NAPLAN) is an annual assessment for students in years 3, 5, 7 and 9. NAPLAN assessments commenced in 2008. The NAPLAN assessments test skills in literacy (being Reading, Writing, Spelling, Grammar and Punctuation) and numeracy. The assessments are undertaken every year in the second full week in May. The NAPLAN assessments are developed over time through the school curriculum. The National Assessment Program aims to:

- help drive improvements in student outcomes; and
- provide increased accountability for the community.

The Australian Curriculum, Assessment and Reporting Authority (ACARA) is the independent statutory authority responsible for the overall management of NAPLAN. Results of the NAPLAN tests are reported through various mechanisms including public reports, individual student reports and reports presented on the MySchool website.

Department of Education cont…

Scope and Objectives

The objective of this performance management system audit was to examine the performance management systems and processes within the Agency related to the strategic goal of *"Improved education outcomes for students" and* the supporting KPIs for the objective of *"students achieving national minimum standard"* (as determined through NAPLAN testing) included in the 2018/19 Budget Paper 3. The scope of the audit excluded processes conducted by ACARA and the processes under which the NAPLAN tests are administered.

This audit addressed the performance management systems in place at the Agency during the period 1 January 2018 to 31 December 2018.

Index

The report on this audit is structured as follows:

Audit Opinion

The primary objective of this performance management system audit was to assess the systems and processes in place to support the Agency in managing its performance in relation to the achievement of the objective, being "*students achieving national minimum standard*".

Whilst acknowledging that the Agency has undertaken significant work in developing its new strategic framework and supporting organisational structure, the audit identified that the Agency could implement further improvements in order to demonstrate that it has developed and implemented an effective performance management system that enables management, measurement and public reporting against established performance outcomes in relation to the strategic goal of *"Improved education outcomes for students"* by *"students achieving national minimum standard"* (as determined through NAPLAN testing).

Department of Education cont…

Recommendations

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

Strategic Framework

- 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.
- Review the content within and accompanying the Strategic Framework to ensure it contains relevant information to support the Agency’s personnel in meeting the Agency’s objectives.
- Ensure the alignment of the strategic goals stated in Budget Paper 3 with those included in the Strategic Plan and in Business Unit Plans and School Priorities.
- Develop and implement Business Plans and ensure the business/operational goals align with both the Strategic Plan and Budget Paper 3.

Performance Measures

- Review and assess the existing KPIs to ensure the KPIs remain appropriate and relevant for assessing performance against the Agency’s strategic objectives and determining if the Agency’s strategic objectives are being achieved efficiently, effectively and with economy.

Monitoring Performance

- Consider what additional information and analysis could be provided to add value to users of the Agency’s performance reporting.
- Update the format and content of the corporate performance reports to ensure key decision-makers are receiving timely and relevant information to support effective monitoring and management of the Agency’s strategic objectives.
- Further develop the risk register to include a risk owner for each risk and the residual risk status following the implementation of the mitigating strategies.

Performance Evaluation

- Undertake performance evaluation to determine whether outcomes are being achieved efficiently and effectively with a root cause analysis of significant variations.

Department of Education cont…

Audit Observations

Strategic Framework

The Agency is required to manage many performance obligations including those contained within Budget Paper 3; the Strategic Plan; Annual Schools Priorities; the School Improvement Journey Program; the National Schools Reform Agreement; and the National Education Reform Agreement. There is no documented overarching framework or guidance on how the Agency is to manage all its obligations.

Strategic Plan

The Agency's Strategic Plan was originally established for the period 2016-2018, however, in 2016, the Agency underwent significant changes. As a result, a new strategic direction was implemented in 2017-2018 following consultation with various stakeholders.

There are two parts to the new (and current) strategy:

- the Strategic Framework 2018-2022, which guides the work of the Agency; and
- the Education NT Strategy 2018-22, which forms the centrepiece of the Strategic Framework 2018-22 and outlines the focus areas for supporting the NT government school sector. The Education NT Strategy 2018-22 includes an Action Plan outlining ten key actions to be delivered against five focus areas.

The outcomes established within the Agency's Strategic Plan do not have assigned targets, timelines and action owners.

The Strategic Framework 2018-2022 includes five focus areas as illustrated in Figure 1.

Figure 1 – Five focus areas of the Strategic Framework 2018-2022

Source: Department of Education

In addition to the Agency's new strategic framework, the Agency's website also identifies five annual school priorities (see Figure 2), one of which (emphasised in bold font) relates directly to NAPLAN results.

Figure 2 – 2018 School Priorities

- Engage: Increase the participation of children enrolled in FaFT (Families as First Teachers)
- Engage: Increase the number of students attending more than 80% (applies to preschool, Transition – Year 12)
- Engage: Increase the retention of students in Years 10-12
- **Grow: Improve students' two year gain in NAPLAN writing in Years 5, 7 and 9 (applies to Transition – Year 9)**
- Achieve: Increase the number of Year 12 completions.

Source: Department of Education website

Department of Education cont…

The Agency requires schools to complete an Annual School Improvement Plan which must include two of these five priorities and two of the school's own priorities. Guidelines are available to schools to assist in the completion of the Annual School Improvement Plan which is approved by the school's Principal and the Senior Director School Improvement and Leadership. As noted in Figure 2 above, the Agency has recognised that students' gain in NAPLAN Writing needs to be improved, however it is not mandatory for all schools to select this priority. Allowing each school to establish specific priorities is reflective of the Agency's new strategic action plan. It was also noted that the school priorities do not include other NAPLAN skill areas such as Numeracy and Reading.

Budget Paper 3 Alignment to Agency Strategy

The strategic objective for government education as published in 2018-19 Budget Paper 3 is: *"Outcome: Improved Education outcomes for students, particularly Aboriginal students, in all key learning areas".* Whilst this outcome is not exactly replicated in either the Strategic Plan 2016-18, the Strategic Framework 2018-22 or the related Action Plan 2018-22, there are some goals in the Strategic Plan 2016-18 and principles in the Strategic Framework 2018-22 that align to this outcome.

Table 2 – Comparison of Budget Paper 3; Strategic Plan 2016-18; and Strategic Framework 2018-22

Budget Paper 3 2018-19	Strategic Plan 2016-18		Strategic Framework 2018-22
Output Group - Government Education	***Goal 3 - Quality Leaders, Quality Educators, Quality Learning***	***Goal 5 - Productive Partnerships***	***Goal and Operating Principle***
Outcome: **Improved Education outcomes for students**, particularly Aboriginal students, in all key learning areas.	Strategy: Deliver a high quality, focused and consistent education program in remote and very remote schools to **improve education outcomes.**	Strategy: Strengthen and formalise collaborative partnerships between schools and other institutions to share resources and best practice learning to **improve our education system and student outcomes.**	Goal - All children and students engage and grow to achieve. Operating principle - We continually assess our impact to ensure our efforts **improve child and student outcomes.**

Source: Budget Paper 3 2018-19 and Department of Education

The Strategic Action Plan 2018-22 includes a section called *"How we will measure success*". Within this section, it states that *"across all levels of schooling, improved literacy and numeracy growth and achievement".* This supports the use of the NAPLAN Reading and Numeracy KPIs as included in Budget Paper 3.

Department of Education cont…

Business Plan

The Agency's Accountability and Performance Improvement Framework requires all divisions within the Agency to put in place a Business Plan. Business Plans were not in place in 2018. Agency representatives advised this was due to the Strategy and Organisational Realignment. Achievement of the strategic objective *"Improved Education outcomes for students, particularly Aboriginal students, in all key learning areas"* is the responsibility of all areas of the Agency as this is considered the Agency's core business.

Performance Measures

Establishing performance targets

The NAPLAN KPIs used by the Agency in the Budget Papers and Annual Reports were first introduced in 2008 at the inception of NAPLAN. The Agency advised that the KPIs are used as a performance measure because they provide statistically significant information regarding education performance.

The KPI within Budget Paper 3 intended to measure improved student outcomes is *"NAPLAN – students achieving national minimum standard"*. Currently the KPIs are established for Reading and Numeracy across years 3, 5, 7 and 9 for both Aboriginal and non-Aboriginal students.

Students' skills are tested in five competency areas through NAPLAN, those being:

- Reading;
- Writing;
- Spelling;
- Punctuation and Grammar; and
- Numeracy

Only two of the above five skills are currently referenced in the KPIs reported in Budget Paper 3. Writing was included in KPI reporting until 2015-16 when it was removed leaving NAPLAN KPIs relating only to Reading and Numeracy. Agency representatives advised the decision to remove the KPI related to Writing from Budget Paper 3 in 2015/16 was taken based on advice from ACARA. In 2011, the method for testing Writing changed from a Narrative Writing scale to a Persuasive Writing scale. The NAPLAN 2011 National Report from ACARA notes that the *"Persuasive Writing results from 2011 should not be directly compared to the Narrative Writing results from earlier years."* Agency representatives advised that Reading, Numeracy and Writing were considered to be the essential skills required by all students. Competency in Spelling, Punctuation and Grammar are not considered 'main' skills as these are also captured within Writing. Although Writing was identified as a school priority in 2018 (and subsequently in 2019), no KPIs pertaining to Writing have been included in the 2018-19 Budget Paper 3.

The Strategic Policy and Executive Services Division believes that the current reporting of the results for Aboriginal and non-Aboriginal students remains appropriate because of the national emphasis on *"closing the gap",* as reflected in the National Education Reform Agreement released on 1 January 2014. This is also supported by the Strategic Plan 2016-18 which states *"we will continue to focus on improving the outcomes of Indigenous Territorians, with the implementation of A Share in the Future Indigenous Education Strategy 2015-2024".*

Department of Education cont…

Source Data for the KPIs

The source datasets used for performance reporting against the KPIs are the NAPLAN results provided to the Agency by ACARA (priority data) and Pearson (priority booklet data). The Business Intelligence Team (team responsible for strategic data management within the Agency) undertakes some matching of the ACARA data and the Pearson data to the Agency's own data. The data from all sources is cleansed to ensure all students have a participation status and that there is no duplicate information.

Interrogation of KPIs

A major project resulting from the implementation of the new strategy is being undertaken by the School and System Improvement Division and focuses on the growth of students. The School and System Improvement Division is in the process of grouping schools into four categories classified as 'Improvement Journeys' based on their performance. The classification process will enable differentiated support to be provided to schools based on their performance and progress against student outcomes and engagement.

The Agency has developed a methodology which uses a range of data, including the results of NAPLAN, Progressive Achievement Tests (PAT) and A-E student grades, to categorise schools.

KPI Analysis

The current KPIs used in Budget Paper 3 and the Annual Report show the percentage of students meeting the national minimum standard (NMS) year on year, which does not indicate the students' growth despite this being a main focus of the new strategy. As an example, the Annual Report shows that the overall percentage of year 5 Aboriginal students achieving NMS in Numeracy increased from 46% to 48% from 2017 to 2018 however, these results are from two different cohorts of students. Put simply, the majority of students undertaking NAPLAN testing in year 5 in 2018 would last have undertaken NAPLAN testing in year 3 in 2016. In 2016, the overall percentage of year 3 Aboriginal students achieving NMS in Numeracy was 53%. Comparison of results for the same cohort of students demonstrates that the performance of this cohort of students has declined from 53% achieving NMS in 2016 to 48% achieving NMS in 2018. Direct comparison of the results in the Annual Report would suggest an improvement in student performance.

KPIs should be Specific, Measurable, Achievable, Relevant and Timely (SMART), in order to influence management action and ultimately deliver improved results aligned with the Agency's strategic objectives and operational goals.

Specific

Whilst the results relating to Writing have been identified as not comparable between years, it may be that performance against the objective *"Students achieving at or above minimum standard in NAPLAN"* can be measured irrespective of the type of Writing prompt. My review of similar performance reporting across Australian jurisdictions identified that two jurisdictions have continued to report the results of NAPLAN testing of Writing.

Measurable

The Agency's KPIs are measurable as they are based upon information collected by the Agency as discussed earlier in this report.

Department of Education cont…

Achievable

The Agency advised that the budgeted KPIs for 2018-19 were primarily based upon actual results from the prior year. The Agency advised that the budgeted KPIs are derived as the same or a higher percentage than the actual result achieved in the previous year. This explanation is consistent with the results of a comparison of Budget to Actual KPI results from 2013-14 through to 2017-18. In all instances except one, the budgeted amount was the same or higher than the previous year's actual result. The exception was in response to an unusually high result in Year 5 Aboriginal students' Reading in 2013-14.

Relevant

The strategic objective for Government Education in the 2018-19 Budget Paper 3 is *"Outcome: Improved Education outcomes for students, particularly Aboriginal students, in all key learning areas".* One measure of assessing this is by reviewing NAPLAN results to see if they are improving. At an Agency level, the current KPIs (being the percentage of students meeting NMS) may, to some degree, demonstrate when education outcomes are improving however as noted above, the KPIs do not demonstrate whether the students are 'growing', which is a focus of the new strategy. As a result the Agency is not assessing whether it is achieving its strategic objectives.

Timely

The KPIs are timely as they are established and reported against on an annual basis and are therefore measured over a consistent time period.

Monitoring Performance

Corporate Performance Reports

Once NAPLAN results are available, they are reported to the executive board through corporate performance reports. Agency representatives provided a copy of the October – December 2017 corporate performance report which contained:

- the strategic goals;
- strategic risks and mitigation strategies including KPI analysis; and
- progress against performance for each goal including KPI analysis.

It is noted that this corporate performance report is based on the Strategic Plan 2016-2018. Agency representatives demonstrated that the corporate performance reports are now in an interactive format and explained that they have been revised to align with the new strategy. In addition, they advised a new strategic risk register was being finalised to identify the key risks to achievement of the Agency's strategic goals.

Agency representatives advised that a new strategic risk register is currently being finalised which will identify the key strategic risks impacting achievement of the Agency's strategic goals and the primary mitigation actions intended to manage the risks.

The corporate performance report included comments against the reported results. These accompanying comments provided factual narrative about the results reflected in the graphs, however did not provide explanations or root cause analysis relating to the results or variances between planned and actual results.

Department of Education cont…

Other reporting

In addition to the corporate performance reports, my Authorised Auditors were provided with copies of Ministerial reporting which contained a significant amount of data and supporting analysis of the NAPLAN results.

Performance Evaluation

The Agency does not have a formal process in place to evaluate the NAPLAN results and assess whether the Agency's strategic objectives are being met.

Agency representatives advised that *"it is difficult to draw causal links to identify reasons for increases and decreases at the macro level of NAPLAN results"* and explained that root causes affecting school and student performance tend to be identified at a school level. During the period subject to audit, the Agency did not have a formal process in place to evaluate the NAPLAN results at each school and the consequential impact of each school in achieving the strategic education goal of the Agency.

Reporting

Annual Reporting

The results in the Annual Report are derived by the Data Warehouse Team managed by the Digital and Data Team. There are robust internal controls that relate to data reporting. The Agency's documented review and clearance policy requires each reporting request to be prepared and verified by a Project Officer or Data Analyst. In instances where the reporting is complex or significant due to its size or audience, the reporting will undergo a strategic review by a Manager with clearance provided by a Director. Reports produced for budget papers and annual reports follow this process.

Department of Education cont…

Comparison to other jurisdictions

Table 3 shows information reported by jurisdiction in their respective 2018 Annual Reports.

Table 3 – NAPLAN results included in the Annual Reports

✔ Reported ✘ Not reported

State	% of students achieving NMS *	Years 3, 5, 7, 9 included	Split by Indigenous status **	Writing ***	Reading and Numeracy
Northern Territory	✔	✔	✔	✘	✔
New South Wales #	✔	✔	✔	✘	✔
Queensland	✔	✔	✔	✔	✔
Tasmania	✔	✔	✘	✘	✔
Victoria	✔	✔	✔	✘	✔
Western Australia	✔	✔	✔	✔	✔
South Australia	✘	✘	✘	✘	✘
Australian Capital Territory	✘	✘	✘	✘	✔

* Victoria – Results are presented as a percentage of students in the top two bands or above the bottom three, rather than NMS.

** Australian Capital Territory – Results only include aboriginal students.

*** Western Australia – Results are also included for Spelling, Grammar and Punctuation.

At the time of review, the New South Wales 2018 Annual Report was unavailable and therefore the 2017 Annual Report was used for this analysis

Source: 2018 Annual Reports (2017 Annual Report for New South Wales) for the States and Territories

The NT currently includes more information than some jurisdictions, however there exist opportunities for reporting additional analysis of the results.

Department of Education cont…

The Department of Education has commented:

The department values and accepts the findings of the audit. The department notes that many of the recommendations were in line with actions already taken or underway at the time of the audit, following realignment of the department's structure and implementation of the Strategic Framework and Education NT Strategy 2018-2022.

Audit recommendations on enhancing performance monitoring have been implemented including:

- updated format of the department's performance reporting including additional information and analysis to ensure key decision-makers are receiving timely and relevant information to support effective monitoring and management of the department's strategic objectives
- updated risk register to include a risk owner for each identified risk and the residual risk status following the implementation of the mitigating strategies.

The department is continuing to implement the remaining audit recommendations to enhance existing systems and processes as relevant.

Department of the Attorney-General and Justice

Fines Recovery Process

Background

The Department of the Attorney-General and Justice (the Agency) is responsible for delivery of justice services, correctional services, regulatory services, policy and legal services and supports the services provided by the Director of Public Prosecutions, Courts and tribunals and a number of independent statutory officers. The Fines Recovery Unit (FRU) sits within the Court and Tribunal Support Services Unit of the Agency.

The FRU is responsible for the collection of fines and infringement penalties imposed through the Criminal Justice System. The role of the FRU remains unchanged from the time of previous performance management system audits at the FRU undertaken by this Office in 2003 and 2010. The FRU also provides fine collection services to third parties on a fee for service basis.

The FRU acts in accordance with the following legislative framework:

- the *Fines and Penalties (Recovery) Act 2001* (the Act);
- the Fines and Penalties (Recovery) Regulations 2001 (the Regulations); and
- the Ministerial guidelines for writing off debt.

The purpose of the FRU is to collect fines and infringements imposed through the Northern Territory's legal system. The FRU acts on behalf of a number of different entities, such as NT Police, Fire and Emergency Services (NTPFES), the Local and Supreme Courts (the Courts) and local government entities. The FRU also establishes payment options for individuals and organisations, and enforces court imposed fines and infringements issued. The FRU has 24 personnel when fully staffed and has been in existence since 2002.

Fines are determined and imposed by the Courts based upon the application of the Act. For the purposes of the Act, a fine constitutes:

"(a) court fees or charges payable by a person under an order made by a court in proceedings for an offence;

(b) a levy payable under Part 6 of the Victims of Crime Assistance Act 2006;

(c) witnesses' expenses payable by a person under an order made by a court in proceedings for an offence that were brought by a law enforcement officer;

(d) costs (including expenses and disbursements) payable by a person under an order made by a court in proceedings for an offence that were brought by a law enforcement officer;

(da) an order for restitution by monetary forfeiture, or monetary compensation, made by a court in proceedings for an offence (an order for restitution or compensation);

(e) an amount of a kind prescribed by the Regulations."

Department of the Attorney-General and Justice cont…

An infringement is defined in the Act as *a "notice issued under a law of the territory to the effect that the person to whom it is directed has committed a specified offence and that the person may expiate the offence by paying the penalty specified in the notice in the manner and within the time specified."* The FRU manages infringement notices from 47 different Acts and, depending on the particular Act under which the infringement notice was issued, the offender will have between 14 and 28 days to pay the infringement. There are a range of processes to support the different requirements imposed by various legislative instruments.

The FRU advised that infringements constitute approximately 80% of the total number of fines collectible by the FRU and can be separated into three types:

- infringements issued by Councils and third parties;
- infringements issued by NTPFES; and
- infringements issued by other NTG departments.

Fines imposed by the Courts are to be paid within 28 days after they are imposed unless the Court directs otherwise. Payments are to be made to the FRU. If the 28 days elapse, a fine enforcement order is issued by the FRU and a $79 fee is added to the original debt. Courts may allow a longer period of time to pay a fine or issue other penalties in lieu of the standard fine. Courts also have the ability to issue a fine with a warrant attached if unpaid. In such cases where the conditions attached to the penalty are non-standard, the FRU is not responsible for the collection of the fine and the responsibility for administration and collection of the fine rests directly with the Courts.

Scope and Objectives

The objective of the performance management system audit was to examine the processes related to the outcome of fines recovery services as included in the 2017/18 Budget Paper 3. The audit assessed the controls and processes the Agency has in place to *"process and collect court fines and infringement penalties".*

The FRU uses the term 'client' to refer to individuals or entities that owe money to the FRU. My report on this audit uses the term 'client' in a consistent manner. Similarly, in this report, the term 'stakeholder' refers to all entities, institutions or agencies that engage the FRU to collect money on their behalf.

This performance management systems audit considered the processes in place within the FRU during the period 1 July 2018 to 31 January 2019.

Department of the Attorney-General and Justice cont…

Index

The report on this audit is structured as follows:

Audit Opinion

The primary objective of the audit was to identify the systems and processes in place at the Agency to manage fines recovery services as documented within 2017/18 Budget Paper 3 and to assess whether these systems enable the Agency to whether determine the processing and collection of court fines and infringement penalties is efficient, effective and undertaken with economy.

The findings from my audit identified some weaknesses in managing the processing and collection of court fines and infringement penalties which may impede efficiency and effectiveness. There are improvements to processes and enhancements of controls required in order for the Agency to demonstrate that the systems, controls and processes in place are adequate to manage the fines recovery process efficiently, effectively and with economy.

Department of the Attorney-General and Justice cont…

Recommendations

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

Strategic Framework

- Ensure the alignment of the strategic goals stated in Budget Paper 3 and those included in the Strategic Plan.
- Perform regular performance evaluation to determine whether outcomes are being achieved efficiently and effectively with a root cause analysis of significant variations.
- Review and assess the existing KPIs to ensure the KPIs remain appropriate and relevant for assessing performance against the Agency's strategic objectives and determining if the strategic objectives are being achieved efficiently, effectively and with economy.

Systems and Processes

- Consideration be given to assessing the current workplace delivery model and organisational structure in order to support the most effective and efficient use of resources. Consideration be given to evaluating the physical footprint of the existing premises to ensure the layout and equipment supports effective service delivery.
- Investigate the contributing factors behind turnover of personnel and determine if there are additional measures that can be implemented to support personnel. Consideration could also be given to reviewing the staffing structure and human resource policies to ensure they remain fit for purpose.
- Consider what processes could be implemented or re-engineered to minimise the accumulation of long outstanding debts and reduce the level of debt to a manageable quantum. Analysing the composition of the outstanding debt to identify the reasons for the inability to collect may assist in determining what processes could be introduced to proactively improve the effectiveness and efficiency.
- Determine what processes need to be implemented to monitor, report and address the unrecoverable debts.
- Consider how the available information and reporting tools could be better utilised for assessing the success of collection practices and the performance of the FRU more broadly.
- Identify what action, if any, could be undertaken to:
    - extend the options by which a client can pay their debt through the introduction or development of online payment options or mobile applications.
    - introduce more contemporary methods of contacting clients, for example using email, secure email, sms and/or mobile applications.
    - enable a client to check and monitor their outstanding balance online.
    - enhance interpreting services to assist non-English speaking clients.

Department of the Attorney-General and Justice cont…

Information technology systems

- Investigate what additional controls may be required and consider the introduction of automated controls that prevent inaccurate information being entered into the Integrated Justice Information System (IJIS).
- Identify what modifications can be made to the IJIS that will enable the system to refuse payments for accounts that have no outstanding amount or where receipts are in excess of the outstanding amount.
- Recognising that a number of projects are currently underway to replace systems in the justice continuum, I recommended that management seek early involvement in the projects to increase the likelihood that the replacement systems will be integrated and also enable timely interface, where possible, with legacy systems.
- Develop a contingency plan that addresses any negative impact on service delivery in the event of system failure upon transition to new systems.

Data and Reporting

- Identify reporting requirements and develop a standard reporting suite.
- Consider what processes, if any, could be established around the identification of incorrect data to address the data quality issues in the IJIS. Further, I recommended management consider to what extent forthcoming changes to the systems used within the justice continuum could be automated to minimise the risk of manual entry of data and amendment to information within the systems.
- Improve strategic communication with stakeholders.
- Evaluate the functionality and controls within any replacement systems to minimise the risk that more than one identity could be attributed to an individual.

Risk Management

- Implement a process to ensure that the risk register is reviewed on a consistent basis, and at least annually.

Department of the Attorney-General and Justice cont…

Audit Observations

Strategic Framework

In the 2018/19 Budget Paper 3, the Agency identified a Court and Tribunal Support Services objective to provide *"Judicial support and fines recovery services that effectively enable the delivery of justice to the Territory community by courts and tribunals."* To assess performance, the Agency committed to the FRU obtaining a clearance rate of 80%.

The Agency's Strategic Plan presents the vision, purpose, values and strategic objectives (called 'Justice Matters'). The Agency's vision is that people feel safe and have confidence in the justice system. The Agency's purpose is to protect people's rights and interests through delivery of an integrated, fair and accessible justice system. The Agency's Strategic Plan did not include any specific strategic objectives directed at fines recovery services.

Court and Tribunal Support Services has prepared an annual Business Plan which is aligned to the Agency's Strategic Plan for 2017-2020. The Business plan includes objectives specifically related to the collection of court fines and infringement penalties.

Each quarter, the FRU is required to report against its specific deliverables and performance measures. The reporting demonstrates that the deliverables are either not reported against or that there is limited progress due to insufficient resources. There appears to be no further action or follow up of the progress against deliverables.

The 2018/19 Business Plan also contains Key Performance Indicators (KPIs). The KPIs are determined annually with targets reported against on a quarterly basis.

The KPI of primary interest, as reported upon in the Agency's Budget Paper 3, is the clearance rate percentage. This is the number of fines and penalties recovered in full in a month as a percentage of the number of fines and penalties issued in that particular month. Recovered in full means that fines and penalties that are being paid off in instalments are not factored in the clearance rate calculation. The clearance rate does also not address the recovery of fines issued outside of the month that are still outstanding.

The target for the financial year ended 30 June 2018 was 80%. The FRU has reported an actual clearance rate of 80% for that year. The targets are established based on data reported in the prior year rather than any pre-determined or desired outcomes.

The current KPIs have been in place since the last audit conducted by my Office in 2010. Management of the FRU reviewed the current KPIs in 2017 and determined that the KPIs were reflective of the business at that time and no changes were required to the existing KPIs. Management advised that any recommended changes to KPIs would be progressed through established management processes, whereby the executive leadership group of the Agency will determine the KPIs on a yearly basis.

FRU management are involved in the process of formulating the budget, with the Chief Executive Officer of the Agency ultimately deciding the budget allocation for the FRU.

Department of the Attorney-General and Justice cont…

Legislative Framework

Legislation

The Act was established a year prior to the official launch of the FRU in 2002 and for the purpose of having a legislative framework for the FRU. Part 4 section 27 states*: "The Fines Recovery Unit is established as a registry of the local court".* Section 28 part (2) of the Act lists the functions of the FRU as:

"(a) the receipt and collection of fines and penalties;

(b) the making of orders for additional time to pay or to allow payment by instalments;

(c) the making of enforcement orders;

(d) the taking of enforcement action under this Act against fine defaulters;

(e) the administration of the write-off policy for outstanding fines and penalties."

The Act prescribes penalties based on penalty or revenue units. The FRU has a process in place to translate these units into dollar values. In 2019/20, the penalty unit is $157 (2018/19 $155) and a revenue unit is $1.21 (2018/19 $1.18).

Section 13 of the Act states that any monies owed to individuals or business, such as restitution orders, will always be prioritised over any repayment to the government. The Act also mentions that the debt is to be paid chronologically, that is, payments will be applied to the oldest debts first.

Regulations

The Regulations provide practical operational requirements that the FRU must follow to give effect to the Act. The FRU ensures compliance with the legislation mainly through the use of the IJIS.

The IJIS was originally developed for use by Police, Courts and Correctional Services in 1992. With the commencement of the Act in 2002, a FRU module was developed to meet the requirements of the Act.

There have been minimal updates to the IJIS since implementation. The IJIS is a mainframe application which requires users of the system to work with screens and codes. Based on discussions with personnel, the application is outdated and inefficient, impacting the provision of FRU services.

Ministerial Guidelines

Section 96 of the Act entitled *"Unpaid fines may be written off"* states that:

1 The FRU may write off an unpaid amount payable under an enforcement order in accordance with guidelines issued under section 114.

2 An unpaid amount payable under an enforcement order that is written off is to be taken to have been paid for the purpose of cancelling enforcement action.

Department of the Attorney-General and Justice cont…

The Ministerial Guidelines for writing off debt (the Guidelines) were approved by the then Attorney-General in March 2012. The Guidelines are separated into two sections, being the requirements for writing off debt incurred before 2002 and the requirements for writing off debt incurred after 2002, being the year of establishment of the FRU. Upon establishment of the FRU, all outstanding debt which was deemed not recoverable at that time was written off.

The Guidelines provide discretionary powers to the Director of the FRU to write off debt, including establishing thresholds before the Treasurer's approval is needed, and actions to take prior to a debt being written off.

There was a significant focus on write-offs from 2012 to 2015. In October 2015, the FRU implemented a range of new sanctions, such as the name and shame list, with the intent of focusing more on the recovery of current debt rather than managing write-offs. As a result of this organisational shift, personnel previously engaged full-time to manage write-offs were moved to become directly interacting with clients seeking to make payments. No significant write-offs were processed since 2016.

Although the Ministerial Guidelines indicate that debt older than five years should be considered for write-off, in the past eight years, the maximum written off in a year was 16% of the value above five years (in 2012), with all other years being less than 10%.

My Authorised Auditors were advised approximately $26 million of the total debt is considered uncollectible due to the debt being older than 10 years. This represents about 25% of the total current amount outstanding of $102 million.

Systems and processes

The approved full-time equivalent personnel count for the FRU is 24. At the time of the audit all positions were nominally filled. There were limited resources allocated to actively pursuing debts or undertaking alternative actions available within the legislation to collect debt.

The existing operational model of the FRU requires personnel to meet the demands of the call centre and to interact directly with clients at the front counters. The primary activity undertaken by most employees is to receive calls, with the FRU receiving a growing average of calls year on year. Between 1 July 2017 and 30 June 2018, the FRU received 93,354 calls. This represents an average of 7,780 calls per month (377 calls per day). From July 2018 to February 2019, the FRU received an average of 8,678 calls per month (421 calls per day).

Procedural guidance

The FRU has a range of documented procedure manuals and other tools describing the policies and procedures available to all personnel, including the powers available to them and the limitations imposed by the legislation, as well as examples of established and better practices and appropriate governance. FRU management meets monthly to discuss and update these policies in case of any changes in the legislation and to ensure that the legislation is followed for every case processed. The FRU has an organisational hierarchy in place to provide supervision and support to personnel in their day-to-day operations and follow up on any non-standard activities that may occur.

Department of the Attorney-General and Justice cont…

Collection of initial infringement and fine details

Stakeholders external to the Agency order fines to be imposed and issue infringements. Infringements can also be issued by other NTG agencies. These agencies will write out manual carbonised forms with a scanned copy provided to the FRU. FRU personnel will then process the infringement within the IJIS. The FRU is dependent on external parties collecting and providing the required information.

The FRU have multiple flowcharts documenting the different methods for fines and infringements to be entered into the IJIS and the different processes by which the fines and infringements are managed. The processes are a combination of manual actions and automated processes within the IJIS.

Third parties operate under the Act through a legal contract with the FRU. Third parties manage their own processes to issue infringement notices to offenders, receive payment and manage disputed notices through the Courts. When a debt is outstanding, the third party can determine to send the unpaid debt to the FRU for enforcement.

Management advised that discrepancies and incomplete information impact the ability to effectively and efficiently recover fines and infringements.

Receipt of money and payment options

The payment options for clients are currently limited to the following:

- In person at the FRU, courthouses in the Northern Territory, at any Australia Post Office or police stations in remote areas.
- Online, through an FRU link on the NTG website which provides access to the NAB online banking portal. Clients can pay using their debit/credit cards or by using BPay.
- Over the phone, with information being entered into the IJIS by FRU employees.
- By mail using either cheque, money order or credit card.
- By arranging to have instalments deducted from their Centrelink payments.

FRU representatives identified a number of matters negatively impacting the ability of a client to make payment in a timely manner. These included:

- Contemporary methods of payment such as the use of mobile telephone applications and direct debit options are not available to debtors.
- FRU personnel only contact clients by sending enforcement notices or sanction orders via Australia Post as the IJIS has no capacity to generate or store electronic notifications of any type.
- FRU staff do not contact individual clients by telephone, e-mail or sms.
- The IJIS does not have the capacity to communicate electronically in bulk using email or sms which impairs the provision of advice relating to the management of enforcements and sanctions and negatively impacts the timeliness of payment.
- There is no system capability that allows a debtor to determine their balance or manage their outstanding fines online.

Department of the Attorney-General and Justice cont…

- There is no system functionality enabling a client's balance to be easily extracted. Fines and infringements need to be searched for on an individual basis and FRU personnel will manually determine a client's total outstanding balance upon request.
- The FRU does not offer interpreting services to assist non-English speaking clients attempting to pay a fine directly at the FRU or over the phone. This can cause both frustration and inefficiency for clients attempting to pay outstanding amounts.

Very few of the processes within the IJIS are automated. FRU personnel have to manually deal with:

- Overpayments: The monies received in overpayment are reported to finance personnel, who conduct a check for accuracy before transferring the funds to a trust clearing account. Once a week the amounts in this clearing account are cleared by issuing cheque payments to the respective parties.
- Deceased individuals: The FRU receives weekly reports of deceased individuals from the Registrar of Births, Deaths and Marriages. The FRU personnel will manually check the report against any of their clients' names in the IJIS. The FRU will then write-off any of the criminal matters that are outstanding. Any civil matter, outstanding warrants or restitutions will be communicated back to the Courts for a decision on whether to waive the fine, pass it onto a family member or to take other action.
- Non-monetary payments: Non-monetary payments are a type of transaction in the IJIS that are used to reduce a client's outstanding balance. FRU personnel obtain a report from the IJIS every month and manually review each transaction processed as a non-monetary transaction.
- Name and shame list: The name and shame list is a tool implemented in October 2015 for use by the FRU. The list contains the names and amounts owed to the FRU for every client with an outstanding debt in excess of $10,000. The name and shame list is updated daily. Although it was originally planned to be an automated process, the automation was never implemented and therefore FRU personnel are required to update the list manually.

Errors and corrections of records within the IJIS were observed during the audit which resulted in:

- the reversal of payments processed as a result of incorrect information entered into the system being identified through the bank reconciliation process.
- discrepancies occurring between the value of cash recorded as being collected at third party locations, such as remote police stations, and the amount received by the FRU.
- cancelled receipts occurring mostly due to errors in receipt details being identified by the stakeholder inputting payment information. The individual entering the payment data will then reverse the receipt in the system against the payment.

Department of the Attorney-General and Justice cont…

Complaints

The documented processes regarding the receipt of complaints demonstrate that FRU personnel are trained to deal with complaints from clients and there is an emphasis on personnel demonstrating compassion for, and appreciation of, the complainant's circumstances. Discussions with FRU management identified that personnel receive complaints on a daily basis. Complaints are for various reasons ranging from clients being unable to check their outstanding balance online through to clients wanting to receive a reminder prior to a due date for payment.

Information technology systems

IJIS

The IJIS is primarily a business system designed for and used by the Courts who pass judgement on offenders and the NTPFES who arrest and charge people who are then prosecuted. The system was implemented as a central information system available to various departments and agencies that would work together such as the Courts, NTPFES, the Department of Infrastructure, Planning and Logistics (Transport Services), other justice related departments and business units including the Director of Public Prosecutions, Correctional Services and those responsible for administering the Banned Drinkers Register.

The IJIS is the system used by the FRU for their day-to-day operations and to register each enforcement order made as required by the Act. A specific module of the IJIS was developed and implemented to support the FRU in 2001, to reflect the powers of the newly formed FRU. This module includes options for enforcement actions and approving payment instalments, all customised with the limits of the legislation in place.

The IJIS is updated on an "as needs" basis. The latest enhancement processed was to introduce the 'Print to PDF' functionality in March 2019.

Other systems used in the justice continuum do not interface with the IJIS. The Integrated Order Management System (IOMS) used by the Community Corrections division (part of the Agency) only communicates in one direction with the IJIS, with information entered into the IJIS being accessible in IOMS while information entered into IOMS is not reflected in the IJIS. An example that illustrates how this limited functionality may impact could be where FRU personnel use a community work order enforcement in accordance with Division 9 of the Act. The FRU will communicate with the Community Corrections division, who will manage the work order. The hours worked by the individual, the rate and other details will be entered into IOMS by the Community Corrections staff. The outstanding balance of the fine after deducting the actual hours of community work performed by the individual is not yet reflected in the IJIS and therefore has to be updated by the Community Corrections personnel as the work is being performed. The time spent by Community Corrections personnel in performing this activity is on-charged to the FRU. As such, there is little incentive for the FRU to use this enforcement order when compared to the amount of the fine.

Management advised that instances have occurred where IOMS data is not updated in the IJIS. As a result, the FRU are currently reliant on manually checking outstanding debts to identify any indicators that this may have occurred.

Department of the Attorney-General and Justice cont…

VERITAS Program

The VERITAS Program (approved by business case submission in 2015) is intended to modernise the IJIS. 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 the 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 will result in new systems implemented by the Courts (system: Odyssey) and NTPFES (system: NICHE) and includes a plan for the FRU to replace the IJIS, although there has not been a confirmation of when this will occur. It is expected that these new systems will run in parallel with the current systems including the IJIS for a period of time, however there is no plan for these to interface with the IJIS. There is no business continuity plan in place in the event of system failure affecting the IJIS upon stakeholders' transition to the new systems.

Data and Reporting

As noted earlier, the collection and entry of information is the responsibility of the officer issuing the fine or infringement. As examples, a police officer issuing an infringement will then need to enter the information into the IJIS and Court officers are responsible for entering details of fines imposed into the IJIS. These processes are manual and representatives of the FRU advised there has been a history of issues resulting from delayed data entry and inaccuracy of the information being entered. Where information about an infringement or fine is not entered into the IJIS in a timely manner, FRU personnel cannot receipt the money for a specific fine, creating inefficiencies for the client who is attempting to pay. Similarly, human errors when inputting details such as receipt numbers, infringement numbers and other information that classifies the infringement within the IJIS can also create inefficiencies for clients who are attempting to pay.

FRU personnel have identified a list of individuals that have multiple identities in the IJIS. This creates inefficiencies when individuals attempt to pay an infringement or fine, as multiple identities appear to the FRU staff collecting the monies. FRU does not have the ability to merge and reconcile these identities however has been advised that NTPFES have begun addressing the backlog of multiple identities on the IJIS. As this issue affects shared data within the IJIS, the Courts have also sent a list of identities to be reconciled by the NTPFES. NTPFES have communicated that they will prioritise anything coming from the Courts, and will get those done within five days, starting chronologically from the oldest to newest. The other demands for the mergers will take up to 120 days before being processed and again will be processed chronologically (oldest to newest). The time period of 120 days increases the risk of a reduced opportunity to collect payments from someone willing to pay.

Department of the Attorney-General and Justice cont…

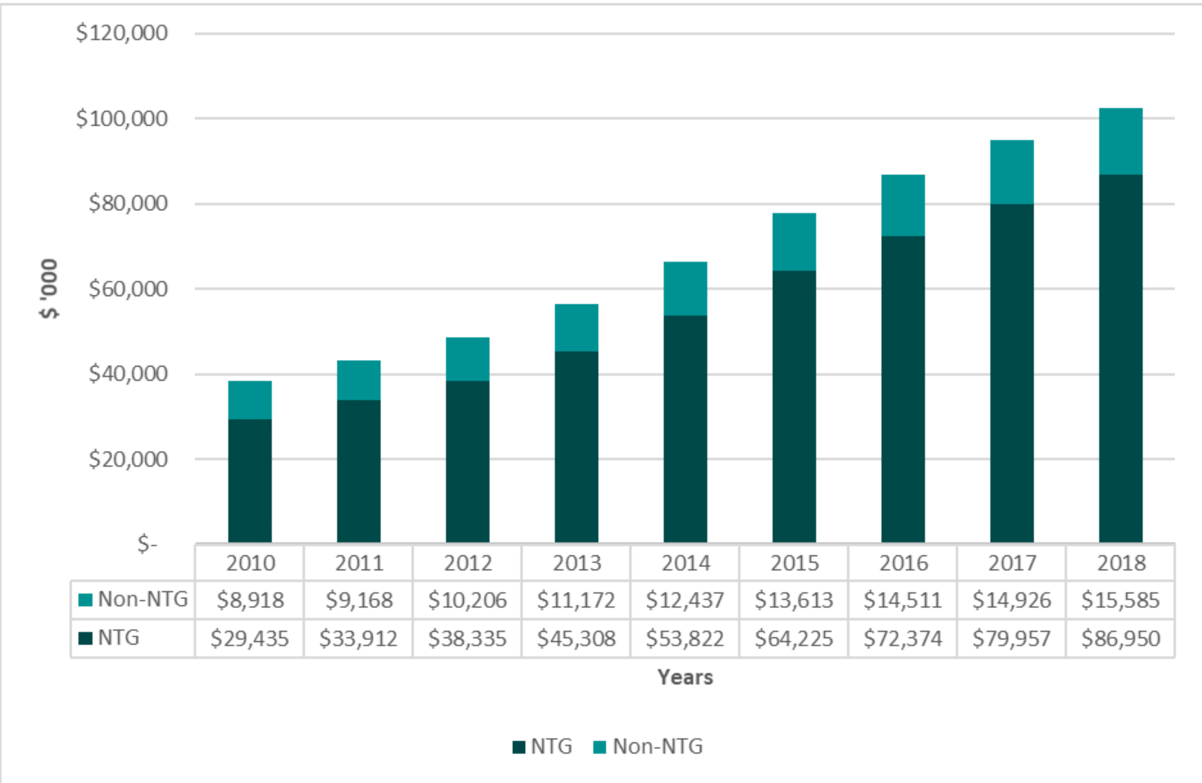
The FRU has the ability to access additional data and reports internally through the Justice Data Warehouse. Reports can be developed by the Justice Data Warehouse, with the costs of development met by the FRU. The reports required by FRU staff are obtained from the Justice Reporting System. The Justice Data Warehouse is a database of all the information related to the Agency. The Justice Reporting System is a data warehouse that is updated overnight via batch processing.

Evaluation of existing reports suggested the number and usefulness of available reports appear limited. Currently reports are provided in PDF, limiting the ability to analysis data. No reports are provided in excel to enable more efficient search and analysis capability. A listing of all the debts by individual or fine is not available as a standard report.

As at 31 December 2018, the total debt outstanding was $102,535,127. This balance comprises $87.4 million owed to the NTG and $15.6 million owed to third parties.

Data collected since the 2010 audit shows that the amount outstanding has steadily increased over the years, increasing from $38.4 million in 2010 to $102.5 million in 2018.

Figure 1 – FRU Net Outstanding Debt 2010 - 2018



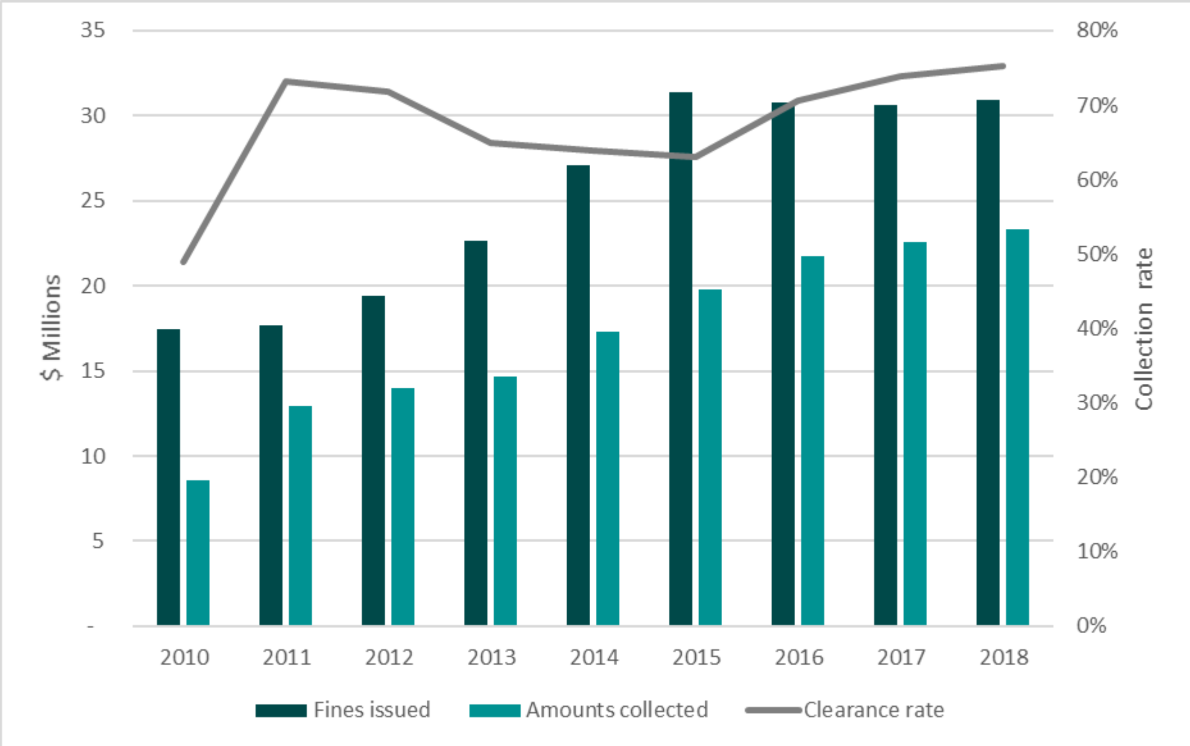
	2010	2011	2012	2013	2014	2015	2016	2017	2018
Non-NTG	$8,918	$9,168	$10,206	$11,172	$12,437	$13,613	$14,511	$14,926	$15,585
NTG	$29,435	$33,912	$38,335	$45,308	$53,822	$64,225	$72,374	$79,957	$86,950

Source: FRU

Department of the Attorney-General and Justice cont…

On average each year, approximately $30 million of new debt is issued with approximately $20 million collected through the FRU. Figure 2 illustrates the movement in amounts issued and collected each year since 2010.

Figure 2: FRU Fines Issued and Collected 2010 - 2018



Source: FRU

As the debt increases annually, there is an increased risk that the total outstanding amount of $102.5 million will not be recovered in full.

On a monthly basis, FRU management will issue two reports. The report contains monetary and operational information. FRU management meet on a monthly basis to review the monthly reports. The monthly reports are tabled for reporting by exception at the bi-monthly meetings of the Court and Tribunal Support Services Senior Leaders Group.

The amount of information included in these reports is limited to the clearance collection rate for the reported period. Limited analysis occurs of collection rates by client type or by debt type.

Risk Management

The Court and Tribunal Support Services maintains a risk register including documented risks applicable to the FRU. The risk register was last updated on 1 July 2017. As part of the annual business planning process, risks are identified and rated. Mitigating activities are then determined to address the identified risks. Risks are discussed in FRU meetings and risks and mitigating actions are re-assessed during these meetings.

Department of the Attorney-General and Justice cont…

An internal review of the infringements, court fines and collection process was performed by the Agency's internal audit personnel and was finalised in November 2018. System related risks identified by the internal auditor included:

- significant reliance on the IJIS to process transactions and manage and maintain data;
- significant reliance on the information provided by and entered into the IJIS by other entities operating within the integrated justice continuum; and
- the existence of duplicate client records and information within the IJIS.

Process related risks were identified in relation to:

- incorrect allocation of payments;
- manual manipulation of non-financial data prior to upload into the IJIS;
- invalid receipts, cancellations, reallocations and manual adjustments;
- ineffective controls over cash handling and reconciliation processes; and
- the significant number of overpayments received by the FRU.

Status of findings reported in 2010 audit undertaken by my Office

An update on the responses to recommendations from the audit undertaken by my Office in 2010 was conducted as part of this audit. Of the six matters raised as a result of the 2010 audit, four have been addressed and two are yet to be resolved. The two matters remaining outstanding are:

- The information system supporting the FRU's performance reporting needs to be reviewed and enhanced.
- There is a risk that debt outstanding on warrants and other fines (valued at $5,936,000 as at 18 May 2010) may not be able to be collected in full. (The debt had increased to $102.5 million as at 31 December 2019.)

Department of the Attorney-General and Justice cont…

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

The Department accepts the audit recommendations. Implementation is expected to be completed over the next 3 to 5 years.

Department of Trade, Business and Innovation

Local Jobs Fund

Background

In October 2018, the Northern Territory Government (NTG) announced that the NT Infrastructure Development Fund would be wound up with half the remaining funds used to repay existing debt and the other half used to establish the Local Jobs Fund (the Fund) to support projects intended to create local jobs.

In a media release dated 20 December 2018, the suite of four products to be offered by the Fund was announced.

- *"**Loan Guarantees ($100,000 - $5 million each):***

  to support fast-growing Territory businesses to expand and create new Territory jobs. The Guarantee will be issued in favour of lending institutions and provide funds for appropriate investments, including for the expansion of production capacity or export capability development.

- ***Business Investment Concessional Loans ($100,000 - $3 million each):***

  to de-risk project opportunities, bring forward private investment and deliver projects to final investment. All projects seeking funding must demonstrate how they will create and sustain new local jobs and drive increased economic activity.

- ***Equity Co-Investments (up to $5 million each):***

  to provide equity capital to high potential and innovative Territory ventures to secure funding and accelerate business development and growth into national and global markets, stimulating economic activity and creating Territory jobs.

- ***Grants:***

  - *Priority Sector Collaborative Grants ($100,000 to $1 million) – provide funding for consortia within Territory priority growth and developing sectors to collaboratively progress sector-wide initiatives which will advance local industry capability, innovation and business development.*

  - *Infrastructure Grants (up to $10 million each) – for economically transformational projects which clearly demonstrate that new and enduring Territory jobs will be delivered and that broader benefits to the Territory will result in a step-increase in economic activity and output."*

The Media Release communicated that "*in addition to specific criteria for each product, all projects will need to:*

- *be in one of the Territory's growth and developing sectors identified in the Economic Development Framework, or a related supply and service sector, and*

- *demonstrate that government financial assistance will result in new or increased goods and services exported interstate or overseas or new or increased goods and services which substitute imports."*

Department of Trade, Business and Innovation cont…

The total funding allocated to the Fund is $91.5 million, comprising $89 million to be offered through the Fund and $2.5 million to support administration of the Fund including staffing and access to specialist advice.

Applications for products offered under the Fund will be accepted for two years or until the Fund is fully committed, whichever is the shorter period. The products offered by the Fund will continue to require management beyond the closure of the Fund with the following expected applicable timeframes:

Table 1: Product Details

Product	Fund Amount	Investment Term
Loan Guarantees	$20 million	5 years
Business Concessional Loans	$20 million	3 years
Equity Co-Investment	$20 million	3-5 years
Priority Sector Collaborative Grants	$20 million	not applicable
Capital Grants for Transformational Economic Growth Projects	$9 million	not applicable

Source: DTBI Advice

Scope and Objectives

The objective of the performance management system audit was to review the systems and processes in place to support the Fund. The audit has assessed the controls and processes the Department of Trade, Business and Innovation (the Agency) has in place to manage the suite of products offered through the Fund. The audit was not designed to assess or question the merits of the Fund including the Government's Policy objectives; a Policy direction; or a Policy statement, as they may relate to the Fund.

The audit was conducted between February 2019 and June 2019. The timing of the audit was agreed with the former Accountable Officer and was intended to enable recommendations to be made and addressed (where accepted) prior to the Fund being opened to accept applications. It was anticipated that many of the systems and processes would not be fully implemented at the time of the audit.

This report includes recommendations to complete or improve processes that were in development at the time of the audit. Audit fieldwork was undertaken between February and July 2019.

Department of Trade, Business and Innovation cont…

Index

The report on this audit is structured as follows:

Audit Opinion

The primary objective of this performance management system audit was to assess the systems and processes in place to support the establishment and management of products offered through the Fund.

At the time of conducting this audit, a number of documents had been drafted to support the delivery of the products offered through the Fund however the systems and processes intended to manage the products offered through the Fund had not been fully designed or implemented.

As a result, at the completion of my audit, there were systems, processes and procedures (including the documentation thereof) that required implementation to ensure the products offered through the Fund are managed consistently in order to realise the intended objectives of the Fund. Recommendations to enhance the performance management system/s are presented in the section of this report entitled Recommendations. I acknowledge that a number of these recommendations have been addressed since the completion of the audit.

Department of Trade, Business and Innovation cont…

Recommendations

Upon announcement of the Fund, the Agency was tasked with its administration. The initial announcement of the Fund advised that applications to the Fund would be accepted in early 2019. Delays were incurred in establishing systems and processes designed to establish and manage the products of the Fund. Some recommendations and suggestions were provided during the audit and have been adopted by the Agency.

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

- Implement a performance management system that enables the Agency to measure and assess whether, or to what extent, the NTG's objectives are being, or have been, achieved.
- Develop a project plan for the Fund that identifies the scope, management and overall success criteria to guide stakeholders on the objective/s of the Fund and how the objective/s will be achieved.
- Consider what further documentation may be required to ensure appropriate and consistent management of the products in order to achieve the Fund's objectives and ensure all risks are adequately addressed.
- Consider the implications associated with the use of third party loan administration and develop appropriate internal procedures to support such an arrangement.
- Consider enhancing the proposed processes to ensure a rigorous risk assessment process.
- Due to the complex nature of the products offered, consider using professional service providers to develop internal guidance that can be applied broadly to each application.
- Ensure identified risks and mitigating actions are documented and reassessed if significant changes affect delivery of projects supported by the products offered and ensure that a process exists to identify new and emerging risks.
- Develop a standard reporting template (by product) together with guidance on the required information and calculations to assist successful applicants in meeting reporting obligations.
- Enhance processes for reviewing the performance of each funded project to provide a clear framework for determining non-performing arrangements.
- Agree the accounting and reporting requirements for the Fund with the Department of Treasury and Finance (DTF) and seek professional accounting advice where required.
- Develop procedures and processes to ensure information contained within information systems is secure, complete, accurate and able to be reconciled to the Government Accounting System (GAS). Introduce and apply restrictions in relation to access to information within the systems.
- Determine the skills and experience required to competently deliver the products and the appropriate number of personnel required to mitigate threats.

Department of Trade, Business and Innovation cont…

Audit Observations

The objective of the Fund is to *"support economic transformational projects and assist high growth potential Territory businesses to increase exports of goods and services both interstate and/or overseas, and/or substantially increase local jobs and outputs to local markets. This is expected to increase the long term productive capacity of the Territory economy, create long term jobs and economic growth, and meet long term economic infrastructure priorities in regional economies."*

With approval received for the Policy Framework, Risk Appetite Statement and Investment Committee Terms of Reference, the Fund was open to receive applications for all products except infrastructure grants from 4 May 2019. At this date, key policies, processes and systems to manage the Fund were not finalised. Some of these remained incomplete or were yet to be approved at the time of the audit.

Governance

The establishment of the Fund is being managed by the Agency. The table below presents the key positions and associated roles in establishing the Fund.

Table 2: Key roles in establishing and managing the Fund

Entity	Role
Government	Approved the establishment of the Fund committing $91.5 million in funding in October 2018.
Chief Minister / Treasurer	Responsible for developing the scope, product range, structure and investment mandate for the Fund.
DTBI	Responsible for establishing and managing the Fund [audit focus].
DTF	Responsible for drafting Treasurer's Directions that support the Fund's products.

Source: NTAGO

It is intended that ongoing reporting on the Fund's activities will be produced by the Agency and be distributed through the Job Sub Committee of Coord to Cabinet.

At the time of my audit, there was no formal monitoring or reporting on the progress of the implementation of the Fund. In developing the reporting requirements, guidance had not yet been developed to define and calculate elements of the stated objectives such as how to determine and demonstrate 'economic growth'.

Within the Agency, the Strategic Infrastructure and Projects (SIP) division has responsibility for delivering and managing the products offered through the Fund. The key role of the SIP is to identify, promote and facilitate the delivery of strategic infrastructure projects and investments to achieve sustained economic development, diversity and productivity.

Department of Trade, Business and Innovation cont…

Legislative Framework

Banking and finance services in Australia are subject to a strong regulatory system with the involvement of both the Australian Prudential Regulation Authority (APRA) and Australian Securities and Investments Commission (ASIC). APRA is responsible for licensing and supervision of financial services providers and ASIC has responsibility for market integrity and consumer protection. These bodies maintain statutory regulation around credit licencing and responsible lending requirements.

Agency representatives have obtained legal advice that states, based upon the products being provided through the Fund, the NTG is not required to comply with the *Banking Act* (APRA requirement), the National Credit Code (ASIC requirement) or the Australian Financial Services Licence (ASIC requirement) but is required to consider the Australian Financial Complaints Authority requirements on a voluntary basis.

The NTG has an established Financial Management and Accountability Framework. The *Financial Management Act 1995* provides the legislative basis for the management of the Territory's financial resources. The Treasurer's Directions support the *Financial Management Act 1995* by specifying practices and procedures that must be adhered to in the management of agencies.

The requirements and accounting treatment relevant to loan guarantees and grants are promulgated in existing Treasurer's Directions, those being Treasurer's Direction G2.5 Guarantees and Indemnities and Treasurer's Direction A6.4 Grants and Subsidies.

At the time of the audit, DTF was developing two new Treasurer's Directions prescribing the requirements and accounting treatment relevant to Equity Investments and Loans and Advances Paid. Draft copies were available at the time of the audit. Beyond developing and promulgating the Treasurer's Directions, DTF has no involvement with the management of the Fund.

As the products will be funded by public resources, the provisions of the *Independent Commission Against Corruption Act 2018* (the ICAC Act) apply to Agency personnel, the Investment Committee Members and the applicants.

At the time of the audit, an Accounting Policy was being developed by SIP. Agency representatives advised that the Agency's finance team will be involved in finalising the Accounting Policy. Accounting requirements for equity investments and loans are complex with specific disclosures required. These requirements affect not only the Agency's Annual Report but the Treasurer's Annual Financial Statement prepared by DTF. It would be advantageous for the Agency and DTF to agree the accounting and reporting requirements in advance of the reporting period when they first apply including determining a preferred accounting approach where options are available.

The Treasurer's Annual Financial Statement is required to comply with Australian Accounting Standards. To ensure compliance with Australian Accounting Standards, the Agency has sought advice from a professional services firm as to the correct accounting treatment for guarantees and equity investments.

Due to the complex nature of the products offered, the Agency intends to obtain advice for individual successful applications, where required, to ensure compliance.

Department of Trade, Business and Innovation cont…

Key Performance Indicators, Targets and Outcomes

The Local Jobs Fund Policy Framework outlines the principal outcome for the Fund which is to *"bring forward the development of projects and growth of businesses that would otherwise not occur, or would occur at a much later date or with a reduced scope. In doing so, it aims to achieve the following outcomes:*

Transformational economic impact

The Fund is targeted at industry sectors and projects that have the capacity to:

- *increase the long term productive capacity of the Territory economy;*
- *improve the Territory's trade balance and economic output;*
- *create enduring employment opportunities for Territorians; and/or increase the standard of living.*

Leveraging private sector investment

The Fund will leverage private sector investment in the Territory. This will occur:

- *directly through the transactions undertaken by the Fund, which will leverage private sector financing and investment in new projects and businesses; and/or*
- *indirectly through increased investment by the private sector to support projects facilitated by the Fund. For example, suppliers investing in new assets to provide services for new projects and businesses.*"

Agency representatives have confirmed that it is intended that the Fund will only invest where there is a reasonable expectation that any finance provided by the Territory through a loan or equity investment will be returned to the Territory over time and that the Fund will achieve a return on its investment in Territory projects and businesses. The expected outputs and outcomes from the Fund have been documented in the Local Jobs Fund Policy Framework.

Agency representatives advised they were in the process of developing Key Performance Indicators to be used to assess the achievement of the short, medium and long term outcomes.

Systems and Processes

During the audit the following documents were finalised and approved:

- Local Jobs Fund Policy Framework (February 2019)
- Local Jobs Fund Risk Appetite Statement (February 2019)
- Local Jobs Fund Investment Committee Terms of Reference (February 2019)
- Recommended Investment Committee Candidates (February 2019)

These documents establish the high-level criteria to be met in order for an application for a product offered through the Fund to be considered. Once these documents were formally approved, the Fund was opened to receive applications.

Department of Trade, Business and Innovation cont…

At the time the Fund was opened, key policies and documents to support the management of the Fund's products had not been finalised. There was no documented plan, timeline or minimum requirements to demonstrate what processes need to be implemented in order to effectively manage the Fund.

Table 3 demonstrates the role that key decision makers will have in assessing the applications.

Table 3: Application Approval Process

Entity	Role
Government	Endorse final applicants.
Accountable Officer (Agency)	Approval to offer finance made by the Accountable Officer's delegate with the correct approval. Threshold levels for this are yet to be developed.
Investment Committee (External)	Make recommendations on applications and appropriate terms of finance.
Assessment Team (Agency)	Receive applications, collate required information and make initial assessments of each application.

Source: NTAGO

The Assessment Team and the Investment Committee will be responsible for reviewing all accepted applications in accordance with the requirements and for presenting a recommendation to the Accountable Officer.

The Assessment Team comprises two internal staff members within SIP. The inclusion of additional members to the Assessment Team would broaden the experience of the team, enable succession planning and reduce the likelihood of processing delays in the event one or more members are conflicted or on leave.

Members of the Investment Committee were selected by Agency representatives based on the skills and experience the Agency representatives determined were required, being finance, legal and commerce expertise.

On 16 June 2019, it was announced that the Investment Committee had been appointed.

My Authorised Auditor was advised that all the contracts appointing the Investment Committee members were signed. Three contracts are for the period from 7 June 2019 to 30 June 2021. One contract was for a four month period from 7 June 2019.

The contracts included descriptions of services to be provided by the individual Investment Committee member and other key requirements including conflict of interest and confidentiality requirements. There were specific conditions for the reimbursement of claimable expenses and management fees that were linked to hours of service provided.

Department of Trade, Business and Innovation cont…

Applications can be made online through the Fund's webpage. The webpage includes information on the products offered, the eligibility criteria and the assessment process. Applications are made through SMARTY Grants, an Agency controlled grants management system. The webpage includes a link to SMARTY Grants and instructions on how to submit an application.

A business applying to the Fund must:

- have a significant presence in the Territory;
- have high growth and job creation potential;
- have sound governance, management and operating systems in place; and
- be registered for corporate and tax purposes in Australia.

The Local Jobs Fund Policy Framework specifies the criteria that must be met for an application to be eligible for support through the Fund.

These requirements align with the NTG's Economic Development Framework. I note the final policy has resulted in broader eligibility criteria than initially announced through the inclusion of eligible projects in other sectors "*in which the Territory has a comparative advantage*".

The application process requires the following information:

- Business and Contact Information;
- Project Information;
- Fund Products and Purpose;
- Security Details;
- Names and Contact Details of Advisors; and
- Declaration.

For an application to be considered, applicants will be required to submit the following as part of their application:

- Business Case – that provides a clear understanding of the business, project, key project risks and mitigation strategies, the investment being sought and how any funds will be applied to the project. Guidelines for the business case are available on the webpage.
- Financial Models – over a minimum five year period that includes financial returns from the project, returns to financiers and details of the assumptions used.
- Financial Statements – full historical management or statutory financial statements and annual reports of the applicant for the past three financial years.

Department of Trade, Business and Innovation cont…

Assessing applications

To assist with the assessment process, an Assessment Plan was being developed and was in draft at the time of my audit. The Local Jobs Fund Policy Framework outlines that each application will be assessed against mandatory assessment criteria. Guidance around how to determine a numerical score for assessment purposes is included.

A single application may apply to be assessed for one or more Fund products. As part of the assessment process, the applicant will be considered in the context of a total financing solution and approval may be for one or a mix of Fund products.

The application and assessment process will involve communication between the Agency and the applicant with additional information requested if deemed necessary. The draft Assessment Plan outlines the actions to be taken at each stage of the application process including: scoring the applicant; initial assessment of applications; assessment by the Investment Committee; providing a recommendation; making enquiries; and communicating the outcomes.

To assist with the assessment process, an Assessment Report (Facility Memorandum) was developed and is available on the Fund's webpage.

The draft Assessment Plan requires conflicts of interest to be declared. It provides guidance on how to identify a conflict of interest and how to manage identified conflicts.

Process for entering into a deal

At the time of my audit, there were no established systems or documented processes demonstrating how the Fund would be managed. The Loan Agreement, Shareholders Agreement and Subscription Agreement were being drafted by the Agency's legal advisors at the time of my audit. These draft Agreements are intended to represent templates to be modified as required. Agency representatives advised that additional professional advice will be obtained if required.

Processes for managing arrangements established through the Fund

At the time of my audit, the Agency was developing an Investment Management Policy and templates to support contractual agreements. Agency representatives advised that the draft Investment Management Policy will include policies to address non-performing loans and recovery actions.

A draft Shareholder Agreement was prepared by external legal advisors. The draft Shareholder Agreement includes requirements pertaining to: access to the books, accounts and financial records; insurance; audit reports; confidentiality; independent valuations; and a dispute process. It requires the company and shareholders to comply with all representations made and undertakings given in the application submission.

The draft Loan Agreement provides for payment and interest requirements and includes a template for a payment schedule. The draft Loan Agreement requires an undertaking from the borrower to comply with all representations made and undertakings made in the loan application submission.

Both draft Agreements included requirements for ongoing reporting by approved applicants.

Department of Trade, Business and Innovation cont…

Systems

As noted earlier, the application process for all the Fund's products is being managed using 'SMARTY Grants'. Agency representatives advised that grants provided through the Fund will be able to be managed using SMARTY Grants.

At the time of the audit, there were no documented processes or information technology systems in place to manage those products of the Fund that do not constitute grants.

Agency representatives advised the Agency intends to outsource the management of loans provided through the Fund. If and when a successful service provider is selected, the internal procedures to support this arrangement would then need to be developed and implemented. The cost of outsourcing the management of the Fund's products had not been determined at the time of my audit.

System requirements for Loan Guarantees and Equity Investments had not been established at the time of my audit.

As all the systems to be used to record and manage the applications for products provided through the Fund have not yet been identified or implemented, there have been no procedures and processes developed to ensure the information contained within these systems is secure, complete, accurate and able to be reconciled to GAS.

Reporting

A reporting template has been drafted to facilitate reporting to the Jobs Sub Committee of Coord. The template includes a summary of funds available and committed and requires actual results to be reported in relation to performance indicators and financial performance.

The reporting requirements for successful applicants were still being established at the time of my audit. Draft processes require specific information to be reported including employment of full-time equivalent personnel, employment of Aboriginal Territorians and the number of jobs created.

Risk

A draft Risk Appetite Statement was approved during the audit. The Risk Appetite Statement identifies project and product risks and pre-determined tolerable risk limits. It provides funding limits to be applied to each of the products offered through the Fund to create diversification of product-specific risks.

Agency representatives advised that the Assessment Team will undertake due diligence procedures using the SMARTY Grants system. Additional due diligence will be performed as required based on the application, product and industry of the business/project.

At the time of my audit, there were some minimum requirements established when assessing product allocation to applicants.

To manage conflicts of interest, Agency representatives have advised that it is intended that the Agency will obtain positive declarations relating to conflicts of interest from the Assessment Team and Investment Committee prior to any review of applications and at the commencement of each meeting.

Department of Trade, Business and Innovation cont…

The Department of Trade, Business and Innovation has commented:	
Recommendation	**Status**
Implement a performance management system that enables the Agency to measure and assess whether, or to what extent, the NTG's objectives are being, or have been achieved.	Quarterly reports will be provided to Cabinet, reporting on the Local Job Fund's (Fund) performance and compliance, including: ▪ Summary of assessments and drawdowns of loans; ▪ Management and performance of the loan book and direct equity investments made into companies; and ▪ Aggregate of settled transactions, job creation statistics, inbound revenue generation, provisioning, write offs, economic value-add and general portfolio performance, including consideration of performance in-line with the Fund's objectives. Systems and tools established to assess performance of individual transactions include: ▪ Template contracts with clear reporting conditions for performance reporting and accounting ▪ Updated input/output models that measure economic value add to reflect current macro-economic settings. Additional actions to be progressed: ▪ Reporting guideline and templates to be developed.

Department of Trade, Business and Innovation cont…

The Department of Trade, Business and Innovation comments continued:	
Develop a project plan for the Fund that identifies the scope, management and overall success criteria to fund stakeholders on the objective/s of the Fund and how the objectives/s will be achieved.	A project plan was developed and approved at the outset and used to guide the development and progressive design of elements identified as essential in establishment of the Fund. The document provided the agenda for weekly meetings with the General Manager throughout the initial period. Now the Fund is operational, the primary reference documents are the Local Jobs Fund Policy, and extensive subsidiary documentation including Assessment Guidelines, Risk Appetite Statement and the Terms of Reference for the Investment Committee.
Consider what further documentation may be required to ensure appropriate and consistent management of the products in order to achieve the Fund's objectives and ensure all risks are adequately addressed.	Reviewed and adopted. The following documents have been or developed to ensure consistent management of procedures. Overarching: ▪ Risk Appetite Statement - to set the government's appetite for investment risk in relation to the Fund; and, ▪ Investment Committee Terms of Reference. By product class: ▪ An Assessment Report - for documentation and analysis of applicant transactions including the identification, analysis and mitigation of investment risks; and, ▪ Template draft loan, shareholder and guarantee agreements cited in the audit report are now finalised and form the basis for the binding legal relationship between the Northern Territory Government (NTG) and successful proponents.

Department of Trade, Business and Innovation cont…

The Department of Trade, Business and Innovation comments continued:	
	Further action required to: ▪ Amend Local Jobs Fund Policy Framework to incorporate Agency preference that the NTG does not obtain control, significant influence or joint control of entities funded by products offered through the Fund; ▪ Finalise Accounting Policy; ▪ Finalise Investment Management Policy; ▪ Update Agency Conflict of Interest Declaration template to include management and mitigation actions when required; ▪ Reporting templates and guidelines; and, ▪ Emerging risk management process and documentation.
Consider the implications associated with the use of third party loan administration and develop appropriate internal procedures to support such an arrangement.	Procurement for loan system completed. Successful tender outcome and 3rd party provider in place. Supporting procedures to be developed.
Consider enhancing the proposed processes to ensure a rigorous assessment process.	Reviewed and adopted. The Assessment Plan and Assessment Note templates by product class and Investment Committee Terms of Reference provide the process and vehicles for comprehensive assessment. The assessment process is documented clearly in the Assessment Plan, which includes ensuring evidence of the decision-making process is retained.

Department of Trade, Business and Innovation cont…

The Department of Trade, Business and Innovation comments continued:	
Due to the complex nature of the products offered, consider using professional service providers to develop internal guidance that can be applied broadly to each application.	Adopted. An Accounting Policy has been drafted, informed by independent advice, reference to Accounting Standards and Treasurers Directions. The draft document is near finalisation. Additional advice may be required and sought as fund implementation continues.
Ensure identified risks and mitigating actions are documented and reassessed if significant changes affect delivery of projects supported by the products offered and ensure that a process exists to identify new and emerging risks.	Adopted The Assessment Note deals specifically with the analysis of the various risks of a proposal, and proposes conditions to mitigate risks (covenants, conditions precedent etc.). The Assessment Note will also form the basis for documentation of periodic reviews of business performance. Ongoing risk management will be required and a process and guideline is yet to be developed. For action.
Develop a standard reporting template (by product) together with guidance on the required information and calculations to assist successful applicants in meeting reporting obligations.	Product-specific transaction agreements prepared by external lawyers clearly outline reporting obligations of proponents. Non-reporting is a default under the agreement. Calculation of covenants (loans and guarantees) is included within the documentation together with a compliance certificate required of proponents/borrowers that explicitly requires them to acknowledge compliance or otherwise with covenants. A standard template and guideline will be developed to ensure that information provided in reporting enables the Territory to establish the outcomes of the fund. For action.

Department of Trade, Business and Innovation cont...

The Department of Trade, Business and Innovation comments continued:	
Enhance processes for reviewing the performance of each funded project to provide a clear framework for determining nonperforming arrangements.	Adopted
Agree the accounting and reporting requirements for the Fund with the Department of Treasury and Finance (DTF) and seek professional accounting advice where required.	Implemented An Accounting Policy has been drafted, informed by independent advice, liaison with Department of Treasury and Finance, reference to Accounting Standards and the Treasurer's Directions. The draft document is near finalisation.
Develop procedures and processes to ensure information contained within information systems is secure, complete, accurate and able to be reconciled to the Government Accounting System (GAS). Introduce and apply restrictions in relation to access to information within the systems.	Reviewed and adopted. All applications are lodged through the Agency's grant administration system 'Smarty Grants'. The system is secure with restricted access. It retains the ability to accumulate the amount of capital commitments made by the Fund. It does not reconcile with GAS. The Loan Administration System will allow for system generated reconciliation. Access to the Agency files is restricted to staff employed to operate the Fund.
Determine the skills and experience required to competently deliver the products and the appropriate number of personnel required to mitigate threats.	Adopted. A suitable candidate has been appointed as Local Jobs Fund Manager

Desert Knowledge Australia

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

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 procedures to enable an opinion to be expressed upon the financial statements of Desert Knowledge Australia for the year ended 30 June 2019.

Audit Opinion

The audit of the Desert Knowledge Australia for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 28 October 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Desert Knowledge Australia reported a deficit of $560,480 compared to the prior year's deficit of $936,047. An analysis of the significant items contributing to the deficit is presented below.

- Total revenue of $2.3 million (2018: $1.9 million) increased by $0.4 million from the prior year. The key contributing factor to this increase was grant revenue of $1.6 million, which increased by $0.4 million from the prior year. The increase predominantly relates to the grant received from the Department of the Chief Minister for the 'Intyaleheme' project which is a $5 million agreement over three years. The objective of the project is to establish a Centre of Excellence and assist the Northern Territory to meet its commitment of 50% renewable energy by 2030. This grant is required to be retained within a separate bank account that was opened specifically for this project.
- Total expenses of $2.9 million (2018: $2.9 million) were largely consistent with the comparative year, with a marginal increase of $66,162 (2%).

Desert Knowledge Australia cont…

Financial Performance for the year

	2019	2018
	$'000	$'000
Income		
Grants – Northern Territory Government	1,599	1,202
Rent received	169	142
Interest revenue	31	33
Solar Centre revenue	127	136
Other	398	369
Total income	**2,324**	**1,882**
Expenditure		
Employee expenses	(1,432)	(1,290)
Depreciation and amortisation	(404)	(427)
Impairment expense	(41)	-
Board costs	(32)	(24)
Consultants	(207)	(313)
Media/marketing/advertising	(46)	(54)
Travel	(53)	(54)
Desert Knowledge Precinct	(300)	(339)
Solar Centre maintenance	(54)	(54)
Other	(315)	(263)
Total expenditure	**(2,884)**	**(2,818)**
Deficit	**(560)**	**(936)**

Desert Knowledge Australia cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	3,073	1,618
Receivables and other current assets	110	145
Less current liabilities	(2,806)	(1,137)
Working Capital	**377**	**626**
Add non-current assets	11,833	12,256
Less non-current liabilities	(2,155)	(2,266)
Net Assets	**10,055**	**10,616**
Represented by:		
Retained earnings	7,809	7,809
Capital	2,246	2,807
Equity	**10,055**	**10,616**

Land Development Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Land Development Corporation for the year ended 30 June 2019.

Audit Opinion

The audit of the Land Development Corporation for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 11 October 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Corporation reported a deficit after tax of $3.98 million compared to the prior year's deficit of $1.32 million. Total revenue of $26.81 million for the year ended 30 June 2019 included revenue from land sales of $22.56 million. The land sales represent sales from both industrial and residential developments. The decrease in land sales from the prior year is largely a result of the sale in the prior year of a large parcel of land for industrial development where there was no similar sale in the year ended 30 June 2019. Current year sales were consistent with the budget.

The Corporation's main operating expenditure during the year relates to residential and industrial land development being the cost of land sold of $20.80 million.

The Corporation employed 19 full-time equivalent employees as at 30 June 2019 (20 employees in the prior period) and employee expenses for the year were $2.94 million.

The Corporation held a strong net asset position of $136.17 million as at 30 June 2019, compared to $139.93 million at 30 June 2018. The Corporation had a secure liquidity position with $30.97 million in cash and a portfolio of land with $51.53 million in current land inventory and $96.83 million in non-current land inventory.

Recognition and measurement of land and related revenue

AASB 15 *Revenue from Contracts with Customers* becomes effective for the Corporation for the 2019-20 financial year onward. The requirement under AASB 15 to only recognise revenue when it is earned is likely have a significant impact on the Corporation given the nature and complexity of the land sales contracts it enters into.

Land Development Corporation cont…

Financial Performance for the year

	2019	2018 Restated
	$'000	**$'000**
Income		
Revenue from land sales	22,555	29,446
Royalties, rents and dividends	2,738	2,466
Capital grants	-	429
Other	1,518	947
Total income	**26,811**	**33,288**
Expenditure		
Cost of land sold	(20,802)	(18,941)
Depreciation and amortisation	(511)	(511)
Employee expenses	(2,935)	(2,873)
Interest	(899)	(945)
Write-down	(1,497)	(6,034)
Operational costs	(4,145)	(4,979)
Total expenditure	**(30,789)**	**(34,283)**
Deficit before income tax expense	**(3,978)**	**(995)**
Income tax expense	-	(323)
Deficit after income tax expense	**(3,978)**	**(1,318)**
Dividends	-	(741)
Net deficit	**(3,978)**	**(2,059)**

Land Development Corporation cont…

Financial Position at year end

	2019	2018 Restated
	$'000	**$'000**
Cash and cash equivalents	30,965	28,083
Receivables and other current assets	51,796	28,938
Less current liabilities	(26,376)	(15,229)
Working Capital	**56,385**	**41,792**
Add non-current assets	112,104	127,337
Less non-current liabilities	(32,320)	(29,204)
Net Assets	**136,169**	**139,925**
Represented by:		
Capital	54,339	54,339
Reserves	591	369
Accumulated funds	81,239	85,217
Equity	**136,169**	**139,925**

Motor Accidents (Compensation) Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

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

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

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

Three audit tasks have been undertaken in relation to the Commission since 1 July 2019. These were:

- the audit of the financial statements for the year ended 30 June 2019;
- the audit of the Annual Return to the Treasurer for the year ended 30 June 2019; and
- the annual review of compliance with prudential standards issued by the Australian Prudential Review Authority (APRA).

Scope and Objectives

The objective of the audit of the financial statements was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Motor Accidents (Compensation) Commission for the year ended 30 June 2019.

Audit Opinion

The audit of the financial statements of the Motor Accidents (Compensation) Commission for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 8 October 2019.

Key Audit Matters

Outstanding Claims Provision and Insurance and Other Recoveries Receivable

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

Motor Accidents (Compensation) Commission cont…

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Commission generated a loss of $40.9 million for the year ended 30 June 2019 compared to a profit of $2.6 million in the previous financial year. The difference in result of $43.5 million reflects an increase in revenue from the prior year of $27.1 million countered by a larger increase in expenditure of $73.2 million.

Analysis of revenue received for the year ended 30 June 2019 demonstrated the Commission benefitted from an increase in the fair value of its investments of $37.9 million although the gains on disposal of investments were $9.8 million higher in the prior year. The Commission recognised financial investment income of $66.9 million during the year ended 30 June 2019 compared to only $43.7 million in the year ended 30 June 2018. The Commission's investment returns are generated from its investments in unit trusts and bonds.

The increase in expenditure of $73.2 million is largely attributable to an increase in claims expense of $64.4 million together with increased expenditure on management fees of $3.9 million and an increase in other expenses of $3.3 million.

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

Impact of AASB 17 Insurance Contracts

AASB 17 *Insurance Contracts* establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of AASB 17 have on the financial position, financial performance and cash flows of the entity. AASB 17 is applicable to annual reporting periods beginning on or after 1 January 2021 however the standard is not currently applicable to not-for-profit public sector entities.

Whilst I note that Commission currently accounts for its contractual arrangements under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* rather than AASB 1023 *General Insurance Contracts*, it should be noted that the Australian Accounting Standards Board is presently considering mandatory application of insurance standards to all public sector entities providing 'insurance-like' arrangements. The Australian Accounting Standards Board's current work program proposes an Exposure Draft to be issued in relation to Insurance Contracts – amendments for not-for-profit public sector entities in the second quarter of 2020. To that end, it would be prudent for the Commission to keep appraised of developments in accounting practices and assess the impacts, if any, of the adoption of the insurance-related Australian Accounting Standards as the requirements become more probable.

Motor Accidents (Compensation) Commission cont…

Audit Opinion – Annual Return

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

Review Opinion – Prudential Review

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

For the purposes of the Determination, the Auditor-General has been deemed to be the ‘appointed auditor’ consistent with the requirements imposed upon general insurers that are subject to direct supervision by APRA. Accordingly, I conducted a review of the Commission’s functions during the year ended 30 June 2019 to assess the extent to which the Commission met the requirements of the APRA prudential standards.

Following the review I issued an unqualified review report to the Commissioner of the Motor Accidents (Compensation) Commission.

Motor Accidents (Compensation) Commission cont…

Financial Performance for the year

	2019	2018 Restated
	$'000	**$'000**
Income		
Compulsory third party contributions	86,428	88,299
Insurance and other recoveries	19,977	19,416
Finance revenue	67,594	43,755
Property revenue	8,893	4,587
Other	623	405
Total income	**183,515**	**156,462**
Expenditure		
Insurance expense	(5,034)	(6,285)
Net claims expense	(191,736)	(127,350)
Road safety program grants	(4,657)	(4,305)
Other	(23,076)	(15,929)
Total expenditure	**(224,503)**	**(153,869)**
Surplus before income tax expense	**40,988**	**2,593**
Income tax expense	-	-
Surplus after income tax expense	**40,988**	**2,593**

Motor Accidents (Compensation) Commission cont…

Financial Position at year end

	2019	2018 Restated
	$'000	**$'000**
Cash and cash equivalents	98,177	61,225
Receivables and other current assets	700,603	607,891
Less current liabilities	(102,722)	(91,316)
Working Capital	**696,058**	**577,800**
Add non-current assets	146,629	181,841
Less non-current liabilities	(685,848)	(561,813)
Net Assets	**156,839**	**197,828**
Represented by:		
Retained earnings	156,839	197,828
Equity	**156,839**	**197,828**

Northern Territory Legal Aid Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

The Northern Territory Legal Aid Commission (the Commission) is established under the *Legal Aid Act 1990*. The Commission's charter is to ensure that people in the Northern Territory, particularly those who are disadvantaged, understand and have access to help to protect and enforce their legal rights and interests.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Northern Territory Legal Aid Commission for the year ended 30 June 2019.

Audit Opinion

The audit of the Northern Territory Legal Aid Commission for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 24 September 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Commission incurred a deficit for the year of $1.264 million (2018: deficit of $0.416 million).

Total revenue of $14.630 million decreased from the prior year (2018: $14.799 million) due to an overall decrease in grant income of $0.055 million and a decrease in operating and other income of $0.114 million primarily due to lower contributions and recoveries during the year.

Total expenses of $15.894 million increased from the prior year (2018: $15.215 million) as a result of an increase in employee benefits expense of $0.762 million due to pay increases, higher staff turnover during the year, increased long service leave entitlements and the cost of backfilling personnel on parental leave. The Commission also incurred increases of $0.048 million in other expenditure and administrative costs of $0.145 million driven in part due to the requirement to provide administrative and solicitor support to the Alice Springs office as a result of local staff shortages and increases in demand for services. These increases in expenditure were partially offset by reductions in legal expenses of $0.207 million and in grant expenditure of $0.068 million.

The Commission's net asset position of $1.941 million (2018: $3.205 million) reduced in 2019 due to the deficit incurred for the year. The Commission's reduced total cash balances of $2.724 million held at 30 June 2019 (2018: $3.864 million) reflect the impact of the deficit for the year.

Northern Territory Legal Aid Commission cont…

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Income		
Grants – Northern Territory Government	7,038	6,887
Grants – Commonwealth	6,494	6,072
Grants – other	765	1,392
Rendering of services	196	316
Other	137	132
Total income	**14,630**	**14,799**
Expenditure		
Administration	(1,209)	(1,064)
Employee expenses	(10,391)	(9,629)
Legal	(2,234)	(2,442)
Depreciation and amortisation	(197)	(194)
Other	(1,863)	(1,886)
Total expenditure	**(15,894)**	**(15,215)**
Deficit	**(1,264)**	**(416)**

Northern Territory Legal Aid Commission cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	2,724	2,864
Investments	-	1,000
Receivables and other current assets	472	461
Less current liabilities	(1,930)	(1,831)
Working Capital	**1,266**	**2,494**
Add non-current assets	1,056	1,014
Less non-current liabilities	(381)	(303)
Net Assets	**1,941**	**3,205**
Represented by:		
Reserves	1,709	2,748
Retained earnings	232	457
Equity	**1,941**	**3,205**

Northern Territory Major Events Company Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2019.

Audit Opinion

The audit of the Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 29 October 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Company reported a profit for the year of $109 thousand (2018 profit: $47 thousand).

Total revenue of $37.6 million for the year ended 30 June 2019 increased by $17.0 million from the prior year. Total revenue included:

- Government grant revenue of $32.5 million (2018: $16.2 million). The $16.3 increase is primarily due to funding increases for the Arafura Games, Parrtijima, Australian Football League and National Rugby League.
- Other revenue of $3.5 million (2018: $3.6 million). This revenue primarily represents ticket sales from three main events, being V8 Supercars, BASSINTHEGRASS and Red CentreNATS.
- Non-monetary income of $1.0 million (2018: $0.5 million). The increase in 2019 is due to additional staff being provided free of charge to the Company by NTG agencies to support the Arafura Games.

Northern Territory Major Events Company Pty Ltd cont…

Total expenditure of $37.5 million (2018: $20.5 million) increased by $17.0 million. Total expenses include:

- Employee expenses of $5.0 million (2018: $2.1 million). The $2.9 million increase is primarily due to increased staff required to support the Arafura Games and staff transferred to the Company from the Department of Tourism, Sport and Culture (DTSC) to support new events.
- Event expenses of $25.2 million (2018: $11.3 million). The $13.9 million increase is attributed to additional expenditure relating to the Arafura Games, Parrtjima, Australian Football League, BASSINTHEGRASS and National Rugby League.
- Festival expenses of $5.1 million (2018: $5.9 million). The decrease represents a $1.2 million decrease due to Territory Day expenditure being transferred to DTSC and a decrease of $0.6 million for Festivals NT offset by an increase in expenditure associated with Territory Tribute of $0.8 million.
- Administration expenses of $1.1 million (2018: $0.9 million).
- Non-monetary expenditure of $1.0 million (2018: $0.5 million) related to the non-monetary income previously that was primarily due to additional staff being provided by NTG agencies to support the Arafura Games.

Grant income in advance increased by $5.7 million to $15.5 million (2018: $9.8 million). Significant changes in grants received in advance as at 30 June 2019 (in comparison to the prior year) were a decrease relating to the Arafura Games ($2.9 million) and increases in grants received in advance for Bruce Munro – Tropical Light ($2.8 million), Festivals NT ($2.1 million) and Red CentreNATS ($1.0 million).

Northern Territory Major Events Company Pty Ltd cont…

Financial Performance for the year

	2019	2018
	$'000	$'000
Income		
Government grants	32,472	16,159
Interest	645	332
Other	4,453	4,078
Total income	**37,570**	**20,569**
Expenditure		
Employee expenses	(5,003)	(2,050)
Depreciation	(12)	(18)
Other	(32,448)	(18,454)
Total expenditure	**(37,463)**	**(20,522)**
Surplus before income tax expense	**107**	**47**
Income tax expense	**-**	-
Surplus after income tax expense	**107**	**47**
Unrealised foreign currency gain	2	-
Dividends paid or provided for[1]	-	-
Net surplus	**109**	**47**

[1] No dividend has been paid or declared since the commencement of the financial year and the Directors did not recommend declaration of a dividend.

Northern Territory Major Events Company Pty Ltd cont…

Financial Position at year end

	2019	2018
	$'000	$'000
Cash and cash equivalents	20,684	13,418
Receivables and other current assets	1,794	1,646
Less current liabilities	(21,209)	(13,860)
Working Capital	**1,269**	**1,204**
Add non-current assets	134	90
Less non-current liabilities	-	-
Net Assets	**1,403**	**1,294**
Represented by:		
Event reserve	413	508
Retained profits	990	786
Equity	**1,403**	**1,294**

Northern Territory Police Supplementary Benefit Scheme

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

The Northern Territory Police Supplementary Benefit Scheme was established under a Trust Deed rather than by legislation and is intended to supplement pensions payable from the Commonwealth Superannuation Scheme (CSS) for members of the Northern Territory Police.

Eligibility for membership of the CSS ceased from 1 January 1988 and membership of the scheme is declining steadily. At 30 June 2019 there were 24 members (30 in 2018) and 204 pensioners (203 in 2018).

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

A member qualifies for a supplementary benefit if:

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

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

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Northern Territory Police Supplementary Benefit Scheme for the year ended 30 June 2019.

Audit Opinion

The audit of the Northern Territory Police Supplementary Benefit Scheme for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 25 October 2019.

Northern Territory Police Supplementary Benefit Scheme cont…

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Net assets of the Northern Territory Police Supplementary Benefit Scheme decreased by $0.3 million to $1.6 million (2018: $1.9 million) primarily due to the decline in active members. Although benefits paid by the fund decreased from $0.5 million in 2018 to $0.4 in 2019, there was also a decrease in investment income and member's contributions of $0.1 million to $0.2 million (2018: $0.3 million).

Northern Territory Police Supplementary Benefit Scheme cont…

Abridged Income Statement for the year

	2019	2018
	$'000	**$'000**
Income		
Interest	1	1
Distribution from investments	119	405
Movement in net market value of investments	4	(193)
Member revenue	48	58
Total income	**172**	**271**
Expenditure		
Benefits		
Refunds of accumulated contributions	-	(65)
Payment of accumulated contributions to the Territory	(442)	(422)
Other expenses	(7)	(5)
Total expenditure	**(449)**	**(492)**
Revenue less expenses before income tax expense	**(277)**	**(221)**
Income tax expense	(3)	(14)
Change in net assets	**(280)**	**(235)**

Northern Territory Police Supplementary Benefit Scheme cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	19	63
Investments and other current assets	1,954	2,274
Total assets	**1,973**	**2,337**
Less liabilities	(396)	(480)
Net assets	**1,577**	**1,857**
Vested benefits		
Member financed	1,575	1,824
Employer financed	87,400	71,800
Total vested benefits	**88,975**	**73,624**
Net assets as a percentage of vested benefits	**1.8%**	**2.5%**

Northern Territory Treasury Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

The Northern Territory Treasury Corporation (the Corporation) is constituted under the *Northern Territory Treasury Corporation Act 1994* (the Act) and is the investment and borrowing agent for the Northern Territory Government.

The Under Treasurer constitutes the Corporation and is the Accountable Officer. There is an Advisory Board constituted under section 8 of the Act and the Board may, pursuant to section 11 of the Act, delegate any of its powers and functions to a member of the advisory board, an employee of the Corporation or an employee within the meaning of the *Public Sector Employment and Management Act 1993*.

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

The host Agency is the Department of Treasury and Finance.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Northern Territory Treasury Corporation for the year ended 30 June 2019.

Audit Opinion

The audit of the Northern Territory Treasury Corporation for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 18 September 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Northern Territory Government (NTG) Budget for 2018/19, handed down by the Treasurer in May 2018, required the Corporation to undertake a borrowing program of $1,750 million in 2018/19. This amount comprised $522 million to refinance maturing debt and $1,228 million to fund new borrowing requirements of the NTG. Of the amount, the Corporation pre-funded $291 million of its 2018/19 borrowing program during 2017/18.

Adjustments to the borrowing program were required as a result of the mid-year budget update in November 2018 and the 2019/20 budget in May 2019. Following these updates, the Corporation ultimately achieved a borrowing program of $1,259 million in 2018/19. Of this amount, $21 million represents pre-funding for the Corporation’s 2019/20 borrowing program.

The Corporation issued two new wholesale bond lines in August 2018 and January 2019 amounting to $500 million and $600 million respectively. The Corporation issued $430 million of promissory notes during the year, of which $100 million was outstanding at 30 June 2019.

Northern Territory Treasury Corporation cont…

The Corporation's retail bonds, 'Territory Bonds' raised about $60 million in 2018/19 via Issues 105 and 106.

The weighted average cost of borrowing for new borrowings during 2018/19 was 2.84% compared to 3.10% in the previous year. The weighted average borrowing term of debt issued during the year was 7.1 years compared to 9.8 years in 2018.

The outstanding loans receivable balance increased by $735 million to $5,952 million as at 30 June 2019 ($5,217 million as at 30 June 2018) as shown below.

Outstanding Loans Receivable	**2019**	**2018**
	$'million	**$'million**
Central Holding Authority	4,230	3,534
Power and Water Corporation	1,242	1,184
NT Home Ownership	191	207
Territory Generation	200	200
Department of Housing	69	72
Land Development Corporation	20	20
Total	**5,952**	**5,217**

Consistent with the movement in loans receivable balances, the borrowing portfolio also increased by $729 million at 30 June 2019. Outstanding borrowings at 30 June were:

Borrowings	**2019**	**2018**
	$'million	**$'million**
Fixed Interest Securities	5,476	4,870
Promissory Notes	99	-
Territory Bonds	119	87
Migration Linked Bonds	1	1
Credit Foncier Loans	201	209
Total	**5,896**	**5,167**

The Corporation's profit after tax during the year was $22.16 million compared to $19.18 million for the year ended 30 June 2018. The increase was driven by an increase in net interest income as a result of the increase in loan balances of $735 million.

The average interest rate on outstanding borrowings reduced from 4.19% in 2018 to 3.88% in 2019 as new borrowings were achieved at rates lower than existing average rates. There was a similar reduction in the average interest rate on outstanding loans from 4.80% in 2018 to 4.48% in 2019.

Northern Territory Treasury Corporation cont…

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Income		
Interest	257,500	232,150
Other	822	822
Total income	**258,322**	**232,972**
Expenditure		
Interest	(224,719)	(203,288)
Administration	(1,952)	(2,283)
Total expenditure	**(226,671)**	**(205,571)**
Surplus before income tax expense	**31,651**	**27,401**
Income tax expense	**(9,495)**	(8,220)
Surplus after income tax expense	**22,156**	**19,181**
Dividends	**(22,156)**	(19,181)
Net surplus	**-**	**-**

Northern Territory Treasury Corporation cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Total assets	6,001,145	5,268,961
Less total liabilities	(5,979,515)	(5,247,331)
Net Assets	**21,630**	**21,630**
Represented by:		
Contributed capital	21,630	21,630
Equity	**21,630**	**21,630**

NT Fleet

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

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

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of NT Fleet for the year ended 30 June 2019.

Audit Opinion

The audit of NT Fleet for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 17 September 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Fleet produced a net surplus before tax of $9.0 million in 2018-19, which is below the budget estimate of $9.4 million. Revenues were $0.5 million less than the budget estimate due mainly to less vehicles disposed of than expected. Expenses were less than budget estimate by $0.2 million mainly due to reduced employee expenditure as a result of improved monitoring of staffing requirements.

- Total revenue of $41.8 million (2018: $41.9 million) decreased from the prior year by $0.1 million. This has mainly been caused by a $0.3 million decline in gain on disposal of assets, due to a drop in the number of vehicles disposed of during the year (2019: 504 vehicles disposed; 2018: 572 vehicles disposed) as a result of the policy to increase the useful lives of light vehicles by one year. This decrease was offset by an increase of $0.1 million in sales of goods and services, which has been mainly influenced by an increase in contract hire charges.
- Total expenses of $32.7 million (2018: $32.5 million) increased from the prior year by $0.2 million. This has primarily been caused by a $0.3 million increase in the depreciation and amortisation expense, mainly as a result of significant vehicle additions during the prior financial year. This has been offset by a $0.1 million reduction in purchases of goods and services. The main contributors to this are a $0.3 million drop in motor vehicle expenses, offset by a $0.2 million rise in IT charges.

NT Fleet will pay an income tax equivalent of $2.7 million and return a dividend of $3.2 million to government for the year ended 30 June 2019.

NT Fleet continues to hold a strong net assets position. As at 30 June 2019, the net assets position of NT Fleet was $122.7 million (2018: $119.5 million).

NT Fleet cont…

Financial Performance for the year

	2019	2018
	$'000	$'000
Income		
Revenue from vehicle lease rentals	39,653	39,536
Gain on disposal of assets	1,582	1,833
Other revenues	538	481
Total income	**41,773**	**41,850**
Expenditure		
Operational costs	(12,371)	(12,467)
Employee expenses	(2,382)	(2,396)
Depreciation and amortisation	(17,979)	(17,640)
Total expenditure	**(32,732)**	**(32,503)**
Surplus before income tax expense	**9,041**	**9,347**
Income tax expense	**(2,712)**	(2,804)
Surplus after income tax expense	**6,329**	**6,543**
Dividends	**(3,164)**	(3,271)
Net surplus	**3,165**	**3,272**

NT Fleet cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	32,284	22,663
Receivables and other current assets	2,181	3,743
Less current liabilities	(8,058)	(8,573)
Working Capital	**26,407**	**17,833**
Add non-current assets	96,262	101,671
Less non-current liabilities	-	-
Net Assets	**122,669**	**119,504**
Represented by:		
Accumulated funds	122,104	118,939
Capital	565	565
Equity	**122,669**	**119,504**

NT Fleet cont…

NT Fleet has commented:

NT Fleet's financial statement audit received an unmodified audit opinion with no material weaknesses in controls identified.

NT Home Ownership

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of NT Home Ownership for the year ended 30 June 2019.

Audit Opinion

The audit of NT Home Ownership for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 27 September 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

NT Home Ownership recorded a net deficit before tax of $2.2 million this financial year (2018: $6.3 million). An unfavourable revenue budget variance of $0.4 million was realised, primarily due to the Community Service Obligation income being $0.2 million less than expected. Total expenditure was $1.9 million more than budgeted, resulting from a $1.4 million loss on the revaluation of shared equity investments and $1.2 million of loan write-offs, both of which were unbudgeted.

Total revenue of $11.9 million (2019: $12.1 million) has remained consistent with the prior year. Total expenditure of $14.1 million (2018: $18.4 million) decreased from the prior year by $5.4 million due to the higher shared equity investments revaluation loss in the prior year ($5.1 million) compared to that recorded in the current year of $1.4 million. The loss on the revaluation of shared equity investments continues to reflect the decline in the Northern Territory property market.

NT Home Ownership continues to maintain a positive net asset position of $13 million (2018: $15.5 million) at 30 June 2019.

NT Home Ownership cont…

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Income		
Sales of goods and services	2	16
Interest revenue	8,509	8,602
Community Service Obligations	3,414	3,455
Total income	**11,925**	**12,073**
Expenditure		
Employee expenses	(160)	(228)
Administration fees	(1,964)	(1,834)
Borrowing costs	(8,982)	(9,552)
Loss on revaluation of investments	(1,424)	(5,075)
Loss on disposal of investments	(197)	(518)
Write-offs and impairment expense	(1,176)	(842)
Other expenses	(228)	(312)
Total expenditure	**(14,131)**	**(18,361)**
Deficit before income tax expense	**(2,206)**	**(6,288)**
Income tax expense	**-**	-
Deficit after income tax expense	**(2,206)**	**(6,288)**

NT Home Ownership cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	3,295	12,519
Receivables and other current assets	3,429	3,159
Less current liabilities	(6,747)	(6,610)
Working Capital	**(23)**	**9,068**
Add non-current assets	197,276	206,973
Less non-current liabilities	(184,236)	(200,519)
Net Assets	**13,017**	**15,522**
Represented by:		
Accumulated funds	(9,728)	(7,223)
Capital	22,745	22,745
Equity	**13,017**	**15,522**

Power and Water Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

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

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Power and Water Corporation for the year ended 30 June 2019.

Audit Opinion

The audit of the Power and Water Corporation for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 15 October 2019.

Key Audit Matters

Unbilled Revenue

Revenue from the sale of goods includes estimated values for unbilled revenue from Power Networks, System Control, Electricity and Water totalling $36.164 million. The estimated values are based upon unbilled units supplied to customers between the date of the last meter reading and the year end. The relevant units comprise kilowatt hours for Power Networks, System Control and Electricity, and kilolitres for Water.

The estimation of the unbilled revenue is a key audit matter as it requires significant management judgment to estimate customer consumption between the last invoice date and the end of the reporting period.

Valuation of Property, Plant and Equipment

Property, plant and equipment totalled $2,931 million as at 30 June 2019.

The valuation of non-current assets is a key audit matter due to the complexity involved in estimating the recoverable amount of assets which requires significant judgement in determining key assumptions supporting the expected future cash flows of the Corporation and expected utilisation of the relevant assets.

Power and Water Corporation cont…

Provision for Onerous Contracts

The Corporation has recorded a provision of $66.672 million as the economic costs associated with some gas contracts outweigh the expected benefits to be derived based on current circumstances.

The calculation of the net present value of contracts is a key audit matter as the calculation is complex and the valuation model is based on assumptions and estimates that are affected by future performance and market conditions.

Classification and valuation of Capital Work in Progress

The Corporation has recorded Capital Work in Progress valued at $251.56 million as at 30 June 2019.

The valuation of Capital Work in Progress is a key audit matter due to the judgements and assumptions involved in the valuation of Capital Work in Progress accrued at year end and the degree of judgement involved in the classification between operational and capital expenditure.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Income increased by $51.7 million primarily due to an increase in gas sales from new contracts.

Expenses increased by $181.9 million this financial year. Of this amount, impairment expenses increased by $135.9 million, primarily due to a devaluation of power services assets. Expenditure on raw materials increased by $49.5 million; finance costs increased by $2.6 million; employee expenses increased by $2.0 million; external service agreements increased by $4.2 million; and depreciation increased by $12.3 million. These increases were slightly offset by decreases in other expenses of $6.5 million. Net losses on disposal of property, plant and equipment were lower than the comparative year by $16.4 million (predominantly due to streetlights being gifted to local councils in the prior year).

Onerous Contract

Management have prepared a model to determine the net present cash flows from the life of the gas contracts held by the Corporation. As at 30 June 2019, the expected economic costs of some contracts were expected to outweigh the expected benefits to be derived. As a result, these contracts have been assessed as onerous under Australian Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and a provision of $66.672 million has been recognised in the statement of financial position as at 30 June 2019.

Procedures to verify the inputs used in the model were undertaken, and the assumptions and outputs of the model were reviewed and recalculated. Based on the procedures undertaken, I am satisfied that the requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* have been met at this time. The estimate will vary as a result of new sales agreements entered into by the Corporation. The historical and anticipated ongoing volatility of the sales price of gas will be a key variable that management will need to regularly review and model carefully over future periods.

Power and Water Corporation cont…

Financial Performance for the year

	2019	2018
	$'000	$'000
Income		
Revenue from contracts with customers	625,410	-
Sale of goods and services	-	445,139
Rendering of services	-	74,523
Finance revenue	1,427	1,433
Developer, customer and other capital contributions	-	29,785
Other	39,943	64,235
Total income	**666,780**	**615,115**
Expenditure		
Raw materials and consumables used	(239,089)	(189,601)
Finance costs	(49,600)	(46,981)
Repairs and maintenance expenses	(53,845)	(55,424)
Employee expenses	(87,378)	(85,395)
External service agreements	(31,253)	(27,093)
Depreciation and amortisation	(119,295)	(107,023)
Impairment of non-current assets and onerous contract provisions	(156,166)	(20,316)
Net loss on disposal of property, plant and equipment	(3,212)	(19,571)
Other expenditure	(46,926)	(53,455)
Total expenditure	**(786,764)**	**(604,859)**
(Loss)/profit before income tax expense	**(119,984)**	**10,256**
Income tax (expense)/benefit	33,667	(3,060)
(Loss)/profit after income tax expense	**(86,317)**	**7,196**
Dividends paid or provided for[1]	(9,000)	-
Net profit/(loss) after dividends	**(95,317)**	**7,196**

[1] Since the end of the financial year, the Directors have declared a dividend of $9.64 million.

Power and Water Corporation cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	94,069	59,064
Receivables and other current assets	143,657	128,729
Less current liabilities	(452,978)	(389,785)
Working Capital	**(215,252)**	**(201,992)**
Add non-current assets	2,358,457	2,432,070
Less non-current liabilities	(1,113,681)	(1,123,024)
Net Assets	**1,029,524**	**1,107,054**
Represented by:		
Retained profits	516,376	614,124
Contributed equity	44,336	34,336
Asset revaluation reserve	468,812	458,594
Equity	**1,029,524**	**1,107,054**

Indigenous Essential Services Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

Power and Water Corporation guarantees the solvency of the Company and provides corporate support for all management and accounting services.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Indigenous Essential Services Pty Ltd for the year ended 30 June 2019.

Audit Opinion

The audit of Indigenous Essential Services Pty Ltd for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 15 October 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Financial measures reported by the Company over the past two financial years are:

	2019	**2018**
	$'000	**$'000**
Net deficit	(6,550)	(9,342)
Add back depreciation and amortisation	45,242	59,479
Net surplus before depreciation	**38,692**	**50,137**
Total current assets	90,291	55,386
Total current liabilities	(100,620)	(66,898)
Working capital deficit	**(10,329)**	**(11,512)**

A letter of support was obtained from Power and Water Corporation, however the working capital deficit position in the current year continues to highlight the risk of financial challenges being faced by the Company in paying its debts and extinguishing its liabilities as and when they fall due.

Indigenous Essential Services Pty Ltd cont…

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Income		
Revenue from contracts with customers	42,412	-
Revenue from sale of goods	-	37,452
Grants – recurrent	55,895	49,347
Grants – capital	42,405	49,521
Other capital contributions	874	-
Revenue from rendering of services	-	3,079
Other revenues	458	2,362
Total income	**142,044**	**141,761**
Expenditure		
Raw materials and consumables	(37,564)	(31,794)
Employee expenses	(16,950)	(18,485)
Repairs and maintenance	(17,313)	(15,714)
Corporate allocation costs	(5,568)	(6,154)
Agents – community contract fees	(11,700)	(10,414)
Depreciation and amortisation	(45,242)	(59,479)
Finance costs	(971)	(772)
Other costs	(13,287)	(8,292)
Total expenditure	**(148,595)**	**(151,104)**
Deficit	**(6,551)**	**(9,343)**

Indigenous Essential Services Pty Ltd cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	83,541	44,851
Receivables and other current assets	6,751	6,957
Less current liabilities	(100,620)	(66,897)
Working Capital	**(10,328)**	**(15,089)**
Add non-current assets	745,198	730,819
Less non-current liabilities	(38,643)	(18,985)
Net Assets	**696,227**	**696,745**
Represented by:		
Accumulated funds	212,273	215,235
Asset revaluation reserve	483,954	481,510
Equity	**696,227**	**696,745**

Power Generation Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Power Generation Corporation for the year ended 30 June 2019.

Audit Opinion

The audit of the Power Generation Corporation for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 19 September 2019.

Key Audit Matters

Property, Plant and Equipment

Property, plant and equipment totalling $306.667 million represents a significant balance. The net asset impairment reversal of $21.144 million disclosed in the statement of profit or loss and other comprehensive income also represents a significant balance.

Significant management judgement is applied in determining the value in use of property, plant and equipment and any related impairment adjustment attributable to each cash generating unit.

The valuation of property, plant and equipment is a key audit matter due to the complexity in the evaluation of the recoverable amount of the assets which requires significant judgement in determining the key assumptions supporting the expected future cash flows of the Corporation, the utilisation of the relevant assets and the useful lives of property, plant and equipment.

The utilisation and useful life of each asset can change significantly as a result of technical innovations or other events.

Decommissioning Provision

The provision of $5.306 million associated with decommissioning the Ron Goodin Power Station represents a significant balance.

The estimation of future decommissioning costs requires significant judgement as decommissioning is an evolving activity and there is limited historical precedent against which to benchmark estimated future costs.

Recoverability of deferred tax assets

The deferred tax asset of $26.346 million represents a significant balance in the Corporation's financial statements. Recognition of the deferred tax asset is influenced by management's assessment of the ability of the Corporation to realise the asset.

Power Generation Corporation cont…

Unbilled Revenue

Unbilled revenue of $17.821 million represents an estimate of the value of electricity generated and sent out but not billed as at 30 June 2019. Management's estimate is based upon information provided by the market operator.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

For the year ended 30 June 2019, the Corporation recognised a net profit of $8.5 million compared to a net loss of $121.3 million for the year ended 30 June 2018.

Whilst the Corporation recognised a net impairment recovery of $21.1 million during the year, this was offset by the reversal of previously recognised deferred tax assets of $21.4 million following an assessment by the Corporation that the Corporation will not generate sufficient taxable profits in the future to which the deferred tax assets will be utilised.

Consistent with the previous year, the influx of solar generator players and the preference of end users for renewable energy impacted the Corporation's electricity sales during the year.

Overall, the Corporation's electricity sales decreased by $7.7 million (3%) when compared to the previous year.

Going Concern

The Corporation recognised that the continued growth of household and commercial entities installing solar panels on their roofs will impact the Corporation's commercial environment as it reduces its overall market share. The entry into the Northern Territory electricity market of solar farms will also impact the Corporation's market share.

Whilst the above factors have negatively impacted the Corporation sales, I note that a significant new customer has been contracted in the southern region which will assist in reducing the effect of the declining energy sales in the Darwin-Katherine region. It was also noted that the Corporation benefited from its strategy of reducing costs and improving its operational efficiency in the financial year ended 30 June 2019.

The Corporation generated positive net cash inflows from its operating activities in both the current and prior financial years and its current year working capital improved significantly from the previous year. The Corporation had also agreed a course of action with the Northern Territory Treasury Corporation relating to refinancing debt amounting to $133 million due to mature in the year ending 30 June 2020.

Whilst acknowledging that a reduction in market share will have a significant effect on the Corporation's going concern in the longer term, the implementation of strategic initiatives to reduce and manage costs have enabled the Corporation to be sustainable in its day to day operations during the year ended 30 June 2019.

Power Generation Corporation cont…

Financial Performance for the year

	2019	2018
	$'000	$'000
Income		
Electricity sales	264,816	272,554
Deferred grant income	1,278	-
Interest revenue	331	235
Other revenue	2,108	92
Total income	**268,533**	**272,881**
Expenditure		
Cost of energy	(221,954)	(231,379)
Administrative expenses	(28,097)	(31,932)
Finance costs	(8,817)	(8,870)
Impairment (reversal)/expense	21,144	(143,920)
Other expenses	(955)	(5,559)
Total expenditure	**(238,679)**	**(421,660)**
Loss before income tax expense	**29,854**	**(148,779)**
Income tax expense/(benefit)	(21,364)	27,502
Profit/(loss) after income tax expense/(benefit)	**8,490**	**(121,277)**
Dividends paid or provided for[1]	-	-
Net profit/(loss) after dividends	**8,490**	**(121,277)**

[1] Since the end of the financial year, the directors have declared a dividend of $4.25 million.

Power Generation Corporation cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	33,245	10,440
Receivables and other current assets	52,074	55,524
Less current liabilities	(40,190)	(41,718)
Working Capital	**45,129**	**24,246**
Add non-current assets	334,081	333,772
Less non-current liabilities	(252,500)	(254,798)
Net Assets	**126,710**	**103,220**
Represented by:		
Retained earnings	(86,990)	(95,480)
Reserves	107	107
Contributed equity	213,593	198,593
Equity	**126,710**	**103,220**

Power Retail Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Power Retail Corporation for the year ended 30 June 2019.

Audit Opinion

The audit of the Power Retail Corporation for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 24 September 2019.

Key Audit Matters

Unbilled Consumption

Revenue from sale of goods includes estimated values for unbilled revenue from electricity totalling $45.1 million. The estimated values are based upon unbilled kilowatt hours supplied to customers between the date of the last meter reading and the year end. There is a significant risk around the measurement and recognition of revenue related to unbilled revenue due to the complexity and estimates required in determining actual consumption levels relating to unbilled revenue.

Allowance for Impairment of Receivables/Provision for Doubtful Debts

The Provision for Doubtful Debts constitutes an estimate of $5.3 million. Australian Accounting Standard AASB9 *Financial Instruments*, which became effective in the year ended 30 June 2019, establishes principles for the financial reporting of financial assets including impairment of assets and specifies the approach to determining and recognising a loss allowance for expected credit losses.

There is a significant risk around the measurement of the provision for doubtful debts due to the complexity and estimates required in determining the expected credit losses when calculating the provision.

Power Retail Corporation cont…

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Total revenue for the 12 months ended 30 June 2019 was $485.0 million compared to $494.2 million in the previous year. Revenue included Community Service Obligations of $71.5 million (2018: $79.5 million), a 10% decrease from the prior year. Community Service Obligations are set by the Department of Treasury and Finance based on the Corporation's Statement of Corporate Intent.

Overall expenses excluding tax decreased by $2.0 million to $477.8 million (2018: $479.8 million). Expenses comprise cost of sales which decreased by $5.8 million to $454.5 million (2018: $460.4 million) and operating expenses which increased by $3.9 million to $23.3 million (2018: $19.4 million).

Whilst revenue from sales of goods overall increased by $0.8 million, cost of sales decreased by $5.9 million as a result of a $15 million decrease in generation costs and a $2.1 million decrease in renewable Energy Certificate costs. The decreases were partially offset by a $9.3 million increase in networks and system control costs and increases of $2.2 million in solar energy purchases.

Overall, the net profit after tax for the year ended 30 June 2019 was $5.0 million compared to $10.1 million for the year ended 30 June 2018.

Power Retail Corporation cont…

Financial Performance for the year

	2019	2018
	$'000	$'000
Income		
Sale of goods	411,346	410,399
Community Service Obligations	71,524	79,542
Interest revenue	596	918
Other income	1,555	3,333
Total income	**485,021**	**494,192**
Expenditure		
Energy cost of sales	(454,515)	(460,375)
Depreciation	(2,718)	(649)
Employee expenses	(9,295)	(7,792)
External service agreements	(2,456)	(4,430)
Other expenses	(8,843)	(6,548)
Total expenditure	**(477,827)**	**(479,794)**
Profit before income tax expense	**7,194**	**14,398**
Income tax expense	(2,157)	(4,320)
Profit after income tax expense	**5,037**	**10,078**
Dividends paid or provided for(1)	(5,039)	(23,339)
Net loss after dividends	**(2)**	**(13,261)**

(1) Since the end of the financial year, the Directors have declared a dividend of $2.5 million.

Power Retail Corporation cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	43,108	45,323
Receivables and other current assets	75,700	79,366
Less current liabilities	(71,604)	(81,014)
Working Capital	**47,204**	**43,675**
Add non-current assets	7,052	10,499
Less non-current liabilities	(187)	(103)
Net Assets	**54,069**	**54,071**
Represented by:		
Accumulated funds	6,403	6,405
Capital	47,666	47,666
Equity	**54,069**	**54,071**

Selected Agencies

End of Year Reviews

Background

The purpose of the end of year reviews of the Public Account was to provide support to the audit of the Treasurer's Annual Financial Statement through reviewing the reasonableness of agencies' end of year financial data consolidated into the Treasurer's Annual Financial Statement by the Department of Treasury and Finance. The review approach involves reviewing the reasonableness and effectiveness of agencies' end of financial year reporting and controls relevant to accounting processes and practices and reviewing material financial transactions that have occurred within the agencies.

Findings and observations from these reviews may also provide matters for Accountable Officers to consider when they are preparing their representations to their relevant Ministers.

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

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

Selected Agencies cont…

Scope and Objectives

The objective of the end of year review was to review the adequacy of selected aspects of end of financial year reporting and controls over accounting and material financial transactions at each agency. The reviews are undertaken under section 13 of the *Audit Act 1995* in order to support the audit fieldwork and resultant independent audit opinion issued upon the Treasurer's Annual Financial Statement.

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

Audit Observations

Whilst an audit opinion is not expressed on the financial statements of each agency, each Authorised Auditor provided a representation to my Office at the completion of each review confirming that the reviewed financial information entered by each agency into the APEX system for the purpose of preparing the Treasurer's Annual Financial Statement for the year ended 30 June (effectively a trial balance) contained no material misstatements.

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

Number of Issues Raised	Number of Agencies 2019	Number of Agencies 2018
0	9	10
1	6	5
2	2	1
3	1	2
4	2	1
Total Agencies	**20**	**19**
Total Issues Raised	**21**	**17**

A limited number of findings were raised in relation to the general controls environment. These findings included the need for adherence to Agency Accounting and Property Manuals, improved processes for recording transactions surrounding year end (cut off) and the need for more timely and accurate reconciliations. In particular it was noted that:

- There were instances where journals were submitted by agencies after Period 14 had closed on 17 July 2019. In most instances, established month end processes in place at the agencies should have identified the need for these journals to be processed within the normal month end close timeframe. The processing of journals by agencies after the mid-July ledger close date may affect the timely completion of the audit of the Treasurer's Annual Financial Statements and may result in material unanticipated changes to forecast results.
- One agency had yet to develop a fraud control framework.
- The accounting policy and documentation supporting the balance of a clearing account at one agency was not compliant with Australian Accounting Standards.

Selected Agencies cont…

Beyond these findings, observations arising from the reviews were mostly related to two areas, being accounting for property, plant and equipment, and accounting for revenue.

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

- Infrastructure additions had not been assessed to determine what amounts represented repairs and maintenance and therefore should be expensed rather than capitalised.
- Accounting processes and controls could be improved in relation to property, plant and equipment.
- Instances were identified where an asset was unable to be physically verified as part of an asset stock take.
- Instances were identified where assets were sold during the year but the asset had not been recorded within the asset register prior to its disposal.
- A number of assets were disposed of during the year but were still recorded on the asset register at year end.
- Cultural assets have not been valued in accordance with the revaluation model required by the Treasurer's Direction.

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

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

Selected Agencies cont…

The Department of Primary Industry and Resources has commented:

The June 2019 End of Year Review found no significant matters or significant weaknesses in controls. Notwithstanding, the Agency endeavours to continually improve procurement, governance and financial accountability by implementing recommendations and best practice guidelines where suitable.

Northern Territory Police, Fire and Emergency Services has commented:

The Northern Territory Police, Fire and Emergency Services acknowledges the finding of the Agency End of Year Review and has taken the necessary action to address the identified issue.

The Department of Tourism, Sport and Culture has commented:

The Department of Tourism, Sport and Culture acknowledges the single finding raised in the audit report was in relation to the frequency of cultural assets revaluation not being completed within the timeframe stipulated in the Treasurer's Directions. The revaluation is currently in progress.

The Department of Treasury and Finance has commented:

The Department of Treasury and Finance continues its review of the NT Financial Management and Accountability Framework, with a focus on the Treasurer's Directions. A new Treasurer's Direction Fraud Control was implemented in 2018, accompanied by a number of presentations and supporting materials to assist government agencies to implement a fraud control framework. The Department of Treasury and Finance works with agencies, through the Treasurer's Directions, to strengthen financial management internal controls and processes.

The Department of Corporate and Information Service has commented:

The Department of Corporate and Information Services had one audit issue relating to a clearing account policy. The department has sought advice and is updating the accounting policy.

Territory Wildlife Parks

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

The host Agency is the Department of Tourism, Sport and Culture.

Scope and Objectives

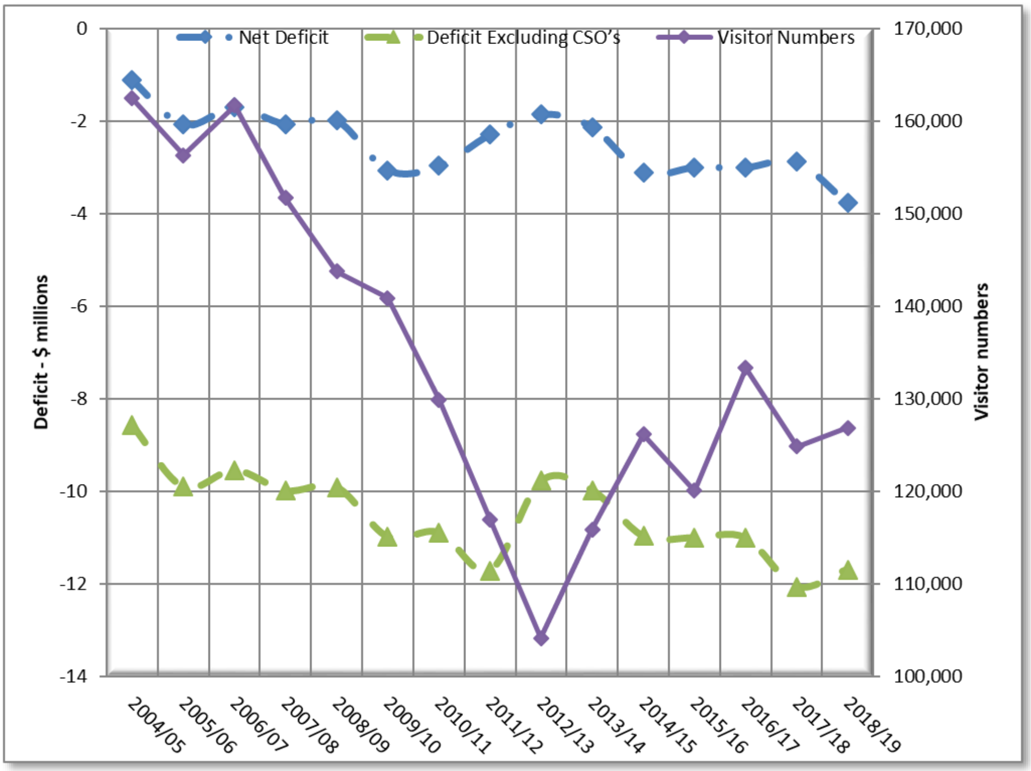
The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Territory Wildlife Parks for the year ended 30 June 2019.

Audit Opinion

The audit of the Territory Wildlife Parks for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 24 September 2019.

Audit Observations

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



Territory Wildlife Parks cont…

	Net Deficit $'000	CSO Income $'000	Deficit Excluding CSO's $'000	Visitor Numbers
2004/05	(1,123)	7,445	(8,568)	162,424
2005/06	(2,080)	7,817	(9,897)	156,323
2006/07	(1,700)	7,834	(9,534)	161,660
2007/08	(2,063)	7,915	(9,978)	151,675
2008/09	(1,990)	7,915	(9,905)	143,775
2009/10	(3,063)	7,915	(10,978)	140,854
2010/11	(2,970)	7,915	(10,885)	129,933
2011/12	(2,294)	9,418	(11,712)	116,954
2012/13	(1,854)	7,915	(9,769)	104,177
2013/14	(2,128)	7,842	(9,970)	115,877
2014/15	(3,118)	7,842	(10,960)	126,153
2015/16	(2,818)	7,824	(10,642)	120,073
2016/17	(2,868)	7,824	(10,692)	133,327
2017/18	(2,882)	9,174	(12,056)	124,888
2018/19	(3,772)	7,913	(11,685)	126,856

Performance Overview

As can be seen in the above table, visitor numbers fluctuate significantly between years. The parks had 126,856 visitors during the year ended 30 June 2019, representing an increase in visitor numbers of 1,968 (2%) from the prior year. Sales of goods and services increased by $33,000 (1%) from the prior year reflecting the increased visitor numbers.

Repairs and maintenance costs decreased by $658,000, however this was offset by an increase in employee expenses of $293,000 and a decrease in revenue from Community Service Obligations of $1.3 million.

Operating losses

Territory Wildlife Parks incurred an operating loss of $3.8 million this year (2018: $2.9 million). This loss again calls into question the viability of the entity in the medium to longer term.

Territory Wildlife Parks cont…

Negative Working Capital

Territory Wildlife Parks has reported negative working capital since 2008. In 2019, total current liabilities of $1.3 million (2018: $1.3 million) exceeded total current assets of $0.7 million (2018: $0.5 million). This resulted in negative working capital as at 30 June 2019 of $0.7 million (2018: $0.5 million). Negative working capital is an indicator of the potential for financial failure in the future. Without support from the Northern Territory Government, Territory Wildlife Parks will not be likely to have sufficient available funds to meet its financial obligations as they fall due and as such, the going concern basis of accounting may no longer be appropriate. My audit opinion was premised on the expectation that such funding will continue.

Negative Cash Flows from Operating Activities

Territory Wildlife Parks has also been reporting negative cash flows from operating activities over the past few years, including $1.5 million in 2019 (2018: $0.7 million).

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

Territory Wildlife Parks cont…

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Income		
Community Service Obligations	7,913	9,174
Sales of goods and services	3,192	3,159
Other revenues	61	58
Total income	**11,166**	**12,391**
Expenditure		
Employee expenses	(7,882)	(7,589)
Depreciation and amortisation	(2,184)	(2,131)
Repairs and maintenance	(710)	(1,368)
Other expenses	(4,162)	(4,185)
Total expenditure	**(14,938)**	**(15,273)**
Deficit	**(3,772)**	**(2,882)**

Territory Wildlife Parks cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	479	572
Receivables and other current assets	174	265
Less current liabilities	(1,315)	(1,324)
Working Capital	**(662)**	**(487)**
Add non-current assets	37,197	38,418
Less non-current liabilities	-	-
Net Assets	**36,535**	**37,931**
Represented by:		
Accumulated losses	(33,648)	(29,876)
Contributed equity	32,350	29,974
Asset revaluation reserve	37,833	37,833
Equity	**36,535**	**37,931**

Top End Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

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

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

The host Agency is the Department of Health.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Top End Health Service for the year ended 30 June 2019.

Audit Opinion

The audit of the Top End Health Service for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 1 October 2019.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Top End Health Service incurred a net deficit of $16.5 million for the year ended 30 June 2019. An analysis of key balances from the financial statements of Top End Health Service over the past four years is presented below.

	2019 $'000	**2018 $'000**	**2017 $'000**	**2016 $'000**
Net surplus/(deficit)	(16,483)	(1,166)	(43,223)	(71,640)
Add back depreciation	38,488	30,092	28,540	25,671
Net surplus/(deficit) before depreciation	**22,005**	**28,926**	**(14,683)**	**(45,969)**
Total current assets	118,092	72,105	49,959	54,540
Total current liabilities	(177,696)	(152,004)	(140,768)	(129,439)
Working capital deficit	**(59,604)**	**(79,899)**	**(90,809)**	**(74,899)**

Top End Health Service cont…

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

Revenue

Total revenue for the Top End Health Service has increased by approximately $68.7 million from the prior year.

The increase of Current grants and subsidies income ($33.4 million) was mainly attributed to a $33.7 million increase in Northern Territory Block and Teacher Training and Research Funding during the financial year.

The increase of Sales of goods and services income ($36.0 million) was largely due to increased Commonwealth Activity Based Funding predominantly due to cross border and other patient billings.

Expenditure

Total expenditure increased by approximately $83.9 million from the prior year. Employee expenses increased by $59.5 million (10.3%) due to an increase in the number of employees (9.3%) during the period, largely driven by the opening of the Palmerston Regional Hospital facility. The depreciation expense increased during the period by $8.4 million due to the equity transfer in of the Palmerston Regional Hospital and consequential depreciation.

Assets

Total assets increased by approximately $229.6 million from the prior year reflecting increases in receivables of $30.0 million and property, plant and equipment of $183.6 million. The increase in receivables was largely driven by the use of more up-to-date data in the cross border calculation, and revised treatment of the Western Australia bed-buy agreement. The value of property plant and equipment increased due to the transfer in of the Palmerston Regional Hospital.

Liabilities

Total liabilities have increased by $24.5 million from the prior year. The increase was mainly attributed to an increase in in employee provisions of $8.2 million which was reflective of the increase in employees during the financial year 2018/19. Top End Health Service employed 4,760 personnel at 30 June 2019 (2018: 4,354 employees) and an increase of $10.9 million related to Western Australia bed-buys and legal settlements

Equity

Equity increased by $205.2 million from prior year primarily as a result of an equity contribution from the Northern Territory Government in relation to the acquisition of plant and capital works transferred from the Department of Planning, Infrastructure and Logistics relating to the Palmerston Regional Hospital.

Top End Health Service cont…

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Income		
Current grants and subsidies	616,219	582,864
Sales of goods and/or services	449,637	413,588
Other revenues	1,452	2,234
Total income	**1,067,308**	**998,686**
Expenditure		
Employee expenses	(636,874)	(577,392)
Repairs and maintenance	(21,339)	(27,731)
Supplies and services	(344,958)	(324,436)
Depreciation and amortisation	(38,488)	(30,092)
Interest expense	(197)	(180)
Current grants and subsidies	(40,748)	(39,060)
Other expenses	(1,187)	(961)
Total expenditure	**(1,083,791)**	**(999,852)**
Deficit	**(16,483)**	**(1,166)**

Top End Health Service cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	38,650	24,264
Receivables and other current assets	79,442	47,841
Less current liabilities	(177,696)	(152,004)
Working Capital	**59,604**	**(79,899)**
Add non-current assets	764,963	581,347
Less non-current liabilities	(25,049)	(26,288)
Net Assets	**680,310**	**475,160**
Represented by:		
Accumulated funds	(172,123)	(158,380)
Asset revaluation reserve	168,263	168,263
Capital	684,170	465,277
Equity	**680,310**	**475,160**

Treasurer's Annual Financial Statement

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019

Background

This report outlines the results of the audit of the Treasurer's Annual Financial Statement (TAFS) for the year ended 30 June 2019. TAFS forms part of the Treasurer's Annual Financial Report (TAFR).

The Northern Territory Government's Budget and the TAFS are prepared based on the reporting standards of the Australian Bureau of Statistics Government Financial Statistics (GFS) accrual based Uniform Presentation Framework. This financial reporting framework is promulgated by the *Fiscal Integrity and Transparency Act 2001* which requires the Northern Territory Government to report on a basis consistent with external reporting standards.

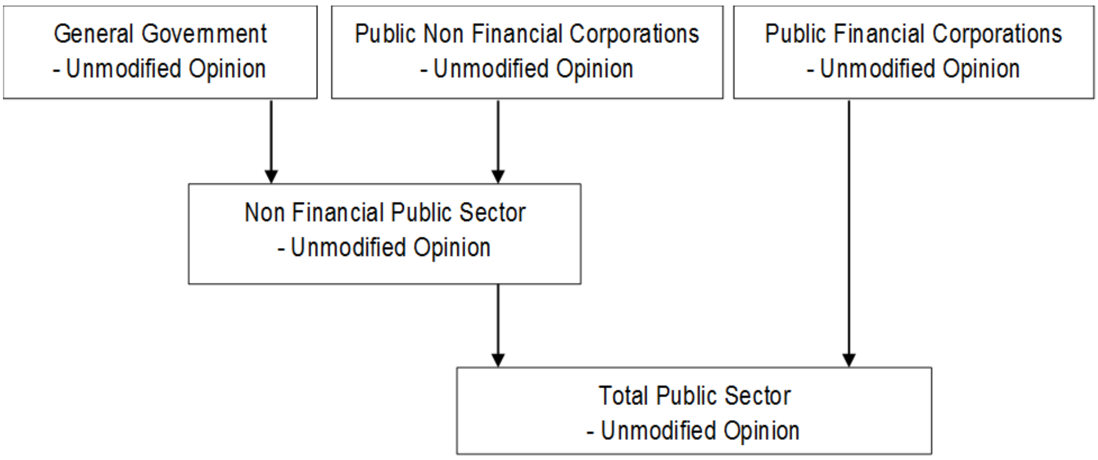
The TAFR provides information about the financial performance, financial position and cash flows of the Northern Territory Government (NTG) with the principal objectives of providing informative, comprehensive and clear information on financial outcomes. The Members of the Legislative Assembly represent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

The Legislative Assembly, through the *Financial Management Act 1995* and the *Fiscal Integrity and Transparency Act 2001*, requires the Treasurer to account for the Government's stewardship of the financial resources made available to it each year through the budget allocations in accordance with the *Appropriation Act*. Section 9 of the *Financial Management Act 1995* sets out broad areas to be reported upon yet allows the Treasurer discretion in how those matters will be reported.

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

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

Figure 1: TAFS Composition



Treasurer’s Annual Financial Statement cont…

Table 1 outlines the key reporting elements of the NTG.

Table 1: NTG reporting entity

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

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

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

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

Non Financial Public Sector – the sector formed through a consolidation of the General Government Sector and the Public Non Financial Corporation Sector. This sector provides the focus for the determination of net debt.

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

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

Treasurer's Annual Financial Statement cont…

Entities not consolidated into any of the above sectors

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

- Charles Darwin University and its associated entities
- Menzies School of Health Research and its associated entities
- Northern Territory Land Corporation
- Northern Territory Conservation Land Corporation
- Cobourg Peninsula Sanctuary and Marine Park Board
- Nitmiluk (Katherine Gorge) National Park Board
- Northern Territory Grants Commission
- Northern Territory Police Supplementary Benefit Scheme
- Public Trustee Common Funds
- Local government entities.

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

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

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

Treasurer's Annual Financial Statement cont…

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

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

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

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

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

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

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the Treasurer's Annual Financial Statement for the year ended 30 June 2019.

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

Treasurer's Annual Financial Statement cont…

The extent or scope of the audit

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

The audit report explains that the Treasurer is responsible for preparing and presenting the TAFS and the information it contains is in accordance with the requirements of the *Financial Management Act 1995* and the *Fiscal Integrity and Transparency Act 2001*. Section 9 of the *Financial Management Act 1995* allows the Treasurer to prescribe the form of the TAFS, including the accounting policies to be used, and these are detailed in the Reporting Framework.

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

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

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

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

Impact of materiality and audit procedures on the audit opinion

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

Treasurer's Annual Financial Statement cont…

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

In planning the audit, risk is accepted that the audit procedures may fail to detect whether the financial report is materially misstated. The pre-determined level of risk is accepted because of the judgements involved in determining the nature, timing and extent of audit procedures, evaluating the evidence obtained and also to enable the audit to be conducted cost effectively. However, in order to reduce this risk to an acceptable level, detailed audit procedures are performed. These procedures include, for example, understanding the business of government, obtaining an understanding of and evaluating the internal control structure and, where considered necessary, testing significant internal controls and samples of transactions and account balances, performing tests of the reasonableness of amounts and confirming year end balances with third parties.

What the audit opinion does not provide

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

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

Audit Opinion

The audit of the Treasurer's Annual Financial Statement for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 11 October 2019.

Treasurer's Annual Financial Statement cont…

Audit Observations

Performance Overview

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

The financial performance of the General Government Sector, as measured by the Net Operating Balance, deteriorated during the year ended 30 June 2019 when compared with the prior year. The Net Operating Balance for the year ended 30 June 2019 was a deficit of $464.1 million. The deficit increased by $88.9 million when compared to the deficit of $375.2 million reported for the year ended 30 June 2018. Total revenues increased by $163.9 million when compared to the previous year. Revenue sources contributing the largest increases were other revenue ($192.4 million), sales of goods and services ($61.0 million) and capital grant revenue ($148.8 million) offset by a decrease in current grants with of $248.2 million.

Whilst total revenues increased by $163.9 million from the prior year, total expenses were $252.8 million higher than the prior year indicating opportunities may exist where spending could be restrained in the current economic environment. The largest component of expense growth related to employee benefits (an increase of $100.6 million). Significant increases were also noted in capital grants ($73.8 million), current grants ($40.2 million), depreciation ($33.9 million) and interest expenses ($24.2 million).

The Fiscal Balance also worsened, from a deficit of $699.6 million for the year ended 30 June 2018 to a deficit for the year ended 30 June 2019 of $925.9 million. For the year ended 30 June 2019, $137.4 million more was invested in the net acquisition of Non Financial assets (2019: $461.8 million, 2018: $324.4 million).

The financial position of the General Government Sector, as measured by Net Debt, deteriorated by $839.5 million for the year. The following are the significant changes to the financial position:

- an decrease in cash and deposits of $118.2 million;
- an increase in investments, loans and placements of $68.8 million; and
- an increase in deposits held, advances received and borrowings of $782.8 million.

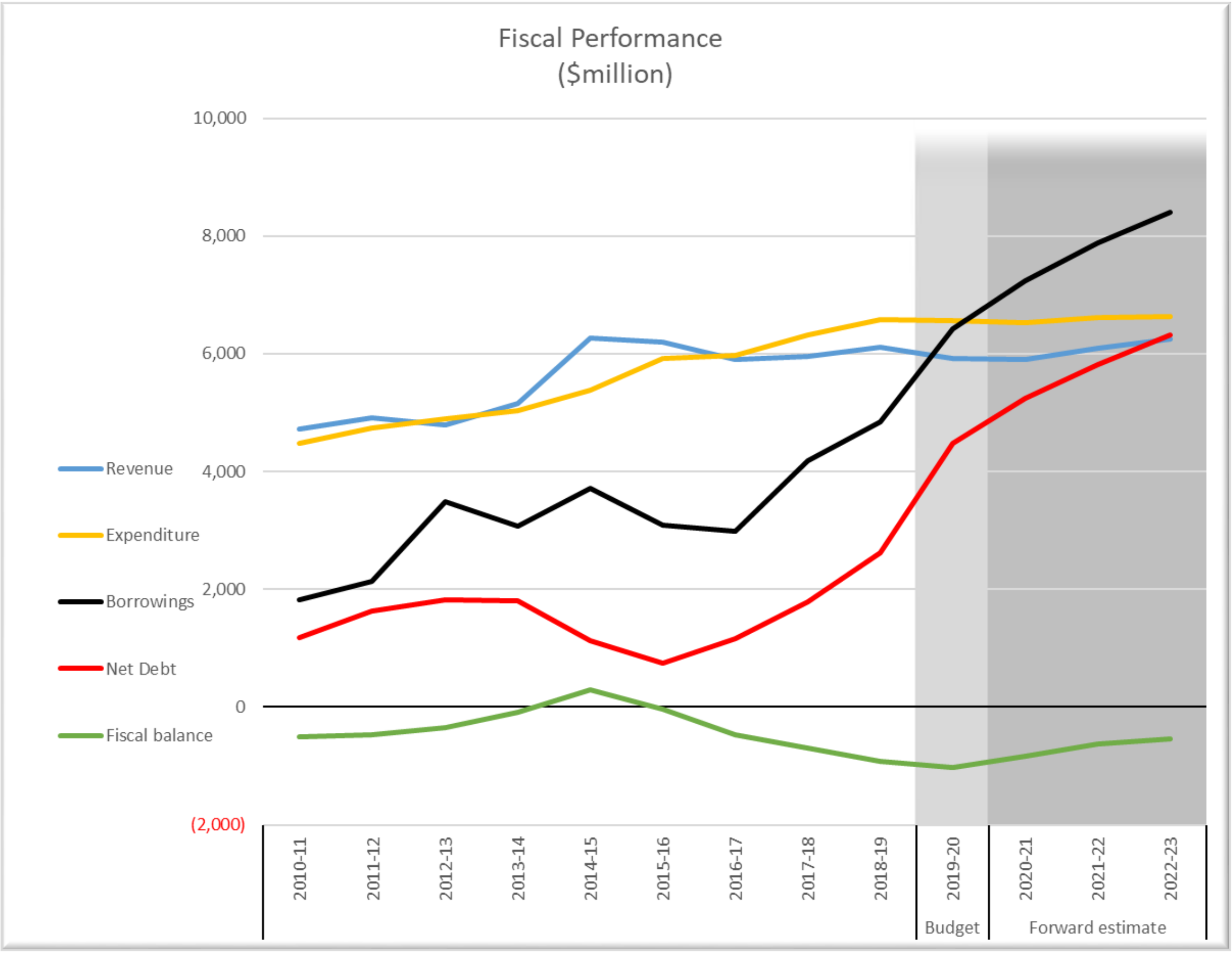
Net Financial Worth deteriorated by $1,572.0 million to negative $6,162.7 million when compared with the position at 30 June 2018 demonstrating that total liabilities exceeded financial assets.

Net Financial Liabilities increased by $1,528.0 million for the year reflecting the change in Net Financial Worth of $1,572.0 million reduced by a $44.0 million decrease in equity assets, being the value of investments in other public sector entities.

Treasurer's Annual Financial Statement cont…

Depicted in the graph below are the movements in five key indicators of fiscal performance from the TAFS data for 2010-11 to 2018-19 and the forward estimates for the same five indicators from Budget Paper No. 2 2019-20 for the years 2019-20 to 2022-23.

Figure 2: Fiscal Performance from 2010-11 to 2022-23



Source: Treasurer's Annual Financial Reports and Budget Paper No. 2 2019-20

Treasurer's Annual Financial Statement cont…

Total public sector expenses by function

Figures 3 and 4 present the total public sector expenses from transactions reported in Note 14 of the TAFS classified according to the Classifications of Functions of Government Australia.

Figure 3: Total Public Sector expenses by function ($'million)

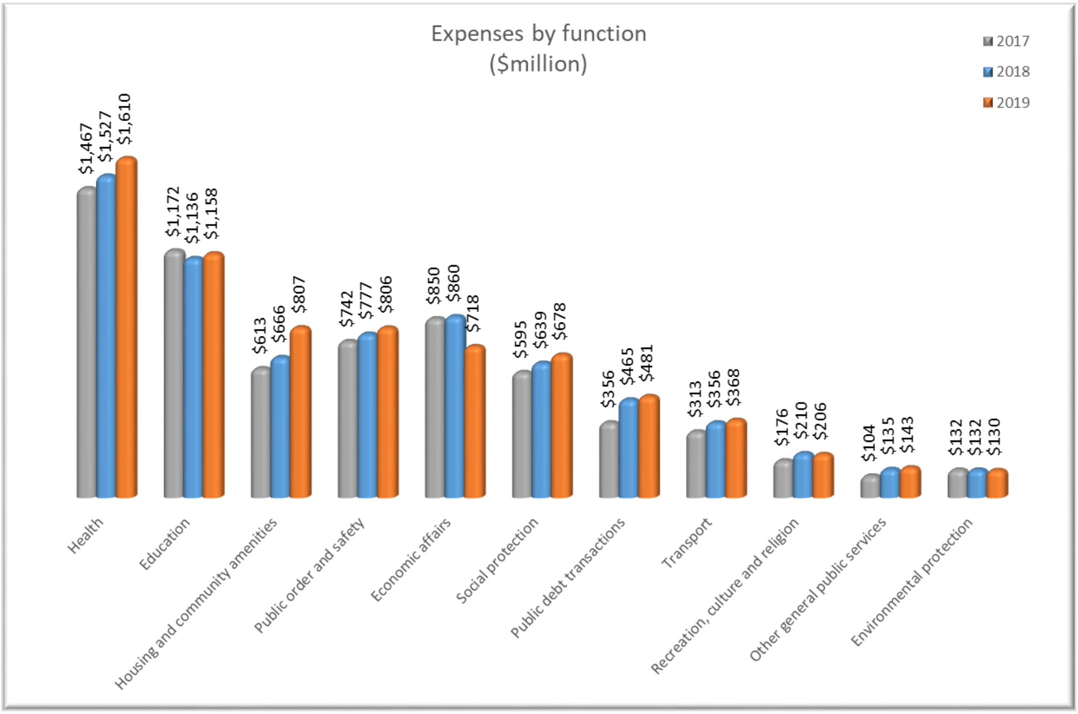
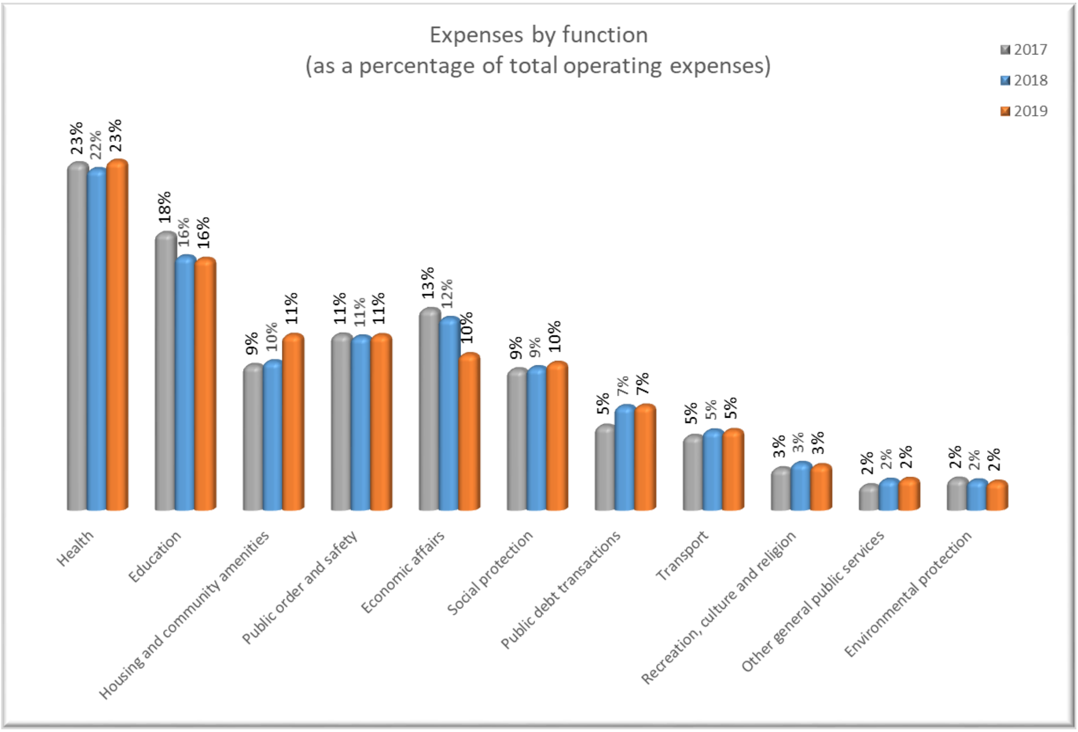


Figure 4: Total Public Sector expenses by function (as a percentage of total operating expenses)



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

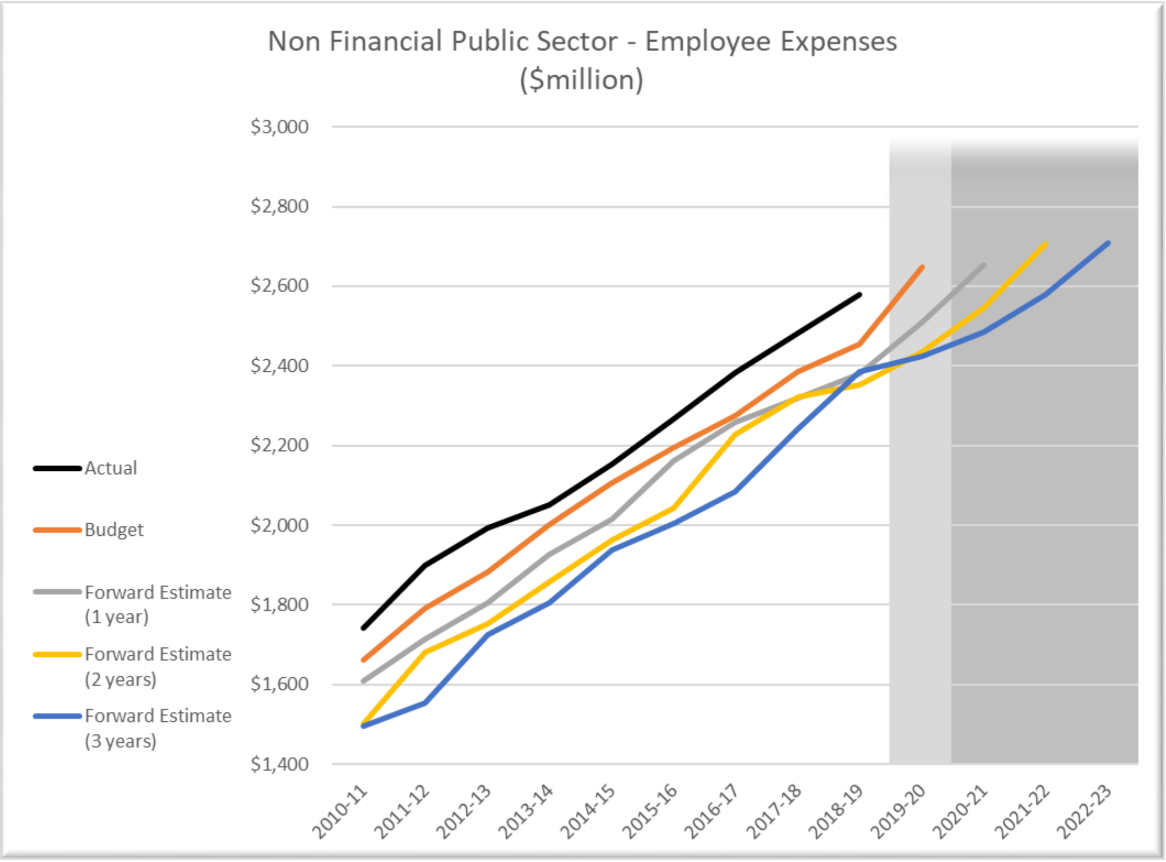
Treasurer's Annual Financial Statement cont...

Employee expenses

Employee expenses represent the largest expenditure category within the General Government Sector and the Total Public Sector. Employee expenses in the General Government Sector were $2,457.3 million for the year ended 30 June 2019, this is an increase of $100.6 million from the prior year. At a Total Public Sector level, employee expenses were $2,579.3 million for the year ended 30 June 2019, this is an increase of $98.6 million from the prior year.

Presented below is a summary of the Non Financial Public Sector actual, budget and estimated employee expenses from the Treasurer's Annual Financial Statements data for 2010-11 to 2018-19 and Budget Paper No. 2. Total Public Sector forward estimates are not available for analysis as the Total Public Sector includes the Northern Territory Treasury Corporation and previously included the Territory Insurance Office. The Territory Insurance Office was an off-budget entity thus budgets, and forward estimates, were not available.

Figure 5: Non Financial Public Sector – Employee Expenses ($'million)



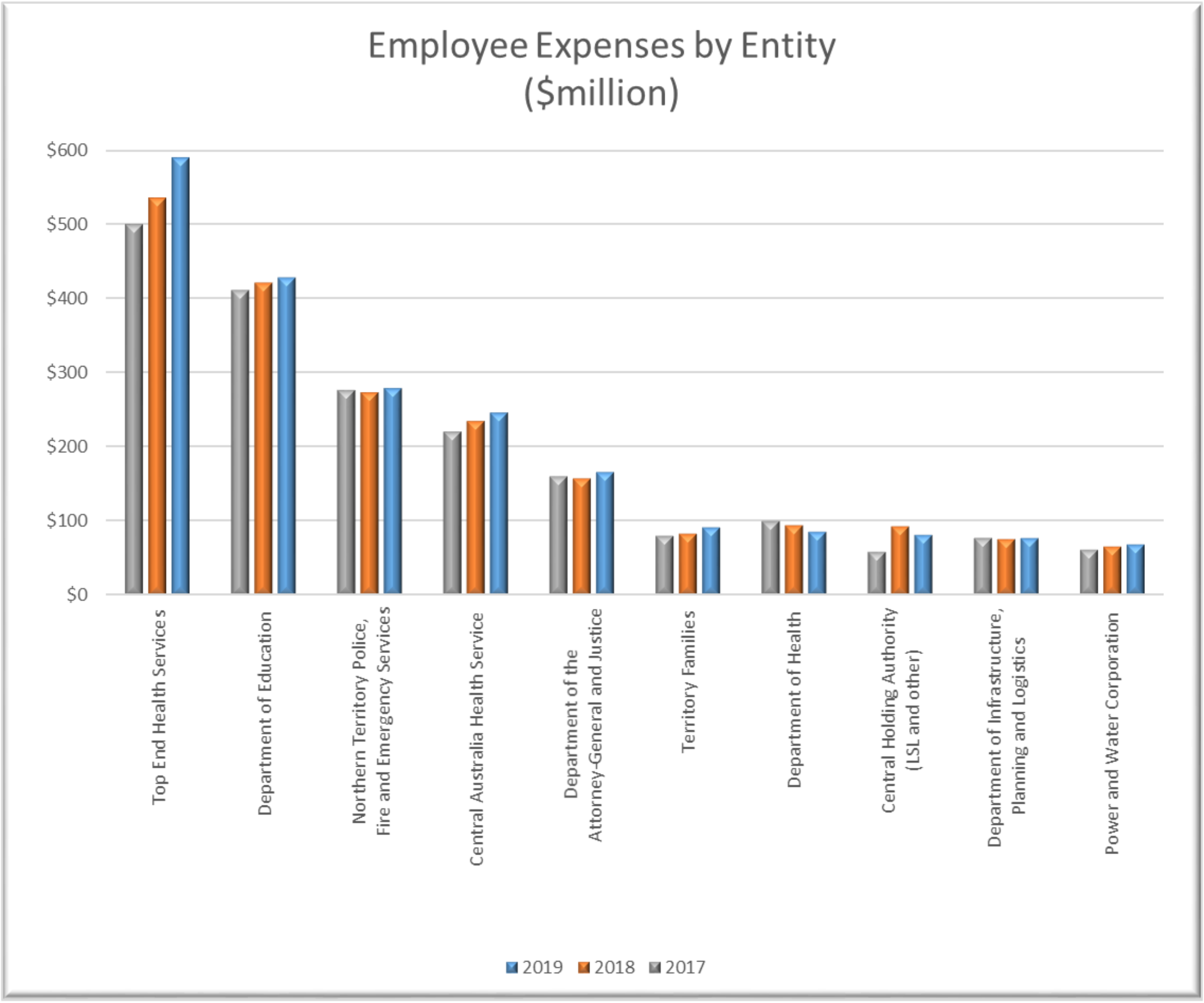
Source: Treasurer's Annual Financial Statements and Budget Paper No. 2

The figure demonstrates, as expected, that the accuracy of the estimated employee expenditure increases as the year in which the expenditure is incurred approaches. Notwithstanding, actual employee expenditure has exceeded the budgeted expenditure for each of the years presented in the figure above.

Treasurer's Annual Financial Statement cont…

Presented below is a summary of the employee expenses by entity for the ten entities with the highest employee expenses. This figure demonstrates the movement in employee expenditure within these entities over the past three reporting periods.

Figure 6: Employee expenses by entity



Source: NTAGO developed from Treasurer's Annual Financial Statement consolidation data

Treasurer's Annual Financial Statement cont…

General Government Sector – Components of Financial Performance

	2019	2018
	$'million	**$'million**
Taxation revenue	662.4	637.1
Grants – current	3,959.5	4,207.7
Grants – capital	264.0	115.2
Sales of goods and services	435.4	374.4
Interest income	107.9	126.3
Dividend and income tax equivalent income	67.9	64.9
Other	613.7	421.3
Total revenues	**6,110.8**	**5,946.9**
Employee expenses	(2,457.3)	(2,356.7)
Superannuation expense	(327.1)	(316.7)
Depreciation	(431.9)	(398.0)
Other expenses	(1,534.1)	(1,529.8)
Interest expense	(252.5)	(228.3)
Other property expenses	(3.4)	(3.1)
Grants – current	(1,090.0)	(1,049.8)
Grants – capital	(234.3)	(160.5)
Subsidies and personal benefit payments	(244.3)	(279.2)
Total expenses	**(6,574.9)**	**(6,322.1)**
Net operating balance	**(464.1)**	**(375.2)**
Other economic flows	(94.4)	(63.3)
Operating result	**(558.5)**	**(438.5)**
Net operating balance	**(464.1)**	**(375.2)**
Less net acquisition of Non Financial assets	(461.8)	(324.4)
Fiscal balance	**(925.9)**	**(699.6)**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

General Government Sector – Components of Financial Position

	Balance at 30 June 2019	Movement for 2018/19	Balance at 30 June 2018
	$'million	**$'million**	**$'million**
Cash and deposits	485.0	(118.2)	603.2
Advances paid	210.6	(7.3)	217.9
Investments, loans and placements	2,275.1	68.8	2,206.3
Deposits held	(454.5)	(113.3)	(341.2)
Advances received	(288.3)	20.6	(308.9)
Borrowing	(4,848.7)	(690.1)	(4,158.6)
Net debt	**(2,620.8)**	**(839.5)**	**(1,781.3)**
Other non-equity financial assets	456.1	82.1	374.0
Equity assets	2,212.0	(44.0)	2,256.0
Superannuation liabilities	(4,182.3)	(560.2)	(3,622.1)
Other employee entitlements and provisions	(677.4)	(17.4)	(660.0)
Other non-equity liabilities	(1,350.3)	(193.0)	(1,157.3)
Net financial worth	**(6,162.7)**	**(1,572.0)**	**(4,590.7)**
Less: Equity assets	(2,212.0)	44.0	(2,256.0)
Net financial liabilities	**(8,374.7)**	**(1,528.0)**	**(6,846.7)**
Net carrying amounts of Non Financial assets	15,644.6	398.1	15,246.5
Equity assets	2,212.0	(44.0)	2,256.0
Net worth	**9,481.9**	**(1,173.9)**	**10,655.8**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

General Government Sector – Changes in Equity

	Equity at 1 July	Comprehensive Result	Equity at 30 June
2018/19	**$'million**	**$'million**	**$'million**
Accumulated funds	**2,099.7**	**(558.5)**	**1,541.2**
Adjustment on adoption of AASB 9	(1.4)	-	(1.4)
Transfers from reserves	-	52.2	52.2
Other movements directly to equity	-	(553.8)	(553.8)
Total accumulated funds	**2,098.3**	**(1,060.1)**	**1,038.2**
Reserves			
Asset revaluation surplus	6,928.9	(42.3)	6,886.6
Investments in public sector entities revaluation surplus	1,608.7	(68.9)	1,539.8
Other reserves	18.3	(1.0)	17.3
Total reserves	**8,555.9**	**(112.2)**	**8,443.7**
Total equity at end of financial year	**10,654.2**	**(1,172.3)**	**9,481.9**
2017/18			
Accumulated funds	**2,487.9**	**(438.5)**	**2,049.4**
Transfers from reserves	-	38.2	38.2
Other movements directly to equity	-	12.1	12.1
Total accumulated funds	**2,487.9**	**(388.2)**	**2,099.7**
Reserves			
Asset revaluation surplus	6,968.5	(39.6)	6,929.0
Investments in public sector entities revaluation surplus	1,589.4	19.4	1,608.7
Other reserves	18.8	(0.4)	18.4
Total reserves	**8,576.7**	**(20.7)**	**8,556.0**
Total equity at end of financial year	**11,064.6**	**(408.9)**	**10,655.7**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

Total Public Sector – Components of Financial Performance

	2019	2018
	$'million	**$'million**
Taxation revenue	651.7	625.8
Grants – current	3,959.4	4,207.7
Grants – capital	272.5	127.6
Sales of goods and services	1,055.7	952.1
Interest income	108.0	126.4
Other	645.1	463.9
Total revenues	**6,692.4**	**6,503.5**
Employee expenses	(2,579.3)	(2,480.7)
Superannuation expense	(339.9)	(329.7)
Depreciation	(618.9)	(589.0)
Other expenses	(1,951.0)	(1,959.9)
Interest expense	(282.5)	(261.1)
Other property expenses	(3.4)	(3.1)
Grants – current	(1,032.2)	(991.5)
Grants – capital	(165.1)	(133.4)
Subsidies and personal benefit payments	(133.3)	(155.5)
Total expenses	**(7,105.6)**	**(6,903.9)**
Net operating balance	**(413.2)**	**(400.4)**
Other economic flows	(237.2)	(190.2)
Operating result	**(650.4)**	**(590.6)**
Net operating balance	**(413.2)**	**(400.4)**
Less net acquisition of Non Financial assets	(461.9)	(389.4)
Fiscal balance	**(875.1)**	**(789.8)**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

Total Public Sector – Components of Financial Position

	Balance at 30 June 2019	Movement for 2018/19	Balance at 30 June 2018
	$'million	**$'million**	**$'million**
Cash and deposits	485.1	(118.1)	603.2
Advances paid	210.6	(7.3)	217.9
Investments, loans and placements	2,275.1	68.8	2,206.3
Deposits held	(126.0)	(18.6)	(107.4)
Advances received	(229.3)	9.8	(239.1)
Borrowing	(6,322.0)	(729.9)	(5,592.1)
Net debt	**(3,706.5)**	**(795.3)**	**(2,911.2)**
Other non-equity financial assets	591.8	115.1	476.7
Equity assets	-	0.0	0.0
Superannuation liabilities	(4,182.3)	(560.2)	(3,622.1)
Other employee entitlements and provisions	(734.7)	(14.4)	(720.3)
Other non-equity liabilities	(1,588.8)	(223.3)	(1,365.5)
Net financial worth	**(9,620.5)**	**(1,478.1)**	**(8,142.4)**
Less: Equity assets	-	-	-
Net financial liabilities	**(9,620.5)**	**(1,478.1)**	**(8,142.4)**
Net carrying amounts of Non Financial assets	19,102.4	304.3	18,798.1
Equity assets	-	-	-
Net worth	**9,481.9**	**(1,173.8)**	**10,655.7**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont...

Total Public Sector – Changes in Equity

	Equity at 1 July	Comprehensive Result	Equity at 30 June
2018/19	**$'million**	**$'million**	**$'million**
Accumulated funds	**2,767.9**	**(650.4)**	**2,117.5**
Adjustment on adoption of AASB 9	(1.4)	-	(1.4)
Transfers from reserves	-	57.5	57.5
Other movements directly to equity	-	(554.2)	(554.2)
Total accumulated funds	**2,766.5**	**(1,147.1)**	**1,619.4**
Reserves			
Asset revaluation surplus	7,869.5	(24.3)	7,845.2
Other reserves	18.3	(1.0)	17.3
Total reserves	**7,887.8**	**(25.3)**	**7,862.5**
Total equity at end of financial year	**10,654.3**	**(1,172.4)**	**9,481.9**
2017/18			
Accumulated funds	**3,248.9**	**(590.5)**	**2,658.3**
Transfers from reserves	-	95.5	95.5
Other movements directly to equity	-	14.0	14.0
Total accumulated funds	**3,248.9**	**(481.0)**	**2,767.8**
Reserves			
Asset revaluation surplus	7,797.0	72.6	7,869.5
Other reserves	18.8	(0.4)	18.4
Total reserves	**7,815.8**	**72.1**	**7,887.9**
Total equity at end of financial year	**11,064.6**	**(408.9)**	**10,655.7**

Note: Totals may not add due to rounding

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 the associated Regulations, which came into effect in 2010 and was subsequently amended effective 10 April 2019, provides for the review of public information produced by public authorities. A public authority is defined in Section 5 of the Act as:

- 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;
- a 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;
- a 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…

Section 4(1) of the Act defines public information 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; and
- 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 is contravened in relation to particular public information if the Auditor-General is satisfied one or more of the following applies to the information:

- the information promotes particular party political interests;
- the information includes statements that are misleading;
- the information is an advertisement that includes an image of a minister or a minister's message;
- for public information that is not an advertisement – the information includes an image of a minister or a minister's message other than:
    - the Chief Minister; or
    - the relevant minister;
- the information includes facts (including comparisons), statistics or data that are not presented accurately; or
- the information fails to specify the source, or a means for identifying a source, of any facts (including comparisons), statistics or data.

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

On 30 October 2019, a Member of the Legislative Assembly wrote to the Auditor General alleging contraventions of the provisions of the Act.

The allegation was that comments included in a Media Statement dated 4 October 2019 entitled "*Protecting Our Waterfowl Populations – Have Your Say On the Draft Wildlife Management Program*" contravened the provisions of the Act, in particular Sections 6(2)(b) and 6(2)(e). The referral was accompanied by a copy of the Media Statement.

Review of Allegation

After examining the content of the referred information, I formed the view that the Media Statement is exempt from the provisions of the Act by virtue of Section 4(1)(b) because the information was contained within a media release.

Conclusion

Following from the above I concluded that the information did not meet the definition of public information as defined by the Act.

Recommendation

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

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

Given my conclusions, above, I made no recommendations in relation to this referred matter.

Appendices

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Appendix 1: Audit Opinion Reports Issued Since 30 June 2019

Financial Statements for the year ended 30 June 2019

	Date 2019 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 30 June 2019	Date of Audit report year ended 30 June 2018
Board of the Museum and Art Gallery of the Northern Territory	Not yet tabled	4 October 19	9 November 18
Central Australia Health Service	Not yet tabled	1 October 19	10 October 18
Darwin Waterfront Corporation	Not yet tabled	26 September 19	1 October 18
Data Centre Services	16 October 19	17 September 19	18 September 18
Desert Knowledge Australia	Not yet tabled	28 October 19	9 November 18
Indigenous Essential Services Pty Ltd	Not required	15 October 19	28 September 18
Land Development Corporation	Not yet tabled	11 October 19	26 October 18
Motor Accidents (Compensation) Commission	Not yet tabled	8 October 19	3 October 18
Northern Territory Grants Commission[(1)]	Not yet tabled	14 October 19	9 October 18
Northern Territory Legal Aid Commission	Not yet tabled	24 September 19	13 September 18
Northern Territory Major Events Company Pty Ltd	Not required	29 October 19	16 October 18
Northern Territory Police Supplementary Benefit Scheme	Not required	25 October 19	18 October 18
Northern Territory Treasury Corporation	16 October 19	18 September 19	13 September 18
NT Fleet	16 October 19	17 September 19	18 September 18
NT Home Ownership	15 October 19	27 September 19	26 September 18
Power and Water Corporation	16 October 19	15 October 19	28 September 18
Power Generation Corporation	16 October 19	19 September 19	27 September 18
Power Retail Corporation	16 October 19	24 September 19	19 October 18

[(1)] Not separately reported within this report

Not required – Financial statements are not required to be tabled

Not yet tabled – as at 31 October 2019

Appendix 1: Audit Opinion Reports Issued Since 30 June 2019 cont…

	Date 2019 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 30 June 2019	Date of Audit report year ended 30 June 2018
Territory Wildlife Parks	Not yet tabled	24 September 19	28 September 18
Top End Health Service	Not yet tabled	1 October 19	10 October 18
Treasurer's Annual Financial Statement	16 October 19	11 October 19	11 October 18

Not yet tabled – as at 31 October 2019

Appendix 1: Audit Opinion Reports Issued Since 30 June 2019 cont…

Acquittals or other returns for the year ended 30 June 2019

	Deadline for submission of Audited Financial Statements	Date of Audit report year ended 30 June 2019	Date of Audit report year ended 30 June 2018
Health Pool Funding Acquittal	30 September 19	6 September 19	13 September 18
Local Government Financial Assistance Acquittal	Not specified	16 October 19	8 October 18
Motor Accidents (Compensation) Commission Annual Return	31 October 19	31 October 19	31 October 18
National Land Transport Act 2014			
Roads to Recovery	31 October 19	31 October 19	7 November 18

Not specified – No deadline specified

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Appendix 2: Status of Audit Activity

Listed below is the status of non-routine audits and reviews identified as not yet complete in Appendix 2 of my August 2019 Report to the Legislative Assembly:

Department of Education	
NAPLAN Data Analytics and Cause Analysis	Refer page 36
Department of the Attorney-General and Justice	
Fines Recovery Process	Refer page 48
Department of Trade, Business and Innovation	
Local Jobs Fund	Refer page 64

In addition to the routine audits, primarily being end of year audits of agencies and audits of financial statements, the following audits and reviews were identified in Appendix 3 of my August 2019 Report to the Legislative Assembly as scheduled to be conducted during the six months to 31 December 2019:

Department of Environment and Natural Resources	
Water Licences	Not yet completed
Department of Infrastructure, Planning and Logistics	
System for payments - Darwin Port Lease	Not yet completed
Department of Local Government, Housing and Community Development	
Room to Breathe	Not yet completed
Department of Trade, Business and Innovation	
System for payments - Darwin Port Lease	Not yet completed

In addition to the routine audits, primarily being end of year audits of agencies and audits of financial statements, the following information system reviews were scheduled to be conducted during the six months to 31 December 2019:

Department of Corporate and Information Services	
Core Clinical Systems Renewal Program	Not yet completed
Department of the Attorney-General and Justice	
Pronto and Integrated Offender Management System	Not yet completed
Northern Territory Superannuation Office	
SuperB	Not yet completed

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Appendix 3: Abbreviations

AASB	Australian Accounting Standards Board
ACARA	Australian Curriculum, Assessment and Reporting Authority
APRA	Australian Prudential Regulation Authority
ASA	Australian Auditing Standard
ASIC	Australian Securities and Investments Commission
CSO	Community Service Obligation
CSS	Commonwealth Superannuation Scheme
DTBI	Department of Trade, Business and Innovation
DTF	Department of Treasury and Finance
DTSC	Department of Tourism, Sport and Culture
FaFT	Families as First Teachers
FRU	Fines Recovery Unit
GAS	Government Accounting System
GFS	Australian Bureau of Statistics Government Financial Statistics
ICAC Act	*Independent Commission Against Corruption Act 2018*
IJIS	Integrated Justice Information System
IOMS	Integrated Order Management System
KPI	Key Performance Indicator
NAPLAN	National Assessment Program – Literacy and Numeracy
NMS	National Minimum Standard
NT	Northern Territory
NTAGO	Northern Territory Auditor-General's Office
NTG	Northern Territory Government
NTPFES	Northern Territory Police, Fire and Emergency Services
PAT	Progressive Achievement Test
PDF	Portable Document Format
PFCs	Public Financial Corporations Sector
PNFCs	Public Non Financial Corporations Sector
SIP	Strategic Infrastructure and Projects
SMART	Specific, Measurable, Achievable, Relevant and Timely
SMS	Short Message Service
TAFR	Treasurer's Annual Financial Report

Appendix 3: Abbreviations cont…

TAFS	Treasurer's Annual Financial Statement
TAP	Territory Availability Payment
TEP	Territory Efficiency Payment
TIP	Territory Incentive Payment
TOP	Territory Operating Payment

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Index of Matters Reported cont…

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