



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

Auditing for Parliament

# **March 2020**

## **Report to the Legislative Assembly**

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## **March 2020 Report to the Legislative Assembly**

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# Contents

	Page
Contents	5
Transmittal letter to the Speaker	7
Auditor-General's Overview	9
The Role and Responsibilities of the Auditor-General	10
Guide to Using this Report	13
Reports on the Results of Audits, Reviews and Assessments	19
Appendix 1: Audit Opinion Reports Issued Since 31 October 2019	99
Appendix 2: Status of Audit Activity	101
Appendix 3: Proposed Audit Activity in the Six Months Ending 30 June 2020	103
Appendix 4: Abbreviations	105
Index of Matters Reported	107

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

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

24 March 2020

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 28 February 2020 and I request that you table the report in the Legislative Assembly.

This report presents the results of financial statements audits completed during the period. A number of performance management system audits designed to test the adequacy of performance management systems within agencies as they related to strategic goals presented in Budget Paper No. 3 or to specific programs or projects were completed and the findings included in this report.

The report also presents the findings from audits relating to the progress of development or implementation of information technology systems.

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Julie Crisp'.

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 ten separate audits and other tasks completed during the period 1 November 2019 to 28 February 2020. This report summarises the results of the following types of audits and legislated tasks conducted during the period:

- Statutory Audits of Financial Statements;
- Information Technology Audits;
- Performance Management Systems Audits; and
- One matter referred under the *Public Information Act 2010*.

The report presents the results of audits of financial statements for three entities with a financial year ended 30 June 2019 where the audits were completed after 31 October 2019 and before 28 February 2020.

Three performance management systems audits were completed during the period, the results of which are presented within this report. One audit assessed the systems and processes in place at two selected agencies to account for transactions relating to the lease of the Port of Darwin. The second performance management system audit assessed the systems and processes in place at the Department of Environment and Natural Resources that are designed to assist in the management and administration of water licences and achieve related performance objectives as presented in 2018-19 Budget Paper No. 3. The third performance management system assessed the systems and processes in place at the Department of the Attorney-General and Justice that are designed to assist in the management and administration of prisoner monies.

Two audits were undertaken in order to examine the progress of implementation of information technology solutions. The findings from these audits are included within this report. Both audits recognised that these projects are ongoing and will be delivered over several years. One further information technology audit was conducted to assess the general computer controls and access controls relating to the SuperB system used to manage defined benefit superannuation commitments.

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

The *Audit Act 1995* provides a legislative requirement for the Auditor-General to report to the Legislative Assembly on at least an annual basis. This is the third report provided for tabling within the Legislative Assembly for the year ending 30 June 2020, the last report was tabled during November 2019.

One audit scheduled to be commenced and completed in the period 1 July 2019 to 31 December 2020 is still to be completed. The outcomes of this audit (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 14 provides for the Minister to direct the Auditor-General to carry out an audit which the Auditor-General has power under the *Audit Act 1995* to carry out.
- Section 15 permits the Auditor-General to conduct an audit of the performance management systems of any Agency or 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.
- 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. Systems selected for audit are critical for 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. Information technology systems are also selected for audit where they are considered to be critical to service delivery functions of agencies.



## 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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# Department of Corporate and Information Services

## Core Clinical Systems Renewal Program

### *Background*

The Core Clinical Systems Renewal Program (the Program) was initiated by the Department of Health and is now under the auspices of the Department of Corporate and Information Services (DCIS).

The Department of Health (who had initial carriage of the program) identified that the key Program objectives were to:

- Mitigate clinical risk, including sentinel events, caused by the non-availability of essential clinical information at point of care delivery;
- Mitigate the risk of catastrophic failure of core NT Health clinical information systems as the result of technological obsolescence;
- Enable contemporary and improved health service processes in delivering better health outcomes;
- Reduce the administrative burden on clinicians and other staff; and
- Develop capacity for the health service consumer to manage their own engagement with NT Health services and their consent to share their own information.

The outcome is intended to be a solution that replaces paper-based records and communications, and provide enhanced capability and a contemporary range of information system functions that clinicians and healthcare staff need and demand in today's complex healthcare environment.

The initial schedule was:

- Completion of consideration of request for tender responses in February 2017
- Completion of final project negotiation by April 2017
- Commencement of Phase one of the project in May 2017.

The first year of the project was to be dedicated to system configuration and build. The project was to use a progressive rollout starting with Katherine. The Program was to be managed by DCIS and supported by key employees of the Department of Health.

The Department of Health has reported against the progress of the Program's implementation in its Annual Reports for the years ended 30 June 2016, 2017 and 2018.

## Department of Corporate and Information Services cont...

### *Scope and Objectives*

The objective was to perform a review of progress within Phase one of the Program, including evaluating:

- achievement of project deliverables against plan and progress against planned milestones and budget;
- risk and issue identification and management; and
- adequacy of the approach used to complete the Design phase including the engagement model used for Department of Health stakeholders to validate and confirm the detailed business requirements to inform the Solution Confirmation phase.

### *Conclusion*

Based on the procedures performed and evidence obtained during the course of this review, except for the reported five-month delay in the completion of the Design phase, nothing has come to my attention that caused me to believe that DCIS had not progressed the project deliverables in accordance with the planned milestones and budget, including the identification and management of risks, as they applied to the Design phase.

Notwithstanding that the review did not identify any significant matters that require remediation, close monitoring and effective management will be required to ensure the Program deadlines are achieved within the approved budget of \$259 million.

### *Review Observations*

The program's funding was initially estimated at \$197 million, however the estimate was subsequently revised to \$259 million. On approval of the business case and increased budget in 2016, delivery of the Program was transferred from the Department of Health to DCIS. Since then, progress of the Program has resulted in the selection of a system, contractual agreement with the vendor and progress of the Design phase. The Design phase had been endorsed by the required governance committees by the end of September 2019. Concurrently, five foundational projects are underway to enable the implementation of the Program. These projects were collectively budgeted at \$11.6 million, as part of the Program budget for 2019/20.

At the time of my review, the Program team had recently completed the Design phase and was currently undertaking the Solution Confirmation phase. The Program Schedule initially estimated the time line for finalisation of the Design phase to be in March 2019, however the practical completion date was five months behind schedule, in August 2019. Documented causes for the delay include:

- additional requirements for engagement with stakeholders to gather and finalise the detailed requirements;
- resourcing limitations (Program resources and availability of Subject Matter Experts); and
- the length of time required for processing key design decisions through governance pathways.

## Department of Corporate and Information Services cont...

### Achievement of project deliverables

Results from the review confirmed that the Program had achieved the deliverables defined in the initial business case for the Design phase. Tracking of the progress for each individual project was undertaken by the respective Project Managers, who then provided that information to the Program Director for consideration and monitoring at a Program level. Minutes evidenced that reporting against the deliverables for the Program to the Program Steering Committee (PSC) and the Program Implementation Committee (PIC) occurred on a monthly basis. Following the completion of an independent Program Assurance Review, an additional summary report was designed and also presented at meetings of the PSC and PIC to communicate the status of the Program.

Key stakeholders presented the observation that the delay in finalising the Design phase had a positive impact on the Program as it allowed the Program team to determine and collate all the Program requirements to the level of detail required. Additionally, the delay enabled the Program team to revisit and revise the approach for the Build and Roll Out phases (referred to as the 'Implementation phase' from here onwards). At the time of my review, the new approach for the Implementation phase was in draft and is intended to reduce the following specific risks to the Program posed by the original approach:

- resources required to deliver training and roll out the system at all locations simultaneously not being available;
- pressure on clinical operations due to training requirements for all full-time staff over a relatively short timeframe; and
- the single cutover not allowing for processes to be embedded.

After being endorsed by the Clinical Leadership Group and the PIC, the Solution Design Completion Document was tabled at the August 2019 PSC meeting. This resulted in agreement being reached that the Design phase was complete and the Solution Confirmation phase could commence.

At the time of my review, the Program had engaged two Enterprise Project Services (EPS) resources with Chartered Accountant designations to manage the Program budget. The budget had been developed using a 'bottom up' approach. Resourcing requirements (the costs of which form a significant portion of the budget) were forecast on the basis of the resourcing required to complete the Program's deliverables. My review identified that budgets were monitored on an individual project basis.

Upon commencement of the current Program Director, a complete review and reconciliation of the budget was undertaken by the EPS accountants. The financial forecasting had previously been subject to external reviews by a contracted consultant.

The budget, including all variations, was monitored and reported to the PSC on a monthly basis. On a six monthly basis, the full budget was reviewed by the Program Director. At the time of my review, reports showed the Program expenditure was below budget mainly due to the Program not having all of the planned resources.

## Department of Corporate and Information Services cont...

### Risk and issue management

A Risk and Issues Management Plan had been developed for the Program. This plan clearly defined the purpose of the plan and how to use the plan and includes definitions of 'risk' and 'issue'. The plan documents the processes for managing and mitigating risks and issues and the governance arrangements related to the management of risks and issues. The outcomes of a recent Program Quality Assurance Review performed by an independent consultant were to increase risk and issue management processes through improving the record keeping of risks and issues, and the quality of risks and issues reporting. An information system has been implemented as a tool for the management of risks and issues. Each team member has the ability to raise risks and issues through the tool. Project and Program managers are responsible for managing the risks. The information system is able to report risk-related information by project, program, agency, vendor and committee.

The meeting minutes from the PSC and the PIC record that Risk and Issue Management was a standing item on the agenda and that risks and issues had been actively discussed during the meetings. Stakeholders advised that, in addition to formal discussions about risk and issues, there were many other discussions and meetings that were directed at minimising the risks to the Program. I note that, during my review, a workshop was held with the PIC to review the risk register.

Key risks to the Program at the time of my review included:

1. Scheduled activities of Solution Confirmation phase delayed due to prolonged Design phase, requiring rework of Program Schedule and activities.
2. Turnover and lack of resourcing throughout the NT negatively impacting the delivery schedule.
3. Key decisions not sought in a timely manner due to misunderstanding of effort required and impact of required decisions on Program.
4. Legislative changes may result in changes to the Program scope.
5. Stakeholder fatigue has resulted in disengagement and limited availability (of stakeholders) to participate in Build and Configuration phase activities.



## Department of Corporate and Information Services cont...

### Adequacy of the approach used to complete the Design phase

The Program was following the Enterprise Project Services/ Project Management Framework (EPS/PMF) which is based on Prince2. The EPS/PMF was internally developed by the EPS branch within DCIS for the management of all EPS ICT Programs and Projects. In August of 2019, the EPS/PMF was reviewed and an enhanced framework was being rolled out at the time of my review.

The approach for the Design phase was clearly defined in the Program Delivery Plan and the detailed Program Schedule. The Program Schedule was based on estimates of the time required for the Design phase however, during the course of the Design phase, more clarity was gained around the estimates and the schedule was updated accordingly.

Governance documents had been established that defined the governance arrangements pertinent to the Program. Representatives from both DoH and DCIS were included within the governance arrangements. Separate, independent governance and assurance groups were also established, including the ICT Governance Board and Commercial Board.

Generally, the Program was clinically driven, with the clinicians and patients being front of mind. This was achieved through the engagement of Subject Matter Experts holding the roles of Clinical Sponsor and Clinical Architect for the Program. In addition, regional clinics were also involved in the Program. A Program office was established in Alice Springs, with resources including a Business Analyst and clinical resources. There was a strong focus on stakeholder engagement and communication as evidenced from the Program Stakeholder Engagement Plan and interviews held with clinicians. During the Design phase, additional workshops were held and approximately 250 additional Subject Matter Experts were engaged to ensure the required detail was gathered to conclude the Design phase. Continuous improvements have been implemented based on lessons learned, and these learnings have been documented in the Solution Design Completion document. One example of this continuous improvement approach was the restructuring of working groups to functional groups driven by Subject Matter Experts rather than by Business Analysts to facilitate a 'clinically driven' approach.

Where possible, resources from DoH that were appointed to the Program were relieved of their regular duties. Where this was not possible, Program representatives advised that Subject Matter Experts have been willing to provide their time outside of working hours. Whilst this has aided the completion of the Design phase, the Program has recognised that this contributed to stakeholder fatigue and impacted on clinical service delivery.

At the time of my review, the Program had entered the Solution Confirmation phase. This phase will focus on confirming the design solution as well as finalising the approach for the implementation.

## Department of Corporate and Information Services cont...

**The Department of Corporate and Information Services has commented:**

The Department of Corporate and Information Services appreciates the thorough review process undertaken to confirm project deliverables are being achieved in accordance with plans and budgets; rigour in terms of risk and issue management; and adequacy of the approach undertaken to design the new clinical system solution.

The overall positive findings of the audit are noted and provide sound assurance that this major investment in digital transformation for the Northern Territory's public health system is being delivered to plan with sound governance and appropriate project management rigour.

# Department of Environment and Natural Resources

## Water Licences

### Background

Budget Paper No. 3 provides accrual and output-based information for Northern Territory Government agencies including output statements for each agency and associated key performance indicators (KPIs).

The 2017/18 Budget Paper No. 3 explains that:

*“An outcome is provided for each output group with a description for each output (business line for GBDs). Key performance indicators are provided with estimates identified for each measure. The indicators are focused on presenting measures that are meaningful, nationally consistent and most relevant to assessing the achievement of the stated outcome.” (page 6)*

*“The framework provides a consistent basis for the 2017/2018 Budget, including output structures and key performance indicators for each agency. Agency annual reports record actual performance and provide explanations of significant variations...”*

*Where agencies have restructured their outputs to align with Government’s strategic priorities, the 2016-17 Budget has been back cast for comparability purposes.” (page 4)*

There should be a direct correlation between the output groups and outcome, KPIs and the performance information in the Agency’s Annual Report. To enable accurate performance reporting, the Agency should have a performance management system that enables the Agency to assess whether its objectives (outputs) are being achieved economically, efficiently and effectively. This audit assessed whether the following components of a performance management system were implemented and operating effectively within the Agency in relation to the Agency’s stated strategic outcome selected for testing:

- The output groups, outcomes and KPIs are aligned;
- A strategic plan exists for the Agency;
- The strategic plan reflects the Agency’s strategic goals as stated in Budget Paper No. 3;
- Business plans exist for each Output Group within the Agency;
- The relevant business plan provides actions and performance targets aligned with the Agency’s strategic plan;
- There is a process for determining the KPI appropriate to each strategic objective;
- Performance is actively monitored during the course of year within the Agency;
- Performance results are reported to those accountable within the Agency; and
- Performance results are reported in the Agency’s Annual Report and are accompanied by sufficient explanatory information that enables a reader to independently form a conclusion on the Agency’s performance.

## Department of Environment and Natural Resources cont...

The audit was conducted at the Department of Environment and Natural Resources (the Agency) and specifically in relation to the strategic outcome of “*Scientific monitoring and assessment of the Territory’s water resources, allocation and regulation of water resources for sustainable use, and delivery of flood forecasting services*” as included in the 2018-19 Budget Paper No. 3.

The Agency utilises an information system called the ‘Water Act Licensing and Permit System’ (WALAPS) to assist the management of licence applications.

Following a number of concerns raised publicly into the allocation of water licences, the Northern Territory Department of the Chief Minister asked an independent panel to review the processes used by the former Department of Land Resource Management to prioritise, assess and allocate water entitlements for new or increased water extraction licences between 30 August 2012 and 30 August 2016. The Independent Review of Water Extraction Licences was completed and reported upon in July 2017. The report resulting from the Independent Review noted that:

*“The review period was a time of increased focus on access to water resources as a driver for economic development in the Territory. While some of the licence applications reviewed involved very small quantities, more than half were for quantities exceeding 1,500 ML/y, almost exclusively for irrigation of annual and permanent crops. Reflecting increased competition for water resources, applications made after mid-2013 were for significantly higher quantities than those made before that time”.*

The Agency has publicly released a biannual status update of actions taken by the Agency to address the recommendations. Audit procedures were directed at assessing the status of actions taken as reported within the report dated 30 June 2019 released in July 2019, with any subsequent information also considered during the audit.

### Scope and Objectives

The objective of the performance management system audit was to assess the performance management systems and processes in place at the Agency that enable it to allocate and manage water in the Northern Territory in accordance with the *Water Act 1992* and specifically in relation to the strategic outcome of “*Scientific monitoring and assessment of the Territory’s water resources, allocation and regulation of water resources for sustainable use, and delivery of flood forecasting services*”.

A further aspect of the audit was to determine the status of actions taken by the Agency to address the findings and the recommendations from the *Independent Review of Water Extraction Licences* completed and reported upon in July 2017.

The audit assessed the performance management systems in place from July 2018 to June 2019 and assessed the status of actions taken as at 30 September 2019. The fieldwork supporting this audit was conducted between September and November 2019.

# Department of Environment and Natural Resources cont...

## *Index*

The report on this audit is structured as follows:

Conclusion	Refer page 29
Recommendations	Refer page 30
Follow up of Independent Review of Water Extraction Licences	
Observations – Recommendations, Actions and Findings	Refer page 31
Audit Observations	
KPI Audit	
Strategic Plan	Refer page 36
Business Plan	Refer page 37
Performance Measures	Refer page 39
Annual Reporting	Refer page 40
Testing Overview	Refer page 41

## *Conclusion*

The audit identified that the Agency has invested time, effort and resources to establish relevant performance measures and is developing further systems, processes and controls to support achievement of outcomes and improved reporting. Recommendations to further enhance the effectiveness of management and monitoring of performance measures have been reported below.

Except for the matters reported as exceptions and recommendations included in this report, I am of the opinion that the Agency has undertaken adequate actions to address the recommendations from the Independent Review of Water Extraction Licences.

## Department of Environment and Natural Resources cont...

### *Recommendations*

I provided the below recommendations to the Agency, which, if implemented, may improve its performance management systems and processes as they relate to the management of water.

- Review the Agency's Strategic Plan and Water Resources Division's Business Plan and the strategic issues and outputs in the Agency's Budget Papers to ensure that they are aligned.
- Review performance measures to ensure all measures are fit-for-purpose and are specific, measurable, achievable, relevant and timely.
- Establish a formal system/approach to enable active monitoring of actual performance against targeted performance during the course of the year and at year end including management reporting on performance measures.
- Include additional explanatory information for performance measures in the Annual Report.
- Improve the review process for the narrative and figures presented in the Annual Report to ensure the accuracy and completeness of reported performance measures.

The Agency's assessment in relation to the status of action taken against recommendations raised as a result of the Independent Review of Water Extraction Licences identified most recommendations as addressed. I concur with these assessments however I have provided several recommendations for the Agency to consider as listed below.

- Refine the Controller's Brief checklist to either remove fields which are not relevant or ensure that, where relevant fields are left blank, they are accompanied by a comment. Similarly, required fields within each WALAPS account should be completed or explanatory comments included where fields are not applicable.
- Deliver formal training on the Agency's systems and processes to all water licensing officers.
- Investigate the opportunities to enhance the functionality of WALAPS in order to systemically embed first in first served practices
- Develop and implement Standard Operating Procedures for the use of WALAPS.
- Formally document, endorse and communicate the Agency's intent that own motion grants will not be issued by the Controller of Water Resources.
- Formally approve, endorse and implement the Agency's draft policy for ministerial briefing.

## Department of Environment and Natural Resources cont...

### Follow up of Independent Review of Water Extraction Licences Observations – Recommendations, Actions and Findings

Audit findings and recommendations as they relate to the status of actions taken by the Agency to address the findings from the Independent Review are presented in the following table.

No.	Recommendation	Agency Assessed Status	Audit Findings and Recommendations
P1-1	Develop checklist and process for preparing Controller's brief.	<b>Status:</b> Completed	The checklist and process have been developed. Completion of the checklist and fields within WALAPS could be enhanced through the inclusion of explanatory comments.
P1-2	Develop checklist for receipt and processing of licence application.	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.
P1-3	Develop and implement formal processes for assessment of licence application.	<b>Status:</b> Complex and multi-faceted recommendation – Under development.	Action to address the recommendation was yet to be fully implemented at the time of my audit.  I note that remediation of the underlying issue leading to the recommendation is overdue by more than 24 months based on the timeline recommended by the independent reviewer.
P1-4	Develop and implement processes to ensure Notice of Intention requirements are fulfilled and evidenced.	<b>Status:</b> Completed	Processes have been developed. The recommendation also proposed the provision of training on completion of the Notice of Intention template which has not occurred.
P1-5	Develop process to ensure licence conditions are consistent with Statement of Decision and application.	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.

## Department of Environment and Natural Resources cont...

No.	Recommendation	Agency Assessed Status	Audit Findings and Recommendations
P1-6	Ensure licence durations are consistent with the <i>Water Act 1992</i> .	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.
P1-7	Formalise first in first served practices.	<b>Status:</b> Completed	Processes have been developed. WALAPS does not have the functionality to electronically queue, track and prioritise water applications from the commencement of applications to completion. I recommended the Agency investigate whether the functionality of the system could be enhanced to ensure a consistent and systemic approach.
P1-8	Review practice of issuing licences with Annual Announced Allocation conditions in areas with limited water trading opportunity.	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.
P1-9	Develop best practice in administrative decision-making.	<b>Status:</b> Completed	<p>The recommendation has largely been addressed. Formal training for decision making has not been undertaken on a regular basis. At the time of the audit, formal training had only been delivered once, in October 2017.</p> <p>I recommended personnel undertake regular decision-making training to support better judgement and decision making practices when processing and issuing water licences.</p>



## Department of Environment and Natural Resources cont...

No.	Recommendation	Agency Assessed Status	Audit Findings and Recommendations
P1-10	Improve systems to ensure sound document control.	<b>Status:</b> Completed	<p>The recommendation has largely been addressed. At the time of my audit, there was no Standard Operating Procedure (SOP) for the use of WALAPS as the application is still undergoing development.</p> <p>I recommended that SOP be established as soon as practicable after the system has been fully developed.</p> <p>Acknowledging WALAPS is new and is currently being enhanced, I also recommended the delivery of formal training on systems and processes for all water licensing officers.</p>
P1-11	Improve systems to ensure sound records management.	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.
P1-12	Develop policy for preparing Statement of Decision (SoD) and prepare SoD template.	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.
P1-13	Document integrated model-based assessment procedures and improve reporting on inherent uncertainties.	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.

## Department of Environment and Natural Resources cont...

No.	Recommendation	Agency Assessed Status	Audit Findings and Recommendations
P1-14	Undertake a comprehensive hydrochemistry and environmental isotope assessment of the Mereenie Aquifer System.	<b>Status:</b> Under Development – project is progressing and on-target for completion by end-2019	Action to address the recommendation is yet to be fully implemented.  I note that remediation of the underlying issue leading to the recommendation is overdue by more than 24 months based on the timeline recommended by the independent reviewer.
P2-1	Improve processes for communicating and publishing licence decision.	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.
P2-2	Develop policy and assessment process for own motion grants.	<b>Status:</b> Completed	I note the Agency's advice of the intent to repeal the provision for own motion grants, and as a result, no formal policy has been prepared in response to this recommendation.  Until the legislation is formally amended, I recommended that the intent be formally endorsed and communicated.
P2-3	Develop formal process for preparing Ministerial briefing for Section 30 reviews.	<b>Status:</b> Completed	The Agency policy provided for audit purposes that constitutes the formal process is still marked as draft.  I recommended that the Agency's policy for ministerial briefing be formally approved, endorsed and implemented.

## Department of Environment and Natural Resources cont...

No.	Recommendation	Agency Assessed Status	Audit Findings and Recommendations
P2-4	Formalise key approaches to water allocation.	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.
P2-5	Develop, recalibrate or refine key models.	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.
P2-6	Establish local pumping rules for the Ooloo Aquifer.	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.
P3-1	Commit to ongoing monitoring and investigations.	<b>Status:</b> Completed	No exceptions were identified in relation to the Agency's reported status.

## Department of Environment and Natural Resources cont...

### *Audit Observations*

#### KPI Audit

##### *Strategic Plan*

The Agency has a Strategic Plan effective from 2017 to 2020. The 2013-16 Strategic Plan was used as a base from which to develop the current Strategic Plan, which was then updated to include the functions undertaken by the Environment Division which was brought into the Agency following 2016 Machinery of Government changes. The Strategic Plan was developed by the Governance Board, incorporating consultation with senior Agency staff through a workshop session held during the Senior Leaders Forum in early 2017. The Governance Board comprises the Chief Executive Officer and all Executive Directors and Regional Directors in the Agency. A collaborative approach is employed due to the diverse business units in the Agency with each Executive Director contributing goals and strategies relevant to their respective business unit. The Strategic Plan was finalised through the Chief Executive's Office in June 2017 and communicated to Agency staff through the Chief Executive's newsletter.

Achievement against the Strategic Plan is reported in the Agency's Annual Report. Executive Directors also provide regular updates to the Chief Executive Officer regarding performance and achievements of the business units throughout the year.

The strategic outcome of "*Scientific monitoring and assessment of the Territory's water resources, allocation and regulation of water resources for sustainable use, and delivery of flood forecasting services*", as included in the 2018-19 Budget Paper No. 3, aligns closely with the following strategic objectives of the Agency:

*... "Advise on the effective planning, allocation, conservation and use of the Northern Territory's natural resources"*

*... "Develop and deliver robust and transparent assessment and regulation that balance the development of the Northern Territory with effective protection of the Northern Territory's unique environmental assets" and*

*... "Manage and mitigate threats to regional communities and our natural ecosystems and native flora and fauna through shared responsibilities and partnerships".*

Whilst the strategic objectives included within the Strategic Plan do not exactly align with the KPIs in Budget Paper No. 3, progress against the objectives can be assessed using the same performance measures.

Relevant strategic objectives/goals from the Agency's Strategic Plan and the Water Resources Division KPIs included within Budget Paper No. 3 are presented in the table below.

## Department of Environment and Natural Resources cont...

Table 1 – Strategic Plan Objectives and Budget Paper No. 3 Performance Indicators

Relevant Strategic Plan Objectives/Goal	Relevant Water Resources Budget Paper No. 3 Performance Indicators
<ul style="list-style-type: none"> <li>▪ <b>Goal 1</b> Strategically improve scientific and community knowledge and understanding of water, soils, landscapes and biodiversity to better inform adaptive and responsive management.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of technical and scientific reports completed and publicly available.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Goal 2</b> Advise on the effective planning, allocation, conservation and use of the Northern Territory's natural resources.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of water allocation plans in effect.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Goal 3</b> Develop and deliver robust and transparent assessment and regulation that balance the development of the Northern Territory with effective protection of the Northern Territory's unique environmental assets.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of water extraction licences issued.</li> <li>▪ Number of bore construction permits issued.</li> <li>▪ Number of onsite compliance inspections completed.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Goal 5</b> Maintain and mitigate threats to regional communities and our natural ecosystems and native flora and fauna through shared responsibilities and partnerships.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Number of flood warning stations providing alerts to relevant authorities.</li> </ul>

Source: Department of Environment and Natural Resources Strategic Plan 2017-20; Budget Paper No. 3 2018-19

Agency representatives advised that although Budget Paper No. 3 is considered when producing the Strategic Plan, it is not the key driver. Other elements considered are election commitments, the receipt of funding and other areas of focus. Accordingly, the Strategic Plan is not revised based on changes in Budget Paper No. 3.

### Business Plan

The Agency has four Output Groups:

- Natural Resources (encompassing Flora and Fauna; Rangelands; Water Resources; and Bushfires)
- Environment;
- Statutory Body (being the Northern Territory Environment Protection Authority); and
- Corporate and Governance.

## Department of Environment and Natural Resources cont...

The Water Resources Division (within the Natural Resources Output Group) has responsibility for managing the strategic outcome: "*Scientific monitoring, assessment, allocation, licensing and regulation for sustainable use of the Territory's water resources, and the delivery of flood forecasting services*".

The Water Resources Division has developed a Business Plan specific to the Division for the 2018-2019 financial year. The Division is divided into eight Branches. Business Plans are reviewed annually and communicated to staff through presentations at Branch meetings. Staff individually have input into annual business plan development through input from their Branches.

The Business Plan identifies the intent of the Division to address emerging risks to the organisation. Activities identified in the Business Plan include the goals that link to the Strategic Plan, the strategy to be used in order to meet each goal and the programs to be undertaken to address the strategy together with associated program risks, due dates and milestones. Although performance measures have been included in the Water Resources Division's key deliverables document (hereafter referred to as the tracker), the KPIs have not been included within the Division's Business Plan.

To enable staff to effectively monitor the achievement of goals and programs, it is necessary to establish KPIs that are specific, measurable, achievable, relevant and timely (SMART). The establishment of SMART KPIs provides clarity, enables appropriate focus and monitoring of the achievement of KPIs and enables the Agency to be held accountable for timely completion of the activities and targets identified as being essential deliverables for the Agency.

Whilst KPIs have not been incorporated in the Business Plan, Budget Paper No. 3 has the following targets established:

...*"Extraction licences issued"*

...*"On-site compliance inspections conducted" and*

...*"Bore work permits granted"*.

Whilst I acknowledge that the KPIs reported in Budget Paper No. 3 could also be used to assess performance of some elements of the strategic objectives presented in the Strategic Plan, there is no clear alignment between Budget Paper No. 3 and the Agency's Strategic Plan. There is also no clear alignment between Budget Paper No. 3 and the Water Resources Division's Business Plan. Established practice is for an Agency's Strategic Plan and Business Plans to align with Budget Paper No. 3.

## Department of Environment and Natural Resources cont...

### *Performance Measures*

At the time of my audit, the Agency had not developed a formal, documented procedure for determining targeted KPIs related to each strategic objective. Targets against KPIs were determined as the best estimate of what the Agency is likely to deliver in one year, taking into account all other activities that the Agency anticipates to occur during the year.

KPIs reported in the original budget in Budget Paper No. 3 2018-19 differed from those reported in the revised budget (estimate) for 2018-19. The original budget was established based on forecast output that was expected to be delivered by the Agency in one year. The higher estimate (in most cases) primarily reflects an increase in applications received for bore construction permits and water extraction licences, which are outside the control of the Agency.

My review of the existing performance measures found that the achievement of certain performance measures is unable to be controlled by the Agency as actual performance is influenced by factors outside the control of the Agency.

Audit procedures included testing of the variances between the original budget targets, the estimated results and the actual performance information as reported in the Annual Report. Observations from the audit testing are presented in the Testing Overview section within this report. As reported above, the revisions to the reported KPIs between the original budget and estimates were driven by the events that were not anticipated by the Agency. The primary causes of the change resulted from the renewal of a number of licences in the Katherine Water Control District which were not accounted for in the budget forecast and the revocation of a 'Declaration of Exemptions' made under the *Water Act 1992*. This removed the exemption from licensing requirements for bores pumping less than 15 litres per second. All users taking groundwater through bores, other than for stock and domestic use in the Darwin Rural Water Control District, are now required to obtain a water extraction licence.

At the time of my audit, the Agency did not regularly report against the KPIs beyond that required for the preparation of Budget Paper No. 3 and the Agency's Annual Report. The Water Resources Division had developed a tracker to monitor the Division's progress against each performance measure. The tracker includes explanatory information as to how the actual results are obtained and includes analysis of variances between actual and estimated results. The tracker does not document detailed information on the process for further investigation or examination of actual performance results. The documented variance analysis is brief and does not conclude on whether the result has been achieved. The tracker is maintained within an Excel spreadsheet which is manually updated. This approach is not efficient in consistently reporting results obtained, or initiation, review, and approval of information entered into the tracker. The tracker is maintained on a SharePoint page accessible to Water Resources Division staff only. Access could be further restricted.

## Department of Environment and Natural Resources cont...

### *Annual Reporting*

Annual performance results are reported in the Agency's Annual Report. The inclusion of a trend analysis over the current and four prior years together with additional explanatory information would assist users of the Annual Report to form an independent conclusion on the Agency's performance against strategic objectives.

The Institute of Public Administration Australia considers the inclusion of a trend analysis of performance over a three to five year period to constitute better practice. I acknowledge that the current KPIs have been in place for two years and thus past information may not be available to enable a longer-term trend analysis to be reported at this stage.

The actual performance results of the Water Resources Division presented in the Annual Report are obtained from the Water Resources Division's tracker. Personnel from the Water Resources Division have access to this tracker and can use it to obtain the latest information about the performance measures including the reasons for variances between actual and estimated results.

The processes undertaken to determine actual performance results for each KPI is explained below.

- *"Number of water allocation plans in effect"*: The Water Resources Division maintains a manual Excel spreadsheet summarising all the water allocation plans for the year. This is a single digit quantity. In the Water Resources Division's tracker, all the water allocation plans are included together with the current status of each allocation plan. All declared water allocation plans and the status of plans under development can be viewed by the public on the Agency's website.
- *"Number of technical and/or scientific reports completed and made available to the public"*: This is determined based on the summarised number of reports recorded in the tracker. The status of each report prepared by the Water Resources Division is recorded in the Water Resources Division's tracker. These reports can be found on the Agency's website which includes New Publications and all previously released reports.
- *"Number of flood warning stations providing alerting services to NTES, Bureau of Meteorology and relevant authorities"*: These results are extracted from the Water Information Management System database.
- *"Number of water extraction licences issued"*: These results are extracted from the WALAPS query tool report.
- *"Number of bore construction permits issued"*: These results are extracted from WALAPS query tool report.
- *"Number of on-site compliance inspections completed"*: These results are extracted from a report from WALAPS on all compliance events.

The tracker is reviewed quarterly by the Water Resources Division Executive team for updates and compliance. Agency representatives advised that any errors within the information are detected as a result of this regular review.



## Department of Environment and Natural Resources cont...

### Testing Overview

A summary of the results of KPIs and variances between target and actual results is presented below.

Table 2: Variance analysis of KPIs selected for audit

Key Performance Indicator(s):	2018-19 Budget	Annual Report 2018-19	Variance Actual to Budget
Number of water allocation plans in effect	7	4	(3) <sup>(1)</sup>
Number of technical and scientific reports completed and publicly available	10	22	12 <sup>(2)</sup>
Number of flood warning stations providing alerts to relevant authorities	66	70	4 <sup>(3)</sup>
Number of water extraction licences granted	190	269	79 <sup>(4)</sup>
Number of bore construction permits issued	145	209	64 <sup>(5)</sup>
Number of onsite compliance inspections completed	470	881	411 <sup>(6)</sup>

1. The budget was based on the water allocation plan in progress/proposed in the prior year. The actual results differ as the Ti-Tree and Howard Springs water allocation plans were not completed during the current year.
2. The increase from the original budget is due to the increased activity in this area. More reports were prepared to support water allocation plans prepared during the year.
3. Flood warning functions were added to four existing water monitoring sites.
4. The extension of the timeframe for proponents to apply for a water licence as a result of the July 2016 revocation of an previously existing exemption resulted in an increase in licence applications not foreseen when the original budget was prepared in April 2018. In addition, the Division processed a number of licence renewals in the Katherine Water Control District which were not accounted for in the budget forecast but were able to be met given the increase in licensing staff appointed to process applications received for the Darwin Rural area. The actual results were also impacted by improved operating procedures upon adoption of the recommendations from the Independent Review of Water Extraction Licences.
5. The declaration of the Daly Roper Beetaloo Water Control District over a larger area than the previous Daly Roper Water Control District resulted in an increased requirement for bore construction permits (now called bore work permits) to be issued within the district.
6. The increase in bore construction permits from the original budget was the result of the expansion of a Water Control District and amendments to the *Water Act 1992* in December 2018, capturing mining and petroleum activities. The increase in both water licencing and bore construction permit activity both had a flow-on impact on the requirement for increased onsite compliance activity not accounted for in the original budget.

## Department of Environment and Natural Resources cont...

The second KPI, *Number of technical and scientific reports completed and publicly available*, requires the Water Resources Division to publish and make publicly available completed technical and scientific reports. In the Annual Report, it was noted that 22 Reports were completed and were publicly available. Two of the 22 reports were not completed at the time of my audit, those being *Unlicensed Stock and Domestic Water Use in the Katherine Plan Area* and *Unlicensed Stock and Domestic Water Use in the Western Davenport Plan Area*. In addition, two of the completed reports were not publicly available at the time of the audit, those being *Monitoring sediment elevation in Darwin Harbour's mangroves* and *Unlicensed Stock and Domestic Water Use in the Ooloo Plan Area*.

# Department of the Attorney-General and Justice

## Prisoner's Money

### *Background*

Prisoner money within all adult correctional facilities is managed by the Programs, Services and Improvements Unit within the Agency. Prisoner money is retained within the Accountable Officer's Trust Account.

Prisoners have the ability to receive funds through:

- being provided funds from external persons (through bank, mail or cash);
- working within NT correctional facilities to provide products for self-sustainability; and
- working for external businesses and organisations.

Prisoners' money is used/withdrawn through:

- prisoner requested withdrawals and transfers;
- prisoner requested purchases; and
- discharge payments.

When a prisoner is discharged, any money remaining in the prisoner's trust account will be withdrawn and provided to the prisoner in the form of cash and/or a cheque written out in the prisoner's name. They will be given the cash and/or cheque upon release from the correctional facility.

An internal audit of the NT Correctional Services prisoner monies processes and controls was conducted in accordance with the approved internal audit plan for the financial year 2018/19. The findings from the internal audit are listed below.

- Lack of control over receipt of prisoner cash through mail.
- Inconsistency in approval requirements for employment levels between written directive and actual practices observed.
- Reconciliation of internal wages data between the Integrated Offender Management System (IOMS) and the Pronto System (Pronto) is not currently being performed.
- Long outstanding prisoner account balances were not allocated, recovered or taken on discharge.
- Miscalculation of deductions from outside wages.
- No internal wages calculated and paid for days worked by the prisoner prior to discharge date.
- Responses to queries and requests for supporting documents for sample transactions selected were outstanding at the conclusion of the internal audit.

At the time of completing my audit in December 2019, the Agency was unable to advise my Authorised Auditors of the progress of the agreed management actions in response to the internal audit findings. It was noted that all of the agreed management actions had an estimated completion date of before 31 August 2019.

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

## *Scope and Objectives*

Section 15 of the Audit Act 1995 provides that *“the Auditor-General may conduct an audit of performance management systems of any Agency or other organisation in respect of the accounts of which the Auditor-General is required or permitted by a law of the Territory to conduct an audit”*.

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

This audit concentrated on the performance management systems and processes implemented to collect, manage and pay prisoner monies collected and held in trust for prisoners. The audit assessed the performance management systems in place at the Department of the Attorney-General and Justice (the Agency).

This performance management systems audit considered the processes in place within the Agency as they relate to prisoner monies during the period 1 January 2019 to 31 October 2019.

The audit objective was to obtain reasonable assurance as to whether the performance management systems enable the Agency to assess whether its objectives are being achieved economically, efficiently and effectively.

## *Index*

The report on this audit is structured as follows:

Audit Opinion	Refer page 45
Recommendations	Refer page 45
Audit Observations	
Governance Structure	Refer page 47
Systems and Processes	Refer page 49
Policies and Guidelines	Refer page 50
Accounting Treatment	Refer page 55
Data and Reporting	Refer page 55
Personnel	Refer page 59

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

## ***Audit Opinion***

The objective of the performance management system audit was to obtain reasonable assurance as to whether the performance management systems enable the Agency to assess whether its objectives are being achieved economically, efficiently and effectively.

In my opinion, the performance management systems and processes related to the management of prisoner monies require improvement in order to enable management to assess whether prisoner monies are being managed economically, efficiently and effectively. Current processes may not be adequate to prevent fraud and error from occurring and/or being detected and addressed in a timely manner.

## ***Recommendations***

I have noted opportunities for the Agency to improve its systems and processes which are detailed within this report.

- Consider developing policies and procedures to support the resourcing requirements pertaining to management of prisoner monies across facilities in times where there is prolonged absenteeism or there is an urgent need for support.
- Consider providing PSOs and ALOs with awareness training of prisoner monies processes and that a training schedule be developed to support personnel within the Prisoner Monies team.
- Develop processes to monitor changes to existing legislation and requirements of new legislation that may impact the management of prisoner monies. Develop formal impact assessment guidelines for determining the actions required if a legislative change is identified.
- Design and implement a reporting process which enables senior management to have regular and effective oversight of prisoner monies.
- Develop a suite of service delivery standards aligned to key performance indicators to enable effective monitoring and reporting.
- Consider the inclusion of recurring internal audits relevant to the management of prisoner monies to enable opportunities for improvement to be identified and to assess any new processes or procedural changes that have been implemented. Alternately, consider developing a control self-assessment process to be performed on a regular basis.
- Implement processes to ensure there is appropriate and timely review of transactions manually entered into Pronto.
- Implement consistent processes and standard operating procedures across the correctional facilities with existing process documentation consolidated to apply to all correctional facilities rather than each facility having their own documentation.
- Consider releasing information that would improve prisoner and public awareness of the management of prisoner monies such as estimated timeframes for responding to prisoner queries, details to include on EFT transfers to enable allocation to a prisoner and processes to follow to receive monies not taken on discharge.

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

- Consider the completeness of the current delegations with regard to transactions involving prisoner monies such as cash payments to prisoners and account write-offs.
- Implement a disputes/complaints register whereby any disputes received relating to mail are captured.
- Investigate opportunities to enhance the sharing of payroll data between IOMS and Pronto to enable reconciliations of payroll data between the two systems.
- Investigate opportunities to reduce the payment of physical cash and the use of cash cheques for discharge payments including the use of prepaid debit cards to pay account balances to prisoners upon discharge, thus reducing the risks associated with cash handling whilst enabling the individual to receive and access their funds from the time of release.
- Undertake a review of individual prisoner account balances on an ad-hoc basis to ensure there are no errors or unusual transactions at an individual account level. Investigate the implementation of system-generated exception reporting functionality.
- Reinstate the cash kiosk at the reception area of Darwin Correction Centre.
- Perform a detailed review of the prisoner accounts contributing to the unallocated funds balance to determine whether these prisoner accounts should be re-classified as 'held on account' or 'monies not taken on discharge'.
- Investigate the implementation of a system enforced deficit limit.
- Perform a historical review of transactions to identify and resolve any previously undetected duplicate transactions with similar reviews undertaken on a recurring basis to ensure duplicate transactions are identified and resolved in a timely manner.
- Consider implementing system restrictions that prevent the system from being able to process transactions for which funds are not available or the implementation of procedures to ensure that staff do not process prisoner purchases without ensuring the prisoner has sufficient funds to make the purchases.
- Develop and implement routine processes to ensure that the balances in accounts, including deficit balances, are actioned in accordance with legislated requirements.
- Develop and implement formal induction processes to ensure that the personnel performing roles related to prisoner monies have appropriate support and training to enable them to effectively perform their role.
- Investigate opportunities to add functionality to Pronto that would enforce segregation of duties and ensure appropriate instances of review.

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

### *Audit Observations*

#### Governance Structure

The primary aim/outcome of the Agency, as it relates to prisoner money, is to ensure the Agency accurately records and holds prisoner monies in prisoner trust accounts for the use of the prisoner and provides those monies to the prisoners in compliance with legislation and/or directives including passing the prisoner's monies to the prisoner efficiently on discharge.

Within the Programs, Services and Improvements Unit, there are eight sub-units. Of these, the Business Support – Darwin Correction Centre (DCC) and Business Support – Alice Springs Correction Centre (ASCC) sub-units are specifically responsible for prisoner monies. Across both Business Support sub-units, the overall position responsible for the management of prisoner monies is the Assistant Commissioner, Offender Development, NT Correctional Services.

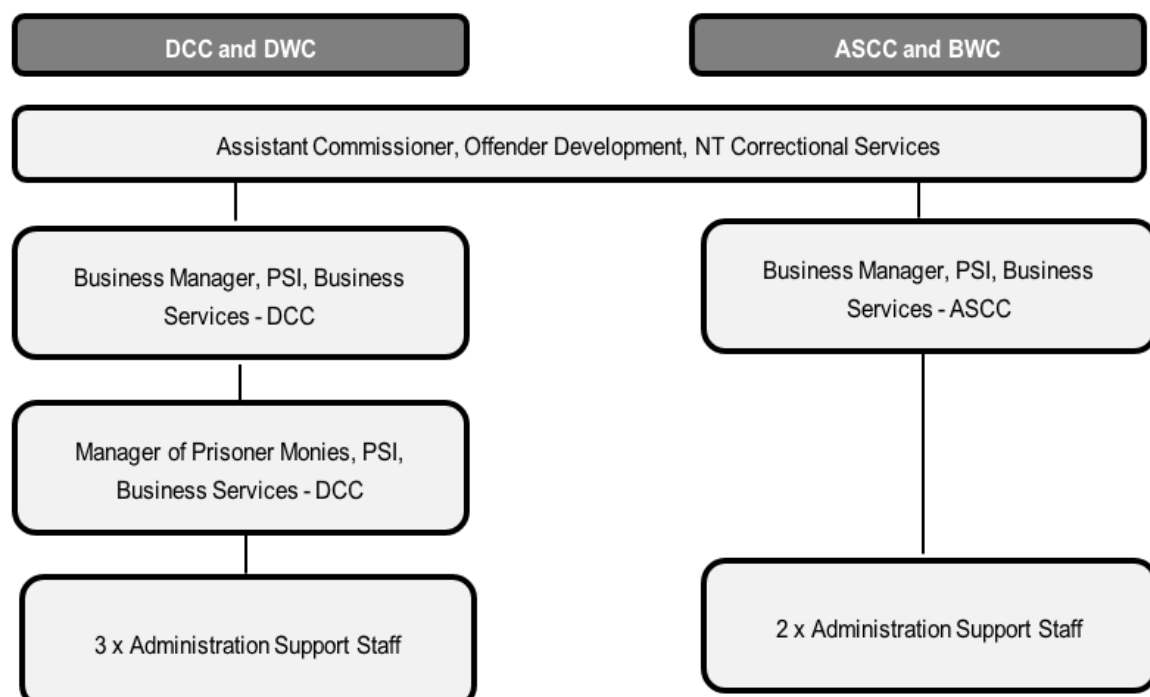
#### *Corrections Facilities*

Within the Northern Territory, there are four adult correctional facilities. These are the:

- DCC
- ASCC
- Datjala Work Camp (DWC)
- Barkly Work Camp (BWC)

Business Support – DCC is responsible for the management of prisoner monies for both DCC and DWC. Business Support – ASCC is responsible for the management of prisoner monies for ASCC and BWC.

The team structures for the management of prisoner monies are presented below.



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

Management advised that the Manager of Prisoner Monies position was removed from ASCC in February 2017. The roles and responsibilities of this position are now performed by the Business Manager, Business Services ASCC. The Business Manager ASCC position became vacant in August 2019. During the position vacancy, the General Manager ASCC performed the prisoner money duties of the Business Manager ASCC. A temporary replacement commenced in October 2019 while the recruitment process for the permanent role is underway.

There are further personnel within the facilities that have some involvement with prisoner monies however are not considered by the Agency to form part of the team responsible for managing prisoner monies. These personnel are employed within the Prisoner Reception team who process prisoners upon arrival and the Intelligence team whose functions include interrogating prisoner mail.

Prisoner Support Officers (PSOs) [situated at DCC] and Aboriginal Liaison Officers (ALOs) [situated at ASCC] do not form part of the team structure related to prisoner monies, however they often provide prisoners with support when completing forms related to prisoner monies. The PSOs and ALOs do not currently receive any training on prisoner money processes. Agency representatives advised that the development of an induction process for PSOs that explains prisoner monies processes has been discussed however no such training has occurred or been formally planned.

### *Legislation*

The *Correctional Services Act 2014* (the Act) is the primary legislation that NT Correctional Services is required to comply with in relation to prisoner monies.

Agency representatives advised that the legislative requirements were considered during the development of prisoner monies functionality within Pronto, however could not provide evidence to support a formal comparison of the practices to legislative requirements. There has been no subsequent review. The NT Correctional Services division rely on the Agency's Chief Financial Officer to inform them of any legislative changes that may impact the manner in which they administer prisoner monies noting that the NT Correctional Services division are responsible for any changes to be made to the Act and therefore should be aware of the impacts of any such changes.

### *Monitoring and Reporting*

Beyond the financial reconciliations described within the Systems and Processes section of this report, there is currently no regular established reporting prepared to support the oversight and management of prisoner monies. There are currently no established key performance indicators relating to the management of prisoner monies.

There is an internal audit function within the Agency. The most recent internal audit conducted in relation to the management of prisoner monies was completed in March 2019. The internal audit plan for the financial year 2019/20 does not contain any audits specific to prisoner monies however I do not consider this unreasonable. Development of the annual internal audit program occurs through a risk-based process commensurate with available resources.



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

## Systems and Processes

### *Information Technology Systems*

Key information technology systems in place relating to the management of prisoner monies within the Agency are described below.

#### *Pronto*

Pronto replaced the functionality of the former Prisoner Money Management System (PMMS) that has been phased out systematically across the Northern Territory since 2014. All aspects of prisoner funds at adult custodial institutions across all four centres in the Northern Territory are now managed using Pronto. Pronto is used to receipt and track prisoner monies that prisoners then use for purchasing goods and consumables through stores and vending machines within the correction centres and for purchases from external parties.

Pronto interfaces with the Government Accounting System (GAS), IOMS and the Prisoner Purchasing System (PPS) via Data Centre Services' (DCS) Middleware (WMQ Message Broker). The Pronto Xi and IBM Cognos Report Servers are hosted by DCS Midrange and are located in the Government Data Centre.

The management of stock inventory within ASCC and DCC is also managed using Pronto. Where there was previously no integration between legacy business systems (PMMS, MYOB and Cashless Server) and the Government Accounting System (GAS), there are now interface points between Pronto and the Prisoner Purchasing System and Pronto and GAS. Pronto is used to:

- provide a mechanism for the management of the Accountable Officers Trust Account for Prisoner's Money.
- provide inventory management and stock control capability for Correctional Centres within the Northern Territory, encompassing primary warehouse (stores and kitchen), prisoner shops and vending machines.
- enable the provision of cashless vending and shopping products across correctional centres.

#### *Integrated Justice Information System (IJIS)*

The IJIS is primarily a business system designed for and used by the courts who pass judgement on offenders and NT Police who arrest and charge people. The system was implemented as a central justice information system available for use by NT Government agencies.

Offenders captured within the IJIS are given an identifying number. This number is used within IOMS as a prisoner identifier which flows through to Pronto and becomes the identifier for prisoner accounts. IOMS only communicates in one direction with the IJIS, with information entered into IJIS being accessible in IOMS. Information entered into IOMS is not reflected in IJIS. As an example, prisoner wages are entered into IOMS but are not reflected in IJIS.

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

### *Integrated Offender Management System (IOMS)*

IOMS is used to create prisoner records which flow through to Pronto. These records are created by the facilities' Prisoner Reception teams and include details obtained from IJIS such as the IJIS identifying number. If a prisoner leaves and returns to prison, they retain the same profile within IOMS.

IOMS captures all of the prisoner's information, including their employment details. Cash can also be receipted through IOMS as part of the process relating to the Visitor Reception Unit cash machine within the visitors reception. Visitors can input cash into the machine, with the machine then counting the cash and dispensing a receipt. Visitors must then provide the receipt to a Visitor Reception Officer for recording into IOMS on the prisoner's record. This is then captured within Pronto through real-time system interface.

### *Prisoner Telephone System (PTS)*

The PTS is used by prisoners to make telephone calls. Funds are transferred from prisoner money accounts within Pronto into the PTS to provide prisoners with funds they use to pay for calls. Pronto does not link to the PTS thus manual data entry is required between the two systems.

### *Prisoner Purchasing System (PPS)*

The PPS interfaces with Pronto and the stores warehouses. The PPS is used by prisoners to make purchases. The vending and kiosk machines are linked to the PPS. Transactions from the PPS flow through to Pronto in real-time.

My Authorised Auditors were advised that the PPS does not have limits that would stop a prisoner account going into deficit. This is controlled by Shop Vending and any purchases over limits will be cancelled before the buy is processed.

## Policies and Guidelines

There are a number of Agency directives that directly relate to the management of prisoner monies and provide a high level of guidance over their respective topics.

Pronto processing guides exist that detail, by facility, the steps required within Pronto to process and record prisoner money transactions. While similar, these guides differ between correctional facilities. These documents were developed by the Business Systems Manager from the Department of Corporate and Information Services (DCIS) who is the Enterprise Corporate Services contact for the Agency. The Business Systems Manager developed these documents whilst working within the Agency prior to the consolidation of ICT services into DCIS which resulted in the transfer of the Business Systems Manager's position to DCIS.

There are currently no standard operating procedures relevant to prisoner monies. Agency representatives advised that it is planned to develop holistic standard operating procedures that will replace the Pronto processing guides. The target date for the completion of the standard operating procedures is December 2019. It is unlikely this target date will be met as, at the time of my audit, limited progress had occurred.

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

There are a range of forms that have been designed and implemented for use when processing prisoner monies. These forms require completion by prisoners in order to transact from their account.

No process documents are available to the public or prisoners that detail the processes related to prisoner money as they would relate to the public or prisoners. Development of these documents has been discussed by the Agency. It is intended that a prisoner magazine will be issued each month within the correctional facilities and that these magazines will include information relating to prisoner monies.

Review of the Agency's Delegations Manual identified no delegations directly relevant to the management of prisoner monies.

### *Receiving Money (not earned through work)*

When a prisoner arrives at a correctional facility, the Prisoner Reception staff receipt any money the prisoner holds. There are generally at least two Prisoner Reception staff involved in this process. The Prisoner Reception Officer records the amount received on a Property Receipt which is agreed to and signed by the prisoner. This money is then provided to the Business Support team who bank the cash received and transfer the funds into the prisoner's trust account.

Money can be received via mail. Mail is interrogated by the Intelligence unit. During this process, if cash or cheques are contained within the prisoner mail, the Intelligence unit provide the money to the Business Support team who bank the cash received and transfer the funds into the prisoner's account. The prisoner is then provided with their original mail and a receipt which details the amount enclosed and receipted. There is no process to record instances where a prisoner may dispute the amount of funds received by mail or the absence of funds expected to be received through the mail.

Money can be transferred to a prisoner from family and friends via electronic funds transfer (EFT). In these instances, the EFT payment is made to a centralised NAB account, with funds then being allocated to the individual prisoner by the Prisoner Monies team. It was noted that if an EFT payment is received from a third party (such as a prisoner's family member) without sufficient identifying details it can be impossible to allocate the funds to the prisoner. In these instances, the funds will remain in an unallocated monies account. If they remain unclaimed, they will be transferred to the Central Holding Authority (CHA) in accordance with legislative requirements. In some instances, EFT transfers can be returned to the sender. This is facilitated through the Department of Corporate and Information Service's banking service.

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

### *Transferring Money (earned through work)*

Prisoners can receive money in the form of wages. These wages can be from external sources or from internal employment within the correctional facilities.

If a prisoner is eligible to perform external work, then any wages earned are paid by the employer into a centralised bank account and then allocated to the prisoner's trust account.

Prisoners that are internally employed within the facilities are paid a weekly wage. This pay is processed in IOMS based on the prisoner's job and pay level. IOMS will send the pay details automatically to Pronto and credit the prisoners account on a weekly basis for the previous week.

Adjustments to prisoner pays are sometimes required. There are no system controls in place that enforce the review of these adjustments. When adjustments are required, they are made directly within Pronto. As Pronto does not have the functionality that enables the transfer of information to IOMS, the records within Pronto will not agree to records maintained within IOMS.

### *Using Money within the Facility*

Prisoners are able to spend their funds within the facilities in a variety of ways. Prisoners are able to make purchases from vending machines within the facilities and also from kiosks. Within DCC, these purchases are made by the prisoner using retinal scan. The retinal scan identifies the prisoner and in real-time deducts the amount payable from the prisoner's account. Within ASCC, each prisoner has a card which is used for purchases. Prisoners can only purchase from the kiosk machine once each week.

Prisoners can also apply for special purchases such as iPods or art supplies. In these instances, the prisoner must complete a request form which requires approval from correctional facility staff.

Prisoners can transfer funds to the PTS which then enables them to make telephone calls (effectively acting as a credit system). Funds transferred to the PTS can also be transferred back to the prisoner's trust account.

### *Payment of Funds on Discharge*

When an individual is released from prison, they are paid out their trust account balance. Cash or cheques may be used depending on the size of the individual's account balance. The facilities' operating procedures limit the amount of physical cash paid out to \$200.00. Anything above this limit is paid using a cheque. EFT transfers can be used to pay out trust funds, however the individuals often do not have details of their external bank account to enable the transfer.

It was noted that there are no publicly available processes or guidelines available that detail the methods released prisoners can use to inquire about, and be paid, monies not taken on discharge.

### *Holding Money*

Prisoners do not receive account statements. Prisoners can use kiosk machines to check their account balances.

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

### *Unallocated funds*

If funds are received that cannot be allocated to a prisoner, these funds are held within an unallocated funds account until they are transferred to the CHA. These funds generally relate to EFT receipts that do not have sufficient details to enable allocation to a prisoner. Agency representatives demonstrated that there is information available on their website regarding EFT payments however my Authorised Auditors were unable to locate this information by performing an internet search indicating that it may be difficult for a member of the public to locate this information.

### *Costs / Charges*

Prisoners may have fines outstanding whilst they are in prison. Prisoners can elect to repay the fines whilst within prison, however they have no obligation to do so. For prisoners who elect to repay a fine, these repayments are made by the Agency on behalf of the prisoner. At DCC, this is done using an Agency credit card. The credit card payment sits within a clearing account before it is reconciled to the prisoner's trust account. Repayments are made weekly on a per prisoner basis. At ASCC, the fine repayments are transferred from the prisoner's account into a clearing account on a weekly basis. Once a month, ASCC issue a single cheque to the NT Fines Recovery Unit together with a list of all the prisoners for which the fine repayment relates.

Prisoner accounts are not charged any account fees unless an electronic transfer is made to an overseas location.

There are a number of charges that are applied by the Agency to prisoners who are earning outside wages. These include deductions to be paid to Victims of Crime NT; charges for board and lodging; and a daily administration and transport levy to recover part of the costs associated with prisoner transport to work and the administration associated with managing the employment.

Prisoners can also receive a Misconduct Monetary Penalty as a result of prisoner misconduct or damage caused within the facilities.

### *Management of Privacy and Safety*

Data relevant to prisoner monies is maintained within the core systems involved within the prisoner money management process. IOMS is the most widely used system within the correctional facilities and is the primary database for all prisoner information. IOMS does not show the account balance details of individual prisoners.

Restricted access to Pronto is limited to Business Support staff and IT support staff who provide direct support to the prisoner money team.

Safety as it relates to prisoner money, is enforced by the methods in which the prisoners can use their funds within the prison. These methods restrict prisoners from having access to physical cash while within the facility and restrict them from making payments to other prisoners. Limiting what the prisoners can buy with their funds also enhances safety.

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

### *Reconciliations*

The monthly reconciliation of all prisoner money balances across Pronto, GAS and the PTS is performed by the Manager of Prisoner Monies or the Senior Prisoner Monies and Business Support Supervisor. Both DCC and ASCC prepare their reconciliations independently from each other. The primary systems being reconciled as part of this process are Pronto and GAS. While individual transactions are considered, this is not a reconciliation of individual prisoner accounts but a reconciliation of the entire balance of prisoner monies. It was noted that there is no reconciliation of the prisoner records between IJIS, IOMS and Pronto.

Individual prisoner accounts cannot be reconciled as there is no separate ledger within GAS for each prisoner. Agency representatives have advised that they are confident that the individual prisoner account balances are complete and accurate, within the confines of what information they believe should agree. Agency management advised, as an example, that whilst prisoner wages are processed through IOMS, any subsequent adjustment to a prisoner's wages are processed in Pronto and not reflected in IOMS because IOMS was not intended to be a payroll system.

When a prisoner is discharged from custody, received into custody or transferred to another facility, the classification, territory location and status of a prisoner's trust account is changed accordingly. Movements close to the end of a month may cause a misalignment between the closing periods of GAS and Pronto, consequently a reconciliation occurs and adjustments are made as required. The reconciliation process also includes a reconciliation between Pronto and the PTS.

Clearing accounts are also reconciled. Transactions that impact the clearing account include prisoner discharges, cheques paid, EFT and credit card payments.

Review of the reconciliation is undertaken by an individual independent of the preparer.

A third party was engaged by the Agency in June 2019 to perform a reconciliation of transactions between IOMS and Pronto for the period 1 January 2018 to 30 June 2018. At the time of writing this report, the results of the reconciliation process had not been provided to me.

### *System Maintenance*

There is a Business Systems Manager located within the Department of Corporate and Information Services who generates monthly reports to ensure information rolls forward correctly at the end of each month. The Business Systems Manager is responsible for preparing all system maintenance schedules and implementing all system improvements and enhancements.

Agency representatives advised that efficiencies could be gained in the management of prisoner monies if the following system changes could be implemented:

- Establishment of an interface between Pronto and PTS which would eliminate the need for manual entry of prisoner call transactions into Pronto.
- Repair of the cash kiosk located in the DCC reception which would reduce the time and risks associated with cash handling.



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

### Accounting Treatment

#### *Accounting Classification*

The accounting treatment for prisoner monies commences with confirmation of the trust account allocation within Pronto. The territory to which the prisoner account is allocated determines which general ledger account within GAS the funds will be recorded. Whilst there are a number of general ledger accounts reflecting the differing classifications and allocations of prisoner trust accounts, they are all accounted for within the Accountable Officer's Trust Account.

#### *Checks and Balances*

Apart from the monthly reconciliation previously described, there are no other formal documented processes to confirm prisoner account balances. On a daily basis, the Senior Prisoner Monies and Business Support Supervisor performs a visual check of the transactions within Pronto. These checks are not documented nor is there a secondary review of these checks. Management advised that, if an issue is identified, it will be escalated to the Manager of Prisoner Monies for direction.

There are no scheduled or routine reviews of individual prisoner trust accounts. Individual prisoner trust accounts are only reviewed if a prisoner raises a specific issue in relation to their account.

### Data and Reporting

As at 30 June 2019, the total amount of prisoner monies held was \$931,177.38. This balance comprises \$791,022.18 held on account, \$39,429.83 monies not taken on discharge and \$100,725.37 unallocated funds. Management advised that the 'unallocated' category of prisoner monies relates to funds that are yet to be categorised as 'held on account' or 'monies not taken on discharge'. The 'unallocated' monies are however allocated to prisoners. The allocation to individual prisoners was noted within the prisoner monies data. Monies not taken on discharge represent 4% of the total balance and unallocated funds represent 11% of the total balance.

Of the 6,166 individuals holding accounts classified as 'monies not taken on discharge' in 2019, 5,454 had a nil account balance, 623 had an amount payable by the Agency to them and 89 had a deficit balance (i.e. an amount payable to the Agency). For these deficit balances, accounts receivable requisitions are raised to the last known address of the individuals recorded within IJIS.

There were 623 individuals with accounts classified as 'monies not taken on discharge' in 2019 that had amounts owed to them. Of the 623 individuals, there were 86 that were recorded as 'monies not taken on discharge' in 2018 that subsequently had increases in the balances in 2019. Of these 86 individuals, 65 had no amount payable to them in 2018, with amounts payable to the individuals being recorded in 2019. Agency representatives advised that this is a result of external payments being made to the individuals following their release from prison, however a number of the movements appeared consistent with the wage amounts paid to the prisoners by the Agency.

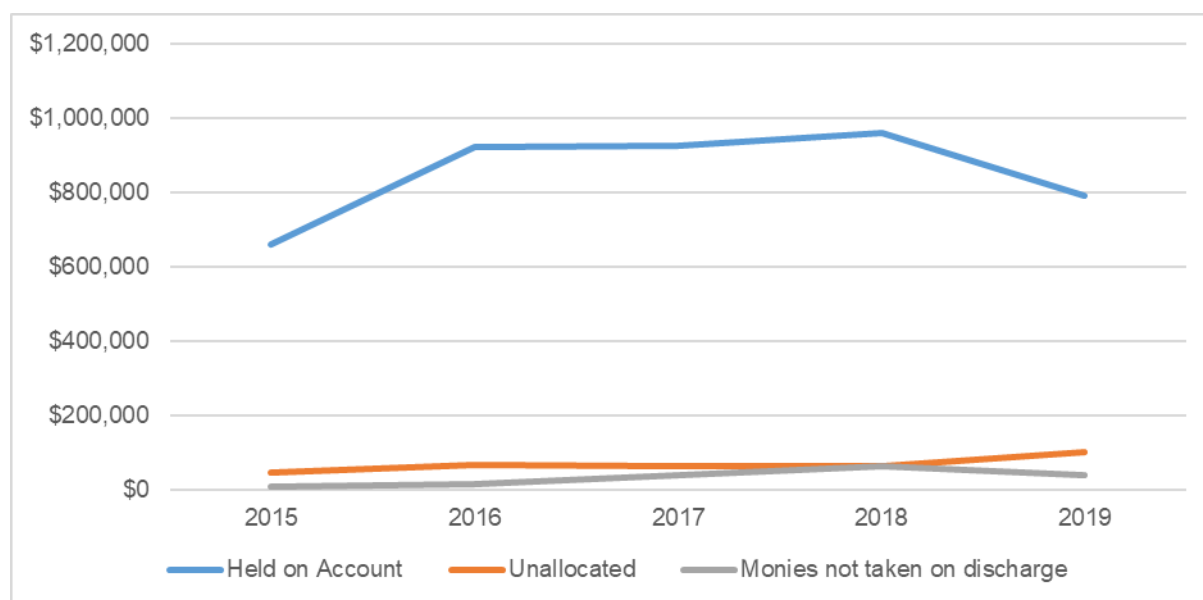
At 30 June 2019 there were 112 prisoners with accounts in deficit to a total value of \$7,648.77, of which 89 of the accounts related to discharged prisoners (as noted in the paragraph above). Across all 112 prisoner accounts, \$4,888.53 related to the top 10 highest deficit balances. The highest individual deficit was \$1,310.71. There were 52 accounts with a deficit balance that did not exceed \$10.00.

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

As at 30 June 2019, the top 10 prisoners with the highest prisoner accounts had a combined balance of \$188,507.15. Management advised that the facilities' finance teams do not monitor high value prisoner account balances, however the facilities' Intelligence units do monitor large deposits.

All prisoners have a distinct IJIS number. If an individual is a repeat offender, they should maintain the same IJIS number for all prison episodes. Across all facilities, Pronto records as at 30 June 2019, show 9,337 distinct IJIS numbers. There were 94 instances noted where a prisoner name had two or more distinct IJIS numbers associated with it, in total relating to 191 distinct IJIS numbers. Agency representatives advised that this is a result of prisoners sharing the same name. The facilities rely upon the parties providing the prisoner's information to have correctly identified them.

Graph 1: Prisoner Account Balances by Type



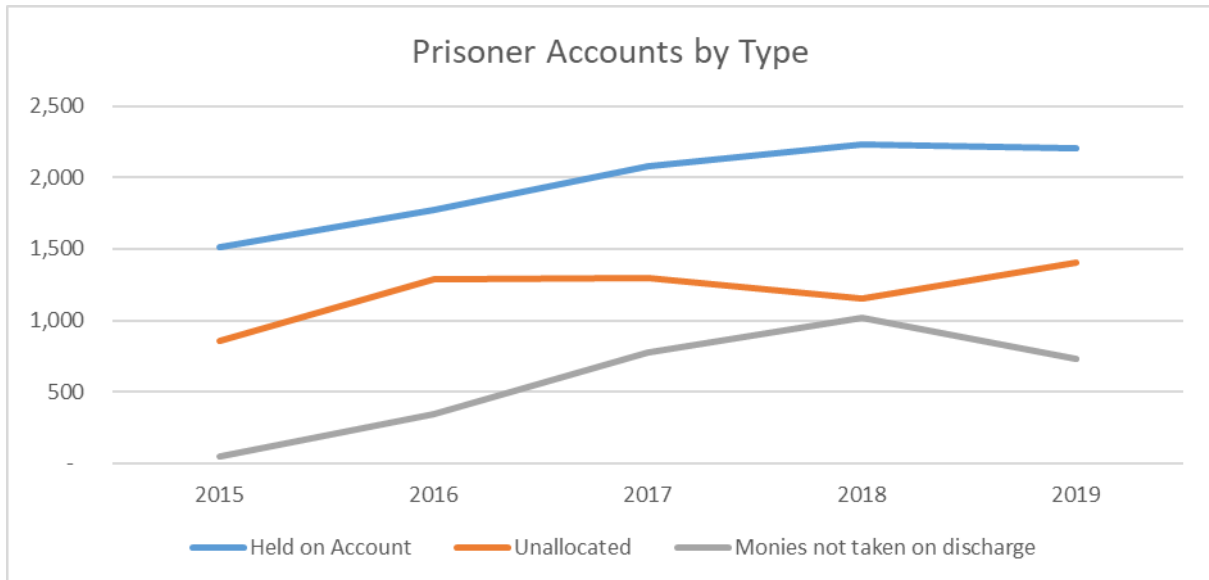
Source: Pronto

Graph 1 depicts prisoner account balances by type as at 30 June for the financial years 2015 to 2019. The balance for 'held on account' is at its lowest point since 2015, whereas 'unallocated' funds are at their highest.



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

Graph 2: Prisoner Account by Type (excluding nil balance accounts)



Source: Pronto

Graph 2 depicts the total number of individual prisoner accounts within Pronto as at 30 June for the financial years 2015-2019 excluding prisoners with a nil net account balance. Across the five-year period, 2015-2019, the number of 'held on account' accounts increased from 1,512 in 2015 to 2,203 in 2019. The number of unallocated accounts increased from 860 in 2015 to 1,406 in 2019. The number of 'monies not taken on discharge' accounts increased from 51 in 2015 to 734 in 2019.

### *Reporting and Quality Assurance Practices*

Beyond the monthly reconciliation process, there are no other reporting or quality assurance practices to ensure accuracy and completeness of data.

### *Analysis and Adjustments*

Prisoner queries form part of the process of account monitoring. There is a form that is required to be completed by the prisoner if they have a query regarding their account. There is no documented or formal process that is applied for responding to this form. Agency representatives advised that prisoner queries often relate to account transactions and up to 25 forms can be received per week. There are no formal service delivery standards in place and no recording or monitoring of transaction volumes, queries received or staff response times. If the prisoner is not satisfied with the response received, they can write to the General Manager of the facility. There is no formal process in place for analysing and actioning unusual prisoner monies balances. These are managed on a reactive basis when identified or when they are brought to the attention of the Prisoner Monies team.

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

### *Deficit Balances*

If a prisoner account goes into deficit, an automated email from Pronto is sent to the generic inbox of the Prisoner Monies team. The Manager of Prisoner Monies will then investigate why the balance is in deficit. There is no limit to which a prisoner account can go into deficit. Agency representatives advised that deficit balances have historically occurred due to a system error resulting in transactions being duplicated. The cause of the system error was PPS sending the same message to Pronto twice, resulting in a duplication of transactions between a prisoner's two accounts (saving and spending), doubling the value of the transaction. Where an account had gone into deficit for this reason, the Manager of Prisoner Monies would reverse the duplicate transaction. Management advised that this system issue had been resolved, however no procedures had been performed to identify any previously undetected duplicate transactions. Reliance was placed on the prisoners notifying the Prisoner Monies team if a transaction had been duplicated.

Accounts can also go into deficit if prisoner purchases are processed without staff properly checking that a prisoner has the funds necessary to make the purchase. If a prisoner's account does go into deficit and the prisoner has already received items relating to this deficit, then the prisoner must enter into a repayment plan. The total deficit across all prisoner accounts as at 30 June 2019 was \$7,648.77.

### *Accounts Overcharged*

If a prisoner account has been overcharged, the account is manually adjusted by the Prisoner Monies team. There are no processes or procedures in place to detect instances where an account is overcharged. Reliance is placed on the prisoners alerting the Prisoner Monies team if they become aware of their account being overcharged. There are instances where an overcharged account is identified as a by-product of the overcharge resulting in the account going into deficit and an automated email from Pronto alerting the Prisoner Monies team to an issue.

### *Long Outstanding Balances*

On a monthly basis, monies are cleared from 'monies held on account' accounts to 'monies not taken on discharge'. After six years, if the monies have not been claimed they are transferred to the Central Holding Authority in accordance with Treasurer's Directions issued pursuant to the *Financial Management Act 1995*. For the 2019 financial year, \$280.00 was transferred to CHA.

Should a released prisoner become re-incarcerated in the future, their account is re-activated and any funds in monies not taken on discharge are returned to their active account. If the funds had been transferred to CHA, they are not returned to the prisoner.

### *Write-offs*

Agency representatives advised that write-offs are not generally processed and that a request for historical write-offs had only recently been made. The Agency noted this has only recently occurred during an overhaul of the reconciliation process.

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

### Personnel

#### *Headcount*

The approved full-time equivalent personnel count for positions within the Prisoner Monies team is eight. All but one of these positions, being the Business Manager for ASCC, are currently filled. The team across all centres includes:

- two Business Managers;
- one Manager of Prisoner Monies; and
- five administrative officers.

Staff turnover levels are not considered significant, however due to the size of the team, an individual leaving a role (due to resignation, leave or otherwise) can result in risks to appropriate and adequate segregation of duties.

#### *Operating model*

The current operating role of the Prisoner Monies team is to account for and reconcile prisoner monies. The primary activities undertaken by most employees includes the processing of daily transactions and responding to account queries. At the time of completing my audit in December 2019, the Agency was unable to provide my Authorised Auditors with a transaction report that would enable analysis of the manually processed transactions within Pronto.

#### *Induction process and training*

There is currently no formal induction process for new staff to positions related to prisoner monies. On-the-job training is considered to be the primary induction process. There is a probation period of up to 12 months. It was also noted that there is currently no role specific guidance for personnel within the Prisoner Monies team. There is a 'Business unit task list' which details the tasks that need to be performed on a daily basis.

There is no scheduled or recurring training program available to support personnel within the Prisoner Monies team.

#### *Segregation of duties*

Segregation of duties is supported by the team structure. The primary control in place is the end of month reconciliation, which is considered to be detective rather than preventative. The current vacancy at ASCC, and the lack of resource sharing between the facilities, increases the risk of inadequate segregation of duties.

There are no system controls within Pronto that enforce segregation of duties. Staff are able to perform all procedures within Pronto without secondary approval. Furthermore, there is no monitoring of staff transactions that are processed. Physical payments from NAB accounts require dual authorisation.

#### *Capacity*

To assist during times of reduced capacity, the broader Programs, Services and Improvements team has been cross trained in prisoner monies processes.

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

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

#### **Recommendation 1:**

The recommendation is accepted. Northern Territory Correctional Services (NTCS) notes that it is functioning in a resource constrained environment. Whilst NTCS has not had formal documented processes that enables a facility to leverage the skills and capabilities of the other facility, in practice there is a sharing of information and support across the Centres. Recent examples of this were the Business Manager Alice Springs Correctional Centre (ASCC) attending Darwin for one week for training and the Business Manager Darwin Correctional Centre (DCC) visiting ASCC for further support and to confirm consistency of process across the Centres. NTCS will develop policies and procedures to support the consistent management of prisoner monies across facilities. NTCS has also made a submission requesting additional resources to address the vulnerability in ASCC.

#### **Recommendation 2:**

The recommendation is accepted. Awareness training of prisoner monies processes will be developed and scheduled.

#### **Recommendation 3:**

This recommendation is accepted. A process will be developed to monitor changes to existing legislation and requirements of new legislation that may impact on prisoner money management.

#### **Recommendation 4:**

The recommendation is noted. NTCS will investigate the opportunity to develop reporting to provide increased management oversight. The extent to which this is able to be implemented will depend on system capacity and resources. Where a management report is able to be developed within existing resources, this will be done.

#### **Recommendation 5:**

The recommendation to develop, monitor and report on a suite of service delivery standards and key performance indicators aligned to these standards is accepted.

#### **Recommendation 6:**

This recommendation is accepted. It should be noted that prisoner monies have been audited by the agency. Prisoner monies were audited in 2018 and were on the Auditor-General's audit agenda for 2019 and for this reason it was not listed on the agency audit schedule for 2019.

#### **Recommendation 7:**

This recommendation is noted. While the practicality of this recommendation is accepted, the implementation of this recommendation will be considered in the context of resources and risk. Given the limited and overburdened human resources managing prisoner monies, the department will investigate mechanisms to create a report that assists with the review of manually entered transactions.

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

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

#### **Recommendation 8:**

The recommendation to implement consistent processes across correctional facilities and the process documentation consolidated is accepted. The recommendation to develop a standard operating procedure that incorporates end to end processes, including from all the relevant areas within the Centres, is accepted.

#### **Recommendation 9:**

The recommendation to raise awareness and release information to improve public and prisoner awareness of prisoner money processes is accepted.

#### **Recommendation 10:**

The recommendation to consider amending the Agency's delegations manual to include specific delegations with respect to prisoner monies is accepted.

#### **Recommendation 11:**

NTCS advises it has a robust process to manage prisoner complaints. NTCS will review their current prisoner complaints process to ensure that complaints with respect to prisoner mail or monies is appropriately recorded and reported.

#### **Recommendation 12:**

The recommendation to explore opportunities to enhance the sharing of payroll data between IOMS and Pronto to enable reconciliations between the two systems is accepted.

#### **Recommendation 13:**

NTCS advises that it has been exploring the opportunity to use prepaid debit cards to pay account balances to prisoners on discharge. NTCS notes the recommendation that bank account details as collected at the time of incarceration. It should be noted that prisoners may not have details of their bank accounts on entry to prison. It should also be noted that those prisoners with lengthy sentences, who do not undertake transactions during the course of their incarceration, may have their accounts suspended by their banking institute. NTCS advises it will continue to pursue mechanisms to avoid providing the balance of their prisoner monies on discharge by cheque.

#### **Recommendation 14:**

The recommendation is accepted. NTCS will investigate the possibility of system generated exception reporting and undertake account-balance reviews.

#### **Recommendation 15:**

The recommendation to enable the cash kiosk in the reception area of DCC is accepted.

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

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

#### **Recommendation 16:**

The recommendation to perform a detailed review of prisoner accounts contributing to the unallocated funds balance is accepted. Please be advised that this work has already commenced.

#### **Recommendation 17:**

The recommendation to investigate a system enforced deficit limit is accepted. NTCS notes the ability to implement such an enhancement will depend on system capacity and resources.

#### **Recommendation 18:**

NTCS will undertake a historical review of transactions to identify any undetected duplicate transactions and reverse those with the requisite treatment of the funds. NTCS advises that the frequency of similar reviews will be informed by available resources and risk. NTCS notes the system issue between PPS and Pronto has been rectified but will monitor. NTCS will be seeking a resource efficient mechanism to perform this check.

#### **Recommendation 19:**

NTCS will investigate system restrictions that prevent the system from being able to process transactions for which funds are not available. The standard procedures to be developed in response to recommendation 1 will incorporate the requirement to check balances prior to processing prisoner purchases.

#### **Recommendation 20:**

The recommendation to develop and implement a routine process to ensure balances in accounts are actioned in accordance with legislation is accepted and will be informed by the processes to be developed as per recommendation 1.

#### **Recommendation 21:**

The recommendation to develop a formal documented induction process for personnel performing roles related to prisoner monies and training is accepted.

#### **Recommendation 22:**

The recommendation to investigate opportunities to add functionality to Pronto that would enforce segregation of duties and provide appropriate instances for review is accepted. NTCS advises the ability to implement any changes to functionality of Pronto will be informed by system capabilities and available resources.

# Department of the Attorney-General and Justice

## Pronto and Integrated Offender Management System

### *Background*

Pronto is an Enterprise Resource Planning solution and is the primary financial system used by the Department of the Attorney-General and Justice (the Agency) to manage Stock Inventory, Warehousing and Purchasing across the two largest correctional services facilities (currently 6 main warehouses and 27 vending machines). It is also used to manage all aspects of prisoner funds at adult custodial institutions across the Northern Territory, those being:

- Darwin Correctional Centre;
- Datjala Work Camp;
- Alice Springs Correctional Centre; and
- Barkly Work Camp.

Pronto has over 150 users and interfaces with a number of systems such as:

- Integrated Offender Management System (IOMS);
- Prisoner Purchasing System (PPS); and
- Government Accounting System (GAS).

Pronto is an internal facing application only. The underlying infrastructure is hosted and managed by Data Centre Services. Pronto was implemented across the four adult custodial institutions during 2015.

IOMS was implemented in 2009 and is the primary tool for the recording and storage of information relating to the management of an offender. IOMS supports an integrated framework approach to the offender management lifecycle irrespective of where the offender is managed from, such as Youth Detention, Youth Outreach or through the adult custodial and community-supervision areas. IOMS facilitates operations by ensuring information relevant to the management of an offender is accessible to staff, regardless of location.

At the time of the review, Data Centre Services was in the process of migrating the application onto new infrastructure.

To access both Pronto and the IOMS applications, users are required to be authenticated to the NT Data Centre Services network.

Both applications are supported by third party vendors.

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

## *Scope and Objectives*

The objective of the review was to assess the adequacy of IT general controls over the Pronto and IOMS software systems in place at the Agency.

The following areas of general computer controls relating to the IOMS and Pronto application systems were tested:

- Application, database and operating system security management;
- User access management and user authentication;
- Change management over the application and underlying infrastructure;
- Security configuration and monitoring over the application and underlying infrastructure;
- Segregation of duties management; and
- Backup and recovery / disaster recovery planning.

The review findings are drawn from review of documentation, system configuration and discussions with relevant Agency personnel.

## *Conclusion*

Based on the scope of testing performed, a number of opportunities for improvement were identified in relation to user access management, security management and disaster recovery planning for the IOMS and Pronto systems.

## *Recommendations*

- Enhance access governance processes by:
  - establishing a formal process for the creation, modification and removal of standard user access within IOMS and Pronto which addresses user provisioning, revocation and access certification and provides clear guidance and checks for managing privileged users within the Pronto and IOMS applications to improve overall user access management practices;
  - undertaking periodic user access reviews to identify and remediate any potentially excessive or unnecessary users or privileges;
  - reviewing administrator access within IOMS and Pronto with a view to reducing the number of users with administrator access to a minimum; and
  - reviewing and enhancing the processes in place for identifying and removing terminated or obsolete user access within the system to ensure that access termination is consistently performed at application, database and infrastructure levels for both IOMS and Pronto.
- Restrict IOMS and Pronto developer access only to the development environment and remove all privileged access granted to the developers from the production environment.
- Require the vendor to identify and segregate the members of application support and development teams providing services to the Agency, and further create separate roles for each activity, with developers having read-only access to the production environment.



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

- Create a lesser privileged role for regular production support, allowing the members of this role to only troubleshoot technical issues.
- Create a 'Fire-Fighter' role to provide support under emergency conditions. Strong logging and monitoring should be performed for activities performed using this role. A formal process be developed to grant the 'Fire-Fighter' role to authorised users on a temporary, monitored basis to undertake tasks that require elevated privileges.
- Formalise the existing disaster recovery plan to include the IOMS and Pronto applications.
- Consider implementing the following controls:
  - Defining hardening standards for each platform, including database management systems. All production systems should be reviewed against defined standards to ensure that security controls are consistently implemented.
  - A range of strengthened controls related to the management of access privileges.
- Perform a detailed segregation of duties analysis for both IOMS and Pronto application to identify and segregate incompatible duties.
- Perform an annual review of conflicting duties within systems access to enable remediation of excessive access and to confirm mitigating controls exist where segregation is not practical or not achievable.
- Liaise with DCIS to leverage available vulnerability scanning capabilities and perform a periodic vulnerability assessment that addresses all IOMS and Pronto application components and infrastructure.
- Implement consistent monitoring and alerting within non-production environments and production environments.

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

### *Review Observations*

IOMS and Pronto are centrally managed applications and have the capability to provide a comprehensive view of roles and privileges across Community Corrections, Correctional Centres and Work Camps plus Head Office support.

Discussions with management and assessment of the user access management process for both IOMS and Pronto identified that the assignment of roles and responsibilities within IOMS and Pronto were not formal and were mainly based on the knowledge and experience of the application administrators. Although efforts had been made to establish some processes by using user access request and approval forms for Pronto, the process was heavily reliant on the system administrator's understanding of the employee's business function and own determination of possible segregation of duty risks.

Without formally documented user management policies and procedures, there is an increased risk that inappropriate access is granted to users. In the absence of formalised processes for user creation and revocation, there is an increased risk of unauthorised users being created in the system or obsolete / unwanted user access remaining in the system. Inappropriate user access may potentially be used to gain unauthorised access to information or to perform inappropriate changes to the sensitive offender information.

Developers having privileged access in the production environment is commonly considered to be the most efficient way to support the applications and troubleshoot problems as they arise, however, a developer having privileged access to the production environment poses a greater risk of unauthorised changes occurring, deliberately or accidentally, in the production environment.

The members of the IOMS development team had administrative privileges at the application, database and infrastructure levels across all environments. The members of the IOMS development team not only provided production support in the IOMS production environment using the privileged accounts, but were also responsible for migrating system changes to the IOMS production environment and performing production data fixes from the back end. This configuration allowed the development team to have the ability to make changes directly in the production environment and have access to the sensitive offender information from the back end, which is otherwise strictly monitored from the application end.

A similar situation was also noted for the Pronto application where approximately 30 developer accounts were noted to have privileged level access to the application and related components.

Developers having privileged access across all application environments increases the risk of unauthorised changes being developed and deployed directly in the production environment. This may result in unauthorised or fraudulent changes being applied to the environment.

Disaster recovery requirements and recovery plans had not been specifically defined for the IOMS and Pronto applications.

Data Centre Services was in the process of formalising its own Disaster Recovery Plan and establishing a disaster recovery site to provide redundant hosting of key applications.

A lack of documented disaster recovery plans for IOMS and Pronto increases the risk of prolonged system outages or data loss in the event of a business interruption.

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

Ongoing management of segregation of duties is important to minimise the risk of fraud or data manipulation within the Agency.

Access within the IOMS and Pronto applications was assigned based on roles and functions assigned to each role. The applications allow adequate flexibility to define roles that can restrict users to specific screens, fields and functions.

The Agency had undertaken some initiatives to redefine the roles within the Pronto application to address previous audit findings however a thorough review of segregation of duties had not been performed to identify high risk conflicting access within the system.

The IOMS application had approximately 1,300 users. Due to the varying scale of sites and movement of Agency personnel across sites, complexities existed in how segregation of duties could be consistently managed across all user access. Access assignment within IOMS was performed based on the system administrator's judgement and did not consider segregation of duties.

If periodic reviews are not performed over user access to identify and minimise conflicting roles and duties, there is an increased risk that users may be assigned high risk access conflicts which then give rise to increased risk of fraudulent or dishonest activities occurring and not being detected in a timely manner.

A vulnerability assessment had not been performed in order to detect security vulnerabilities within the IOMS and Pronto application environments (including underlying infrastructure).

Vulnerability assessments are an important process that are intended to be undertaken regularly to enable timely detection and remediation of security vulnerabilities in the software and infrastructure.

If vulnerability assessments are not performed during and after the system development lifecycle, security vulnerabilities, such as unpatched software or security configuration weaknesses, may exist in the system or related components. Untreated vulnerabilities may enable an attacker to more easily compromise the system and gain access to sensitive information.

IOMS and Pronto hold sensitive offender information. Access to this data within the production environment was strictly monitored through logging and automated alerts. The same level of monitoring should be applied where the same production data is replicated to the testing, training and development environments.

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

**The Department of Corporate and Information Services has commented:**

The audit findings are noted and will assist to inform actions as part of the transition of Pronto and Integrated Offender Management Systems between agencies and their establishment within DCIS' digital environment.

# Jabiru Town Development Authority

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

### ***Background***

The Jabiru Town Development Authority (the Authority) has overall responsibility under the *Jabiru Town Development Act 1978* for maintenance and development of the town of Jabiru, the issue of sub-leases of land, and for administration, management and control of the town. A head lease agreement between the Authority and the Commonwealth over the town is due to expire in 2021.

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

The Authority is indebted to the Northern Territory Government as a result of loans provided to the Authority for the construction of infrastructure. The initial value of loans provided was \$8.40 million, but by 1986, the amount outstanding had increased to \$8.80 million due to the capitalisation of net unpaid interest. In August 1986, the Northern Territory Government granted the Authority a moratorium on interest payments and principal repayments on existing loans. That moratorium continued to apply at 30 June 2019.

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

The objective of the audit was to complete sufficient audit verification to enable an opinion to be expressed upon the financial statements of the Jabiru Town Development Authority for the year ended 30 June 2019.

### ***Audit Opinion***

The audit of the Jabiru Town Development Authority for the year ended 30 June 2019 resulted in an unqualified independent audit opinion, which was issued on 5 December 2019.

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

#### *“Moratorium on loan interest and repayments*

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

## Jabiru Town Development Authority cont...

### *Legislative changes*

*On 28 June 2013, the Aboriginal Land Rights and Other Legislation Amendment Act 2013 was passed by the Australian Parliament. One of the identified impacts of this legislative change is the forthcoming cessation of the lease over the Town of Jabiru currently held by the Authority. The cessation of the lease will become effective on 30 June 2021. The appropriateness of the Authority continuing to report on a going concern basis beyond 30 June 2021 cannot be ascertained at the date of my auditor's report."*

### **Audit Observations**

The audit did not identify any material weaknesses in controls.

### **Performance Overview**

The Authority currently prepares its annual financial statements on a going concern basis. As identified in prior years, there are significant matters which may bring the appropriateness of this assumption under question as documented below.

- The Authority's net liability position is due to a loan payable to the Northern Territory Government amounting to \$8,804,916 (2018: \$8,804,916). There is currently a moratorium in place providing the Authority relief from paying interest on the outstanding balance and making repayments of principal. Should this moratorium be lifted, it is uncertain as to whether the Authority would have sufficient liquid resources to meet these repayments. Had the moratorium not been applied in 1986 the loan at 30 June 2019 would be approximately \$78.6 million (based on Reserve Bank of Australia capital market yield rates compounding monthly).
- The head lease is scheduled to expire in 2021. On 28 June 2013, the Federal Government passed the *Aboriginal Land Rights and Other Legislation Amendment Act 2013* that enabled the Jabiru Township to be granted as Aboriginal land to the Kakadu Aboriginal Land Trust subject to the formalisation of leaseback arrangements. Any future leaseback arrangements would likely be in the form of a 19A township lease directly with the Office of Town Leasing, Australian Government. Negotiations are continuing between the relevant parties on the future of the Jabiru Township. The future role of the Authority has not yet been determined however there is significant uncertainty as to whether the Authority will continue to operate beyond the scheduled expiration of the head lease.

The Authority generated a deficit for the year of \$113,011 (2018: deficit of \$124,480).

Total expenditure decreased by \$10,434 due primarily to decreases in legal expenditure of \$7,090 and audit fees of \$3,915 however these decreases were partially offset by an increase in management fees of \$1,378.

The Authority has a net liability position of \$7,238,640 (2018: \$7,125,629). The significant items contributing to the net liability position are:

- Cash and cash equivalents of \$1,532,187; and
- Loan payable to the Northern Territory Government of \$8,804,916.

## Jabiru Town Development Authority cont...

### Financial Performance for the year

	2019	2018
	\$'000	\$'000
<b>Income</b>		
Grants	90	90
Interest	24	23
<b>Total income</b>	<b>114</b>	<b>113</b>
<b>Expenditure</b>		
Administration expenses	(165)	(174)
Amortisation of town infrastructure	(62)	(63)
<b>Total expenditure</b>	<b>(227)</b>	<b>(237)</b>
<b>Deficit</b>	<b>(113)</b>	<b>(124)</b>

## Jabiru Town Development Authority cont...

### Financial Position at year end

	2019	2018
	\$'000	\$'000
Cash and cash equivalents	1,532	1,588
Receivables and other current assets	4	1
Less current liabilities	(54)	(57)
<b>Working Capital</b>	<b>1,482</b>	<b>1,532</b>
Add non-current assets	84	147
Less non-current liabilities	(8,805)	(8,805)
<b>Net Assets</b>	<b>(7,239)</b>	<b>(7,126)</b>
Represented by:		
Accumulated deficit	(7,239)	(7,126)
<b>Equity</b>	<b>(7,239)</b>	<b>(7,126)</b>



# Nitmiluk (Katherine Gorge) National Park Board

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

### *Background*

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

### *Scope and Objectives*

The objective of the audit was to complete sufficient audit verification to enable an opinion to be expressed upon the financial statements of Nitmiluk (Katherine Gorge) National Park Board for the year ended 30 June 2019.

### *Audit Opinion*

The audit of the Nitmiluk (Katherine Gorge) National Park Board for the year ended 30 June 2019 resulted in an unmodified independent audit opinion, which was issued on 17 December 2019.

### *Audit Observations*

The audit did not identify any material weaknesses in controls.

### *Performance Overview*

Gross income of \$1,170 thousand (2018: \$1,140 thousand) increased from the prior year by \$30 thousand. This increase comprised an increase of \$25 thousand in Park Income and an increase of \$5 thousand in Goods and Services Received Free of Charge.

Expenditure of \$1,170 thousand (2018: \$1,140 thousand) also increased by \$30 thousand due to an increase of \$5 thousand in Goods and Services Received Free of Charge (as reflected also in revenue) and increases in Payments to Traditional Owners and Payments to the Department of Tourism, Sport and Culture. The movement in expenses is equivalent to the movement in revenue, as all revenue after expenses is disbursed as Payments to Traditional Owners.

Receivables of \$242 thousand (2018: \$231 thousand) increased from the prior year by \$11 thousand. The increase in receivables directly reflects the increase in accrued revenue (payables) as all revenue after expenses is disbursed as Payments to Traditional Owners.

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

### Financial Performance for the year

	2019	2018
	\$'000	\$'000
<b>Income</b>		
Park income	1,006	981
Less payments to Traditional Owners	(626)	(618)
Less payments to the Department of Tourism, Sport and Culture and its predecessor agency	(380)	(363)
Other revenue (goods and services received free of charge)	164	159
<b>Total income</b>	<b>164</b>	<b>159</b>
<b>Expenditure</b>		
Operational costs (goods and services received free of charge)	(164)	(159)
<b>Total expenditure</b>	<b>(164)</b>	<b>(159)</b>
<b>Surplus</b>	<b>-</b>	<b>-</b>

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

## Financial Position at year end

	2019	2018
	\$'000	\$'000
Cash and cash equivalents	-	-
Receivables and other current assets	242	231
Less current liabilities	(242)	(231)
<b>Working Capital</b>	-	-
Add non-current assets	-	-
Less non-current liabilities	-	-
<b>Net Assets</b>	-	-
Represented by:		
Accumulated funds	-	-
Capital	-	-
<b>Equity</b>	-	-

# Northern Territory Superannuation Office

## SuperB

### *Background*

The SuperB system is the primary IT system used for the administration of the:

- Northern Territory Government and Public Authorities Employees' Superannuation Fund;
- Northern Territory Supplementary Superannuation Scheme;
- Northern Territory Government Death and Invalidity Scheme; and
- Northern Territory Police Supplementary Benefit Scheme.

### *Scope and Objective*

The objective of the review was to assess the adequacy of IT general controls over the SuperB application in place at the Northern Territory Superannuation Office.

The following activities were examined during the audit:

- The design of IT controls in the areas of change management; logical access; backup and recovery; interface and job scheduling; and system documentation.
- Operational effectiveness of the change management controls.
- Operational effectiveness of the logical access controls with respect to the management of the new, terminated and privileged (application and database) users and user authentication.
- Permissions assigned to users including IT and non-IT staff with privileged access within the system.
- Operational effectiveness of the completeness and accuracy controls for data received via key interfaces.
- Existence of documentation supporting the system.

The scope was limited to SuperB and did not address the broader security, change management, backup and restoration procedures in place across government, therefore I form no opinion on the broader control environment beyond that which applied to SuperB at the time of my audit.

The findings are based on a review of documentation and discussions with relevant personnel at the Superannuation Office.

### *Qualified Opinion*

Based on discussions with key stakeholders and review of relevant documentation, I have not been able to determine that key general computer controls have been designed and implemented effectively in relation to the SuperB System. Further, as the scope was limited to SuperB and did not address the broader security, change management, backup and restoration procedures in place across government, I form no opinion on the broader control environment beyond that which applied to SuperB at the time of my review.

# Northern Territory Superannuation Office cont...

## *Recommendations*

I recommended that:

- access to 'TEMPSYS' be removed or rights within the group be reduced to prevent the users from performing functions outside their normal job responsibilities;
- a defined process be implemented to support the temporary uplifting of escalated/ privileged access in instances where the primary system administrator is away on leave for extended periods of time;
- a six-monthly review of group permissions be performed as part of the security review process to ensure that all transactions tagged to the group are current and relevant;
- the Superannuation Office consider a formal approach to capturing access requests to mitigate the risk of historical user request information being misplaced or modified;
- the Superannuation Office identify logs capturing the 'useradd', 'userdel' and 'usermod' commands and include in these logs the monthly user review process to confirm completeness of entries; and
- the Superannuation Office implement a formal and regular documentation review process which includes a documentation review schedule.

## *Review Observations*

One user had inappropriate privileged access to the 'TEMPSYS' group and transactions/permissions attached to the security groups were not reviewed on a periodic basis.

SuperB was managed by the Superannuation Office's Systems Team which consisted of two members of staff. Both members of the team were authorised to have privileged access rights which allowed them to add/modify and delete users in the application and update the user group assignments. There are less than 30 users in the application.

One application user had access to the 'TEMPSYS' group that allowed this user to add and remove other users and modify users' access permissions. This user did not require this level of access on a permanent basis to perform their normal job functions, however access was provisioned so this user could act as a backup should the primary system administrator not be available during periods of leave.

Any user with the access to the 'TEMPSYS' group could create, modify and remove users and therefore had the ability to perform unauthorised activities through the creation and use of unapproved accounts. Evidence of unauthorised activity could also be removed through subsequent deletion of the account and audit logs.

Elevated privileges pose a security risk that unauthorised modifications may be performed with respect to the application's logical security, as well as underlying application configuration, and to the database.

# Northern Territory Superannuation Office cont...

## *Review Observations*

SuperB has less than 30 users and access was managed by the Superannuation Office's Systems Team.

The process for user provisioning and de-provisioning had not been formally implemented. Requests to add, modify, or remove SuperB users were sent from the Superannuation Office Director of Operations, or a Line Manager, via email to the Superannuation Office's Systems Team. Evidence of the request was stored manually in a shared network folder. A system generated list of new or disabled users could not be obtained from SuperB and a system generated list of new employees, or employees that have left the Superannuation Office, could also not be obtained due to system limitations. Therefore, the operating effectiveness of the user provisioning and de-provisioning process was unable to be tested.

There was a monthly review of user accounts which confirmed the validity of the user account at the point in time the review was undertaken, however the review does not identify if a user had been added and removed during the period, or the currency of access provisioned through access rights.

SuperB was managed by the Superannuation Office's Systems Team which consists of two staff.

One training and three procedural documents were provided during the course of the review.

It was not apparent when these documents were last updated. It is also not apparent who last updated these documents or reviewed them to validate that they reflect the current environment.

Procedural documentation is produced for systems to support and demonstrate good governance. Documentation maintenance is an important part of a broader process used to determine that appropriate procedures and controls are in place and are accurate and complete.

Outdated or incomplete documentation can impact management's ability to ascertain, on an ongoing basis, that IT measures and processes continue to be appropriate.

## Northern Territory Superannuation Office cont...

**The Northern Territory Superannuation Office has commented:**

Five of the six recommendations are accepted, with four of these fully implemented (first, second, third and sixth).

Given the small user base (less than 10 users), the (fourth) recommendation for implementing a formal approach to capturing access requests will be adopted by maintaining an electronic file in TRM for all requests and approvals.

The (fifth) recommendation on generating system logs for user provisioning is not within the Superannuation Office's control. Addressing this recommendation has been agreed with the Department of Corporate and Information Services (DCIS), which is responsible for managing the servers on which SuperB is installed, including the generation of system logs.

# NT Build

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

### *Background*

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

### *Scope and Objectives*

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

### *Audit Opinion*

The audit of NT Build for the year ended 30 June 2019 resulted in an unqualified independent audit opinion, which was issued on 12 November 2019.

### *Audit Observations*

The audit did not identify any material weaknesses in controls.

### *Performance Overview*

The audit opinion on the financial statements of NT Build for the year ended 30 June 2019 was unqualified however an emphasis of matter paragraph was included to draw the attention of users of the financial statements to uncertainties related to the Long Service Leave liability valuation.

Due to the nature of the long service leave liability and the inability to complete the valuation based on long term scheme historical data, there remains a high level of uncertainty associated with this estimate. It is noted that in particular the liability is moderately sensitive to the assumption that 30% of inactive members will reactivate. If a range of 20-40% of inactive members reactivates, the liability may change up to 5%, with higher reactivations leading to higher liability. The series of assumptions made regarding the benefit payments and timing of exit is uncertain and changes to these assumptions can result in significant differences in reported results. Specific sensitivities include:

- decreasing withdrawal rates for active members by 25% would increase the liability by 3%;
- increasing withdrawal rates for active members by 50% would decrease the liability by 5%;
- increasing or decreasing the future benefit rate of inflation by 0.5% would move the liability in the same direction by about 1.6%;
- increasing or decreasing the discount rate used in the valuation by 0.5% would move the liability in the same direction by about 2.5%.



## NT Build cont...

### Performance Overview

NT Build reported a surplus of \$0.4 million compared to prior year's deficit of \$7.4 million. The movement in total income of \$15.8 million in 2019 from \$15.6 million in 2018 is not significant. Total expenses of \$15.5 million in 2019 decreased by \$7.5 million from 2018 (\$23.0 million) primarily due a gain on revaluation of the long service leave provision of \$4.2 million (2018 recorded a loss on revaluation of \$10.2 million). This improvement of \$14.4 million from the prior year was partially offset by increased long service leave benefit payments which were \$6.8 million higher in the current year.

The net asset position of NT Build remains strong despite concerns that the levy contributions and revenue earned on investments are not sufficient to meet long service leave payments in the longer term. The net asset position as at 30 June 2019 was \$23.5 million (2018: \$23.1 million).

## NT Build cont...

### Financial Performance for the year

	2019	2018
	\$'000	\$'000
<b>Income</b>		
Contributions from levy payers	1,378	1,660
Movement in equity investments	(2,256)	(4,491)
Investment Income	7,339	11,795
Reciprocal income	9,142	6,308
Other	241	291
<b>Total income</b>	<b>15,844</b>	<b>15,563</b>
<b>Expenditure</b>		
Employee expenses	(1,026)	(880)
Occupancy costs	(95)	(103)
Depreciation and amortisation	(82)	(81)
Fees and allowances	(39)	(58)
Long service leave benefit payment	(17,973)	(11,177)
Long service scheme revaluation – current	4,220	(10,210)
Other	(468)	(446)
<b>Total expenditure</b>	<b>(15,463)</b>	<b>(22,955)</b>
<b>Surplus/(deficit)</b>	<b>381</b>	<b>(7,392)</b>

## NT Build cont...

### Financial Position at year end

	2019	2018
	\$'000	\$'000
Cash and cash equivalents	945	3,383
Receivables and other current assets	84,486	85,872
Less current liabilities	(9,982)	(9,348)
<b>Working Capital</b>	<b>75,449</b>	<b>79,907</b>
Add non-current assets	168	250
Less non-current liabilities	(52,152)	(57,072)
<b>Net Assets</b>	<b>23,465</b>	<b>23,085</b>
Represented by:		
Implementation funding	297	297
Accumulated surplus	23,168	22,788
<b>Equity</b>	<b>23,465</b>	<b>23,085</b>

## Selected Agencies

### System for payments – Darwin Port Lease

#### *Background*

The NT Government entered into a 99-year lease agreement with Landbridge Group to lease part of the Port of Darwin.

According to the NT Government's submission to the NT Legislative Assembly Port of Darwin Select Committee Inquiry, the decision to lease parts of the Port of Darwin was based on two principal factors:

- significant growth in demand for services provided or enabled through facilities at the Port of Darwin; and
- the need to meet future growth projections.

Upon the commencement of the lease on 16 November 2015, the Darwin Port Corporation, which was a wholly-owned business division of the NT Government, was replaced by a new temporary corporate entity, Darwin Port. Darwin Port Operations Pty Ltd and Darwin Port Pilotage Pty Ltd are part of the Landbridge Group.

The areas of the Port of Darwin that have been leased to Landbridge Group are:

- East Arm Wharf;
- Darwin Marine Supply Base;
- Fort Hill Wharf;
- commercial shipping channels within the Port of Darwin area; and
- the bulk fuel terminal.

A number of areas of the Port of Darwin do not form part of the lease agreement. These will continue to be owned and operated by the NT Government and include:

- Stokes Hill Wharf;
- Fisherman's Wharf;
- Hornibrook's Wharf; and
- Frances Bay Mooring Basin, including Sadgroves Creek moorings.

The total price of the lease package, which provides for a controlling interest in the Port of Darwin, came to \$506 million. The lease commenced on 16 November 2015 and will expire on 15 November 2114.

The Port Lease contract gives the Landbridge Group 100% operational control of the Port of Darwin and 80% ownership. The remaining 20% was intended to be held by the NTG for the first five years before transferring to another Australian entity. The Port Lease included a requirement that a 'Minimum Australian Equity' exists at any time whereby at least 20 per cent of the number of voting securities are held by an Australian citizen. On 30 June 2017, the Territory Government agreed to retain the 20 per cent equity interest in the Port of Darwin. The agreement to retain the 20% equity interest does not provide the NTG with any right to participate in the distributions of capital or income of the Port of Darwin group trusts.

## Selected Agencies cont...

The Northern Territory Auditor-General's Office undertook an audit in 2016 in relation to the accounting treatment of the sale of Darwin Port Operations and the lease of assets relating to the Port of Darwin. The audit assessed whether:

- The Port Lease had been correctly classified by the then Department of Lands, Planning and the Environment (and any other government entities) in accordance with Australian Accounting Standard *AASB 117 Leases* (finance or operating).
- The NT Government's remaining 20% interest in Darwin Port Operations had been accounted for correctly.
- The process surrounding the sale of the Darwin Port Operations ensured that the asset was disposed of in a fair, accountable and transparent manner that provided maximum return to the Territory.
- The sale of Darwin Port Operations, and the long term lease of the 'Port Package', had been accounted for correctly.
- Assets returning to the NT Government at the conclusion of the lease are appropriately identified and correctly accounted for.
- Transfer of employees to the private sector had been correctly accounted for.
- The winding up of the Darwin Port Corporation had been correctly accounted for taking into account that the National Tax Equivalents Regime applied to the Corporation.
- Any obligations or contingencies that may have arisen from the transactions had been identified.

Beyond the statutory audit of the annual financial statements of the Darwin Port Corporation for the year ended 30 June 2016, no aspect of the Port Lease transaction, including the basis for valuation of Darwin Port Operations, was subject to audit, review or assurance procedures before or at the time the lease was entered into.

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

The objective of this performance management system audit was to review the systems and processes in place to manage the lease of the Port of Darwin. The audit assessed the performance management systems in place at:

- the Department of Trade, Business and Innovation (DTBI) to manage the contractual terms and conditions associated with the lease of the Port of Darwin; and
- the Department of Infrastructure, Planning and Logistics (DIPL) to account for the lease premium and related financial transactions pertaining to the lease of the Port of Darwin.

## Selected Agencies cont...

### *Index*

The report on this audit is structured as follows:

Audit Opinion	Refer page 86
Recommendations	Refer page 86
Audit Observations	Refer page 87
Lease Contract	Refer page 87
Lease Management	Refer page 88
Reporting	Refer page 89
Financial Recognition and Measurement	Refer page 89

### *Audit Opinion*

The primary objective of this performance management system audit was to assess the systems and processes in place to manage the lease of the Port of Darwin.

There are established and consistent systems and processes in place at DTBI and DIPL to:

- manage and monitor compliance with the Darwin Port Lease; and
- enable the effective recording of the Darwin Port Lease transactions.

As indicated by the audit observations, there are some improvements required in order for the Agencies to demonstrate that the systems, controls and processes in place are adequate to manage the lease.

### *Recommendations*

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

- Implement appropriate systems and processes to mitigate the risks associated with loss of corporate knowledge (succession planning risk).
- Consider what additional processes may be required to ensure that compliance with obligations within the lease are clearly demonstrated and recorded.
- Obtain and retain sufficient documentary evidence to demonstrate the Port Management Committee has complied with all required obligations.
- Key documentation supporting accounting policies and the recording of transactions relevant to complex financial arrangements be obtained, retained and made accessible to relevant personnel.

## Selected Agencies cont...

### Audit Observations

#### Lease Contract

There is one main contract for the lease of the Port of Darwin (hereafter referred to as the Port Lease). The Port Lease is between the Northern Territory of Australia (Port Lessor) and Landbridge Port Pty Ltd as trustee for Landbridge Darwin Port Lessee Trust (Port Lessee). The lease was signed in November 2015 by the then Chief Minister on behalf of the Port Lessor and a Director of the Port Lessee. The Port Lease provides for a 99-year lease of the following parcels of land (and associated infrastructure):

Table 1: Port of Darwin Leased Areas

Volume	Folio	Location	Lot Description
802	607	Hundred of Bagot	Section 5719
802	608	Hundred of Bagot	Section 5783
802	603	Hundred of Bagot	Section 7216
804	694	Town of Darwin	Lot 10187
802	595	Hundred of Bagot	Section 7219

Source: Port Lease Port of Darwin

The NTG received an upfront payment of \$506 million for the Port Lease. The \$506 million represented:

- a lease premium of \$390.6 million for the Port Lease; and
- the purchase price of \$115.4 million including stamp duty.

The Port Lease includes requirements relating to:

- Rent;
- Concurrent Lease and Existing Tenant Leases;
- Port Stewardship Obligations;
- Minimum Australian Equity;
- Environmental Obligations and Liabilities;
- Maintenance and Development;
- Right of Inspection; and
- Reporting Obligations.

As a result of the Port Lease, there is a series of more than 30 contracts that address the continued operations and ongoing management of the Port of Darwin.

NTG representatives advised that there have been no changes to the Port Lease since its inception.

## Selected Agencies cont...

The Port Lease included a 'Minimum Australian Equity' clause that requires at least 20 per cent of the number of the voting securities to be held as an equity interest by an Australian citizen at any time. In 2017, the NTG agreed to retain the 20 per cent equity ownership. My Authorised Auditor was advised that no amendments were required to be made to the Port Lease or the initial transactions in order to reflect this change. Amendments were made to supporting transaction documents to reflect the 20 per cent equity NTG ownership.

Under the terms of the lease, the leased assets will revert to the Territory in 2114 at the end of 99 years.

### Lease Management

A Port Management Committee was established to provide a forum for the parties to meet regularly to monitor the Port Lease arrangements, and identify and resolve any issues arising. The functions and composition of the Committee are established in the Port Operating Deed.

Representatives of DTBI provided documentary evidence that the Port Management Committee had met the majority of the contractual obligations. Management advised that discussions at the Port Management Committee meetings are focused on specific priority issues. Where matters have been adequately addressed outside the Port Management Committee meetings, both parties can agree that it is not considered necessary or efficient to deal with the same matters during Port Management Committee discussions.

The Port Management Committee includes equal representation from the NTG and the Landbridge Group.

A standing invitation is extended to other NTG and Landbridge Group representatives to attend as observers. An employee from DTBI provides secretariat support.

The Port Operating Deed requires the Port Management Committee to meet at least once every quarter. In 2018/19 the Port Management Committee met three times. The minutes for 2018/19 noted that the Port Management Committee discussed and unanimously agreed to meet three times during 2018 due to limitations on the availability of the members during the year.

Review of the Port Management Committee minutes demonstrated that the meeting agenda addresses both Standing Matters and Other Business. Standing Matters include matters specific to the performance obligations detailed within the Port Lease.

DTBI have responsibility for the contract management role of the 99-year Port Lease including managing the contractual terms and conditions associated with the lease of the Port of Darwin.

In relation to the contract management role, knowledge pertaining to all contracts is limited to three individuals within DTBI.

The Port Lease and additional related contracts for the Port of Darwin are complex and stipulate a range of financial and performance requirements for the Port Lessor and the Port Lessee.



## Selected Agencies cont...

To improve the management of complex contracts, personnel within DTBI have been exploring an appropriate contract management system for this and other complex long term contracts. Attempts to source a suitable system have been unsuccessful to date as available off-the-shelf systems have not been fit for purpose. I understand that DTBI is continuing to explore contract management system options.

To identify key obligations within the contracts, DTBI have a 'Summary List of Reporting Deliverables' and a 'Summary Of Port Lease Payment Obligations', that list key reporting, performance and financial obligations identified in the Port Lease and Port Manager contracts.

Processes to ensure the obligations are being met are currently limited to the actions of the Port Management Committee.

### Reporting

DIPL prepares monthly management reports and annual reports which disclose the lease transactions. There are established processes for the recording and reporting of transactions.

Representatives of DTBI advised that audited financial statements are received annually in accordance with the lease terms and regular information sharing occurs surrounding development proposals. In addition, reports and updates to Ministers are provided as necessary on issues which are considered to be of sufficient significance to warrant reporting.

There are no regular reporting requirements in place for reporting on the management of contractual obligations arising from the Port Lease or whether the obligations have been met.

### Financial Recognition and Measurement

The Port Lease is a 99-year concurrent lease entered into through NTG (through DIPL) and the Port Lessee.

To recognise the lease, assets subject to the leasing arrangement were transferred to the then Department of Lands, Planning and the Environment, which initially held the 99-year lease on behalf of the Territory. Following machinery of government changes in September 2016, the lease arrangements were subsumed within DIPL.

DIPL's finance personnel are responsible for recording transactions and preparing financial statement information relevant to the Port Lease. All transactions are recorded in the Government Accounting System and monthly reports are produced and reviewed.

Accounting advice was obtained from a professional service provider in relation to accounting for the transactions arising as a result of the Port Lease. The accounting advice was received on 21 June 2016 and:

- analysed the transaction structure;
- identified the required transactions and the entities affected;
- provided an analysis of each transaction including how the relevant accounting standards would apply; and
- included a schedule for all lease transactions throughout the life of the lease.

## Selected Agencies cont...

DIPL has relied on this accounting advice when recording the transactions for the Port Lease. Accounting for the lease transactions has, to date, been consistent with the accounting advice. At the commencement of this audit, DIPL did not have a complete copy of the accounting advice. DIPL did obtain a full copy of the accounting advice during the audit.

The accounting advice determined that the lease was a finance lease in accordance with the Australian Accounting Standard *AASB 117 Leases*. The Port Lease is recognised as a finance lease based on the principle that the majority of the risk and rewards of ownership have been transferred to the Port Lessee. An assessment of the finance lease indicators was undertaken when the Port Lease was entered.

Under this accounting standard, transactions are required to:

- Derecognise the assets subject to the lease.
- Recognise the net investment in the leased assets. A lessor's net investment in a lease is its gross investment in the lease (minimum lease payments as well as any residual) discounted at the implicit interest rate.
- Apportion rentals between a reduction in the net investment in the lease and finance income over the lease term.
- Uplift the assets to fair value and recognise a revaluation gain in revaluation surplus (equity).

A lease premium amounting to \$390.6 million was received by DIPL during the financial year ended 30 June 2016. A cash payment was received by DIPL and transferred to CHA through equity in the 2015/16 financial year. This is disclosed in DIPL's 2015/16 cash flow statement:

Table 2: DIPL Accounting Treatment - Lease premium

	2015/16
	\$'000
Proceeds from Port Lease	390,642
Equity withdrawals	(390,642)

Source: DIPL Annual Report 2015/16, 2016/17, 2017/18 and 2018/19

In 2015/16 the initial recognition of the lease required DIPL to derecognise the Port of Darwin land and infrastructure (reflected as a reduction in the Property, Plant and Equipment balance) and recognise a financial asset for the net investment in the leased assets (recognise a non-current asset called Finance Lease Receivable).

The financial asset is referred to as Finance Lease Receivable in the financial statements of DIPL. This financial asset was initially measured at fair value based on expected cash flows. As at 30 June 2019, the financial lease receivable was \$19,907,000.

The lease also provides for the receipt of incremental contingent rentals where a revenue-based threshold is exceeded. As at 30 June 2019, no contingent rentals had been received.

Each year, the DTBI if that there are additional assets that the Territory is expected to receive at the end of the lease. As at 30 June 2019, no such assets had been identified.

## Selected Agencies cont...

The extract from DIPL's 2018/19 Annual Report presented below describes in detail the accounting treatment applied to the Port Lease. The accounting transactions processed to date are consistent with the advice received from the professional service provider.

Table 3: Extract from DIPL Accounting Treatment – Finance Lease

### 15. OTHER ASSETS

#### Leases As A Lessor

The agency has a 99 year lease arrangement for the Port of Darwin. External advice sought on the classification and accounting for the lease arrangement determined that the lease was a finance lease in accordance with AASB 117. As a result the agency de-recognised the Port land and infrastructure and recognised the net investment in the leased assets as a finance lease receivable. The net investment represents the agency's gross investment in the lease discounted at the implicit interest rate. Finance lease income will be recognised periodically.

The Territory (through the former Department of Lands, Planning and Environment) entered into a

99-year lease agreement with Landbridge Group to lease land assets and interest in the Port of Darwin.

A lease premium amounting to \$391 million was received in advance. The lease also provides for the receipt of incremental contingent rentals where a revenue-based threshold is exceeded. No contingent rental was received during the year.

Under the terms of the lease, the leased assets will revert to the Territory at the end of 99 years. The Port lessee has the majority of the risks and rewards associated with ownership of the leased assets. Therefore the assets have been derecognised and a finance lease receivable recognised representing a residual interest in the leased assets.

	2019	2018
	\$'000	\$'000
<b>Finance lease receivable</b>	<b>19,907</b>	<b>18,603</b>
<i>Future minimum lease receipts under the finance lease are receivable for each of the of the following periods:</i>		
Not later than one year	1,394	1,303
Between one and five years	6,625	6,190
Later than five years	13,195,297	13,197,127
Gross investment in the lease	13,223,223	13,223,223
Less: Unearned finance income	(13,203,316)	(13,204,620)
<b>NET INVESTMENT IN THE LEASE</b>	<b>19,907</b>	<b>18,603</b>

As the lease premium has been prepaid, the balance of the finance lease receivable represents the unguaranteed residual for the Port of Darwin land related assets accruing to the benefit of the Territory. As of 30 June 2019, no impairment losses have been recorded on the finance lease receivables.

On 30 June 2017, the Territory Government agreed to retain the 20 per cent equity interest in the Port of Darwin. Under the revised terms of the shareholding, the Territory does not have any right to participate in the distributions of capital or income of the Port of Darwin group trusts.

Although the 20 per cent equity interest does not satisfy criteria for consolidation or recognition as a joint venture or associate, it is considered a financial asset.

This financial asset has been initially measured at fair value based on expected cashflows and for 2018-19 the value is negligible. The financial asset may be subsequently re-measured for any changes in fair value in future reporting periods.

Source: DIPL Annual Report 2018/19

## Selected Agencies cont...

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

The Department of Trade, Business and Innovation has noted the Auditor-General's recommendations and actions in response are being implemented, as appropriate.

# 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 were 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 – “The Territory Labor Government is Building a Better Barkly”**

On 8 January 2020, a Member of the Legislative Assembly wrote to the Auditor-General alleging contraventions of the provisions of the Act.

The allegation was that an advertisement in the Tennant and District Times on 6 December 2019, with the caption “*The Territory Labor Government is Building a Better Barkly*”, contravened the provisions of the Act, in particular Section 6(2)(c), which states that the Act is contravened if the information is an advertisement that includes an image of a minister or a minister’s message. The referral was accompanied by a copy of the advertisement.

### ***Review of Allegation***

After examining the content of the referred information and making enquiries with the Department of Local Government, Housing and Community Development, as the Agency responsible for the programs referenced in the advertisement, and the Barkly Electorate Office, also referenced in the advertisement, I established the following:

- The advertisement included an image of Gerry McCarthy MLA, Minister for Local Government, Housing and Community Development.
- The Department of Local Government, Housing and Community Development did not place the advertisement.
- The Barkly Electorate Office, as confirmed through evidentiary documentation, placed the advertisement, however, the invoice had not been paid at the time of the referral due to delayed invoicing by the Tennant and District Times.

The Minister has advised me in writing that the invoice, dated 5 December 2019 and received by the Barkly Electorate Office on 26 February 2020, will be funded from the Member for Barkly’s electoral allowance.

Based on the evidence above, I formed the view that the advertisement is exempt from the provisions of the Act by virtue of Section 4(1)(a) because the information given to the members of the electorate was not funded with public funds given, at the time of my inquiry, the invoice had not been paid.

### ***Conclusion***

Following from the above I concluded that the information was exempt from the definition of public information as defined by the Act.

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

### ***Recommendation***

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

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

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



## Appendices

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# Appendix 1: Audit Opinion Reports Issued Since 31 October 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
Common Funds of the Public Trustee <sup>(1)</sup>	13 February 2020	18 December 2019	30 November 2018
Jabiru Town Development Authority	19 February 2020	5 December 2019	26 October 2018
Nitmiluk (Katherine Gorge) National Park Board	11 February 2020	17 December 2019	8 January 2019
NT Build	27 November 2019	12 November 2019	31 October 2018

<sup>(1)</sup> Not separately reported within this report

## Appendix 1: Audit Opinion Reports Issued Since 31 October 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
<i>Interstate Road Transport Act 1985</i>	31 December 2019	27 November 2019	29 November 2018
<i>National Land Transport Act 2014</i>			
Black Spot Program	31 December 2019	15 November 2019	13 December 2018
Infrastructure Investment Program	31 December 2019	27 November 2019	21 December 2018
Natural Disaster Relief and Recovery Arrangements and Disaster Recovery Funding Arrangements	31 March 2020	13 February 2020	27 March 2019

## Appendix 2: Status of Audit Activity

In addition to the routine audits, primarily being end of year audits of agencies and audits of financial statements, the following audits and reviews were identified as not yet complete in Appendix 2 of my November 2019 Report to the Legislative Assembly:

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

Core Clinical Systems Renewal Program	Refer page 21
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### **Department of Environment and Natural Resources**

Water Licences	Refer page 27
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### **Department of Infrastructure, Planning and Logistics**

System for payments – Darwin Port Lease	Refer page 84
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### **Department of Local Government, Housing and Community Development**

Room to Breathe	Not yet completed
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### **Department of the Attorney-General and Justice**

Prisoner's Money	Refer page 43
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Pronto and Integrated Offender Management System	Refer page 63
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### **Department of Trade, Business and Innovation**

System for payments – Darwin Port Lease	Refer page 84
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### **Northern Territory Superannuation Office**

SuperB	Refer page 76
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## Appendix 3: Proposed Audit Activity in the Six Months Ending 30 June 2020

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

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

Contract Management – Adherence to A Guide to Contract Management

Incorrect payment of superannuation (Section 14 Directive)

### **Department of Health**

Contract Management – Adherence to A Guide to Contract Management

### **Department of Infrastructure, Planning and Logistics**

Accounting for Assets on Leased Land

Contract Management – Adherence to A Guide to Contract Management

### **Department of Local Government, Housing and Community Development**

\$100 Million Stimulus

### **NT Fleet**

Fleet Business System

### **Selected Agencies**

Conflict of Interest Survey

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## Appendix 4: Abbreviations

AASB	Australian Accounting Standards Board
ALOs	Aboriginal Liaison Officers
ASA	Australian Auditing Standard
ASCC	Alice Springs Correction Centre
BWC	Barkly Work Camp
CHA	Central Holding Authority
DCC	Darwin Correction Centre
DCIS	Department of Corporate and Information Services
DCS	Data Centre Services
DIPL	Department of Infrastructure, Planning and Logistics
DoH	Department of Health
DTBI	Department of Trade, Business and Innovation
DWC	Datjala Work Camp
EFT	Electronic Funds Transfer
EPS	Enterprise Project Services
GAS	Government Accounting System
ICT	Information and Communications Technology
IJIS	Integrated Justice Information System
IOMS	Integrated Offender Management System
IT	Information Technology
KPI	Key Performance Indicators
NT	Northern Territory
NTES	Northern Territory Emergency Service
NTG	Northern Territory Government
PIC	Program Implementation Committee
PMF	Project Management Framework
PMMS	Prisoner Money Management System
PPS	Prisoner Purchasing System
PSC	Program Steering Committee
PSOs	Prisoner Support Officers
PTS	Prisoner Telephone System
SMART	Specific, measurable, achievable, relevant and timely

## Appendix 4: Abbreviations cont...

SoD	Statement of Decision
SOP	Standard Operating Procedure
WALAPS	Water Act Licensing and Permit System

# Index of Matters Reported

	Page
<b>Department of Corporate and Information Services</b>	
Core Clinical Systems Renewal Program	21
<b>Department of Environment and Natural Resources</b>	
Water Licences	27
<b>Department of Infrastructure, Planning and Logistics</b>	
System for payments – Darwin Port Lease	84
<b>Department of the Attorney-General and Justice</b>	
Prisoner's Money	43
Pronto and Integrated Offender Management System	63
<b>Department of Trade, Business and Innovation</b>	
System for payments – Darwin Port Lease	84
<b>Jabiru Town Development Authority</b>	
Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019	69
<b>Nitmiluk (Katherine Gorge) National Park Board</b>	
Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019	73
<b>Northern Territory Superannuation Office</b>	
SuperB	76
<b>NT Build</b>	
Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2019	80
<b>Matters Referred to the Auditor-General Pursuant to Section 6 of the <i>Public Information Act 2010</i></b>	
Referral of a complaint to the Auditor-General – “ <i>The Territory Labor Government is Building a Better Barkly</i> ”	95