



Auditor-General for the Northern Territory
Auditing for Parliament

Annual Report

2011 – 2012





Northern Territory Auditor-General's Office
Auditing for Parliament

Annual Report 2011 - 2012

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Our purpose (mission)

To contribute to the Legislative Assembly's scrutiny of the performance of government administration by providing independently analysed and credible information derived from audits of financial information, internal controls, and performance management systems of the Northern Territory public sector.

Our vision

Be recognised as effective and efficient in identifying and analysing issues of substance about the performance of Northern Territory Government administration, and in so doing encouraging improvement in public administration practices.

Our desired outcomes

- Better informed Members of the Legislative Assembly.
- Better informed Agency managers.
- Improved public understanding of public sector performance.
- Increased attention within the Northern Territory public sector to:
 - accuracy of financial information;
 - timeliness of financial and performance information;
 - compliance with internal control and other governance requirements; and
 - implementation of performance management systems and reporting of performance information.
- Assurance about the credibility of information contained in statutory financial reports prepared by public sector entities.

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Foreword

It is my pleasure to present the annual report of the Northern Territory Auditor-General's Office (NTAGO) for the year ended 30 June 2012.

The Office is exempt from the normal requirements to submit an annual report to the Legislative Assembly. However, the preparation of a summary document such as this offers the opportunity to outline the performance of the NTAGO for the year.

Two NTAGO staff members left the NTAGO during the year; Rob Richards who retired after almost nineteen years and Crystal Tierney who left to complete her university studies on a full-time basis.

Rob joined the Office in 1994 after returning to Darwin following a period working in the United Kingdom. In the years that followed Rob made a signal contribution to the work of the Office and to the accounting profession more generally in the Northern Territory through his involvement with the Institute of Chartered Accountants in Australia.

Crystal was employed by the Office on both a full and part-time basis over a period of four years. She is undertaking her Honours year in 2013 on a full-time basis.

The Office extends its thanks to both Rob and Crystal for their contribution to the work of the NTAGO and extends its best wishes for their futures.

Purpose of the report

The purpose of this Annual Report is to provide interested readers with a picture of the operations and performance of the Northern Territory Auditor-General's Office (NTAGO) for the year ended 30 June 2012.

The annual reporting requirements of the NTAGO differ from those of other public sector entities. The *Audit Act* requires the Auditor-General to report to the Legislative Assembly at least once in each financial year. That requirement is generally satisfied by the submission of reports that outline the results of audits and such other matters as considered by the Auditor-General to be relevant to the Legislative Assembly. Two reports were submitted to the Speaker during the year (in October and March) for tabling in the Legislative Assembly. These publications are available from our web site.

In addition, the *Audit Act* also requires that the audited accounts of the NTAGO be tabled in the Legislative Assembly each year. A copy of the tabled financial statements for 2011/12 are included in Appendix A.

Given the requirements of the *Audit Act* and bearing in mind the "arms-length" relationship between the Auditor-General and the Executive, the Public Sector Employment and Management (Exemption) Regulations exempt the Auditor-General from the requirement to submit an annual report to the Minister.

Notwithstanding the legislative provisions governing reporting by the NTAGO, it is important to ensure that those who may have an interest in the overall activities of the NTAGO should receive information on the performance of the Office. This report is the vehicle through which that information is disseminated.

It is worth noting that all agencies and structures contained within this report are of those as of the structure of the NT Government as at the 30th June 2012. In addition, the statistics included in this report have been reviewed and have been updated using a standardised methodology and assessment. Results vary slightly in comparison to previous years as they are based on a revised standardised weighted cost figures and on accrual costs rather than previously reported, cash costs. They are still representative of the overall trends reported historically.

The role of the Auditor-General

The role of the Auditor-General is set out in section 13 of the *Audit Act*. The Act requires the Auditor-General to audit the Public Account and other accounts (including the accounts of a Territory controlled entity) in such manner as he or she thinks fit having regard to the character and effectiveness of internal control and recognised professional standards and practices. The Act also permits the Auditor-General to conduct audits of performance management systems and it requires the Auditor-General to carry out audits as may be directed by the Minister, either generally or specifically, by an instrument in writing.

Relationship between the Auditor-General and the Legislative Assembly

To be independent of both the Legislature and the Executive the Auditor-General is appointed by the Administrator and is deemed to be an Officer of the Crown. Thus, while the Auditor-General is held as discharging his or her obligations under the *Audit Act*, the Act does require the Auditor-General to submit a report to the Legislative Assembly at least once in each year.

This process establishes a relationship between the Legislative Assembly and the Auditor-General, through the activities of the Parliamentary Accounts Committee. The Committee has, as part of its role, the scrutiny of Auditor-Generals' reports. In effect the Committee is the Auditor-General's principal point of access to the Legislative Assembly.

The Auditor-General's concerns are a reflection of his or her mandate under the Audit Act and can be summarised as:

- Accountability – have entities given full and accurate accounts of their activities and of their compliance with the Legislative Assembly's intentions through the annual reporting cycle and are governance and management arrangements suitable to address the concerns identified above?
- Authority – have activities, resourcing and accountability requirements been undertaken within the authority granted by the Legislative Assembly?
- Probity and Financial Prudence – are entities meeting parliamentary and public expectations of an appropriate standard of behaviour in the public sector?

In the discharging of functions under the Act, the Auditor-General is assisted by the Northern Territory Auditor-General's Office, an Agency established pursuant to the provisions of the *Financial Management Act*.

The Auditor-General also has obligations under the *Public Interest Disclosure Act*. That Act permits the Commissioner for Public Interest Disclosures to refer a public interest disclosure to a number of specified office holders, among them the Auditor-General. During 2011/12, no public interest disclosure matters were referred to the Auditor-General under the Act.

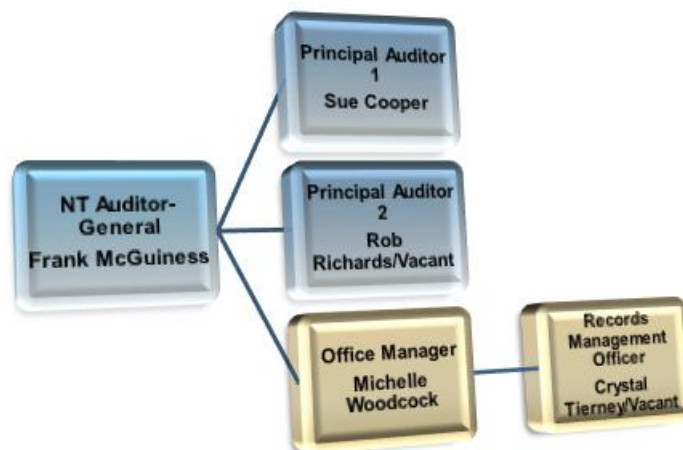
The NTAGO as an Agency

The NTAGO is established as an Agency under the Administrative Arrangements Order and in this capacity it is subject to the same legislative requirements that apply to other Agencies. Thus while the Auditor-General may be independent in terms of performing the functions set down under the Audit Act, he or she is answerable to the Chief Minister for the stewardship of the public resources provided to the NTAGO.

The NTAGO's Internal Resources

The Office has a staffing complement of 5 positions; three Executive Contract officers and two administrative positions. The Auditor-General and the Principal Auditor positions are responsible for managing contracts with Authorised Auditors and for ensuring the Office audit plans are adhered to. The administrative function is responsible for managing the human resources, information technology, records management, Work Health and Safety, financial services and general office administrative activities. The overall Office reporting/work flow structure is shown below at Figure 1

Figure 1 – Organisational Chart



Areas of responsibility

The Office's audit program is divided between the Principal Auditors who are responsible for the high level planning and oversight of specific Agencies activities. Both Principal Auditors are appointed as Authorised Auditors under the *Audit Act* and Figure 2 highlights the Principal Auditors' areas of responsibility for 2011/12.

The NTAGO as an Agency cont...

Figure 2 – Areas of Responsibility

Principal Auditor 1	Principal Auditor 2
CDU Amenities Ltd	Batchelor Institute of Indigenous Tertiary Education
Charles Darwin University	Data Centre Services
Charles Darwin University Foundation	Department of Business and Employment
Cobourg Peninsula Sanctuary and Marine Park Board	Department of Health
Construction Division	Department of Justice
Darwin Bus Service	Department of the Legislative Assembly of the NT
Darwin Port Corporation	Desert Knowledge Australia
Darwin Waterfront Corporation	Government Printing Office
Department of Chief Minister	Jabiru Town Development Authority
Department of Children and Families	Northern Territory Electoral Commission
Department of Construction and Infrastructure	Northern Territory Grants Commission
Department of Education and Training	Northern Territory Legal Aid Commission
Department of Housing, Local Government and Regional Services	Northern Territory Major Events Company Pty Ltd
Department of Housing, Local Government and Regional Services: NT Home Ownership	Northern Territory Police, Fire and Emergency Services
Department of Lands and Planning	NT Build
Department of Natural Resources, Environment and the Arts and Sport	NT Fleet
Department of Resources	Office of the Commissioner for Public Employment
Land Development Corporation	Power and Water Corporation and Subsidiary Companies
Menzies School of Health Research	Public Trustee's Office
Nitmiluk (Katherine Gorge) National Park Board	Superannuation Funds
Northern Territory Treasury	Territory Insurance Office
Northern Territory Treasury Corporation	
Ombudsman's Office	
Surveyors Board of the Northern Territory of Australia	
Territory Discoveries	
Territory Wildlife Parks	
Tourism NT	

The NTAGO as an Agency cont...

In addition to our internal resources, the NTAGO works closely with a number of private sector firms, from which Authorised Auditors are drawn, to achieve the Auditor-General's mandate. Authorised Auditors are appropriately qualified and experienced persons who are appointed by the Auditor-General pursuant to section 17 of the *Audit Act*.

Authorised Auditors were drawn from the following Darwin-based firms during the year:

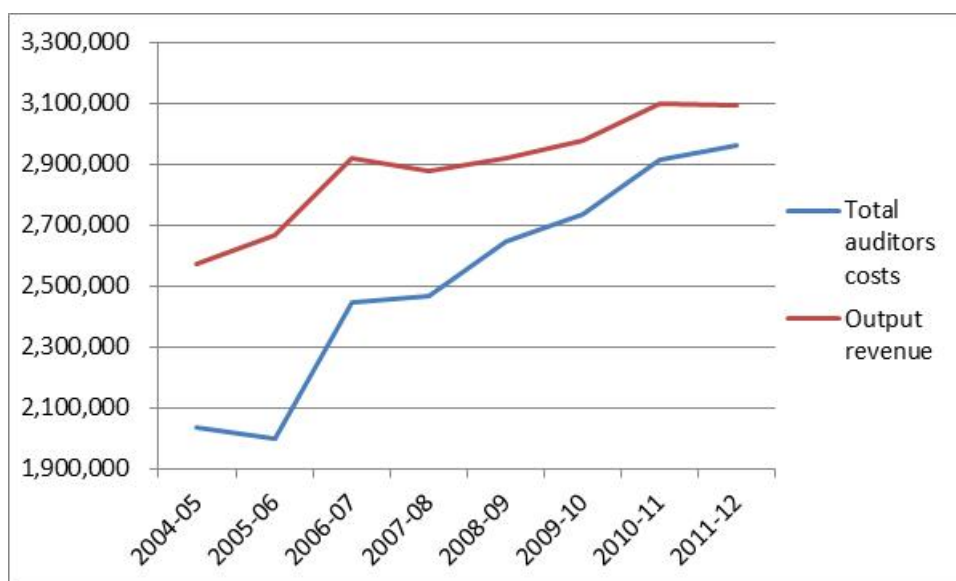
- BDO;
- Deloitte;
- KPMG;
- Merit Partners; and
- TDH Chartered Accountants.

The activities of the NTAGO

The Office operates in an environment of increasing costs. Those increases are driven by the emergence of new accounting standards, increasing “black letter” content in auditing standards and increasing costs for Authorised Auditors. The first two elements affect the planning and conduct of audits and result in increased hours being required to complete audits at a professional standard, while the third element increases the cost per audit hour.

Figure 3 highlights the trend of total audit costs compared to output revenue received. The graph highlights that the overall cost of conducting audits has increased steadily over time at a much higher rate than funding received. Over the 7 years from 2004/05 to 2011/12 audit costs increased at an average annual rate of 5.2% compared with the growth in Output Revenue of 2.7% for the same period.

Figure 3 – Audit costs compared to funding received



A significant part of this “funding gap” has been addressed by a limited cost recovery initiative where the costs of audits are recovered from entities that lie outside the Public Account, and while that initiative has been useful it has not been sufficient to bridge the gap between the growth in expenses and revenues and this is reflected in the emergence of operating losses over the past three years accompanied by operating cash flow deficits and declines in cash balances.

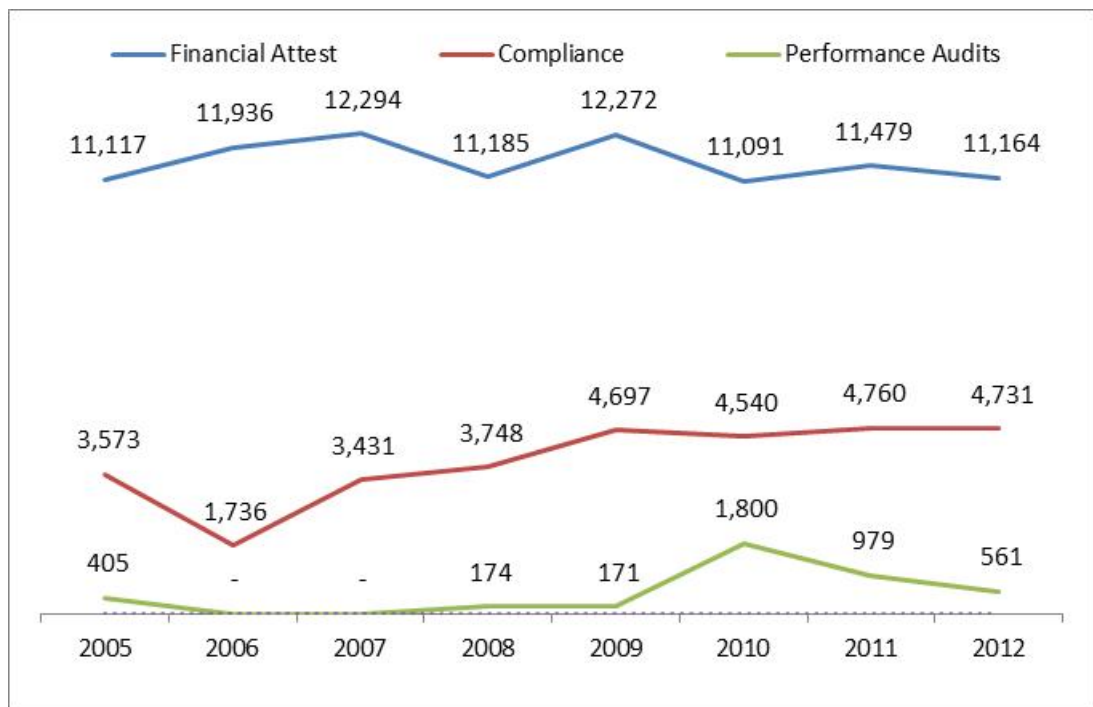
This will need to be addressed seriously for 2013/14 if the Office is to remain effective in its role of supporting the Auditor-General.

The activities of the NTAGO cont...

Provision of audit and other assurance services

The Office conducts a range of audit activities on behalf the Legislative Assembly. During 2011/12, the Office finalised 7 audits carried forward from the previous year and commenced 105 new audits for the year – 98 of these were completed in full. A total of 16,457 hours of audit activity was expended and, of this, 16,633 hours was committed to the 2011/12 audit program (the difference was carried forward to 2012-13). External and internal resources were employed across three broad classes of audits as shown in Figure 4.

Figure 4 – Authorised Audit Hours by Audit Type



The activities of the NTAGO cont...

Financial Statement audits

This class of activity relates to the Auditor-General's statutory duty to carry out audits of financial statements prepared by the Treasurer, statutory bodies, Government Business Divisions and Government Owned Corporations. Also included in this category are audits of funding acquittals prepared by agencies, generally for submission to the Commonwealth.

The number of audit hours allocated to financial statement audits for 2011/12 was 11,164, a decrease of 315 hours or 3 per cent over the prior year.

Financial statement audits lead to two main outputs:

- An audit report that is addressed to readers of the financial statements. It provides the auditor's opinion on whether the financial statements fairly reflect the financial performance and position of the entity being audited. In cases where the Auditor-General is satisfied that the information contained in a set of financial statements is reliable, an unqualified opinion is issued. However, if a material error or omission has been identified in the financial statements or if the financial statements depart from Australian Accounting Standards, a qualified opinion is issued.
- A management report that is addressed to the board or the Accountable Officer, as the case may be, of the public sector entity. The management report sets out any significant issues identified by the auditor during the audit and provides recommendations for improving the entity's controls, systems and processes.

Compliance audits

The accounts of Agencies are generally not audited thus no audit opinion is issued on their annual financial statements. Agencies are viewed as an aliquot part of the Northern Territory Government, with their financial information being audited as part of the audit of the Treasurer's Annual Financial Statement. Given this, Agency compliance audits are performed by the NTAGO to establish the extent to which agencies have implemented systems that enable compliance with the prescribed financial management and accountability requirements. Compliance audits also include reviews of selected internal control systems.

During 2011/12, compliance audit activity utilized 4,731 hours, a decrease of 29 hours over the prior year. The decrease reflects a return to the underlying trend in compliance audit hours following an increased focus on this area in 2010/11.

The activities of the NTAGO cont...

Audits of Information Technology Systems

All organisations depend to varying degrees upon information technology to hold data and to generate information intended to meet the needs of a range of users. Audits were undertaken during the year to assess the system controls in place with a view to forming opinions about the integrity of data held in systems and the reliability of information generated from those systems. These audits were undertaken as part of either financial or compliance audits and the hours incurred are included in either of these classes.

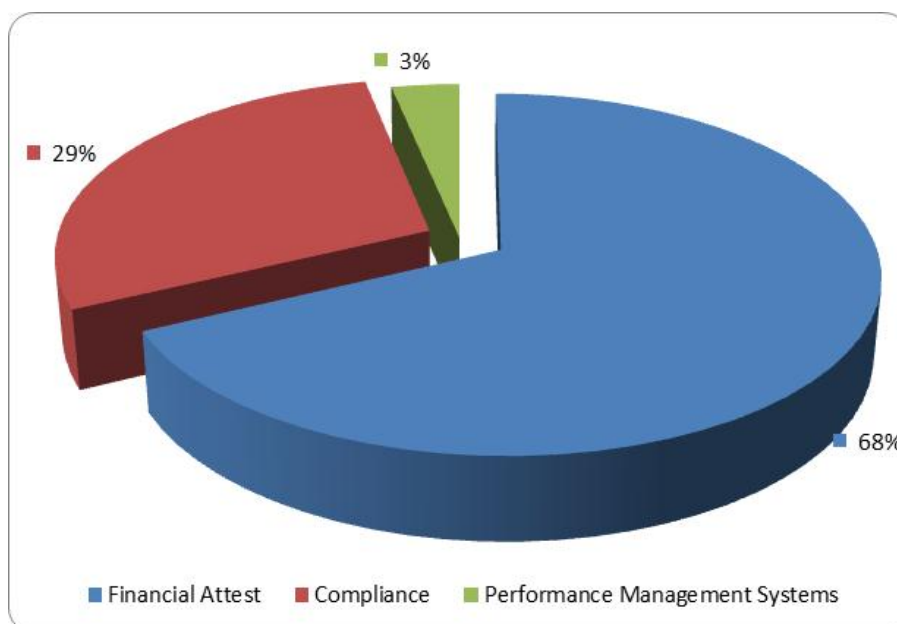
Performance Management Systems

546 of available audit hours were applied to Performance Management System audits, compared to 979 for the prior year, a decline of 433 hours or 44 per cent. Performance management system audits were conducted at the Departments of Education and Training, and Housing, Local Government and Regional Services, together with the Darwin Port Corporation.

Allocation of NTAGO resources between classes of audit

The allocation of the NTAGO's resources between various classes of audit (as measured by actual payments to Authorised Auditors) for 2011/12 is summarised in Figure 5:

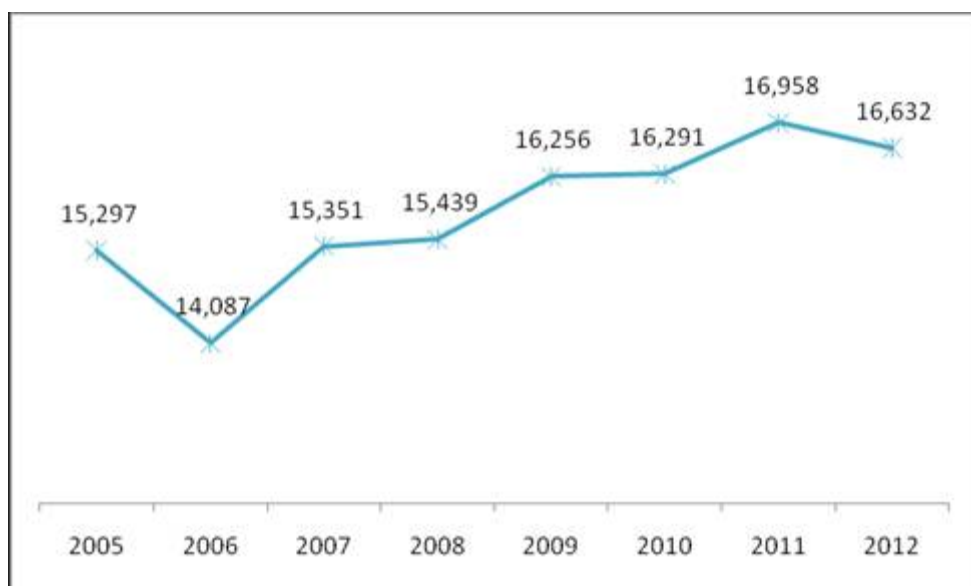
Figure 5 – Audit Hours by Audit Type (% of total hours) 2011/12



The activities of the NTAGO cont...

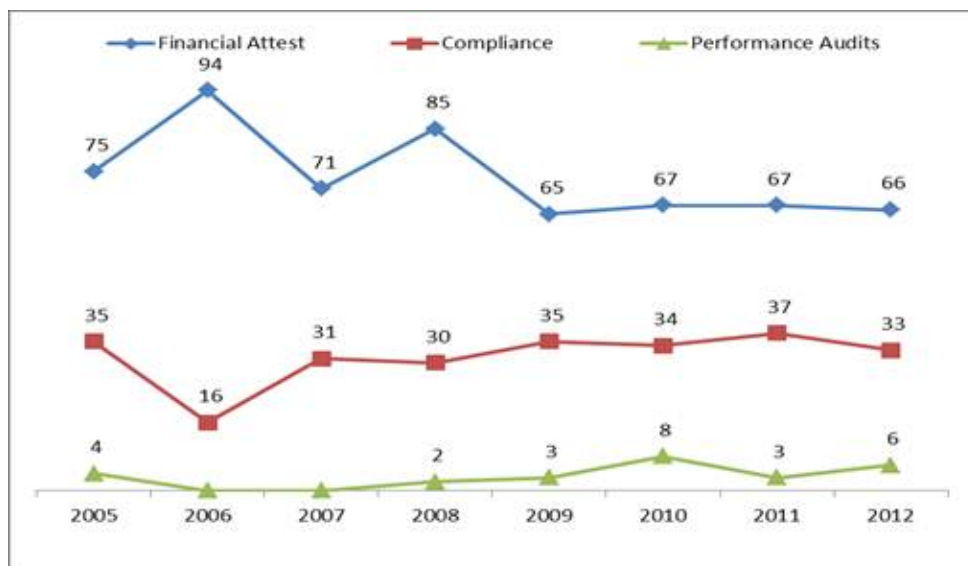
The trend in the total of audit hours committed to all classes of audit is shown at Figure 6.

Figure 6 – Comparison of Total Annual Audit Hours Committed



The Office's level of activity for the past four years, as measured by its outputs, is illustrated in Figure 7 and shows the level of audit activity ended 30 June 2012 as measured by the number of completed audits.

Figure 7 – Comparison of Total Number of New Audits Commenced



The activities of the NTAGO cont...

Figure 8 highlights the costs per annum of the audits committed during the respective year, based on the actual costs for the year.

Figure 8 – Comparison of Total Costs Per Annum

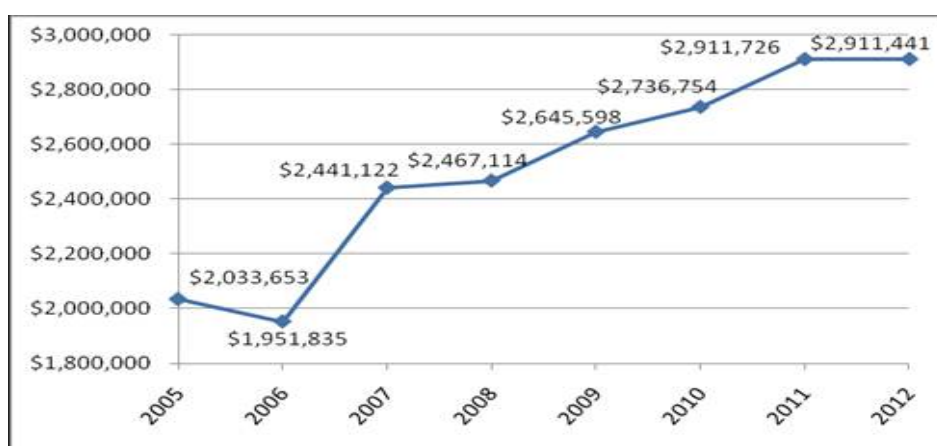
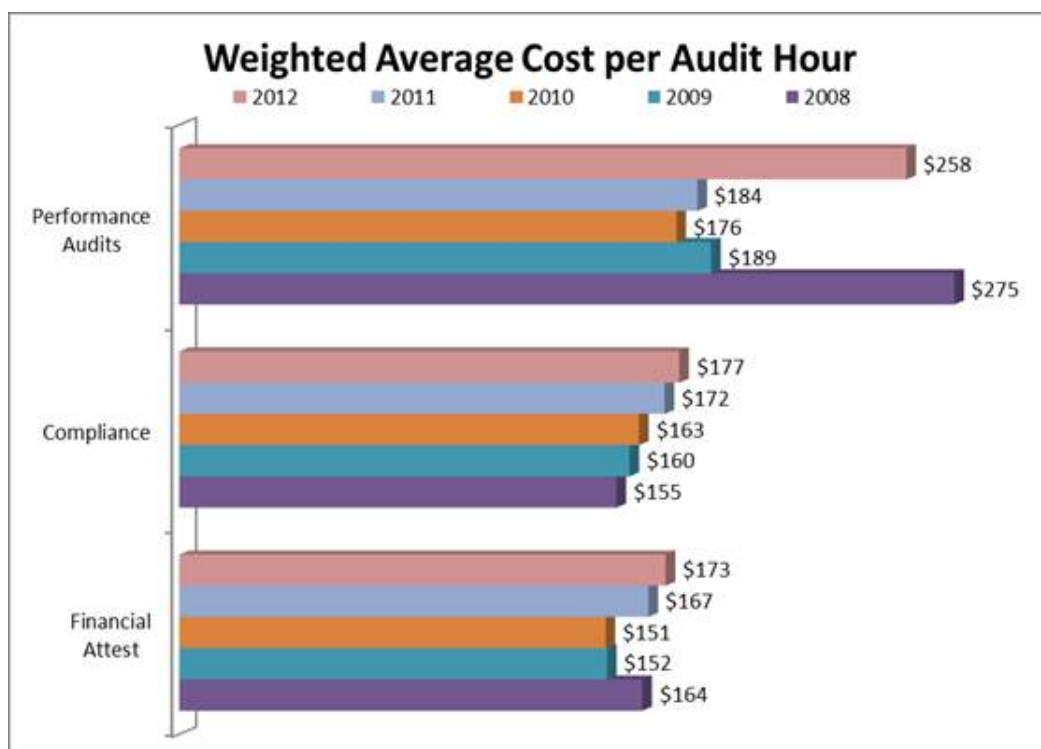


Figure 9 highlights the weighted averages costs per annum of the audits during the respective period.

Figure 9 – Weighted Average cost per Audit Hour



The auditing process – the service delivery relationship

There is a close working relationship between the NTAGO and the private sector Authorised Auditors. NTAGO staff work collaboratively with the Auditor-General to undertake planning, prepare guidelines for individual audit assignments, provide information and technical support, manage the contracts with the Authorised Auditors and conduct a small number of “in-house” audits.

The majority of field audit work is undertaken by the Authorised Auditors and they prepare the necessary working papers, draft reports, opinions and management letters for review by the Auditor-General and his staff. The responsibility for the content of correspondence to Agency managers and for reports submitted to the Legislative Assembly rests solely with the Auditor-General.

The heavy reliance upon private sector firms recognises the difficulties in recruiting appropriately qualified and experienced public sector auditors in a small jurisdiction and in providing suitable opportunities for career development. However, the approach adopted does allow the Office to take advantage of the significant pool of private sector audit experience that is available.

For 2011/12 the expense incurred by the Office in having private firms provide audit services amounted to \$2.9 million from Authorised Auditors. This figure is comparative to the previous year cost of \$2.9 million for the 2010/11 period.

The relationship between the number of hours acquired from Authorised Auditors and the cost incurred by the NTAGO is affected by several factors. For example, the relative weighting between partners, managers and audit seniors can vary between audits, depending upon the nature and complexity of the audit in question. At the same time, the types of audits undertaken will also affect the mix of audit skills employed. For example financial, information technology or specialist insurance auditors may be used depending upon the nature of the audit and this, in turn, affects that average hourly cost of any particular audit.

Our governance framework

Good corporate governance is intended to assist an organisation to achieve its outcomes and obligations through planning, decision-making and risk management.

The Office's corporate governance framework is intended to ensure the efficient use of resources, compliance with statutory and other external requirements, adherence to sound administrative and financial management practices and provides the framework within which the Auditor-General is accountable:

- to the Legislative Assembly for the discharge of the responsibilities allocated under the *Audit Act*, including the ways by which the strategies and goals of the Office are set, promoted and achieved; and
- to the Chief Minister for the stewardship of resources entrusted to the NTAGO.

These obligations are discharged through:

- Submission of reports to the Legislative Assembly each year, setting out the results of audits, together with any observations that may be relevant.
- Appearances by the Auditor-General before the Public Accounts Committee during which Committee has the opportunity to question the Auditor-General and his staff about the content of reports to the Legislative Assembly, and current and planned audits.
- Annual appearances before the Estimates Committee during which the Committee has the opportunity to question the Auditor-General about the activities of the NTAGO.
- Annual financial reporting. The annual financial reports of the NTAGO are audited by an auditor appointed by the Administrator, and the audited reports are tabled to the Legislative Assembly. An unqualified audit opinion on the NTAGO's financial statements was issued for 2011/12 and those statements are included at Appendix A to this report.

Section 26 of the *Audit Act* requires a strategic review of the NTAGO to be conducted at least once every three years. The terms of reference and the appointment of the reviewer are recommended by the Chief Minister to the Administrator, after consultation with the Public Accounts Committee and the Auditor General.

The next review will be conducted in the 2012-13 financial year.

Our governance framework cont...

Reviewing the performance of our Authorised Auditors

Authorised Auditors are appointed under contracts for periods of three years. New contracts that commenced 1st January 2012 were executed during the year, following a tender process. These contracts cover the period 2012-14.

Authorised Auditors are subject to annual performance appraisals by the Auditor-General and as part of that process the Authorised Auditors also provide an assessment of the performance of the Auditor-General and the NTAGO.

The NTAGO has issued two manuals that define the working relationship between Authorised Auditors and the NTAGO. These are:

- the Audit Contract Management Manual which sets out the contractual arrangement between the NTAGO and Authorised Auditors, including qualifications and experience for appointment, and standard operating procedures;
- the Audit Handbook that outlines the types of audits that are conducted and the standards that are to be applied when conducting audits.

The processes for the management of audits generally consists of:

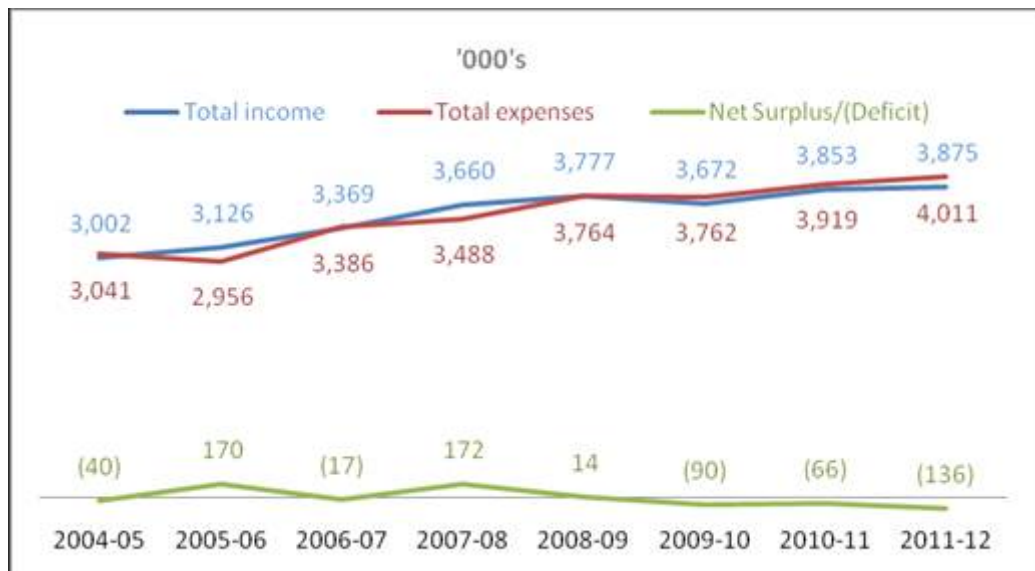
- the issue of Audit Task Assignment forms (ATA's) and audit guidelines to Authorised Auditors by the NTAGO. These documents set the scope and cost of audit tasks, together with guidelines on how the task should be conducted.
- the provision to the NTAGO of weekly progress reports by Authorised Auditors on the status of tasks relative to the completion of the audit.
- the provision of comments by the NTAGO following the completion of the review of audit working papers following the completion of each audit task.
- a formal two-way review of performance standards achieved by the contract auditors and the NTAGO. This process commences at the end of each calendar year and concludes early in the following year.

Our governance framework cont...

Overview of the NTAGO's Financial Performance for the Year

The financial performance of the NTAGO for 2011/12, resulted in a net deficit of \$153,718, compared with a deficit of \$65,624 for the prior year. The principal contributor to the operating result was an increase in expenses for the use of Authorised Auditors.

Figure 10 – Comparative Annual Financial Performance



As in past years, the largest source of revenue of the NTAGO has been Output Revenue that is appropriated by the Legislative Assembly pursuant to the annual *Appropriation Act*. Output Revenue represented 80 per cent of the total income of the NTAGO for 2011/12, (compared with 80 per cent for 2010/11), while audit costs recovered represented 15 per cent (compared with 14 per cent for the prior year). Although audit costs recovered by the NTAGO increased slightly the reduction in Output Revenue meant that total revenues were not sufficient to cover the full cost of operating activity. Consequently, expenses exceeded revenues for a third successive year.

The components of the Office's income for 2011/12 are shown in below.

Our governance framework cont...

Figure 11 – NTAGO Income Components 2011/12

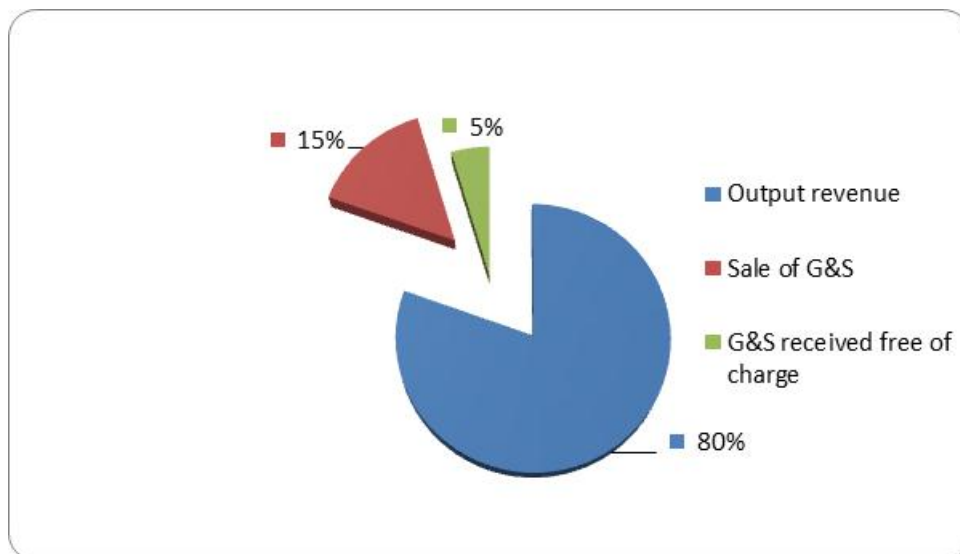
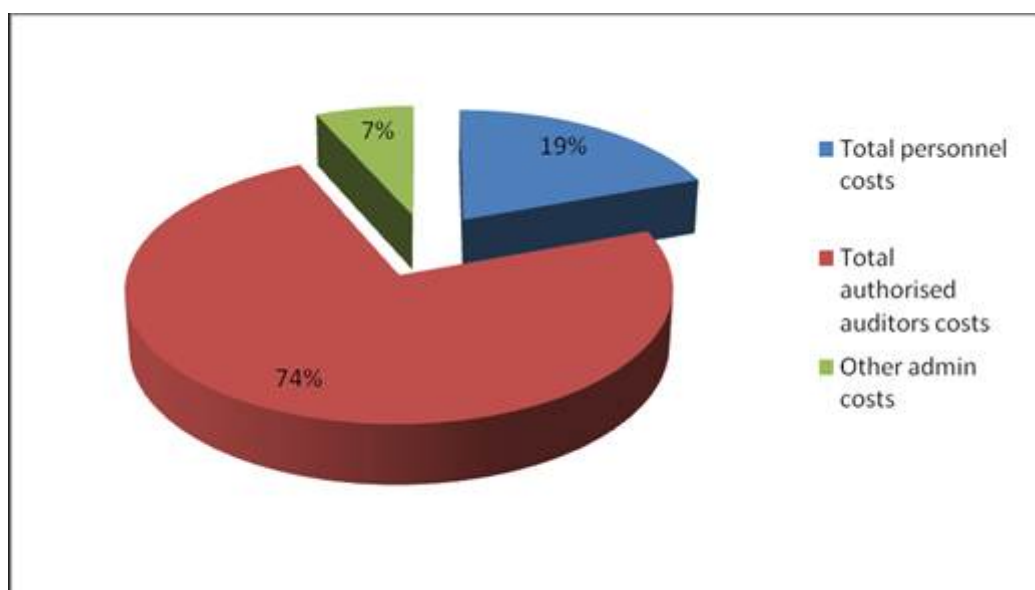


Figure 12, below, highlights the major areas of expense incurred by the NTAGO during the year and also highlights the extent to which the NTAGO's total expenses are dominated by those incurred in the use of Authorised Auditors.

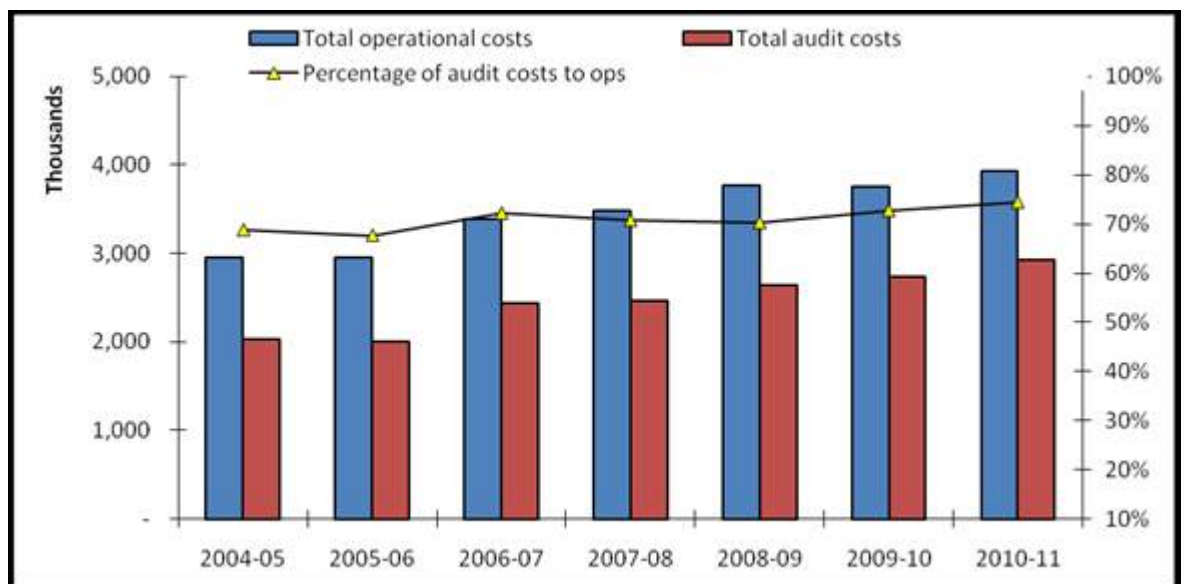
Figure 12 – Purchases of goods and services



Our governance framework cont...

Figure 13 illustrates the percentage of audit costs to total operational costs (including personnel costs). From this, it can be seen that audit costs have ranged between 68-75% of total expenses for the NTAGO.

Figure 13 – Percentage of audit costs to total operational costs



How was the Office funded during the year and how were those funds applied?

The sources of funds available to the Office and the ways in which the funds were applied for the year were as follows:

Figure 14 – Source of funds

Source of funds	\$'000
Output Revenue	3,094
Recoveries of audit costs	590
Goods received free of charge	191
Increase in non-current provisions	18
Decrease in cash and deposits	178
Total Source	\$4,085

and those funds were applied as follows:

Figure 15 – Application of funds

Application of funds	\$'000
Operating expenses	4,029
Decrease in payables	44
Decrease in other provisions	12
Total Application	\$4,085

As can be seen from the above table, the largest sources of funds for the year were revenues received as part of output appropriation and recoveries of audit costs. Also notable was the decline in the cash balances attributable to the Office and which formed part of the sources of funds. The greater part of the funds available to the Office were applied in meeting operating expenses (including salary expenses).

Compliance with legislation

The NTAGO complied with the provisions of the *Information Act* throughout the year insofar as that Act affected the Office. Section 49A of the Act exempts the Office from requests for information obtained or created as a result of an audit. Information held by the NTAGO is mainly derived from the conduct of audits and this information is specifically exempted from this disclosure requirement of the *Information Act*. However, two requests, lodged under the provisions of the Act, were received by the Office during 2011/12. As neither request involved the provision of information connected with the conduct of the audits the requests were complied with.

Employment Instructions issued pursuant to the *Public Sector Employment and Management Act* provides direction to agencies on human resource management matters. The NTAGO's performance against each instruction is outlined below.

Compliance with legislation cont...

Reporting against Employment Instructions

The NTAGO provides information through its report to the Commissioner for Public Employment against the Employment Instructions. A summary of our results are included below:

Figure 16 – Employment Instructions

Employment Instruction	Agency Requirement/Action
No. 1 (& 9). Advertising, Selection Appointment, Transfer and Promotion. No. 2. Probation No. 5. Medical Incapacity. No. 6. Inability to Discharge Duties. No. 7. Discipline. No. 8. Grievances.	The Office incorporates the requirements of the NTG policies and procedures within its own internal policies for these Employment Instructions. During the reporting period, there were no changes or adjustments to positions or any action required against any of these Employment Instructions.
No. 3. Natural Justice.	Staff have access to information about the principles of natural justice. The Office incorporates these principles into its internal code of conduct.
No. 4. Performance Management.	The Office has a focus on training and development CPD requirement for the professional positions. One of the administrative positions is participating in a higher education program. The other administrative position receives day-to-day training and other training to assist in the performance of their role within the agency. The employees meet regularly with the Auditor-General both on an ad-hoc basis as well as regular-timed sessions to discuss performance and commitments. Information is contained within the induction process for new employees.
No. 10. Employee Records.	During the 2011/12 year, the Office commenced processes to incorporate EDRM. Records will be progressively stored electronically rather than paper based files.
No. 11. Equal Employment Opportunity. No. 12. Occupational Health and Safety. No. 14. Part-Time Employment.	See below.

Compliance with legislation cont...

The Office's insurance arrangements

In November 2008, a Treasurer's Direction issued pursuant to the *Financial Management Act* required all Agencies to include insurance related information in their annual reports. The Office had no insurance claims for the 2011/12 year and the ongoing risks are considered to be low.

Environmental policies

The Office is developing records policies and procedures intended to encourage a progressive shift to "paperless" administration. In pursuit of this objective the Office introduced changes during the year that saw the use of electronic filing for audit files and correspondence with an accompanying decline in the use of paper-based records.

Equal employment opportunity

The NTAGO has an Equal Opportunity Management Policy which also incorporates the following:

- Work Life Balance – The NTAGO attempts to provide opportunities for staff to take advantage of work life balance principles. Staff members are encouraged to access training and study opportunities; and to explore opportunities for flexible work arrangements that take account of family and study commitments. Staff are also encouraged to participate and contribute to the Office's day to day operating objectives and directions.

This policy has assisted administrative staff to:

- work part-time while completing professional qualifications; and.
- work part-time to assist in meeting the needs of a young family.

Compliance with legislation cont...

Occupational health and safety

The Office incorporates the NTG policies and procedures into its own operating procedures. Office staff participate in information workshops and meetings arranged by the NTG OH&S unit with other government Agencies. The NTAGO conducts weekly discussions during staff meetings with regard of OH&S and any associated matters. Discussions during 2011/12 were predominately around the introduction of the new Work Health and Safety (WHS) legislation and the preparation of the new WHS Management System required to replace the previous requirements. The new Commonwealth legislation came into effect on the 1st January 2012. OH&S matters are recorded in the minutes of weekly staff meetings.

During this reporting year, there were no accidents or risks identified. In accordance with the Directions for Insurance Reporting (R2.1 – Insurance Arrangements), due to the low risk that accompanies the NTAGO's activities, the agency has self-assessed as being of low risk and, accordingly, no commercial insurance is considered necessary.

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Appendix A – Audited Financial Statements

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Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT

TO THE CHIEF MINISTER OF THE NORTHERN TERRITORY AND THE AUDITOR-GENERAL FOR THE NORTHERN TERRITORY

Scope

I have audited the accompanying financial report of the Northern Territory Auditor-General's Office, which comprises the statement of financial position as at 30 June 2012, and the comprehensive operating statement, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the certification of the financial statements.

Accountable Officer's Responsibility for the Financial Report

The Accountable Officer is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the Financial Management Act and Treasurer's Directions. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

I have conducted an independent audit of the financial report in order to express an opinion on it to the Chief Minister of the Northern Territory and the Auditor-General for the Northern Territory.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Accountable Officer, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

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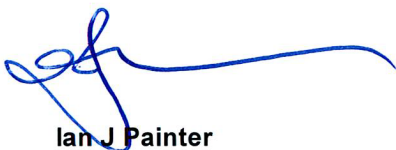
Independence

In conducting my audit, I have complied with the independence requirements of Australian professional ethical pronouncements.

Auditor's Opinion

In my opinion the financial report of The Northern Territory Auditor-General's Office is in accordance with the Financial Management Act and Treasurer's Directions, including:

- (a) giving a true and fair view of the Office's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations)



Ian J Painter
Partner

of PKF Chartered Accountants

Signed in Adelaide this 29th day of August 2012

NORTHERN TERRITORY AUDITOR-GENERAL'S OFFICE

FINANCIAL REPORT

CERTIFICATION OF THE FINANCIAL STATEMENTS

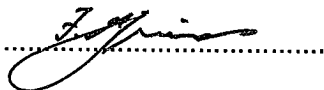
We certify that the attached financial statements for the Northern Territory Auditor-Generals' Office have been prepared from proper accounts and records in accordance with the prescribed format, the *Financial Management Act* and Treasurer's Directions.

We further state that the information set out in the Comprehensive Operating Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, and notes to and forming part of the financial statements, presents fairly the financial performance and cash flows for the year ended 30 June 2012 and the financial position on that date.

At the time of signing, we are not aware of any circumstances that would render the particulars included in the financial statements misleading or inaccurate.

We also advise to the best of our knowledge and belief:

- a) proper records of all transactions affecting the Office are kept and all employees observe the provisions of the *Financial Management Act*, Financial Management Regulations and Treasurer's Directions;
- b) procedures within the Office afford proper internal control and a current description of such procedures is recorded in the accounting and property manual which has been prepared in accordance with the requirements of the *Financial Management Act*;
- c) no indication of fraud, malpractice, major breach of legislation or delegation, major error in or omission from the accounts and records exists;
- d) in accordance with section 15 of the *Financial Management Act*, the internal audit capacity available to the Office is adequate and has been satisfied by the conduct of the annual external audit in accordance with section 27 of the *Audit Act*; and
- e) All Employment Instructions issued by the Commissioner for Public Employment have been satisfied in all material respects, and in particular, the Code of Conduct.



F McGuinness

Auditor-General for the Northern Territory

29 August 2012



MC Woodcock

Office Administrator for the NTAGO

29 August 2012

**NORTHERN TERRITORY AUDITOR-GENERALS OFFICE
COMPREHENSIVE OPERATING STATEMENT**

For the year ended 30 June 2012

	Note	2012 \$000	2011 \$000
INCOME			
Appropriation			
Output		3,094	3,099
Sales of goods and services ^(b)		590	575
Goods and services received free of charge	4	191	179
Other income ^(b)		-	-
TOTAL INCOME	3	<u>3,875</u>	<u>3,853</u>
EXPENSES			
Employee expenses		784	706
 Purchases of goods and services	6	3,053	3,034
Repairs and maintenance		1	-
Other administrative expenses ¹		191	179
TOTAL EXPENSES	3	<u>4,029</u>	<u>3,919</u>
 NET SURPLUS/(DEFICIT)		<u>(154)</u>	<u>(65)</u>
 OTHER COMPREHENSIVE INCOME			
Changes in accounting policies ^(d)		-	-
Correction of prior period errors ^(d)		-	-
TOTAL OTHER COMPREHENSIVE INCOME		<u>-</u>	<u>-</u>
 COMPREHENSIVE RESULT		<u>(154)</u>	<u>(65)</u>

¹ Includes DBE service charges.

The Comprehensive Operating Statement is to be read in conjunction with the notes to the financial statements.

**NORTHERN TERRITORY AUDITOR-GENERALS OFFICE
BALANCE SHEET**

As at 30 June 2012

	Note	2012 \$000	2011 \$000
ASSETS			
Current Assets			
Cash and deposits	7	184	362
Receivables	8	210	223
Prepayments		8	8
Total Current Assets		402	593
Non-Current Assets			
Property, plant and equipment	9	-	-
Total Non-Current Assets		0	0
TOTAL ASSETS		402	593
LIABILITIES			
Current Liabilities			
Payables	10	55	99
Provisions	11	98	110
Total Current Liabilities		153	209
Non-Current Liabilities			
Provisions	11	53	35
Total Non-Current Liabilities		53	35
TOTAL LIABILITIES		206	244
NET ASSETS		195	349
EQUITY			
Retained earnings		0	0
Capital		200	200
Accumulated funds		(5)	145
TOTAL EQUITY		195	345

The Balance Sheet is to be read in conjunction with the notes to the financial statements.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE
STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2012

	Note	Equity at 1 July \$000	Comprehensive result \$000	Transactions with owners in their capacity as owners \$000	Equity at 30 June \$000
2011/12					
Accumulated Funds		149	(154)	-	(5)
Capital – Transactions with Owners		200	(-)	-	200
		200	(-)	-	200
Total Equity at End of Financial Year		349	(154)	-	195
2010/11					
Accumulated Funds		215	(66)	-	149
Capital – Transactions with Owners		200	(-)	-	200
		200	(-)	-	200
Total Equity at End of Financial Year		415	(66)	-	349

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE
CASH FLOW STATEMENT

For the year ended 30 June 2012

	Note	2012 \$000	2011 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating Receipts			
GST received		303	283
Appropriation			
Output		3,094	3,099
Receipts from sales of goods and services		610	576
Other receipts		-	-
Total Operating Receipts		4,007	3,958
Operating Payments			
Payments to employees		778	707
Payments for goods and services		3,098	3,035
GST paid		309	299
Total Operating Payments		4,185	4,041
Net Cash From/(Used in) Operating Activities	12	(178)	(83)
Net Cash From/(Used in) Financing Activities			
Net increase/(decrease) in cash held		(178)	(83)
Cash at beginning of financial year		362	444
CASH AT END OF FINANCIAL YEAR	7	184	362

The Cash Flow Statement is to be read in conjunction with the notes to the financial statements.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

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NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

1. OBJECTIVES AND FUNDING

The Northern Territory Auditor-General's Office (NTAGO) is an Agency established under Administrative Arrangements Order to support the activities of the Auditor-General.

The Auditor-General's role is to audit the Public Accounts and other accounts as required by various Acts of Parliament, to perform such other audits as may be permitted by the Audit Act and to report to the Legislative Assembly at least once in each year.

The Office is funded primarily by, and is dependent upon, the provision of funding by the Legislative Assembly in accordance with the provisions of the Appropriation Act.

These financial statements report on all assets and revenues that were controlled by the Office during the year and through which the Office was able to perform its functions and deliver the outputs specified in the Budget Papers.

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Accounting

The financial statements have been prepared in accordance with the requirements of the *Financial Management Act* and related Treasurer's Directions. The *Financial Management Act* requires the NTAGO to prepare financial statements for the year ended 30 June based on the form determined by the Treasurer. The form of agency financial statements is to include:

- (i) a Certification of the Financial Statements;
- (ii) a Comprehensive Operating Statement;
- (iii) a Balance Sheet;
- (iv) a Statement of Changes in Equity;
- (v) a Cash Flow Statement; and
- (vi) applicable explanatory notes to the financial statements.

The financial statements have been prepared using the accrual basis of accounting, which recognises the effect of financial transactions and events when they occur, rather than when cash is paid out or received. As part of the preparation of the financial statements, all intra-agency transactions and balances have been eliminated.

Except where stated, the financial statements have also been prepared in accordance with the historical cost convention.

The form of the agency financial statements is also consistent with the requirements of Australian Accounting Standards. The effects of all relevant new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are effective for the current annual reporting period have been evaluated. The Standards and Interpretations and their impacts are:

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

AASB 1054 Australian Additional Disclosures, AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, 5, 101, 107, 108, 121, 128, 132 & 134 and Interpretations 2, 112 & 113]

The Standards are a consequence of Phase 1 of the joint Trans-Tasman Convergence project of the AASB and New Zealand's Financial Reporting Standards Board. AASB 2011-1 amends a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonization between Australian and New Zealand Standards. The Standard relocates and deletes various Australian-specific guidance and disclosures from other Standards and aligns the wording used to that adopted in IFRSs. Relocated Australian-specific disclosures are now contained in AASB 1054. The Standards do not impact the financial statements.

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, 7, 101 & 134 and Interpretation 13]

The Standard amends a number of pronouncements as a result of the IASB's 2008-2010 cycle of annual improvements. Key amendments include clarification of content of statement of changes in equity (AASB 101) and financial instrument disclosures (AASB 7). The Standard does not impact the financial statements.

AASB 2010-5 Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]

The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The Standard does not impact the financial statements.

AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & 7]

The Standard makes amendments to AASB 7 *Financial Instruments: Disclosures* resulting from the IASB's comprehensive review of off balance sheet activities. The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The Standard does not impact the financial statements.

AASB 2011-5 Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation [AASB 127, 128 & 131]

The Standard extends relief from consolidation to not-for-profit entities in particular circumstances, by removing the requirement for the consolidated financial statements prepared by the ultimate or any intermediate parent entity to be IFRS compliant, provided that the parent entity and the ultimate or intermediate parent entity are not-for-profit entities that comply with Australian Accounting Standards. The Standard does not impact the financial statements.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

b) Australian Accounting Standards and Interpretations Issued but not yet Effective

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Summary	Effective for annual reporting periods beginning on or after	Impact on financial statements
AASB 9 <i>Financial Instruments (Dec 2010)</i> , AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (Dec 2010)</i> [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	AASB 9 incorporates revised requirements for the classification and measurement of financial instruments resulting from the IASB's project to replace IAS 39 <i>Financial Instruments: Recognition and Measurement</i> (AASB 139 <i>Financial Instruments: Recognition and Measurement</i>).	1 Jan 2013	Nil
AASB 13 <i>Fair Value Measurement</i> , AASB 2011-8 <i>Amendments to Australian Accounting Standards arising from AASB 13</i> [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132]	Replaces the guidance on fair value measurement in existing AASB accounting literature with a single standard. The Standard defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements.	1 Jan 2013	Nil
AASB 2011-9 <i>Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income</i> [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]	Requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently.	1 July 2012	Nil

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

c) Agency and Territory Items

The financial statements of NTAGO include income, expenses, assets, liabilities and equity over which the NTAGO has control (Agency items). Certain items, while managed by the agency, are controlled and recorded by the Territory rather than the agency (Territory items). Territory items are recognised and recorded in the Central Holding Authority as discussed below.

Central Holding Authority

The Central Holding Authority is the 'parent body' that represents the Government's ownership interest in Government-controlled entities.

The Central Holding Authority also records all Territory items, such as income, expenses, assets and liabilities controlled by the Government and managed by agencies on behalf of the Government. The main Territory item is Territory income, which includes taxation and royalty revenue, Commonwealth general purpose funding (such as GST revenue), fines, and statutory fees and charges.

The Central Holding Authority also holds certain Territory assets not assigned to agencies as well as certain Territory liabilities that are not practical or effective to assign to individual agencies such as unfunded superannuation and long service leave.

The Central Holding Authority recognises and records all Territory items, and as such, these items are not included in the agency's financial statements.

d) Comparatives

Where necessary, comparative information for the 2011/12 financial year has been reclassified to provide consistency with current year disclosures.

e) Presentation and Rounding of Amounts

Amounts in the financial statements and notes to the financial statements are presented in Australian dollars and have been rounded to the nearest thousand dollars, with amounts of \$500 or less being rounded down to zero.

f) Changes in Accounting Policies

There have been no changes to accounting policies adopted in 2011/12 as a result of management decisions.

g) Accounting Judgments and Estimates

The preparation of the financial report requires the making of judgments and estimates that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments and estimates that have significant effects on the financial statements are disclosed in the relevant notes to the financial statements. Notes that include significant judgments and estimates are:

- Employee Benefits – Note 2(s) and Note 11: Non-current liabilities in respect of employee benefits are measured as the present value of estimated future cash outflows based on the appropriate Government bond rate, estimates of future salary and wage levels and employee periods of service.
- Allowance for Impairment Losses – Note 2(o), 8: Receivables and 13: Financial Instruments.
- Depreciation and Amortisation – Note 2(k), Note 9: Property, Plant and Equipment, and
- Commitments - Note 14.

h) Goods and Services Tax

Income, expenses and assets are recognised net of the amount of Goods and Services Tax (GST), except where the amount of GST incurred on a purchase of goods and services is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable or payable unless otherwise specified.

i) Income Recognition

Income encompasses both revenue and gains.

Income is recognised at the fair value of the consideration received, exclusive of the amount of GST. Exchanges of goods or services of the same nature and value without any cash consideration being exchanged are not recognised as income.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Appropriation

Output appropriation is the operating payment to each agency for the outputs they provide and is calculated as the net cost of agency outputs after taking into account funding from agency income. It does not include any allowance for major non-cash costs such as depreciation.

Commonwealth appropriation follows from the Intergovernmental Agreement on Federal Financial Relations, resulting in Special Purpose Payments (SPPs) and National Partnership (NP) payments being made by the Commonwealth Treasury to state treasuries, in a manner similar to arrangements for GST payments. These payments are received by Treasury on behalf of the Central Holding Authority and then on-passed to the relevant agencies as Commonwealth appropriation.

Revenue in respect of appropriations is recognised in the period in which the agency gains control of the funds.

Sale of Goods

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when:

- the significant risks and rewards of ownership of the goods have transferred to the buyer;
- the agency retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the agency; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Audit Costs Recovered

Revenue from rendering services is recognised by reference to the stage of completion of the contract. The revenue is recognised when:

- the amount of revenue, stage of completion and transaction costs incurred can be reliably measured; and
- it is probable that the economic benefits associated with the transaction will flow to the entity.
- Revenue from rendering services is recognised on a stage of completion basis.
- All invoices issued are recognised at the amount receivable as they are due for settlement in no more than 30 days. Accrued revenue is recognised when a chargeable audit service has been provided to an agency and the Office has yet to issue an invoice.

Goods and Services Received Free of Charge

Goods and services received free of charge are recognised as revenue when a fair value can be reliably determined and the resource would have been purchased if it had not been donated. Use of the resource is recognised as an expense.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

j) Repairs and Maintenance Expense

Funding is received for repairs and maintenance works associated with agency assets as part of output revenue. Costs associated with repairs and maintenance works on agency assets are expensed as incurred.

k) Depreciation and Amortisation Expense

All depreciable assets controlled by the Office were fully depreciated at the commencement of the 2010/11 financial year. The Office did not record any depreciation or amortisation during the year as a result.

l) Cash and Deposits

For the purposes of the Balance Sheet and the Cash Flow Statement, cash includes cash on hand, cash at bank and cash equivalents. Cash equivalents are highly liquid short-term investments that are readily convertible to cash.

m) Receivables

Receivables include accounts receivable and other receivables and are recognised at fair value less any allowance for impairment losses.

The allowance for impairment losses represents the amount of receivables the agency estimates are likely to be uncollectible and are considered doubtful.

Analyses of the age of the receivables that are past due as at the reporting date are disclosed in an aging schedule under credit risk in Note 13 Financial Instruments.

Reconciliation of changes in the allowance accounts is also presented.

Accounts receivable are generally settled within 30 days and other receivables within 30 days.

n) Property, Plant and Equipment

Acquisitions

All items of property, plant and equipment with a cost, or other value, equal to or greater than \$10 000 are recognised in the year of acquisition and depreciated as outlined below. Items of property, plant and equipment below the \$10 000 threshold are expensed in the year of acquisition.

The construction cost of property, plant and equipment includes the cost of materials and direct labour, and an appropriate proportion of fixed and variable overheads.

Appropriation for all Agency capital works is provided directly to the Department of Construction and Infrastructure and the cost of construction work in progress is recognised as an asset of that Department. Once completed, capital works assets are transferred to the Agency.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

o) Revaluations and Impairment

Revaluation of Assets

Subsequent to initial recognition, assets belonging to the following classes of non-current assets are revalued with sufficient regularity to ensure that the carrying amount of these assets does not differ materially from their fair value at reporting date:

- land;
- buildings;
- infrastructure assets;
- heritage and cultural assets;
- biological assets; and
- intangibles.

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arms-length transaction.

Plant and equipment are stated at historical cost less depreciation, which is deemed to equate to fair value.

The unique nature of some of the heritage and cultural assets may preclude reliable measurement. Such assets have not been recognised in the financial statements.

Impairment of Assets

An asset is said to be impaired when the asset's carrying amount exceeds its recoverable amount.

Non-current physical and intangible agency assets are assessed for indicators of impairment on an annual basis. If an indicator of impairment exists, the agency determines the asset's recoverable amount. The asset's recoverable amount is determined as the higher of the asset's depreciated replacement cost and fair value less costs to sell. Any amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

Impairment losses are recognised in the Comprehensive Operating Statement. They are disclosed as an expense unless the asset is carried at a revalued amount. Where the asset is measured at a revalued amount, the impairment loss is offset against the asset revaluation surplus for that class of asset to the extent that an available balance exists in the asset revaluation surplus.

In certain situations, an impairment loss may subsequently be reversed. Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount. A reversal of an impairment loss is recognised in the Comprehensive Operating Statement as income, unless the asset is carried at a revalued amount, in which case the impairment reversal results in an increase in the asset revaluation surplus.

There were nil assets revalued or impaired for the Office in the reporting period.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

p) Leased Assets

Leases under which the agency assumes substantially all the risks and rewards of ownership of an asset are classified as finance leases. Other leases are classified as operating leases.

q) Finance Leases

The Office was not a party to any finance lease arrangements in the reporting period.

Operating Leases

Operating lease payments made at regular intervals throughout the term are expensed when the payments are due.

The Office has an operating lease that requires monthly payments over a period of four years. Those payments commenced in December 2010 and will conclude in December 2014. Refer Note 14(v).

r) Payables

Liabilities for accounts payable and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the agency. Accounts payable are normally settled within 30 days.

s) Employee Benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries and recreation leave. Liabilities arising in respect of wages and salaries, recreation leave and other employee benefit liabilities that fall due within twelve months of reporting date are classified as current liabilities and are measured at amounts expected to be paid. Non-current employee benefit liabilities that fall due after twelve months of the reporting date are measured at present value, calculated using the Government long-term bond rate.

No provision is made for sick leave, which is non-vesting, as the anticipated pattern of future sick leave to be taken is less than the entitlement accruing in each reporting period.

Employee benefit expenses are recognised on a net basis in respect of the following categories:

- wages and salaries, non-monetary benefits, recreation leave, sick leave and other leave entitlements; and
- other types of employee benefits.

As part of the financial management framework, the Central Holding Authority assumes the long service leave liabilities of Government agencies, including NTAGO and as such no long service leave liability is recognised in agency financial statements.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

t) Superannuation

Employees' superannuation entitlements are provided through the:

- Northern Territory Government and Public Authorities Superannuation Scheme (NTGPASS);
- Commonwealth Superannuation Scheme (CSS); or
- non-government employee-nominated schemes for those employees commencing on or after 10 August 1999.

The agency makes superannuation contributions on behalf of its employees to the Central Holding Authority or non-government employee-nominated schemes. Superannuation liabilities related to government superannuation schemes are held by the Central Holding Authority and as such are not recognised in agency financial statements.

u) Contributions by and Distributions to Government

The agency may receive contributions from Government where the Government is acting as owner of the agency. Conversely, the agency may make distributions to Government. In accordance with the *Financial Management Act* and Treasurer's Directions, certain types of contributions and distributions, including those relating to administrative restructures, have been designated as contributions by, and distributions to, Government. These designated contributions and distributions are treated by the agency as adjustments to equity.

The Statement of Changes in Equity provides additional information in relation to contributions by, and distributions to, Government.

v) Commitments

Disclosures in relation to capital and other commitments, including lease commitments are shown at Note 14.

Commitments are those contracted as at 30 June where the amount of the future commitment can be reliably measured.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2012

3. COMPREHENSIVE OPERATING STATEMENT BY OUTPUT GROUP

	Note	Audits & Reviews 2012 \$000	2011 \$000
INCOME			
Appropriation			
Output		3,094	3,099
Sales of goods and services ^(b)		590	575
Goods and services received free of charge	4	191	179
Other income ^(b)		-	0
TOTAL INCOME		3,875	3,853
EXPENSES			
Employee expenses		784	706
Purchases of goods and services	6	3,053	3,034
Repairs and maintenance		1	-
Other administrative expenses ¹		191	179
TOTAL EXPENSES		4,029	3,919
NET SURPLUS/(DEFICIT)		(153)	(79)
OTHER COMPREHENSIVE INCOME			
Changes in accounting policies ^(d)		-	-
Correction of prior period errors ^(d)		-	-
TOTAL OTHER COMPREHENSIVE INCOME		0	0
COMPREHENSIVE RESULT		(154)	(66)

¹ Includes DBE service charges.

This Comprehensive Operating Statement by output group is to be read in conjunction with the notes to the financial statements.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

	2012 \$000	2011 \$000
4. GOODS AND SERVICES RECEIVED FREE OF CHARGE		
Corporate and information services	(191)	(179)
	(191)	(179)
5. AUDIT COSTS RECOVERED		
Batchelor Institute of Indigenous Tertiary Education	55	48
Charles Darwin University	140	159
Darnor Pty Ltd	10	10
Darwin Waterfront Corporation	30	29
Department of Business and Employment	9	-
Department of Employment, Education and Training	31	42
Department of Local Government, Housing and Sport	10	10
Department of Lands and Planning	27	24
Gasgo Pty Ltd	11	11
Indigenous Essential Services Pty Ltd	29	25
Menzies School of Health Research	29	26
Northern Territory Treasury	20	20
NT Build Statutory Corporation	13	10
NT Legal Aid Commission	24	31
NT Major Events Company Pty Ltd	25	20
PowerWater Corporation	27	-
Territory Insurance Office	101	110
	590	575
6. PURCHASES OF GOODS AND SERVICES		
The net surplus/(deficit) has been arrived at after charging the following major expenses:		
Goods and services expenses:		
Authorised Auditors Fees	2,916	2,913
Consultants	15	-
Document production	6	6
Official duty fares	10	2
Recruitment	-	-
Training and study	13	13
	2,960	2,934
7. CASH AND DEPOSITS		
Cash on hand	-	-
Cash at bank	184	362
	184	362

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

	2012	2011
	\$000	\$000
8. RECEIVABLES		
Current		
Accounts receivable	95	66
Less: Allowance for impairment losses	-	-
 GST receivables	 49	 43
Accrued Revenue	66	114
 Total Receivables	 <u>210</u>	 <u>223</u>

	2012	2011
	\$000	\$000
9. PROPERTY, PLANT AND EQUIPMENT		
Plant and Equipment		
At cost - transfers in	10	10
At cost - transfers out	(10)	-
Less: Accumulated amortisation	-	(10)
 Total Property, Plant and Equipment	 <u>-</u>	 <u>-</u>

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

9. PROPERTY, PLANT AND EQUIPMENT (continued)

2012 Property, Plant and Equipment Reconciliations

A reconciliation of the carrying amount of property, plant and equipment at the beginning and end of 2011/12 is set out below:

	Computer Software \$000	Total \$000
Carrying Amount as at 1 July 2011	10	10
Amortisation	-	-
Additions/(Disposals) from asset transfers out	(10)	(10)
Carrying Amount as at 30 June 2012	-	-

2011 Property, Plant and Equipment Reconciliations

A reconciliation of the carrying amount of property, plant and equipment at the beginning and end of 2010/11 is set out below:

	Computer Software \$000	Total \$000
Carrying Amount as at 1 July 2010	10	10
Amortisation	(10)	(10)
Carrying Amount as at 30 June 2011	-	-

Impairment of Property, Plant and Equipment

Agency property, plant and equipment assets were assessed for impairment as at 30 June 2012. No impairment adjustments were required as a result of this review.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

	2012 \$000	2011 \$000
10. PAYABLES		
Accounts payable	3	(-)
Other payables - Credit Card Control	6	1
Accrued expenses - Authorised Auditors	50	87
Accrued expenses - Audit Fees	10	11
Total Payables	69	99
11. PROVISIONS		
Current		
<i>Employee benefits</i>		
Recreation leave	60	73
Leave loading	3	2
Accrued expenses - Salaries	13	14
<i>Other current provisions</i>		
Employer Superannuation Contribution	11	8
FBT	5	5
Payroll Tax On Costs	6	7
	98	110
Non-Current		
<i>Employee benefits</i>		
Recreation leave	53	35
Total Provisions	151	145
Reconciliations of Provisions ^(a)		
Balance as at 1 July	20	20
Additional provisions recognised	(3)	-
Reductions arising from payments	6	(-)
Balance as at 30 June	23	20

The Agency employed 5 employees as at 30 June 2012 (5 employees as at 30 June 2011).

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

	2012	2011
	_____ \$000	_____ \$000
12. NOTES TO THE CASH FLOW STATEMENT		
Reconciliation of Cash		
The total of agency 'Cash and deposits' of \$184 recorded in the Balance Sheet is consistent with that recorded as 'Cash' in the Cash Flow Statement.	184	362
Reconciliation of Net Surplus/(Deficit) to Net Cash from Operating Activities		
Net Surplus/(Deficit)	(154)	(66)
<i>Non-cash items:</i>		
Depreciation and amortisation	10	-
Asset write-offs/write-downs	(10)	-
Asset donations/gifts		
(Gain)/Loss on disposal of assets	-	-
<i>Changes in assets and liabilities:</i>		
Decrease/(Increase) in receivables	14	(17)
Decrease/(Increase) in prepayments	-	(4)
Decrease/(Increase) in other assets	-	-
Decrease/(Increase) in payables	(30)	19
Decrease/(Increase) in provision for employee benefits	(14)	3
Decrease/(Increase) in other provisions	3	-
Net Cash from Operating Activities	(182)	(65)

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

13. FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments held by the *NTAGO* include cash and deposits, receivables, payables and finance leases. The *NTAGO* has limited exposure to financial risks as discussed below.

a) Categorisation of Financial Instruments

The carrying amounts of the *NTAGO*'s financial assets and liabilities by category are disclosed in the table below.

	2012	2011
	\$000	\$000
Financial Assets		
Cash and deposits	184	362
Accounts receivable	95	66
Financial Liabilities		
Payables	69	99

b) Credit Risk

The agency has limited credit risk exposure (risk of default). In respect of any dealings with organisations external to Government, the agency has adopted a policy of only dealing with credit worthy organisations and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the agency's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

Receivables

Receivable balances are monitored on an ongoing basis to ensure that exposure to bad debts is not significant. A reconciliation and aging analysis of receivables is presented below.

	Aging of Receivables \$000	Aging of Impaired Receivables \$000	Net Receivables \$000
2011/12			
Not overdue	95		95
Total	<u>95</u>	<u></u>	<u>95</u>
2010/11			
Not overdue	66		66
Total	<u>66</u>	<u></u>	<u>66</u>

c) Liquidity Risk

Liquidity risk is the risk that the agency will not be able to meet its financial obligations as they fall due. The agency's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due.

The following tables detail the agency's remaining contractual maturity for its financial assets and liabilities. It should be noted that these values are undiscounted, and consequently totals may not reconcile to the carrying amounts presented in the Balance Sheet.

2012 Maturity analysis for financial assets and liabilities

	Interest Bearing			
	Fixed or Variable	Non Interest Bearing	Total	Weighted Average
		\$000	\$000	%
Assets				
Cash and deposits		184	184	0%
Receivables		210	210	0%
Total Financial Assets		<u>394</u>	<u>394</u>	<u>0%</u>
Liabilities				
Payables		69	69	0%
Total Financial Liabilities		<u>69</u>	<u>69</u>	<u>0%</u>

2011 Maturity analysis for financial assets and liabilities

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

		Interest Bearing			
		Fixed or Variable	Non Interest Bearing	Total	Weighted Average
			\$000	\$000	%
Assets					
	Cash and deposits		362	362	0%
	Receivables		223	223	0%
Total	Financial Assets		585	585	0%
Liabilities					
	Payables	6	63	69	0%
Total	Financial Liabilities	6	63	69	0%

d) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. It comprises interest rate risk, price risk and currency risk.

i. Interest Rate Risk

The NTAGO is not exposed to interest rate risk as agency financial assets and financial liabilities, are non-interest bearing. Finance lease arrangements are established on a fixed interest rate and as such do not expose the NTAGO to interest rate risk.

ii. Price Risk

The NTAGO is not exposed to price risk as the Office does not hold units in unit trusts.

iii. Currency Risk

The NTAGO is not exposed to currency risk as the Office does not hold borrowings denominated in foreign currencies or transactional currency exposures arising from purchases in a foreign currency.

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

(e) Net Fair Value

The fair value of financial instruments is estimated using various methods. These methods are classified into the following levels:

Level 1 – derived from quoted prices in active markets for identical assets or liabilities.

Level 2 – derived from inputs other than quoted prices that are observable directly or indirectly.

Level 3 – derived from inputs not based on observable market data.

	Total Carrying Amount	Net Fair Value Level 1	Net Fair Value Level 2	Net Fair Value Level 3	Net Fair Value Total
	\$000	\$000	\$000	\$000	\$000
2012					
Financial Assets					
Cash and deposits	184		184		184
Receivables	210		210		210
Total Financial Assets	394		394		394
Financial Liabilities					
Deposits held					
Payables	69		69		69
Total Financial Liabilities	69		69		69
2011					
	Total Carrying Amount	Net Fair Value Level 1	Net Fair Value Level 2	Net Fair Value Level 3	Net Fair Value Total
	\$000	\$000	\$000	\$000	\$000
Financial Assets					
Cash and deposits	362		362		362
Receivables	223		223		223
Total Financial Assets	585		585		585
Financial Liabilities					
Payables	99		99		99
Total Financial Liabilities	99		99		99

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

2012	2011
\$000	\$000

14. COMMITMENTS

(i) Authorised Auditors Commitments – external

The model under which the NTAGO operates relies upon the use of Authorised Auditors who are drawn from private accounting firms and appointed by the Auditor-General pursuant to *section 17 of the Audit Act*.

Contracts with various firms are executed each three years and the current contract will expire on 31 December 2014.

The minimum legal commitment to accounting firms for the remaining term of the current contracts are as follows:-

Within one year	3,270	1,097
Later than one year and not later than five years	3,934	-
Later than five years	-	-
	<u>7,203</u>	<u>1,097</u>

Contract from 01/01/2012 to 31/12/14 - with rate increases based on CPI 1st January each year.

(ii) Forward Estimates of Authorised Auditors Expenditure - external

The actual number of hours acquired from accounting firms in each year has historically exceeded the number of hours specified by contract.

On that basis the value of services that are expected to be acquired from accounting firms for the period covered by forward estimates is as follows:-

Contract for Authorised Auditors Services:-

Within one year	2,854	2,591
Later than one year and not later than five years	11,741	10,661
Later than five years	-	-
	<u>14,595</u>	<u>13,252</u>

(iii) Commitments Arising from Work in Progress - external

At 30 June in any year not all audits will be complete and as a result a commitment exists under which the NTAGO will be required to meet the costs of these audits in the following year.

To the extent to which these audits are funded by moneys appropriated by the Legislative Assembly, the commitments will need to be met from the following year's appropriation or from cash balances that the

NTAGO may be permitted to carry forward from one year to the next.

WIP - within one year	128	71
	<u>128</u>	<u>71</u>

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

	2012 \$000	2011 \$000
14. COMMITMENTS (continued)		
<u>(iv) Audit Contract Commitment - external</u>		
The NTAGO relies upon the use of interstate auditors to ensure there is no conflict of interest when auditing the Office's Financial Statements. A 3 year contract is in place with PKF and the current contract will expire on the 30 June 2012.		
Within one year	15	13
Later than one year and not later than five years	34	14
Later than five years	-	-
	49	27
<u>(v) Operating Lease Commitments - external</u>		
The Agency leases items of plant and equipment under non-cancellable operating leases. Future operating lease commitments not recognised as liabilities are payable as follows:		
Within one year	2	2
Later than one year and not later than five years	3	5
Later than five years	-	-
	5	7
<u>(vi) NT Fleet Commitments - internal</u>		
The NTAGO leases motor vehicles from NT Fleet. Future operating lease commitments not recognised as liabilities are payable and included in the forward estimates, as follows:		
Within one year	25	25
Later than one year and not later than five years	100	100
Later than five years	-	-
	125	125
<u>(vii) Data Centre Services Commitments - internal</u>		
The NTAGO is provided with IT Services by Data Centre Services (DBE). Future commitments not recognised as liabilities are payable as follows:		
Within one year	5	5
Later than one year and not later than five years	21	21
Later than five years	-	-
	26	26

NORTHERN TERRITORY AUDITOR-GENERALS OFFICE

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2012

15. WRITE-OFFS, POSTPONEMENTS, WAIVERS, GIFTS AND EX GRATIA PAYMENTS

	Agency		Agency	
	2012	No. of	2011	No. of
	\$000	Trans.	\$000	Trans.
Write-offs, Postponements and Waivers Under the Financial Management Act				
Represented by:				
<i>Amounts written off, postponed and waived by Delegates</i>	0	1	-	-
Total Written Off, Postponed and Waived by Delegates	0	1	-	-

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