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Northern Territory Auditor-General's Office

Auditing for Parliament providing independent analysis



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

22 August 2006

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits conducted during the six months to 30 June 2006 and I request that you table the report today in the Legislative Assembly.

In the main, the Report summarises the outcomes from financial attest audit work performed for the year ended 31 December 2005 and interim audit work in connection with financial statements to be prepared at 30 June 2006. It also includes the results of a cross-Agency review of procurement that was undertaken partly in response to concerns expressed by the previous Public Accounts Committee, together with comments on my experience with the audit of the Yugul Mangi Community Government Council.

Yours faithfully,

Frank McGuinness
Auditor-General for the Northern Territory

Guide to Using This Report

This report summarises the results of the following types of audits conducted during the period 1 January 2006 to 30 June 2006:

- Financial Statement Audits;
- Information Technology Audits; and
- Controls and Compliance Audits.

This Report has 8 sections. Each section deals with a specific audit topic or with a particular Agency or Entity and provides a summary of key findings, my audit opinion, background information, where relevant, and recommendations.

In the case of a **financial statement audit**, an ‘unqualified audit opinion’ means that I am 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 I believe that the report has no material errors and that there was nothing that limited the scope of my audit. If any of these aspects are not met, I issue a ‘qualified audit opinion’ and explain why.

The audit opinion and summaries of key findings represent the more important findings. 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. Reports prepared following completion of financial statement audits include a financial analysis of the financial statements.

Information technology audits are undertaken either as stand-alone audits of key government-wide or Agency systems, or to test systems used in the preparation of annual financial statements.

Controls and compliance audits are conducted of selected systems, account balances or projects and are also intended to assist me in my audit of the Public Account.

In reporting the outcomes from Agency compliance audits, information technology audits, and controls and compliance audits, I have followed the same report format as for financial statement audits except that there is no financial analysis.

Agencies and Entities are provided with the opportunity to comment on any of the matters reported upon. Where they choose to do so, **Agency Responses** are detailed at the end of a particular section. As I discuss my proposed comments with Agency and Entity staff during the drafting process, few ask for formal responses to be included.

Entities referred to in this Report
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<i>By Ministerial Portfolio:</i>	<i>Page(s)</i>
Chief Minister	
Chief Minister, Department of	10 - 11, 24 - 30
Minister for Employment, Education and Training	
Batchelor Institute of Indigenous Tertiary Education	17
Charles Darwin University	14 - 16
Department of Employment, Education and Training	24 - 30
Minister for Health; Minister for Justice and Attorney-General	
Menzies School of Health Research	12 - 13
Department of Health and Community Services	24 - 30
Department of Justice	24 - 30
Minister for Parks and Wildlife	
Cobourg Peninsula Sanctuary and Marine Park Board	18 - 20
Nitmiluk (Katherine Gorge) National Park Board	21 - 23
Minister for Local Government	
Yugul Mangi Community Government Council	31 - 36
Minister for Police, Fire and Emergency Services; Minister for Business and Economic Development; Minister for Essential Services	
Northern Territory Police, Fire and Emergency Services	24 - 30
Power and Water Corporation	24 - 30
Minister for Corporate and Information Services;	
Department of Corporate and Information Services	24 - 30
Former Minister for Transport and Infrastructure; Former Minister for Lands and Planning	
Former Department of Infrastructure, Planning and Environment	24 - 30
Former Minister for Business and Industry	
Former Department of Business, Industry and Resource Development	24 - 30

Auditor-General's Overview

What's In This Report?

The scope of this report is narrower than has been the case for similar reports in recent years. This is a result of a need to redirect audit effort during 2005-06 as part of the adoption by Australia of International Financial Reporting Standards that came into effect for the 2005-06 financial year. The adoption of the new standards required the auditing of restated balance sheets for the 2003-04 year, and restated income statements, balance sheets and cash flow statements for the 2004-05 year to ensure that comparative information to be reported in financial statements for 2005-06 was reliable. This increased level of attestation work was at the expense of compliance audits that would otherwise have been undertaken.

Extension of the Cost-Recovery Regime for NTAGO Audits

During the year I sought, and was given, approval to institute a limited extension to the existing cost-recovery regime and which will see the costs of statutory audits for a small number of public sector entities recovered by this Office. The affected entities are:

- Batchelor Institute of Indigenous Tertiary Education
- Charles Darwin University
- Northern Territory Legal Aid Commission
- Menzies School of Health Research
- NT Build

This initiative should assist the Office to meet the costs of additional audit hours each year that flow from changes in auditing and assurance standards and to implement a limited expansion in audit activity so as to ensure that the Legislative Assembly's expectations are met.

Issues Affecting NTAGO Operations

The approach adopted in the Northern Territory is unique in Australia in that virtually all audit activities conducted by my Office are performed by private sector authorised auditors. Authorised auditors are appropriately qualified individuals from local accounting firms who are appointed by me for a period of three years pursuant to the provisions of the *Audit Act*. The contracting out of audit services brings with it a number of benefits, particularly with regards to the availability of appropriately skilled and experienced personnel. However, the corollary is that the average hourly rate of audits that I conduct is higher than is the case with my interstate counterparts.

Tenders were issued, and contracts awarded, in 2005 for the provision of audit services to the Office for the three years ending December 2008 with the successful tenderers being individuals who already held appointments as authorised auditors. While the continuation of the appointments of existing authorised auditors helps to ensure that knowledge and experience gained over a number of years remains available to the Office, the lack of new firms which are capable of meeting the Office's requirements may constitute a risk that will need to be managed in the medium to longer term.

Auditor-General's Overview

Issues Affecting NTAGO Operations (continued)

As might be expected, the average hourly rates for all classes of audit that were tendered were higher than those that applied previously. These increases are consistent with the relative increases in the costs of providing audit services and the difficulties experienced by accounting firms in attracting and retaining appropriate staff.

The NTAGO and Auditing and Assurance Standards

Auditing and Assurance Standards govern auditing practice in Australia. They are issued by the Australian Auditing and Assurance Standards Board, a statutory body established pursuant to the *Australian Securities and Investments Commission Act*. The reconstitution of the Board as a independent statutory body, now means that auditing and assurance standards have the force of law in circumstances where audits are undertaken pursuant to the requirements of the *Commonwealth Corporations Act 2001*. While this will directly affect some audits undertaken by this Office it will also indirectly affect the approach that I take with respect to all audits.

While it might be said that the decision by the Commonwealth to give auditing and assurance standards legal force has only a limited effect on the operations of my Office given the small number of corporations that are controlled by the Northern Territory Government, it might also be said that the changes reinforce the intention of the *Audit Act*. The *Audit Act* permits me to "audit the Public Account and such other accounts in such manner as he or she thinks fit having regard to recognised professional standards and practices". I have interpreted this as meaning that I, too, am required to adhere to Australian Auditing and Assurance Standards unless there is a valid reason not to do so and to justify any decision on my part to depart from those standards.

Auditing and Assurance Standards are also binding upon my authorised auditors, both by virtue of their status as Registered Company Auditors under the *Corporations Act*, and by their membership of professional accounting bodies. A failure on the part of a Registered Company Auditor to adhere to auditing and assurance standards may leave him or her exposed to disciplinary action by either the Australian Securities and Investments Commission or the recently established Australian Professional and Ethical Standards Board.

The legislative backing given to the standards has been accompanied by a tightening of the standards themselves and this has seen some reduction in the level of discretion which an auditor may exercise and an accompanying increase in the emphasis given to the role of the auditor in ensuring that management have given appropriate attention to the risk of fraud. At the same time there are also more stringent requirements for the documentation of audits, with the official view expressed being one of "if something is not documented it will be considered not to have been done".

While recent changes to the standards might be viewed as the codification of what was previously best practice, they carry with them the potential for changes in the way audits are conducted in the public sector.

Auditor-General's Overview

What Audits are Included In This Report?

This Report outlines the results of audits conducted during the period 1 January 2006 to 30 June 2006. It contains 8 separate reports most of which deal with the results of audits. Six of the eight audits are financial statement attest audits which are intended to determine whether the financial statements prepared by the various entities "present fairly".

The report includes the results of financial audits carried out in respect of educational institutions which report on a calendar rather than a financial year basis. Reports on the financial audits of Cobourg Peninsula Sanctuary and Marine Park Board and Nitmiluk (Katherine Gorge) National Park Board are also included. While these entities report on a financial year basis, the preparation and audit of the statements were delayed for the reasons outlined in the body of the report.

Australian equivalents to International Financial Reporting Standards (A-IFRS) came into effect on 1 January 2005 with the first annual financial report prepared under A-IFRS for public sector entities with 30 June reporting dates being for the year ended 30 June 2006. This has required public sector reporting entities to restate their Balance Sheet and Profit and Loss Statement for 30 June 2005 for inclusion in the 30 June 2006 financial report.

To facilitate the 2005-06 financial statement audits and avoid delays auditing the reporting entities' A-IFRS transition after year end a significant amount of my audit resources were allocated, during the previous six months, to this task.

**Reporting on audits conducted
in the six months ended 30 June 2006**

What is selected for reporting to the Legislative Assembly?

In reporting on the results of audits completed in the six months ended 30 June 2006, this Report outlines only those matters which the Auditor-General considers would contribute fresh and useful information to the Members of the Northern Territory Legislative Assembly.

Records of Parliamentary debates, requests and suggestions to the Auditor-General by Members, and public interest in issues, influence the decisions on the selection of audit topics, and matters to be reported. Matters in the Report include compliance by public sector managers with legislative requirements for financial and performance management; analysis of financial and other performance information; as well as general comment on matters arising from audits conducted.

Members have the opportunity to use the information in reviewing the performance of public sector administration, for which the Executive Government is responsible to the Parliament.

What other reporting arises from audits?

More detailed findings from audits are included in reports issued to the appropriate chief executive officer after each audit.

How is this Report to the Legislative Assembly structured?

This Report presents findings in relation to the audit mandate provided by the *Audit Act*, that is audits of the Public Account and other accounts (described in Appendix 4).

Are entities able to include their responses in the Report?

The *Audit Act* enables entities referred to in the Report to provide comments for publication. These comments, or an agreed summary, must be included in this Report. Where no comment is shown in this Report, the relevant Agency has elected not to provide a response for publication.

**Matters Arising from auditing the
Public Account and other accounts**

	Pages
Ministerial travel	10 - 11
Audit Findings and Analysis of the financial statements of:	
♦ Menzies School of Health Research	12 - 13
♦ Charles Darwin University	14 - 16
♦ Batchelor Institute of Indigenous Tertiary Education	17
♦ Cobourg Peninsula Sanctuary and Marine Park Board	18 - 20
♦ Nitmiluk (Katherine Gorge) National Park Board	21 - 23
Cross-Agency Procurement Review	24 - 30
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Auditing the Public Account and other accounts

Department of the Chief Minister

Ministerial travel

KEY FINDING

- ◆ **The audit identified a significant improvement in the Department's procedures in relation to Ministerial Travel when compared with the position reported in my August 2005 Report to the Legislative Assembly.**

Background

This audit covered the payment of entitlements relating to travel undertaken during the period 1 July 2005 to 31 December 2005 and included travel by Ministers, the Leader of the Opposition, spouses and dependant children as provided in the Remuneration Tribunal Determinations (RTDs).

Travel undertaken by Members of the Legislative Assembly, in their capacity as Ministers or Leader of the Opposition (the Claimants), is administered by the Department of the Chief Minister (the Department). This travel is recorded separately from Members' travel, which is recorded on the Members Entitlements Travel System maintained by the Department of the Legislative Assembly.

A previous audit of this area identified an unacceptably high error rate in the calculations performed in respect of amounts due to Claimants as reimbursement for travel, accommodation and related expenses. This led to Claimants being either under or overpaid regularly through no fault of their own. The problems identified by the audit were subsequently confirmed through work commissioned by the Department and which led to a thorough review of all Claimants' travel claims and to the introduction of changes to the processes for reimbursement. It also led to those who had been affected by past calculation errors either receiving payments as compensation for prior underpayments, or reimbursing the Department for overpayments.

Audit Findings

Opinion

The control procedures examined as part of the audit provide reasonable assurance that payments made in relation to Ministerial Travel, during the period 1 July 2005 to 31 December 2005, comply with the requirements of the RTDs.

Specific findings

The audit identified a significant improvement in the Department's procedures in relation to Ministerial Travel when compared with the position reported in my August 2005 report to the Legislative Assembly. This has resulted in the removal of the adverse audit opinion that I expressed previously.

**Auditing the Public Account and other accounts
Ministerial Travel**

Specific findings (continued)

In particular I note that the replacement of the travel allowance with an expense reimbursement regime has been accompanied by a marked reduction in the incidence of errors associated with the accidental overpayment of travel allowances in circumstances where accommodation costs were paid directly by the Department.

The marked improvements in the Department's procedures that I have noted have enabled me to form the opinion that the control procedures examined provide reasonable assurance that the payments, in relation to Ministerial Travel, during the period audited are in compliance with the requirements of the RTDs. Most of the calculation, payment or authorisation errors that were encountered during the audit were found to have occurred during the first months of the audited period, with a steady improvement noted throughout the remainder of the six months ended 31 December 2005.

Auditing the Public Account and other accounts

Audit findings and Analysis of the financial statements for the year ended 31 December 2005 of:

Menzies School of Health Research

There are no key findings

Audit opinion

The audit of the financial statements of Menzies School of Health Research (the School) for the year ended 31 December 2005 resulted in an unqualified independent audit opinion that was issued on 12 April 2006.

Background

The School was established under the *Menzies School of Health Research Act* in 1985 and operates as a medical research institute within the Northern Territory. The majority of the School's funding is from grants received.

Key issues

The audit disclosed minor matters only, principally relating to the review of an employment contract and the under-payment of entitlements over a period of four years.

Auditing the Public Account and other accounts Menzies School of Health Research

Financial analysis*Abridged Income Statement*

	Notes	2005 \$'000	2004 \$'000
Revenue from continuing operations		<u>15,913</u>	<u>13,656</u>
Less expenses from continuing operations			
Employee benefits	1	8,222	7,294
Administration, operational and other expenses	2	<u>7,850</u>	<u>4,764</u>
Total expenses from ordinary activities		<u>16,072</u>	<u>12,058</u>
Net operating result for the year		<u>(159)</u>	<u>1,598</u>

Explanatory notes:

1. Employee benefits during 2005 includes \$148,000 back-payment of entitlements, extending over four years, paid out to an the former Director of the School due to an oversight in respect of the contract review process.
2. This increase is largely due to a significant increase in the number of projects, and expenses incurred by projects, undertaken by the School. Grants are generally recognised as revenues when they are received. Thus, in most instances, grants that are received in advance are recorded as revenues at the date of their receipt therefore there is not necessarily any nexus between project expenses incurred during the year and the revenues received.

Abridged Balance Sheet

	2005 \$'000	2004 \$'000
Current assets	14,312	13,064
Non-current assets – Property, plant and equipment	<u>940</u>	<u>1,037</u>
Total assets	<u>15,252</u>	<u>14,101</u>
Current liabilities	5,612	4,385
Non-current liabilities	<u>264</u>	<u>142</u>
Total liabilities	<u>5,876</u>	<u>4,527</u>
Net assets	<u>9,376</u>	<u>9,574</u>
Represented by		
Retained earnings	8,097	8,586
Asset Revaluation Reserve	60	109
Capital Equipment Reserve	1,137	808
Investment Revaluation Reserve	<u>82</u>	<u>71</u>
	<u>9,376</u>	<u>9,574</u>

Auditing the Public Account and other accounts

Audit findings and Analysis of the financial statements for the year ended 31 December 2005 of:

Charles Darwin University

There are no key findings

Audit opinion

The audit of the financial statements of the Charles Darwin University for the year ended 31 December 2005 resulted in an unqualified independent audit opinion, which was issued on 29 June 2006.

Background

The Charles Darwin University (the University) is established under the *Charles Darwin University Act* and is a continuation of the entity previously known as the Northern Territory University. It also includes the former Northern Territory Rural College and the Centralian College. From 1 January 2004 the Menzies School of Health Research (the School) became a controlled entity of the University. As a consequence the financial statements of the University have been consolidated and include the revenues, expenses, assets and liabilities that are attributable to the School.

The University provides both Higher Education and Vocational Education and Training (VET). Higher Education funding is provided by the Commonwealth Government through direct grants, and through the Higher Education Contribution Scheme revenues collected by the Commonwealth. VET funding is provided by the Northern Territory Government via the Department of Employment, Education and Training. The University also attracts research funding.

The University produces annual financial statements, as at 31 December each year, which are required to be audited by the Auditor-General.

Key issues

No issues to report.

Auditing the Public Account and other accounts Charles Darwin University

Financial analysis*Abridged Income Statement – CDU only – excluding controlled entities*

	2005	2004
	\$'000	\$'000
Revenue from continuing operations		
Financial assistance from the Commonwealth	41,335	38,520
Financial assistance from the NT Government	51,377	57,804
Other revenue (HECS, fees, interest, etc)	<u>39,759</u>	<u>36,990</u>
Total revenue from ordinary activities	<u>132,471</u>	<u>133,314</u>
Less expenses from continuing operations		
Employee related costs	70,448	68,319
Administration, operational and other expenses	<u>55,849</u>	<u>49,076</u>
Total expenses from ordinary activities	<u>126,297</u>	<u>117,395</u>
Operating result for the year	<u>6,174</u>	<u>15,919</u>

Auditing the Public Account and other accounts Charles Darwin University

Financial analysis (continued)*Abridged Balance Sheet – CDU only – excluding controlled entities*

	2005	2004
	\$'000	\$'000
Current assets		
Bank, and other financial assets	47,065	40,805
Receivables and other current assets	7,566	6,449
Less Current Liabilities	<u>(18,283)</u>	<u>(16,162)</u>
Net Current Assets	36,348	31,092
Add Non Current Assets	<u>221,752</u>	<u>217,961</u>
	258,100	249,053
Less Non Current Liabilities	<u>(3,499)</u>	<u>(4,319)</u>
Net assets	<u>254,601</u>	<u>244,734</u>
Represented by:		
Equity (reserves, restricted and accumulated funds)	<u>254,601</u>	<u>244,734</u>

Auditing the Public Account and other accounts

Audit findings and Analysis of the financial statements for the year ended 31 December 2005 of:

Batchelor Institute of Indigenous Tertiary Education

The Batchelor Institute of Indigenous Tertiary Education (the Institute) did not provide a final signed copy of its financial statements for the year ended 31 December 2005 before 30 June 2006, the period covered by this report.

As such the Institute had breached its statutory financial reporting requirements. However the Institute submitted a final signed copy of its financial statements in mid July and I will report on this in my next report to the Legislative Assembly which is scheduled for February 2007.

Auditing the Public Account and other accounts

Audit findings and Analysis of the financial statements for the year ended 30 June 2005 of:

Cobourg Peninsula Sanctuary and Marine Park Board

KEY FINDINGS

- ◆ **The Board's statutory reporting requirements were not met as the financial report for the year ended 30 June 2005 was not signed by the Board until 9 February 2006.**

Audit Opinion

The audit of the financial statements of Cobourg Peninsula Sanctuary and Marine Park Board (the Board) for the year ended 30 June 2005 resulted in a qualified independent audit opinion, which was issued on 5 April 2006.

My audit opinion was qualified as follows:

“Section 38 of the Cobourg Peninsula Aboriginal Land, Sanctuary and Marine Park Act requires that an Annual Report be submitted to the Minister within the period of 6 months immediately following the end of the financial year or such other period as the Minister determines. The Board did not comply with this requirement in that the financial report for the year ended 30 June 2005 were not signed by the Board until 9 February 2006.”

Background

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

Audit findings

The *Cobourg Peninsula Aboriginal Land, Sanctuary and Marine Park Act*, by reference to section 10 of the *Financial Management Act*, requires the financial report to be provided for audit within two months of the end of the financial year, in this case by 31 August 2005. This requirement was not met as the final signed financial report was not made available to my Office until February 2006.

Auditing the Public Account and other accounts Cobourg Peninsula Sanctuary and Marine Park Board

Financial analysis*Abridged Statement of Financial Performance*

	2005	2004
	\$'000	\$'000
Park Income	254	258
Payments to traditional owners	(241)	(147)
Other revenue	<u>65</u>	<u>71</u>
Revenue from ordinary activities	<u>78</u>	<u>182</u>
Less expenditure from ordinary activities:		
Operational costs	96	88
Depreciation and amortisation	<u>6</u>	<u>6</u>
Total expenditure	<u>102</u>	<u>94</u>
Net Profit/(Loss)	<u>(24)</u>	<u>88</u>

Abridged Statement of Financial Position

	2005	2004
	\$'000	\$'000
Current Assets	274	327
Less Current Liabilities	<u>41</u>	<u>74</u>
Working Capital	233	253
Add Non Current Assets	<u>8</u>	<u>14</u>
	241	267
Less Non Current Liabilities	<u>-</u>	<u>-</u>
Net Assets	<u>241</u>	<u>267</u>
Represented by:		
Equity		
Accumulated Surplus	<u>241</u>	<u>267</u>
Total Equity	<u>241</u>	<u>267</u>

**Auditing the Public Account and other accounts
Cobourg Peninsula Sanctuary and Marine Park Board**

The Department of Natural Resources, Environment and the Arts has commented:

The preparation of the financial statements for the Board for the 2004-05 financial year was delayed for a number of reasons, including a change in Administrative Arrangements and thus responsible Agency. This situation will not occur in relation to the 2005-06 financial statements, which are on target to be provided for audit by the 31 August deadline. Because of the nature of the Board and its remote locality, sign off of the final audited statements can often be delayed. It is intended to allow sufficient time to accommodate unpredictable delays and still meet the statutory tabling time frame.

Auditing the Public Account and other accounts

Audit findings and Analysis of the financial statements for the year ended 30 June 2005 of:

Nitmiluk (Katherine Gorge) National Park Board

KEY FINDINGS

- ◆ **The Board's financial statement reporting requirements were not met as the financial report for the year ended 30 June 2005 were not signed by the Board until 2 February 2006.**

Audit Opinion

The audit of the financial statements of Nitmiluk (Katherine Gorge) National Park Board (the Board) for the year ended 30 June 2005 resulted in a qualified independent audit opinion, which was issued on 16 March 2006.

My audit opinion was qualified as follows:

“Section 26 of the Nitmiluk (Katherine Gorge) National Park Act requires that an Annual Report be submitted to the Minister within the period of 6 months immediately following the end of the financial year or such other period as the Minister determines. The Board did not comply with this requirement in that the financial report for the year ended 30 June 2005 were not signed by the Board until 2 February 2006.”

Background

The Board was formed in 1989 under the *Nitmiluk (Katherine Gorge) National Park Act* (the Act) to acknowledge and secure the right of Aboriginals who are the traditional Aboriginal 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, to provide for the management and control of that Park and certain other land, and for related purposes.

Audit findings

The *Nitmiluk (Katherine Gorge) National Park Act*, by reference to section 10 of the *Financial Management Act*, requires the financial report to be provided for audit within two months of the end of the financial year, in this case by 31 August 2005. This requirement was not met as the final signed financial report was not made available to my Office until February 2006.

Auditing the Public Account and other accounts Nitmiluk (Katherine Gorge) National Park Board
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Financial analysis*Abridged Statement of Financial Performance*

	Notes	2005 \$'000	2004 \$'000
Revenue from ordinary activities			
Park income		971	833
NT Government funding and service provision and sundry income	1	<u>47</u>	<u>1,904</u>
Total revenue from ordinary activities		<u>1,018</u>	<u>2,737</u>
Less expenditure on ordinary activities:			
Operational expenses	1	1,013	1,798
Employee expenses	1	<u>-</u>	<u>716</u>
Total expenditure on ordinary activities		<u>1,013</u>	<u>2,514</u>
Net profit from ordinary activities		<u><u>5</u></u>	<u><u>223</u></u>

Abridged Statement of Financial Position

		2005 \$'000	2004 \$'000
Current assets		479	332
Less Current Liabilities	2	<u>(461)</u>	<u>(284)</u>
Working capital (deficiency)		<u>18</u>	<u>48</u>
Add Non Current Assets		-	-
Less Non Current Liabilities	1	<u>-</u>	<u>(35)</u>
Net liabilities		<u><u>18</u></u>	<u><u>13</u></u>
Represented by:			
Accumulated surplus/ (deficit)		<u><u>18</u></u>	<u><u>13</u></u>

Explanatory notes:

1. In previous years the Board recognised operational costs, inventories and employee liabilities including annual leave, long service leave, fringe benefits tax, payroll tax and superannuation. These items are no longer recognised by the Board as they are incurred or accrued by employees of the Parks and Wildlife Commission of the Northern Territory.
2. The decrease in current liabilities noted in explanatory note 1 is offset by an increase in the provision for payments to Traditional Owners of \$461,000 in 2005.

**Auditing the Public Account and other accounts
Nitmiluk (Katherine Gorge) National Park Board**

The Department of Natural Resources, Environment and the Arts has commented:

The preparation of the financial statements for the Board for the 2004-05 financial year was delayed for a number of reasons, including a change in Administrative Arrangements and thus responsible Agency. This situation will not occur in relation to the 2005-06 financial statements, which are on target to be provided for audit by the 31 August deadline. Because of the nature of the Board and its remote locality, sign off of the final audited statements can often be delayed. It is intended to allow sufficient time to accommodate unpredictable delays and still meet the statutory tabling time frame.

**Auditing the Public Account and other accounts
Cross-Agency Procurement Review**

Background

“In many organizations purchasing remains the least understood and most ineffectively managed of all the business processes”¹.

The Northern Territory Government and its Agencies incurred expenditure exceeding \$800 million in 2004-05 on the purchases of goods and services. It was with this in mind, together with concerns expressed by the former Public Accounts Committee, that a review of procurement practices by public sector Agencies was carried out during late 2005 and early 2006. The objective of the review was to ascertain the extent to which evidence supported the concerns of the Committee about:

- “log jams” in the tendering process may have delayed the awarding of contracts;
- announced tenders were not proceeding to the stage where the tenders were called;
- the extent to which Agencies’ estimates of the likely costs of tenders for the provision of goods or services were reliable;
- the role for “procurement champions” within Agencies as a means of providing advice within Agencies about procurement processes; and
- a continuing need for development of Agencies’ personnel in procurement skills and processes.

The review coincided with a range of whole-of-government procurement reforms managed by the Department of Corporate and Information Services and the issue by that Department of a new set of Procurement Directions. It thus provides a base against which the extent to which the success of the reforms and new Directions might overcome real or perceived problems with the procurement process.

The review covered a total of nine Agencies, which were selected on the basis of their relative size and expenditure of goods and services and not on the basis of any pre-existing concerns about their procurement practices:

- Department of Chief Minister
- Department of Justice
- Northern Territory Police, Fire and Emergency Services
- Department of Corporate and Information Services
- former Department of Business, Industry and Resource Development
- Department of Employment, Education and Training
- Power and Water Corporation
- Department of Health and Community Services
- former Department of Infrastructure, Planning and Environment

1. Steele, P and Court, B, *Profitable Purchasing Strategies*, McGraw Hill, Berkshire, England, 1997, p1

**Auditing the Public Account and other accounts
Cross-Agency Procurement Review**

Background (continued)

It is worth noting that, to the extent audit issues may be raised from time to time about procurement practices with the Northern Territory public sector, those issues are often mirrored in other Australian jurisdictions. Indeed, recent publicity about procurement problems within other jurisdictions has highlighted the difficulties that are encountered and the additional costs that can be incurred if procurement processes should not be well-managed. These problems often reflect issues that are unique to the public sector and which are encountered when seeking to specify requirements for goods or services that are out of the ordinary. However, they may, just as often, reflect a lack of understanding of the importance of procurement, and a lack of skills, both of which are necessary if good procurement principles are to be applied.

Findings

The results of this review suggest that the concerns expressed by the Public Accounts Committee may have been justified. At the same time, the experience in the Northern Territory appears to be similar to that of other jurisdictions. Interestingly, given the scope of governments' procurement activities and the complexity of some procurement decisions, there is little evidence, across all jurisdictions, of the emergence of procurement as a specialised field in its own right. This is in contrast to the corporate sector where the importance of good procurement practices as a means of ensuring the quality and reliability of inputs at the most appropriate price has been recognised and is reflected in the high profile that is often attached to the procurement function.

The extent to which "log jams" may have delayed the award of contracts

There was no clear agreement between Agencies' personnel who were interviewed as part of the review as to when a future tender opportunity might be considered to have been announced. A lack of agreement within Agencies might also be expected to be accompanied by uncertainty among potential suppliers to the Government.

The review tended to support the perception of significant delays between the initial announcement of a tender, or tender opportunity, and the award of a tender. This was illustrated by a mean elapsed time of 110 days between the approval of an *Authority to Invite Tender* and the award of a contract, while the mean elapsed time between the close of a tender and the award of a contract was 60 days. Some caution must be exercised here because the results are based on a sample of tenders that were initiated during the period July 2003 and March 2005 and which were selected as part of the audit, and not the total population of tenders that may have been initiated during that period. Nevertheless the results do suggest that the elapsed times between initiation of the tender process and the award of a contract may have been sufficient to create a perception, on the part of tenderers, of excessive delays.

**Auditing the Public Account and other accounts
Cross-Agency Procurement Review**

The extent to which “log jams” may have delayed the award of contracts (continued)

The principal causes of the delays were identified as:

- an increase in the complexity of tenders during the period under review when compared with the previous financial year, leading to additional time spent on the identification of tender requirements and their documentation;
- the receipt by DCIS: Contract and Procurement Services of non-complying tenders from potential suppliers, leading to additional time being spent on the analysis of lodged tender documents to determine the extent to which the tenders met the requirements of the tendering Agency;
- incomplete scoping of tender requirements by Agencies, leading to the need to issue addenda during the course of the tender process;
- inadequate attention by Agencies to decisions about their future needs and requirements, with an accompanying reconsideration of the need for the tenders; and
- delays by Agencies in providing information sought by the Procurement Review Board.

One issue identified was a lack of rigour within Agencies when determining the initial contract specifications. This often led to delays as a result of incomplete scoping of tender requirements, leading in turn to the need to issue addenda to the original documents. The time taken to assess tender documents tended to be a function of the complexity of the tender and the location for the provision of works and services. The submission by tender registrants of non-complying tenders that resulted in Agencies being required to spend additional time and effort assessing submissions, and in seeking additional information from tenderers, was also a factor in the delays noted.

One observation made during the review was that while initial costs associated with a tender were generally well considered by Agencies, there was often a failure to specify fully the “whole-of-life” costs associated with the provision of a particular good or service.

The extent to which tenders did not come to fruition

A sample of tenders that did not proceed to the stage of the award of a tender was selected and reviewed. Of that sample, 40 per cent were subsequently reissued, while the remainder did not proceed further. Given that, it is possible to draw a conclusion that people with an interest in the outcome of a tender process may form the view that the initial indication by an Agency of a future tender opportunity often did not result in the award of a contract. The principal causes were identified as:

- tender responses received were for values that exceeded original estimates;
- scoping of tenders were not consistent with the works required leading to tenders not meeting Agencies’ requirements; and
- tender responses did not meet the requirements specified in tender documents.

The first two reasons may be a cause of concern in that they tend to indicate the absence of adequate research into the requirements of the Agency and into the market from which goods and services will be sourced.

**Auditing the Public Account and other accounts
Cross-Agency Procurement Review**

The extent to which Agencies' estimates of likely tender costs were reliable

In this case the sample selected comprised tenders where there was a significant disparity between the original estimate of the value of the tender and the final value of the contract awarded. The relative differences ranged from 20 per cent to 3,500 per cent. Information provided by Agencies during the review, coupled with advice provided by Agencies to the Procurement Review Board highlighted failures to obtain realistic estimates for goods and services, and failures to apply sufficient rigour when pricing tenders. For example, there were occasions when:

- estimates of contract values were based on prior contract values with no account being taken of price increases that had occurred in the intervening period; and
- no account was taken of the number of locations where services were to be provided.

In the case of the tender noted above where the relative variation between original estimate and final cost was 3,500 per cent, the original estimate was based upon the supply of services for a period of 12 months whereas tenders were actually sought for the supply of services for a period of 36 months.

Overall the findings of the review tended to support the perception that Agencies had underestimated the likely costs of the goods or services that were being sought and this was reflected a failure to obtain realistic estimates or to a failure to assess fully the issue of pricing when preparing tender specifications. This would suggest that there is a need for Agencies to spend more time gaining an understanding of the markets in which they are sourcing goods and services.

The Role for "Procurement Champions" within Agencies

Procurement champions can play a very important role within organisations in improving the procurement process. Ideally, the procurement champion should be a senior officer in an organisation and a change agent for procurement. They should have responsibility for:

- instigating best value reviews of procurement;
- advocating an Agency's procurement strategy, its alignment with its corporate objectives, its achievement of best value, and its implementation;
- ensuring systems are in place for procurement and contract management and that they are operating effectively;
- ensuring that the objectives of value for money are achieved and that associated risk management policies and systems are in place;
- ensuring that systems are in place to facilitate the involvement of all relevant stakeholders in the process for making key decisions in the procurement cycle for major projects (which includes the development of business cases as well as the awarding of contracts);
- ensuring effective systems are in place for monitoring the performance of partnerships and other key contracts and their impact on the Agency; and
- ensuring that effective systems are in place for capturing information about "lessons learnt" from major projects and partnerships.

**Auditing the Public Account and other accounts
Cross-Agency Procurement Review**

The Role for “Procurement Champions” within Agencies (continued)

It was not clear that those designated as procurement champions in Agencies were in a position to achieve the objectives outlined above. Many of those interviewed as part of the review believed that procurement champions have the potential to achieve more than was being achieved and it was noted that attendance at the Procurement Management Change Meetings had been steadily delegated to less senior staff suggesting that the initial impetus in this area had waned.

Recent Developments

Over the past year DCIS has introduced a number of initiatives intended to improve the procurement process across the public sector. These include:

- the roll-out to Agencies of the Purchase Requisition Online system; and
- the drafting and issue of new Procurement Directions.

The issue of the new Procurement Directions was accompanied by the provision of short training sessions to all Agencies and to industry groups covering:

- the Northern Territory Government’s procurement reform agenda;
- value for money and the “Buy Territory” policy;
- Agency procurement planning;
- public tendering;
- tender assessment criteria and tender lodgement rules;
- process changes in areas such as contractor accreditation and contract variation approvals; and
- the new complaints mechanism and consultation with the Northern Territory Industry Capability Network.

A total of 830 personnel attended the various training and information sessions which were offered in Darwin and major regional centres to outline the new policies.

Presentations were also made to business groups in Darwin and major regional centres.

The new Procurement Directions have improved the clarity of the guidance that is provided to Agencies on matters dealing with the acquisition goods and services and I expect that they will assist in improving the procurement process. However, the NTAGO review findings suggest a more deep-seated problem within Agencies that is associated with a lack of basic skills in framing tender specifications with accompanying difficulties in determining the likely total costs associated with the issue of tender. This suggests the need for the development of the appropriate skills within Agencies.

**Auditing the Public Account and other accounts
Cross-Agency Procurement Review**

The continuing need for development of Agencies' personnel in procurement skills and processes

There is widespread agreement among those interviewed as part of the review of the need for ongoing training and development in the area of procurement given the complexities that can accompany this process.

The Government's procurement reforms were accompanied by a review of training needs and changes to the number of scope of courses offered to Agencies. Eight courses are offered, ranging from an Advanced Diploma in Government (Contract Management) to courses of shorter duration dealing with single topics such as procurement planning.

Almost 1,500 individuals attended training courses in 2004-05, a similar level of attendance to the prior year. However, no strong correlation was observed between the number of attendees from individual Agencies and the number of tenders issued by those Agencies.

Other Matters

The review also included an examination of the Agencies' published strategic or business plans, and annual reports to gauge the extent to which procurement is considered in a strategic context by Agencies and the extent to which the Legislative Assembly and other interested groups are informed about the extent to which procurement is effective in assisting Agencies to achieve their goals.

While several Agencies' plans included references to procurement, only two Agencies appeared to place procurement within a strategic context. While most of the annual reports examined did include some reference to procurement, those references tended to deal with process issues or the need to align processes with the Government's procurement reforms. There was less emphasis on how procurement might be used to assist the Agency to achieve its goals more efficiently or effectively.

Conclusions and Recommendations

The issues identified by the review can be traced to a general lack of experience and training on the part of the staff of Agencies in area of procurement. At the same time, while there was some evidence to suggest that Agencies may have considered procurement at the strategic level, that focus did not appear to be reflected at the operational level, given the issues identified.

The new policies put into place recently by DCIS should now be reinforced by on-going education and training for the staff of all Agencies with emphasis upon:

- analysing past procurement and spending profiles so as to identify savings opportunities;
- analysing future procurement requirements with a view to adopting a better planned, coordinated and aggregated approach to future procurement;
- monitoring performance against savings and efficiency targets;
- the ongoing development and maintenance of procurement skills, and the reinforcement of the importance of good procurement practices.

**Auditing the Public Account and other accounts
Cross-Agency Procurement Review**

The Department of Employment, Education and Training has commented:

The Department supports the comments made by the Auditor-General, and will implement his recommendations where appropriate.

The Department of Health and Community Services has commented:

The Department agrees with the conclusions and recommendations of the Procurement Review. Consistent with these recommendations, planning has commenced within the Department of Health and Community Services to improve management training in the area of procurement. The Department is also participating with other health jurisdictions in a number of reforms to improve strategic management of tendering, procurement, and contract management processes.

The Department of Justice has commented:

The Department of Justice has recognised the need to support increased awareness and improved adherence to correct procurement procedures.

To provide the required support to the department Corporate Services roles were reviewed and restructured to accommodate a Senior Procurement Officer position, the position has a focus (among other responsibilities) on coordinating and delivering support, advice and services to ensure all procurement activity, including leased acquisitions, are all correctly documented, processed, reported upon and managed across the Department.

The position also oversees procurement activities involving amounts exceeding \$10,000, including advice and development of Requests for Tender and advice and involvement in tender evaluation procedures.

The Department of Corporate and Information Services has commented:

DCIS is piloting a course on preparing tender specifications in September 2006 and a course on tender evaluations in December 2006. These two courses are being designed to address the need to develop Agencies personnel in procurement skills and processes.

Auditing the Public Account and other accounts

Analysis of the 30 June 2005 audited financial statements of Local Government Councils

Yugul Mangi Community Government Council

KEY FINDINGS

- ◆ **The audit of the Yugul Mangi Community Government Council (the Council) for the year ended 30 June 2005 resulted in the issuing of an audit report to the Council and reports to funding bodies advising that I was unable to form an opinion about the reliability of the Council's financial statements.**
- ◆ **Issues relevant to the Council may well be indicative of issues faced at other remote Community Government Councils and include:**
 - **control over public moneys provided by other sectors of government**
 - **corporate governance skills of Council members;**
 - **ability to recruit and retain suitably qualified staff;**
 - **meeting financial reporting timeframes; and**
 - **applying Australian Accounting Standards.**

Audit opinion

The audit of the Yugul Mangi Community Government Council (the Council) for the year ended 30 June 2005 resulted in me being unable to form an opinion about the reliability of the Council's financial statements. My audit opinion report was issued on 1 March 2006.

Background

In October 2003 the then Auditor-General was approached by the then Department of Community Development, Sport and Cultural Affairs with a view to having him accept an appointment as auditor of the Council. While the audit of local government councils was not, and is not, viewed as central to the business of the NTAGO the Auditor-General agreed to be appointed as auditor for a period of two years following discussions with the then Minister for Local Government. The Auditor-General assumed the role of auditor of the Yugul Mangi Community Government Council in February 2004.

The appointment of the Auditor-General as auditor of the Council followed a period of difficulty at the Council, which saw the removal of the Council and its Chief Executive with the accompanying appointment of a manager in August 2002. At the same time a Commissioner was appointed to investigate the affairs of the council. A new Council was eventually appointed in January 2004, followed shortly after by a new Chief Executive. That Chief Executive subsequently resigned in June 2004, and, after a delay of some months, yet another Chief Executive was appointed in late 2004.

**Auditing the Public Account and other accounts
Yugul Mangi Community Government Council**

Background (continued)

In November 2004 I received the Council's draft financial statements for the year ended 30 June 2004. This was approximately two months after the date for completion of financial statements set down by the Local Government (Accounting) Regulations.

The results of the audit of those statements were far from satisfactory and saw the issue of my report to the Council that concluded that I was unable to form an opinion about the reliability of the Council's financial statements. At the same time I was also forced to advise the various stakeholder bodies, which required acquittals confirming that funds provided to the Council had been spent appropriately, that I was unable to provide the level of assurance they sought. In essence I formed the view that the Council's financial statements lacked credibility due to fundamental weaknesses in financial administration and systems and this also affected the reliability of information provided to other stakeholders. The Council did not respond to any of the matters raised as a consequence of that audit and the failure to respond was a reflection upon both the Council and, in particular, its senior staff.

Unfortunately, the audit report for the 2004-05 year was no better than that of the prior year. There was no obvious improvement in the Council's financial systems, controls and processes during the intervening twelve months. On the contrary, the situation was arguably worse as the Council had, within a period of twelve months, introduced three separate accounting systems, progressively transferring data from one to the other, with no attempt to ensure that appropriate reconciliations were performed. Again, I found myself in the position of being unable to form an opinion about the reliability of the Council's accounts and unable to give the level of assurance that may have been desired by stakeholder bodies.

My period of appointment as auditor of the Council has now expired and another auditor has been appointed for the next two years consistent with the requirements of the *Local Government Act*.

The Chief Executive and the financial manager who occupied their respective positions during 2004-05 are no longer employed by the Council. A new Chief Executive was appointed in April 2006 and a new, part-time, finance manager was appointed in June 2005. I am confident that these two senior officers will be able to improve the quality of financial management at Yugul Mangi although it is likely that this may require some time.

Auditing the Public Account and other accounts Yugul Mangi Community Government Council
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Key issues

It was clear from the outset that while the new Council was anxious to avoid the fate of its predecessor, the Council members themselves had very limited experience in the management of a local government body, no experience in the field of financial management and that they were required to rely entirely upon the advice of the senior staff who lacked the skills and knowledge to discharge that function properly. Staff who are employed in these types of positions by councils carry a heavy burden; they are required to discharge their primary roles with skill and diligence, while also helping to develop skills within the Council. Sadly, the people who are best able to fulfil those roles rarely view the prospect of living and working in a remote community with enthusiasm.

The *Local Government Act* and *Regulations* require councils to prepare annual financial statements that comply with Australian Accounting Standards. A problem with this requirement is that there is a presumption that members of a council, who are among the principal users of the statements, should have an understanding of the principles that underpin the preparation of financial statements both as an aid to making the appropriate decisions on the basis of the statements and to ensure that they can satisfy themselves about the content and accuracy of the statements prior to signing them and submitting them for audit and ultimately to the Minister. This is unlikely to pose an issue in the case of metropolitan councils, but for members of a council such as Yugul Mangi, the lack of financial skills among Council members places them in a position where they may not understand and hence be unable to act upon the information that the statements contain. On this basis there may be a case for a review of the financial reporting requirements imposed upon Community Government Councils.

The experience with the Yugul Mangi Community Government Council gives rise to the question of whether that council represents an isolated case or whether the circumstances that prevailed there during the 2003-04 and 2004-05 financial years are mirrored across the Northern Territory. If Yugul Mangi is not an isolated instance I have concerns about the extent to which problems involving financial mismanagement, including fraud, loss of assets, unauthorised expenditure or the unauthorised incurrence of liabilities within local government entities may exist, with accompanying threats to the long term financial viability of councils. In particular weaknesses in the financial administration of councils must also give rise to concerns about the extent to which public monies that are passed to councils from other levels of government are properly applied and accounted for.

It is notable that similar comments have been raised elsewhere over a period of years. For example, the Auditor-General of Queensland has noted in his Report No 3 for 2006, *Results of 2004-05 Aboriginal Shire Council and Torres Strain Island Council Audits* that:

“Aboriginal councils and Island councils, as sectors, have particular issues in relation to governance, financial viability and controls over financial transactions and balances which are not as evident in other sectors. The regularity with which similar issues have been raised over many years may suggest that it would be timely to review the complexity and extent of the legislative requirements on those entities that serve relatively small communities and which therefore have limited resources.”

**Auditing the Public Account and other accounts
Yugul Mangi Community Government Council**

Recommendation

The problems identified during the audits of the Yugul Mangi Community Government Council for the years 2003-04 and 2004-05 are seen as emanating from the lack of appropriately skilled and experienced staff to support the Council. At the same time the accounting requirements imposed on this type of Council may be inappropriate given the circumstances. It is recommended that the Department of Local Government, Housing and Sport:

- consider the feasibility of introducing minimum educational and experience requirements for senior officers of Community Government Councils;
- review the Local Government (Accounting) Regulations for their appropriateness in the context of Community Government Councils.

Auditing the Public Account and other accounts Yugul Mangi Community Government Council
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Financial results*Abridged Statement of Financial Performance for the year ended 30 June 2005*

	2005	2004
	\$'000	\$'000
Operating Revenue		
Grants & Contributions	6,274	5,950
Other revenue	<u>1,495</u>	<u>1,312</u>
	<u>7,769</u>	<u>7,262</u>
Operating Expenses		
Employee Costs	4,761	4,429
Materials & contracts	2,190	1,446
Other expenses	<u>3,033</u>	<u>2,866</u>
	<u>9,984</u>	<u>8,741</u>
Capital Grants	<u>1,030</u>	<u>117</u>

Abridged Statement of Financial Position at 30 June 2005

	Notes	2005	2004
		\$'000	\$'000
Current Assets			
Cash on hand and at bank		1,539	1,518
Other assets		<u>476</u>	<u>134</u>
		2,015	1,652
Less Current Liabilities		<u>706</u>	<u>594</u>
		1,309	1,058
Add Non Current Assets		<u>8,605</u>	<u>7,958</u>
Net Assets		<u>9,914</u>	<u>9,016</u>

Note: The financial report of the Council did not balance and was not reconcilable to the prior year's results.

**Auditing the Public Account and other accounts
Yugul Mangi Community Government Council**

The Department of Local Government, Housing and Sport has commented:

I agree with the sentiments contained in your extract about the capacity of remote councils to comply with the complexity of the Local Government Act and Regulations. You have correctly identified the difficulties of attracting suitably qualified staff coupled with the lack of governance capacity by council members to understand the principles of financial statements in their decision making. Unfortunately, the situation is not simply confined to Yugul Mangi.

You have provided two recommendations:

- 1. Consider the feasibility of introducing minimum educational and experience requirements for senior officers of Community Government Councils; and*
- 2. Review the Local Government (Accounting) Regulations for their appropriateness in the context of Community Government Councils.*

In response, I offer the following comments:

- 1. Section 142 of the Local Government Act provides that councils shall appoint a Chief Executive Officer (CEO) who holds prescribed qualifications or whose appointment is approved by the Minister. It is then the responsibility of the CEO, under section 142A(2)(e) to appoint staff in accordance with an organisational structure and resources approved by the Council.*
- 2. The comment is noted about the appropriateness of the Local Government (Accounting) Regulations and the capacity of councils to meet the requirements. However, any reduction in requirements would only enhance the potential for your concerns regarding fraud, loss of assets unauthorised expenditure or the unauthorised incurrence of liabilities affecting the long term viability of Councils.*

The Department continues to pursue best practice through its compliance process, however, it is increasingly apparent that the viability of small remote councils can not be sustained.

Consequently, the Department is developing reform proposals for Government consideration that will ensure service delivery, sustainability and accountability of local governing bodies is dramatically enhanced.

Appendix 1 - Audit opinion reports issued since 31 December 2005

	Date 2005 financial statements tabled to Legislative Assembly	Date of Audit Report Year ended 31 December 2005	<i>Date of Audit Report Year ended 31 December 2004</i>
Entities with specific Legislation or Trust Deeds			
Charles Darwin University	Not yet tabled	30 June 2006	<i>29 June 2005</i>
Charles Darwin University Foundation (a company limited by guarantee)	N/A	5 April 2006	<i>20 April 2005</i>
Charles Darwin University Foundation Trust	N/A	5 April 2006	<i>20 April 2005</i>
Batchelor Institute of Indigenous Tertiary Education	Not yet tabled	Not yet completed	<i>28 June 2005</i>
Menzies School of Health Research	N/A	12 April 2006	<i>14 April 2005</i>
	Deadline for submission of Audited Financial Statement	Date of Audit Report Year ended 31 December 2005	<i>Date of Audit Report Year ended 31 December 2004</i>
Inter-Government Statements by Agreement			
Charles Darwin University Financial Research Data Collection Acquittal	31 August 2006	24 May 2006	<i>21 June 2005</i>

Not yet tabled – as at 30 June 2006

Not yet completed – as at 30 June 2006

Appendix 1 - Audit opinion reports issued since 31 December 2005

	Date 2005 financial statements tabled to Legislative Assembly	Date of Audit Report Year ended 30 June 2005	<i>Date of Audit Report Year ended 30 June 2004</i>
Entities that Sec 10 <i>Financial Management Act</i> applies as though a GBD			
Cobourg Peninsula Sanctuary and Marine Park Board	2 May 2006	5 April 2006	<i>6 December 2004</i>
Nitmiluk (Katherine Gorge) National Park Board	4 May 2006	16 March 2006	<i>28 June 2005</i>
Other Entities/Separate Acts/Trust Deeds			
Yugul Mangi Community Government Council	N/A	1 March 2006	<i>13 June 2005</i>

Appendix 2 - Status of Audits which were identified to be conducted in the six months to 30 June 2006

In addition to the routine audits, primarily compliance audits of selected Agencies, interim audits of entities requiring financial statements opinions, and follow-up of outstanding issues in previous audits, the following audits were identified in Appendix 3 of the February 2006 Report as being scheduled for the period.

Department of the Chief Minister

Ministerial travel

Refer pages 10 - 11

The following audits were either in progress and not completed or deferred in the previous period.

Department of the Chief Minister

Review of the Darwin Waterfront and Convention Centre development project

continuing

Department of Corporate and Information Services

Review of procurement procedures at Contract and Procurement Services

Refer pages 24 - 30

Appendix 3
Proposed audit activity in the six months ending 31 December 2006

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

Darwin Port Corporation

An IT review of PortCam

Department of Corporate and Information services

A review of IT Outsourcing with reference to Desktop Services

A review of the GAS upgrade – post implementation

Department of Planning and Infrastructure

An IT review of the Motor Vehicle Registry System (MOVERS)

Review of the Darwin Waterfront and Convention Centre development project

Appendix 4 - Overview of the Approach to auditing the Public Account and other accounts

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

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

What is the Public Account?

The Public Account is defined in the *Financial Management Act* as:

- a) the Central Holding Authority, and
- b) Operating accounts of Agencies and Government Business Divisions.

Audit of the Public Account

Achievement of the requirements of section 13, including the reference to the character and effectiveness of internal control, as defined, can occur through:

1. annual financial statement audits of entities defined to be within the Public Account, in particular Government Business Divisions, which have a requirement for such audits under the *Financial Management Act*;
2. an audit approach which the Northern Territory Auditor-General's Office terms the Agency Compliance Audit. This links the existence of the required standards of internal control over the funds administered within the Public Account, to the responsibilities for compliance with required standards as defined for Accountable Officers.

Areas of internal control requiring a more in-depth audit, because of materiality or risk, can also be addressed through:

3. specific topic audits of the adequacy of compliance with prescribed internal control procedures. These can be initiated as a result of Agency Compliance Audits, or pre-selected because of the materiality or inherent risk of the activity; and
4. reviews of the accounting processes used by selected Agencies at the end of the financial year, to detect if any unusual or irregular processes were adopted at that time.

**Appendix 4 - Overview of the approach to
auditing the Public Account and other accounts**

Other accounts

Although not specifically defined in the legislation, these would include financial statements of public entities not defined to be within the Public Account, as well as the Trust Accounts maintained by Agencies.

Audit of the Treasurer's Annual Financial Statement

Using information about the effectiveness of internal control identified in the overall control environment review, Agency Compliance Audits and financial statement audits, an audit approach is designed and implemented to substantiate that balances disclosed in the Statement are in accordance with the disclosure requirements adopted by the Treasurer, and are within acceptable materiality standards.

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

Appendix 5

Agencies not audited in the year ended 30 June 2006

Section 13(3) of the *Audit Act* permits the Auditor-General to dispense with an audit of an Agency.

For activities relating to the financial year ended 30 June 2006, no audits were conducted at the following Agencies.

- ◆ Aboriginal Areas Protection Authority
- ◆ Department of Business, Economic and Regional Development
- ◆ Department of Justice
- ◆ Department of Local Government, Housing and Sport
- ◆ Department of Natural Resources, Environment and the Arts
- ◆ Department of Planning and Infrastructure
- ◆ Department of Primary Industry, Fisheries and Mines
- ◆ Department of the Legislative Assembly
- ◆ Land Development Corporation
- ◆ Northern Territory Electoral Commission
- ◆ Northern Territory Police, Fire and Emergency Services
- ◆ Office of the Commissioner for Public Employment
- ◆ Ombudsman's Office

The increasingly stringent requirements of Australian Accounting Standards, and Auditing and Assurance Standards has required that audit effort be directed towards financial audits of those Agencies that are deemed to represent greater materiality and greater risk. Accordingly, no audits of the listed Agencies were conducted for 2005-06. Notwithstanding, it is proposed that each of the listed Agencies will be included in audit coverage at least once every three years.

In regard to the following Agencies end of year reviews of their 2005-06 reported results will be conducted in 2006-07 in support of the audit of the Treasurer's Financial Statement for the year ended 30 June 2006.

- ◆ Department of Justice
- ◆ Department of Local Government, Housing and Sport
- ◆ Department of Planning and Infrastructure
- ◆ Northern Territory Police, Fire and Emergency Services

In addition audit work was conducted at DCIS to obtain reasonable assurance that there are satisfactory internal controls in respect of the central maintenance of the Government Accounting System and over the various financial services provided to Agencies. DCIS audits also were conducted to obtain reasonable assurance that there are satisfactory internal controls in respect of the PIPS payroll and leave recording functions provided to Agencies.

It is also noted that an independent auditor appointed under section 27 of the *Audit Act* conducts an annual audit of the Auditor-General's Office.

Appendix 6 - Abbreviations

A-IFRS	Australian equivalents to International Financial Reporting Standards
CDU	Charles Darwin University
DCIS	Department of Corporate and Information Services
GAS	Government Accounting System
HECS	Higher Education Contribution Scheme
IT	Information Technology
MOVERS	Motor Vehicle Registry System
NTAGO	Northern Territory Auditor-General's Office
RTD	Remuneration Tribunal Determination
VET	Vocational Education and Training

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