



Auditor-General for the Northern Territory  
Auditing for Parliament

# October 2011

## Report to the Legislative Assembly



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**Auditor-General for the Northern Territory**

*Auditing for Parliament*

## **October 2011 Report to the Legislative Assembly**

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# Northern Territory Auditor-General's Office

Auditing for Parliament

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

27 October 2011

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits conducted during the six months ended 30 June 2011 and I request that you table the report today in the Legislative Assembly.

The larger part of the report deals with the results of performance management system audits, and of compliance audits that were performed to assess the adequacy of controls over the administration of public monies. Also included are the results of audits of financial statements for those institutions that are required to report on a calendar year basis.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'F. McGuinness'.

F McGuinness

Auditor-General for the Northern Territory

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# Auditor-General's Overview

## **Audits included in this report**

This report outlines the results of audits conducted during the period 1 January 2011 to 30 June 2011.

The first half of the calendar year saw the completion of audits of the financial statements of the Territory's principal post-secondary educational institutions, being Charles Darwin University, Menzies School of Health Research and Batchelor Institute of Indigenous Tertiary Education. The financial year of each institution aligns with the calendar year which means that each institution submitted its financial statements for audit during the first half of 2011. Discussion about the outcomes of those audits is included in this report.

Financial statements prepared by Agencies each year are not audited as this would first require a direction from the the Treasurer to Accountable Officers to submit those statements to the Auditor-General pursuant to section 11(3) of the *Financial Management Act*. Consequently, I place considerable reliance upon what are known as compliance audits to assess the extent to which Agencies' internal control systems function effectively, whether Agencies are complying with prescribed requirements pertaining to internal control and, flowing from that, whether reliance can be placed upon Agencies' financial statements at the end of each financial year as part of the process of auditing the Treasurer's Annual Financial Statements. Compliance audits were conducted in eleven Agencies during the period covered by this report and a brief overview of the results of those audits is included here.

Audits of procurement processes were conducted across eight Agencies, while information technology audits of Territory Discoveries' Calypso system and the Caresys system at the Department of Health were also performed.

Performance management system audits were conducted at two Agencies, the Darwin Port Corporation, and the Department of Housing, Local Government and Regional Services.

The NTAGO differs from other Agencies in that the financial statements prepared at the end of each financial year are required to be audited by an appropriately qualified auditor who is appointed by the Administrator. The audit for 2010-11 was completed in late August 2011 and the financial statements, together with the report of the auditor were provided by the auditor to the Chief Minister for tabling in the Legislative Assembly.

## Auditor-General's Overview cont...

The way by which my Office undertakes its statutory role differs from other jurisdictions in that a very heavy reliance is placed on staff drawn from local accounting firms and who are appointed as auditors by me pursuant to the provisions of the *Audit Act*. The existing contracts with firms will expire on 31 December 2011. Recommendations were submitted by the Office to the Procurement Review Board in July 2011 following the issue of a Request for Tenders. Those recommendations were approved by the Board in the same month. The new contracts with firms will commence on 1 January 2012.

# NT Auditor-General's Office

## Northern Territory Auditor-General's Office Accounts

The NTAGO is unique among Agencies in that its annual accounts are required to be audited by an auditor appointed by the Administrator.

The accounts for 2010-11 were audited in accordance with the provisions of the *Audit Act* and an unqualified audit opinion was issued on 25 August 2011. A summarized version of the Office's three principal financial statements follows.

### Financial Performance for the year

	2011	2010
	\$'000	\$'000
<b>Income</b>		
Output Revenue	3,099	2,978
Sales of Goods and Services	575	519
Goods and Services Received Free of Charge	179	175
<b>Total Income</b>	<b>3,853</b>	<b>3,672</b>
Employee Expenses	(706)	(735)
Purchases of Goods and Services	(3,034)	(2,851)
Other Administrative Expenses <sup>(1)</sup>	(179)	(176)
<b>Total Expenditure</b>	<b>(3,919)</b>	<b>(3,762)</b>
<b>Net surplus/(deficit)</b>	<b>(66)</b>	<b>(90)</b>

<sup>1</sup> Includes DBE service charges.

## NT Auditor-General's Office cont...

Financial Position at year end		
	2011	2010
	\$'000	\$'000
Current Assets	362	444
Cash and Deposits	223	206
Receivables	8	5
Less Current Liabilities	(209)	(200)
<b>Working Capital</b>	<b>384</b>	<b>455</b>
Less Non Current Liabilities	(35)	(40)
<b>Net Assets</b>	<b>349</b>	<b>415</b>
Represented by:		
Accumulated Funds	149	215
Capital	200	200
<b>Equity</b>	<b>349</b>	<b>415</b>

## NT Auditor-General's Office cont...

Cash Flows for the year	2011	2010
	\$'000	\$'000
<b>Cash Flows from Operating Activities</b>		
Operating Receipts		
Appropriation Output	3,099	2,978
Receipts From Sales of Goods And Services	859	789
<b>Total Operating Receipts</b>	<b>3,958</b>	<b>3,767</b>
Operating Payments		
Payments to Employees	(707)	(726)
Payments for Goods and Services	(3,334)	(3,159)
<b>Total Operating Payments</b>	<b>(4,041)</b>	<b>(3,885)</b>
<b>Net Cash From/(Used In) Operating Activities</b>	<b>(83)</b>	<b>(118)</b>
<b>Cash Flows from Financing Activities</b>		
Equity Injections	-	200
<b>Net Cash From/(Used In) Financing Activities</b>	<b>-</b>	<b>200</b>
<b>Net Increase/(Decrease) in Cash Held</b>	<b>(83)</b>	<b>82</b>
Cash at the beginning of the Financial Year	444	362
<b>Cash at the End of the Financial Year</b>	<b>362</b>	<b>444</b>

## NT Auditor-General's Office cont...

The Office's financial performance for the year was characterised by an operating deficit of \$66,000 and a significant contributor to that result was an increase in expenses incurred in connection with the use of authorised auditors, for which expenses rose by \$204,000 for 2010-11, reflecting increased audit activity for the year and higher rates as a result of increases in the Consumer Price Index. Expenses incurred in respect of authorised auditors represented 90.7 per cent of total administrative expenses, compared with 90.4 per cent for 2009-10.

The operating deficit of \$66,000 for 2010-11 was reflected in a decline in net assets by the same amount and this is shown on the balance sheet, while the Office's operations for the year also resulted in a decline in its cash balances by \$83,000.

The three statements, when taken together, provide an insight into the sources of funds for the Office for the year and the way by which those funds were applied and this is outlined in the following table:

Sources of Funds	2011
	\$'000
Output revenue appropriated by Legislative Assembly	3,099
Revenues from provision of audit and other services	575
Increase in amounts owing to creditors	8
Decrease in cash and deposits	83
	<b>3,765</b>
The funds were applied to:	
Employee expenses	(706)
Purchases of goods and services	(3,034)
Increases in debtors	(17)
Prepayments	(4)
Decline in provisions for employee benefits	(4)
	<b>(3,765)</b>

## NT Auditor-General's Office cont...

### **Appointment of Authorised Auditors for Years 2011-2014**

Section 17 of the *Audit Act* permits the Auditor-General to appoint a person to be an authorised auditor. The NTAGO has, since its establishment, drawn most of the resources required for the conduct of audits from local accounting firms through the process of appointing appropriately qualified and experienced partners and staff of those firms as authorised auditors.

Firms from which staff are drawn enter into contracts for the provision of audit services for periods of three years, with the current contract expiring on 31 December 2011.

A request for tender for the provision of audit services was issued in May 2011, with the recommendations made by the NTAGO approved by the Procurement Review Board in July 2011. The new contracts will commence on 1 January 2012 and expire on 31 December 2014.

As a result of the most recent tendering and contracting process, the following firms will provide staff for the next three years:

- BDO Audit (NT)
- Deloitte Touche Tohmatsu
- KPMG
- Merit Partners Pty Ltd
- TDH Pty Ltd

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## **Reports on the Results of Audits**

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# Batchelor Institute of Indigenous Tertiary Education

## **Audit findings and analysis of the financial statements for the year ended 31 December 2010**

### **Background**

The Batchelor Institute of Indigenous Tertiary Education (the Institute) is established under the *Batchelor Institute of Indigenous Tertiary Education Act*. Section 46 of the Act requires the Institute to prepare financial statements within 3 months of the end of the Institute's financial year (31 December) and to submit those to the Auditor-General.

### **Audit Opinion**

The audit of the financial statements of the Institute for the year ended 31 December 2010 resulted in an unqualified independent audit opinion. That opinion was issued on 15 June 2011.

### **Key Findings**

#### *Financial analysis*

The financial performance and financial position of the Institute are illustrated in the following tables.

## Batchelor Institute of Indigenous Tertiary Education cont...

Financial Performance for the year		
	2010	2009
	\$'000	\$'000
<b>Revenue from continuing operations</b>	<b>41,612</b>	<b>53,337</b>
<b>Less expenses from ordinary activities</b>		
Employee Expenses	(22,601)	(22,875)
Depreciation	(1,394)	(905)
Other	(23,507)	(18,222)
<b>Total expenses from continuous operations</b>	<b>(47,502)</b>	<b>(42,002)</b>
Operating result before Income tax expense	<b>(5,890)</b>	<b>11,335</b>
Less Income tax expense	-	-
Operating result after Income tax expense	<b>(5,890)</b>	<b>11,335</b>
Gain/(Loss) on revaluation of non current assets	(24)	10,006
<b>Total comprehensive Income</b>	<b>(5,914)</b>	<b>21,341</b>

The Institute reported an overall deficit of \$5.9 million for the year, as measured by its total comprehensive income, and that loss incorporates a number of “one off” events that resulted in a decline in the Institute’s net assets over the twelve months ended 31 December 2010.

An examination of the Institute’s operating statement for the year gives an initial impression that its financial performance for 2010 had deteriorated markedly when compared to 2009. However, it is important to note that the 2009 result included “one off” supplementary funding amounting to \$6.4 million from both the Commonwealth and the Territory Governments, and from the receipt of other Commonwealth grants, while 2010 was affected by higher expenses as a result of the requirement to return to the Commonwealth amounts totaling \$6.0 million that represent the value of unexpended grant monies received in 2010 and earlier years.

After adjusting for these abnormal transactions, the Institute was able to achieve a modest underlying operating surplus of \$121,000 for 2010.

## Batchelor Institute of Indigenous Tertiary Education cont...

### Financial Position at year end

	2010	2009
	\$'000	\$'000
Current Assets	18,484	18,610
Less Current Liabilities	(10,970)	(4,870)
<b>Working Capital</b>	<b>7,514</b>	<b>13,740</b>
Add Non Current Assets	30,800	30,498
	38,314	44,238
Less Non Current Liabilities	(685)	(695)
<b>Net Assets</b>	<b>37,629</b>	<b>43,543</b>
Represented by:		
Reserves	27,472	27,496
Accumulated Funds	10,157	16,047
<b>Equity</b>	<b>37,629</b>	<b>43,543</b>

The obligation to return unspent grant monies to the Commonwealth resulted in the recognition of a liability by the Institute as at 31 December 2010, with an accompanying increase in current liabilities and a decline in net assets as at that date.

# Charles Darwin University

## **Audit findings and analysis of the financial statements for the year ended 30 June 2010**

### **Background**

The Charles Darwin University (the University) is established under the *Charles Darwin University Act*. The University controls three subsidiary entities; the Menzies School of Health Research, the Charles Darwin University Foundation, a company limited by guarantee and which acts as trustee of the Charles Darwin University Trust, and CDU Amenities Ltd, which is also a company limited by guarantee.

The University provides both higher education, and vocational education and training (VET). Higher education funding is provided to the University by the Commonwealth Government through direct grants, and through the proceeds of student loans by the Commonwealth under the auspices of the HECS-HELP Scheme. VET funding is provided by the Northern Territory Government through monies appropriated by the Legislative Assembly to the Department of Education and Training. The University also attracts research funding from a variety of sources.

The University is required by its enabling Act to prepare financial statements as at 31 December each year and to submit those statements to the Auditor-General by 31 March each year.

### **Audit Opinion**

The audit of the financial statements of Charles Darwin University for the year ended 31 December 2010 resulted in an unqualified independent audit opinion. That opinion was issued on 28 June 2011.

# Charles Darwin University cont...

## Key Findings

### *Biological Assets*

Biological assets are assets that satisfy the definition contained in the Australian accounting standard AASB 141 *Agriculture*. In the case of the University, biological assets comprise horses and cattle situated at the Katherine Rural College and at Mataranka Station. While the University conducted a muster and count of animals at the end of 2010, I was not able to satisfy myself that the number of animals recorded was reliable. However, the possible discrepancies in stock numbers were not considered sufficiently material to warrant any adverse comment in my audit opinion on the financial statements as the value of biological assets represented less than 2 per cent of the total value of the University's non-current assets at December 2010.

### *Financial Performance and Financial Position of the University*

The financial performance of the University, as measured by its operating result, was almost unchanged from the prior year at \$15.2 million (\$15.7 million for 2009). The higher education component of the University achieved a surplus of \$20.5 million for the year, which was offset by a \$5.3 million deficit on the part of the VET component.

### **A Financial Position at year end – excluding controlled entities**

	2010	2009
	\$'000	\$'000
Current Assets	99,810	118,956
Less Current Liabilities	(28,625)	(48,155)
<b>Working Capital</b>	<b>71,185</b>	<b>70,801</b>
Add Non Current Assets	368,021	310,250
	439,206	381,051
Less Non Current Liabilities	(1,189)	(1,182)
<b>Net Assets</b>	<b>438,017</b>	<b>379,869</b>
Represented by:		
Reserves, restricted and accumulated funds	438,017	379,869
<b>Equity</b>	<b>438,017</b>	<b>379,869</b>

## Charles Darwin University cont...

The net assets of the University increased by \$62.9 million to \$481.4 million at the end of 2010. The significant factors that led to that increase were increases in the value of building works completed during the year (\$28.4 million) and the revaluation of existing improvements (\$34.7 million).

The University's cash position deteriorated by \$24.3 million to a figure of \$116.8 million at 31 December 2010. That decline reflects the outflow of cash to finance acquisition of property, plant and equipment, offset by a small cash surplus of \$3.5 million from operating activities for the year.

The University's financial performance and position are summarized in the following tables.

## Charles Darwin University cont...

### Financial Performance for the year – excluding controlled entities

	2010	2009
	\$'000	\$'000
<b>Revenue from ordinary activities</b>		
Financial assistance from the Commonwealth	83,452	69,248
Financial assistance from the NT Government	66,846	67,665
Other revenue (HECS, fees, interest, etc)	73,318	70,237
<b>Total revenue from ordinary activities</b>	<b>223,616</b>	<b>207,150</b>
<b>Less expenses from ordinary activities</b>		
Employee related costs	(117,399)	(103,969)
Administration, operational and other expenses	(91,012)	(87,490)
<b>Total expenses from ordinary activities</b>	<b>(208,411)</b>	<b>(191,459)</b>
<b>Operating result for the year</b>	<b>15,205</b>	<b>15,691</b>

The increase in revenue for the year was a result of:

- an increase of \$5.0 million in Commonwealth Operating Grants, a \$9.2 million increase in Northern Territory Operating Grants (including an increase in Vocational Education and Training funding of \$6.5 million), a \$3.8 million increase in Other Australian Government Grants and a net overall increase in capital funding of approx \$2.7 million;
- an increase in HECS – HELP, and Fees and Charges of \$6.8 million as a result of increases in student numbers and course fees;
- an increase in investment revenue of \$1.9 million as a result of an improved rates of return that reflect, in part, the recovery from the declines experienced in 2009 as a result of the global financial crisis.

## Charles Darwin University cont...

These increases were offset by:

- a decline in incomes from consultancies and contracts of approximately \$5.1 million due to a reduction in the number of research projects;
- an increase in employee benefits and on-costs of \$17.3 million due to an increase in the number of employees coupled with an increase in average salaries and other increases flowing from Enterprise Bargaining Agreements during the year; and
- an increase in other expenses by \$7.8 million, specifically a \$1.0 million increase in scholarships, grants and prizes, a \$1.4 million increases in expenses incurred in relation to equipment that was not capitalised and an increase of \$2.7 million in expenses incurred in relation to materials.

# Charles Darwin University Foundation

## **Audit findings and analysis of the financial statements for the year ended 31 December 2010**

### **Background**

The Charles Darwin University Foundation (the Foundation) is a public company limited by guarantee that acts as trustee of the Charles Darwin University Foundation Trust (the Trust). The Foundation incurs liabilities on behalf of the Trust and discharges those liabilities out of the assets of the Trust.

The Foundation and the Trust were established as the fundraising arm of the University and both are controlled entities of the University within the meaning of section 41 of the *Charles Darwin University Act*.

The purpose of the Foundation is to enhance the relationship between the University and the wider Northern Territory community, and to raise funds for the University. In pursuit of this objective, the Foundation seeks donations and other contributions while also providing assurance to donors that bequests and donations will be applied in accordance with the wishes of the testator or donor.

### **Audit Opinion**

The audit of the financial statements of the Foundation and the Trust for the year ended 31 December 2010 resulted in unqualified independent audit opinions for both entities and these were issued on 7 April 2011.

### **Key Findings**

As noted in previous years, there are instances where in-kind donations are provided to the Foundation without supporting evidence to substantiate the donors' advice as to the value of the donations. However, the risk of misstatement of the financial performance or financial position of the Foundation is not considered to be material given that in-kind donations are recorded as income and expense in the same period in which they are received.

This and previous audits have also identified a weakness in the control over the receipt of "over the counter" cash donations. However, as the amounts received by this method occur relatively infrequently, I did not consider it necessary to qualify my audit opinion in relation to the completeness of revenue.

## Charles Darwin University Foundation cont...

Financial Performance for the year – Trust Only		
	2010	2009
	\$'000	\$'000
<b>Revenue from ordinary activities</b>	<b>1,475</b>	<b>1,855</b>
<b>Less expenses from ordinary activities</b>		
Trust donations disbursed	(1,302)	(1,145)
Donations in kind – operational	(174)	(38)
Unrealised revaluation loss on investment	-	-
Other	(2)	(3)
<b>Total expenses from ordinary activities</b>	<b>(1,478)</b>	<b>(1,187)</b>
<b>Net operating result for the year</b>	<b>(3)</b>	<b>669</b>

## Charles Darwin University Foundation cont...

### Financial Position at year end – Trust Only

	2010	2009
	\$'000	\$'000
Current Assets	4,245	4,254
Less Current Liabilities	-	-
<b>Working Capital</b>	<b>4,245</b>	<b>4,254</b>
Add Non Current Assets	411	419
<b>Net Assets</b>	<b>4,656</b>	<b>4,673</b>
Represented by:		
Investment Revaluation Reserve	71	85
Retained Earnings	4,585	4,588
<b>Equity</b>	<b>4,656</b>	<b>4,673</b>

# Darwin Port Corporation

## Performance Management Systems Audit – Managerial Reporting

### Audit Objectives and Scope

The audit objective was to assess the adequacy of the Darwin Port Corporation's performance management systems and whether those systems facilitate effective and efficient managerial reporting.

### Audit Opinion

The Darwin Port Corporation had established a performance management system that provided a basis for effective and efficient managerial reporting. However some areas were noted where opportunities for improvement were considered to exist.

### Background

The role of the Corporation (as outlined in Budget Paper No. 3) is the facilitation of trade through the Port of Darwin. The Corporation released its *East Arm Wharf Facilities Masterplan 2030* in April 2010. That document outlines a 20-year land use strategy "aimed at providing certainty to its stakeholders".

The Corporation has experienced significant growth in demand for its services and that has been accompanied by increased activity at East Arm.

During the 2010-11 year, a number of environmental and safety incidents occurred at East Arm and the Corporation responded by implementing Occupational Health and Safety, and Environmental Management systems, as well as instituting enhanced management reporting to the Advisory Board and to the Port Management Group.

### Key Findings

The audit raised several issues regarding the nature and quality of managerial reporting and these included an absence of performance targets that would enable the Corporation to assess the extent to which it was likely to achieve the longer term targets set for the Corporation under the NT Government's Territory 2030 strategy.

## Darwin Port Corporation cont...

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**Darwin Port Corporation has commented:**

*Performance targets that would enable the Corporation to assess the extent to which it was likely to achieve the target set in the Territory 2030 have been considered as part of a 5 Year Strategy and the Corporation has implemented a new reporting framework as part of its restructured annual reporting that is recognisant of its Territory 2030 target.*

*In respect to the nature and quality of managerial reporting, the Corporation highlighted to the Auditor General at the time of the audit that its senior management team considered the level of monthly management reports was excessive. Since that time, Management reporting requirements have been consolidated, which has in turn reduced both the volume and the time costs in preparing these reports. A restructured management reporting system was implemented in July 2011, which focuses on critical issues and key indicators.*

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# Department of Health

## Caresys

### Background

The CareSys application is a comprehensive clinical and patient management system that records and makes available patient information to hospitals throughout the Northern Territory. CareSys interfaces with other systems such as the Pathology System (Labtrak), the Pharmacy System (Ascribe), the eMedication Management System (MedChart) and the JadeCare Clinical Workstation application (CWS). CareSys also supports patient care reporting from the Health data warehouse.

CareSys is licensed and supported by a large, international provider of health sector information technology systems. That firm has sub-contracted the support services to another corporation having an Australian office, with this corporation having responsibility for a wide range of operational support activities in relation to the system. The contract with the licensor expired in June 2010 and was in the process of being renewed at the time of the audit. Although NT Government is perceived to have a strong relationship with the provider of technical support, a number of opportunities were identified to improve NT Government control of these services.

### Audit Objectives and Scope

The objective of this audit was to assess the adequacy of general computer controls that support the CareSys IT environment and emphasis was placed upon the following areas of control that were considered to be important in ensuring the overall security of the system:

- application governance, policies and procedures;
- information security;
- Data Centre and IT operations;
- application change control;
- disaster recovery;
- business continuity; and
- management of support vendors.

## Department of Health cont...

### **Audit Opinion**

The audit identified opportunities for improvement in the CareSys control environment, particularly those controls intended to limit access by individuals to the system, and to authenticate users. Opportunities for improvement in documented procedures were also identified.

### **Key Findings**

There was limited evidence of a formal risk assessment having been performed of the CareSys environment and a number of deficiencies were identified in relation to security policies, procedures and standards.

The Department's Acute Care Information Systems team is responsible for administering user access within CareSys, including profile management, user access assignment, access termination and authentication control management. A number of issues were noted where improvements to policies, procedures, standards and practices relating to user access management would enhance the overall controls over the system.

The CareSys application did not contain audit trail functionality over limited aspects of the system and that functionality did not extend to all sensitive information held in the system. As a result it may not be possible to attribute all changes to sensitive information to an individual user if that should prove necessary.

Business continuity planning had not been formally undertaken for all functions which depend on CareSys. Although manual "work around" procedures exist for selected functions in the case of a system outage, further work is required in order to understand fully and to document the dependencies, risks and business continuity strategies to enable a significant systems outage to be managed effectively.

A specific disaster recovery plan had been developed for what is known as the "failover" of the CareSys application to a hot backup site at the Royal Darwin Hospital.

## Department of Health cont...

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**The Department of Health has commented:**

*This Department accepted all the NT Auditor-General's findings and recommendations where the issue was in the control of the Department. In meeting the Department's responsibilities for actioning the recommendations, all recommendations have been risk ranked for implementation priority and transferred to the internal audit recommendations database for ongoing monitoring. Three of the recommendations have now been closed out and the remaining issues are on track to meet defined completion dates.*

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# Department of Housing, Local Government and Regional Services

## Performance Management System Audit – Housing Services

### Audit Objectives and Scope

One of the outcomes of the Department is the provision of “safe, affordable and appropriate housing for all eligible Territorians and essential services to promote the health and wellbeing of Territorians living in remote areas”. That outcome forms part of the Department’s Output Group, Territory Housing Services, which consists of four components: Urban Public Housing, Remote Indigenous Housing, Government Employee Housing and Indigenous Essential Services.

This audit was confined to examining the extent to which performance management systems were in place for the housing elements of the Output Group.

### Audit Opinion

In my opinion, the Department of Housing, Local Government and Regional Services had developed a performance management system for both Urban Public Housing and Remote Indigenous Housing to enable it to assess the effectiveness, efficiency and economy of its operations in relation to the Output Group *Territory Housing Services*. At the time of the audit, that system was still to be extended to include Government Employee Housing.

### Background

This program was examined previously as part of a performance management system audit, with the results of that audit reported in my October 2010 report to the Legislative Assembly. There I noted that:

*“In my opinion, the Department of Housing, Local Government and Regional Services had not implemented a performance management system that enabled it to assess the effectiveness, efficiency and economy of its operations in relation to the provision of public housing to ensure Territorians have access to safe, sustainable and affordable housing”.*

# Department of Housing, Local Government and Regional Services cont...

In reply the Department commented that:

*“The Department's Strategic Framework 2010-13 includes a three year priority that focuses on implementing and monitoring high standards of governance and accountability in the organisation's operations by ensuring regular monitoring and management reporting on the agency's resources and systems.”*

As a result of the Department's comment a further audit was scheduled for 2011.

## **Key Findings**

The Department has invested significant time and effort in developing a standard performance management system capable of being implemented for each of the Department's output areas in respect of Territory Housing Services. At the time of the audit the system had been implemented for the output areas of Urban Public Housing, and Remote Indigenous Housing, with Government Employee Housing still to be implemented.

---

## **The Department of Housing, Local Government and Regional Services has commented:**

*The development of a robust performance management system for GEH is a priority for the agency in 2011-12.*

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# Department of the Chief Minister

## **Ministerial Travel**

### **Audit Objectives and Scope**

The audit objective was to determine whether travel entitlements paid to Ministers and the Leader of the Opposition during the period 1 July 2009 to 30 June 2010 were in accordance with the relevant Remuneration Tribunal Determinations (RTDs).

### **Audit Opinion**

In my opinion, the control procedures that were examined as part of the audit provided reasonable assurance that payments made in relation to ministerial travel, during the period 1 July 2009 to 30 June 2010, complied with the requirements of the RTDs.

### **Background**

This audit covered the payment of entitlements relating to overseas, interstate and intrastate travel undertaken during the period 1 July 2009 to 30 June 2010 and included travel by Ministers, the Leader of the Opposition, their spouses and dependent children as provided for in RTD's.

Travel undertaken by Ministers and the Leader of the Opposition is administered by the Department of the Chief Minister. This travel is recorded separately from other Members' travel, which is recorded on the Members' Entitlements Travel System maintained by the Department of the Legislative Assembly.

### **Key Findings**

The audit highlighted a continuing and significant improvement in the Department's procedures in relation to Ministerial Travel when compared with the position noted following earlier audits. However, I did note several instances where original signatures had not been affixed to Movement Requisitions or to Travel Acquittals.

There were also isolated instances where statutory declarations had been used to support claims for reimbursement of expenditure. While I acknowledge that there may be occasions when this is may be necessary, I consider it a practice that should not be encouraged.

## Department of the Chief Minister cont...

During the course of the audit I did not encounter any instances where frequent flyer points had been used to reduce the cost of travel. Ministers and the Leader of the Opposition should be encouraged to use accrued frequent flyer points whenever possible when travelling on official business.

The audit also highlighted the extent to which the Leader of the Opposition has sought information relating to Ministerial travel by means of freedom of information requests and the resultant costs imposed upon Department were not insignificant. I note that the Legislative Assembly for the Australian Capital Territory discloses on the parliamentary website quite detailed information about each trip made by a Minister. That gives rise to the question of whether similar information might be disclosed on the Department of the Chief Minister's website.

# Menzies School of Health Research

## **Audit findings and Analysis of the financial statements for the year ended 31 December 2010**

### **Background**

The School is established under the *Menzies School of Health Research Act* in 1985 and operates as a medical research institute within the Northern Territory. The School is deemed to be controlled by Charles Darwin University by virtue of Section 11(1) of the Act which specifies that the Vice-Chancellor and the Deputy Vice-Chancellor (Research) of the University will be *ex officio* members of the School's Board, and through Section 11(2)(d) which specifies that five of the ten persons appointed to the Board by the Administrator are appointed on the nomination of the University.

### **Audit Opinion**

The audit of the financial statements of Menzies School of Health Research for the year ended 31 December 2010 resulted in an unqualified independent audit opinion, which was issued on 16 May 2011.

### **Key Findings**

The audit did not identify any matters of significance and no material weaknesses in controls were identified.

## Menzies School of Health Research cont...

Financial Performance for the year		
	2010	2009
	\$'000	\$'000
<b>Revenue from continuing operations</b>	<b>37,342</b>	<b>30,644</b>
<b>Less expenses from ordinary activities</b>		
Employee Expenses	(20,895)	(17,017)
Administration, operational and other expenses	(11,668)	(9,889)
<b>Total expenses from ordinary activities</b>	<b>(32,563)</b>	<b>(26,906)</b>
<b>Net operating result for the year</b>	<b>4,779</b>	<b>3,738</b>

The School's total revenue increased materially from \$30.6 million in 2009 to \$37.3 million in 2010, due largely to increases in funding received from the National Health and Medical Research Council (increase of \$2.8 million), Department of Health and Aged Care (increase of \$2.3 million) and NT Government (increase of \$1.9 million).

The School's operating expenses also increased from \$26.9 million in 2009 to \$32.6 million in 2010, largely due to an increase in employee expenses related to increased staffing (increase of \$3.9 million), and research project costs (increase of \$1.4 million).

## Menzies School of Health Research cont...

Financial Position at year end	2010	2009
	\$'000	\$'000
Current Assets	41,201	36,572
Less Current Liabilities	(3,030)	(3,166)
<b>Working Capital</b>	<b>38,171</b>	<b>33,406</b>
Add Non Current Assets	876	1,042
	39,047	34,448
Less Non Current Liabilities	(218)	(373)
<b>Net Assets</b>	<b>38,829</b>	<b>34,075</b>
Represented by:		
Retained earnings	3,476	3,159
Reserves	35,353	30,916
<b>Equity</b>	<b>38,829</b>	<b>34,075</b>

# Selected Agencies

## Agency Compliance Audits

### Audit Objectives and Scope

Agency compliance audits are intended to ascertain the extent to which Agencies' Accountable Officers have implemented and maintained procedures that assist in ensuring that the requirements set out in Acts of Parliament, and subordinate and delegated legislation are adhered to.

### Background

The use of delegated legislation, for example Treasurer's Directions and Procurement Directions, devolve responsibility to Accountable Officers of line Agencies. That devolution has an accompanying requirement for accountability by Accountable Officers to their Ministers. Compliance audits are intended to assess how well that accountability is being discharged. The audits for this period concentrated on the extent to which Agencies had complied with promulgated requirements with respect to:

- the maintenance of registers of financial interests, contingencies, guarantees and indemnities;
- validation of accounts payable and claims for payment, including funds availability;
- compliance with the *Procurement Act*, Regulations made under that Act and Procurement Directions;
- the maintenance of registers of losses, and whether investigation and reporting and recovery of losses accorded with the requirements of Treasurer's Directions;
- ensuring that expenditure on official travel, telephones and hospitality was properly authorised, recorded and acquitted;
- the recording and accounting for trust monies;
- the legal and statutory arrangements governing the recovery of certain debts, the retention of financial management records, the granting of ex-gratia payments, the maintenance of Registers of Fees and Charges;
- the control of physical assets; and
- budget management, including financial and performance reporting.

## Selected Agencies cont...

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

- Department of Construction and Infrastructure;
- Department of Education and Training;
- Department of Health;
- Department of Housing, Local Government and Regional Services;
- Department of Justice;
- Department of Lands and Planning;
- Department of Resources;
- Department of the Chief Minister;
- Department of the Legislative Assembly of the Northern Territory;
- Northern Territory Police, Fire and Emergency Services; and
- Tourism NT.

### Key Findings

A number of issues were raised as a result of the audits including:

- lack of compliance with Procurement Directions, and procurement policies;
- weaknesses in the reconciliation of Accountable Officers' Trust Accounts;
- lack of compliance with Treasurers' Directions, particularly in relation to controls over hospitality and travel expenditure;
- deficiencies in controls over fixed assets; and
- weakness in internal audit procedures.

## Selected Agencies cont...

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**The Department of the Legislative Assembly of the Northern Territory has commented:**

*The Department of the Legislative Assembly notes the Auditor-General's comments with regard to this Department and is addressing the findings as follows:*

- *Updating of the Accounting and Property Manual to include any amended Treasurer's Directions;*
  - *Providing additional training to staff to ensure adherence to procurement requirements;*
  - *The audit team has been reconfigured to ensure an independent process and that the internal audit coverage is being adhered to.*
- 

**The Department of Justice has commented:**

*The Department acknowledges the recommendations arising from the Agency Compliance Audit and is taking remedial action where necessary.*

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**The Department of Health has commented:**

*This Department accepted all the NT Auditor-General's findings and recommendations where the issue was in the control of the Department. In meeting the Department's responsibilities for actioning the recommendations, all recommendations have been risk ranked for implementation priority and transferred to the internal audit recommendations database for ongoing monitoring until they are closed out. The outstanding recommendations are on track to meet defined completion dates.*

---

# Selected Agencies

## Procurement Review

### Audit Objectives and Scope

Audits of procurement processes were conducted across eleven entities with the objective being to assess the extent of, and reasons for, material variations between initial cost estimates for tenders and the costs of contracts awarded subsequently; and to examine the tender assessment processes that were employed and which led to the award of contracts for the construction of sporting facilities in Palmerston.

### Key Findings

These audits did not identify any significant examples of failures to comply the Northern Territory Government's Procurement Framework which comprises the *Procurement Act*, Procurement Regulations, Procurement Directions, the Northern Territory Procurement Code and Procurement Circulars issued by the Department of Business and Employment.

In the case of the assessment of tenders for the construction of the sporting facilities, some weaknesses were noted in the records created as part of the assessment of value for money, but I am confident that those weaknesses had no effect on the final decisions regarding successful tenderers.

---

### The Department of Health has commented:

*The Department was pleased to note that no matters arose that required a Department response.*

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# Territory Discoveries

## Calypso

### Audit Objectives and Scope

The objective of this audit was to assess reliability of application and general IT controls relating to the Calypso System that is operated by Territory Discoveries. This audit was performed as a precursor to the audit of the financial statements of Territory Discoveries for the 2010-11 year.

### Background

The Calypso system is primarily a reservations system, incorporating customer sales and sales support, financial management, and sales and management reporting components.

### Audit Opinion

The information systems and procedures examined during the audit were not considered to be satisfactory. Matters identified for the attention of Territory Discoveries are detailed in Key Findings, below.

### Key Findings

The information systems and procedures examined during the audit were not considered to be satisfactory with concerns being raised with Territory Discoveries about:

#### *User Access Management Practices*

Calypso user access management practices did not sufficiently restrict access to the system and it was recommended that user access controls be reviewed.

#### *Governance*

Governance over the Calypso system was open to improvement, with possible improvements including:

- monitoring over vendor activities;
- review of service level and performance given the impending expiry of the service agreement between Territory Discoveries and the system vendor;
- documenting Calypso change management procedures; and
- identifying and documenting security risks associated with the Calypso IT environment.

## Territory Discoveries cont...

### *Key Person Risk*

One person plays a significant role in the overall operation of the system and it was recommended that the system's vendor be used to provide information about system based approaches to risk mitigation and systems training, where applicable, to reduce the risk arising from the lack of a clear segregation of roles.

It was also recommended that succession planning or cross-skilling be considered, bearing in mind the need to maintain adequate segregation of duties between system administration and the business and transaction processing roles.

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### **Tourism NT has commented:**

*Tourism NT accepts the findings of the audit and has already strengthened user access controls as recommended. I have instructed my staff to make improvements to the governance of the Calypso system and work to reduce inherent risks arising from a key person within the first year of my appointment as CEO.*

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# Appendices

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# Appendix 1: Audit Opinion Reports Issued Since 31 December 2010

## Financial Statements for the year ended 31 December 2010

	Date 2010 Financial Statements tabled to Legislative Assembly	Date of Audit report Year ended 31 December 2010	Date of Audit report Year ended 31 December 2009
Batchelor Institute of Indigenous Tertiary Education	Not yet tabled	15 June 11	8 June 10
CDU Amenities Limited	N/A	14 June 11	21 May 10
Charles Darwin University	11 August 11	28 June 11	28 June 10
Charles Darwin University Foundation ( a company limited by guarantee)	N/A	7 April 11	9 April 10
Charles Darwin University Foundation Trust	N/A	7 April 11	9 April 10
Menzies School of Health Research	N/A	16 May 11	21 May 10

# Appendix 1: Audit Opinion reports Issued Since 31 December 2010 cont...

## Acquittals or other returns – for the year ended 30 June 2010

	Deadline for submission of Audited Financial Statements	Date of Audit Report Year ended 30 June 2010	Date of Audit Report Year ended 30 June 2009
Charles Darwin University Higher Education Research Data collection	31 August 11	25 May 11	16 June 10
<b>Department of Education and Training</b>			
Bilateral Agreement on the Nation Building and Jobs Plan			
National School Pride Acquittal	31 October 10	7 March 11	12 November 09
Primary Schools for the 21st Century Acquittal	31 October 10	7 March 11	12 November 09
Science and Language Centres for the 21st Century Secondary Schools Program Acquittal	31 October 10	7 March 11	N/A
<b>Department of Lands and Planning</b>			
<i>Interstate Road Transport Act 1985</i>	31 December 10	7 February 11	15 February 10
<i>Nation Building Program (National Land Transport) Act</i>			
Investment Program	31 December 10	17 May 11	15 February 10
Outback Highway – Plenty Highway	31 December 10	17 May 11	15 February 10
Economic Stimulus Plan Black Spot	31 December 10	17 May 11	15 February 10
Road Safety (Black Spot)	31 December 10	17 May 11	15 February 10
Roads To Recovery	31 October 10	27 January 11	17 December 09
Supplementary Roads to Recovery	31 October 10	27 January 11	17 December 09

N/A – Not Applicable

## Appendix 2: Status of Audits Which Were Identified to be Conducted in the Six Months to 30 June 2011

In addition to the routine audits, primarily being end of financial year audits of Agencies and of financial statements, and follow-up of outstanding issues in previous audits, the following audits, were identified in Appendix 3 of the February 2011 as being scheduled for the period.

### **Charles Darwin University Foundation**

Compliance with the requirements of bequests	No matters to report
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### **Darwin Port Corporation**

Managerial Reporting (a Performance Management System Audit)	Refer page 28
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### **Department of Education and Training**

Building the Education Revolution (a Performance Management System Audit)	Not completed as at 30 June 2011
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### **Department of Health**

Caresys (an IT Audit)	Refer page 30
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### **Department of Housing, Local Government and Regional Services**

Access to safe, sustainable and affordable housing for all eligible Territorians (a Performance Management System Audit)	Refer page 33
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### **Department of the Chief Minister**

Ministerial Travel	Refer page 35
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### **Selected Agencies**

Procurement process	Refer page 43
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### **Territory Discoveries**

Calypso (an IT Audit)	Refer page 44
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## Appendix 3: Proposed Audit Activity in the Six Months Ending 31 December 2011

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

### **Department of Business and Employment**

Credit Card analytics (an IT audit)

IT outsourcing project (an IT audit)

On-Line Billing Information and Payments System (an IT audit)

### **Department of Housing, Local Government and Regional Services**

Tenant Management System IT Controls Environment (an IT audit)

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## 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:

- the Central Holding Authority, and
- 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:

- 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*; and
- 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.

## Appendix 4: Overview of the approach to auditing the Public Account and other accounts cont...

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

- 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
- 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.

### **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: Overview of the approach to auditing performance management systems

## Legislative Framework

A Chief Executive Officer is responsible to the appropriate Minister under section 23 of the *Public Sector Employment and Management Act* for the proper, efficient and economic administration of his or her agency. Under section 13 (2)(b) of the *Financial Management Act* an Accountable Officer shall ensure that procedures “*in the agency are such as will at all times afford a proper internal control*”. Internal control is further defined in section 3 of the Act to include “*the methods and procedures adopted within an agency to promote operational efficiency, effectiveness and economy*”.

Section 15 of the *Audit Act* complements the legislative requirements imposed on Chief Executive Officers by providing the Auditor-General with the power to audit performance management systems of any agency or other organisation in respect of the accounts of which the Auditor-General is required or permitted by a law of the Territory to conduct an audit.

A performance management system is not defined in the legislation, but section 15 identifies that: “*the object of an audit conducted under this section includes determining whether the performance management systems of an agency or organisation in respect of which the audit is being conducted enable the Agency or organisation to assess whether its objectives are being achieved economically, efficiently and effectively.*”

# Appendix 5: Overview of the approach to auditing performance management systems cont...

## **Operational Framework**

The Northern Territory Auditor-General's Office has developed a framework for its approach to the conduct of performance management system audits, which is based on our opinion that an effective performance management system would contain the following elements:

- identification of the policy and corporate objectives of the entity;
- incorporation of those objectives in the entity's corporate or strategic planning process and allocation of these to programs of the entity;
- identification of what successful achievement of those corporate objectives would look like, and recording of these as performance targets;
- development of strategies for achievement of the desired performance outcomes;
- monitoring of the progress with that achievement;
- evaluation of the effectiveness of the final outcome against the intended objectives; and
- reporting on the outcomes, together with recommendations for subsequent improvement.

Performance management system audits can be conducted at a corporate level, a program level, or at a category of cost level, such as capital expenditure. All that is necessary is that there be a need to define objectives for intended or desired performance.

## Appendix 6: Agencies not audited in the year ended 30 June 2011

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 2011, no audits were, or are intended to be, conducted at the following Agencies:

- Aboriginal Areas Protection Authority;
- Department of Children and Families;
- Department of Natural Resources, Environment, The Arts and Sport;
- Land Development Corporation;
- Northern Territory Electoral Commission;
- 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. It is proposed that each of the listed Agencies will be included in audit coverage at least once every three years.

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.

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## Appendix 7: Abbreviations

DOJ	Department of Justice
IT	Information Technology
NTAGO	Northern Territory Auditor-General's Office
NTG	Northern Territory Government
RTDs	Remuneration Tribunal Determinations
VET	Vocational Education and Training

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