No. 131

LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

WRITTEN QUESTION

Mr Higgins to the Chief Minister:

Annual Report – Auditor-General's Office

1. It is noted that the number of statutory audits required reduced from 122 to 109 due to the machinery of Government changes. Conversely, the increase in other audits, made possible by the improved cost recovery model and recovery of funds from audited statutory entities has increased from 27 to 29. Are you able to advise how many other audits this number would have equated to if there were no machinery of Government changes?

ANSWER:

- The question poses that 13 less statutory audits were undertaken in 2017 than in 2016. The reduction of 13 audits is attributed to 8 less Agency Compliance Audits (due to the amalgamation of agencies) and 5 less audits pertaining to financial statements. The Northern Territory Auditor-General's Office (NTAGO) originally planned 152 new audits for 2016-17 (Budget Paper #3). The revised budget after taking into account the decrease in the number of agencies due to machinery of Government changes was 141 (including 3 referrals under the *Public Information Act*). Statutory audits undertaken in the 2016 year that were not undertaken in the 2017 year were:
    - Power Retail Corporation (trading as Jacana Energy) (1) – this was a supplementary audit undertaken during 2015/16 following receipt of revised financial statements for the year ended 30 June 2015.
    - Darwin Port Corporation (2) and Darwin Bus Service (3) – the operations of these entities ceased during the year ended 30 June 2016.
    - Power and Water Corporation (4) and Indigenous Essential Services Pty Ltd (5) – additional interim audits undertaken in the 2015/16 year were not required in the 2016/17 year.

- Machinery of Government changes often result in increased costs of individual audits due to complexity when auditing results from agencies amalgamated mid-year and there is often more time spent identifying and locating key records for audit. The value of potential cost overruns associated with individual audits cannot be known with certainty until the conclusion of each audit. The Office actively managed this uncertainty by reducing the number of discretionary audits planned between January and June 2017 to avoid the need to seek further appropriation to fund unexpected overruns had they eventuated. This accounts for approximately $184,000 of the operating surplus.
- As at 30 June 2017, 141 audit tasks had been assigned (compared to 158 for 2015/16). 13 of these were allocated to internal resources and 128 were outsourced to Authorised Auditors. These comprised:
    - 55 Financial statement audits (*2015/16: 61*)
    - 46 Compliance audits (*2015/16: 63*)
    - 10 Performance management system audits (*2015/16: 4*)
    - 27 Other audits and reviews* (*2015/16: 25*)
    - 3 referrals under the *Public Information Act* (*2015/16: 5*)
- Of the decrease in the number of audits from the prior year, the following two points are worthy of note:
    - Machinery of Government changes resulted in the merger of a number of agencies into a smaller number of agencies. This resulted in a reduction in numbers of audits however the audits themselves required an increased amount of audit work for the consolidated agencies.
    - The audit planning process identified that value could be provided to agencies through undertaking data analytics on employee leave balances and also the performance of a high level assessment of fraud controls. Rather than auditing a limited number of agencies as planned, these two tasks were conducted for every government agency, resulting in a report for each task being issued to 22 agencies. In order to effectively manage and report the status of these tasks holistically, the tasks were recorded in the NTAGO's audit management system as 2 tasks rather than 44. Had they been individually counted, the number of audits and reviews reported would actually have been 183.

- The statutory audits required by legislation or funding agreement to be conducted by the Auditor-General, undertaken under the cost recovery model resulted in audit expenditure of $1.846 million. In the absence of the cost recovery model, the NTAGO would not have the financial capacity to conduct sufficient audit work to form an opinion on the Treasurer's Annual Financial Statements as demonstrated below:

Operating Summary	**2015-16 ($000) Prior Year Actual**	**2016-17 ($000) Original Budget**	**2016-17 ($000) Revised Budget**	**2016-17 ($000) Actual as at 30 June 2017**	**2016-17 ($000) Without recovery of costs model Actual as at 30 June 2017**	% Actual to Original Budget	**2017-18 ($000) Budget**
Income							
Output Appropriation	3,178	3,152	3,152	3,152	3,152	100%	3,077
Sales of Goods and Services	2,160	1,455	1,455	1,846	0	127%	1,455
G&S Received Free of Charge	228	278	278	227	227	82%	278
Total Income	**5,566**	**4,885**	**4,885**	**5,225**	**3,379**	107%	**4,810**
Expense							
Employee Expenses	992	955	1,000	903	903	95%	952
Audit Fees (Non-Recoverable)	2,050	2,097	2,052	1,934	326 *	92%	2,025
Audit Fees (Recoverable)	2,160	1,455	1,455	1,846	1,846	127%	1,455
Repairs and Maintenance	2	2	2	-	-	0%	2
Other Operational Costs	105	98	98	77	77	79%	98
G&S Received Free of Charge	228	278	278	227	227	82%	278
Total Expenses	**5,537**	**4,885**	**4,885**	**4,987**	**3,379**	102%	**4,810**
Total Comprehensive Result - Surplus/(Deficit)	**29**	**-**	**-**	**238**	**-**		**-**

* Without the cost recovery model, there would be $326,000 available to audit the Treasurer's Annual Financial Statements including the entire general government sector. In 2016/17, the General Government Sector had revenue of $5.895 billion and net worth of $11.065 billion. Sufficient appropriate audit work would not be able to be performed and the Auditor-General would be unable to issue an opinion on the Treasurer's Annual Financial Statements. This would be an untenable position for the Northern Territory. There would be no financial capacity to undertake any performance management system audits or special reviews which are those that have contributed the most value in terms of improved governance (including management of major projects) within the Northern Territory Public Sector.

Had there been no machinery of government changes, the number of audits conducted would have increased by 8 Agency Compliance Audits bringing the total statutory audits to 117 and the total of all audits, reviews and related tasks to 149. (As noted above, if individually counting the data analytics relating to employee leave balances and fraud control assessments for each agency, the total audit activity would have been 191 audits, reviews and related tasks).