



LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

Public Accounts Committee

**Report on Examination of
Auditor-General's Reports**

October 2011

Report deemed as
a Tabled Paper in
the Legislative
Assembly, on
October 2011

Public Accounts Committee

**Report on Examination of
Auditor-General's Reports**

October 2011

Contents

Letter to the Speaker	i
Chair's Overview	iii
Committee Members.....	iv
Committee Secretariat.....	v
Terms of Reference.....	vi
1. Introduction	1
2. Department of Housing, Local Government and Regional Services, Performance Management System for the Provision of Public Housing	2
3. Department of Housing, Local Government and Regional Services, Security Controls for Cash Processing System	4
4. Department of Justice, Performance Management System for Fines Recovery Unit.....	6
5. Department of Construction and Infrastructure, Asset Information System Replacement Project.....	8
6. Darwin Port Corporation, Roll On-Roll Off Facility	11
7. Department of Business and Employment, NT Fleet and Greening the Fleet 12	
8. APPENDIX: Schedule of hearings	15

Chair's Overview

This report is to advise the Legislative Assembly of the committee's examination of the Auditor-General's October 2010 and February 2011 reports.

The committee agreed that following the tabling of each Auditor-General report, the committee would meet with the Auditor-General to discuss any issues raised in the report and identify which issues require follow-up by inviting the Chief Executive of the relevant Agency to a hearing with the committee.

This approach to the examination of Auditor-General reports enhances the effectiveness of the committee's role in the scrutiny of the public accounts of the Northern Territory. Follow-up through hearings and subsequent reports to the Legislative Assembly improves public accountability for issues raised by the Auditor-General and Agencies subsequent responses.

The next Auditor-General's report is expected before the end of the year and the committee looks forward to discussing that report with the Auditor-General.

I thank the agencies involved for the willing assistance they have provided to the Committee. I also thank the Auditor-General for the help he provides to the Committee and the clarity he brings to what are sometimes complex issues. My thanks also goes to the committee members for their cooperative and bi-partisanship approach to the Committee's work. I thank secretariat staff for their support. On behalf of the committee, I commend this report to the House.



Mr. Michael Gunner, MLA

Committee Members



Mr. Michael GUNNER, MLA

Member for Fannie Bay

Party: Australian Labor Party
Parliamentary Position: Government Whip Deputy Chairman of Committees; Parliamentary Secretary for Business and Employment

Committee Membership:

Standing: Public Accounts; Subordinate Legislation and Publications; Legal and Constitutional Affairs; Standing Orders; Members' Interests

Sessional: Environment and Sustainable Development

Select: Youth Suicides in the NT

Chair: Public Accounts; Subordinate Legislation and Publications



Ms. Marion SCRYMGOUR, MLA

Member for Arafura

Party: Australian Labor Party

Committee Membership:

Standing: House; Public Accounts, Subordinate Legislation and Publications, Legal and Constitutional Affairs;

Sessional: Environment and Sustainable Development; Council of Territory Co-operation (CTC), CTC Animal Welfare Sub-committee

Select: Youth Suicides in the NT

Chair: Environment and Sustainable Development, Youth Suicides in the NT

Other: NT Constitutional Convention Committee



Ms. Lynne WALKER, MLA

Member for Nhulunbuy

Party: Australian Labor Party

Committee Membership:

Standing: House, Public Accounts, Subordinate Legislation and Publications

Sessional: Environment and Sustainable Development, Council of Territory Co-operation

Select: Youth Suicides in the NT

Chair: CTC Animal Welfare Sub-committee



Mr. John ELFERINK, MLA

Member for Port Darwin

Party: Country Liberals

Parliamentary Position: Opposition Whip, Shadow Treasurer, Minister for Justice and Attorney General

Committee Membership:

Standing: Privileges, Public Accounts

Sessional: CTC Animal Welfare Governance Sub-committee



Mr. Willem WESTRA VAN HOLTHE, MLA *

Member for Katherine

Party: Country Liberals

Parliamentary Position: Shadow Minister for Local Government, Tourism, Correctional Services and Essential Services

Committee Membership:

Standing: House



Mr. Gerry WOOD, MLA

Member for Nelson

Party: Independent

Committee Membership:

Standing: Standing Orders, Public Accounts

Sessional: Environment and Sustainable Development, Council of Territory Co-operation

Chair: Council of Territory Co-operation

* Appointed to the Public Accounts Committee on 22 February 2011, in place of Mr David Tollner, MLA, Member for Fong Lim, who was discharged on 22 February 2011.

Committee Secretariat

Committee Secretary: Mr Russell Keith (from 30 November 2010)
Mr Graham Gadd (until 29 November 2010)

Research Officer: Ms Maria Viegas

Committees Support Officer: Ms Lauren Copley (from 8 August 2011)
Mrs Pauline Lewis (from 10 February 2011)
Ms Lauren Copley (until 9 February 2011)

Committees Administrative Assistant: Ms Kim Cowcher

Contact Details: GPO Box 3721 DARWIN NT 0801
Tel: +61 8 8946 1429
Fax: +61 8 8946 1419
e-mail: pac@nt.gov.au

Terms of Reference

Standing Order 21A

- (1) A Standing Committee of Public Accounts to consist of five members shall be appointed at the commencement of each Assembly.
- (2) The duties of the committee shall be -
 - (a) to examine the accounts of the receipts and expenditure of the Northern Territory and each statement and report tabled in the Legislative Assembly, pursuant to the *Financial Management Act* and the *Audit Act*;
 - (b) to report to the Legislative Assembly with such comments as it thinks fit, any items or matters in or arising in connection with those accounts, statements or reports, or in connection with the receipt or disbursement of the moneys to which they relate, to which the committee is of the opinion that the attention of Parliament should be drawn;
 - (c) to report to the Legislative Assembly any alteration which the committee thinks desirable in the form of the public accounts or in the method of keeping them or in the method of receipt, control, issue or payment of public moneys;
 - (d) to inquire into and report to the Legislative Assembly on any question in connection with the public accounts of the Northern Territory -
 - (i) which is referred to it by a resolution of the Assembly; or
 - (ii) which is referred to it by the Administrator or a Minister; and
 - (e) to examine the reports of the Auditor-General tabled in the Legislative Assembly with the accounts of an Agency of the Northern Territory, including any documents annexed or appended to those reports, pursuant to the *Audit Act*.
- (3) The committee shall examine only those accounts of receipts and expenditure of the Northern Territory and reports of the Auditor-General for financial years commencing after 30 June 1986 provided that this shall not prevent the consideration by the committee of matters included in reports of the Auditor-General for the year ending 30 June 1986 which have or may have a continuing effect on the form of the public accounts, the method of receipt, control issue or payment of public moneys.
- (4) Prior to determining whether to undertake an inquiry into any matter which may have arisen in connection with the public accounts of the Northern Territory, pursuant to paragraphs (2)(a) and (e), with the concurrence of the committee, the Chairman is empowered to write to the Chief Executive Officer of the relevant agency for a report on the matter.
- (5) The Committee shall take care not to inquire into any matters which are being examined by a Select Committee of the Assembly especially appointed to inquire into such matters and any question arising in connection therewith may be referred to the Assembly for determination.
- (6) The committee shall elect a Government Member as Chairman.
- (7) The Chairman of the Committee may, from time to time, appoint a member of the committee to be the Deputy Chairman of the Committee and the Member so

appointed shall act as Chairman of the Committee at any time when there is no Chairman or when the Chairman is not present at a meeting of the committee.

- (8) In the event of an equality of voting, the Chairman, or the Deputy Chairman when acting as Chairman, shall have a casting vote.
- (9) The committee shall have power to appoint sub-committees and to refer to any such sub-committee any matter which the Committee is empowered to examine.
- (10) Three Members of the committee shall constitute a quorum of the committee and two Members of a sub-committee shall constitute a quorum of the sub-committee.
- (11) The committee or any sub-committee shall have power to send for persons, papers and records, to adjourn from place to place, to meet and transact business in public or private session and to sit during any adjournment of the Assembly.
- (12) The committee shall be empowered to print from day to day such papers and evidence as may be ordered by it and, unless otherwise ordered by the committee, a daily *Hansard* shall be published of such proceedings of the committee as take place in public.
- (13) The committee may proceed to the dispatch of business notwithstanding that all Members have not been appointed and notwithstanding any vacancy.
- (14) The committee shall report annually and shall have leave to report from time to time and to report its proceedings and evidence taken; and any Member of the committee shall have power to add a protest or dissent to any Report.
- (15) Unless otherwise ordered by the committee, all documents received by the committee during its inquiry shall remain in the custody of the Assembly provided that, on the application of a department or person, any document, if not likely to be further required, may, in the Speaker's discretion, be returned to the department or person from whom it was obtained.
- (16) The committee shall be provided with all necessary staff, facilities and resources and shall be empowered, with the approval of the Speaker, to appoint persons with specialist knowledge for the purposes of the committee.

1. Introduction

This report sets out the Committee's examination of the Auditor General's October 2010 and February 2011 reports.

In examining these reports, the Committee held briefings with the Auditor-General on 30 November 2010 and 7 April 2011. After these briefings, the Committee invited Chief Executives of agencies to appear before it to discuss any issues raised in the audits that the Committee wished to follow up. Hearings were then held with those Chief Executives on 4 May 2011 and 9 August 2011.

2. Department of Housing, Local Government and Regional Services, Performance Management System for the Provision of Public Housing

Audit Findings

The Auditor-General reported in October 2010 that in his opinion, the department:

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.¹

The department responded in the report 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 operation by ensuring regular monitoring and management reporting on the agency's resources and systems.

Agency Response

In response to questions from the Committee, the Department said that it had made significant progress on developing its corporate goals, strategic plans, performance reporting tools and processes since the tabling of the Auditor-General's October 2010 Report, which audited the 2008-09 systems. These developments had largely addressed the matters identified in the audit. A new corporate three-year strategic plan was now in place. The plan focused on implementing and monitoring high standards of governance and accountability in the organisation's operations. In addition, the department had developed a performance reporting framework to manage performance reporting systems specifically for urban public housing. The strategic plan and performance reporting framework were tabled for the committee.

The committee was also advised that since the restructure of the department, a new audit committee was established. The audit committee of Territory Housing was disbanded and the work of both Territory Housing and the department's audit

¹ Auditor-General for the Northern Territory, October 2010 Report to the Legislative Assembly, p27, <http://www.nt.gov.au/ago/reports/2010%20October.pdf>, at 30 August 2011

committee were brought together. The new audit committee had an independent chair who was not an employee of the department.

Auditor-General's Response

The Auditor-General advised that committee that he is satisfied that the department has taken steps to address the matter raised in his October 2010 report.

Committee's conclusion

The Committee was pleased to see that the Department had made significant improvements in the performance management system for the provision of public housing.

3. Department of Housing, Local Government and Regional Services, Security Controls for Cash Processing System

Audit Findings

The Auditor-General reported in October 2010 that while information technology controls over the Cash Processing System were satisfactory, the audit raised concerns about system security controls. The concerns about security controls included:

- A large number of users with access at the level of system administrator, giving those users considerable powers to configure system controls and data;
- Users with administrator access also having access privileges for the Territory's Housing's Tenancy Management System, leading to risks from lack of segregation between system administration and operational duties;
- Individual's system access rights not aligning with job requirements, and uncertainty within the Department of job requirements and how they should align with system access levels; and
- The absence of periodic, independent review of system administrator activities to check such access was being used appropriately.

Agency Response

The Department's response to the audit findings differed from the Auditor-General's opinion, stating that:

- there was a clear delineation of duties between system support staff and operation users;
- internal control procedures ensured only those staff with a legitimate business need have access to the system; and
- all receipt transactions were reconciled to bank statements by individuals outside the Business Systems unit.

The committee heard that to strengthen internal processes and procedures, the department was undertaking an internal review of all user groups for all their systems, including the cash processing system, to assess whether access levels were aligned with business requirements and job roles within the department. The

review was due to be completed at the end of May 2011 with repeat reviews to be made quarterly as part of the agency's internal audit review program.

The committee was also advised that the department implemented audit reporting for its cash processing system. The report was produced weekly to show if the batch file has been accessed or any details altered and by whom. Any unjustified changes were reported and followed up immediately. Weekly and quarterly reviews were provided to the Executive Director Corporate Services and were also part of the agency's internal audit review program. The department believed that the delineation of functions in the cash processing system were clear – the receipt of batch files from external sources and reconciliation of the system with tenancies' accounts. The first function was conducted by the department's integration business group. The other function was performed by the finance area.

Auditor-General Response

The Auditor-General indicated that the statements by the Department indicated that appropriate action had been taken and that he would revisit this issue to assure himself that all appropriate controls were now in place.

Committee's conclusion

The Committee was satisfied with the Department's response and looks forward to the Auditor-General's future audit of the cash processing system.

4. Department of Justice, Performance Management System for Fines Recovery Unit

Audit Findings

In his October 2010 report, the Auditor-General recommended the following improvements for the performance management system of the Department of Justice Fines Recovery Unit:

1. Expedite goal setting and finalise planning documents;
2. Clearly link unit, divisional and departmental performance goals and measures;
3. Enhance the Integrated Justice Information System to support the performance management system;
4. Formalise the budgeting process for the Fines Recovery Unit;
5. Improve the performance measures for the Fines Recovery Unit; and
6. Review the uncollectible fines and warrants that extend back over a number of years.

Agency Response

The department accepted that improvements needed to be made to the timeliness, documentation and effectiveness of the processes of the performance management system for the Fines Recovery Unit. The department expressly pointed out to the committee that the audit findings are not to be interpreted as a statement on the financial management of the department or the unit. The department advised the committee that it was already in the process of reviewing its performance management systems at the time of the audit and this review was part of its standard internal audit review program. The department explained that changes have been made to processes in its performance management system to ensure that its corporate and strategic goals clearly align with government objectives and can be achieved through divisional and unit business plans.

Auditor-General Response

The Auditor-General advised the committee that he is satisfied that the department has taken steps to address the audit findings reported in October 2010 and the issues will be revisited in future audits of the department to determine whether actions taken have improved the performance management system for the Fines Recovery Unit.

Committee's conclusion

The Committee was please to see that the Department was improving its performance management systems.

5. Department of Construction and Infrastructure, Asset Information System Replacement Project

Audit Findings

The Asset Information System Replacement Project replaces a range of existing electronic asset management systems used by all NT Government agencies under one system. The Auditor-General's audit covered resourcing, budget monitoring and reporting, contract performance monitoring, risk and issues management, change management and project management. The Auditor-General found that funding and project controls were unsatisfactory resulting in the project running 12 months behind schedule and over budget. The audit found that:

1. the project was inadequately funded;
2. there were weaknesses in project management, particularly monitoring and controls by the agency; and
3. the governance structure together with inadequate funding did not support the Project Director to adequately fulfil the role of overseeing the project.

Agency Response

The agency outlined a number of reasons for the project going over time and over budget.

The initial delay was because the blueprints for the project, which were prepared by the primary contractor Fitjitsu, were found to be not up to the Department's satisfaction after the Department engaged SAP, the vendor of the software, to review them. These blueprints were therefore redone at the vendor's expense. However, the review by SAP, which was undertaken to better ensure the success of the project, was an additional expense to the Department.

Further delays were experienced with the implementation of these blueprints. The Department attributed these delays to issues with both the contractor and the Department.

One of the issues contributing to further delays and expense was the Department's decision to add modules that had not been available when the project was first developed, in particular, the linear assets module which enables the system to

handle road assets. Further expenses were also incurred by the Department increasing the resources devoted to managing the project, as recommended by the Auditor-General.

The agency acknowledged all the audit findings and that it did not fully anticipate the effort required to get a whole of government asset management system operating from the beginning of the project. The agency implemented all the recommendations of the Auditor-General. Risk management processes were improved and consolidated into one plan. The agency made improvement to its governance structure and, as noted above, SAP was engaged to oversee the delivery and implementation phase. At the time of the hearing, testing for capability and capacity was being conducted and it was anticipated that the go-live date would be 6 September 2011.

Auditor-General's Response

The Auditor-General advised the Committee that the Asset Information System was a very important system that he would be placing some emphasis on in the future. He also advised the committee that he was satisfied with the department's prompt response and is much more confident that the system will be completed on its new 'live' date and deliver its objectives.

Committee's conclusion

The Committee noted that implementing the Asset Management System was a complex project that could provide significant benefits to the Territory. It was also of the view that it was important that the final product was effective and it was therefore appropriate that extra resources went into improving the risk management for the project. The Committee was also pleased to see that the Auditor-General's findings had been taken on board and recommendations implemented.

The Committee was nevertheless concerned that, at the time of the hearing, the project was nearly 18 months behind the original schedule and \$6.4 million over budget, amounting to a 40% increase on the original \$16 million budget (noting that some of that increase included additional products). The Committee was further concerned that, at the time of reporting in October 2011, the go-live date had slipped further back to November and the project had not yet been finalised.

The Committee has written to the Department to seek clarification of the reasons for the recent delays and the additional costs involved.

It appeared from the Auditor-General's finding and the evidence given by the Department that some of the expense and delays could have been avoided with better planning for and resourcing of the project from the beginning.

The Committee recommends that the Department commission and publish a post implementation review of the project to ensure that lessons learnt from the project are available to other agencies.

6. Darwin Port Corporation, Roll On-Roll Off Facility

Audit Findings

The Auditor-General reported to the Legislative Assembly in February 2011 that the Darwin Port Corporation was required to return \$2.117 million to the Commonwealth Department of Defence to cover the Commonwealth's capital contribution for the period in which the roll on-roll off facility was not available for use as at 30 June 2010. The Auditor-General also reported no material weaknesses in controls and a resolution to the situation with the roll on-roll off facility.

Agency Response

The Auditor-General's report did not provide a response from the Darwin Port Corporation.

The Corporation explained to the Committee the history of the roll on-roll off facility. In particular, the money now owed to the Commonwealth was from payments made in advance over a number of years for the maintenance of the facility. When the time came to undertake that maintenance, it was found that the its actual cost would be far in excess of what was previously anticipated. Agreement was reached with the Department of Defence that the facility not be maintained and that the money would be put towards a barge ramp facility on behalf of the Department of Defence.

Auditor-General's Response

The Auditor-General advised the committee that he is satisfied with the resolution of the situation.

Committee's conclusion

The Committee was satisfied with the Corporation's explanation of why the facility had not been maintained and the consequential debt to the Commonwealth.

7. Department of Business and Employment, NT Fleet and Greening the Fleet

Audit Findings

In the October 2010 Report to the Legislative Assembly, the Auditor-General reported that the Greening the Fleet system for assessing performance in achieving targets relies on standards for a range of vehicles rather than by calculating greenhouse gas emissions for each vehicle in the fleet. The Auditor-General found that the system used by NT Fleet to measure and compare greenhouse gas emissions for its vehicles is suitable to achieve broad objectives of the strategy but is not suitable for assessing targets set under the NT Climate Change Policy.

In the February 2011 Report to the Legislative Assembly, the Auditor-General reported no material weaknesses in controls for NT Fleet.

Agency Response

The agency acknowledged the Auditor-General's audit findings. NT fleet advised the Auditor-General that the aim of the current performance measures was to influence better choice in vehicles. NT Fleet advised the committee that it used the manufacturers stated CO₂ omission levels for each vehicle because it was difficult to obtain actual fuel usage across the fleet. The agency acknowledged the need to factor in driver behaviour in any accurate performance measure and difficulty of obtaining this information across the fleet. The agency advised that fuel cards used in the current system are not often used in remote areas making the capture of fuel usage difficult in those areas.

NT Fleet responded that the agency had been investigating ways to capture reliable data for each vehicle in the fleet for performance measures against the targets of the NT Climate Change Policy. NT Fleet advised that the agency would soon be under a new fuel contract and system, under which more comprehensive fuel usage data would be obtained. NT Fleet intended to continue to use the manufacturer's CO₂ levels for vehicles once the new measure was introduced to be able to cover the entire period under the NT Government climate change policy.

Auditor-General's Response

The Auditor-General advised the committee that he was satisfied that the responses from the agency address the concerns raised in October 2010.

Committee's conclusion

The Committee was satisfied with the explanation of NT Fleet's current data on fuel consumption and its plan to move to actual fuel use data when that was practicable under a new fuel card system.

8. APPENDIX: Schedule of hearings

Department of Housing, Local Government and Regional Services, Performance Management System for the Provision of Public Housing, 4 May 2011

Witnesses: Mr Ken Davies, Chief Executive
Mr Trevor Kennedy, Manager Chief Reporting
Mr Dwayne McInnes, Executive Director, Corporate Service
Mr Frank McGuinness, Auditor-General for the Northern Territory

Department of Housing, Local Government and Regional Services, Security Controls for its Cash Processing System, 4 May 2011

Witnesses: Mr Ken Davies, Chief Executive
Mr Trevor Kennedy, Manager Chief Reporting
Mr Dwayne McInnes, Executive Director, Corporate Service
Mr Frank McGuinness, Auditor-General for the Northern Territory

Department of Justice, Performance Management System for its Fines Recovery Unit, 4 May 2011

Witnesses: Mr Greg Shanahan Chief Executive
Ms Anne Bradford Deputy Chief Executive
Mr Peter Shoyer, Executive Director
Mr Eric Raeburn, Director of Audits
Ms Valerie Taylor, Acting Director Fines Recovery Unit
Mr Jason Finlay, Executive Officer to the Chief Executive
Mr Frank McGuinness, Auditor-General for the Northern Territory

**Department of Construction and Infrastructure,
Asset Information System Replacement Project,
9 August 2011**

Witnesses: Mr Alan Wagner, Chief Executive
Ms Cate Lawrence, Executive Director Infrastructure Services
Mr Frank McGuinness, Auditor-General for the Northern Territory

**Darwin Port Corporation,
Roll On-Roll Off Facility,
9 August 2011**

Witnesses: Mr Terry O'Connor, Acting Chief Executive Officer
Ms Anne Coulter, Chief Financial Officer Darwin Port Corporation
Mr Frank McGuinness, Auditor-General for the Northern Territory

**Department of Business and Employment,
NT Fleet and Greening the Fleet,
9 August 2011**

Witnesses: Mr Graham Symons, Chief Executive
Mr Chris Hosking, Executive Director Corporate Services
Mr Frank McGuinness, Auditor-General for the Northern Territory