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LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

Public Accounts Committee

Report on the Auditor-General's Annual Reports 1986/87

REPORT NUMBER 7

MAY 1989

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Annual Reports 1986/87**

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Country Liberal Party

Member for Karama. First elected 1984.

Other Committees:- House, Subordinate Legislation and Tabled Papers.

MR NICK DONDAS, MLA

Country Liberal Party

Member for Casuarina. First elected 1974.

Other Committees: House, Privileges, Publications, Subordinate Legislation and Tabled Papers, Environment.

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Australian Labor Party

Member for Stuart. First elected 1983. Deputy Leader of Opposition and Shadow Minister for Education, Industrial Relations, Employment and Training, Primary Production, Constitutional Development.

Other Committees:- Constitutional Development

MR DAN LEO, MLA

Australian Labor Party

Member for Nhulunbuy. First elected 1980.

Shadow Minister for Housing, Mines and Energy, Power and Water Authority.

Other Committees:- House, New Parliament House, Constitutional Development.

MR RICHARD SETTER, MLA

Country Liberal Party

Member for Jingili. First elected 1984.

Other Committees:- Publications, Subordinate Legislation and Tabled Papers, New Parliament House, Constitutional Development.

PUBLIC ACCOUNTS COMMITTEE

REPORT ON THE AUDITOR-GENERAL'S
ANNUAL REPORTS 1986/1987

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CHAPTER ONE

INTRODUCTION

**"UPROAR IN NT OVER THE
AUDITOR-GENERAL'S REPORT"**

BRW, JAN 14, 1988

As can be seen from the above quote, which was the bold heading of a two page feature in the Business Review Weekly, this year's reports of the Auditor-General attracted considerable interest.

The Public Accounts Committee is required "to examine the accounts of the receipts and expenditure of the Northern Territory and each statement and report transmitted to the Legislative Assembly by the Auditor-General, pursuant to the Financial Administration and Audit Act."

The Committee is further required "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."

"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" may also be reported to the Legislative Assembly.

This is the Committee's second opportunity to report on the reports of the Auditor-General since the establishment of the Public Accounts Committee on 16 August 1986.

The timing of the Committee's report is consistent with the statement provided in the Chairman's Review to Report Number 5, Annual Report for Year Ended 30 June 1988:-

"The Committee is of the view that it is inappropriate to take action on matters raised in a report of the Auditor-General until such time that the department or instrumentality involved has had time to address the matter itself. Therefore, before proceeding to report on the Auditor-General's Report for a particular year, the Committee feels it should wait until the following Auditor-General's Report, and then involve itself only in

those matters of concern that have not been satisfactorily resolved over the course of two reports."

The Auditor-General for the Northern Territory, Mr Elliott Isaacson, continued the approach adopted in the previous year of submitting three separate reports for the year ended 30 June 1987:-

<u>Name of Report</u>	<u>Date Tabled</u>
- Annual Report of the Auditor-General	20 October 1987
- Report of the Auditor-General upon the Treasurer's Annual Financial Statements	20 October 1987
- Report of the Auditor-General upon Prescribed Statutory Corporations	23 February 1988

In the words of the Auditor-General, "There are two general observations which can be drawn from comments recurring regularly throughout the Report:-

- (1) **Urgent attention needs to be given to the quality of financial reports** produced in respect of the various separate government activities and operations and of the government as a whole.
- (2) **Delays are occurring in the production of financial reports** which often means that the information has lost much of its relevance by the time it becomes available as well as adding significantly to the accounting and audit costs."

Obviously timing of presentation of financial reports is a critical issue, but it was the Auditor-General's assessment of the quality of those reports which attracted most controversy.

CHAPTER TWO

METHODOLOGY

In line with the strategy advised to the Legislative Assembly on 19 May 1988 the annual reports of the Auditor-General are reported on by the Public Accounts Committee following the tabling of the Auditor-General's annual reports for the subsequent year.

This approach allows departments and statutory corporations twelve months, or thereabouts, to correct any problems identified by the Auditor-General. This is not to say that the Public Accounts Committee takes no action during the intervening period. In fact, each report is carefully analysed, in consultation with the Auditor-General, as soon as possible following the tabling of his reports. Action, as considered appropriate by the Committee, is then taken to address any matters of concern.

Issues of an operational policy nature, such as the format of annual reports and financial statements become the subject of detailed discussions with Chief Executive Officers and more particularly, the Under-Treasurer. More specific matters, including those of a compliance nature, may be the subject of an inquiry of the relevant Chief Executive Officer to determine:-

- (i) action taken to rectify/explain matters raised by the Auditor-General, and
- (ii) timescale for completing outstanding action.

The Auditor-General's comments on the respective responses is then sought.

As the major thrust of the Auditor-General's reports for the year in question concerns the quality of financial reports, the Public Accounts Committee has included in the Appendices, copies of papers tabled by the Under-Treasurer on the subject, together with a detailed commentary solicited from the Auditor-General on those papers:-

- APPENDIX C TREASURY BRIEFING PAPERS:-
 - (i) N.T. TREASURY STRATEGIC DEVELOPMENT PROGRAM 1989-91;
 - (ii) GOVERNMENT ACCOUNTING IN THE NORTHERN TERRITORY
 - (iii) TREASURER'S DIRECTIONS REVIEW
- APPENDIX D AUDITOR-GENERAL'S COMMENTARY ON TREASURY BRIEFING PAPERS

CHAPTER THREE

ANALYSIS OF REPORTS

3.1 Annual Report of the Auditor-General for the year ended 30 June 1987

This report was tabled in the Legislative Assembly on 20 October 1987, and is a supplementary report to the Auditor-General's report on the Treasurer's Annual Financial Statements.

The Annual Report is the vehicle by which the Auditor-General provides to the Legislative Assembly:-

- (a) a summary of his audit activities and findings in respect of departments and units of administration; and
- (b) an overview of the activities and operations of his Office during the year under report.

In respect of his audit activities in departments and units of administration, he is required under section 47 of the Financial Administration and Audit Act to audit "in such manner as he thinks fit having regard to the character and effectiveness of the internal control and recognised professional standards and practices". The Act defines "internal control" as being "the methods adopted within a department:-

- (a) to safeguard its assets;
- (b) to check the accuracy of its accounting data;
- (c) to promote operational efficiency;
- (d) to encourage adherence to management policies; and
- (e) to secure compliance with legislative provisions."

3.1.1 Role of the Auditor-General

The combination of the power to audit "as he thinks fit" together with the need to have regard to the promotion of "operational efficiency" not only gives the Auditor-General great flexibility in his approach but also underpins the stated aims of his Office which are unreservedly supported by the Public Accounts Committee:-

"To promote improvement in public sector financial reporting and accounting in the Northern Territory and to

establish a recognised resource for the promotion of improvement in the operational efficiency of Northern Territory public administration."

It is unfortunate that much of the positive aspects of the Auditor-General's reports were clouded by the controversy precipitated on the role of his Office. Whilst the Committee can understand the confusion in some quarters brought about by Audits present period of metamorphosis from expenditure and compliance checking to performance review, there should be no doubt that the Auditor-General of the Northern Territory is acting within the scope of his Office as defined by the Legislative Assembly.

Indeed, the Assembly itself is experiencing a similar change to that of the Auditor-General and some members may be expected to resist for a variety of reasons. The basic issue of accountability, however, cannot be denied. The Assembly must appreciate the historical as well as predicted effects of its budget considerations to be able to best manage the economy of the Northern Territory. Value for money is the keynote of any economic decision.

The Public Sector Accounting Standards Board (PSASB) identifies the objectives of general purpose financial reports of public sector bodies as the provision of information that:-

- is useful in making economic decisions; and
- satisfies accountability.

Historically, financial statements have largely satisfied accountability for what has been done with public moneys. Sound economic management, however, requires that information not only account for where money has gone but what return has been achieved for that expenditure.

In further support of the Auditor-General's position, the Public Accounts Committee defers to the words of Mr R.G. Humphry who, as Auditor-General for Victoria, stated in relation to a paper on developments in government financial management:-

"In respect of audit/evaluation of management performance there is a discernible trend both in Australia and overseas towards the independent assessment of management efficiency, i.e. assessments of how resources are managed, controlled and accounted for how economically programs are carried out and whether they are meeting intended objectives. These assessments are additional to traditional financial statement/attest audits. In Australia, we have seen the Australian Auditor-General's mandate extended to encompass efficiency audits in addition to the auditing for financial compliance and regularity. Similar extensions of the audit

role have occurred in Canada and the United Kingdom. The Canadian Auditor-General employs a value for money audit approach which focuses on whether funds have been spent having due regard to economy and efficiency. His report to Parliament is also required to comment on the adequacy of management performance indicators established to measure and report the effectiveness of programs. A broadly similar mandate applies to the operations of the UK Audit Commission established to independently audit the activities of UK local government bodies. Whilst in the United States the GAO has traditionally conducted audits and evaluations of programs and financial operations of agencies."

3.1.2 Financial Reporting

On the matter of the quality of financial reporting in the Northern Territory, the Auditor-General has proposed a revised format for the presentation of the Treasurer's Annual Financial Statements, together with a statement of assets and liabilities to be incorporated in the annual reports of government departments.

The Auditor-General has not proposed a balance sheet which as the name suggests requires a balance of all assets and liabilities, but has asked that the financial information currently available form part of both the Treasurer's Annual Financial Statements and departmental annual reports in a useful and standard format.

The Committee has recently received, from the Under-Treasurer, a set of guidelines which Treasury will follow in the presentation of its own future annual reports. (Appendix A)

The Committee strongly recommends that these guidelines be followed by all departments and that they be supplemented by departmental annual financial statements in the format recommended by the Auditor-General. (Appendix B)

3.1.3 Timeliness of Financial Reporting

With regard to the timeliness of financial reporting, the Committee has noted considerable improvement in the past year and welcomed the support of the then Treasurer, Mr Barry Coulter:-

"The Auditor-General's recommendations regarding timeliness of reports by prescribed statutory authorities is fully endorsed. As Treasurer, I am anxious to ensure that prescribed statutory corporations, particularly those with commercial activities, finalise their financial statements as soon as possible after 30 June. Indeed, I issued an instrument in May 1987 which reduced the period in which

financial statements are to be prepared from 6 months to 3 months."

3.1.4 Auditor-General's Recommendations

The major recommendations of the Auditor-General were referred to the Under-Treasurer, Dr Neil Conn, for his comments and these are summarised as follows:-

AUDITOR-GENERAL'S RECOMMENDATION:-

Treasurer's Annual Financial Statements (Section 2.6)

An improved and simplified form of financial statements for reporting government operations and financial position as a whole should be adopted as a necessary part of the Treasurer's Annual Financial Statements.

(The format proposed by the Auditor-General is at Attachment B of Appendix D of this Report)

TREASURY RESPONSE:-

The format recommended by the Auditor-General covers the standard which applies in the private sector and applies already to many Northern Territory Government Statutory Authorities. The Treasurer's Annual Financial Statements could only be produced in this format if considerable administrative effort was involved and it is not at all clear to me yet that the effort would be well-applied or worthwhile. Indeed, at this stage no Government in Australia is reporting in this format for its Treasurer's Annual Financial Statements, and I am unaware of any commitment to do so in the near future.

PUBLIC ACCOUNTS COMMITTEE COMMENT:-

The Treasurer's Annual Financial Statements currently comply with the requirements of the Financial Administration and Audit Act. This compliance however can be measured in degrees and in terms of the need to provide financial information that is meaningful and useful in making economic decisions, the degree of compliance is unsatisfactory.

The point made by the Under-Treasurer that no other Government in Australia is reporting in the format proposed by the Auditor-General may be correct but the matter is not that simple.

The Committee is aware that:-

- (a) the Victorian government now provides summarised assets and liability information;
- (b) in NSW a consolidated set of financial statements (including a statement of financial position) was produced by the Commission on Audit;
- (c) the SA Treasury has published a macro level state "Balance Sheet";
- (d) the Commonwealth is undertaking an upgrading of asset records which may result in that information being disclosed in financial statements; and
- (e) some overseas countries (most notably Canada and the USA) already provide, or intend in the near future to provide, information relating to assets and liabilities.

With such developments, it would seem reasonable for the Northern Territory Government to consider a revision of the format of the Treasurer's Annual Financial Statements to include additional information that is "useful in making economic decisions", such as the more readily available asset and liability information (including, where appropriate, Accountable Officer's knowledgeable estimates).

AUDITOR-GENERAL'S RECOMMENDATION:-

Departmental Financial Statements (Section 3.5)

Departments (and other units of administration) should produce general purpose financial statements, an example of which are those of my own Office set out in Section 9 (Appendix B) of this Report, and those statements should be audited.

TREASURY RESPONSE:-

Treasury supports unreservedly the introduction of more meaningful and useful financial reports, but I would prefer to defer discussions on departmental financial statements until the draft paper on Accounting Information Systems is available in the near future.

PUBLIC ACCOUNTS COMMITTEE COMMENT:-

The Under-Treasurer presented a paper entitled "Government Accounting in the Northern Territory" during a briefing

before the Public Accounts Committee on 1 February 1989.
(Appendix C)

Whilst the Committee is pleased with the emerging emphasis on performance monitoring through the phased introduction of program reporting and budgeting by the Northern Territory Treasury, it is considered that more needs to be done to develop a standard set of departmental annual reporting requirements including financial statements in the format recommended by the Auditor-General. (Appendix B)

The commercial nature of the central accounting system will also provide a basis for preparation of general purpose financial statements, as proposed by the Auditor-General, should the Government come to see value in such information.

The respective views of the Under-Treasurer and Auditor-General are comprehensively covered at Appendices C and D of this report.

AUDITOR-GENERAL'S RECOMMENDATION:-

Other Reports and Financial Statements (Section 4.5)

Action needs to be taken in respect of those prescribed statutory corporations, commercial activities and other entities which do not produce financial statements within the required (or where not required, a reasonable) time-frame.

In respect of commercial activities (Darwin Omnibus Service and Government Printing Office) there should be a requirement to publish a comprehensive annual report on their operations together with the audited financial statements.

TREASURY RESPONSE:-

Treasury certainly agrees that the timeliness of financial reports is important. A number of Statutory Authorities have some difficulty in preparing their financial statements on time and I believe this matter should be taken up directly with the relevant Chief Executive Officers.

PUBLIC ACCOUNTS COMMITTEE COMMENT:-

The situation has improved considerably since the tabling of Report Number 3 as evidenced by the Auditor-General's own assessment in his latest report:-

"the average time which it takes for prescribed statutory corporations, commercial activities and other auditees to produce their financial statements continues to reduce. The availability of financial information at a much earlier time means that the information has more currency and therefore more relevance for planning purposes."

However, the Committee notes that the Auditor-General, in his most recent report upon Prescribed Statutory Corporations, has expressed concern that:-

"there has been deterioration in respect of the year ended 30 June 1988".

AUDITOR-GENERAL'S RECOMMENDATION:-

Local Government Corporations (Section 5.3)

It is recommended that:

- (a) the accounting and audit requirements for Local Government Corporations be reviewed in the light of the costs which result from those requirements; and
- (b) adherence to required reporting timeframes be monitored more closely by those responsible.

TREASURY RESPONSE:-

The Auditor-General's comments concerning the overly-detailed and restrictive nature of the Local Government Accounting Regulations very closely reflect recent comments made in Australia by other members of the accounting profession (e.g. the Public Sector Accounting Standards Board).

Treasury would be willing to assist in developing better accounting procedures for Local Government Corporations but, in the meantime, I would suggest that the matter be taken up with the Department of Labour and Administrative Services.

PUBLIC ACCOUNTS COMMITTEE COMMENT:-

The Committee is aware that the Northern Territory Office of Local Government has initiated a review of the Local Government (Accounting) Regulations, including the form of financial statements.

The Office of the Auditor-General is participating in the review.

AUDITOR-GENERAL'S RECOMMENDATION:-

Commonwealth Acquittals (Section 6.3)

Action needs to be taken in respect of the accountability arrangements for Commonwealth acquittals to ensure that:

- (a) responsibilities within the Northern Territory administration are clearly defined;
- (b) adherence to required reporting time-frames is observed; and
- (c) the accounting and audit requirements are cost effective.

TREASURY RESPONSE:-

The development of suitable arrangements for Commonwealth specific purpose payments is a complex matter which has significant policy implications for all Northern Territory Departments which receive these payments, as well as for the Northern Territory Treasury. The accountability objectives of each program are related more to the achievement of policy objectives rather than to accounting requirements, but where accounting matters arise the Accounting Division of Treasury is involved. It would be inappropriate to involve the Auditor-General's Office in such negotiations with the Commonwealth.

PUBLIC ACCOUNTS COMMITTEE COMMENT:-

This matter appears to have been resolved partially as advised by the Auditor-General to the Legislative Assembly on 4 October 1988:-

"In March 1988, the Under-Treasurer issued an instruction to all departments and authorities defining the responsibilities of individual organisations and clarifying the administrative arrangements for processing of acquittal statements. In this regard, Treasury has confirmed its responsibility for co-ordinating the flow of documents within the required reporting time-frames."

However, it is apparent to the Committee that the accounting and auditing requirements in respect of Commonwealth acquittals are not cost effective as evidenced by the following comment in the 1988 Annual Report of the Auditor-General:-

"The varying accounting and auditing requirements for each type of commonwealth acquittal and the very specific but non-standard form of presentation required contribute to the cost of auditing these statements.

Particularly, the non-standard nature of the conditions of the grants requires additional administrative effort in planning and reviewing the work carried out. For the year ended 30 June 1988 the administrative costs incurred in managing the audits of Commonwealth acquittals were three times the average for all audits conducted by the Office.

It would be desirable if the audit effort required was related to the size of the payments. That was not the case last year as the six largest acquittals representing 97% of the total value of payments for which audit reports were required accounted for only 48% of the total audit costs. The balance of audit costs were incurred in auditing the other 15 acquittal statements."

The Auditor-General went on to express concern, which is shared by the Committee, that not only is there an imbalance of audit cost relative to the acquittal expenditure but that:-

- . administrative costs might be excessive; and
- . certification by the Chief Executive Officer may be more appropriate in some cases.

The Committee strongly recommends that the advice of the Auditor-General be sought in all cases where auditing requirements are proposed to ensure the greatest benefits be obtained for an appropriate level of audit effort.

3.1.5 Other Matters

Other specific matters were raised by the Auditor-General on which the Public Accounts Committee sought information from the respective Chief Executive Officers as to:-

- "1. what action has been taken to date to rectify/explain the matters raised by the Auditor-General; and
2. what is the time scale for completing any action outstanding."

The following is a summary of those matters:-

DEPARTMENT OF HEALTH & COMMUNITY SERVICES

"3.25.6 during the year there had been commitment in excess of Treasurer's Authority and expenditure in excess of Warrant Advice. More significantly there had been failure to comply with the Financial Administration and Audit Act in that there had been expenditure of funds in excess of Treasurer's Warrant, rectification of which had not been sought until the end of June. During the year the Accountable Officer had advised me of these breaches and sought any comments and suggestions. Improvement in budgetary controls and timeliness in the seeking of additional funds was recommended."

" an examination of the Prison Industries Trust Account undertaken at the request of the Department had revealed a lack of controls in place to ensure that all income due is received. Recommendations for improving internal controls were made."

"3.31.3 Weaknesses in internal control and contraventions of Treasurer's Directions in the areas of fixed assets and expenditure systems together with a lack of internal control over receipts and debtors at the Marrara Stadium due to it being impractical to segregate these duties were reported."

DEPARTMENT OF TRANSPORT & WORKS

"3.19.4 Matters referred to the Accountable Officer included delayed banking of revenue amounting to \$125,000 received in late June 1987 but not brought to account until 1987-88.

Copies of departmental responses together with subsequent views of the Auditor-General on those responses are at Appendix E.

The Public Accounts Committee is satisfied that the above matters, which were of concern to the Auditor-General, have been resolved, or are in the process of being resolved.

3.2 Report of the Auditor-General upon the Treasurer's Annual Financial Statements

This report was tabled in the Legislative Assembly on 20 October 1987 as required by section 57 of the Financial Administration and Audit Act.

The Treasurer's Annual Financial Statements comprise the following:-

- No 1. Consolidated Fund of the Government of the Northern Territory of Australia
- No 2. Trust Fund of the Government of the Northern Territory
- No 3. Statement of Funds and Public Account balances
- No 4. Statement of ex-gratia payments, gifts of public property, etc.
- No 5. Statement of loan raisings by the Northern Territory Government
- No 6. Statement of Guarantees

An explanatory note on each of the above is at Appendix F.

The Auditor-General has reported that:-

"In compliance with section 57 of the Financial Administration and Audit Act, I have audited in accordance with Australian Auditing Standards the Treasurer's Annual Financial Statements, being Statements 1 to 6 inclusive, for the year ended 30 June 1987 which were transmitted to me in accordance with section 29 of the Act.

Statement 6 sets out guarantees and contingent liabilities arising from financial agreements entered into by the Northern Territory Government. As in prior years, I am reliant on Treasury's register of guarantees and contingent liabilities being complete in respect of the information included in Statement 6.

In my opinion, subject to the matter referred to in the preceding paragraph, the Treasurer's Annual Financial Statements are in agreement with the accounts and records kept in accordance with part II of the Act and with returns provided to the Northern Territory Treasury by prescribed statutory corporations."

The Public Accounts Committee accepts the Auditor-General's opinion and notes that his report is restricted to an assessment of:-

- (a) whether the information in those statements is in agreement with the underlying accounts and records; and
- (b) whether there has been compliance with financial and other relevant legislation."

The Committee reinforces the sentiment of the Auditor-General, whose opinion is that in the present form, the Financial Statements do not provide adequate information "to give a clear picture of government operations and financial position."

Further discussion on the matter of the form of the Treasurer's Annual Financial Statements is at Chapter 3.1 of this report.

3.3 Report of the Auditor-General upon Prescribed Statutory Corporations for the year ended 30 June 1987.

This report was tabled in the Legislative Assembly on 23 February 1988 and is a supplementary report to the Auditor-General's report on the Treasurer's Annual Financial Statements.

The report on Statutory Corporations is additional to annual reports by the Auditor-General to the relevant Minister in respect of each Statutory Corporation as provided by Sections 67 and 68 of the Financial Administration and Audit Act. The respective objectives of these audits are summarised by the Auditor-General as follows:-

"(1) Under Section 67 -

(a) to determine whether:-

- (i) the corporation is keeping proper accounts and records of transactions and affairs (both financial and non-financial) so far as practicable in the same manner as a commercial organisation;
- (ii) all payments are correctly made and properly authorised;
- (iii) adequate control is maintained over its property;
- (iv) adequate control is maintained over property in the custody of (but not belonging to) the corporation; and
- (v) adequate control is maintained over the commitment of money;

(b) to determine:

- (i) legislative and regulatory compliance; and
- (ii) financial regularity;

and that the audit be planned so that there is a reasonable expectation of detecting significant diseconomy, inefficiency and ineffectiveness;

(c) to report forthwith to the Minister any irregularities of sufficient importance; and

- (d) in any event, to report to the Minister on the results of the audit and inspection under sub-section 67(1).
- (2) Under section 68, to report to the Minister -
 - (a) whether, in the Auditor-General's opinion:-
 - (i) the financial statements are based on proper accounts and are in agreement with the accounts and have been properly drawn up so as to present a true and fair view; and
 - (ii) the receipt and expenditure of moneys and the acquisition and disposal of property has been in accordance with the constituting Act and the Financial Administration and Audit Act; and
 - (b) such other matters and things arising out of the statements as should be reported to the Minister (including matters of legislative and regulatory compliance and financial regularity).

The Auditor-General's report to the Legislative Assembly, on the other hand, takes the form of an account, in summary, noting the functions of each corporation and the extent of audit coverage for the year and any significant findings.

3.3.1 Matters of Concern

Discussions with the Auditor-General regarding his report on statutory corporations led to the Committee identifying a number of issues which were of significant concern to his office. The Committee decided to pursue a number of matters with the corporations concerned.

A summary of those issues follows:-

CONSERVATION COMMISSION

- "1.7.4 In addition to advising the Minister of the findings of the interim audit, I voiced my concern regarding the accounting treatment given to a loan made by the Commission as agent for the N.T. Government where full recovery of the debt is uncertain.

This matter together with the accounting treatment being given to work in progress on capital

projects was also drawn to the Chairman's attention."

MUSEUMS AND ARTS GALLERIES BOARD

"1.10.3 My report upon the Board's financial statements was qualified due to the failure to present to me, as required, its completed report on operations.

On 18 December 1987 I advised the Chairman of a number of matters arising which required attention.

As at the date of preparation of this Report a reply was awaited."

VOCATIONAL TRAINING COMMISSION

"1.17.3 The Department of Industries and Development has acknowledged its responsibility to prepare the Commission's financial statements for the period ended 30 April 1986. Draft financial statements were lodged in my Office on 6 July 1987 and 21 August 1987. On 21 October 1987 I informed the Secretary of the Department that the audit task needed to be postponed due to the inability to find supporting documentation and the inability to find personnel who were directly involved with the Commission and who could assist in answering audit queries. I further indicated that the postponement would continue until my Office was advised as to where documentation could be located and appropriate personnel found.

On 8 December 1987 I provided a reminder to the Secretary requesting a response to my earlier correspondence.

On 19 January 1988 in an oral communication to my authorised auditor, a departmental officer indicated that he would try to obtain the required information as a matter of urgency."

RACING, GAMING AND LIQUOR COMMISSION

"1.19.4 My report upon the Commission's financial statements for the period ended 30 June 1987 was qualified due to deficiencies noted in the control of recording lotteries receipts not providing assurance that all moneys received or receivable would be collected and brought to account."

TRADE DEVELOPMENT ZONE

"1.22.3 The Authority's exposure to an occurrence of an insurable nature, in the absence of commercial insurance, was noted. The Chairman was asked to clarify the responsibility of the Authority on this matter."

Copies of responses from the above corporations, together with the subsequent views of the Auditor-General on those responses, are at Appendix G.

As can be seen from the appended responses, it would appear that the corporations concerned have generally attended or undertaken to attend to matters raised by the Auditor-General.

CHAPTER FOUR

CONCLUSIONS

In consideration of the reports of the Auditor-General for the year ended 30 June 1987, the Public Accounts Committee concluded:-

1. The legislative prescription of powers and responsibilities of the Office of the Auditor-General fully supports the stated aims of that Office, being:-

"To promote improvement in the public sector financial reporting and accounting in the Northern Territory and to establish a recognised resource for the promotion of improvement in the operational efficiency of Northern Territory public administration." (...3.1 p.7-8)
2. The development of the role of the Office of the Auditor-General towards an independent assessment of operational efficiency is consistent with developments in the professional field of auditing throughout Australia and in other countries with similar democratic and accountability processes; (...3.1 p.8-9)
3. Treasury and Statutory Corporations have generally improved the timeliness of presentation of financial reports; (...3.1 p.9)
4. The absence of departmental financial statements in the form and content of the Treasurer's Annual Financial Statements does not provide the most desirable basis for management of the Territory's economy and review of that management by the Legislative Assembly; (...3.1 p.8-9)
5. The Northern Territory Treasury has recognised the need to improve the quality of public sector annual reports, as evidenced by its own guidelines for preparation of its annual reports; (...3.1 p.9)
6. The Government's central accounting system, being able to accommodate commercial accounting requirements, provides a basis for the preparation of more informative general purpose financial statements for both departments and the Government as a whole; (...3.1 p.12)
7. The Auditor-General's concerns regarding the cost efficiency of auditing some Commonwealth acquittals indicate the need to review the nature of the conditions of those grants in question. (...3.1 p.14-15)

CHAPTER FIVE

RECOMMENDATIONS

The Public Accounts Committee, from its considerations of the Auditor-General's reports for the year ended 30 June 1987, recommends that:-

1. The Legislative Assembly endorse the stated aims of the Office of the Auditor-General as being in compliance with the intended role of that Office prescribed under the Financial Administration and Audit Act. (...3.1 p.7-8)
2. In the event that the present wording of the Financial Administration and Audit Act is deemed not to be supportive of the stated aims of the Auditor-General, the relevant legislation be so amended. (...3.1 p.9)
3. Departmental financial statements be prepared as an integral part of departmental annual reports, in the form recommended by the Auditor-General and not as 'balance sheets'. (...3.1 p.9)
4. Guidelines be developed along the lines proposed by the Under-Treasurer and as to be applied in the Northern Territory Treasury, for the preparation of all departmental annual reports in the Territory. (3.1 p.9)
5. The Northern Territory Treasury, following consultation with the Auditor-General, enter into negotiations with the Commonwealth regarding the most cost efficient and acceptable form of acquittal of commonwealth grants and specific purpose payments. (3.1 p.15)

MICK PALMER
CHAIRMAN

APPENDIX A

ANNUAL REPORT GUIDELINES



NORTHERN TERRITORY OF AUSTRALIA

UNDER TREASURER
THE TREASURY

GPO BOX 1974
DARWIN, NT 5794
TELEX AA 85541
VOCADEX 81 8348
TELEPHONE 89 6033

Mr A G Morris
Co-Ordinator General
Department of the Chief Minister
GPO Box 4396
DARWIN N T 0801

Dear Alan

Recently we had occasion to alter Treasurer's Directions to require accountable officers to list, in their annual report, write-offs, waivers and remissions approved by them during the year. Previously the Treasurer had done this in his Annual Financial Statements.

This exercise sparked an examination by us of the format and content of our own annual report, and eventually annual reports in general. It occurs to me that the results could be of interest to our colleagues, but possibly even more to you as Co-Ordinator General.

As it is now the Annual Report writing season, you might wish to consider the attached Guidelines for discussion by Co-Ordination Committee at its August meeting. We have adopted them for Treasury, with little adaptation from the Federal Government's 1986 standards.

It would not be my wish that Treasury sponsor the adoption of Guidelines service-wide, since many of the matters touched upon are not Treasury's business. Nevertheless, I see a great deal of merit in them and believe discussion of the possibility is warranted.

Yours sincerely

N R CONN

14 July 1988

LAID BEFORE PUBLIC ACCOUNTS COMMITTEE	
	3/4/88
SECRETARY	DATE

A. GENERAL PRINCIPLES

to the Minister (and the public)

1. Reports should be accounts^w of departmental operations during the year under review. Special attention should be given to changes that occurred during the year, and departments may wish to foreshadow expected developments in some areas.
2. The orientation of reports should be towards the performance, administrative and managerial aspects of departmental activities, as a source of information to the public as well as the Legislative Assembly.
3. Reports should be concise yet present all information (including background information) necessary for an understanding of the matters covered.
4. There should be a balance between the need to avoid undue repetition of material available to the public elsewhere and the need to provide a comprehensive overview of operations.
5. There should be consistency with information provided by departments in other forms (e.g. in Budget Papers). Any material inconsistencies should be explained.
6. Care should be taken in presenting any comments with a bearing on the operations of other departments or of authorities.
- 7. The structure and layout of reports should be designed to ensure clarity and public acceptability. Cabinet guidelines on standards of production must be observed. It is inappropriate for public funds to be used for the production of prestigious and expensive reports. In order to decrease the production time of annual reports, maximum use should be made of camera-ready production. (The Government Printer can produce final reports in the obligatory B5 format from camera-ready A4 drafts).
8. The detailed content and structure of reports are the responsibility of heads of departments, who should consult their Ministers as appropriate.
9. Reports should be prepared on a financial year basis and be available for the Estimates debates in the Budget Sittings. When reports are not available in time, departments should provide an interim statement in A4 duplicated form for the information of the Legislative Assembly. In any case, reports should be available within 6 months of the end of the reporting period.
10. Reports should be considered to be confidential until tabled in the Legislative Assembly.

B. CONTENTS

11. Each report should contain (but not necessarily be limited to):
 - (a) a clear statement of the legislation requiring the tabling of a report (generally Section 22(1) of the Public Service Act and a statement (in either the letter of transmittal or in the contents pages) of reports made pursuant to other Acts, which are included in the annual report;
 - (b) A clear statement of the department's goals and objectives, highlighting any changes during the year under review;
 - (c) a description of the department's structure, with an organisation chart showing senior officers, regional offices and associated bodies, again highlighting changes during the year;
 - (d) an account of the department's significant activities during the year, showing any programs and legislation it administers and indicating performance against targets, results achieved etc;
 - (e) an account of the management of the department during the year, including the operation of any major trust funds/trust accounts and other trading and/or cost recovery activities, and, as appropriate, financial and staffing information of the kinds listed in parts D and E of these guidelines;
 - (f) information on any significant judicial decisions affecting the department or the users of the services provided by the department, and any consequent changes in departmental procedures;
 - (g) information concerning any major reviews of the objectives or structure of the department during the year, the outcome of the reviews and changes or proposed changes resulting from each review;
 - (h) where appropriate, information on the extent and main features of consumer complaints, indicating any services improved or changed as result of complaints or consumer suggestions made;
 - (i) reference to other sources of information concerning the department, including publications, policy information and policy discussion papers, submissions to advisory bodies or inquiries, major Ministerial Statements printed in Hansard and major Ministerial or departmental news releases, with bibliographical details and addresses and phone numbers of information officers; and
 - (j) reference to the activities of small statutory bodies which are responsible to the Minister and do not produce reports of their own, and information on non-statutory bodies in the Minister's portfolio.

C. MANAGEMENT ISSUES

12. Where appropriate, departments should include in their annual reports reference to:
- (a) their approaches to financial and staff resource management;
 - (b) recent and planned developments, and initiatives instituted, in financial and staff resource management, and progress in implementing the aims and requirements of financial management improvement programs, maximum staff limitations and program budgeting; here should be included such aspects as:
 - (i) corporate planning structures and resource management strategies;
 - (ii) developments in management information systems;
 - (iii) the extent of delegations granted and functions devolved to managers and others;
 - (iv) management of staff resources (i.e. comparative data on recruitments, retention rates, exit rates and mode of separation - e.g. resignation, invalidity, retirement);
 - (v) the relationship between organisational structure and program structure (with specific reference to the allocation of responsibilities between program and functional managers);
 - (vi) cash management reviews; and
 - (vii) developments in financial/staff resource management training;
 - (c) performance measures used, or being developed, in evaluating financial and staff resource management in the department;
 - (d) performance-monitoring activities undertaken by internal units and external agencies;
 - (e) progress made during the financial year in achieving economies;
 - (f) work undertaken on behalf of the department by other agencies, and vice versa;
 - (g) work undertaken on behalf of the Commonwealth under agency and under specific purpose payment programs, including comment on the satisfaction of the conditions attaching thereto;
 - (h) action taken in respect of comments/criticisms in reports of the Auditor-General or Assembly Committees;

- (i) procedures for the collection of revenues and the incurring of forward obligations; the extent and timing of uncollected revenues and outstanding obligations, if applicable; and
 - (j) details of breaches of approved forward obligation limits and any other breaches of the Financial Administration and Audit Act or Treasurers Regulations or Directions.
13. As departments implement the more program-oriented approach to resource management and budgeting which the Government has decided to adopt, their reports should provide:
- (a) clear statements of program objectives;
 - (b) analyses of program performance and progress towards the achievement of objectives;
 - (c) an accounting for the resources used by departments against individual programs; and
 - (d) reasons for any significant delays to, or amendment, deferment or cancellation of, programs.

D. FINANCIAL STATEMENTS

14. Elaborating on and referring to the data contained in the Treasurer's Annual Financial Statements prepared pursuant to Section 29 of the Financial Administration and Audit Act and Treasurer's Direction 24, departments should provide tables, graphs, charts (as appropriate) showing:
- (a) details of expenditure (not only from the Consolidated Fund and from Trust Accounts administered by the Department but also categorised according to programs), supported by explanatory notes;
 - (b) details of revenue received into the Consolidated Fund and Trust Accounts administered by the Department by source, type and program, supported by explanatory notes; and
 - (c) an analysis of, and an assessment of the operations of, each fund or account; the analysis and assessment should be related not only to the inputs involved - financial and staffing - but should also cover the impact on the outputs and outcomes of the programs to which they relate.
15. Tables, graphs, charts, etc. should be accompanied by an explanation of significant changes from one year to the next and must be consistent with other published financial data (any material differences should be explained). Data should include current year actuals and budget estimates and actuals for at least the previous year.

16. In accordance with Treasurer's Direction 24.7A, the department's annual report must include:

- (a) a summary of Territory moneys and public property written off by the Accountable Officer during that financial year and classified according to the nature of the event which necessitated the write off action; and
- (b) a summary of every case where the Accountable Officer has approved the waiver or remission of the Territory's right to recover moneys or property during that financial year.

Information to be included in annual reports shall be those cases where write off or waiver action is approved by the Accountable Officer under either of the following:

- (i) delegation given by the Treasurer under Section 73 of the Financial Administration and Audit Act; or
- (ii) any other legislation governing the Department's activities.

17. Where a department undertakes operations of a commercial or quasi-commercial nature in respect of which the Treasurer has determined, pursuant to Section 24.8 of the Financial Administration and Audit Act, the form in which it shall prepare financial statements for those operations, the departmental annual report should:

- (a) incorporate financial statements in the form determined;
- (b) provide information as to the operational performance of the undertaking (e.g. the operating surplus as a proportion of working capital provided, trends in turnover, etc.) including, where practicable, non-financial performance measures.

E. STAFFING INFORMATION

18. Departmental annual reports should provide an overview of the staffing levels and characteristics of the department, with statistics in a sufficiently standardised form to permit comparisons with Service-wide statistical information published by the Public Service Commissioner. Figures included in reports should be consistent with figures provided in returns of staff reported to the Public Service Commissioner.
19. The kinds of staffing information in reports should include information on the classifications and locations of staff, with indications of how many staff are employed full-time/part-time/on a casual basis and how many are employed under the Public Service Act/other Acts. The numbers of men and women in the department and in various categories of staff should be shown.
20. Details should be included of the extent to which external consultants are used by the department, including (where practicable) the names of the consultants, the projects involved, the cost to the department and the justification for their use.
21. Accounts should be given of activities in the field of occupational health and safety, compensation and rehabilitation and the department's equal employment opportunity plan.
22. Other kinds of staffing information, reflecting the nature of particular departments and their work, should also be included in annual reports as appropriate.

APPENDIX B

AUDITOR-GENERAL'S FINANCIAL STATEMENTS

Section 9: Financial Statements of the Office of the Auditor-General

OFFICE OF THE AUDITOR-GENERAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 1987

The financial statements which follow consist of:

Statement of Receipts and Payments on the Consolidated Fund

Statement of Receipts and Payments on the Trust Fund

Statement of Assets and Liabilities

Notes to and forming part of the Financial Statements (including details of costings charged to the various audits)

These financial statements are not presently audited because there is no legislative requirement that they be prepared and audited.

Office of the Auditor-General

STATEMENT OF RECEIPTS AND PAYMENTS ON THE CONSOLIDATED FUND

for the year ended 30 June 1987

Budget for Year Ended 30 June 1987 \$	Note	Actual for Year Ended 30 June 1987 \$	Actual for Year Ended 30 June 1986 \$
<u>—</u>	RECEIPTS	<u>—</u>	<u>—</u>
	PAYMENTS		
	Appropriation Expenditure		
340.000	Salaries and Payments in the Nature of Salary	310.045	<u>330.094</u>
	Administrative Expenses		
	Authorized Auditors' Fees	919.644	784.234
	Duty Fares, Travel and Subsistence	21.338	15.471
	Payroll Tax	22.207	20.542
	Recruitment and Relocation	11.557	7.582
	Recreation Leave Fares	5.975	12.897
	Vehicle Maint. Rego. Ins. and Hire	2.198	1.676
	General Equipment, Machinery and Services	7.280	12.544
	Printing and Publication	13.613	9.198
	Telephone and Postage	11.616	8.112
	Advertising (Recruitment)	3.470	4.629
	Computer Services	8.980	—
	Consultants Fees	8.622	—
	Staff Rent	4.835	—
	General Office Expenses	16.526	12.776
1.058.000		1.057.861	<u>889.661</u>
<u>—</u>	Capital Items	<u>—</u>	<u>12.939</u>
<u>1.398.000</u>		<u>1,367.906</u>	<u>1,232.694</u>
	Special Appropriation		
73.000	Salary and Allowances — Auditor-General	65.132	65.760
<u>\$1,471.000</u>	TOTAL PAYMENTS	<u>\$1,433.038</u>	<u>\$1,298.454</u>

This Statement of Receipts and Payments on the Consolidated Fund is to be read in conjunction with the notes to and forming part of the financial statements.

- Unaudited -

Office of the Auditor-General
STATEMENT OF RECEIPTS AND PAYMENTS ON THE TRUST FUND
for the year ended 30 June 1987

	Note	Year Ended 30 June 1987 \$	Year Ended 30 June 1986 \$
RECEIPTS	1(e).2(a)	Nil	Nil
PAYMENTS	1(f).2(b)	Nil	Nil
Balance brought forward from previous year		Nil	Nil
Balance as at 30 June		Nil	Nil

This Statement of Receipts and Payments on the Trust Fund is to be read in conjunction with the notes to and forming part of the financial statements.

Office of the Auditor-General

STATEMENT OF ASSETS AND LIABILITIES

as at 30 June 1987

	Note	Year Ended 30 June 1987 \$	Year Ended 30 June 1986 \$
ASSETS			
5			
Financial Assets			
Cash on hand	6	200	200
Work-in-progress	7	57,397	67,952
Total financial assets		<u>57,597</u>	<u>68,152</u>
Physical Assets			
Property, plant and equipment	1(g).8	54,654	54,654
Inventories	1(h).9	2,700	2,400
Total physical assets		<u>57,354</u>	<u>57,054</u>
TOTAL ASSETS		<u><u>\$114,951</u></u>	<u><u>\$125,206</u></u>
LIABILITIES			
Accounts payable	10	60,243	36,630
Employee entitlements	1(i).11	108,722	96,428
TOTAL LIABILITIES		<u><u>\$168,965</u></u>	<u><u>\$133,058</u></u>

This Statement of Assets and Liabilities is to be read in conjunction with the notes to and forming part of the financial statements.

Office of the Auditor-General

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 1987

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

The Office of the Auditor-General was established on 1 July 1982. The function of the Office is to provide independent audit examinations of the various operations and undertakings of the Northern Territory government as required by the *Financial Administration and Audit Act* and other legislation.

For administrative arrangements purposes responsibility for the Office of the Auditor-General is allotted to the Chief Minister.

(a) Office of the Auditor-General as an accounting entity

The Office of the Auditor-General is a unit of administration of the Northern Territory government. As such the receipts and payments of the Office are recorded in the Public Accounts established by the *Financial Administration and Audit Act* to record the cash transactions of the Territory. The Public Accounts consist of the Consolidated Fund (see Note 1(b) below) and the Trust Fund (see Note 1(c) below). Most moneys in the Public Accounts are kept in the main bank account, the Northern Territory Government Account.

Since the Office of the Auditor-General is not a corporate entity, any assets held by the Office are the property of the Northern Territory government and any liabilities incurred by it are, likewise, the responsibility of the Northern Territory government. Nevertheless, in the interest of more meaningful reporting, the financial statements have been prepared as if the Office were capable of owning assets and incurring liabilities in its own right.

(b) The Consolidated Fund

The Consolidated Fund is the principal operating fund of the government and is financed by Territory-raised revenue and Commonwealth financial assistance for general and specific purposes. Payments can be made from the Consolidated Fund only by the authority of:

- (i) the annual Appropriation Acts which impose a limit on the amount that may be spent during the financial year; and
- (ii) Special Appropriations which stand pursuant to specific legislative provisions such as that for the salary and allowances of the Auditor-General under section 39 of the *Financial Administration and Audit Act*.

(c) The Trust Fund

The Trust Fund consists of various trust accounts established to accommodate transactions for specific purposes.

(d) **Basis of accounting**

A part of the financial statements has been prepared on a cash basis and a part has been prepared on an accrual basis. The cash basis recognises transactions in the period in which the related cash receipt or payment occurs. The accrual basis recognises revenues and expenses in the period in which they are considered to have been earned and incurred, respectively, whether or not such transactions have been finally settled by the receipt or payment of cash.

The part which has been prepared on a cash basis is the Statement of Receipts and Payments on the Consolidated Fund and the Statement of Receipts and Payments on the Trust Fund.

The Statement of Assets and Liabilities as at the end of the year has been generally prepared on an accrual basis using the historical cost convention as if the Office were capable of owning assets and incurring liabilities in its own right (see Note 1(a) above).

A more detailed description of the basis of accounting appears below.

(e) **Receipts**

Items in this category are brought to account on a cash basis — that is, it represents amounts actually received during the financial year and recorded in the Consolidated Fund or the Trust Fund as a transaction of the Office of the Auditor-General. During the year ended 30 June 1987 the amount received by the Office of the Auditor-General was nil (1986 — nil).

The amount shown as budgeted receipts for the year was estimated at the time of preparation of the Northern Territory's annual budget and was included in the Statement of Revenue Sources 1986-87 (Budget Paper No 2).

(f) **Payments**

Items in this category are brought to account on a cash basis — that is, it represents amounts actually paid during the financial year and recorded in the Consolidated Fund or the Trust Fund as a transaction of the Office of the Auditor-General.

It includes cash payments during the year on both operational and capital items. It includes amounts paid during the year in respect of costs incurred in earlier years.

It does not include costs such as the following:

- book losses on disposal of assets or assets lost or written-off (see Note 5);
- depreciation of property, plant and equipment (see Note 8);
- accounts for goods and services received during the financial year but which were unpaid at the end of the financial year (see Note 10);
- employee entitlements which accrued during the financial year (see Note 11); and

- employer's contributions which accrued during the financial year in respect of employee superannuation funds (see Note 12).

The amounts shown as budgeted payments for the year represent:

- the amounts provided by the Appropriation Act together with any subsequent approved variations; and
- in the case of Special Appropriations, the amounts estimated at the time of preparation of the Northern Territory's annual budget and shown as Special Appropriations in Budget Paper No.3.

(g) Property, plant and equipment

Property, plant and equipment items are reported at original cost. The total value of items costing less than \$2,000 has been estimated. No charge is brought to account for depreciation.

(h) Inventories

Inventories are valued at the lower of cost and net realisable value.

(i) Employee entitlements

This represents the amounts expected to be paid to, or on behalf of, employees for long service leave, annual leave and airfare entitlements. No amount is brought to account in respect of sick leave since it is considered that no liability arises until sick leave occurs.

In the case of long service leave the employees' entitlements vest after the completion of 10 years service. The accruing liability is recognised in two-year increments in each of the sixth to tenth years.

In respect of annual leave and airfare entitlements the accruing liability is recognised as legal entitlement occurs.

Employee superannuation entitlements are dealt with in Note 12.

NOTE 2: AUTHORITY FOR TRANSACTIONS

(a) Receipts

All receipts of money by the Office of the Auditor-General must be credited to the Consolidated Fund (Note 1(b) above) except that which is required or permitted to be credited to an account of the Trust Fund (Note 1(c) above).

(b) Payments

Payments can be made from the Consolidated Fund (Note 1(b) above) only by the authority of Special Appropriations and the annual Appropriation Acts which impose a limit on the amount that may be spent during the financial year. The balance of annual appropriations unspent at the end of a year lapse.

In addition, the authority of a Treasurer's Warrant is required before payments can be made from the Fund and commitments on the Fund can only be made within the limit of the Treasurer's Authority.

Payments can be made against an account of the Trust Fund (Note 1(c) above) only for the purpose for which that account is established or for any other purpose authorised by the *Financial Administration and Audit Act* or any other law of the Territory. In addition, a payment may only be made if there is a credit balance in the trust account sufficient to meet the payment.

NOTE 3: AUDIT FEES CHARGED TO AUDITEES

During the year ended 30 June 1987 the amount received by the Office of the Auditor-General was nil (1986 — nil). However, the Northern Territory Treasury levied and received the following amounts as a charge for audit fees on the basis of costs incurred by the Office of the Auditor-General:

	1987 \$	1986 \$
Darwin Port Authority	37,079	21,662
Jabiru Town Development Authority	5,970	11,463
Northern Territory Housing Commission	103,857	85,942
Northern Territory Electricity Commission	77,369	92,979
	<u>\$224,275</u>	<u>\$212,046</u>

Any amounts charged to auditees by the Northern Territory Treasury and still owing at year end are not brought to account by this Office as accounts receivable.

Costs incurred in respect of other audits are not recovered (Note 18).

NOTE 4: PAYMENTS

In addition to the cash payments shown in the Statement of Receipts and Payments on the Consolidated Fund, the Office utilised the following resources for which no charges were made by the provider:

	1987 \$	1986 \$
Administrative assistance	.	.
Legal advice	.	.
Rent	48,825	44,913
Cleaning	3,415	2,904
Electricity	3,864	5,538
Other property expenses	1,332	1,126
Central government telephone	.	.
Central computer services	.	.

(* Information not readily available)

NOTE 5: ASSETS LOST OR WRITTEN-OFF

Assets lost or written-off during the financial year and reported in accordance with the Treasurer's Directions were:

	1987 \$	1986 \$
"Ex-Gratia" Payments	Nil	Nil
Moneys and Public Property Written-Off	Nil	Nil
Waiver of Right to Recover Money or Public Property	Nil	Nil
Gifts of Public Property	Nil	Nil

Book losses on disposal of assets in the normal course of operations are not included.

NOTE 6: CASH ON HAND

This item represents the amount of the cash advance held at year end. The Office of the Auditor-General has no separate bank account and all transactions are through the main government bank account.

NOTE 7: WORK-IN-PROGRESS

This represents costs incurred to 30 June in respect of those auditees for which oncharging applies (Note 3) but which will not be charged to the auditees by the Northern Territory Treasury until the following year. From the time this Office advises the Northern Territory Treasury of the amounts to be charged they are no longer treated as assets of this Office.

NOTE 8: PROPERTY, PLANT AND EQUIPMENT

This item as at year end consists of:

	1987 \$	1986 \$
Equipment	9,358	9,358
Motor vehicles	26,296	26,296
Items costing less than \$2,000 (Estimated)	19,000	19,000
	<u>\$54,654</u>	<u>\$54,654</u>

- Unaudited -

NOTE 9: INVENTORIES

Inventories consist of printed reports and office supplies on hand as at year end and the values have been estimated at:

	1987	1986
	\$	\$
Printed reports	1,600	1,500
Office supplies	1,100	900
	<u>2,700</u>	<u>2,400</u>

NOTE 10: ACCOUNTS PAYABLE

Accounts payable as at year end were:

	1987	1986
	\$	\$
Authorized Auditors' fees	54,627	29,147
Other administrative expenses	5,616	7,483
	<u>60,243</u>	<u>36,630</u>

NOTE 11: EMPLOYEE ENTITLEMENTS

Amounts expected to be paid to, or on behalf of, employees for entitlements as at year end were:

	1987	1986
	\$	\$
Long service leave	66,270	56,871
Annual leave	34,850	31,285
Airfares	7,602	8,272
	<u>108,722</u>	<u>96,428</u>

NOTE 12: SUPERANNUATION COMMITMENTS

Contributions in respect of employee superannuation entitlements are made on an emerging cost basis by the Northern Territory government as a whole.

Employer's contributions are estimated to be accruing at a rate of 17% of salaries for those employees who are members of the Commonwealth Superannuation Scheme (CSS) and at a rate of 12% of salaries for those who are members of the Northern Territory Government and Public Authorities' Superannuation Scheme (NTGPASS).

On this basis, the expense which accrued during the year ended 30 June 1987, in respect of this Office's share of the contribution to the employees' superannuation schemes would have been \$49,150 (1986 — \$47,505).

Whilst actuarial valuations can indicate what shortfalls (if any) exist in the superannuation schemes and, therefore, what amounts would need to be contributed by the government in total, such information is not readily available for individual units of administration such as this Office.

NOTE 13: LEASE COMMITMENTS

Future lease rental payments in respect of a residence and an item of leased equipment are:

	1987 \$	1986 \$
Due within 1 year	13,411	2,136
Due within 1-2 years	2,136	2,136
Due within 2-5 years	2,670	4,806
Due after 5 years	—	—
	<u>18,217</u>	<u>9,078</u>

The Office does not capitalise finance leases; that is, those leases of equipment under which the lessee assumes substantially all of the risks and benefits of ownership.

NOTE 14: OTHER CONTRACTUAL COMMITMENTS

	1987 \$	1986 \$
Commitments under contracts for Authorized Auditors' services are:		
Due within 1 year	631,142	446,320
Due within 1-2 years	834,810	265,209
Due within 2-5 years	1,252,215	—
Due after 5 years	—	—
	<u>2,718,167</u>	<u>711,529</u>

During the year ended 30 June 1987, new contracts were entered into for Authorized Auditors' services for the 3 year period commencing on 1 January 1988.

NOTE 15: INSURANCE

In accordance with government policy the risks of the Office of the Auditor-General are not insured (with the exception of third party motor vehicle insurance) since, to the greatest extent possible, the government acts as its own insurer.

NOTE 16: AUDITORS' REMUNERATION

The following amounts were paid during the year to the Authorized Auditors responsible for the audit of the Office of the Auditor-General in the year:

	1987	1986
	\$	\$
Audit of the Office of the Auditor-General	837	559
Other services of a material nature	176,792	130,810
	<u>\$177,629</u>	<u>\$131,369</u>

The audit of the Office of the Auditor-General involves the audit of the books and records required to be kept by the Office. It does not include the audit of these financial statements since there is presently no legislative requirement that they be prepared and audited.

Other services were provided by the Authorized Auditors and paid for by the Office in accordance with contractual arrangements by which the field audit of my auditees is allocated to various private sector Authorized Auditors. (See Note 14).

NOTE 17: ECONOMIC DEPENDENCE

The continued operation of the Office of the Auditor-General is dependent upon funding by the government to meet proposed payments by the Office.

NOTE 18: DETAILS OF COSTINGS CHARGED TO THE VARIOUS AUDITS

The following costings were charged to the various audits on an internal costing system maintained during the year by the Office of the Auditor-General:

- (a) the time spent by my professional staff (Principal Auditors) on each audit was recorded during the year ended 30 June 1987 at an average \$42 per hour (1986 \$40 — per hour) and costed directly to the particular audit concerned;
- (b) any fee paid to an Authorized Auditor for audit work was costed directly to the particular audit concerned; and

- (c) other administrative expenses plus an estimated charge for rent, cleaning, electricity and other property expenses (see Note 4) were apportioned to each individual audit in the same proportion as the total Principal Auditor and Authorized Auditor costing for that audit bears to the total Principal Auditor and Authorized Auditor costing for all audits.

The following costings for each category of audit resulted:

	1987 \$	1986 \$	1987 %	1986 %
Treasurer's Annual Financial Statements	49,943	31,949	4	2
Departments and other units of administration	549,497	609,319	38	48
Prescribed statutory corporations	421,042	448,259	29	35
Commercial activities conducted by departments	51,062	45,107	4	4
Other audits by arrangement under the <i>Financial Administration and Audit Act</i>	20,879	4,027	1	—
Audits performed under Northern Territory Acts other than the <i>Financial Administration and Audit Act</i>	245,024	144,328	17	11
Commonwealth grants and specific purpose payments	94,191	*	7	*
	<u>\$1,431,638</u>	<u>\$1,282,989</u>	<u>100%</u>	<u>100%</u>

(* The separate costs of auditing Commonwealth grants and specific purpose payments during the 1986 financial year are not readily available. They are included in the audit costs of the individual auditees responsible for maintaining the related accounting records.)

The total costings shown above do not equal the total of the related payments shown in the Statement of Receipts and Payments on the Consolidated Fund because the above costings include an estimated charge for rent, cleaning, electricity and other property expenses for which no actual payment is made (see Note 4) and the exact amounts of which are not known until after year end.

The costings are not directly comparable from year to year because they have been prepared primarily on a cash accounting basis. That is, the costings represent work paid for during the year rather than work done in respect of the year regardless of when that work is actually done or paid for.

Costings for individual audits in each category were:

Audit	1987 Costings \$	1986 Costings \$
TREASURER'S ANNUAL FINANCIAL STATEMENTS	<u>49,943</u>	<u>31,949</u>
PUBLIC ACCOUNTS AND OTHER ACCOUNTS		
Department of the Legislative Assembly	7,959	6,251
Department of the Chief Minister	14,377	9,852
Northern Territory Police, Fire and Emergency Services	15,601	15,502
Office of the Public Service Commissioner	11,721	7,912
Office of the Auditor-General	1,591	4,423
Ombudsman for the Northern Territory	6,520	1,452
Northern Territory Treasury	79,671	88,364
Department of Mines and Energy	24,583	25,708
Northern Territory Water Authority	6,358	—
Department of Transport and Works	37,827	91,248
Road Safety Council of the Northern Territory	1,324	73
Department of Ports and Fisheries	18,507	10,864
Department of Lands	34,474	41,433
Palmerston Development Authority	547	310
Department of Law	23,616	22,343
Department of Education	62,608	82,190
University Planning Authority	510	3,698
Department of Business, Technology and Communications	21,271	—
Department of Industry and Small Business	—	18,848
Department of Health	72,959	69,899
Liquor Commission of the Northern Territory	4,523	4,669
Department of Community Development	29,512	34,886
Department of Correctional Services	21,781	16,677
Department of Youth, Sport, Recreation and Ethnic Affairs	14,143	10,969
Department of Primary Production	37,514	41,748
	<u>549,497</u>	<u>609,319</u>
PRESCRIBED STATUTORY CORPORATIONS		
Agricultural Development and Marketing Authority	16,578	23,619
Araluen Arts and Cultural Trust	11,761	17,946
Cobourg Peninsula Sanctuary Board	1,489	1,716
Conservation Commission of the Northern Territory	47,744	44,402
Darwin Community College	—	28,021
Darwin Port Authority	22,539	37,620
Jabiru Town Development Authority	4,851	5,184
Museums and Art Galleries Board	10,238	12,218

- Unaudited -

Audit	1987 Costings \$	1986 Costings \$
Northern Territory Development Corporation } Territory Loans Management Corporation }	36.030	37,737
Northern Territory Electricity Commission	86.176	101.736
Northern Territory Grants Commission	753	—
Northern Territory Housing Commission	100.153	79.456
Northern Territory Totalizator Administration Board	17.417	15.805
Northern Territory Tourist Commission	24.539	16.430
Northern Territory Vocational Training Commission	4.612	4.758
Racing and Gaming Commission	10.007	17,189
Racing, Gaming and Liquor Commission	5.313	—
Surveyors Board of the Northern Territory	5.333	170
Trade Development Zone Authority	13.365	4.252
Work Health Authority	2.144	—
	<u>421.042</u>	<u>448.259</u>

**COMMERCIAL ACTIVITIES CONDUCTED BY
DEPARTMENTS**

Darwin Omnibus Service	15.919	17.608
Government Printing Office	35.143	27.499
	<u>51.062</u>	<u>45.107</u>

**OTHER AUDITS BY ARRANGEMENT UNDER THE
FINANCIAL ADMINISTRATION AND AUDIT ACT**

Droving Australia Pty Limited	2.233	—
VICO Pty Limited	3.735	—
Northern Territory Electricity Commission Superannuation Scheme for Trade Categories	6,106	1.972
Northern Territory Police Supplementary Benefits Scheme	5,013	2.055
Northern Territory Government and Public Authorities Employers Superannuation Trust Fund	3.792	—
	<u>20.879</u>	<u>4.027</u>

**AUDITS PERFORMED UNDER NORTHERN TERRITORY
ACTS OTHER THAN THE FINANCIAL ADMINISTRATION
AND AUDIT ACT**

Alice Springs Town Council	30.330	26.883
Darwin City Council	48.173	45.318
Katherine Town Council	48.027	18.792
Palmerston Town Council	13.135	18.506
Shire of Litchfield	4.604	3.006
Tennant Creek Town Council	21.930	16.197

- Unaudited -

Audit	1987 Costings \$	1986 Costings \$
Board of Trustees Nhulunbuy Public Cemetery	567	793
Legislative Assembly Members' Superannuation Trust	4,895	3,659
Public Trustee	5,221	7,743
Darwin Institute of Technology	43,269	791
Menzies School of Health	13,180	2,392
Superannuation Investment Board	2,468	—
University College of the Northern Territory	9,225	248
	<u>245,024</u>	<u>144,328</u>

**COMMONWEALTH GRANTS AND
SPECIFIC PURPOSE PAYMENTS**

Australian Bicentennial Road Development	3,751	
Community Employment Program	5,425	
Education - Tertiary Education Assistance	24,508	
- Participation and Equity	5,376	
Land Transport	5,630	
Liquefied Petroleum Subsidy Scheme	1,749	
Local Government Tax Sharing	1,510	
Rural Adjustment Scheme	3,045	
Bicentennial Commemorative Program		
- Aboriginal Pharmacopoeia Project	3,077	
Bovine Brucellosis and Tuberculosis Eradication Campaign	17,445	
National Estate	7,050	
Natural Disaster Relief and Restoration	5,187	
Rum Jungle Rehabilitation Project	5,254	
Uluru National Park	405	
Water Resources Assessment and Floodplain Management	4,779	
	<u>94,191</u>	*
	<u>\$1,431,638</u>	<u>\$1,282,989</u>

(* The separate costs of auditing Commonwealth grants and specific purpose payments during the 1986 financial year are not readily available. They are included in the audit costs of the individual auditees responsible for maintaining the related accounting records.)

APPENDIX C (I)

N.T. TREASURY STRATEGIC DEVELOPMENT PROGRAM 1989-91

INDEX

Attachment

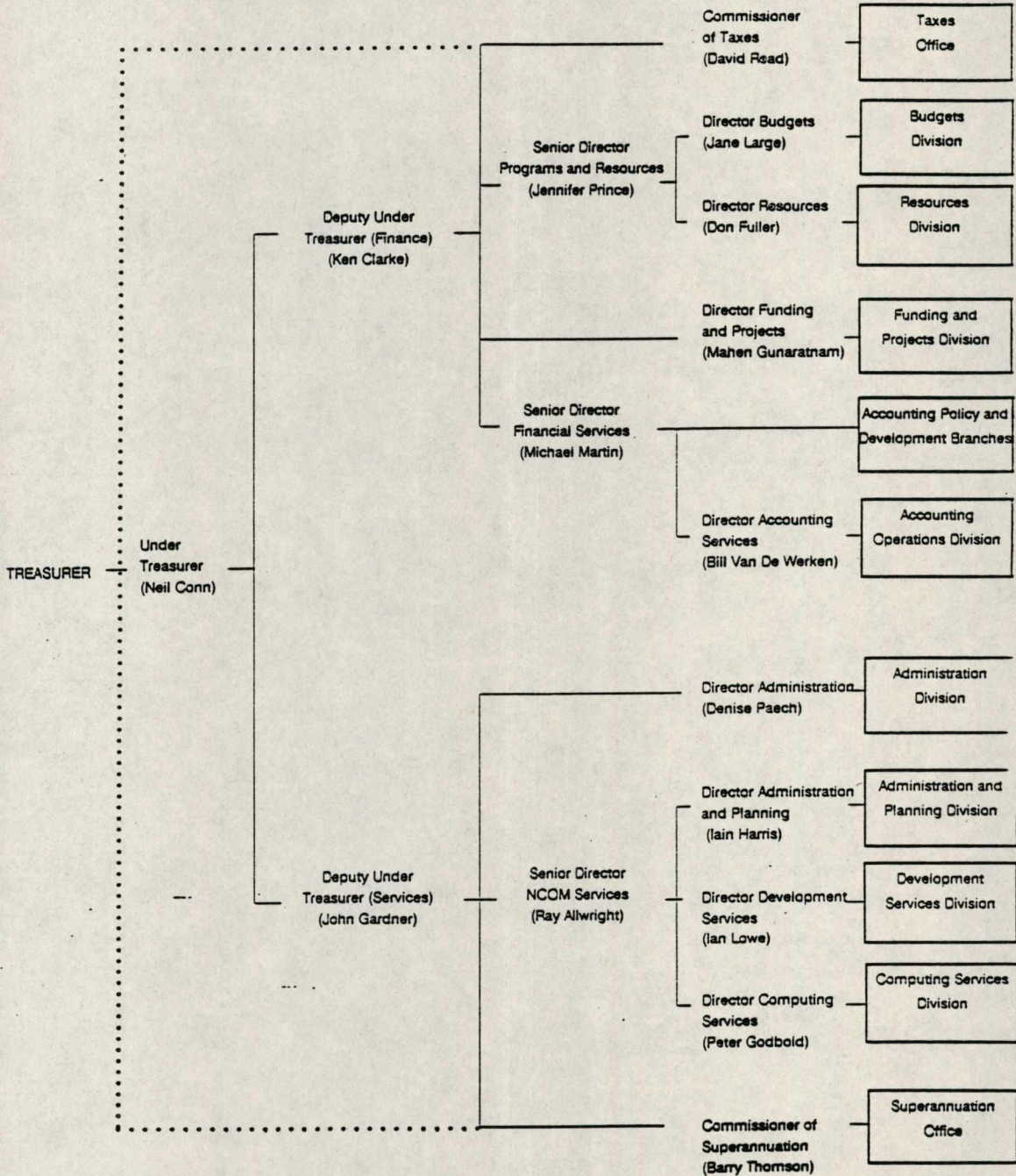
Treasury Objectives	'A'
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. Corporate Management	D.1
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. Financial Systems and Services	D.3
. Information Systems and Services	D.4
. Superannuation Services	D.5
. Debt Servicing	D.6

TREASURY OBJECTIVES

The objectives of the Northern Territory Treasury are:

- . To allocate and account for the use of financial resources in accordance with the priorities of Government.
- . To advise Government on policy and to manage efficiently the collection of Territory taxation and other revenues.
- . To assess major projects and provide broad economic assessments, statistics and advice on a regular basis to Government.
- . To advise Government on inter-governmental financial relations, particularly financial agreements with the Federal Government.
- . To provide reliable advice to Government, Departments and Authorities on financial reporting and management issues.
- . To provide Departments and Authorities with an efficient and reliable accounting system and centralised accounting services.
- . To facilitate access by the Territory public sector to adequate financial resources at reasonable cost, including the implementation of a timely and effective Government borrowing program.
- . To invest surplus funds to achieve the highest return at an acceptable level of risk and in a manner consistent with efficient cash management across the public sector.
- . To provide Departments and Authorities with modern, cost-effective and dependable information technology and communications systems.
- . To administer efficiently and equitably Government superannuation programs.

NORTHERN TERRITORY TREASURY
ORGANISATION



TREASURY STAFF RESOURCES SUMMARY

ESTABLISHMENT AND STAFFING AS AT 1 JANUARY 1989

	<u>MSL</u>	<u>Actual</u>
. Executive *	9	9
. Administration Division	31	35
. Budgets Division	19	22
. Resources Division	10	10
. Taxes Office	25	27
. Funding and Projects Division	13	13
. Accounting Operations Division	29	28
. Accounting Policy and Development	13	12
Branches		
.. NCOM Administration and Planning Division	30	22
. NCOM Development Services Division	47	49
. NCOM Computer Services Division	87	72
. Superannuation Office	14	13
	<hr/> 327	<hr/> 312

* Includes Senior Directors and Executive Support Unit

ACTIVITY: CORPORATE MANAGEMENT

D.1

The Executive Program covers responsibility for the monitoring, control and co-ordination of the Department's activities, as well as provision of advice to the Treasurer and Cabinet.

Responsibility: Executive

Resources: MSL 9

: Budget 1988/89 \$515,000

The Administration program covers the provision of human resource management, finance, library, registry and office services to all functional areas of the Northern Territory Treasury, plus the provision of a salaries agency service to the Ombudsman and the Racing, Gaming and Liquor Commission.

Responsibility: Administration Division

Resources: MSL 31

: Budget 1988/89 \$2,703,000

<u>Task</u>	<u>Description</u>	<u>Target</u> <u>Date</u>
Staff Management and Development	Review and development of staff recruitment and training initiatives to improve long term staffing adequacy and retention	Sept 1989
Treasury Asset Management	Program for control of significant assets (Over \$2000)	June 1989

Financial Management

Introduction of
automated financial
management processes
including accounts
receivable and purchase
orders

July 1989

Library Services

Review the future
requirements for
Library Information
Services to support
Treasury activities

July 1989

Information Technology
Planning

Review and develop a
co-ordinated information
technology structure to
support Departmental
activities

Dec 1989

The Budget Development and Management Program has as its objective the provision of comprehensive, reliable financial information on which budget decisions are made. It includes advice on budget policy issues, budget development and the co-ordination and analysis of financial data during the preparation and monitoring stages of the budgetary cycle.

Responsibility: Budgets Division

Resources: MSL 19

: Budget 1988/89 \$861,000

<u>Task</u>	<u>Description</u>	<u>Target Date</u>
Budget Development	Examine and prepare options for further development of the budget processes so as to improve decision-making and accountability	Ongoing - first target date July 1989
Budget Planning	Investigate the feasibility of a 3 year budget cycle	Dec 1990
Budget Data Base	Establishment of fully integrated budget development/reporting system using a range of classification methods	July 1990

The Resources Policy and Economic Assessment Program aims to optimise the net inflow of financial resources into the Territory and the provision of sound advice for resource allocation decisions. It covers responsibility for the development and analysis of economic and financial plans; strategies with regard to Commonwealth/State/Local Government financial relations; the maintenance of comprehensive economic statistics and the analysis of these statistics; and advice to Government on the implications of major expenditure proposals.

Responsibility: Resources Division

Resources: MSL 10

: Budget 1988/89 \$581,000

<u>Task</u>	<u>Description</u>	<u>Target Date</u>
Intergovernmental Relations	Maintenance of high level of expertise in intergovernment financial relations so as to maximise financial resources into the Territory	Ongoing
Performance Indicators	Development of knowledge and expertise in the use of performance indicators to assess resource allocation effectiveness in NT public sector	June 1991

Economic and Demographic Data Base	Establishment of comprehensive socio/economic database for use in economic development and planning	July 1989
Monitoring the Territory's Economic Performance	Monitor the performance of important economic variables and provide briefing to the Government	Ongoing
Economic Modelling	Construction of detailed input-output tables and estimation of production and consumption induced employment and income multipliers for various sectors of the Territory economy	Feb 1990
Regional Population Projections	Provision of population projections on a Territory and regional basis	Ongoing

The Territory Taxation Management Program covers advice on internal revenue issues and administration of the relevant Acts so as to maximise the revenue within the parameters established by the legislature, as well as to minimise losses to revenue from avoidance and evasion practices. The program also provides for policy advice to Government on internal revenue issues.

Responsibility: Taxes Office

Resources: MSL 25

: Budget 1988/89 \$1,105,000

<u>Task</u>	<u>Description</u>	<u>Target</u> <u>Date</u>
. Cost/Benefit analysis of projects	Review use of input/output model and economic indicators for project evaluation	Dec 1989
. Production of structured cashflow	Review and implement as necessary an improved funds management program for longer term investment	Feb 1989
. Consolidation of semi-government loans	Examine prospects for the re-issue of small loan parcels into selected maturities	Mar 1989
. Prepare report on feasibility for establishing CBA	Identify advantages over current practice and procedures	Feb 1989
. Review policy on Government Insurance risks	Identify major areas of risk and advise on risk management	Apr 1989

The Accounting Services Program provides centralised accounting services to most Government agencies. These services include accounts processing and ledger, payroll, reconciliation and banking administration. The program also provides for statutory and other global financial reporting to Government through Treasury.

Responsibility: Accounting Operations Division

Resources: MSL 29

: Budget 1988/89 \$2,159,000

<u>Task</u>	<u>Description</u>	<u>Target</u> <u>Date</u>
Personnel Information and Payroll System	Participate in evaluation of responses	July 1989
MTG Banking	Evaluate options for future arrangements regarding the Government's banker	Sept 1989
Corporate Credit Cards	Full introduction across Government	Dec 1989
Electronic Funds Transfer	Evaluate methodology and introduce program as required	July 1990

The Accounting Policy and Development Program provides for continual research into accounting issues and financial systems developments. The program provides for the application of this research to the development, implementation, monitoring and improvement of the financial recording and reporting systems as well as accounting practices for the Northern Territory Government.

Responsibility: Accounting Policy and Development Branches

Resources: MSL 13

: Budget 1988/89 \$450,000

<u>Task</u>	<u>Description</u>	<u>Target</u> <u>Date</u>
Financial Administration and Audit Act	Amend those sections highlighted by Audit comment and legal opinions	July 1989
Treasurer's Directions	Review selected Directions in light of GAS developments and Payroll and banking procedures	July 1989
Future Directions in Public Sector Accounting	Review of alternative accounting methodologies against the criteria of reporting meaningful information and providing a cost effective accounting service	Dec 1989

Government Accounting
System

Complete implementation of all modules Dec 1989

Government Accounting System

Implementation of Version 2 Masterpiece Dec 1990

The Systems Management Program covers the planning and control of information technology services for use throughout the Northern Territory public sector.

Responsibility: NCOM Administration and Planning Division

Resources: MSL 30

: Budget 1988/89 \$1,785,000

<u>Task</u>	<u>Description</u>	<u>Target</u> <u>Date</u>
Disaster Recovery	Development of improved disaster recovery capability	Dec 1990
Performance Reporting	Improve on-line performance monitoring for system usage trends and performance	July 1989
Public Data Access System	Introduction of secure Public Access capability to selected Government Data bases	Sept 1989
Expert Systems	Development of 5th Generation systems techniques for use throughout Government	Not Specified Research Exercise

Client Billing

Upgrade and integrate
existing client billing
systems into one
consolidated system

Dec 1989

Change/Problem Management

Develop/acquire new
procedures and software
to improve change/problem
management

Dec 1989

The Systems Development and Support program covers provision of information technology development services and technology support to users of information technology throughout Government.

Responsibility: NCOM Development Services Division

Resources: MSL 47

: Budget 1988/89 \$Nil (Costs fully recovered from Departments and Authorities)

<u>Task</u>	<u>Description</u>	<u>Target Date</u>
Scientific and Technical Computing	Development of fully integrated technical computing network	July 1990
Records Management and Retrieval System	Service wide records management system to replace obsolete/stand alone products	July 1990
Computer Aided Software Engineering (CASE)	Investigate use of CASE tools in application development to improve productivity	July 1990
Office Automation	Investigate the provision of OA services including Word Processing, Document Transfer, Diary Management and Electronic Mail to all NCOM staff	Dec 1989

The Computer Processing Services program provides reliable computer bureau services to all areas of Government and also maintains data and systems security.

Responsibility: NCOM Computing Services Division

Resources: MSL 64

: Budget 1988/89 \$6,909,000 (Net of recovery offsets from Departments and Authorities)

<u>Task</u>	<u>Description</u>	<u>Target</u> <u>Date</u>
. Computer Bureau Accommodation	Review of long-term equipment accommodation needs	Dec 1989
. Data Storage Management	Review of system managed storage strategy for NCOM's data storage management	Dec 1989
. System Security	Implement all relevant system security facilities	Dec 1989
. Computer Operations Productivity Enhancement	Review use of automated operations and scheduling tools and procedures	July 1989

System Control Software
Positioning

Achieve a software
positioning situation
relevant to ESA
(Enterprise Systems
Architecture) versions
of System Control
Software

Oct 1989

The ~~Communications~~ Services Program provides for cost effective and efficient data and voice communications within the Northern Territory public sector by integration of communication services that are reliable, standardised and accessible to all levels and areas of the public sector.

Responsibility: NCCM Computing Services Division

Resources: MSL 23

: Budget 1988/89 \$192,000 (Net of recovery offsets from Departments and Authorities)

<u>Task</u>	<u>Description</u>	<u>Target Date</u>
Communications Integration	Update of PABX systems throughout Territory with integration of services and facilities	July 1991
Data Communications	Development of International Standard Communications Protocol Network	Not Specified Still Under Development In Industry
Data Communications Network	Program to distribute intelligent controllers to strategic points for maximum functionality and reliability	July 1990
Private Government Communications Network	Development of maximum private network capability for optimum cost/efficiency	July 1990

Communications Network
Management

Develop multivendor
communications network
management facilities
across both voice and
data services

Dec 1989

The Public Sector Superannuation Schemes Program provides for the funding and administration of the following superannuation schemes:

- . the Northern Territory Government and Public Authorities Superannuation Scheme;
- . the Northern Territory Police Supplementary Benefits Scheme;
- . the Legislative Assembly Members' Superannuation Scheme;
- . the Employers Superannuation Trust Fund; and
- . the Northern Territory Supplementary Superannuation Scheme

The Program also includes policy advice on all public sector superannuation matters, investment advice to the Boards of the various schemes and the co-ordination of the Territory's financial and administrative responsibilities for the Commonwealth Superannuation Scheme.

Responsibility: Superannuation Office

Resources: MSL 14

: Budget 1988/89 \$11,000,000

<u>Task</u>	<u>Description</u>	<u>Target Date</u>
. Accounting Procedures and Controls	Review of existing arrangements to automate manual systems as far as possible	June 1989

Commonwealth Occupational
Superannuation Standards
and Taxation Provisions.

Review and modification June 1990
of all Territory
superannuation
arrangements vis a vis
Commonwealth taxation
provisions and compliance
requirements

Employer Benefits Payable
for Medical Retirements

Review and modification June 1990
of all superannuation
arrangements to ensure
co-ordination and
integration with
employment conditions
and other entitlements
(eg workers compensation)

The Debt Servicing Program includes provision for all debt servicing costs that are met from the Consolidated Fund in respect of Commonwealth general-purpose capital loan funds, debts associated with assets transferred at Self Government, specific-purpose advances and semi-government borrowings. The Program involves the Loan Administration function which manages the Loan Trust Account, Loan Redemption Fund and is responsible for preparing Statement 5 of the Treasurer's Annual Financial Statements.

Responsibility: Accounting Operations Division

Resources: MSL Nil

: Budget 1988/89 \$110,626,000

<u>Task</u>	<u>Description</u>	<u>Target Date</u>
. Registry Management	Review the Registry Management function	June 1989
. Loan Administration	Develop formal procedures covering loan administration function	July 1989

APPENDIX C (II)

GOVERNMENT ACCOUNTING IN THE NORTHERN TERRITORY

GOVERNMENT ACCOUNTING
IN THE NORTHERN TERRITORY

SYNOPSIS

There currently is a debate within Australia on the appropriateness of established accounting systems and reporting techniques for public sector operations.

Traditionally, Governments designed their accounting systems, which report their financial position, using a cash accounting methodology. In recent times, however, many Government agencies have moved away from cash accounting and introduced accounting methodologies utilising accepted accounting standards.

Participants in the current debate include the accounting profession, Public Accounts Committees, Auditors-General and others. The debate centres around the usefulness of traditional accounting methods in -

- . depicting the financial position of public sector bodies and the State itself; and

- . assisting the decision making processes of Government.

The purpose of this paper is to address the accounting requirements of the Northern Territory Government in the context of the aforementioned debate. This requires an explanation of the role and components of an accounting

LAID BEFORE PUBLIC ACCOUNTS COMMITTEE	
	1/2/89
SECRETARY	DATE

system, as well as consideration of the information needs of Government, and how the accounting system can contribute to meeting those needs. As well, the paper canvasses the position throughout Australia in order to place the Northern Territory in an Australia wide context. The paper argues that the main determinant in choosing an accounting methodology should be the information needs of Government.

The paper concludes by recommending a course of action which will introduce improvements to those areas of the Territory's financial administration which show the greatest likelihood, at present, of significant returns.

ELEMENTS OF AN ACCOUNTING SYSTEM

Accounting is an information recording process. The information which an accounting system retains is based on past and present financial transactions and must be capable of being presented in a range of ways to meet a series of requirements, i.e. age analysis of debt, percentage growth in sales, budget variance calculations etc. The method of recording depends on the accounting methodology and measurement techniques utilised while the information flow from the system is influenced by management's needs. Therefore, in basic terms, an accounting system records financial transactions from which details are retained as information for the present and future needs of the organisation.

A financial transaction can be defined as an event which has an impact on the organisation's financial position. It can vary from a simple payment or purchase to a complex loan raising and certainly does not have to involve exchange of monies. For instance, the following can be included as financial transactions:-

- . raising a debtor;

- . contract for lease of accommodation;

- . entering into an insurance policy; and

. transfer of an asset from one unit to another.

The treatment of a financial transaction will depend on the methodology or accounting principles engaged by an organisation. For example, an organisation that operates on a cash basis will treat a financial transaction in terms of the exchange of monies for goods and services.

THE ROLE OF THE ACCOUNTING SYSTEM

The role of the accounting system is, therefore, to facilitate the recording of financial transactions of an entity and to create an information base. The use to which the information is put will depend on the organisation and its decision makers.

In the public sector an accounting system must be able to meet the Government's statutory accounting and reporting requirements. These generally include reporting of expenditure, receipts and the financial position of either the State as a whole or public authorities within the State. Other Government requirements of the accounting system will be determined by a variety of factors e.g. particular financial targets, performance measurements of programs, and the nature of Government business.

It is important to acknowledge that the accounting system is not expected to meet an entity's total information needs. In fact, it is but one aspect of the management information

system. In the public sector the management information system consists of certain overlays (i.e. political, social and legal) all of which interrelate at some point both with the accounting system and with each other.

ACCOUNTING METHODOLOGY TO BE EMPLOYED

Having established the role of the accounting system and the determinants of that role (i.e. the organisation's charter and the perceived information needs of its decision makers), it is then necessary to address the nature of the accounting system including what outputs are desired. The nature of these outputs will obviously determine the design of the accounting system which will vary according to the complexity and comprehensiveness of the information required.

The accounting system, consequently, should be based on a methodology which is capable of meeting these requirements. At the same time, it must accord with the nature of its environment i.e. in a dynamic environment the methodology will have to be adaptable to the changing requirements of the organisation.

POPULAR METHODOLOGIES

The two most popular accounting methodologies engaged within the accounting profession are accrual accounting and cash accounting, and a discussion of both follows.

Accrual Accounting

Accrual accounting seeks to recognise and record all costs incurred and revenues earned by an entity during a given period to provide a comprehensive picture of the entity's financial position. The methodology also records all assets held and liabilities owed by the entity and funds contributed by the entity's owners.

Particular elements of this methodology are as follows.

(i) REVENUE AND EXPENSES

The accrual accounting methodology introduces two basic principles to be followed in relation to revenue and expenses.

. The matching principle.

This seeks to identify and record those expenses incurred in earning revenue in a particular accounting period. This allows for consistency between accounting periods which enhances comparative analysis.

. Timing.

The timing and recognition of revenue and expenditure in an accrual accounting system is based on factors other than when cash is received or paid. For instance,

revenue is recognised when goods or services are delivered, not when payment is received. An example in the public sector context is electricity, where revenue would be recognised when the meter is read and the account prepared not when the account is paid. The difference in timing can be many months, and can mean that transactions are carried forward into subsequent accounting periods.

In short, the methodology embraces expenses and revenues other than cash.

(ii) ASSETS AND LIABILITIES

Accrual accounting for assets and liabilities introduces another two principles as follows..

Usage of Assets

This requires spreading the cost of assets over a number of accounting periods to reflect their contribution to the organisation's operations during their economic life. This method of spreading the cost of the asset is called depreciation or amortisation. It is important to note that depreciation is not a "replacement of asset mechanism" but a proportioning of capital expenditure over the life of the asset. An example of depreciation is where a vehicle is purchased for \$15,000 and has an economic life of 5 years, in this case it will not be

shown as one expense of \$15,000 but rather as 60 monthly charges of \$250 each.

. Accounting for liabilities.

This recognises obligations which, while they are incurred in the current accounting period, do not have any effect on the cash flow of the entity until some future period. Examples of these liabilities are employee benefits (such as long service leave and superannuation), borrowings to fund some aspect of the entity and accounts payable.

(iii) EXTERNAL REPORTING

A major feature of accrual accounting, and definitely a focus of the current debate, is its reporting mechanisms. Results of an entity's operations and financial position are generally communicated to interested third parties by means of the following external reports:

- . Profit and Loss or Income Statement;
- . Balance Sheet or Statement of Assets and Liabilities (where owners' funds are not appropriate); and
- . Statement of Sources and Applications of Funds.

Adequate disclosure of financial information in these Statements and the notes attached thereto (in accordance with Australian Accounting Standards and generally accepted accounting principles) would usually provide sufficient details to enable financial statement users to make informed economic decisions.

However, it is stressed that the above Statements are the minimum reporting requirements considered acceptable by the professional accounting organisations, and that additional information can, and should, be reported where it is useful for decision making and is cost beneficial to prepare.

(iv) OTHER ISSUES

Within this overall methodology there are a number of different accounting issues which must be addressed, such as asset and inventory valuation methods, depreciation bases and costing systems. It is necessary for each user of accrual accounting to address these issues when they initially establish their accounting records. Such decisions would depend on the particular circumstances and operations of each entity and should be reviewed on a regular basis.

Cash Accounting

Cash accounting has been developed under the principle that transactions are recognised in the accounting system only when cash is used or received.

It is precise, easily measured, objective and, provided it is useful to recognise payment or revenue when the cheque is drawn or cash is received, the timing of an event is easily defined. It is, therefore, conducive to the present system of annual cash appropriations. It has been appropriate, in a Government sense, as it can easily compare Budget results with estimates.

In the public sector, the external reporting requirements of a cash accounting system are confined to a listing of payments made (i.e. cheques drawn) and revenue received (i.e. cash receipts). There is no requirement to report on assets held or liabilities owed and, in fact, it is unlikely that such accounting records would be maintained in a cash system. It is for this reason that the system is being criticised, in that public sector organisations in many instances have very little information on their assets and liabilities to assist in making decisions.

ACCOUNTING METHODOLOGIES USED BY
GOVERNMENTS WITHIN AUSTRALIA

As previously indicated, the Commonwealth and most State Governments have reviewed their accounting and reporting requirements in recent times. While there is a wide diversity of systems used, there is agreement in the area of Government business operations. Such entities are now being asked to adopt commercial accounting practices embracing relevant accounting principles.

A survey of the methodologies used by the Commonwealth and each State Government within Australia was carried out in early 1988, and a copy of the findings is attached. This survey indicates that while Governments are principally still on cash-based systems, they do include in their published reports other financial material i.e. commitments, depreciation, debtors and accounts payable which assists in the understanding of their financial position.

Since the survey was carried out, the New South Wales Government has committed itself to the accepted commercial methodology of accrual accounting for many aspects of departmental activities.

ACCOUNTING METHODOLOGIES USED BY THE
NORTHERN TERRITORY GOVERNMENT

The Northern Territory Government accounts, in a corporate sense, on a cash basis as the budget process is oriented to cash accounting in accordance with the existing legislative requirement. However, all Statutory Authorities in the Territory are required to adopt accrual accounting principles and report their financial statements on an accrual accounting basis. In addition, the Treasurer has made a determination that two Departmental operations are required to account on a commercial basis i.e the Darwin Bus Service and the Government Printing Office.

Whilst the Statutory Authorities report on an accrual accounting basis they are mainly funded on a cash basis due to the use of the present cash budgeting system, in that they may not be provided with funds to meet their total cash and non-cash expenses.

All Departments account on a cash basis and are likely to retain this methodology.

CURRENT DEVELOPMENTS IN PUBLIC SECTOR FINANCIAL
ADMINISTRATION IN THE NORTHERN TERRITORY

There has been a number of advances within the Northern Territory Government over the past 12 months in public sector financial management. The major initiative to date has been the development of program reporting (as a necessary precursor to program budgeting, if adopted) in the 1988/89 Budget.

Program reporting is being introduced to focus greater attention on outputs (programs) which can be related to organisational objectives. The measurement of these outputs requires an information system different to that used in traditional budgeting systems. Considerable work is now being undertaken to develop performance indicators which could be used in the evaluation of programs and hence assist in the measurement of outputs achieved.

The move towards program budgeting is aimed at improving the decision making process by linking organisational objectives with programs, performance indicators and outputs. The emphasis has moved from inputs to what is produced.

Another area which is receiving attention is the presentation of financial information. This has resulted in a modified format for Budget Papers which now report on a program basis and compile information in accordance with Bureau of Statistics classifications. In line with these amendments, the Treasurer's Annual Financial Statements have also been revised.

A vital part of the current developments is the move towards a comprehensive and integrated accounting system based on a central, computerised accounting system serving all Northern Territory Government Departments and Statutory Authorities (with the exception of the Northern Territory University, the Darwin Port Authority and the Northern Territory Tourist Commission). This accounting system is based on commercially oriented packages and, therefore, can meet a wide range of accounting requirements. The system is being enhanced to include Fixed Assets, Accounts Receivable and Purchase Order modules as well as the existing Accounts Payable and General Ledger modules. These enhancements provide the capacity to introduce alternative reporting mechanisms, according to the needs of particular Departments and Authorities.

FUTURE ENHANCEMENTS TO EXISTING NORTHERN TERRITORY
PUBLIC SECTOR FINANCIAL ADMINISTRATION SYSTEMS

Asset Management

Information regarding asset management remains deficient in certain respects for most Governments, both in Australia and overseas. In the Northern Territory an Asset Management Working Group has been set up under the chairmanship of the Department of Transport and Works. Further, the Government Accounting System now includes a Fixed Assets module and the initial users will be the Royal Darwin Hospital and the Power and Water Authority. It is planned that the module will come into active use in May 1989.

However, it must be emphasised that the Fixed Assets module only addresses the accounting aspects of asset management and these include:-

- . acquisition price;
- . depreciation rate (if applicable);
- . relevant price - value in today's terms (i.e. replacement value, current cost etc.);
- . written down value;
- . estimated useful life; and

- . location or program for which the asset has been purchased.

This accounting information will be useful when program costs include the contribution of an asset to a particular program or group of programs during a defined period. The information listed above is generally available for assets owned by Statutory Authorities as it is required by their accrual accounting methodology. Further work remains to be done on assets employed in Departmental operations.

Accounts Receivable (Debtors)

There is, at present, little consolidated information available on current debt owed to the Northern Territory Government. This is due to a number of factors, including:-

- . the separation of the management of debt function from the accounting for debt;
- . cash accounting does not require recording of the debt within the ledger, the transaction is not recognised until cash is received and, consequently, in many instances debt is not recorded as it is incurred;
- . there has been no central accounts receivable/sundry debtors system available either within the Government as a whole or within Departments; and

there is no statutory requirement for Departments to report on their outstanding debtors.

This deficiency is being overcome by the introduction of an Accounts Receivable module under the Government Accounting System. Already one major user (Department of Health and Community Services) has made use of the module, while other Departments are likely to be converted to it by 1 July 1989. An important feature of Accounts Receivable is the profile of the outstanding debtors which is obtained through age analysis of debts.

Provisions for Employee Benefits

Within Departmental operations there are no provisions made for future employee benefits, which in many instances are possibly not of great importance. However, there is growing attention to employee benefits and the provisions or reports which should be made in this respect. Since it is possible that future Government commitments for benefits such as long service leave could represent significant obligations, the Government should have estimates provided for its future commitments in a form which facilitates decision-making.

Inter-Departmental Charging

The Commonwealth Government is moving fairly rapidly into a system of inter-departmental charges by requiring agencies performing common services to fully cost their operations

and then recover these costs. It is difficult to fully cost operations without taking into consideration the contribution of assets, capital and liabilities to these services. In the Northern Territory system there is little inter-departmental charging, as it has been argued that the cost of the charging process could outweigh any benefits. While it is acknowledged that some Departments would find great difficulty in assessing their total cost, due to the lack of records for any non-cash expenditures, general assumptions can be made to achieve usable and meaningful charge rates.

MEASURES REQUIRED

Introduction of the accrual accounting methodology for Government departments would involve considerable cost, and benefits, therefore, would have to be quantified before Government could be advised to embark on such a course.

A useful intermediate step would be the introduction of certain aspects of accrual accounting in nominated Departments where the outcome is likely to contribute to the decision-making process and where benefits would be material. Such action could then be reviewed at a suitable interval after implementation, and further consideration given to introducing the tested accrual accounting concepts in other areas of Departmental operations. Some of the costs involved in implementing accrual accounting would include:-

- the establishment of certain accounting records such as -
 - . Assets Recording System,
 - . Accounts Payable System,
 - . Accounts Receivable System,
 - . Inventory Systems,
 - . Details on Borrowings and Loans, and
 - . Provisioning Accounts;
- training finance staff; and
- recruiting suitably qualified personnel.

RECOMMENDATION

It is recommended that over the next 12 months the following action be taken to extend the accounting methodology to a number of Departmental operations:-

1. extension of the Accounts Receivable module to the Taxes Office of the Northern Territory Treasury and the Court Fines function jointly administered by Department of Law and the Northern Territory Police, which will lead to a greater understanding of the Government debtors profile;
2. assist where possible in the introduction of Asset Recording Systems in the two pilot agencies (the Royal

Darwin Hospital and the Power and Water Authority); at the same time, extend this facility to at least one other agency with large capital holdings. e.g. Lands and Housing or Education, which will provide more information on Government assets; and

3. develop procedures to record some accrued employee benefits in a number of Departments to assess the usefulness of such information, the nominated Departments to include Labour and Administrative Services and Northern Territory Treasury.
4. Introduce funding on an accrual basis to at least two entities using commercial accounting principles for a trial period. Nominated agencies are the Darwin Port Authority and the Darwin Bus Service.

APPENDIX C (III)

TREASURER'S DIRECTIONS REVIEW

REVIEW OF TREASURER'S DIRECTIONS

PROPOSED TIMETABLE SCHEDULE

LAI D BEFORE PUBLIC
ACCOUNTS COMMITTEE

SECRETARY

DATE

SECTION	TITLE	STATUS	TARGET COMPLETION DATE
5	Cheques	Peer Group Review conducted on 12/1/89. Further changes being made prior to circulation to specific agencies for comment.	10/02/89
12	Payment of Accounts	First draft prepared and initial review in progress.	17/03/89
14	Salaries	First draft prepared and initial review in progress.	17/03/89
22	Losses and Waivers	Draft prepared. Consideration being given to deletion of section and incorporation elsewhere in the Directions.	24/03/89
19	Treasury Overseas Accounting	Section to be deleted. Amendments being incorporated into Sections 12 and 20.	Refer to details on Sections 12 and 20
10	Examination and Certification of Accounts	Preparation of draft in progress.	31/03/89
20	Purchasing Procedures	Awaiting outcome of a policy review by Department of Industries and Development	Not available at present.

APPENDIX D

COMMENTARY TO
PUBLIC ACCOUNTS COMMITTEE
UPON TREASURY BRIEFING
FEBRUARY 1989

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OFFICE OF THE AUDITOR-GENERAL

G.P.O. BOX 4594
DARWIN, N.T. 5794

YOUR REFERENCE:
OUR REFERENCE: 160-06-002
AWKRA:02/09/b

Mr M J Palmer MLA
Chairman
Public Accounts Committee
GPO Box 3721
DARWIN NT 0801

Dear Mr Palmer,

I appreciate the opportunity to consider and comment upon the papers presented by the Under Treasurer on 1 February 1989.

My comments at this time are set out on the attachment and I trust that they will assist you in your deliberations. For ease of subsequent reference an Index appears opposite.

CASH VERSUS ACCRUAL ACCOUNTING IS NOT THE ISSUE

Turning to the transcript of the briefing provided by Dr Conn and Mr Martin on 1 February I feel that it is most unfortunate that they misunderstand the nature of my recommendations at section 2.6 of my 1987 Annual Report.

The example set of financial statements for the Government of the Northern Territory which appears at Appendix C of that Report comprises:

- . Statement of Receipts and Payments
- . Statement of Assets and Liabilities
- . Statement of Sources and Applications of Funds
- . Notes to and forming part of the Financial Statements

At no stage did I there advocate adoption of accrual accounting as the basis for the preparation of these financial statements. Neither have I used or suggested the use of the concepts of

- . "Balance Sheet"
- . "Statement of Income and Expenditure"

in the context of Appendix C.

The fact is I went to some length on pages 10 and 11, Section 2.3, to explain how the improvements and simplifications inherent in Appendix C might be pursued and achieved. Attachment B is an extract from my 1987 Annual Report comprising Section 2.3 and Appendix C.

FINANCIAL INFORMATION CAN BE READILY AVAILABLE

In Attachment C I discuss the proposed example financial statements and conclude that much of the information is presently available within the system but is not being provided to the Parliament.

Furthermore, as Mr Leo has observed the information depicted "would be a living thing that would influence government's decisions and parliament's decisions about programs and policies that they adopt, particularly where they require financing during some period into the future and without any evidence. It boils down to what is almost a philosophical question: if you do not have history you cannot learn, and if you cannot learn you cannot do anything for your future. It becomes almost a philosophical attitude I suppose."

In addition, as is observed elsewhere in the transcript the need for asset information for effective management and maintenance and eventual replacement budgeting purposes also mandate that an adequate and overall view of asset and infrastructure holdings and associated liabilities be available.

THERE IS A WEAKNESS IN DEPARTMENTAL REPORTING REQUIREMENTS

It is anomalous that the most substantial parts of Northern Territory government operations (ie departments) are not required to provide the degree of financial information that is sought, expected and in fact legislated for from corporate bodies. Attachment D is an extract from my 1988 Annual Report. Schedule A of this attachment is a summary of annual financial reporting requirements by departments across Australia as at 30 June 1988. In this respect the Northern Territory is generally behind the rest of Australia.

RESPONSIBILITY FOR FINANCIAL LEADERSHIP

A marked feature of the transcript and also the comments in Dr Conn's letter to you of 30 January 1989 is the Treasury's inability to be explicit as to its intentions and future developments in major areas such as:

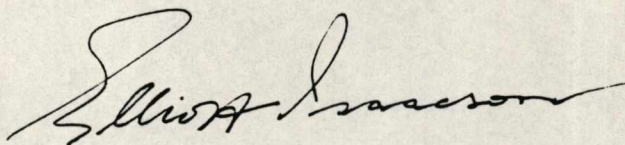
- . departmental annual (including financial) reporting requirements/standards; and
- . the need for a comprehensive and long term plan for the development of the financial management systems of the Northern Territory public sector.

One is left with the view that Treasury can be quite explicit about Treasury management and functions, but has no clear view as to which organisation should shoulder the leadership role in the major areas of my concern.

This may be a convenient point at which to suggest that the expression of government's view(s) should be sought. My Office and I stand ready to participate in any discussion of this nature.

I have taken the liberty of providing a personally named copy of this letter and its attachments to each of your fellow members of your Committee and your Secretary.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "E M Isaacson".

E M ISAACSON
Auditor-General

/5 February 1989

COMMENTS ON TREASURY PAPERS PRESENTED TO
THE PUBLIC ACCOUNTS COMMITTEE

1 FEBRUARY 1989

1. NT Treasury Strategic Development Program 1989-91

The production of a Strategic Development Program for the years 1989 to 1991 is to be applauded and is seen as a step very much in the right direction. Two points are worth pursuing:

- . Firstly - a most important ingredient which needs to be added is a clear and generally accepted statement as to the Role of the Treasury. If you like a statement of Aim(s) to give a central corporate thrust to the various objectives. Wrapped up in this are decisions as to Treasury's corporate responsibilities and its macro relationships with Government, departments and authorities; and
- . Secondly - a necessary part of any corporate planning process is the formal promulgation of the Strategic Development Program to the public sector at large. This may or may not stimulate debate and amendment but should be aimed at winning general acceptance. From this, at the micro level can emerge the points of interface at which departments and authorities either feed off/into Treasury services or manage their own functions and responsibilities.

2. Government Accounting in the Northern Territory

This is a very useful discussion paper which with a little refinement - as suggested below - should be distributed widely across the Northern Territory public sector. This is suggested as a way of making a start toward the gaining of a general awareness and acceptance of the need for, and an appreciation of, the issues involved in the development of a comprehensive and long term financial management system for the Northern Territory public sector.

Refinements which need to be considered are:

- (a) Page 3 (line 2) - Bookkeeping (not accounting) is an information recording process. Accounting is the provision of information about the economic affairs of an organisation. Such information can provide a useful basis for future action.
- (b) Page 10 (line 14) - The criticisms of cash accounting attach not only to the lack of (or inadequate) asset and liability information. The basis of such criticism also extends to the absence of information as to:
 - . financial performance which a Profit and Loss Statement (which records all costs) would provide; and
 - . funds applied and their source which a Statement of Sources and Applications of Funds would provide.
- (c) Page 17 acknowledges that it is difficult to fully cost operations without taking into consideration the contribution of assets, capital and liabilities. Page 13 discusses the move towards program budgeting being aimed at improving the decision making process by linking organisational objectives with programs, performance indicators and outputs. These two very important issues need to be linked in the text. This would draw together the need for, and benefits derived from, the comparison of all inputs (ie all costs) against outputs in the:
 - . budget development process; and
 - . ongoing management of programs.

3. Review of Treasurer's Directions - Proposed Timetable Review

The proposals to review specific items of content are noted. However, this piecemeal approach to the task of review is not seen as wholly appropriate.

As discussed on page 56 of this Office's Annual Report for the year ended 30 June 1988, the view is held that the Directions need to be substantially re-written. Such a project should emphasise the philosophy and concepts required of the departmental accountability process - not the day to day rules which are best determined by practitioners at the work face.

This Office believes that a concentrated effort should be made to review this aspect of the Directions. The scope of the review should encompass their role and structure as well as content.

It is not apparent that role and structure are being addressed.

EXTRACT FROM THE 1987 ANNUAL REPORT2.3 Improved Form of Financial Statements

In order to provide some meaningful assistance my Office has developed what I consider to be an improved and simplified form of financial statements. It is set out in Appendix C of this Report and I offer the following comments:

- (a) the suggested form of Statement of Receipts and Payments on the Consolidated Fund is identical in all major respects with that in the present Treasurer's Annual Financial Statements;
- (b) the suggested financial statements would contain a Statement of Assets and Liabilities to present a clearer picture of financial positions as at balance date;
- (c) the suggested financial statements would contain a Statement of Sources and Applications of Funds to assist in the understanding of changes in financial position, financial flexibility, cash flows and investment expenditure;
- (d) the suggested financial statements would have attached to them such explanatory notes as would make the information appearing in the financial statements more readily understandable as well as providing other information;
- (e) much of the information needed to produce the suggested financial statements either already exists within the government accounting system or there is a facility for it to be obtainable;

- (f) where information is not readily available from departmental records at present, the departmental heads could be asked to provide an estimate and the item could appear in the financial statements "at Accountable Officers estimate". (I consider it better to have information known to be based on a knowledgeable estimate than to have no information at all);
- (g) whether the recommended financial statements are made supplementary to the existing statements or replace them altogether is largely irrelevant; the important thing is that the information should be produced; and
- (h) it is expected that much of the detail appearing in the present form of statements could be transferred to the Annual Reports of the individual departments to which the information relates, whilst the financial statements of the government as a whole would become a concise but complete summary.

APPENDIX C: EXAMPLE FINANCIAL STATEMENTS FOR THE
GOVERNMENT OF THE NORTHERN TERRITORY OF
AUSTRALIA

GOVERNMENT OF THE NORTHERN TERRITORY OF AUSTRALIA
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 19X7

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Statement of Receipts and Payments on the Consolidated Fund

Statement of Assets and Liabilities

Statement of Sources and Applications of Funds

Notes to and forming part of the Financial Statements

GOVERNMENT OF THE NORTHERN TERRITORY OF AUSTRALIA
STATEMENT OF RECEIPTS AND PAYMENTS ON THE CONSOLIDATED
FUND
FOR THE YEAR ENDED 30 JUNE 19X7

Budget for Year Ended 30 June 19X7 \$ (M)	Actual for Year Ended 30 June 19X7 \$ (M)	Actual for Year Ended 30 June 19X6 \$ (M)
--	--	--

RECEIPTS

Territory Taxation
Public Undertakings
Territorial Revenue
Commonwealth
Payments to the
Northern Territory
Other Receipts

TOTAL RECEIPTS	

PAYMENTS

Minister for
Minister for
(etc)
Special Appropriations

TOTAL PAYMENTS	

Surplus for the Year
Ended 30 June 19X7
Balance brought forward
from previous year

BALANCE AS AT 30 JUNE 19X7	

This Statement of Receipts and Payments on the Consolidated Fund is to be read in conjunction with the notes to and forming part of the financial statements of the Government of the Northern Territory of Australia.

GOVERNMENT OF THE NORTHERN TERRITORY OF AUSTRALIA
STATEMENT OF ASSETS AND LIABILITIES AS AT 30 JUNE 19X7

	As at 30 June 19X7 \$ (M)	As at 30 June 19X6 \$ (M)
ASSETS		
Financial Assets		
Cash		
Accounts receivable		
Loans, investments and advances		
Other financial assets		
Total financial assets	<hr/>	<hr/>
Physical Assets		
Property, plant and equipment		
Inventories		
Total physical assets	<hr/>	<hr/>
TOTAL ASSETS	<hr/> <hr/>	<hr/> <hr/>
LIABILITIES		
Accounts payable		
Borrowings		
Employee entitlements		
Other liabilities		
TOTAL LIABILITIES	<hr/> <hr/>	<hr/> <hr/>

This Statement of Assets and Liabilities is to be read in conjunction with the notes to and forming part of the financial statements of the Government of the Northern Territory of Australia.

GOVERNMENT OF THE NORTHERN TERRITORY OF AUSTRALIA

STATEMENT OF SOURCES AND APPLICATIONS OF FUNDS
FOR THE YEAR ENDED 30 JUNE 19X7

	Actual for Year Ended 30 June 19X7 \$ (M)	Actual for Year Ended 30 June 19X6 \$ (M)
SOURCES OF FUNDS		
Surplus for the year on the Consolidated Fund		
Reduction in assets (detail)		
Increase in liabilities (detail)		
	_____	_____
	=====	=====
APPLICATIONS OF FUNDS		
Increase in assets (detail)		
Reduction in liabilities (detail)		
	_____	_____
	=====	=====

This Statement of Sources and Applications of Funds is to be read in conjunction with the notes to and forming part of the financial statements of the Government of the Northern Territory of Australia.

GOVERNMENT OF THE NORTHERN TERRITORY OF AUSTRALIA
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 19X7

(The notes appearing here should include the following:

- (a) a comprehensive explanation of the general principles upon which the statements have been prepared;
- (b) where appropriate, an explanation or elaboration upon individual items appearing in the Statement of Receipts and Payments, in the Statement of Assets and Liabilities and Statement of Sources and Applications of funds; and
- (c) other financial information which belongs in none of the above Statements (such as moneys and public property written-off, contingent liabilities, guarantees, etc.)

THE PROPOSED EXAMPLE FINANCIAL STATEMENTS

The Example consists of:

- (a) Statement of Receipts and Payments on the Consolidated Fund - which would be a summarised form of the present Statement 1;
- (b) Statement of Assets and Liabilities - which I will return to for discussion below;
- (c) Statement of Sources and Applications of Funds - in which the Under Treasurer sees merit; and
- (d) Notes to and forming part of the Financial Statements which would be an elaboration upon and extension of that which presently appears in the Preface to the Treasurer's Annual Financial Statements.

STATEMENT OF ASSETS AND LIABILITIESInformation is already available

1. At the outset let me be quite clear that I have no expectation that we should seek unobtainable or meaningless information. I simply wish to see presented in a meaningful way that information which is already available (or easily obtainable). The simplicity of the task can, I believe, be best demonstrated by going through the individual classifications appearing in the Statement of Assets and Liabilities. See Schedule A for discussion.

Valuations not a problem

2. Questions have been raised regarding the valuation of certain items such as recently-constructed roadways, undeveloped land, school buildings on Aboriginal outstations and it has been asked whether any useful purpose would be served by valuing and disclosing such items. My own view is "probably not" but I certainly don't conclude that therefore it is pointless disclosing other types of assets.

Indeed the question of what is relevant and should therefore be disclosed can only be answered by going through the whole range of significant items and deciding on a case by case basis whether it would be meaningful to include the item within the definition of a particular class of asset for our purposes. If any item would not be meaningful then, I agree, it should be left out.

It's only if an item is to be included that we come to the question of valuation and here there are a number of options.

We can firstly ascertain how easy it is to get actual costs or other values; if actual values aren't available then we may decide to use estimates (and acknowledge them to be estimates); if neither of these approaches is appropriate we may decide to acknowledge that the item exists but that information regarding its valuation is not readily available.

I believe that a major objective we share is that, if the information is to be obtained, it must be with a minimum of effort and cost. I point out also that of the six asset classifications suggested, the valuation question only arises with one - "property, plant and equipment".

What the Statement of Assets and Liabilities would mean

3. Even if all Departmental assets were given a value, what would it mean?

A total figure for assets would, I agree, probably mean very little. However, I am suggesting that individual classes of assets and liabilities should be shown along with other financial information and notes which, taken together, provide the full extent of information needed for decision-making and accountability.

At one time or another it has been said that:

- . most government assets are not realisable

- . it's impossible to gauge their productivity
- . matching of assets and liabilities is inappropriate
- . assessment of return on net investment is inappropriate

and therefore, a Statement of Assets and Liabilities would be of little use. I am concerned that this may be prejudging the uses to which a reader of the financial statements might put the information. My own view is that the users, particularly the Parliament, should be given the information (including an outline of how it was compiled) and the opportunity to assess it using whatever techniques or measurements they believe appropriate, even seeking outside comments if they so wish. The fact is that there is a whole range of assets and liabilities to be managed, not just cash balances, and adequate information is not provided at present.

What the Treasurer's Annual Statements presently mean

4. Perhaps my response can be better illustrated by a consideration of the Treasurer's Annual Financial Statements in their present form.

If the Parliament (or any other user of the financial statements) wanted the most basic information relating to the financial status of the Northern Territory government (that is, the current financial position, liquidity, solvency, resources available, etc) then it simply isn't available to them.

The Statements do show an amount for the bank balance and certain other investments (in Statement 3). But why report only these items and not similar items such as loans and advances made by the government, accounts receivable, etc?

On the liabilities side, the Statements show loan raisings (Statement 5) and contingent liabilities (Statement 6).

What about the other actual liabilities such as accounts payable and employee entitlements?

In short, why do the Statements show some assets and liabilities and not others, particularly when much of the information omitted is readily available?

Summary

5. Summarising the foregoing I suggest that:

- (a) the government is an economic entity and, like any other, it has assets and liabilities (although the definition of those terms may be varied to suit the circumstances);
- (b) the full range of those assets and liabilities needs to be managed, not just the cash balances;
- (c) in order for Parliament to make economic decisions and to assess the performance of the Executive and the Public Service in the management process it is necessary for relevant (and timely) information to be available; and
- (d) much of that information is presently available within the system but is not being provided to the Parliament.

Observations on Interstate and Overseas practices

6. Schedule B sets out my observations and understanding of what is an emerging practice in relation to increased disclosure of asset and liability information.

STATEMENT OF ASSETS AND LIABILITIES - SOURCE OF INFORMATION

- (a) Cash - comprises bank balances and cash floats. (The Treasurer's Directions (TD's) require each Accountable Officer to maintain this information already).
- (b) Accounts receivable - debtors accounts arising from the assessment and levy of revenues and other charges. (should be readily available from departments-TD 18.33 (g) (iii)).
- (c) Loans, investments and advances - should be readily available. (Refer TD 13.30, regulation 6.3 and TD 13.8).
- (d) Other financial assets - I do not have firm views on what could or should be included here. I believe all major financial asset items probably have been already covered above and this group covers "any other".
- (e) Property, plant and equipment - some information is already available. (Refer TD's 21.6 to 21.10 regarding Register of Assets). A particular concern seems to be with the valuation of certain items and I deal with that separately.
- (f) Inventories - should be readily available. (TD 21.5)
- (g) Accounts payable - amounts owing to suppliers. (This information should be readily available if departments do what Treasury has been encouraging them to do - namely, process accounts for payment as they are received.)
- (h) Borrowings - should be readily available. (See existing Statement 5.)
- (i) Employee entitlements - unable to comment on how easy or difficult it would be to obtain the information, but employees would be "interested".
- (j) Other liabilities - I do not have firm views on what could or should be included here. I believe all major liability items probably have been already covered above.

OBSERVATIONS ON INTERSTATE AND OVERSEAS PRACTICES

My views (as to what should be included in the government's financial statements) were tentatively formed, quite independently, some years ago when my Office was preparing the paper entitled "Review of the Auditor-General's Responsibilities" (two copies of which were sent to Treasury under cover of my letter dated 10 April 1987). It was gratifying to find that those tentative views were subsequently found to be broadly consistent with an Australian statement of accounting concepts entitled "Objectives of Financial Reporting by Public Sector Entities" (SAC1) which was issued during our research.

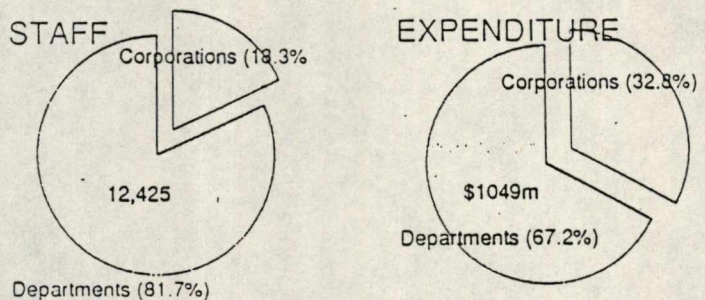
It should be noted that:

- (a) the Victorian government now provides summarised assets and liability information;
- (b) NSW government departments are required to disclose certain asset and liability information; and a consolidated set of financial statements (including a statement of financial position) was produced by the Commission on Audit;
- (c) WA government departments are required to disclose (as a minimum) accounts receivable, accounts payable and expenditure commitment information;
- (d) the SA Treasury has published a macro level state "Balance Sheet";
- (e) I understand that the Commonwealth is undertaking an upgrading of asset records which, I believe, will result in that information being disclosed in financial statements; and
- (f) some overseas countries (most notably Canada and the USA) already provide, or intend in the near future to provide, information relating to assets and liabilities.

DEPARTMENTS Page 48

SIZE OF THE DEPARTMENTAL GROUP

A general appreciation of the size of the departmental group within the Northern Territory public sector can be seen from the following charts.



(Source: Page 3, Budget Paper No.4 1988-89)

DEPARTMENTAL EFFICIENCY

As the departmental group has direct control over approximately 82% of the staffing and 67% of the expenditure in the Northern Territory public sector, it is obvious that any marked improvements in the operational and financial efficiency of the departmental group will improve the overall efficiency of the public sector.

As the public sector is the dominant component in the economy of the Northern Territory, improvements in overall efficiency must be continuously pursued.

In order that improvements in efficiency can take place it is axiomatic that managers must have available to them the necessary skills, essential resources and the means to monitor and measure accurately movements in the level of resources.

MEASUREMENT OF DEPARTMENTAL EFFICIENCY

Financial information which is appropriate, relevant and of a recognised standard is one of the primary sources used to identify and measure the change in the level of resources. One aspect of that change is efficiency.

It was noted in last year's annual report that such financial information was generally lacking in the departmental group.

Over recent times the Treasury has acquired a suite of commercially based computerised accounting packages which include general ledger, fixed assets, accounts payable and accounts receivable. These packages were designed by their developers to operate in an accrual accounting environment.

As all departments have adopted the general ledger and the accounts payable packages and are moving towards the adoption of the others, the basic tools are available to change to accrual accounting.

Departments are thus in an excellent position to develop accounting systems that will give them a more comprehensive picture of their financial position and information to monitor their performance.

Individual units of the corporate arm of government use the accrual basis of accounting.

It seems anomalous that the most substantial part of government operations (ie departments) are not required to provide the degree of financial information that is sought, expected and in fact legislated for from corporate bodies. Consideration should be given to the appropriateness of accrual accounting standards across the whole spectrum of government operations.

DEPARTMENTAL REPORTING

The legislation governing the reporting requirements by departments has changed little in the last 10 years. Reporting generally covers two aspects, namely, financial and operational.

Financial Reporting

There is no legislative requirement for a department to include in its annual report a financial picture of its operations. This aspect was commented upon in this Office's last annual report and was supported by a recommended model for financial statements.

With the research work undertaken by the Treasury into accrual accounting and the foresight in acquiring the aforementioned commercial accounting packages the individual departments are in an excellent position not only to improve their financial performance monitoring but also their level of financial reporting.

When one also takes into consideration that all departments (and the majority of the corporate arm) are on the one government computer network and use the same commercial

DEPARTMENTS Page 50

Accounting Systems

There are two basic methods that exist for recording the economic activity of an entity.

They are:

- (a) the cash basis of accounting in which revenue in terms of actual cash received is matched against expenditure in terms of actual cash payments, no account being taken of amounts collectible or payable at the beginning or end of the accounting period; and*
- (b) the accrual basis of accounting in which a complete mapping of income against expense occurs for the accounting period. It takes into account amounts collectible or payable at the beginning or end of the accounting period and the value of assets consumed and liabilities incurred in delivering services during that period. National and international accounting standards exist.*
- Selection of the accounting basis depends upon the information required. Where only knowledge of cash position and cash flows are wanted, cash accounting is sufficient. If information on all types of financing and on debtors and creditors and information on financial position and financial performance are required, then the accrual basis should be used.*

accounting packages, the potential for more meaningful financial reporting by the departments as a group and the government as a whole is considerable.

The section of this Report dealing with Corporations demonstrates the value of the information that can be obtained from a comprehensive and consolidated picture of that group. Similar information could be obtained by performing the same exercise for the departmental group.

In addition, provided the skills and knowledge are available, it would be possible to develop, across the departmental group, a standard chart of accounts for the general ledger, a standard classification for income and expense, assets and liabilities together with a standard account numbering system. The reporting and information retrieval power of such a system would be considerable.

Operational Reporting

Financial reporting, no matter how comprehensive and how informative, does not provide the total picture of an entity's performance. Reporting, to be effective, has to include narrative information on a department's operations and be supported by relevant statistics.

A majority of States now require fairly extensive and detailed reporting on operational aspects covering such matters as:

- charter
- aims and objectives
- performance indicators
- access
- management and structure
- summary review of operations
- legal change
- economic or other factors
- management and activities
- research and development
- human resources
- promotion

As an interim measure departments should follow readily available reference sources as to good annual reporting practices.

SUMMARY OF ANNUAL FINANCIAL REPORTING

REQUIREMENTS OF DEPARTMENTS
as at 30 June 1988

<u>Jurisdiction</u>	<u>Details Required</u>
NSW	Basically receipts and payments plus some assets and liabilities information. Fairly detailed.
VIC	Basically receipts and payments plus some asset and liability information. Fairly detailed.
WA	Cash basis plus debtors, creditors and commitments. Some Australian Accounting Standards (AAS) ("Disclosure of Accounting Policies"; "Materiality"; "Events after Balance Date") are applied to Departmental financial statements. (Illustrative statements have been issued).
.SA	There is an over-riding requirement that the financial statements "assist in the clear understanding". Generally recommends that AAS be followed wherever appropriate.
QLD	Produced in a prescribed form for aggregation into one volume of Departmental financial information.
TAS	No annual reporting requirements having general application.
COMMONWEALTH	Cash basis plus debtors, creditors, prepayments and commitments, free services provided to other Departments.
NT	No requirement for Annual Reports to contain financial information.

APPENDIX E (I)

RESPONSES TO PUBLIC ACCOUNTS COMMITTEE ENQUIRIES

DEPARTMENT OF HEALTH AND COMMUNITY SERVICES

DEPARTMENT OF HEALTH
AND COMMUNITY SERVICES

NORTHERN TERRITORY OF AUSTRALIA

87/1626

30 May 1988

Chairman
Legislative Assembly of
the Northern Territory
Public Accounts Committee
GPO Box 3721
DARWIN NT 5794

B 1.6.88

Dear Mr Palmer

AUDITOR-GENERAL'S REPORT 1986/87

I refer to your letter of 28 April 1988 regarding your concern about the Report.

- (a) The current accounting software does not prevent an excess of commitment over Treasurer's Authority or an expenditure excess over Warrant Advice. The software does not have the facility to validate or reject entries which would create this situation.

The operational responsibility for compliance with the Financial Administration & Audit Act in this regard is vested in Regional Personnel.

The Central Accounting Branch produces a daily report which monitors the situation across the Department. (An example is attached). This Report is generated "on demand" and in practice is produced about 8.15 am each day. The data captured relates to the close of business on the previous working day. If a potential excess situation is identified, the Budgets & Programming Branch liaises with the Region concerned. The Report obviously identifies a breach of the Act.

Similar Reports are produced in each Region and are utilised by Funds Controllers in authorising the release of batches of expenditure or commitment vouchers for processing.

The transfer of expenditure between Regions which could affect warrant and authority limits is not to take place without the prior authorisation of the Region which would be affected.

It is understood that Treasury agreed to acquire a new product for the Government Accounting System called "Purchase Order" which is likely to become operational within twelve months.

The software supplier has responded to Government accounting needs by creating a unique commitment module. i.e. it is claimed that the software will not allow an order for goods or services to be raised where an excess of Warrant or Authority will take place due to its validation process.

When this software is installed, not only will breaches of this nature be avoidable but potential problems will be eliminated at the ordering stage.

(b) Prison Industries Debtor Control

The Prison Industries Manager based in the Department's Central Office, is responsible for obtaining billing data for industry activities in both Darwin and Alice Springs.

This Officer raises and issues Debit Notes/Invoices on clients each month. Copies of these Debit Notes are simultaneously forwarded to the Sundry Debtors Section at Casuarina Plaza where they are loaded to a personal computer based Debtors System. This system automatically age analyses debts and produces reports for subsequent collection action by the Sundry Debtors Clerk when warranted.

Receipts are effected at several points and copies of the receipt document are forwarded to the Casuarina Plaza based Sundry Debtors Clerk for updating the Debtors Ledger.

The current system employed is therefore not without problems in relying on the integrity of the data.

The Department is currently establishing and testing with Treasury a newly acquired Government Accounting System Module, "Accounts Receivable". The system will be mainframe based providing a sound Debtor Management System for the Department throughout the Territory.

The "Accounts Receivable" Module will automatically produce dunning letters for issue to delinquent debtors as well as the usual credit management facilities.

This system will initially be trialled by this Department and may extend to other Departments and Authorities. It is scheduled to become operational on 1 September 1988.

The Department does not currently have an effective legal recovery facility.

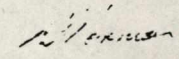
Some discussion has taken place with two private Debt Collectors who have national tracing and recovery abilities. It is hoped that an arrangement with one of these businesses can be entered into on or before 1 September 1988 to fill the remaining gap in the Department's debtor management and recovery area.

- (c) The Debtor Management at Marrara Stadium has been handled by the Stadium. Only when debts become a problem are they forwarded to the Casuarina Plaza based Sundry Debtors Clerk. On 3 June 1988 new procedures will become operational in a similar manner to "Prison Industries". I.e. debts will be loaded to the system at the time invoices are issued.

There are no outstanding matters relating to Auditor General Reports which you have identified. All corrective action has been taken.

The significant upgrades of the Government Accounting System which have either commenced recently or will become operational within twelve months, will provide major enhancements to the Department's control and accountability.

This Department has recognised "System" deficiencies and is a major contributor to the Treasury evolution of the Government Accounting System.



RAY NORMAN
SECRETARY



NORTHERN TERRITORY OF AUSTRALIA
OFFICE OF THE AUDITOR-GENERAL

G.P.O. BOX 4594
DARWIN, N.T. 5794

TELEPHONE: 89-7155
REFERENCE: 160-06-004
381-01-002

Mr. D. Rice,
Secretary,
Public Accounts Committee,
Legislative Assembly of
the Northern Territory
G.P.O. Box 3721,
DARWIN N.T. 0801

Q26.7

Dear Mr. Rice,

RE: DEPARTMENT OF HEALTH AND COMMUNITY SERVICES

Further to your letter of 23 June, 1988 I wish to advise that the response provided by Mr. Norman in respect of the 1986/87 Annual Report is considered satisfactory.

(a) "commitment in excess of Treasurer's Authority....."

Whilst I agree with the Department's response that the introduction of the new "purchase order" system is likely to reduce the risk of over expenditure occurring, I am unable to comment at this point in time whether procedures in existence are operating effectively for this current year. My authorised auditors have not yet commenced the final audit for the year ended 30 June, 1988 and hence have not reviewed the current situation.

(b) Prison Industries Trust Account

No particular problem was noted with this Trust Account during the interim audit, however it was noted that there is a departmental wide risk that revenue may not be recorded and consequently not collected.

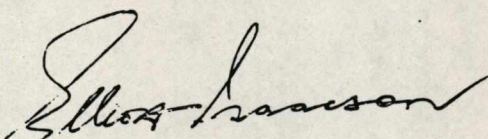
I have been advised by the Department that the whole area is under review and I would expect to see that satisfactory procedures have been implemented when the audit for the year ended 30th June, 1988 has been finalised.

Ref: 160-06-004
381-01-002

(c) Marrara Stadium

The problems as noted during the Interim Basic Financial Audit in 1986/87 have generally been resolved as the former Department of Youth, Sport, Recreation and Ethnic Affairs has now been amalgamated with Department of Health and Community Services. Specifically, the lack of controls over fixed assets and debtors is consistent with that of Department of Health and Community Services and will be subjected to a more current review during the final audit.

Yours faithfully,



E.M. ISAACSON
Auditor-General

20 July, 1988

APPENDIX E (II)

RESPONSES TO PUBLIC ACCOUNTS COMMITTEE ENQUIRIES

DEPARTMENT OF TRANSPORT AND WORKS



SECRETARY
DEPARTMENT OF TRANSPORT AND WORKS
DARWIN

Chairman
Public Accounts Committee
Legislative Assembly of the NT
GPO Box 3721
DARWIN NT 5794

13/5

Dear Sir

AUDITOR-GENERAL'S REPORT 1986/87

I refer to your letter of 28 April 1988, ref. 3/4/20, and on the matter of delayed processing of revenue received late June 1987, advise the following:-

All Administration Managers and Finance Group Leaders were advised in writing on 19 June 1987, that close off for final banking (and input of Receivers Statements) would be 4.00pm Tuesday 30 June 1987. This advice followed up our minute of 20 May 1987, advising that receipts taken on 30 June were to be reflected on the 30 June Receivers Statement which should be posted on that day.

The reasons that 2 Receivers Statements from MVR were not posted in 1986/87 were:-

1. Industrial action relating to a Stop Work meeting, Thursday 25 June 1987, prevented the completion of the auditing of Wednesday 24 June 1987 revenue until pm Friday 27 June, and associated problems with the inability of two cashiers to balance.
2. Printouts relating to Thursday 26 June 1987 revenue were not received from NCOM until late Friday afternoon, the lateness was again related to industrial action.

.../2



DEPARTMENT OF TRANSPORTATION
RECEIVERS GENERAL

-2-

3. Thursday revenue audit was completed Monday 29 June.
4. Receivers Statements for the days of 25 and 26 June 1987, were ready to be inputted on Tuesday a.m. 30 June 1987, however, did not reach Finance in time to be processed that day.

Procedures have been implemented to have Receivers Statements input by the MVR RTM daily as opposed to being forwarded to Finance for processing. All RTM's will be reminded again in June to bank and process Receivers Statements to the appropriate financial year.

I trust this information will suffice, however, my contact officer is Jim Dunn on 89-7131, should you wish to obtain any additional details.

Yours sincerely

I D GORDON

12/5-



NORTHERN TERRITORY OF AUSTRALIA

OFFICE OF THE AUDITOR-GENERAL

G.P.O. BOX 4594
DARWIN, N.T. 5794

TELEPHONE 89 7155

REFERENCE 160-06-004

IMM:05/16/c

Mr D Rice
Secretary
Public Accounts Committee
GPO Box 3721
DARWIN NT 0801

② 25/5

Dear Mr Rice

YOUR 3/4/20 OF 13 MAY 1988

The Transport & Works response attached to your abovementioned letter is considered to provide a satisfactory response to the matters raised in paragraph 3.19.4 of my October 1987 report.

Yours faithfully

E M ISAACSON
Auditor-General

23 May 1988

APPENDIX F

EXPLANATORY NOTES ON TREASURER'S ANNUAL FINANCIAL STATEMENTS

1 X

EXTRACT FROM AUDITOR-GENERAL'S REPORT ON
TREASURER'S ANNUAL FINANCIAL STATEMENTS 1986/87

1. **The Scope and Purpose of the Treasurer's Annual Financial Statements**

The FINANCIAL ADMINISTRATION AND AUDIT ACT provides that, as soon as practicable after the end of a financial year, the Treasurer prepare and transmit to the Auditor-General a statement of the receipts and expenditure of the Consolidated Fund and the Trust Fund for that financial year.

The Public Accounts

The Consolidated Fund and the Trust Fund together comprise the Public Accounts established pursuant to the FINANCIAL ADMINISTRATION AND AUDIT ACT to record the receipts and expenditures of the Territory.

The moneys in the Public Accounts are kept in official bank accounts at such banks as the Treasurer directs. The principal bank account is the Northern Territory Government Account and all receipts and payments of the Consolidated Fund and the majority of the Trust Fund are recorded in this account. Several Statutory Corporations have preferred to operate their own separate bank accounts and these are set out in Part II of Statement 2 dealing with the Trust Fund.

The Consolidated Fund

Section 5 of the FINANCIAL ADMINISTRATION AND AUDIT ACT provides that all Territory moneys, except those required or permitted by the Act or any other law of the Territory to be credited to an account of the Trust Fund, shall be credited to the Consolidated Fund.

Thus, the Consolidated Fund is the principal operating fund of the Government and is financed by Territory revenues and Commonwealth financial assistance for general and specific purposes.

Expenditure charged to the Consolidated Fund is authorised by the Appropriation Acts passed by the Legislative Assembly in respect of each financial year. The authority of a Treasurer's Warrant is required before payments can be made from the Fund and commitments against the Fund can only be made within the limit of the Treasurer's Authority.

The Trust Fund

The Trust Fund consists of those Trust Accounts, scheduled in Statement 2, established by the Treasurer under the FINANCIAL ADMINISTRATION AND AUDIT ACT or any other law of the Territory as accounts forming part of the Trust Fund.

2. Basis of Accounting

The accounting system operated by the Northern Territory Government reflects the requirements of the NORTHERN TERRITORY (SELF-GOVERNMENT) ACT, the FINANCIAL ADMINISTRATION AND AUDIT ACT, Treasury Regulations and Treasurer's Directions.

Transactions are recorded on the cash basis which recognises receipts and payments only as they occur and takes no account of accruals or prepayments, or the differentiation between capital and recurrent receipts or expenditure.

3. Content of the Treasurer's Annual Financial Statements

The Treasurer's Annual Financial Statements comprise six separate statements, each of which is described hereunder.

STATEMENT 1

Summary

This statement commences with an annual summary of the receipts and expenditures on the Consolidated Fund and the net result for the year.

For the purposes of this summary receipts are grouped by principal revenue categories or sources, whilst expenditures are by Ministerial responsibility.

Receipts

Statement 1 then continues with a more detailed presentation of Consolidated Fund revenue sources, analysing Territory Revenues by Division and detailing the various components of Commonwealth payments to the Territory.

This Section also provides a comparison between actual revenues for the year and the estimates contained in Budget Paper No. 2 - Statement of Revenue Sources, of the 1986/87 Budget Papers.

Expenditure

The next section of Statement 1 provides, by Ministerial portfolio, a comparison of actual expenditure for the year

against funds provided pursuant to the FINANCIAL ADMINISTRATION AND AUDIT ACT.

For each Minister, the detail provided comprises:

- a) A table setting out, for each Division for which the Minister is responsible, an analysis of the movement in funds provided, from the original Appropriations approved by the Appropriation Acts 1986/87, through to the final allocation for the year;
- b) (i) for Departments:
an analysis of actual expenditure for each of the standard sub-divisions,
 1. Salaries and Payments in the Nature of Salary
 2. Administrative Expenses
 3. Capital Items
 4. Other Services
 5. Repairs and Maintenance
 6. Capital Works
 7. Property Expensesby Departmental activities within these sub-divisions; and
- (ii) for Statutory Corporations:
as Sub-Division 4 (Other Services) expenditure, the total of the annual appropriation drawdowns from the Consolidated Fund.

A comparison is also provided of actual expenditure for the year against the final allocation of funds at both Division and Sub-Division level.

APPENDICES TO STATEMENT 1

Appendix 1 provides an analysis of expenditure on Capital Works by the Department of Transport and Works and the Northern Territory Water Authority, disclosing separately all works upon which \$1 million or more was spent in the 1986/87 financial year.

Appendix 2 details the inter and intra-divisional transfers of appropriation approved for the 1986/87 financial year and quotes the relevant authorities for the various categories of transfer given by the FINANCIAL ADMINISTRATION AND AUDIT ACT.

Appendix 3 summarises by Minister, Division and Sub-Division, the issues made from the Treasurer's Advance and the expenditure made against the advance during the 1986/87 financial year.

STATEMENT 2

This statement provides a summary of the opening and closing balances, and the activity through the Trust Accounts comprising the Trust Fund for the 1986/87 financial year.

The statement is in two principal parts;

- Part I - Trust Accounts forming part of the Northern Territory Government Account.
- Part II - Trust Accounts external to the Northern Territory Government Account.

Part I is further divided into three sections;

- Part I(i) - Trust Accounts (Departmental);
- Part I(ii) - Trust Accounts (Statutory Authorities); and
- Part I(iii) - Accountable Officer's Trust Accounts.

STATEMENT 3

This statement presents the overall position of the Public Accounts at 30 June 1987 by summarising the balance of the Consolidated Fund (from Statement 1), the Trust Fund (from Statement 2), and shows how the balances were held at the balance date.

STATEMENT 4

This statement presents a summary of "Ex-Gratia" payments, losses, write-offs, waivers and gifts made during the financial year to 30 June 1987. The statement comprises four parts, with each part presenting the relevant information grouped by Department.

1. "Ex-Gratia" Payments

Individual payments of \$10,000 or more are disclosed separately with brief details; others are included as a departmental total only.

2. Moneys and Public Property Written-Off

This part presents departmental information analysed by the following categories:

- Moneys written-off due to loss.
- Moneys written-off as irrecoverable.
- Property written-off due to loss.
- Property written-off due to theft.

- Property written off due to fire.
- Property written-off as obsolete or unserviceable.

3. Waiver of Right to Recover Money or Public Property

Individual cases of \$10,000 or more are disclosed separately with brief details; others are included as a departmental total only.

4. Gifts of Public Property

Gifts of \$10,000 or more are disclosed separately with brief details of the gift, the recipient and the value (if available); others are summarised by Department.

STATEMENT 5

The statement provides details of new Semi-Government borrowings and redemptions during the financial year and maturity profiles of the liability of the Northern Territory at 30 June 1987 with respect to Semi-Government borrowings and to the Commonwealth in respect of Australian Savings Bonds, Commonwealth Government Securities and Treasury Bonds.

Details of other liabilities of the Northern Territory to the Commonwealth are also included.

STATEMENT 6

Statement 6 presents relevant information in relation to guarantees and contingent liabilities arising from financial agreements guaranteed by the Territory under,

1. THE FINANCIAL ADMINISTRATION AND AUDIT ACT;
2. THE TERRITORY DEVELOPMENT ACT;
3. THE CONTRACTS ACT;
4. THE AGRICULTURAL DEVELOPMENT AND MARKETING ACT; AND
5. THE TERRITORY INSURANCE ACT.

APPENDIX G (I)

RESPONSES TO PUBLIC ACCOUNTS COMMITTEE ENQUIRIES

CONSERVATION COMMISSION

CONSERVATION COMMISSION OF THE NORTHERN TERRITORY



HEAD OFFICE:
P.O. BOX 496, PALMERSTON
N.T. 5787 AUSTRALIA
TELEPHONE: (089) 89 4411
TELEX: PARKS AA83336; FACSIMILE: (089) 32 3849

OUR REF: D87/265, D87/1083, D87/1295

YOUR REF: 3/4/20

Mr M Palmer
Chairman
Public Accounts Committee
Legislative Assembly of the Northern
Territory
GPO Box 3721
DARWIN NT 5794

Dear Mr Palmer

AUDITOR GENERAL'S REPORT - 1986/87

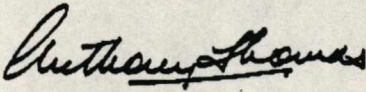
With reference to your letter dated 28 April 1988, would you please note that we responded to the Auditor-General as a follow up to matters arising from the audit of our financial statements for the year ended 30 June 1987 (a copy of this letter is attached).

More specifically in reference to the matters raised by you we advise as follows:-

1. The Commission notes that if the loan is to remain unsecured, the Commission must have access to audited financial statements of the borrower each year, to monitor the NT Government's exposure to loss from this loan arrangement. It is further noted that if there is uncertainty as to whether the \$390,000 loan to Pirntubula Pty Ltd will be ultimately recoverable in full a provision for non-recoverability will be needed in the financial statements.
2. In regard to work in progress on capital projects the Commission agrees that the carrying value does not include direct labour costs or any proportion of overhead costs, which is a normal commercial practice. In considering this further we advised the Auditor-General that we would consider our policy in respect of this issue but pointed out that more recently there has been very little direct labour involved in capital projects.

An exception to this arrangement is the cost of direct labour to the Berry Springs Wildlife Park Project and in this instance the direct and indirect labour costs are being charged to the capital project and will be capitalised and recorded accordingly in future financial statements.

Yours sincerely



W.A. Thomas
Director of Conservation

- 9 MAY 1988

CONSERVATION COMMISSION OF THE NORTHERN TERRITORY



HEAD OFFICE: GAP ROAD, ALICE SPRINGS.
P.O. BOX 1046, ALICE SPRINGS.
N.T. 5730 AUSTRALIA
TELEPHONE: (089) 80 8211;
TELEDC PARKS AAS1181; VOCADED: (089) 82 5380

OUR REF D87/1083

YOUR REF 418-11-013

Mr E. Isaacson
Auditor-General
Office of the Auditor-General
GPO Box 4594
DARWIN NT 5794

Dear Mr Isaacson

AUDIT OF FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 1987

I refer to your letter dated 16 November 1987 in regard to the 1986/87 audit of the Conservation Commission's financial statements and in respect of your observations at 3.0 'Executive Summary' I advise as follows:-

- 3.1 The Commission notes that if the loan is to remain unsecured, the Commission should have access to audited financial statements of the borrower, each year, to monitor the NT Government's exposure to loss from this loan arrangement. It is further noted that if there is uncertainty as to whether the \$390,000 loan to Pirntubula Pty Ltd will be ultimately recoverable in full a provision for non-recoverability will be needed in the financial statements.
- 3.2 The Commission notes your comments in regard to work in progress on capital projects and agrees that the carrying value does not include direct labour costs or any proportion of overhead costs, which is normal commercial practice. Policy will be considered in this regard however it should be pointed out that more recently there is very little direct labour involved in capital projects.

Yours faithfully

Original signed
W. A. THOMAS

W.A. Thomas
Director of Conservation



NORTHERN TERRITORY OF AUSTRALIA

OFFICE OF THE AUDITOR-GENERAL

GPO BOX 4594
DARWIN, N.T. 5794

Mr. David Rice,
Secretary,
Public Accounts Committee,
Legislative Assembly of the
Northern Territory,
G.P.O. Box 3721,
DARWIN, N.T. 0801

TELEPHONE 89 7155
REFERENCE 160-06-004
410-01-002

26.7

Dear Mr. Rice,

CONSERVATION COMMISSION OF THE NORTHERN TERRITORY

I refer to your request of 27th June, 1988, seeking my response on the comments to your Committee by Mr. Anthony Thomas in relation to the matters raised in the 1986/87 Auditor General's Report to the Commission.

Loan to Pirtubula Pty. Ltd.

The Commission has acknowledged the concept of raising of provision for non-recoverability against the \$390,000 loan, if insufficient evidence of recovery can be obtained. Accordingly, my office will be seeking to examine any such evidence, and if this proves insufficient, will be expecting a provision for non-recoverability to be included in the Balance Sheet of the Commission.

Capitalizing Labour Costs on Construction Projects

The Commission has commented that it is applying proper procedures in relation to the Berry Springs Wildlife Park Project. My office will examine the application of those procedures in the audit of the 30th June, 1988 financial statements. I accept that there are now no other major projects in process.

Yours sincerely,

E.M. ISAACSON
Auditor-General

20 July, 1988.

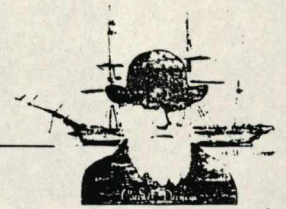
APPENDIX G (II)

RESPONSES TO PUBLIC ACCOUNTS COMMITTEE ENQUIRIES

MUSEUMS AND ARTS GALLERIES BOARD

MUSEUMS AND ART GALLERIES OF THE NORTHERN TERRITORY

NORT. IN TERRITORY MUSEUM OF ARTS AND SCIENCES
BULLOCKY POINT, FANNIE BAY, N.T.
POSTAL ADDRESS: G.P.O. BOX 4646, DARWIN, N.T. 5794
TELEPHONE: (089) 82 4211



OUR REF

YOUR REF

23 June 1988

Legislative Assembly of
the Northern Territory
Public Accounts Committee
GPO Box 3721
DARWIN NT 5794

B 27.6.88

ATTENTION: Mr David Rice

RE: AUDITOR-GENERAL'S REPORT 1986/87

With reference to your letter 3/4/20, dated 28 April 1988 in which you request information regarding the above, I wish to advise the following:

1. The completed report on operations for 1986/87 was handed to the auditors on 1 June 1988 (refer schedule no. 1 attached). Problems associated with the completion of this report had been due to staff being intrastate and overseas, working on the Spencer and Gillen Gallery in Alice Springs and the Macassan Perahu Bicentennial Project. The current status of the 1986/87 Report is that a cabinet submission has been prepared and will be forwarded to the Minister for approval for tabling in the August Sittings of the Legislative Assembly as soon as comments have been received from Departments.
2. The 1987/88 Report on Operations will be submitted to the Auditor General together with the financial statements by 30 September 1988.

Should you require any additional information please contact me on 824217.

BARRY PASCOE
ASSISTANT DIRECTOR (ADMIN)

AUDITEE: MUSEUMS AND ART GALLERIES BOARD

FINANCIAL PERIOD END: 30/6/88

PURPOSE: MANAGEMENT REPORT POINTS/EXIT
INTERVIEW RECORD (EIR)

SUBJECT: REPORT ON OPERATIONS

(i) Audit Observation:

- a) Treasury Circular A10/87, ref. 2939, requires the authorised auditor to consider the Report on Operations of a prescribed entity.
- b) Treasury Circular Paragraph 6 and 10 require the Report on Operations to be submitted with the draft financial statements by the 30 September of each year.
- c) The Report on Operations for the financial year ended 30 June 1987 was still incomplete at the date of the interim audit visit.
- d) The Report on Operations with respect to the year ending 30 June 1988 is anticipated not to be available in September 1988.

(ii) Effect or Potential Effect:

The requirements of the audit cannot be conducted.

(iii) Recommendation:

- a) The Report on Operations for the financial year ended 30 June 1987 be completed and submitted to the Auditor-General.
- b) The Report on Operations for the financial year ending 30 June 1988 commence as soon as possible.

(iv) Auditee Response:

- a) Handed to auditors at exit interview in draft.
- b) Attempting to comply for 1987/88.

(v) Conclusion:

Satisfactory.

NORTHERN TERRITORY OF AUSTRALIA
OFFICE OF THE AUDITOR-GENERAL

P.O. BOX 4594
DARWIN, N.T. 5794

REFERENCE: 160-06-004
450-01-002
JDM:07/08/b

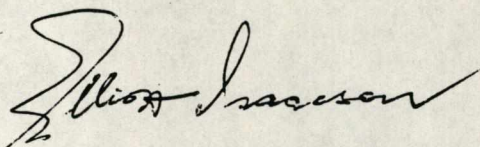
Mr D Rice *TR*
Secretary
Public Accounts Committee
GPO Box 3721
DARWIN NT 0801

Dear Mr Rice,

MUSEUMS AND ART GALLERIES BOARD
1986/87 AUDITOR-GENERAL'S REPORT
(YOUR 3/4/20 OF 27 JUNE 1988 REFERS)

The response provided by Mr Pascoe attached to the above, in respect of the 1986/87 Report on Operations is considered satisfactory. The extent of proposed action towards compiling the 1987/88 Report on Operations will be subject to review at the final 1987/88 audit stage of the Board.

Yours faithfully,



E M ISAACSON
Auditor-General

5 July 1988

APPENDIX G (III)

RESPONSES TO PUBLIC ACCOUNTS COMMITTEE ENQUIRIES

VOCATIONAL TRAINING COMMISSION



DEPARTMENT OF INDUSTRIES AND DEVELOPMENT

87/516

Office of the Secretary
GPO Box 4160
DARWIN NT 5794

25.5

Mr M Palmer
Chairman
Public Accounts Committee
GPO Box 3721
DARWIN NT 5794

Dear Mick

RE: AUDITOR-GENERALS REPORT - 1986/87

Your letter (reference 3/4/20) dated 28 April and telephone discussion between Ben Wheaton of this Department and David Rice on 10 May, refer.

I advise that the action taken to rectify/explain the matters raised by the Auditor-General have been concluded to the satisfaction of the Auditor-Generals Office.

For your information, functions of the former NT Vocational Training Commission are now shared between the Department of Labour & Administration Services and the Department of Education.

Action Officer for further information is Mr J Mortlock on telephone 894210.

Yours sincerely

C J Fuller
C J FULLER
Secretary
May 1988

05/11/033

NORTHERN TERRITORY OF AUSTRALIA
OFFICE OF THE AUDITOR-GENERAL

P.O. BOX 4594
DARWIN, N.T. 5794

REFERENCE: 160-06-004
455-01-002
JDM:07/08/a

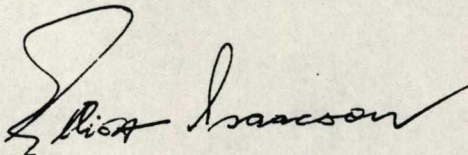
Mr D Rice *7/11*
Secretary
Public Accounts Committee
GPO Box 3721
DARWIN NT 0801

Dear Mr Rice,

VOCATIONAL TRAINING COMMISSION
1986/87 AUDITOR-GENERAL'S REPORT
(YOUR 3/4/20 OF 23 JUNE REFERS)

The response provided by Mr Fuller attached to the above, together with action undertaken by the Department are considered to be a satisfactory resolution to the matters raised.

Yours faithfully,



E M ISAACSON
Auditor-General

5 July 1988

APPENDIX G (IV)

RESPONSES TO PUBLIC ACCOUNTS COMMITTEE ENQUIRIES

RACING, GAMING AND LIQUOR COMMISSION



NORTHERN TERRITORY
RACING, GAMING AND LIQUOR COMMISSION

86/869
87/970

First Floor,
Enterprise House
Cur Woods & Knuckey Sts
Darwin NT 5794
GPO Box 2037, Darwin, N.T. 5794
Telephone: 0890 31 1522
0890 31 1955
Fax: 0890 41 0766
Telex: AA35628

Mr M Palmer MLA
Chairman
Public Accounts Committee
G P O Box 3721
DARWIN N T 5794

B. J. S.

Dear Mr Palmer

I refer to your 3/4/20 of 28 April 1988 concerning the Auditor General's Report of 1986/87.

I attach copies of all relevant papers which provide full information as to the:

1. situation which led to the Auditor General's qualifying statement
2. Commission's dissatisfaction with the statement which resulted primarily from an internal management request for Internal Audit to look into our operation, in depth
3. current position as to correction of the agreed with, Audit findings.

Discussions at some length have been held with the Auditor General concerning the issue, and this Commission's dissatisfaction with the methodology and approach of the External Auditors expressed face to face. Resolution has been reached with the Auditor General.

It is worthy of note that the Internal Audit was commissioned after senior staff of this Commission identified the problem, despite previous formal audits. The External Auditors picked up on the Internal Auditors Report, which at that stage had not been evaluated or responded to by the Commission. At the same time the External Auditors gave no consideration to corrective measures that were already in train nor to the validity of some of Internal Audits comment or proposed corrective measures.

It is anticipated all the necessary corrective measures with the exception of

1. secure storage - this item is subject to funding, design work and construction
2. revised written procedures - this item is subject to availability of resources and is long term

will be completed by the end of June 1988.

Any further information or advice may be obtained from Ron Leever on telephone 811955.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'K. Rae', written in dark ink.

KELVIN RAE
Chairman

11 May 1988



NORTHERN TERRITORY
RACING, GAMING AND LIQUOR COMMISSION

81/161

First Floor,
Enterprise House
Cur Woods & Knuckey Sts
Darwin NT 5794
GPO Box 2037, Darwin, N.T. 5794
Telephone: (089) 81 4522
(089) 81 1955
Fax: (089) 41 0766
Telex: AA 85628

Mr H I Perera
Director
N T Internal Audit Bureau
Department of Chief Minister
G P O Box 4396
DARWIN N T 5794

Dear Mr Perera

Firstly, I apologise for the delay in commenting on your audit report dated September 1987. I am grateful for the report presented.

My comments relate to the numbered sections of your report.

1. Revenue and Cash Accountability

- 1.2 Receipting of Monies
- 1.2 Reconciliation of Revenue

As per Auditor's recommendations a suitable cash register has been purchased. Staff have been trained and suitable receipts are being printed.

Minor staff changes have been made in an effort to enable a specific staff member to undertake Agents Ledger Card reconciliations and a full bulk store stocktake. Stock control cards will be introduced and procedural guidelines will be established.

2. Security over Lotteries Stocks and Issues

- 2.1 Storeroom Facilities
- 2.2 Stock Control of Lotteries Stocks

Many of the recommendations regarding the storeroom will be overcome when the internal office structure is renovated. The planned

renovations include a secure bulk store. \$130,000 has been requested in 1988/89 to effect office and stores modifications.

The key to the bulk store is under the sole control of the Lotteries Supervisor. The establishment of a substore may be considered after renovations.

2.3 Issue of Stocks

Regional agents normally confirm receipt of tickets via the return of a signed duplicate copy of Form C. If this is not received a second check of receipt of tickets is made when Agents weekly returns are lodged with the Commission. Therefore, return of duplicate Form C is not considered an absolute necessity, however Agents are being encouraged to return the forms upon receipt of tickets.

2.4 Control over Winning ISL Tickets

Agents are constantly reminded to cancel all paid tickets. A percentage of returns are checked weekly and if tickets have not been cancelled the respective Agent is contacted.

Electronic and 'punch' cancelling machines have been considered, however costs are prohibitive. The matter of cancelling tickets is of prime concern and suitable adequate procedures are still being investigated. Our current system of stamping the tickets is no different to that which operates in the States.

3. Lotteries Agency Agreements

3.1 Approval System

Recommendations regarding written applications and submission of floor plans have been instigated. All new Agency agreements are perused by senior staff to ensure that all details are fully and accurately entered prior to their execution.

A legal opinion was sought when agreements were originally introduced, and is held on file.

3.2 Lottery Agents Inspections

An approved policy and inspection procedure is being formulated. However, staffing levels may preclude this on a regular basis.

4. Adequacy of Accounting Records

4.1 Agency Returns

4.2 Agency Ledger Cards

Ledger cards are being individually audited by Lotteries staff, however it is very time consuming and demanding. A computerised Agent accounting system is under consideration.

3.4 Receipts

This problem will be alleviated with the introduction of the cash register.

4.4 Reconciliation

A nominated staff member is presently reconciling Territorian '9' Lottery. We are confident the new receipting procedures will alleviate any future problems of reconciling Territorian Lotteries.

It is considered impracticable to reconcile ISL's. Agents are presently selling three ISL games concurrently and they tend to mix sales and prizes of the games, which creates additional workload for Lotteries staff.

Game prizes can be paid by Agents several months after the game has finished. The system is no different to that of the other lottery authorities in the States.

4.5 Budgets

Full and detailed budgets are now prepared on a set format. Recommendation has been instigated.

4.6 Destruction of Records

Destruction procedures and certificates have been introduced.

5. Procedures relating to Prizes involving Unclaimed-Prizes

- 5.1 Territorial Lotteries
- 5.2 Instant Sports Lotteries
- 5.3 Major Lotteries

Recommendations have been noted. Prize validation procedures and procedures for the processing and review of major lotteries are being formulated and/or revised.

As pointed out by the Auditors the principal cause of most weaknesses has been the lack of approved written procedures.

We are endeavouring to revise and/or formulate adequate procedures to satisfy all audit requirements, however staff resources are limited and the exercise is both time consuming and demanding. Every effort is being made to comply with the majority of the recommendations made.

Yours sincerely

Original Signed Chairman

4/5/88



KELVIN RAE
Chairman

26 April 1988

MEMORANDUM

TO: TREASURER

FROM: CHAIRMAN

RE: AUDITOR GENERAL'S QUALIFIED FINAL AUDIT

INDEXED
15 JAN 1988
MINISTER'S OFFICE

DATE: 12 JAN 1988
REF. RGL : 197

Recommendation

It is recommended that you note my response to the Auditor General.

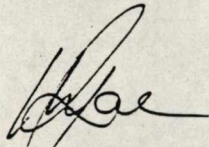
Background

You are aware the Auditor General qualified his report in respect of the Commissions financial activities for 1986/87. In making his qualifying comment the Auditor General relied heavily on the content of a report of the Internal Audit Bureau and makes reference to that report.

The Internal Audit Bureau was requested to undertake a special project by this office and look into our lotteries and cash receipting functions and systems, and make recommendations for improvement. The Commission had identified to them specific areas of concern which had largely been overlooked or ignored in previous audits.

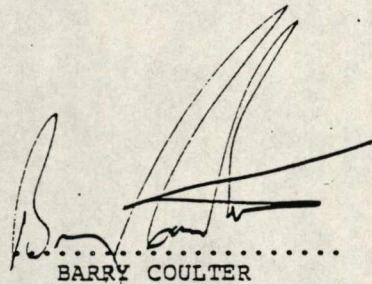
The Internal Audit Bureau report justified our concerns and the corrective measures we had put in train. However, the recommendations made are not entirely agreed with, and a number of the conclusions reached are incorrect.

Due to its considerable length the Bureau report has not been responded to as yet. It is still in the process of evaluation.




KELVIN RAE
Chairman

12 January 1988



NOTED
BARRY COULTER

23 JAN 1988



RACING, GAMING AND LIQUOR COMMISSION

87/970

First Floor
Enterprise House
418 Woods & Kamekeys Sts
Darwin NT 5794
GPO Box 2037, Darwin, N.T. 5794
Telephone: (089) 31 4522
(089) 31 1955
Fax: (089) 41 0766
Telex: AA 35623

Mr E M Isaacson
Auditor-General
Office of Auditor-General
G P O Box 4594
DARWIN N T 5794

Dear Mr Isaacson

I refer to your 446-11-001 for period 1 October 1986 to 30 June 1987, and to your 466-11-010 for period 1 July 1986 to 30 September 1986; both of 15 December 1987 concerning matters arising from the Final Audit.

I wish to draw to your attention that the Internal Audit Bureau's report "Review of Operative Systems" referred to in your office's Final Audit reports was commissioned by my office. While the findings in that report are not entirely correct or agreed with, they substantially confirm and justify my request to the Bureau to investigate and report on the lotteries area of the Commission. Previous audits of the area have largely passed over the majority of functions and problems that we ourselves have identified as needing attention.

In respect of the Matters Arising:

1. Controls Over Instant Sports Lotto (correct title Instant Sports Lottery)

Mechanisms are in train to correct the identified problems.

- i) A cash register with a receipt validation unit has been purchased and is in the process of being programmed to suit all the Commissions cash transaction and receipting requirements.
- ii) Instant Sports Lottery tickets sold or paid out over the counter are to become an item in the Cashier's float and reconciled as such on a daily basis.
- iii) Custody of the Instant tickets will become the Cashier's responsibility, treated as cash and secured in the cash register.

- iv) A specific staff member will be identified as Cashier, individual cash floats identified and specific instructions given as to use by the Cashier and relief Cashiers.
- v) Pre-printed receipts will be available for completion by customers paying in moneys to the Commission.
- vi) Other mechanisms of control will be determined and implemented as and when required following the cash register and receipting system implementation.

2. Reconciliation of Territorian Lottery No. 9

The final reconciliation of Territorian Lottery No. 9 is currently being undertaken. The preliminary and progressive reconciliations did not disclose any monetary deficiency.

3. Security Measures over Returned and Unused Tickets

- i) Ticket Storage Security - current storage facilities are not adequate in that the ceiling can be accessed without great difficulty. The doorways are secured and control measures are adequate.

To rectify the situation major partitioning and office out-fitting works need to be effected, which by necessity are subject to design work and provision of funds. The Department of Transport and Works have been requested to assist us in the work.

A strong room is not justified. A secure enclosed area is all that is necessary.

- ii) Ticket Issue and Return Security - the audit observation is totally incorrect.

Procedures are in force, and all stock on hand and that issued, is readily identifiable and accounted for. A master control register exists showing progressive issues and stock balances. All issues and receipts are accounted for by quantity and location.

The tickets are individually numbered by batch and batch numbers are recorded on issue, as is the receivers name. This is the only mechanism available to us to forestall prize

claims should the tickets be stolen from an Agency.

4. Insurance Cover

A review of insurance cover will be conducted as resources permit. As the audit observation does not qualify whether a deficiency in cover exists or otherwise, a total review is necessary.

The comment made by the auditors stems from the different types, level and requirement for insurance cover between the two former Commissions; the Racing and Gaming Commission and the Liquor Commission. The amalgamation of the two Commissions has highlighted differences rather than inadequacies.

A complete review will determine the inadequacies or otherwise and variations will be made to accord with statutory requirements.

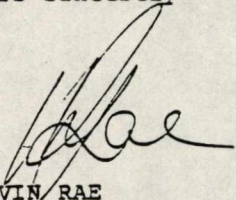
5. Issuing of Receipts

A similar comment applies as to 1.(i) above. The cash register with a validating/receipting facility and pre-printed receipts are in the process of being purchased/programmed.

I am of the opinion while the majority of the audit criticisms are fair in content, they are unjustified in essence, as this organisation had previously identified the issues and was working towards their correction and took the initiative to alert both Internal and External Audit to the situation prior to either of them producing a report.

Due recognition should have been paid to the Commission's administration for its responsible attitude and its frankness.

Yours sincerely



KELVIN RAE
Chairman

8 January 1988

OFFICE OF THE AUDITOR-GENERAL

G.P.O. BOX 4594
DARWIN NT 5794

TELEPHONE 89 7155

REFERENCE 446-11-001

The Chairman
N.T. Racing, Gaming and Liquor Commission
G.P.O. Box 1364
DARWIN N.T. 5794

FINAL AUDITPERIOD 1 OCTOBER, 1986 TO 30 JUNE, 1987

1. The accounts and records of the Commission were the subject of a recent audit.

2. AUDIT OBJECTIVES

The objectives of the audit were to:

2.1 express an opinion on the financial statements' compliance with Section 68(2)(a)(i) and Section 66 of the Financial Administration and Audit Act;

2.2 review the receipt and expenditure cycle of monies for compliance with Section 68(2)(a)(ii) and Sections 59 to 66 of the Financial Administration and Audit Act;

2.3 report to the Minister, where appropriate, under Section 67 of the Financial Administration and Audit Act.

3. EXECUTIVE SUMMARY

Due to deficiencies in the internal controls of recording lottery receipts there is no assurance that all monies received or receivable would be collected by the R.T.M. and brought to account. We also bring your attention to the Internal Audit Bureaus' report "Review of Operative Systems - Lottery section" issued on 30 September, 1987, which should be read in conjunction with this report.

As a consequence of this matter the Auditor-General's Report to the Treasurer has been qualified.

4. MATTERS ARISING

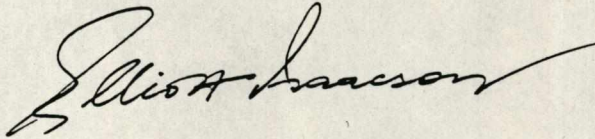
Matters arising from the audit are set out in the following schedules. These were discussed with Mr. R LeEVERS and Ms J. Mollah of your office.

SCHEDULE1
2
3
4
5MATTER

Controls Over Instant Sports Lotto
Reconciliation of Territorian Lottery No. 9
Security Measures over Returned and Unissued Tickets
Insurance Cover
Issuing of Receipts

5. GENERAL

Your advice of remedial action taken or proposed would be appreciated.

A handwritten signature in cursive script, appearing to read "E.M. Isaacson". The signature is written in dark ink and is positioned above the typed name.

E.M. ISAACSON
Auditor-General
15 December, 1987

Auditee: Racing Gaming and Liquor Commission

Financial Period End: 30/6/87

Purpose: Management Report Points

Subject: Controls over Instant Sports Lotto

(i) AUDIT OBSERVATION

Inadequate controls exist over the issue and receipts and general custody of Instant Sports Lotto tickets as previously identified in our audit work and in the Internal Audit Bureau Report.

(ii) EFFECT OR POTENTIAL EFFECT

Not all monies due and payable to the Commission will be receipted and brought to account.

(iii) RECOMMENDATION

That effective procedures and measures be implemented to control the sale of Instant Sports Lottery Tickets.

(iv) AUDITEE RESPONSE

Results of the Internal Audit Bureau Report are currently being being investigated.

(v) AUDIT CONCLUSION

The implementation of internal control procedures and the recommendation of the Internal Audit Bureau would be a satisfactory conclusion.



SCHEDULE NO. 2

Auditee: Racing Gaming and Liquor Commission

Financial Period End: 30/6/87

Purpose: Management Report Points

Subject: Reconciliation of Territorian Lottery No. 9

(i) AUDIT OBSERVATION

The reconciliation between Territorian Lottery No. 9 tickets sold and cash received did not balance.

(ii) EFFECT OR POTENTIAL EFFECT

Not all monies due and payable to the Commission will be receipted and brought to account.

(iii) RECOMMENDATION

That effective procedures and systems be implemented to ensure all sales are correctly recorded and brought to account.

(iv) AUDITEE RESPONSE

Area currently under review.

(v) AUDIT CONCLUSION

The current review must result in procedures to reconcile receipts from the Territorian Lotteries.

Auditee: Racing Gaming and Liquor Commission

Financial Period End: 30/6/87

Purpose: Management Report Points

Subject: Security Measures Over Returned and Unissued Tickets

(i) AUDIT OBSERVATION

Strongroom was found not to provide adequate security over unissued and returned tickets. Also there is no procedure in force which will identify all stock on hand and those issued.

(ii) EFFECT OR POTENTIAL EFFECT

Theft of unissued and returned tickets could occur resulting in the loss of revenue to the commission.

(iii) RECOMMENDATION

Construction of an adequate security room and regular stocktake of unissued and returned tickets should be conducted..

(iv) AUDITEE RESPONSE

Office plan is being reviewed and will subsequently be modified. Procedures for identifying stocks on hand and those issued will be investigated.

(v) AUDIT CONCLUSION

Proposed action should rectify audit concern.

Auditee: Racing Gaming and Liquor Commission

Financial Period End: 30/6/87

Purpose: Management Report Points

Subject: Insurance Cover

(i) AUDIT OBSERVATION

There appears to be inadequate insurance cover.

(ii) EFFECT OR POTENTIAL EFFECT

The Commission may have assets which are not insured and could be at risk for public and professional indemnity.

(iii) RECOMMENDATION

A review of insurance requirements should be conducted, and appropriate insurance cover obtained.

(iv) AUDITEE RESPONSE

To be reviewed.

(v) AUDIT CONCLUSION

Proposed review should result in effective action.

Auditee: Racing Gaming and Liquor Commission

Financial Period End: 30/6/87

Purpose: Management Report Points

Subject: Issuing of Receipts

(i) AUDIT OBSERVATION

Receipts are not being issued on a timely basis for monies paid across to the Commission.

(ii) EFFECT OR POTENTIAL EFFECT

Monies paid across to the Commission may be misappropriated or incorrectly allocated as to income area.

(iii) RECOMMENDATION

Timely receipting of monies paid to the Commission as to amount and account.

(iv) AUDITEE RESPONSE

Corrective action to be taken or purchase of cash register.

(v) AUDIT CONCLUSION

Proposed action should rectify audit concern.

NORTHERN TERRITORY INTERNAL AUDIT BUREAU

TO : Mr. K.G. Rae
Chairman
N.T. Racing, Gaming and
Liquor Commission

DATE : 30 September 1987

FROM : Mr. H.I. Perera
Director
Internal Audit Bureau

REFERENCE : 25/0500/01

SUBJECT : REVIEW OF OPERATIVE SYSTEMS -
LOTTERIES SECTION

1. A review of the above has recently been completed by Mr. D. Wallis and Ms. S. Higgins of this Office. The objectives of the review were as follows:

- (a) to evaluate the existing systems of control operating within the Lotteries Section; and
- (b) to appraise accountability (and security) over lottery operations.

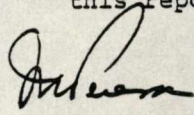
2. The scope of the review embraced the following:

- (a) revenue and cash accountability;
- (b) security over lotteries stocks and issues;
- (c) lotteries agency arrangements;
- (d) adequacy of accounting records; and
- (e) procedures relating to prizes including unclaimed prizes.

3. An overview of the results indicated general inadequacies across all systems reviewed. These inadequacies varied from those of a serious nature in relation to cash accountability and security over stock, to minor deficiencies on matters of a compliance nature. Full details of findings and recommendations are appended for your information.

4. Conclusion

The assistance afforded the auditors was greatly appreciated. Your comments on matters raised within this report are anticipated.


H.I. Perera

APPENDIX A

1. Revenue and Cash Accountability

1.1 Receipting of Monies

Lotteries staff do not issue receipts for cheques received over the counter relating to Agents Returns and Commission revenue even though they have the delegation to do so. The current practice is to place these monies in an unsecured cashbox held in a desk drawer within the Lotteries Section.

Receipts are raised by the R.T.M., however, when daily close off occurs and the Receiver of Territory Monies (R.T.M.) collects the monies in the cashboxes for preparation of Receiver Statements and banking of monies.

Further to this, the Lotteries staff do not reconcile the unreceipted monies to the related supporting documentation. As a consequence, there is no assurance that all monies received would be collected by the R.T.M. and brought to account.

With respect to monies received through the mail and cash monies received over the counter the following deficiencies were noted.

- a) The Mail Remittance Register has no provisions to evidence that two people perform the mail opening process.
- b) Cash received over the counter, although receipted, is held in an unlocked cashbox during Office hours. Due to the fact that the cashbox is used by more than one person, should a deficiency occur responsibility for that loss would be difficult to identify.

1.2 Reconciliation of Revenue

Reconciliation between the Agents Ledgers and the General Ledger does not occur for each Territorial Lottery. Such reconciliations are necessary to identify and confirm the following:

- a) that the value of gross ticket sales is established to determine whether net revenue from the Agent is brought to account;
- b) that the correct net return from Agents is reflected accurately on the General Ledger and agrees to the Agents Ledger Cards; and
- c) an accurate profit figure for disbursement to charities.

Instant Sports Lotteries revenue is not reconciled on a periodic basis to ensure that the Agents Ledgers and the General Ledger are in agreement.

1.3 Recommendations

The current method of receipting monies be discontinued in favour of the implementation of a centralised receipting system through a cashier using a cash register. An overview of the system is reflected at Appendix C parts 1 to 6.

Should this recommendation be accepted the following would have to be completed prior to the system being implemented.

- (i) A reconciliation of ALL Agent Ledger Cards to determine actual stock held by Agents. This would also require any outstanding adjustments to be brought to account. Once this is achieved a reliable base figure can be identified for stock on consignment and total Agency ledgers balance. This balance would also serve as the base figure for a stock control system.
- (ii) A full stocktake of the bulk store would have to be undertaken at the date of achieving the reconciliation in point (i) above. Stock control cards would have to be commenced at this date using the stocktake figures as the opening balances.
- (iii) Determine a suitable cash register and arrange for its purchase and the training of staff (including relief staff) in its use. To this extent the basis of the systems at Appendix C have been developed on a set of minimum cash register requirements as detailed at Appendix B.
- (iv) A mode of receipts will have to be established and printed. It is recommended that a colour coding system be adopted aligning to the five functional areas of the Commission. At this stage a decision would have to be made as to the validation mechanism of the cash register. Preferably a dual validation mechanism would be adopted to be used on a receipt format similar to that currently used for Housing Commission payments. Failing this a single validation mechanism would require the adoption of carbon receipts so that raising receipts manually can be avoided.

- (v) Comprehensive Commission procedures manuals should be formulated and approved prior to staff training to ensure the new system is understood and correctly implemented. Staff feedback should be monitored to assess the operation of the system as to its efficiency and effectiveness.

2. Security Over Lotteries Stocks and Issues

2.1 Storeroom Facilities

It was noted that the present storeroom facilities would not provide adequate security over Lotteries stocks. It was further noted that the ceiling of the bulk store is not secured in any way. Two access points to this room exist with only one being used, and access to the Commission's premises is unrestricted once entry is gained to the ground floor.

Keys to the bulk store were not adequately controlled in that a Key Register could not be sighted identifying who holds keys to this room and no back up key was held in a secured area (key cabinet or safe).

Audit observations disclosed that access to the storeroom was freely available due to the fact that the key was not always held in a secured area and the area was not always attended.

2.2 Stock Control of Lotteries Stocks

Currently no stock control mechanism exists which will identify all stock held and authorised issues. No stocktakes have been conducted.

2.3 Issue of Stocks

Tickets are issued to applicants without production of adequate identification to ensure that they are, in fact, representing an approved Lottery Agency.

Issue of tickets to regional agencies requires confirmation of receipt via the return of a signed duplicate copy of Form C. This was not being done in all cases and follow-up on outstanding issues was noted as being negligible. Audit noted many cases where subsequent stock issues were repeatedly made to regional agents where previous issues had not been acknowledged.

2.4 Control over Winning I.S.L. Tickets

Contrary to Part 2.5.3 e) of the Agent Procedures Handbook, ticket cancellation procedures had not been consistently applied. Audit tests disclosed

that winning tickets held in the bulk storeroom were not rendered invalid in all instances indicating that these procedures were not being adequately addressed by Commission staff when agents weekly returns were processed. As a result, resubmission of winning tickets to claim prizes could occur without detection.

2.5 Recommendations

To overcome the deficiencies identified in paragraphs 2.1 to 2.4 above the following are recommended:

- (a) reduce access to the bulk store to one access point;
- (b) improve structural security of the walls of the storeroom;
- (c) secure the ceiling to prevent unauthorised access by means of arc mesh or similar material;
- (d) reduce the frequency of access to the bulk store by the establishment of a substore;
- (e) establish a comprehensive keys register and obtain acknowledgement from key holders of their responsibilities;
- (f) establish a stock control mechanism for all stocks held (e.g. a perpetual stock card system) and implement a system of periodic stocktakes by an independent employee;
- (g) establish an adequate form of identification of agents and agents representatives (agency identity cards or specimen signatures held in the Commission on a card system) to ensure ticket issues are made only to bona fide representatives;
- (h) incorporate into the Ticket Issue System the following controls:
 - (i) a check to ensure that all previous issues have been acknowledged as per Part 2.3.4 of the Agents Procedures prior to further issues; and
 - (ii) a reporting mechanism to advise the Lotteries Manager of non-compliance with (i) above; and
- (i) the following controls be incorporated into the Agency I.S.L. Returns System:

- (i) a reporting mechanism to advise the Lotteries Manager of Agencies not adequately cancelling winning tickets so that the matter can be pursued with the Agencies concerned;
- (ii) Commission staff to cancel returned winning tickets not adequately cancelled; and
- (iii) consideration be given to the provision of electronic cancellation machines to Lottery Agents so that winning tickets can immediately be rendered void on the payment of prizes.

3. Lotteries Agency Arrangements

3.1 Approval System

The system utilized to process agency applications was found to be deficient in the following areas:

- (a) written applications could not be evidenced in all instances;
- (b) inspection reports including supporting recommendations could not be sighted in all instances; and
- (c) Agency Agreements were not properly compiled to the extent that their validity in some instances may be doubtful, e.g.:
 - (i) inconsistent or non-entered dates;
 - (ii) signatures not witnessed; and
 - (iii) the addresses of premises not entered.

It was not evident that the Agreement format and structure had been submitted to the Department of Law for an opinion as to its adequacy in relation to full protection of the Commission's interests.

3.2 Lottery Agents Inspections

The system of Agency Inspections on a regular basis is non-existent. No regular inspections had been undertaken since late 1985.

3.3 Recommendations

To rectify the shortcomings identified in paragraphs 3.1 and 3.2 above, the following are recommended.

- (a) All approved applications be supported by a written application and inspection report. For Agencies in remote locations, the submission of a floor plan may be acceptable.
- (b) All Agency Agreements be thoroughly reviewed, preferably by an independent officer, to ensure that dates and details are fully and accurately entered prior to their execution.
- (c) Obtain a legal opinion as to the legality of Agreements where omissions have occurred. Further, an opinion should be sought on the Agreement as a whole to ensure the Commission's interests are adequately protected.
- (d) Inspections of Agencies be carried out on a systematic basis in accordance with an approved policy and programme. This should include the development of procedures or checklists to ensure a comprehensive and consistent approach is maintained.
- (e) Inspection reports be raised for all inspections conducted and be made subject to review.

4. Adequacy of Accounting Records

4.1 Agency Returns

Many Agents Weekly Sales Returns were found to be either incorrectly compiled or reflecting inaccurate balances caused by arithmetic errors in addition or subtraction. Some errors existed from as far back as twelve to eighteen months reflecting a poor understanding of the return and reconciliation process.

4.2 Agency Ledger Cards

In many instances these cards were found to reflect incorrect balances and hence could not be considered as being reliable. The reasons for the errors were principally twofold.

- (a) The carry forward figure from the time of converting the Agents Ledgers from a book to the cards was not transferred correctly in that adjustments were not brought to account immediately.
- (b) The adjustment figure cannot be regarded as accurate as testing disclosed that not all debit and credit adjustments were taken into account when establishing the figure.

It was noted from general observations that ledger card postings from Agency Returns were not always effected within an acceptable time period.

Should a twenty-eight (28) day accounting cycle be implemented a revised Agent Ledger Card format will be required. A suggested format is detailed at Appendix E.

4.3 Receipts

Receipt details were not cross-referenced to the Form A returns although the original receipts were stapled to that Form. In the event that the receipt became detached from the form tracing receipt details would be a time consuming task as the Agent Ledger Card does not have provision for receipt numbers.

4.4 Reconciliation

As mentioned in paragraph 1.2 reconciliations do not occur for each Territorian Lottery or for Instant Sports Lottery revenue on a periodic basis. As previously stated such reconciliations are considered necessary to confirm the accuracy of Lotteries records and the General Ledger. Appendix D Parts 1 and 2 reflects recommended reconciliation formats.

4.5 Budgets

Full budget details could not be evidenced on each Territorian or Instant Sports Lottery game file. Advertising appears to be the only component reflected on these files. Testing disclosed an instance where there was no budget approval on the file. Without a fully approved budget, game overheads cannot be properly monitored to determine reasons for cost fluctuations.

4.6 Destruction of Records

No approved written procedures could be evidenced regarding the destruction of records, including the identification of appropriate delegations.

Testing disclosed that many records had been destroyed on verbal approval. Where written evidence was available details were not sufficient to identify quantity, approvals, and destruction modes and dates.

4.7 Recommendations

The following improvements are recommended to overcome the deficiencies identified in paragraphs 4.1 to 4.6 above.

- (a) A comprehensive education programme or detailed explanatory note be formulated to educate Agents on correct methods of compiling Form A returns.
- (b) As mentioned in paragraph 1.3(i) of this Appendix, a full review of Ledger Cards be performed to ensure that accurate balances are established.
- (c) Once accurate ledger card balances have been established it is recommended that the posting of Agent Return details be done in a prompt manner to facilitate monthly reconciliations.
- (d) Receipt details should be noted on the Return forms in the appropriate area provided.
- (e) The reconciliation formats at Appendix D be adopted to record reconciliations performed and checked. These reconciliations should be prepared within a set time frame and be submitted to the General Manager for management reporting purposes.
- (f) Full budgets should be evidenced on file and approved for each Instant Sports Lottery and Territorian Lottery. Any budget variation should have evidence of approval by an appropriate delegate.
- (g) Full procedures should be formulated (inclusive of delegations) for the destruction of Accounting Records. All destruction submissions, approvals and destruction certificates should be appropriately filed for accounting and historical purposes.

5. Procedures Relating to Prizes including Unclaimed Prizes

5.1 Territorian Lotteries

These were found to be satisfactory.

5.2 Instant Sports Lotteries

No prize validation procedures are implemented within the Commission for minor prizes. This aspect is the responsibility of Agents who have procedures incorporated into the Agent Procedures Handbook.

With respect to major prizes paid by the Commission it was concluded that the records maintained and the procedures implemented did not reflect a system of strong internal control. The following deficiencies and irregularities were noted.

- (a) No documented system could be evidenced in relation to Prize Validation and Payment Procedures to ensure that a uniform approach could be implemented and monitored.
- (b) Ticket cancellation procedures were not totally effective with uncancelled tickets being sighted.
- (c) Incorrect recording of cheque details in the Prize Validation Book.
- (d) Non-recording of major prize cheque details in the Prize Validation Book.
- (e) One ticket was processed where cellotape had been affixed to the body of the ticket over the prize values. Although the ticket matched the Prize Validation Book in all details the payment should have been authorised in writing as the ticket could have been interpreted as being altered under ticket conditions.

5.3 Major Lotteries

No procedures could be evidenced covering the processing of major lotteries. Deficiencies noted were as follows.

- (a) Written applications were not evidenced in all instances to support an approval number and date, resulting in approvals being given for non-approved associations.
- (b) Follow-up procedures were not properly implemented. Two instances were noted where no follow-up action had occurred which may have resulted in a loss of revenue to the Commission under Section 25 of the Act.
- (c) The register of approved major lotteries is not accurate in all instances. This makes follow-up difficult as a true reflection of each lottery cannot be established.

5.4 Recommendations

To rectify the shortcomings identified in paragraphs 5.2 and 5.3 above the following improvements are recommended.

- 2.
- FINDINGS
- (a) develop prize validation procedures for major Instant Sports Lotteries prizes to ensure that a uniform and comprehensive system is implemented; and
 - (b) develop procedures for the processing and review of major lotteries.

6. Conclusions

The principal cause of most weaknesses was the lack of approved written procedures which are necessary to ensure adequate control is implemented. Many of the weaknesses reported have been acknowledged by the General Manager and remedial action identified.



NORTHERN TERRITORY OF AUSTRALIA

OFFICE OF THE AUDITOR-GENERAL

G.P.O. BOX 4594
DARWIN, N.T. 5794

TELEPHONE 89 7155

REFERENCE 160-06-004

446-01-002

JDM:06/16/a

① 23-6-88

Mr D Rice
Secretary
Public Accounts Committee
GPO Box 3721
DARWIN NT 0801

Dear Mr Rice,

RACING GAMING AND LIQUOR COMMISSION
PERIOD ENDED 30 JUNE 1987

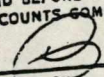
(Your 3/4/20 of 13 May 1988 Refers)

I refer to your above referenced letter and the 11 May 1988 response from the Chief Executive Officer to the Public Accounts Committee (PAC) concerning my report on the Racing Gaming and Liquor Commission for the period ended 30 June 1987.

You have enquired whether the comments made by Mr Rae (the Commission's Chairman) are regarded by this Office as a satisfactory resolution of the matters raised. I consider that certain assertions and inferences to audit have been made by Mr Rae in the above material which need to be clarified and placed in perspective before I provide comment and conclusions.

I focus on several matters that emerge from the above and these are set down on Attachments I to III:

- I Audit Methodology and Approach;
- I Internal Audit Bureau Coverage;
- II Audit Qualification to 1986/87 Financial Statements;
and
- III Previous Audit Coverage.

LAI D BEFORE PUBLIC
ACCOUNTS COMMITTEE

 SECRETARY
 1/35
 28/6/88
 DATE

CONCLUSION

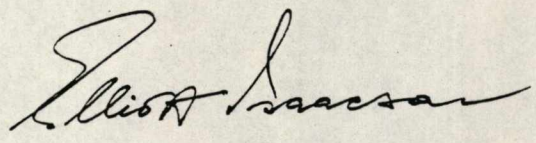
My reply to your request of 13 May 1988 can best be summed up in the words of the executive summary of my management report to the Chairman on the interim audit 1987/88 issued 7 June 1988:

"The Commission's audit report for the financial period ended 30 June 1987 was qualified due to deficiencies in the internal controls for recording lottery receipts. The interim audit has revealed that the Commission is addressing the problems previously noted although at the time of the interim audit they were still to be fully implemented. We will be ascertaining the impact of the system changes introduced during the final audit to determine how the changes will affect our previous qualifications."

I intend to monitor the adequacy of remedial action taken by the Commission in respect to the lotteries operation at the final audit stage scheduled for September-October 1988. I should hope by that time to be in a position to review the full effect of the remedial measures implemented by the Commission in the lotteries area.

Should you wish to discuss the above matters further please do not hesitate to contact me.

Yours sincerely,



E M ISAACSON
Auditor-General

22 June 1988

Attach

Racing Gaming and Liquor Commission

AUDIT METHODOLOGY AND APPROACH

1. A concern by Mr Rae has been expressed over methodology and approach of the external auditors. I did have discussions with Mr Rae on this, after the issue of my 15 December 1987 report, and the matters which Mr Rae appeared to be concerned about were:
 - (a) the audit report had not given due recognition to the efforts made by the Commission to identify and remedy problems concerning the lottery operation system; and
 - (b) the external auditors made use of the findings of the internal audit report, which the Commission had sought, to criticise the Commission in respect of the lottery operation before the Commission had any opportunity to take action on the internal audit report.

Although I acknowledged these concerns I consider it important to provide a brief insight into the relevant aspects of audit methodology practised not only by this Office, but by the external audit profession in Australia.

2. A requirement of this Office is that an exit interview be conducted with the auditee senior management at the completion of the audit field work. The purpose of the exit interview is to discuss and confirm audit findings, record responses from the auditee and to generally provide a forum for any doubtful matters to be clarified. It provides an opportunity for senior auditee management to offer facts, express opinions, acknowledgements, voice disagreements and proffer other information which may not have been readily available to the auditor beforehand.
3. The final report issued to the Commission reflects the above consultative process. Indeed, the recorded comments by the senior auditee management at the exit interview stage, suggest little if any disagreement being voiced to the audit matters raised including the audit qualification to the financial statements.
4. The Chairman's subsequent response of 8 January 1988, did however, reflect a change of position to some of the audit matters raised. It was this change that prompted me to initiate a face to face meeting with the Chairman. This meeting was eventually held on 4 May 1988.

Racing Gaming and Liquor Commission

5. I should mention that the purpose of the meeting was to discuss, in general terms, the conduct of the final audit and to attempt to clarify the concerns of the Chairman which did not appear to have been submitted to audit at the exit interview stage.
6. I would accept and indeed one of my conclusions resulting from the information provided to me at the meeting, was that an acknowledgement and due recognition should have been made of the efforts made by the Commission in addressing problems in the lottery operation system, in the report prepared for my signature by my Authorized Auditor, which I issued on 15 December 1987.

INTERNAL AUDIT BUREAU COVERAGE

1. It is normal external audit methodology and practice to have regard to the work conducted by internal audit and use their findings, where appropriate, as part of the external audit report. Under the heading PREVIOUS AUDIT COVERAGE it will be shown that similar concerns to those expressed by internal audit, in respect of lotteries, have been made in prior years by this Office.
2. Accordingly, we were not surprised at the nature of the findings expressed.
3. Concerning the 1986/87 final audit of the Commission, regard to the work performed by the Internal Audit Bureau was in fact made explicit in the executive summary of my 15 December 1987 management report.

AUDIT QUALIFICATION TO THE 1986/87 FINANCIAL STATEMENTS

1. Notwithstanding that some measure of recognition could have been given to the efforts by the Commission, this in no way diminishes the need for the audit qualification issued for the period ended 30 June 1987 or indicate that it was inappropriate.
2. It must be clearly understood that the opinion on the financial statements and the consequent management report addressing the inadequacy of internal controls in aspects of operation was for the period of audit coverage which ended on 30 June 1987.
3. The Commission's corrective measures were not taken into account in my 15 December 1987 report as these corrective measures, at the date of exit interview, were not in existence during the audit field work and there was no indication by the General Manager, at the time of exit interview, that any such corrective action had been implemented. The advice of the General Manager at that time was that the "Results of the Internal Audit Bureau Report are currently being investigated...".
4. In view of the above, I find it puzzling to note the 11 May 1988 response of Mr Rae to the PAC where the following is asserted

"...2. Commission's dissatisfaction with the statement..."

(which is assumed to be the statement of audit qualification to the financial statements).
5. The opportunity to voice dissatisfaction is provided for in the current audit methodology as previously described.
6. There does not appear, from the working papers, that such a dissatisfaction or disagreement for that matter, to the audit conclusions or qualification were subjects of contention at the exit interview stage.

Racing Gaming and Liquor Commission

PREVIOUS AUDIT COVERAGE

1. The 11 May 1988 response of Mr Rae to the PAC and other correspondence provided in your 13 May 1988 letter (particularly the 12 January 1988 Memorandum to the Treasurer) suggest the lotteries system has been overlooked or ignored in previous audits and that senior staff of the Commission identified the problem. I make two observations in this regard.
 - 1.1 Firstly, it is not to the role or duty of an external audit function to identify all of the problems contained within an organisation. That role and responsibility lies squarely on the shoulders of the management of the organisation.
 - 1.2 The management of the organisation should always be in the best position to identify problems and provide solutions to those problems.
 - 1.3 The organisation should not rely or wait for the performance of an external audit or other independent reviews to be informed of the problems of the organisation. Should the organisation wish assistance with the detailed identification and possible solution to problems then the services of an internal audit function or a management consultancy type service is normally best equipped to undertake such tasks.
 - 1.4 The primary purpose of the external audit function in organisations such as the Commission, is to provide an opinion upon its financial statements and on any other prescribed requirements. Accordingly the majority of audit effort is towards that end.
 - 1.5 The consequent management report arising from this process identifying where improvements can be made, is incidental to the main purpose, but still an important one. Indeed it is the management report process which I have adopted as a means of focusing and alerting the management of organisations to matters requiring attention, which leads to my next observation.
2. The second observation is that the above Commission has been made aware of audit concerns over lotteries on a number of occasions, although it is accepted that the Commission has been subject to structural and management changes including the amalgamation of the Liquor function in October 1986. Nevertheless the lotteries area has remained a separate and identifiable system irrespective of the changes. The nature and frequency of audit concern are briefly summarised below.

Racing Gaming and Liquor Commission

- 2.1 In the management report issued on 10 December 1985 for the final 1984/85 audit the whole of the executive summary to the then Chairman stated:

"The major matter of concern arising out of the audit is the lack of control surrounding the accountability of the instant sports lottery sales.

We believe the Commission is currently in a position where the controls implemented would not ensure that all sales of instant sports lottery tickets are brought to account. Obviously this has serious ramifications and I would appreciate being advised of the Commission's intention to rectify the above."

- 2.2 In addition to the above, one out of the four Exit Interview Report schedules (EIRs) attached to the above report provided the following and which is reproduced in full.

SCHEDULE 2

" RACING AND GAMING COMMISSION
FINAL AUDIT - 1984/85

CONTROL OVER INSTANT SPORT LOTTERY SALES (ISL)

Audit Observation

At present the Commission has no formal controls being implemented ensuring all ISL sales are accounted for.

This Office is concerned with the overall control procedures with regards to ISL sales, in particular:

- (i) sales at agents,
- (ii) tickets issued; and
- (iii) promptness of returns being received.

Auditee's Response

Procedures for issue and control of ISL tickets are being examined. Immediate changes are being made as faults are revealed."

Racing Gaming and Liquor Commission

- 115
- 2.3 Due to the concern and reservations expressed over lotteries as a result of the 10 December 1985 report, I issued a specific audit assignment on 13 February 1985 to my Authorized Auditor to examine the lotteries area specifically.
- 2.4 The results of that task were included in a combined 1985-86 interim audit report issued on 29 April 1986. Again the executive summary in that report was devoted entirely to the lotteries operation and five out of the 10 EIRs were directed to the lotteries system.
- 2.5 A copy of the above report and the Commission's response dated 23 May 1986 are attached for your information, as Appendix A and Appendix B respectively.
- 2.6 As a result of a subsequent audit, concern over lotteries was again expressed in the 1986-87 interim audit report issued on 21 May 1987. This was the period in which effectively the amalgamation with the Liquor Commission occurred. In the subsequent response provided by the Treasurer dated 16 June 1987 to the above audit report the following comment was made to one of the EIRs on lotteries:

"Schedule 5 : Controls Over Instant Sports Lottery

The lack of adequate controls over the sale of Instant Sports Lottery tickets is currently under review. The Commission has requested Internal Audit Bureau to conduct a separate specialised audit on all lottery ticket controls and procedures. Their final recommendations are yet to be received."

Copies of the above audit report and response are attached as Appendix C and Appendix D respectively.

- 2.7 The final audit report for the period ended 30 September 1986 of the then Racing and Gaming Commission issued on 15 December 1987 also expressed concern over the operation of lotteries for the period subject to audit coverage. A copy of this report is attached as Appendix E.
- 2.8 The results of the final 1986/87 audit for the Racing Gaming and Liquor Commission issued on the 15 December 1987, in effect is the basis of your 13 May 1988 letter which you are aware of, and is not therefore reproduced here.

Racing Gaming and Liquor Commission

- 2.9 The most recent audit coverage of the Commission was the 1987/88 interim audit at which the audit conclusion were discussed with senior auditee management on 26 April 1988.

The resultant management report issued on 7 June 1988 expressed the following in the executive summary:

"The Commission's audit report for the financial period ended 30 June 1987 was qualified due to deficiencies in the internal controls for recording lottery receipts. The interim audit has revealed that the Commission is addressing the problems previously noted although at the time of the interim audit they were still to be fully implemented. We will be ascertaining the impact of the system changes introduced during the final audit to determine how the changes will affect our previous qualifications."

- 2.10 This Office initially identified concerns over lotteries as early as 10 December 1985. Continued concern has been and is still being expressed over the lotteries system. Accordingly, I find it difficult to accept the validity of the comment made by Mr Rae that senior staff of the Commission identified the problem, despite previous formal audits, or that this area of operation "...had largely been overlooked or ignored in previous audits..."

APPENDIX G (V)

RESPONSES TO PUBLIC ACCOUNTS COMMITTEE ENQUIRIES

TRADE DEVELOPMENT ZONE

TRADE DEVELOPMENT ZONE AUTHORITY



16 May 1988
na/tg/048

Berrimah Road, East Arm
PMB 88 Winnellie, Darwin
NT 5789 Australia
Telephone: (089) 47 0133
Telex: 84064
Fax: (089) 84 3417

Mr M Palmer
Chairman
Public Accounts Committee
GPO Box 3721
Darwin NT 0801

② 20.5

Dear Mr Palmer

AUDITOR GENERALS REPORT 1986/87

I refer to your letter of 28 April 1988 requesting details of remedial action taken in respect of the Authority's exposure to an occurrence of an insurable nature, in the absence of commercial insurance.

In conjunction with the NT Government's review of Insurance cover for statutory authorities, the Trade Development Zone Authority has participated in a number of meetings concerning this issue. As an interim measure and pending resolution of this review on insurance, the Authority has put in place full commercial cover on all its insurable risks. This matter is due to be reviewed within the next twelve months and is subject to the review of the Government's policy on insurance.

I trust the above clarifies the Authority's position in regard to insurable risks.

Yours sincerely

ADAM GORDON
General Manager

OFFICE OF THE AUDITOR-GENERAL

P. BOX 4594
VIN, N.T. 5794

REFERENCE: 160-06-004
485-10-801
IMA:07/11/b

Mr D Rice
Secretary
Public Accounts Committee
GPO Box 3721
DARWIN NT 0801

B 14.7

Dear Mr Rice,

TRADE DEVELOPMENT ZONE AUTHORITY

Your Reference 3/4/20 of 23 June 1988

The Authority's response is considered satisfactory and the indicated corrective action will be subject to review at the final audit for the 1987-88 financial year.

Yours faithfully,

Bill Ross

A W K ROSS
Assistant Auditor-General

12 July 1988

APPENDIX H

PUBLIC ACCOUNTS COMMITTEE TERMS OF REFERENCE

Legislative Assembly of the Northern Territory

PUBLIC ACCOUNTS COMMITTEE

Telephone (089) 46 1111
Telex AA85154
Fax 81 2528
Telegrams Comenius

GPO BOX 1021
DARWIN, N.T. 5794

TERMS OF REFERENCE

STANDING ORDER 21A PUBLIC ACCOUNTS COMMITTEE

- (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 transmitted to the Legislative Assembly by the Auditor-General, pursuant to the Financial Administration and Audit Act;
 - (b) to report to the Legislative Assembly with such comments as it thinks fit, any item 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 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 laid before the Legislative Assembly with the accounts of a

Public Authority of the Northern Territory (including any documents annexed or appended to those reports).

- (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 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 Department or Public Authority 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 despatch 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.
- (17) The foregoing provisions of this Resolution, so far as they are inconsistent with the Standing Orders, have effect notwithstanding anything contained in the Standing Orders; and