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LEGISLATIVE ASSEMBLY OF THE NORTHERN TERRITORY

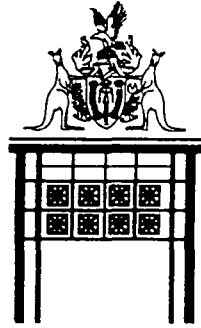
PUBLIC ACCOUNTS COMMITTEE

**REPORT ON THE AUDITOR-GENERAL'S ANNUAL AND MID YEAR
REPORTS 1993/94 AND 1994/95**

REPORT NUMBER 30

FEBRUARY 1997

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Public Accounts Committee

MEMBERS

(in attendance during Inquiry)

Mrs Loraine Braham, MLA
(Chairman 28/11/96 - present)

Mr Rick Setter, MLA
(Chairman 25/8/94 - 28/11/96)

Mr John Bailey, MLA

Mr Brian Ede, MLA (resigned 23/8/96)

Mr Phil Mitchell, MLA (15/8/95-28/11/96)

Mr Peter Toyne, MLA (appointed 9/10/96)

Mr Peter Adamson, MLA (appointed 28/11/96)

Dr Richard Lim, MLA (appointed 28/11/96)

SECRETARIAT

Jenny Mollah
Secretary to the Committee

Terry Hanley
A/Secretary to the Committee

Judy Herring
Administrative Assistant to the Secretary

Legislative Assembly of the Northern Territory

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Public Accounts Committee

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ABBREVIATIONS

AIDAB	Australian International Development Assistance Bureau
Committee	Northern Territory Public Accounts Committee
DARTI	Department of Asian Relations Trade and Industry
IPMU	International Project Management Unit
NAFC	North Australian Film Corporation
NT	Northern Territory
NTLC	Northern Territory Liquor Commission
PAC	Northern Territory Public Accounts Committee

1. NORTHERN TERRITORY PUBLIC ACCOUNTS COMMITTEE

1.1. Status of the Committee

The Northern Territory Public Accounts Committee was established by provisional Standing Order 21A of the Legislative Assembly on 18 June 1986.

The Committee's status was altered, by way of a motion of the Chief Minister on 23 August 1988, from a Sessional Committee on a trial basis to a Standing Committee of the Parliament.

As a Committee of the Legislative Assembly, its authority is derived from the Northern Territory (Self Government) Act (of the Commonwealth) and the Legislative Assembly (Powers and Privileges) Act (of the Northern Territory).

The Committee is comprised of five (5) members, presently three (3) Government and two (2) Opposition members.

1.2. Duties of the Committee

The duties of the Committee under Standing Order 21A are:

- (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 Management 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 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).

1.3. Committee Members

The Members of the Public Accounts Committee in attendance during Inquiry were:

Mrs Loraine Braham, MLA

Appointed 27 June 1994
Appointed Chairman 28 November 1996
Country Liberal Party
Member for Braitling. First elected 1994
Deputy Chairman of Committees
Deputy Speaker

Mr Rick Setter, MLA - Chairman (25/8/94 - 28/11/96)

Appointed 17 May 1988
Appointed Chairman 25 August 1994
Discharged 28 November 1996
Country Liberal Party
Member for Jingili. First elected 1984.
Chairman of Committees.
Other Committees: Privileges; Subordinate Legislation and Tabled Papers
(Chairman); Standing Orders

Mr John Bailey, MLA

Appointed 4 December 1990
Australian Labor Party
Member for Wanguri. First elected 1989.
Opposition Whip (ceased 14/5/96)
Deputy Leader of the Opposition (appointed 14/5/96)
Shadow Minister for TIO, Treasury; Education & Training; Youth and
Young Families
Other Committees: Constitutional Development; Environment

Mr Brian Ede, MLA

Reappointed 27 June 1994
Resigned 23 August 1996
Australian Labor Party
Member for Stuart. First elected 1983.
Leader of the Opposition (resigned 16/4/96)

Mr Philip Mitchell, MLA

Appointed 15 August 1995
Discharged 28 November 1996
Country Liberal Party
Member for Millner. First elected 1994
Other Committees: Publications; Constitutional Development; Environment

Mr Peter Toyne, MLA

Appointed 9 October 1996
Australian Labor Party
Member for Stuart. First elected 1996.
Other Committees: Constitutional Development

Mr Peter Adamson, MLA

Appointed 28 November 1996
Country Liberal Party
Member for Casuarina. First elected 1994
Deputy Chairman of Committees
Other Committees: Privileges; Publications (Chairman); Subordinate
Legislation and Tabled Papers; Environment; Use and Abuse of
Alcohol by the Community

Dr Richard Lim, MLA

Appointed 28 November 1996
Country Liberal Party
Member for Greateorex. First elected 1994
Other Committees: House (Chairman); Environment (Chairman);
Subordinate Legislation and Tabled Papers; Constitutional
Development; Use and Abuse of Alcohol by the Community

2. CHAIRMAN'S FOREWORD

This report has focussed on matters raised in the Auditor-General's Annual and Mid Year Reports of 1993/94 and 1994/95 and refers to events that occurred as far back as 1991.

Although the Committee was satisfied that the issue of property management had been adequately addressed and the capacity of the NT Liquor Commission to collect additional revenue had been enhanced, the inquiry into issues relating to a project grant by the International Project Management Unit highlighted the need for adherence to strict administrative procedures.

This aspect has been addressed through the introduction of the *Financial Management Act* 1995 which established clear guidelines and audit requirements for government agencies.

It is my intention as Chairman to promote good performance and management. A more meaningful approach to the task of review can be accomplished if the Committee focuses on current areas of concern, bearing in mind the time frame required for agencies to address areas raised in the Auditor-General's reports.

Such a move by the Committee can only be seen as a positive, pro-active approach which should benefit agencies as the issues addressed will be kept within a realistic time frame.

I extend my thanks to Committee members for their efforts in the inquiry and, on their behalf, express appreciation to the Committee Secretariat for their continued support throughout the year.

Loraine Braham

3. INTRODUCTION

In accordance with Standing Order 21A, the Public Accounts Committee has a standing reference to follow up on matters raised in the reports of the Auditor-General.

This report represents a review of three specific areas of the various Auditor-General's reports 1993-94 and 1994-95.

4. METHODOLOGY

Prior to commencing briefings with the relevant agencies, the Committee invited the Auditor-General and the Principal Auditor to appear before it.

Written submissions/briefing papers were presented by the Office of the Commissioner for Public Employment, the Department of Industries and Development (now the Department of Asian Relations, Trade and Industry) and the Northern Territory Liquor Commission. Senior officers from these Departments also appeared before the Committee (see Appendix A).

5. OFFICE OF THE COMMISSIONER FOR PUBLIC EMPLOYMENT

5.1. Property Management

NT Property Management, a Division of the Office of the Commissioner for Public Employment, is responsible for providing a property management service for the Northern Territory Government. This includes the financial administration of leases and contracts associated with the commercial property portfolio.

The Office of the Commissioner for Public Employment was responsible for property management at the time of the 1993-94 audit report. The function was transferred to the Department of Transport and Works in July 1994, and then back to the Office of the Commissioner for Public Employment on 1 July 1995.

5.2. Matters raised in the Auditor General's Report

In the 1994 audit, the Auditor-General advised that:

... there was a need to formalise and document policies, practices and procedures to put in place the strategies to achieve the objective of providing a cost effective and efficient property management service. It was understood management was addressing this as part of the internal review.

An issue unresolved at the time of audit was cleaning contracts being extended on a month by month basis beyond the expiry dates of those contracts. A decision had been made not to enter into any new cleaning contracts until the recommendations of a report for the Commissioner

on the matter had been considered fully. The Commissioner has advised that the issues raised by my Office were being addressed.¹

5.3. Public Accounts Committee Inquiry

On 22 May 1996, the Committee sought a written briefing from the Office of the Commissioner for Public Employment on the outcomes of the recommendations of the Chandler Report. This report was instigated by the Procurement Review Board (then known as the Northern Territory Supply and Tender Board).

The Terms of Reference and composition of the Working Party were determined by the Procurement Review Board (PRB) at its meeting of 4 June 1993.

The terms of reference required the Working Group to review cleaning service procedures and practices in place at that time in Northern Territory Government Agencies and formulate (for the Supply and Tender Board's consideration), appropriate guidelines.

The Working Group comprised representatives of:

Department of Education
Territory Health Services
Department of Transport and Works (Procurement Policy Unit)
Industrial Supplies Office
Northern Territory Police, Fire and Emergency Services
Office of Courts Administration
Office of the Commissioner for Public Employment
Power and Water Authority.

The report was submitted to the Procurement Review Board in February 1994 and contained the following nine recommendations:

- *Section 5.2*
That the Office of the Commissioner for Public Employment investigate the feasibility of including requirements for the cleaning of leased accommodation in the building lease arrangements such that the provision of cleaning services becomes a responsibility of building owners, the cost of which is included in lease charges.
- *Section 6.5*
That separate cleaning contracts be arranged for certain specialist cleaning services ... and that separate quotations be obtained for other *ad hoc* cleaning items on an as required basis.

¹ Office of the Auditor General 1994, *Annual Report year ended 30 June 1994*, p.38.

- *Section 7.4*

That:

- (i) agency estimates of labour input required be adopted as a guide only and not applied in an inflexible manner to all tenders; and
- (ii) where it is proposed to pass over a lower tender on the basis that the proposed labour input does not meet the estimated minimum (or the price does not appear to allow for sufficient labour) that the tenderer be advised of the likely recommendation and its reasons, and be afforded an opportunity to respond. The response must be taken into consideration and addressed prior to any final recommendation to pass over the tender.

- *Sections 8.4 and 8.6*

Industry Recommendation

That agency estimates of the labour input required should not be published in the tender schedule.

Agency Recommendation

That agency estimates of the labour input required be published in the tender schedule together with the other selection criteria, for guidance only, with advice to tenderers highlighting its significance in the assessment of tenders.

- *Section 9.2.1*

That in all cases where a recommendation is made to pass over a lower tender, the business paper submitted for endorsement by the Supply and Tender Board (or other competent authority) must contain the following information:

- the reasons for passing over the lower offer;
- advice that the tenderer has been advised of the recommendation and its reasons, either in writing or at interview and invited to respond;
- a summary of:
 - (i) the tenderer's response (if any); and
 - (ii) the contracting authority's consideration of the response.

- *Section 9.3.4*

That the total potential value of contracts arranged (calculated on the basis of the fixed period plus options to extend) be used to determine estimated expenditure for the purposes of Treasury Regulation 10.

- *Section 10.1.3*

That the former Supply and Tender Procedures Working Party be reconvened in the form of a Standing Committee to prepare appropriate guidelines, undertake the tasks outlined at Section 10.1.2, and to meet as required to consider and recommend on procedural matters which may be referred to it from time to time by the Supply and Tender Board.

- *Section 10.1.4*

That agencies consider the cross utilisation or sharing of resources and expertise in the formulation of tender assessment and interview panels for cleaning contracts.

- *Section 10.2.2*

That:

- (i) agencies adopt a routine and systematic approach toward the inspection and monitoring of cleaning services provided to ensure that contracted/specified standards are maintained; and
- (ii) agencies inspecting officers are adequately trained to ensure that they are familiar with the specification and requirements of contracts they administer and also the appropriate remedial measures available to them to ensure compliance.

The Office of the Commissioner for Public Employment advised the Committee that the recommendations which required attention were addressed by:

- reviewing all cleaning contracts, giving consideration to the location and mix of cleaning, the size of the contract, agency requirement and any special requirement
- preparation of standard specifications
- formulating an agreement with the Department of Transport and Works for that Department to undertake the tendering and assessment process for cleaning contracts
- undertaking a series of workshops with all property owners and managing agents to explain the requirements and standards to be met in their administration of the cleaning contracts in their buildings
- the Department of Transport and Works being responsible for the calling of tenders for government owned buildings where the owner/managing agent has indicated they do not wish to undertake administration of cleaning contracts
- the term of the contract is for two years (or such other period depending on the lease review or termination date) where the owner/managing agent undertakes the administration of the contract
- establishing responsibility for supervision of contracts with each agency.

5.4. Conclusions

The Committee is of the opinion that the concerns of the Auditor-General have been addressed but will continue to monitor property management and, in particular, the procurement of cleaning services in Northern Territory Government occupied premises.

6. DEPARTMENT OF ASIAN RELATIONS, TRADE AND INDUSTRY (DARTI)² - International Project Management Unit (IPMU)

6.1. Background

IPMU (NT) was established in 1988 as a division within the Northern Territory Department of Education. Arrangements were formalised during 1989 as recognition of the increasing importance of the educational links between the Northern Territory, Indonesia and other countries in that region. The original role of the Unit was to co-ordinate and/or manage the range of international programs in which the Northern Territory was involved at that time.

As part of the change in the Administrative Arrangements, the Unit was transferred to the Northern Territory Department of Industries and Development on 30 November 1992.

Since 1 April 1995, IPMU has been given the status of Government Business Division under the *Financial Management Act* 1995.

6.2. Public Accounts Committee Inquiry

An *in camera* hearing was provided by the Office of the Auditor-General on 9 February 1996 and again on 20 September 1996. Evidence at both these briefings was provided by Mr Iain Summers, Auditor-General for the Northern Territory, and Mr Ian Miller, Principal Auditor.

On 4 March 1996 the Committee requested the Department of Asian Relations, Trade and Industry (DARTI) to provide a written briefing on the type of projects that had been supported by IPMU, and to provide details on all projects that had been managed by IPMU, the source and application of funding to these projects, financial statements for each completed project and details of the current projects managed by IPMU, but not completed at the time of the Committee's request.

This written evidence was provided by DARTI on 22 March 1996. A public hearing was held in Darwin on 28 March 1996³ at which evidence was provided by Ms Sarah Butterworth, Deputy Secretary of DARTI, and Mr Jim Jones, Director of IPMU.⁴

During evidence taken at the public hearing on 28 March 1996, a Committee member questioned why a grant paid by IPMU to the North Australian Film Corporation (NAFC)

² Department of Asian Relations, Trade and Industry formerly the Department of Industries and Development, Administrative Arrangements Order, No. S25 of 30 June 1995.

³ Refer Appendix C - Public Accounts Committee Transcript of Evidence, 28 March 1996.

⁴ Ms Sarah Butterworth was employed by DARTI for the period 29 June 1995 to 28 October 1996 and Mr Jim Jones has been full-time employee of IPMU since 11 January 1993. Mr Jones was initially contracted, by Department of Education, to work offshore as a short term adviser from 27 September to 18 December 1992.

and reported in the 1991/92 Annual Report of the Department of Industries and Development⁵ had not been included in the details provided to the Committee.

DARTI advised the Committee that this grant was not managed by IPMU. Further evidence taken by the Committee following this public hearing then concentrated on three issues:

- the matter raised in the 1994 Auditor-General's Report
- all projects that were funded by IPMU since inception of the unit
- the payment of two grants to the NAFC by IPMU.

The following definition was used by DARTI in the determination of projects 'managed' and in the provision of written evidence to the Committee:

... a set of activities such as planning, co-ordinating and implementing, which enable the Unit to supply goods and services to overseas clients for an economic return.

"Management" applies whether IPMU is the principal manager of a project for a client or whether it is sub-contracted by another provider and manages only a component of the overall project.

The majority of the projects which have been managed are predominantly training projects either in-country or in Australia. Where training is conducted in-country, IPMU's management role is to select the appropriate training provider and direct and control the provider's visit through provision of logistical support, travel and accommodation arrangements, payment of fees/salary etc. Where the training is provided in Australia, IPMU's management role is to arrange travel, accommodation and pastoral care for the participants and to commission training providers for the academic content of the project.

... where the Unit has charged a fee for service.⁶

6.3. Matters raised in the 1994 Auditor General's Report

In the first audit of IPMU as a function of the Department of Industries and Development, the Auditor-General identified the need for IPMU to review their financial reporting procedures and formalise their objectives.

IPMU's main area of operation was in providing education related consulting services to Indonesia under a contract between the Northern Territory Government and Australian International Development Assistance Bureau (AIDAB). The unit was transferred from the Department of Education in 1992 and an audit was conducted at the request of the Department of Industries and Development in 1993.

The audit disclosed there was a need for review and formalisation of the objectives of the unit and for financial reporting procedures to enable assessment of the unit's performance against those objectives. The Department advised that these matters were to

⁵ Department of Industries & Development 1992, *1991/92 Annual Report*, NTGP, Darwin, p.47, p.69.

⁶ DARTI letter to PAC, 24 May 1996, p.1.

be addressed as part of the preparation of the strategic plan for the Department to be completed in 1993-94.⁷

The Office of the Auditor-General, when appearing before the Committee on 20 September 1996, acknowledged that, although there was a perception that IPMU was a profit-making unit, there were no financial reports or analysis to support this perception.

6.3.1. Committee's Inquiries

The Committee requested the source and application of funding to managed projects and financial statements for each of these completed projects. In accordance with the Agency's definition of 'management', details of 15 projects were provided to the Committee. This information was classified by the Agency as commercial-in-confidence.

6.3.1.1. Financial Reporting

Under the *Financial Administration and Audit Act*, IPMU was not recognised as a 'prescribed statutory corporation' and therefore not required to keep 'proper accounts and records of its transactions in accordance with the accounting principles generally applied in commercial practice'.⁸

The Committee considers that IPMU had an obligation to maintain an acceptable level of accountability in recording every financial transaction. This accountability would have presumably covered the required approvals for transactions, the correct level of authority behind the transactions and the detailed recording, sufficient to establish an appropriate audit trail.

The Committee is of the opinion that it would be appropriate at this point to:

- remind all Agencies of Treasurer's Direction 6.2.10 which states that all accounting records are required to be retained for a period of six years before destruction; and
- emphasise the fact that the Public Accounts Committee has the power to send for persons, papers and records and that witnesses have an obligation under the *Legislative Assembly (Powers and Privileges) Act* to disclose any information to which they may be privy.

This Act has now been superseded by the *Financial Management Act* (effective from 1 April 1995) and a Determination issued by the Treasurer under section 3(1) of this Act, as at 12 July 1995, established IPMU as a Government Business Division. IPMU is now required to prepare financial statements on 'commercial accounting principles', unless otherwise directed by the Treasurer.

⁷ Office of the Auditor-General 1994, *Annual Report, Year Ended 30 June 1994*, NTGP, Darwin, p.37.

⁸ Section 66(1) *Financial Administration and Audit Act*.

'Government Business Division' is defined in section 3 of the *Financial Management Act* as:

... an Activity or group of Activities, a significant proportion of the operating costs of which is recovered through charges on users and which is determined by the Treasurer to be a Government Business Division ...

The accounting practices adopted by the IPMU to report each project did not reflect the viability of each project, ie indirect costs were not allocated to the individual project. In evidence provided to the Committee⁹, IPMU accounts for these costs on an annual basis in the financial statements of the Unit, but still does not allocate costs on a project basis.

The practice is to allocate the Departmental costs to the Unit as a whole, therefore the figures can only be provided in aggregate not by individual projects.¹⁰

The Committee considers that project management is concerned with definition, organisation and control of the project. Each project should have a clear definition whereby the project has a defined set of activities linked together over a defined period of time to achieve established goals. The management of these projects should be concerned with the attainment of these goals to meet qualitative, timeliness and accountability requirements.

There is no one acceptable methodology to measure the costs and benefits of financial information. The allocation of overheads is often a judgement decision made by those who prepare or have the ability to influence the preparation of the financial information.

The Committee is of the opinion that the allocation of overheads to individual projects should be consistently based on the accounting concepts of materiality and relevance in the attainment of the defined goal of each project.

6.3.1.2. Role of IPMU

The role of IPMU as detailed in the 1993/94 Annual Report of the Department of Industries and Development was:

... a specialist unit within the South East Asia Group (sic) with the role of managing overseas aid funded projects, providing training programs to meet the specific needs of overseas clients and acting as a managing agent for other specialist groups.¹¹

⁹ Public Accounts Committee Transcript of Evidence, 28 March 1996, p. 8. and DARTI letter to Committee, 24 May 1996, p. 2.

¹⁰ DARTI correspondence to Committee, 24 May 1996, p. 2.

¹¹ Department of Industries and Development Ministry of Asian Relations and Trade 1994, *Annual Report 1993/94*, NTGP, Darwin.

The Auditor-General has now confirmed that IPMU has prepared a Business Plan:

IPMU is now a government business division pursuant to section 10 of the Financial Management Act. As part of the Department's strategic planning process, IPMU, along with other divisions, has prepared a business plan.¹²

In evidence provided to the Committee on 28 March 1996, Ms Butterworth tabled the 1995/96 Strategic Plan for IPMU (refer Appendix C).

Detailed Business Plans for IPMU were provided to the Committee as supplementary evidence.¹³

6.4. Projects Funded by IPMU

Based on DARTI's interpretation of 'project management', the Committee requested the Agency to provide details of projects that had been funded by IPMU. In IPMU's opinion, these projects did not come within IPMU's definition of 'managed'.

In correspondence to the Committee¹⁴, DARTI advised that funding had been provided by IPMU for:

- proactive marketing activities from profits realised by the IPMU
- project bids
- other projects usually of one-off nature

6.4.1. Proactive Marketing

IPMU informed the Committee that one of their key objectives was to market the services of Territorians overseas. With the application of proactive marketing strategies, IPMU was able to gain long term access to overseas markets. Strategies adopted included:

- scholarships to selected overseas senior government officers to attend courses in Darwin. IPMU has also sponsored officers from Western Samoa, Cook Islands, Vietnam, Myanmar, Laos, Philippines, Indonesia, Seychelles, Mauritius, Maldives.

These officers provide valuable links with their respective departments, and have been able to provide information and specific in-country data for project bids. In

¹² Auditor General for the Northern Territory 1995, *End of Financial Year Report 1995*, NTGP, Darwin, p. 20.

¹³ DARTI correspondence to Committee, 27 November 1996, part 15.

¹⁴ DARTI correspondence to Committee, 24 May 1996, p. 3.

addition they have assisted in setting-up meetings with senior officials for visiting IPMU and NT representatives.¹⁵

- offshore seminars to government departments and agencies and private sector organisations, conducted by Darwin based experts.

(T)his outlay enabled the Unit to gain access to a number of World Bank project opportunities which are still developing.¹⁶

- provision of seed funding for offshore feasibility studies or project identification activities, that have the potential to provide an economic return to Territory based companies.

6.4.2. Project Bids

As advised by IPMU, the preparation of project bids is a necessary and costly exercise and a cost which has to be absorbed where the bid is unsuccessful. Project bids may be unsuccessful due to projects either being deferred or cancelled by the funding agency or the recipient Government, as well as being unsuccessful through a competitive tender situation.

6.4.3. Other Funding

Details of specific examples included:

- annual grant to the Arafura Youth Games from 1989 to 1994.
- funds to cover travel and nominal expenses of a medical officer undertaking reconstructive surgery in Indonesia.
- deployment of a lecturer from NT University to undertake a teaching assignment in Indonesia.
- research project to examine the management and use of wildlife in Indonesia.

6.5. North Australian Film Corporation (NAFC)

A written submission, dated 24 May 1996 provided by DARTI, noted that in 1991 the NAFC and the Department of Education jointly approached the Indonesian Government with a proposal to produce an early childhood educational television program in Indonesian called *Jalan Kita*.

¹⁵ DARTI correspondence to Committee, 24 May 1996, p.3.

¹⁶ Ibid, p.3.

6.5.1. Background

DARTI's submission further stated that NAFC had previously produced a series of video sessions for the National Indonesian Language Curriculum Project, and, based on this experience, sought to develop the market potential of Indonesia's educational television industry.

The *Jalan Kita* proposal reportedly had three elements:

- the development of a pilot program to demonstrate the nature and feasibility of the project to Australian and Indonesian sponsors. A grant of \$261,000 was given by IPMU to NAFC for this project.
- the development of a proposal for aid funding for a major training project for Indonesian television production staff.
- full commercial production.

In evidence provided to the Committee¹⁷, DARTI advised that the project coincided with the Northern Territory signing a Memorandum of Understanding in January 1992. The project was seen as an example of a co-operative project from which both countries could make significant gains. Indonesia would gain an educational resource and training for production staff in the educational television field, and at the same time, the project provided a development opportunity for the Northern Territory film industry and a further major aid funded training project for IPMU.

The proposal was seen to complement a major aid Indonesian project which IPMU was managing at that time (Indonesia Australia Technical and Vocational Education Project: Part A). DARTI advised the Committee¹⁸ that it was considered appropriate to reinvest some of this profit in the *Jalan Kita* pilot program.

The Department of Education's Annual Report advised that the Department 'entered into a consortium with private enterprise to produce the pilot episode of the television series'¹⁹, which was completed in February 1992.

However, the Committee was subsequently advised that in February 1992, NAFC had informed IPMU:

... that the various other companies were unable or unwilling to commit financial resources at that time and thereby fully participate in a consortium. It was also agreed between the parties that a project of the nature of *Jalan Kita* required one line of direction with appropriate technical input. Accordingly, it was agreed that NAFC would take the lead role with other members being contracted on an agreed basis.²⁰

¹⁷ DARTI correspondence to Committee, 24 May 1996, p. 7.

¹⁸ Ibid. p. 7.

¹⁹ Northern Territory Department of Education 1991, *Annual Report 1991*. Darwin, p. 46.

²⁰ DARTI correspondence to Committee, 6 September 1996.

These members included four local companies and five interstate consultants.²¹

The pilot episode attracted commercial interest in Indonesia which resulted in a request for interim training of Indonesian staff to meet the immediate production requirements. DARTI advised that Cabinet approved funding of \$82,000 from Department of Industries and Development for interim training. This amount was subsequently paid to NAFC.

An application was made for further funding for the major training project (expected to take 12 months) for Indonesian staff. Despite initial interest the aid submission was never approved and Stage 2 of the project did not proceed.

The Department of Education 1992 Annual Report reported that 'a contract for the sale of 26 episodes was announced in October this year'.²²

In correspondence to the Committee, DARTI advised:

The Jalan Kita series was launched in August 1993 and received good ratings. It was re-run in November-December 1994. In early 1995 Televisi Pendidikan Indonesia (TPI) underwent a major management restructure. As a result, all joint venture productions were placed on hold. However, a number of benefits flowed from the projects as follows:

Direct Employment (Australia) - four local companies and five interstate consultants were directly employed on the Jalan Kita Project.

Direct Employment (Indonesia) - Approximately 100 Indonesian technical personnel were trained in Indonesia during the projection and broadcasting of the Jalan Kita series.

Potential Sales for the Jalan Kita Episodes - North Australian Film Corporation (NAFC) is canvassing Australian Schools to promote the sale of the Jalan Kita series as a teaching resource for Indonesian Language and Cultural Studies. So far 96 orders of a condensed version of the series have been confirmed.

Current Productions - NAFC is currently producing a half hour weekly game show for an Indonesian commercial network RCTI, a half hour weekly quiz show for SCTV, a half hour weekly motoring program for SCTV and 120 x 60 second environmental awareness programs to be screened by all the major networks commencing on 1 June 1996.

Pre-production has also commenced on a weekly drama series titled Wajah Wanita (Face of a Woman), which is being developed in conjunction with the Indonesian Minister of Health, UNICEF and the Indonesian Ministry of Population and Planning.

In addition to the Jalan Kita project the Department of Industries and Development commissioned North Australian Film Corporation to produce 3 x 3 video profiles on the Northern Territory and their transmission on Televisi Pendidikan Indonesia. The filming

²¹ The four local companies were North Australian Film Corporate, Iloura Productions, The Production House and Complete Sounds; and the five interstate consultants were Margaret Kiley, Derek Mills, Penny-Ann Smith, Julia Morant and Helen Everingham.

²² Northern Territory Department of Education 1992, *Annual Report 1992*, Darwin, p. 68.

was undertaken during NT Expo '93 and transmitted on 30 June and 2 July 1993. The cost was \$7,000.²³

6.5.2. Approval and Payment of Grants

6.5.2.1. Grant of \$261,361

Although no formal support documentation was provided, DARTI, in its submission dated 24 May 1996, advised that Cabinet had endorsed the NAFC proposal and approved the funding of a project development grant of \$261,361 to NAFC to produce the pilot program.

The grant was made in the 1991/92 financial year and paid from the Department of Education Indonesian Education Assistance Project Trust Account.

DARTI advised the Committee that the grant was paid:

... out of profits from the Indonesia Australia Technical and Vocational Education Project: Part A. In those days, as the project was externally funded, it was not appropriated through the formal budgetary process.²⁴

6.5.2.2. Grant of \$82,000

DARTI's submission, dated 24 May 1996 also advised that Cabinet had approved the funding of \$82,000 from Department of Industries and Development for interim training.

IPMU paid \$82,000 to NAFC who supplied the training personnel and managed the project. The payment was made to NAFC in the 1991/92 financial year. No further details on provision of funding and mode of payment were provided.

6.5.3. Indonesian Education Assistance Project Trust Account

On 7 April 1989, Mr Geoff Spring, Secretary of the Department of Education advised Treasury²⁵:

- that the Department of Education would be implementing a \$14.5 million project in education aid to Indonesia.
- the project was planned to commence in July 1989 and run for a period of 5 years.
- the project would be funded by the Commonwealth (AIDAB).

²³ DARTI correspondence to Committee, 24 May 1996, p. 8.

²⁴ DARTI correspondence to Committee, 8 July 1996, p. 2.

²⁵ Department of Education correspondence to NT Treasury, 7 April 1989.

- the aim of the project was to 'upgrade the human resources associated with the delivery of technical and vocational education services in Indonesia's eastern provinces'.
- confirmation that informal approaches had been made to Treasury indicating a Trust Account should be set up to handle the AIDAB funds.
- approval was sought to open a Trust Account to 'record receipts and expenditure for this project to be known as the "Indonesian Education Assistance Project Trust Account"'.

Treasury approved the establishment of the trust account under section 6 of the *Financial Administration and Audit Act* on 6 May 1989 for the purpose of:

... recording receipts and expenditures relating to the Indonesian Education Assistance Project²⁶

The Under-Treasurer, in approving the trust account, informed the Secretary of the Department of Education that:

... there are substantial funds provided from outside the Territory budget.

If there are Territory funds utilised on this project they should be well identified, and I would suggest that they are appropriated within your Budget and then transferred to the trust account.

As this operation is somewhat new in the Territory, I would like to have the opportunity of reviewing the operation of the trust account in twelve months time.²⁷

The Committee requested a copy of the Treasury's review, but was subsequently advised that it was:

... not aware of any review conducted by Treasury on the trust account but you can envisage that the program would have received scrutiny under the normal budget processes. A review was not a condition of the establishment of the trust account.²⁸

The trust account was transferred to the Department of Industries and Development on 1 February 1993 and subsequently closed on 24 June 1994.

DARTI acknowledged that the trust account was used for the allocation and distribution of funds:

... in accordance with the annual plan submitted to the then AIDAB (is now known as AusAID) which was the funding agency for the project.

²⁶ NT Treasury correspondence to Committee, 12 July 1996.

²⁷ NT Treasury correspondence to Department of Education, 9 May 1989.

²⁸ NT Treasury correspondence to Committee, 5 September 1996.

IPMU NT in line with the financial delegation in place at the time within the Department of Education had the discretion to commit funds for non-related project activities²⁹.

6.5.4. Legislative Requirement of Trust Accounts

6.5.4.1. Treasurer's Directions

Treasurer's Directions 1.12, in force at the time, provided that payments from the Trust Fund did not have to be made under appropriation, but the two main requirements were that:

- the payments were for the purposes for which the account was established.
- sufficient credit was available in the account.

Section 9.24 of the Treasurer's Directions, in force at the time of the payment of the grants, provided for the withdrawal of funds from Trust Accounts in accordance with the requirements of sections 5, 6 and 59 of the *Financial Administration and Audit Act* and section 6 of the Treasurer's Directions³⁰.

6.5.4.2. Financial Administration and Audit Act

Relevant sections applicable to the administration of Trust Accounts for this inquiry:

5(5) There shall be credited to each account of the Trust Fund -

- (a) all Territory moneys that are required or permitted by this Act or any other law of the Territory to be paid into that account; and
- (b) all Territory moneys received for the purpose for which that account is established.

5(6) Moneys shall be withdrawn from an account of the Trust Fund only for the purpose for which that account is established or for any other purpose authorised by this Act or any other law of the Territory.

6(1) The Treasurer may -

- (a) open trust accounts to form part of the Trust Fund and specify the purpose for which each such account is opened or, in the case of an opened trust account and subject to this Act, vary the purpose for which the account was opened or, if appropriate, change the name of a trust account;

²⁹ DARTI correspondence to Committee, 8 July 1996.

³⁰ Section 6 of the Treasurer's Directions referred to Receiver's Trust Accounts, Accountable Officer's Trust Accounts, cash securities and negotiable instruments and section 59 of the *Financial Administration and Audit Act* referred to trust accounts for Statutory Corporations. These sections are not applicable in this case.

- 6(2) Subject to this Act and any other law of the Territory if the Treasurer is satisfied at any time that there is available in any trust account a credit balance in excess of the amount reasonably required for the purposes of that account, he may direct that the whole or a part of that excess be transferred from that trust account to the Consolidated Fund.
- 6(3) Upon the closure of any trust account in pursuance of subsection (1)(b), the balance standing to the credit of that account shall stand to the credit of the Consolidated Fund or such trust account as the Treasurer directs.

6.5.5. Committee's Findings

6.5.5.1. Trust Account

The Indonesian Education Assistance Trust Account was specifically opened to manage the receipt and distribution of funding for an education aid project that was expected to commence in July 1989 and run for a period of five years. Funding was to be provided by the Commonwealth (AIDAB) and any disbursements from the Trust Account were associated with the delivery of technical and vocational education services in Indonesia's eastern provinces.

Treasury acknowledged that the purpose of the Trust Account was never varied during the currency of the Trust Account (9 May 1989 to 24 June 1989). However, DARTI advised that 'the Indonesian Education Assistance Project was later known as Indonesia Australia Technical and Vocational Education Project: Part A'³¹.

This project was described in the Department of Education's 1992 Annual Report as:

The Division's International Project Management Unit (IPMU) continued to manage, on behalf of the Australian International Development Assistance Bureau, a major joint Australian-Indonesian aid project, ie the Indonesia-Australia Technical and Vocational Education Project: Part A (IATVEP:A). The project runs from 1990-95 with a budget of approximately \$20m and assists in upgrading technical and vocational education in twenty-one senior high schools in the eastern provinces of Indonesia. The project also includes sponsoring Indonesian teachers and administrators to undertake study programs in the Northern Territory.³²

The Committee is of the opinion that the payment of the grants to NAFC from the Indonesian Education Assistance Project Trust Account was not consistent with the purpose for which the account was opened and intended to operate.

³¹ DARTI correspondence to Committee, 8 July 1996.

³² Northern Territory Department of Education 1992, *Annual Report 1 January to 31 December 1992*. NTGP, Darwin, p. 67.

DARTI advised³³ that IPMU had the necessary financial delegation in place at the time within the Department of Education in order to commit funds for non-related project activities. The Committee did not sight these financial delegations, but based on evidence provided by DARTI, the Committee is of the opinion that if these financial delegations were in place they were in conflict with the purpose of the establishment of the Trust Account, ie *to record receipts and expenditure relating to the Indonesian Education Assistance Project*.

6.5.5.2. Administrative Procedures

The Committee requested DARTI to provide a copy of the departmental procedures relating to the application, approval and administration of grants that were in force at the time of consideration and approval of the \$261,361 and \$82,000 grants.

The Department subsequently advised that:

... the proposals were developed, following approval by Cabinet after due consideration and evaluation by relevant agencies³⁴.

DARTI offered no further information on the 'proposals' that were developed. The Committee noted that prior to this request, DARTI had previously advised that IPMU had the necessary financial delegation in place at the time within the Department of Education to commit funds for non-related project activities³⁵. Reference was made to the financial delegations but IPMU could not provide copies of these delegations.

The Committee notes that new Government procedures issued by the Northern Territory Archives Service since the payment of these grants now provides that all master copies of instruments of delegations and authorities, issued under the *Financial Management Act* or Regulations, must be permanently retained and transferred to Archives when the instrument or authority is superseded.

6.5.5.3. Assessment and Approval of the Project

The Committee requested a copy of the assessment of the project carried out either by IPMU, the Department of Education or the Department of Industries and Development when determining NAFC's proposal for the grants of \$261,361 and \$82,000.

The Committee also requested a copy of the recommendations to the appropriate Minister from IPMU, the Department of Education or the

³³ DARTI correspondence to Committee, 8 July 1996.

³⁴ DARTI correspondence to Committee, 27 November 1996.

³⁵ DARTI correspondence to Committee, 8 July 1996.

Department of Industries and Development seeking approval for the proposal and funding for the two grants.

In both cases, DARTI advised that:

... the proposals were developed, following approval by Cabinet after due consideration and evaluation by relevant agencies.³⁶

DARTI offered no further information as to the nature of 'relevant agencies' and no formal assessment was provided. The Committee has not been made aware of any conditions placed on payments of the grants.

6.5.5.4. Accounting Audit Trail

DARTI advised the Committee that the Department of Education:

... has advised that documentation relating to the receipt of funds from AIDAB to the Indonesian Education Project Trust Account is no longer available.³⁷

The Committee also requested DARTI to:

... provide documentation relating to the distribution of funds from the *Indonesian Education Project Trust Account* to Northern Australian Film Corporation (eg claim for payments, authorisations, and supporting documentation).³⁸

DARTI's advice to the Committee merely reiterated the Department of Education's above quote (*footnote 36*).

DARTI informed the Committee that:

... payments were made on a progressive draw down basis over a five month period³⁹

but could not provide support documentary evidence when requested.

The Committee has been able to ascertain that the payment of both grants (ie \$261,361 and \$82,000) were made in the 1991/92 financial year.⁴⁰

In accordance with Treasurer's Directions 18.12, accounting records were required to be retained for a period of six years, before destruction. The

³⁶ DARTI correspondence to Committee, 27 November 1996.

³⁷ DARTI correspondence to Committee, 27 November 1996.

³⁸ Committee correspondence to DARTI, 18 October 1996.

³⁹ DARTI correspondence to Committee, 17 June 1996.

⁴⁰ Based on evidence provided to the Committee, the grant of \$261,361 was paid between October 1991 and February 1992.

Auditor-General advised⁴¹ that his office has no record of any approval being provided for the destruction of the accounting records for IPMU or the Trust Account applicable to it. Advice presented to the Committee regarding the availability of records would appear to be in direct contradiction with the advice provided by Treasury.

6.5.5.5. Acquittal of Funds

In correspondence to the Committee dated 17 June 1996, DARTI advised that the NAFC was required to provide:

... detailed operational budget...and payments were made on a progressive draw down basis over a five month period. An audit certificate was provided to confirm that expenditure was incurred in accordance with the budget.⁴²

The Committee requested a copy of the acquittals of grants by the NAFC, including operational budgets and audit certificates provided by NAFC.

The Committee sighted a developmental plan for the *Jalan Kita* proposal which included a budget attached to the proposal. No financial statements acquitting the grants were provided to the Committee but a certificate from a registered auditor was provided. This certificate stated:

To Whom it May Concern

The initial amount of \$261,136 made available between October 1991 and February 1992 by the Northern Territory of Australia to North Australian Film Corporation Pty Limited (ACN: 009 637 361) for the production of an educational TV series for broadcast in Indonesia was wholly expended for that purpose namely the half-hour TV pilot program titled "JALAN KITA".

(signed) MICHAEL LOW - REGISTERED AUDITOR
10 June 1992⁴³

The Committee notes that all correspondence from DARTI refers to the initial amount of \$261,361 as payment to NAFC, not \$261,136 on the certificate.

6.5.5.6. Post Evaluation of Project

The Committee requested that DARTI provide a copy of the post evaluation reports on the *Jalan Kita* project undertaken by the IPMU, the Department of Education or the Department of Industries and Development.

⁴¹ Office of Auditor-General correspondence to Committee, 31 January 1997.

⁴² DARTI correspondence to Committee, 17 June 1996.

⁴³ DARTI correspondence to Committee, 27 November 1996.

An internal memorandum from the then Director of IPMU to the then Secretary of the Department of Education, dated 30 March 1992, was provided to the Committee.

The Committee noted with some concern the written comments by the then Director who, after viewing the pilot video, was of the opinion that:

... the quality of the work is so variable that, at this stage, I have doubt as to its commercial value.

The contents of the internal memorandum were designated confidential and the Committee respects the author's classification of this memorandum. It is noted that this memorandum was issued after the pilot program had been completed.

Based on the highly critical contents of this memorandum, the Committee considers that IPMU had an obligation to undertake a detailed post evaluation of the project.

6.5.5.7. Public Accountability

The project development grant of \$261,361 to NAFC was not specifically reported in an annual report. However, references to the *Jalan Kita* project were contained in the Department of Education 1991 and 1992 Annual Reports.

The second grant of \$82,000 was reported in the 1991/92 Annual Report of Department of Industries and Development.⁴⁴ Appendix 8 of the same Annual Report refers to this grant as *Industry Support and Incentives Approved in 1991/92*, and described the grant as 'ongoing skills development program for an Indonesian children's television program'. Despite this reporting of the two grants, the Committee was unable to establish if any appropriate method of assessment of the proposals was available to ensure suitable scrutiny prior to funding or upon completion of the projects.

The Committee believes that a consistent reporting methodology should have been adopted by IPMU in the reporting of grants paid by IPMU. Further, the payment of a development grant of \$261,361 was material to the operations of IPMU at that time. Payment was made from a Trust Account which was transferred with the functions and staff of IPMU from the Department of Education to the Department of Industries and Development. While the Department of Education reports on a calendar year basis, and the Department of Industries and Development report on a financial year basis, all Trust Account reporting is done on a financial year basis, and in this case, the Trust Account maintained continuity.

The administering unit (IPMU) had an obligation to report the grant in the annual report of its place of abode as at the end of the financial year.

⁴⁴ Department of Industries and Development 1992, *1991/92 Annual Report*, NTGP, Darwin, p.47.

6.5.6. Conclusion

Jalan Kita project coincided with the Northern Territory signing a Memorandum of Understanding with Indonesia and was seen as an example of a co-operative project between the two countries from which both countries could make significant gains.

It was also seen to complement the AIDAB funded Indonesian Australian technical and Vocational Education Project that IPMU was managing at that time.

The trust account was established under the *Financial Accounting and Audit Act* 1989. This Act has now been superseded by the *Financial Management Act* 1995.

In line with this change in the legislative framework governing trust accounts, the Committee would like to emphasise the point that payments of Government grants should be subject to public scrutiny.

In the case of the grant to NAFC, tighter administrative procedures by the Departments involved would have assisted the Committee with its inquiries.

It should be noted that during the life of the project, it was administered by three Agencies.

With DARTI's inability to locate crucial documentation requested by the Committee, the danger of unwarranted and unjustified conclusions being drawn exists.

To avoid this perception, Agencies should be overly particular in ensuring the implementation of correct procedures to allow the keeping of precise records and their retention for the required six-year period.

7. NORTHERN TERRITORY LIQUOR COMMISSION

7.1. Licensing and Revenue Collection System

In 1994, while the NT Liquor Commission was in the processing of having a licensing and revenue collection statistical information database created, the Chairman invited the Auditor-General to review the new computer system to ensure it complied with audit requirements. The audit review highlighted a significant overrun in the time frame proposed by NCOM (as the business consultant) to complete the project.

The Auditor-General indicated that:

... contributing to the problems encountered were the difficulties in communicating needs and requirements between NCOM, with its expertise and understanding of information

7.2. System Upgrade

The Northern Territory Liquor Commission's first computer system aimed at integrating licensing requirements and the collection of revenue was developed for the Commission in 1985. With ever changing demands and modifications the requirement for a review of the system was identified late in 1991 and received formal approval from the Chief Minister on 26 December 1991. On 25 May 1992, the Chief Minister approved funding for the system upgrade.

Phase 1 was to provide solutions to existing programming problems while Phase 2 involved a full review of the system to ascertain whether it would serve as a sound foundation for further expansion.

As a result of this review, NCOM could not justify continuing with the existing system. They in turn prepared a Project Definition Plan detailing the basic scope and requirements of the proposed Licensing and Revenue Collection System, recommending Oracle for the application development environment.

The design phase was commenced in June 1992 and a quality assurance review was conducted by Brian Chilcott, NCOM.

At a steering committee meeting of 9 December 1992, it was revealed that the project had been considerably delayed and the completed project would require a major input of additional funds.

As a result of this increase a review of the cost benefit analysis was recommended.

The resulting business case analysis showed that even though costs were considerably higher than originally estimated, the total cost of the system would be recovered in the third year of its operation.⁴⁶

The analysis also highlighted a series of benefits that consisted of:

Tangible benefits

- Ability to identify discrepancies in licensees' returns
- Ability to identify administrative fees due for special licences and permits.

Intangible benefits

Additional functionality in the system would enable staff to be more effective by automating many of the tasks they were required to perform, allowing:

- Time to reconcile the Liquor Commission's revenue collection records with the Government ledger.
- Greater liaison with the liquor industry on administration of the Liquor Act.

⁴⁶ Private Briefing to PAC by Chief Executive Officer and Deputy Registrar, NT Liquor Commission, 28 March 1996.

- The ability to answer requests for information that could not previously be serviced.
- Increased confidence in the system so there would be no further need to manually cross-check all financial reports.
- Improved use of word processing staff through automatic generation of standard letters.
- Direct link with the Alice Springs office providing better quality information.
- Timely response to problems due to availability of technical support.

In May 1993, the Deputy Under-Treasurer, John Gardner, advised the Commission that he supported the Oracle solution and that he was confident NCOM could provide a fully installed turn key system. The project was estimated to take 32 weeks and it was to be completed in April 1994.

During the course of a routine audit interview with the Auditor-General's Office, the Commission invited the Auditor-General to inspect the computer system, before it was signed off, to insure it complied with audit requirements. The audit was completed in November 1994 and contained, inter alia, the following recommendations:

- Increased commitment from both NCOM and the Liquor Commission to ensure completion of the final critical phases of the project.
- Increased liaison and communication essential.
- Commitment by the Commission to supply a part-time resource to the project to address a number of specific areas.⁴⁷

Follow-up audits were conducted and the following comments evolved:

- significant improvement in the level of commitment shown by both parties to the project and, despite a number of delays, the project is steadily moving closer to completion;
- the level of liaison and communication has improved, principally exhibited by the regular steering committee meetings which have been held and the level of attendance by both parties at these; and
- NTLC have provided resources for the project which, while not being at the level originally agreed, have assisted in bringing the project closer to completion.⁴⁸

The Licensing and Revenue Collection System project was eventually signed off on 17 January 1996 with a 3-month cooling-off period requested by the Commission to enable assessment and prioritising of future requirements.

The Auditor-General, in reporting on the procedures adopted by both parties, pointed out the dangers that could be associated with agencies who lack the information technology being expected to take on management tasks that are outside their area of expertise. He stated:

In the development of relatively complex computer systems, there is a requirement for close monitoring of progress and user requirements, through frequent, regular and

⁴⁷ Ibid., 28 March 1996.

⁴⁸ Ibid., 28 March 1996.

structured steering committee meetings. This is particularly so, where the Agency does not itself have personnel with specialist information technology expertise.⁴⁹

The Committee was made aware of the major increase in funding as the project progressed through its various development stages but as the Chairman of the Liquor Commission pointed out, for the Commission to maintain accurate records by which Government could assess licence fees it was necessary to maintain statistical data in an easily accessible manner. The Committee could appreciate the long term benefits which would be achievable once the Licensing and Revenue Collection System was operational.

In recent discussions with the Chairman of the Liquor Commission, it was revealed that since the public meeting in March 1996 the Commission had obtained an additional \$100,000 over and above the normal revenue component. During this period they were also able to establish that a computer error had occurred in a major wholesaler's documentation to Northern Territory retail outlets which, if undetected, would have effectively cost the Northern Territory Government tens of thousands of dollars in lost revenue.

The Committee is aware that the Licensing and Revenue Collection System will ensure the Commission is in a position where, through the accurate comparison of wholesalers' and licencees' returns, it can readily identify errors and omissions by individual licensees, but the greatest asset would appear to be the acceptance by all licensees that they must be particularly vigilant in the keeping of their own records.

⁴⁹ Office of the Auditor-General, *Mid-Year Report 1995*, p.11.

APPENDIX A

ORAL EVIDENCE PRESENTED TO THE COMMITTEE

Date	Agency	Representatives
9.2.96	Office of the Auditor-General	Mr Iain Summers, Auditor-General Mr Ian Miller, Principal Auditor
28.3.96	Department OF Asian Relations Trade and Industry	Ms Sara Butterworth, Deputy Secretary Mr Jim Jones, Director
28.3.96	Northern Territory Liquor Commission	Mr John Maley, Chief Executive Officer Ms Julia Erdelyi, Deputy Registrar
20.9.96	Office of the Auditor-General	Mr Iain Summers, Auditor-General Mr Ian Miller, Principal Auditor

APPENDIX B

PUBLIC ACCOUNTS COMMITTEE TRANSCRIPT OF EVIDENCE,

28 MARCH 1996

PUBLIC ACCOUNTS COMMITTEE

PUBLIC BRIEFING

**BY DEPARTMENT OF ASIAN RELATIONS, TRADE AND INDUSTRY,
INTERNATIONAL MANAGEMENT PROJECT UNIT**

ON

**REPORT ON THE AUDITOR-GENERAL'S ANNUAL AND MID YEAR
REPORTS 1993/94 AND 1994/95**

Ormiston Room, 3rd Level, Parliament House
Thursday 28 March 1996 at 1130 hrs

PRESENT: Mr Rick Setter, MLA, Chairman
Mr Brian Ede, MLA
Mr John Bailey, MLA
Mrs Loraine Braham, MLA
Mr Phil Mitchell, MLA

Ms Jenny Mollah, Secretary

WITNESS: Representing Department of Asian Relations, Trade and Industry,
IPMU

Ms Sarah Butterworth, Deputy Secretary
Mr Jim Jones, Director

Tapes 182-187

Note: This is an edited and corrected transcript.

Issued: Wednesday 29 May 1996

Mr SETTER: I call the committee to order. I open this public meeting of the Public Accounts Committee on 28 March 1996. This committee operates under the standing orders of the Northern Territory Legislative Assembly.

I welcome from the Department of Asian Relations, Trade and Industry, Ms Sarah Butterworth, Deputy Secretary, and Mr Jim Jones, Director of the International Project Management Unit, who are appearing to brief the committee on the report on the Auditor-General's annual and mid-year reports, 1993-94 and 1994-95.

Other than in exceptional circumstances, witnesses before this committee are not required to take an oath or affirmation, however I remind you that evidence you give to the committee must be truthful.

Mr Jones and Ms Butterworth, you have been issued with a copy of the Legislative Assembly guidelines dated 20 August 1992 and the Public Accounts Committee notes for witnesses. Are there any matters of concern in relation to these guidelines that you wish to raise at this stage?

Ms BUTTERWORTH: No, thank you.

Mr JONES: No.

Mr SETTER: The committee has the power to present all or part of the evidence received today in the report to the Legislative Assembly. Should the committee decide to exercise this power, every effort shall be made to advise you in advance of this report being tabled.

For the Hansard record, starting from my left, would you please state your full name and the capacity in which you appear today?

Mr JONES: Jim Jones, Director of IPMU.

Ms BUTTERWORTH: Sarah Butterworth, Deputy Secretary, Department of Asian Relations, Trade and Industry.

Mr SETTER: Thank you. We have received from you a written submission to this inquiry. Do you wish to amend or add to this submission?

Ms BUTTERWORTH: No, not at this stage. But I would be happy, Mr Chairman to take the committee through the submission, because I understand from informal comments that it was not very clear.

Mr SETTER: Yes, thank you. Is Mr Tobin acting here as your adviser, Mr Ede?

Mr EDE: I have not put him formally into that situation. I may call on various people for advice.

Mr SETTER: Well, I do not believe that members are permitted advisers in circumstances like this.

Mr EDE: A person is allowed whatever advice they are able to avail themselves of.

Mr SETTER: Well, I do not believe that is the case in a hearing such as this. I would ask Mr Tobin to leave that position. If he would like to listen to this inquiry, he should sit in the advisers area, at the other end, or in the public gallery.

Mr EDE: I will have my objection to that noted in the minutes, please.

Mr SETTER: Yes, that is fine.

Ms BUTTERWORTH Thank you, Mr Chairman. The documents that we have provided to you, are as follows. First, a brief overview of the background of IPMU - when it was established and the fact that it was originally in the Department of Education and transferred to the Department of Asian Relations, Trade and Industry, or Department of Industries and Development as it was at the time. Then, we have a number of dot points describing briefly the unit's activities. The unit was established predominantly to bid for aid projects but it is also a registered training provider and it has an extensive database. So, those facilities are used from time to time.

I note at point 1.3 that the unit is undergoing a change at the moment. We are looking to corporatise with, perhaps, a view to privatise in the future. We are in a transition period at the time, and I have noted that in the submission.

Mr BAILEY: I would like to pick up on a point Ms Butterworth made at the beginning. You stated that the unit is primarily picking up AusAID and things like that, and managing projects and so on.

Ms BUTTERWORTH: Yes.

Mr BAILEY: You said you have a training role, as well. Is it correct - and notes in here you said - that these are all the projects that you have been involved with; that we have information about? Are there any other areas that the unit is involved in?

Ms BUTTERWORTH: The list of projects that we have included are projects that we have managed - in a true project management way - so that we then have details of each of those: what the projects were, where the funding came from and so on. Because we have this database, we do from time to time nominate individuals on the database to other people, but not for a project that we have managed

Mr BAILEY: Thank you.

Mr EDE: So, there are other projects?

Ms BUTTERWORTH: There are other projects that we have nominated people to participate in, but we have not managed those projects and we have not received any income from those projects.

Mr EDE: So, what if you put money into them?

Ms BUTTERWORTH: Well, those ones we have not. We just nominated people. There is one identified there - it is a company called SEAPREAMS where we provide funding on a sort of annual basis for arranging a conference.

Mr EDE: So, there are no others? This is all the money that you put in; it is here. There is no other project that you ever put money into?

Ms BUTTERWORTH: We have not attempted to look at every single dollar that has been spent, and if it is accounted here. I have not attempted to do that in this submission.

Mr SETTER: The list you gave us is the projects that IPMU has managed.

Ms BUTTERWORTH: That is right.

Mr SETTER: Fine. Would you like to continue with your remarks?

Ms BUTTERWORTH: Point 2 reinforces what I have just said; that we are mainly dealing with aid projects in developing countries. Point 3 is the description of all projects that we have managed and the source of funding of those projects.

There was a question put to us in relation to financial statements for each completed project. We do not actually do that; we do not provide a financial statement for each completed project. The unit is required to provide financial statements on an annual basis.

In terms of aid projects, we report on a quarterly basis and they are acquitted. We have included, within the submission, an example of one of those quarterly acquittals so that you can see the level of detail that is required - just to give you an example of how we do the accounting process.

Then, there is a list at point 6 of the projects we are managing at the moment, but not yet completed. We have included an organisation chart of the unit, as it is currently, and individual briefing papers on each of the projects, which detail the name, location, client, dates and so on. That is all I have to say, Mr Chairman. Thankyou.

Mr SETTER: The Auditor-General advised that there was a need for financial reporting procedures to enable assessment of the unit's performance. What has the unit done to address the Auditor-General's recommendations?

Ms BUTTERWORTH: The Auditor-General made a two-fold point, in terms of our planning processes: that the unit should have a business plan and linked to that

financial reporting - that was implemented in 1993-94. At the subsequent audit report, the Auditor-General was satisfied that we had achieved those aims.

In addition, the unit has become a government business division and so it has specific requirements, in terms of its financial recording.

Mr SETTER: When did that occur - the change?

Ms BUTTERWORTH: I think it was introduced in April last year.

Mr SETTER: 1 April 1995?

Ms BUTTERWORTH: I am not sure if it was 1 April but I know it was April; in accordance with the new Financial Management Act.

Mr SETTER: Does the unit have its own strategic plan?

Ms BUTTERWORTH: Yes, it does.

Mr SETTER: Could you describe that, perhaps, and make a copy of it available to the committee?

Ms BUTTERWORTH: Yes, I certainly could. What we do within the department and IPMU is the same as all the other units. It is to develop a plan on a page, which has the individual objectives for the ensuing year and measurements against that. I have an example here, which I am happy to table. I do not have enough copies with me but I would be happy to send it.

Mr SETTER: Thank you. If you would be kind enough to table that, I would appreciate it. Could you give us a description of the restructuring of the unit. What its goals are now compared to what they were before?

Ms BUTTERWORTH: I am not sure that I can address what they were before but I can address what they are now. The overriding goal of the unit is to generate an economic return from providing services overseas - exporting the skills and services of Territorians, mainly through bidding for aid projects.

Now, that involves a lot of networking, in being ahead of the game and being across the needs within those Asian countries. That is how it links very well into other areas of the department because we have people who are visiting those countries on a regular basis.

Mr BAILEY: In relation to that - and in looking back through all the projects - I must admit that I am not quite sure from looking at these one-page summaries as to whether they do or do not make a profit. Generally speaking, have the projects made a profit specifically to the IPMU for running them? Are there projects that were run specifically at a loss for some other cost-benefit analysis?

Ms BUTTERWORTH: I can show you on those sheets. If you would like to turn to page 5 because that is the largest one of the first of those attachments. That was the major project - the Technical and Vocational Education Project in Indonesia. That was the major project the unit was actually established to manage, in the first place. On the right-hand side, project receipts of \$19.489M etc and project expenses of \$15m. So, the difference between them is the profit for the unit.

Mr BAILEY: That is where I find it a little difficult. If I take page 2, the Flores Sanitation and Water Supply Study Tour seems to indicate that it has 18 participants and there are a number of person-months, 5 to 30. I guess 5 people for 30 months. With all of that, project receipts were \$3000 and expenses were \$1000. It seems that you have a lot of people for \$1000.

Ms BUTTERWORTH: It is actually 5 days, is it not?

Mr JONES: If I may answer that. That is indicative of the actual project. We were not managing that project, we were managing a component of that project. We were providing a service for the managing agent which happened to be GRM in Brisbane. We were providing a service.

Mr BAILEY: Right. So, in other words, you were doing a small consultancy, or something like that, for the whole project?

Mr JONES: Yes, that is correct.

Mr BAILEY: So, when I look at these - where it says project receipts, project expenses - that is the only money that comes through your hands and is expended?

Mr JONES: Yes, that is correct.

Mr BAILEY: That is a bit more. Just the last one, to be sure I understand what we have here. Do you factor in any administrative costs in relation to projects, or are they separate. In other words, if you have people there all the time - who are employed and on salary like Jim - is his cost in any way added on to these, or are they separate? There is a million dollars the unit spends a year and then it is above that that you put it on as a project cost etc?

Ms BUTTERWORTH: No. The intent is for the unit to operate commercially, so all the costs are allocated to projects. I could not tell you how much individually, but yes.

Ms BRAHAM: So, it is my understanding that you actually tendered for these contracts for projects that are identified by different organisations, either within Australia or out of Australia. When you tender for those, you are actually competing against people right across Australia - firms right across Australia?

Ms BUTTERWORTH: That is correct.

Ms BRAHAM: When you are successful, the money comes from either the receiving country or the Australian Government or some private organisation?

Ms BUTTERWORTH: They would normally come from an aid organisation, not from the overseas country. Some of the projects that we have been doing more recently have been for mining companies overseas, and then it would come directly from the client from that company.

Ms BRAHAM: What sort of fraction of the cost does the Northern Territory give to these projects? Are you purely doing it on a commercial basis or sometimes does it actually cost the NT Government?

Ms BUTTERWORTH: The intent is that it does not cost the NT Government.

Ms BRAHAM: So, the entire department's costs are swallowed up into these operations.

Ms BUTTERWORTH: Yes, now that the unit is operating as a government business division - and we have to report that way - even things like property costs and so on are allocated to the unit, overall.

Ms BRAHAM: Obviously, the projects have a benefit for the receiving country. The spin-off for the Northern Territory is not just the financial side. What other ways do you see there are benefits for the Territory?

Ms BUTTERWORTH: A couple of major areas. One is the good neighbour - building up good relationships - which is a very important part of our role. Certainly, the work of the IPMU has helped build those relationships. It also helps to establish us within a country so that the Northern Territory is recognised and our contractors are recognised. When there are more jobs available, then we have a foot in the door.

Ms BRAHAM: One of the projects was the Chinese Business Cultures Program. Was that aimed at Australian business people to understand the Chinese culture, or vice versa?

Mr JONES: That was a special project we undertook for NTETA - the development of a program for Australian business persons. In fact, that program has become a national accredited program for Australians to gain language, some cultural background and some history on China. So, it was actually developed by us for NTETA.

Ms BRAHAM: NTETA paid the bill?

Mr JONES: Yes

Ms BRAHAM: Do you find that private companies are involved in these projects, or are they mainly government?

Mr JONES: Historically, they have been mainly government but currently we are working with more private companies. We also use private companies in the Territory to fill the requirements of our projects, for example in manpower.

Ms BRAHAM: So, your role is co-ordination, rather than providing the service? You go out into business or government departments to get that service?

Mr JONES: Correct.

Mr EDE: I recall a dispute between AusAID and some private aid bodies in regards to the percentage they were taking off the top for their administrative overheads. Austcare was one which was in the news recently, in that regard. What is the view of AusAID to your organisation when, for example, in the Tonga Audit Placement Training Program, they supplied you with \$7 000. It only cost you \$1 000 - all your administrative overheads included - and you took a profit of some 600% on your costs.

Ms BUTTERWORTH: I could not comment on what their view is. I do not know that we have had any feedback in relation to that, but it is a competitive tendering situation. I guess we were the cheapest.

Mr JONES: Could I make a comment on that? With that particular project, the full accounts are not in at this stage. That is the cost to us, at this stage. The profit margin on that was lucky if it was 10%. That is only at this stage; that is the only accounts we have received.

Mr EDE: Sorry, this was completed on 27 February 1994.

Mr JONES: Sorry.

Ms BRAHAM: Have you got a problem with them making a profit, Brian?

Mr JONES: The project expenses there were actually in relation to the unit itself. There were other expenses relating to the people who provided the service for that.

Mr EDE: Well, that is why the question was there. I am staggered, in actually going through it, at the extent of the profits that you have been able to make on these series of projects. I am not trying to cast doubts on the figures here, but I want to see the essence of it. On the face of it, it is one of the most profitable businesses around if you are able to attribute all your costs in the way that you have, and make such enormous profit margins.

I mean, why are we not all in it? What I am trying to establish from you is, what are these? It looks to me like cash receipts, cash expenses; cash in, cash out. But you were saying earlier that (inaudible) all your costs attribute to this - your management overheads, your office space. All those costs are in it.

Ms BUTTERWORTH: They are included in there, overall. I could not say that we have allocated against a particular project, but if I could make a point about some of the profit margins that we have in here. The first one, I mentioned previously, in Indonesia - that was the one we have made the largest profit on by a long way - was before the unit was operating fully commercially. So, there are some costs in that one that were not attributed to the project. For example, we were not paying in those days - charging the property management fees and all those sorts of things. There were additional costs the government bore.

Mr BAILEY: Now, what percentage are you attributing then?

Ms BUTTERWORTH: I could not give you that, off the top of my head.

Mr SETTER: So, what you are saying is that all the administrative costs of the unit are being picked up across ...

Ms BUTTERWORTH: On an annual basis, now. As you can see from the financial statements and the annual report, we do now attribute some of our central corporate services and all those sorts of things, across the total.

Mr SETTER: But you do not produce the balance sheets for each individual project?

Ms BUTTERWORTH: No.

Mr SETTER: Can I ask you some questions regarding that Indonesian project - the major one. I think it was tendered at - or won at - \$19m or thereabouts. Since then there have been subsequent projects of a similar nature in Indonesia. Have we tendered on those, and could you comment on why we have not been successful?

Mr JONES: Mr Chairman, currently there has not been one project funded by AusAID that has actually been implemented at this stage. There are a number of major projects proposed and they are being reassessed to determine whether they will be implemented. This is the follow-on project, as they called it LATVEP:C originally. That project has not as yet been implemented and currently, the date of implementation is likely to be the end of this year, if it is approved.

Mr SETTER: Would you see that as a weakness in AusAID's policy with regard to there being no continuity? For example, we had a very competent team of people over there, most of whom have since been made redundant or gone on to other jobs. Yet, one would assume that AusAID would, perhaps, try to bring forward the tendering for subsequent projects so that you could get continuity. If, for example, the NT was successful, you could carry on and pick up the next project with the same team of people instead of dispersing them and having to put together another team in 18 months or 2 years.

Ms BUTTERWORTH: Well, there are some pros and cons. The project was 4 years - and then it had an extension so it was nearly 5 years in the end - and you really need some fresh blood. It is not appropriate to leave people in those countries

for that period of time. It is our policy now that we would not leave anybody there for more than 2 years because it becomes difficult to bring them back into a job here and so on. Continuity, sure, of the management but the people involved in the project would probably be different anyway.

Mr SETTER: I take your point there. People do become entrenched but it is a little unfair, by the same token, to bring people back and then not have a job to go to, or not be guaranteed a job back in the system somewhere. Apart from that, to me it seems to be a waste of a good resource - with all that experience - and we lose it. But, nevertheless.

Mr BAILEY: Senior executives sit on contracts, as well, and do the same to them every 4 or 5 years. On the individual project, you mention that there is one that is a straight cost-out project and that is the Screens. Could you explain exactly what that is, and why we are involved in the way we are?

Mr JONES: SEAPREAMS is an organisation set up by the Education Department. It provides accredited management training programs and has both an international group of participants and a local group of participants. IPMU, as part of its marketing, believes that it is worthwhile sponsoring people - senior government officials from developing countries - to come to Darwin to: number one, participate in the project but number two, develop those linkages between the Northern Territory and those particular countries. In fact, we believe it is one of the most cost-effective ways of doing this; not only are we bringing them to Darwin so they can see the facilities we have - we develop those personal linkages - but it also provides them with information to go back with, on our behalf.

Mr BAILEY: So, would it be correct that there has been some form of cost-benefit analysis on that - whereas a belief that there is an overall financial benefit to the Territory for doing that?

Mr JONES: That is correct.

Mr BAILEY: Can I take you to the DID report, 1991-92? You said you had provided us with a summary of all projects that the unit had been involved with. Under the grants on page 47, it lists International Management Project Unit - North Australian Film Corporation - \$82 000. Now, in the documents you provided us with, I cannot find reference to that particular project.

The reason I was aware of this is because when I went to Indonesia a couple of years ago, I received a briefing paper from the Education Department. It was from Mr Bob Cox, on behalf of Michael Fong who gave me a Current New Developments Report outlining the International Project Management Unit - which was previously part of the Department of Education and which is now part of the Department of Industries and Development - formed a liaison with the North Australian Film Corporation to produce and sell to Indonesian Television Network, a children's television series titled, *Jalan Kita*. A contract of sale for 26 episodes was announced on October 7 last year, and this was in March 1993. The production of these episodes is now 50% complete.

Can you explain to the committee why we do not have any information regarding that as an IPMU project, and exactly what is it?

Ms BUTTERWORTH: The way I did the submission was to look at the issue raised in the Auditor-General's report about having a business plan and financial reporting. I looked at it from the point of view that I thought the committee was interested in - what does IPMU do, what does it intend to do - and I had assumed there was an issue about it being corporatised and privatised in the future, as that had been raised by the Chief Minister. As I explained to Mr Ede, we did not attempt to identify every dollar spent by the unit, and list those. I am not entirely sure of the details of the arrangement between IPMU and the film corporation, but I am aware that some money was provided when the unit was still in Education to produce this television program.

Mr SETTER: You were correct in assuming that we were addressing issues raised by the Auditor-General.

Ms BRAHAM: Could we just clarify...

Mr BAILEY: Hang on a second. The documents provided to us said that we had a complete list of projects that had been managed. Now, it is quite clear in the annual report of DID that the International Project Management Unit received \$82,000, as the form of a grant. If we went through the projects that you have managed, that would be at least in the top half, almost, of the amounts of money managed. The Auditor-General said, quite clearly, that the audit disclosed a need for a review and formalisation of the objectives of the unit with the financing recording procedures to enable assessment of the unit's performance against those objectives. So, in this project, what were the unit's objectives in getting a grant from DID when it was not part of that - a grant of \$82,000? You said there was other matching-up from the data base; that it really did not cost you anything. \$82,000 from DID went to IPMU to form a liaison. What was the liaison and what exactly did IPMU do with the North Australian Film Corporation, and how much did it cost them?

Ms BUTTERWORTH: I am sorry, Mr Chairman, I would have to get that information. I do not have it.

Mr BAILEY: Were you aware of any dealings with that...

Ms BUTTERWORTH: I was aware there had been a television program produced for children, something like Sesame Street, some years ago.

Mr BAILEY: But no idea of IPMU's role?

Ms BUTTERWORTH: No, I am sorry, I do not know.

Mr SETTER: When did you join the department?

Ms BUTTERWORTH: July 1995.

Mr SETTER: What is the date of the document you have there?

Mr BAILEY: The annual report 1991-92. The 1992-93 annual report of the department also refers to the *Jalan Kita* project. We were told that we had here a list of all projects, and I would have to say that nearly all of them were prior to Ms Butterworth's attempt. She seems familiar with many of the others. I guess that leads to the next question. Are there other projects, similar to *Jalan Kita*, that we have not been provided with, or was *Jalan Kita* a one-off - totally different to any other projects that IPMU has been involved with?

Ms BUTTERWORTH: I understand it is the latter, but I could not be absolutely sure of that. I would have to check my facts. Unfortunately, Jim Jones was not there at the time either, so I would have to get that information.

Mr BAILEY: Or, as soon after.

Mr SETTER: When did Mr Jones commence with the department?

Mr JONES: Three years ago.

Mr SETTER: That is 1993. I would like to draw to your attention the letter that was written to your CEO, Mr Lyall MacIntosh, on 4 March 1996, which says: "... and it was a request for you to prepare a briefing paper on all projects that have been managed." Was that particular project managed?

Ms BUTTERWORTH: It depends on your definition. The way we interpreted the word "managed", no - and that was the information that I provided - but I am happy to take the suggestion of providing more information, on notice.

Mr SETTER: Was it in the form of financial support, a seeding grant or something?

Ms BUTTERWORTH: I really cannot answer it; I am sorry.

Mr SETTER: Could you provide that information to the committee?

Ms BUTTERWORTH: Yes, I am happy to do that.

Mr BAILEY: Can I put the question to Jim Jones, who said he came in 1993. The 1992-93 annual report mentions *Jalan Kita* as a cooperation for the joint production of educational films between the Northern Territory Film Production Unit and Indonesian Educational Television. It goes on a little more. So, it was in your time. The question is - do you at the moment, Jim, have any information that you can give to the committee? You have been there 3 years and I would be very surprised if you did not look at projects prior to you joining. Is Mr Jones in a position to explain to the committee his understanding of IPMU's role in *Jalan Kita*?

Ms BUTTERWORTH: Mr Chairman, could we have a minute? Could I speak to Mr Jones for a moment?

Mr SETTER: Yes

Mr BAILEY: Just a minute; I have some real problems with that.

Ms BUTTERWORTH: Alright.

Mr SETTER: What is your problem?

Mr BAILEY: My problem is that no one is able to interfere with the evidence produced to a Public Accounts Committee. I have concerns that it is, well, what do you know, is it anything that is going to be embarrassing, if not, do not say it.

Ms BRAHAM: What we are hearing is that these people really do not know what this project was all about.

Mr BAILEY: No, sorry, Mr Jones has not said anything. Ms Butterworth, I can accept, may not have detailed knowledge of the project. Mr Jones as the executive officer above the IPMU - Mr Jones has basically been the SEO within the IPMU for the last 3 years - and I would have thought...

Ms BRAHAM: Well, when you raise something they were not prepared for, it is only fair to let them take it on notice and the committee accept that.

Mr BAILEY: No. We were provided with details of every project that IPMU supposedly has dealt with. Now, I have said that the annual reports of DID mention funding to IPMU for a specific project. I am quite curious as to why that project seems to be the only project left out; the only project that was totally different - if I am correct - from any other previous project. I would be extremely surprised if Mr Jones does not have, at least, a moderate level of knowledge about that project and IPMU's role within the project. If he says, look, I really do not know anything about it, then I will accept that and they will come back at another time and provide us with the detail. But I think we need to ask Mr Jones on his own, whether he has any knowledge of the project, and whether can he provide it to the committee?

Mr SETTER: Because there has been an objection, I am afraid I cannot allow you time to consult. I would ask Mr Jones to answer that question, within the knowledge he has available.

Ms BRAHAM: I do not think we have to ask Mr Jones to answer the question at this stage. Ms Butterworth has indicated she will take it on notice and I think you are harassing the witness.

Mr EDE. Is the Country Liberal Party about to use its numbers on this committee ...

Mr SETTER: Order, order.

Mr EDE: Is that the point of this?

Ms BRAHAM: I think you are harassing Mr Jones in the way you are going about this and raising something that obviously is their interpretation; they supplied us with the information that we wanted. I think we should give them the courtesy to go away and get the information you wish, and bring it back to the committee.

Mr BAILEY: If he has it, give it to us now. Ask him.

Mr SETTER: Would you answer the question?

Mr JONES: My knowledge of *Jalan Kita* is limited. It was not managed by IPMU, that is the first thing. We provided input to the project, but we did not manage the project.

Mr EDE: So, financial input was made without any role in management or control of the project, itself?

Mr JONES: That is correct, yes.

Ms BRAHAM: Can we, perhaps, cease questioning on this and ask them to come back with any information they can give us on the subject, because I think we are just...

Mr SETTER: Well, Ms Butterworth has undertaken to provide us with a briefing...

Ms BRAHAM: I do not like the way that this is going.

Mr SETTER: Would you please provide us a (inaudible) we can consider and, if appropriate, we might ask you to come back in the future to discuss the matter with us again.

Ms BUTTERWORTH: Fine..

Mr EDE: I would also like information on other projects. I mean, this one John has mentioned. If there are other projects which funds have been put into - but which do not form part of this because of the interpretation of the word "managed" - that those could be supplied as well so that we can get the broad picture. It is the funding, basically, that we are looking at.

Ms BUTTERWORTH: Could I clarify one point? So, it is where some funding has been provided; not necessarily where we have provided input by providing somebody off the database, or whatever. Funding is the criterion that we are going to use?

Mr EDE: I can see a situation where you may not be the source of the funding; you might be the conduit by which the funding is moved. Or, you may have a

role which is not even a conduit for funding, but there is some other government instrumentality providing funding into the project for which you have a reporting role, or something of that nature. If you can do it without putting too fine a point on what we are after. I think you get the idea.

Ms BUTTERWORTH: Yes.

Mr EDE: What we are looking at is the usage of government resources and how those apply on a project-by-project basis.

Mr SETTER: Well, let me refer you back to the letter to Mr Mackintosh. Do you have a copy of it?

Ms BUTTERWORTH: Yes, I do.

Mr SETTER: Okay. Point 2, the type of projects that have been supported; briefing paper on all projects that have been managed - which you have provided to us - source and application of funding to these projects; the financial statements for each completed project - that you told us you did not have - and details of current projects managed but not completed - we have received that.

Now, it is a matter for the committee to decide whether the request by Mr Ede is agreed to. Just because Mr Ede makes that request does not mean that is the view of the whole committee. Do I hear any other comments?

Ms BRAHAM: What was his request, Mr Chairman; could you clarify?

Mr SETTER: I think Mr Ede is looking for details of all other projects funded by the unit, rather than managed.

Ms BRAHAM: Is that something usually included in your financial report at the end of the year?

Ms BUTTERWORTH: It would not be detailed, project-by-project.

Ms BRAHAM: What sort of projects are you referring to, Brian? We are talking about projects that are managed under the IPMU unit. Are you referring to ...

Mr EDE: I believe that the word "managed" has been taken to have a fairly narrow meaning in terms of what we have here, given that funding has been provided somewhere, or there has been a conduit through the IPMU to provide funding. The (inaudible) projects does not come up in the information that we have been provided with here. So, I am really looking at those others that ...

Ms BRAHAM: Are you referring to other activities the department undertakes?

Mr EDE: The unit.

Ms BRAHAM: Would that be okay?

Ms BUTTERWORTH: Yes, that is alright.

Ms BRAHAM: Mr Chairman, I would support the suggestion that the information is vital to give us an overview of the department's ...

Mr SETTER: I would like to read to you the comment by the Auditor-General and, once again, remind you that we are inquiring into the report of the Auditor-General.

Under the heading International Project Management Unit, the Auditor-General says: "The unit's main area of operation was in providing education-related consulting services to Indonesia under a contract between the Northern Territory Government and the Australian International Development Assistance Bureau. The unit was transferred from the Department of Education in 1992 and an audit was conducted at the request of the Department of Industries and Development in 1993. The audit disclosed that there was a need for review and formalisation of the objectives of the unit, and for financial reporting procedures to enable assessment of the unit's performance against those objectives. The department advised that these matters were to be addressed as part of the preparation of the strategic plan for the department to be completed in 1993-94."

That is the sum total of the Auditor-General's report. He makes no comment about any specific projects. However, if the committee is happy to request these people to provide that information to us - as requested by Mr Ede - that is agreed and we would ask you to provide us with a briefing on that.

Mr BAILEY: I gather that we have accepted in relation to the *Jalan Kita* projects - specifically, as one of those. I mean, this is a specific dollar grant to IPMU of \$82 000 and, I guess, looking at how you spent that money.

Mrs BRAHAM: Mr Chairman, this department was moved from the Department of Education in 1993. How far back are we requesting this information? Are we talking about the new department that was established in 1993? I appreciate John wants to have information about a project that was in 1992. If he wants to find that, fine.

Mr BAILEY: Lorraine, you will not let us talk about 1995 because it post-dates the Auditor-General's report. The Auditor-General's report specifically talks about 1992-93, which is where we are asking questions. You will not let us talk about 1995-96, yet.

Ms BRAHAM: ...How far back do you want to go? How far back are we talking about - 1992, 1991, 1990?

Mr SETTER: We are talking about the Auditor-General's report, 1991-92 and 1993-94.

Ms BRAHAM: So, we are talking about, 1,2,3,4.

Ms BAILEY: Way in the middle of the time-line, we are talking about.

Mr SETTER: We are talking about the Auditor-General's reports, 1993-94 and 1994-95. Mr Bailey is referring to the department's report of 1991.

Mr BAILEY: It is first mentioned in 1991, and again in 1992-93.

Ms BRAHAM: Surely, we are not requesting all previous projects in 1991-1992.

Mr BAILEY: Sorry, we were told that we had here all projects, from the beginning.

Ms BRAHAM: I presumed we were talking about the IPMU unit, not the Department of Education.

Mr BAILEY: IPMU was a unit within Education. The management of the unit changed across to DID, but the IPMU is an independent unit and that is the information we have been provided with.

Ms BRAHAM: Mr Chairman, please clarify what we are asking for.

Mr SETTER: I thought you agreed just a moment ago.

Ms BRAHAM: How far back are we talking about?

Mr SETTER: The department has been asked to provide details of all projects that were funded, rather than managed. We have details of the ones that were managed, but all other projects that were funded by the department.

Ms BRAHAM: We are talking about 1991-92,1993-94?

Mr SETTER: All projects, since its inception - that is what we are talking about, as I understand it.

Mr SETTER: Could I ask Mr Bailey to table the documents to which he referred so they can be circulated to other members?

Mr BAILEY: Not a problem.

Mr EDE: You provided us with an example of a financial report. I go back to what I was saying earlier in regards to actual costs attributed to projects. When I look at this, it has a number of items of cost. Is this the same format that you use for all projects?

Ms BUTTERWORTH: Are you talking about this one?

Mr EDE: The 38-column spreadsheet. Is that standard for all projects?

Ms BUTTERWORTH: For AusAID projects.

Mr EDE: Do those salary costs, which are taken on, include provisions for long-service leave, holidays, worker's compensation etc? I take it from nodding your head that that is taken in to the actual amount, so that if the project director is \$271,800 it includes any provisions for worker's compensation, long-service leave, holiday pay, etc, for that position.

Ms BUTTERWORTH: That is correct.

Mr EDE: When we go further down - I presume that is the same for all of those - we go into other project-related costs. We have things like equipment there. Does that include items of a capital nature

Mr JONES: It does.

Mr EDE: So, items of a capital nature are essentially written off against the project?

Mr JONES: That is correct, because they are items that we buy on behalf of AusAID to be delivered to the schools in Indonesia.

Mr EDE: So, they are not depreciated as such; they are just written off at cost.

Mr JONES: No

Mr EDE: What is SAGRIC?

Mr JONES: SAGRIC is the international organisation in South Australia, which is much the same as IPMU.

Mr EDE: So, money was provided to SAGRIC to run part of this project, or is that a general thing?

Mr JONES: That was related to this project. Because the Northern Territory group that bid and won the project were not experienced in overseas projects, it was suggested that we use the services of another international organisation that had the appropriate credibility. SAGRIC was employed to do that.

Mr EDE: So, they were advisers. Travel, establishment costs, pre-mobilisation training - all of these look to be costs related to the personnel that were on the project or to people who were the object of the project, if you like. I cannot see where we pick up the costs, back here, of the office - the organisation itself. I take it that those are not done in this area; that those are apportioned against projects, generally?

Ms BUTTERWORTH: If you go back to the first part there - it is long-term Australia and long-term Indonesia. The long-term Australia relates to the people within the unit here, and long-term Indonesia are the people overseas.

Mr EDE: So, there are no costs? Where is the office here?

Ms BUTTERWORTH: This is the project I said was not operating fully commercially at that stage. Not all office costs were attributed to this project, which is one of the reasons it made such a profit.

Mr EDE: I see. So, this is no longer the standard format. Is there a new format of report which takes in those costs?

Mr JONES: This report here is the report provided to AusAID. It is provided by AusAID as the tool by which we financially manage the project.

Mr EDE: Do you have another one? With corporatisation you are going to look at it as an economic entity, so there must be another one that allows you to track all those other costs?

Ms BUTTERWORTH: Those other costs are done across the whole of the unit, not on individual projects. So, at the end of the year, we allocate the costs of our central corporate services and property management and all those things, to the unit.

Mr EDE: So, this is (inaudible) of gross profit?

Ms BUTTERWORTH: Yes.

Mr EDE: You take it as gross profit from there and then you have your other costs, which take on, before you establish your net profit?

Ms BUTTERWORTH: That is correct.

Mr EDE: Would it be possible for us to have that document? I thought we had it, but I see that we asked on a project-by-project basis.

Ms BUTTERWORTH: The financial statement is in the department's annual report for last year.

Mr EDE: As IPMU?

Ms BUTTERWORTH: Yes. Now it is a government business division it has its own financial statements, and they are in the annual report.

Mr EDE: That takes in the total cost of the (inaudible).

Mr SETTER: How do you measure the performance of each project?

Mr JONES: In this particular case, we can see the performance in relation to the financial return to the Territory. The financial return from this project to the Territory - which is one of the last projects to be funded like this - was nominally around \$3.5m. Now, that is gross profit.

We also measure actual outcomes within the countries we have worked - with the improvement of the systems we have been advising on and developing. In other words, the actual schools that we were working with. We look at the quality of the teachers who have undertaken the training - provided, for example, by NTU. We also look at the overall performance in relation to people finding jobs on those particular projects. We also, of course, work in with AusAID and their opinion of the project, and how successful it was.

Ms BRAHAM: Does AusAID evaluate the project?

Mr JONES: Yes, they do.

Ms BRAHAM: You obviously get a copy of their report. Do they do it independently?

Mr JONES: Normally, they do it independently of us and normally, it is after the project is completed. As you can see, they are observing the financial performance of the project with the information they have here, and that is on a quarterly basis.

Ms BRAHAM: What, would you say, was your most successful project?

Mr JONES: This certainly was our most successful project.

Ms BRAHAM: From a financial point of view?

Mr JONES: From a financial point of view, but also in upgrading the profile of the Territory in Indonesia, specifically eastern Indonesia. I think this project has developed a relationship with eastern Indonesia which is probably second to none - in the sense of Australia - with our profile.

Ms BRAHAM: And, from the Indonesian's point of view?

Mr JONES: I think that is from the Indonesian's point of view, because they keep coming back to us asking for services. We, of course, must tell them that we are not a funding agency, as such.

Mr SETTER: There is no doubt about that. I have heard comments about the gap that has been left by us - the project completing and our people coming out.

Ms BRAHAM: Will your new strategic plan be formatted differently so that you will be able to see the objective of the project and an assessment of it, within your financial statement? Or, will there be performance indicators for a project as well as the financial side?

Mr JONES: That is correct. Each project has a set of terms of reference and they form the benchmarks by which AusAID determine whether we are effectively implementing the project or not. With every project, they monitor that with their in-country personnel and they also send personnel from Canberra to monitor how we are achieving the objectives of that particular project.

Mr BAILEY: Just on that. You say the way they fund projects - and that type of project - is unlikely to happen again. Can I clarify a couple of things?

First, what is the future viability of IPMU if major projects like that are getting thin on the ground? I cannot see how you can operate projects on a couple of thousand dollars here and there, and expect to run a unit. Is there a future for IPMU now that those sort of projects have gone?

Secondly, in trying to quickly read through some of these projects, I am not sure whether there are two parts to the project now. What is the implementation of a project - like providing a group of teachers and doing things like that - and, separately, management.

If you look at that (inaudible) project, you did the whole thing. You supplied teachers and everything and therefore it probably was not unreasonable that you made a moderate, about 10% profit I would say, overall.

But are you moving towards a situation where you are doing submissions for projects - and little bits of them - then the project goes ahead under another body? That is, you might look at doing a pipeline or a power grid from somewhere or other, and all you are doing is a consultancy in that regard. Then, the project goes ahead so the big dollars are not coming to you anymore. I am trying to get a feel for where it is going.

Ms BUTTERWORTH: Yes, it is no doubt questionable. Certainly, it is much more competitive than it was previously for aid projects, and funding bodies such as AusAID are looking very critically at the cost of the projects and, now the Federal Government has changed, re-assessing which projects go ahead. So, it is difficult for us to win projects; there is no doubt about that. We are so small compared with SAGRIC, for example, and Victoria has a similar unit.

AusAID is trying to encourage the various states to get together in a consortium arrangement so that the best from Australia work on the project. We are becoming more and more involved in those, and we work in conjunction with others.

We have put in bids in conjunction with private enterprise organisations, particularly one recently which was an engineering project, and we combined with private sector engineers. We did not win it, as it turned out, but that was the way we thought we could present the best case.

We are looking at broadening the scope of IPMU, as part of the corporatisation exercise. It has been focussed on education and training and we are now looking at broadening that to possibly, export of health services, bringing in the NT Construction

Group - which is a part-private sector, part-government organisation - and crossing a broader range of projects to give us the opportunity to access more projects.

Mr EDE: Do your terms of reference say they have to be on a true cost-benefit analysis, separate from a good neighbour policy? I gather that is DID's more political role, that Ministers and others can do. You have to be careful that you do not duplicate the Asian trade area.

Ms BUTTERWORTH: We would not see that we were duplicating, but contributing. Having the presence there is very important, I think, to the Northern Territory Government. Certainly, IPMU is to be a commercial organisation so that is the bottom line; there is no doubt about that. I think there was another part to your question which I have missed.

Mr EDE: Going to the reports, it would appear that if you did not have the Northern Territory Government contribution, you would have had a decrease in accumulated funds - rather than an increase in accumulated funds - for the year.

Ms BUTTERWORTH: Correct.

Mr EDE: It says that you work your costs on the basis of a proportion of working out particular percentages of floor space, etc. That is a pretty awkward way to accumulate your costs. I understand that you are starting off and you want to get some sort of historical base on it. Is there any plan in the department to take advice on working out ways to have a more see-through, if you like, cost apportionment to the project?

Ms BUTTERWORTH: To individual projects?

Mr EDE: No, to the IPMU as a whole.

Ms BUTTERWORTH: Well, the government as a whole is moving towards charging individual rates for leased space, so the office space side of it, yes. But we have not considered in terms of allocating costs - for example, for corporate services and executive. We have not considered doing that in any different way yet, no.

Mr EDE: Administrative support, for example. That could be a very notional amount. I mean, under what basis would you decide what proportion administrative support would be allocated to the IPMU as against some other?

Ms BUTTERWORTH: ...It has been done on a per capita basis. The number of people in IPMU, compared with the number of people in the rest of the department.

Mr EDE: It could be very dicey if IPMU has large numbers of people offshore; whether they are counted or not would make a large difference to the actual costs.

Ms BUTTERWORTH: We would not count those; we would see those as part of the project costs. So, it is the management unit within the organisation. I acknowledge that it is not very scientific, but that is what we are doing.

Mr BAILEY: In relation to that cost allocation. It is supposed to be a business enterprise; in other words, it is supposed to be working on a commercial basis. How independent is it from policy decision-making within the department and above, that would interfere with its ability to carry out a commercial enterprise arrangement? If the Minister says we are going to get this project somewhere or other - and, in fact, you are not going to make any money out of it - how do you deal with that? Is it independent from the executive, or not?

Ms BUTTERWORTH: It is allowed to be, but there is nothing that stipulates that it shall be independent. So, the situation that you are describing could occur; it never has. The unit identifies the opportunities ...

Mr BAILEY: Sorry, you are not aware that it has. You said you are not familiar with all the projects in the past. You cannot have it both ways.

Ms BUTTERWORTH: Correct, I am not aware. Since I have been there, it has not happened. From what I have seen of the unit, the unit identifies opportunities, puts together the bid, makes the bid and those are not approved by the Minister, as such. So, there is that independence. Now that we are looking at corporatising the unit, we are certainly looking at making it much more independent - being governed by a board which would possibly include other departments, possibly the private sector. So, we are looking at making it more arms-length.

Mr BAILEY: On a costing to the unit, is your time included in that costing - a proportion of your time?

Ms BUTTERWORTH: In the corporate costs and executive, yes.

Mr SETTER: Are there any other questions? In which case, I will close this session. Thank you very much for attending.

Ms BUTTERWORTH: Thank you.

Mr SETTER: We doubtless will be hearing from you in the not too distant future.

Mr SETTER: The chair will be resumed at 2pm.

APPENDIX C

1995/96 STRATEGIC PLAN FOR IPMU



International Project Management Unit

Department of Asian Relations, Trade and Industry

Australia's Northern Territory

GROUP VISION

W

e are committed to

generating an economic return

through exporting the skills and

expertise of the Northern

Territory to the International

Market Place.

LAI D BEFORE PUBLIC
ACCOUNTS COMMITTEE

10

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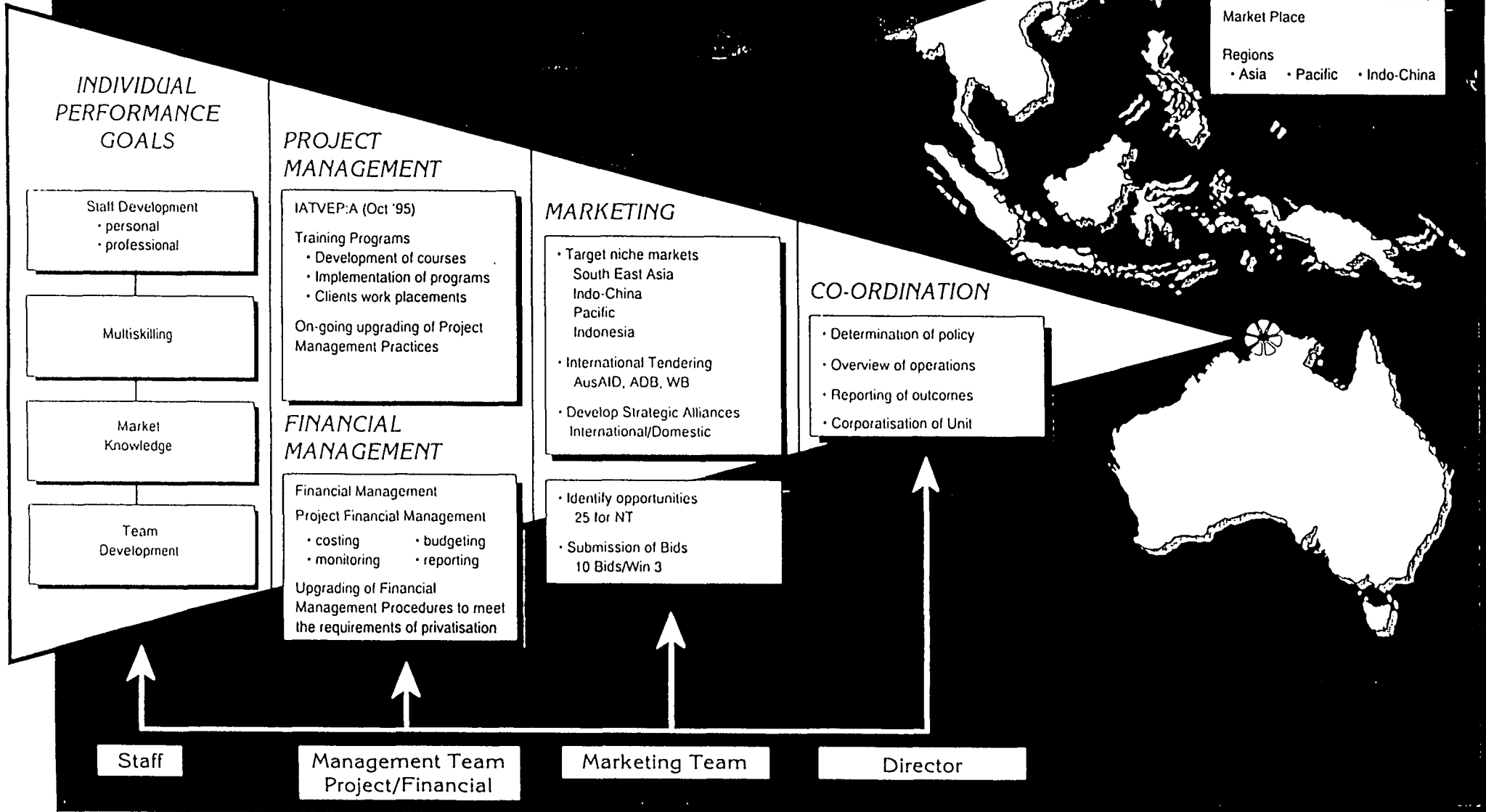
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DATE



CRITICAL STRATEGIC ISSUES - 1995/96

STRATEGIES



ATTACHMENT 1

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ATTACHMENT 2

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COMMITTEE TO BE COMMERCIAL-IN-CONFIDENCE**

