Northern Territory Auditor-General's Office

Auditing for Parliament

December 2020

Report to the Legislative Assembly

https://ago.nt.gov.au

Contact Details

Northern Territory Auditor-General's Office

Level 9
22 Mitchell Street
Darwin, Northern Territory 0800

GPO Box 4594
Darwin, Northern Territory 0801

+61 8 8999 7155

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December 2020 Report to the Legislative Assembly

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

9 December 2020

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits, reviews and assessments completed during the five months ended 31 October 2020 and I request that you table the report in the Legislative Assembly.

This report presents the results of financial statements audits completed during the five months ended 31 October 2020.

The report also presents the results of reviews that were performed to assess the adequacy of selected aspects of end of year financial reporting and controls over accounting and material financial transactions at 19 Northern Territory Government agencies. Findings arising from these audits have been reported to the affected agencies to enable them to address identified control weaknesses.

A performance management systems audit designed to test performance management systems within one agency as they related to contract management was undertaken with the findings included in this report.

The findings from the audit directed to be undertaken in accordance with section 14 of the *Audit Act 1995* and findings resulting from the data analysis conducted at selected entities upon corporate credit card transactions are included within this report.

My report contains my findings relating to one matter referred under the *Public Information Act 2010*.

Yours sincerely,

Julie Crisp
Auditor-General for the Northern Territory

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Auditor-General's Overview

Audits Included in this Report

This report outlines the results of 51 separate audits and other tasks completed during the period 1 June 2020 to 31 October 2020. This report summarises the results of the following types of audits and legislated tasks conducted during the period:

- Statutory Audits of Financial Statements;
- Controls and Compliance Audits;
- Data Analysis;
- Performance Management Systems Audits;
- *Audit Act 1995* section 14 Directive; and
- *Public Information Act 2010* Referrals.

The report presents the results of reviews that were performed to assess the adequacy of selected aspects of end of year financial reporting and controls over accounting and material financial transactions at 19 Northern Territory Government agencies. Findings arising from these audits have been reported to the affected agencies to enable them to address identified control weaknesses. The end of year reviews of the Public Account are undertaken in accordance with section 13 of the *Audit Act 1995* and provide support to the audit of the Treasurer's Annual Financial Statement.

Also included are the results of audits of financial statements for those entities with a financial year ended 31 December 2019 and 30 June 2020 where the audits were completed prior to 31 October 2020.

The findings from a performance management systems audit conducted in relation to contract management are included in this report.

The findings from the audit directed to be undertaken in accordance with section 14 of the *Audit Act 1995* and findings resulting from the data analysis conducted at selected entities upon corporate credit card transactions are included within this report.

I reviewed one matter as a result of the application of the *Public Information Act 2010*, the results of my inquiries and my conclusion in relation to this matter are included in this report.

The *Audit Act 1995* provides a legislative requirement for the Auditor-General to report to the Legislative Assembly on at least an annual basis. This is the first report provided for tabling within the Legislative Assembly for the year ending 30 June 2021. My last report was tabled during June 2020.

Agencies and entities are provided with the opportunity to comment on any of the matters reported in relation to findings from tasks undertaken in accordance with the *Audit Act 1995*. Where they choose to do so, their responses are detailed at the end of the relevant section.

A number of audits scheduled to be commenced and completed in the period 1 July 2020 to 31 December 2020 are still to be completed. The outcomes of these audits (listed in Appendix 2) will be presented in the next report to the Legislative Assembly.

References within this report are to agencies that existed during the year ended 30 June 2020. Machinery of government changes in September 2020 resulted in the functions of a number of agencies being transferred to other agencies and an overall reduction in number of agencies.

Auditor-General's Overview cont…

Impact of the COVID-19 pandemic

The spread of Coronavirus (COVID-19) was declared a public health emergency by the World Health Organisation on 31 January 2020, and upgraded to a global pandemic on 11 March 2020. The pandemic resulted in an unprecedented global response by governments, regulators and industry sectors. The Australian Government enacted its emergency plan on 29 February 2020 which saw the closure of Australian borders from 20 March; the implementation of social distancing and restrictions around freedom of movement and association; an increasing level of restrictions on corporate Australia's ability to operate; significant volatility and instability in financial markets; and the release of a number of government stimulus packages to support individuals and businesses as the Australian and global economies face significant slowdowns and uncertainties.

In the Northern Territory, most businesses have been directly and indirectly impacted due to travel limitations, office closures, cancellation of contracts, supplier issues and production/delivery delays, deferral of payments / receipts, the implementation of employees' health and safety measures and pandemic-related costs.

The Northern Territory Government has responded to the COVID-19 pandemic in a number of ways since April 2020. Some of the initiatives, such as stimulus expenditure and the waiver of taxes and charges, have resulted in direct financial impacts to the Public Account. Whilst a number of audits directed at the initiatives introduced by government have commenced, these are yet to be concluded and the findings from these audits will be included in future reports to the Legislative Assembly. To the extent that COVID-19 has impacted the financial results of statutory entities for the year ended 30 June 2020, these impacts have been considered during the respective audits.

The Role and Responsibilities of the Auditor-General

Responsibilities of the Auditor-General

The Auditor-General's powers and responsibilities are established in the *Audit Act 1995* by the Northern Territory's Parliament, the Legislative Assembly. The Auditor-General is required to report to the Legislative Assembly at least once each year on any matters arising from the exercise of the auditing powers established in that Act. Each report may contain findings from financial statement audits, agency compliance audits, information technology audits, controls and compliance audits, performance management systems audits and findings from any special reviews conducted. Results of any reviews of referred information under the *Public Information Act 2010* are included when the reviews are concluded.

In reporting these results, the Auditor-General is providing information to the Parliament to assist its review of the performance of the Executive Government, particularly the Government's responsibility for the actions of the public sector entities which administer its financial management and performance management directives. The Parliament has a responsibility to conduct this review as the representative of the people of the Northern Territory.

The Auditor-General is also able to report to management of public sector entities on matters arising from the conduct of audits.

Reports provided to Parliament and public sector managers should be recognised as a useful source of independent analysis of government information, and of the systems and controls underpinning the delivery of that information.

The Auditor-General is assisted by personnel of the Northern Territory Auditor-General's Office who plan audits and tasks conducted by private sector Authorised Auditors.

The requirements of the *Audit Act 1995* in relation to auditing the Public Account and other accounts are found in:

- Section 13, which requires the Auditor-General to audit the Public Account and other accounts, with regard to:
    - the character and effectiveness of internal control; and
    - professional standards and practices.
- Section 25, which requires the Auditor-General to issue a report to the Treasurer on the Treasurer's Annual Financial Statement.

The Role and Responsibilities of the Auditor-General cont…

Audit of the Treasurer's Annual Financial Statement

Using information about the effectiveness of internal controls identified in the overall control environment review, Agency Compliance Audits including End of Year Reviews and the results of financial statement audits, an audit approach is designed and implemented to obtain assurance that the balances disclosed in the Treasurer's Annual Financial Statement are in accordance with the disclosure requirements adopted by the Treasurer, and are within acceptable materiality standards.

The audit report on the Treasurer's Annual Financial Statement is issued to the Treasurer. The Treasurer then tables the audited Treasurer's Annual Financial Statement to the Parliament as a key component of the accountability of the Government to the Parliament.

Statutory bodies, Government Owned Corporations and Government Business Divisions are required by various Acts of Parliament to prepare annual financial statements and to submit those statements to the Auditor-General for audit. Those statements are audited and audit opinions issued accordingly. The opinions are included in the various entities' annual reports that are tabled in the Legislative Assembly. If matters of concern were identified during the course of an audit, specific comment is included in my report to the Legislative Assembly.

In addition, the Northern Territory Government controls, either directly or indirectly, a small number of companies that have been incorporated pursuant to the Commonwealth *Corporations Act 2001*. These audits are performed subject to the provisions of the Commonwealth legislation, with the Auditor-General being deemed by the *Corporations Act 2001* to be a Registered Company Auditor.

Audits by my Office are conducted in accordance with Australian Auditing Standards. Those standards are issued by the Australian Auditing and Assurance Standards Board, a Commonwealth statutory body established under the *Australian Securities and Investments Commission Act 2001*. Auditing Standards issued by the Board have the force of law in respect of audits of corporations that fall within the ambit of the *Corporations Act 2001*, while the *Audit Act 1995* also requires that the Auditor-General has regard to those standards.

The Public Account

The Public Account is defined in the *Financial Management Act 1995* as:

- The Central Holding Authority; and
- Operating accounts of Agencies and Government Business Divisions.

The Role and Responsibilities of the Auditor-General cont…

Audits of Performance Management Systems

Legislative Framework

A Chief Executive Officer, as an Accountable Officer, is responsible to the appropriate Minister under section 23 of the *Public Sector Employment and Management Act 1993* for the proper, efficient and economic administration of his or her agency. Under section 13 (2)(b) of the *Financial Management Act 1995*, an Accountable Officer shall ensure that procedures "*in the agency are such as will at all times afford a proper internal control*". Internal control is defined in section 3 of the *Financial Management Act 1995* to include "*the methods and procedures adopted within an agency to promote operational efficiency, effectiveness and economy*".

Section 15 of the *Audit Act 1995* complements the legislative requirements imposed on Chief Executive Officers by providing the Auditor-General with the power to audit performance management systems of any agency or other organisation in respect of the accounts of which the Auditor-General is required or permitted by a law of the Territory to conduct an audit.

A performance management system is not defined in the legislation, but section 15 of the *Audit Act 1995* identifies that: "*the object of an audit conducted under this section includes determining whether the performance management systems of an agency or organisation in respect of which the audit is being conducted enable the Agency or organisation to assess whether its objectives are being achieved economically, efficiently and effectively.*" Performance management systems audits can be conducted at a corporate level, a program level, or at a category of cost level, such as capital expenditure.

Operational Framework

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

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

Guide to Using this Report

Auditing

There are two general varieties of auditing undertaken in the Northern Territory Public Sector, independent auditing and internal auditing. Only independent audits are undertaken through the Office of the Auditor-General. I, and my Principal Auditors (as my representatives), do attend meetings of Agencies' audit and risk committees where invited, but only in the role of observer.

Independent Audit (also known as External Audit)

Independent audits are generally undertaken in order for an entity to achieve compliance with statutory or legal arrangements. Independent audits may be mandated by legislation or be required by a contractual arrangement. The audit work and resultant opinion is undertaken by an individual or entity independent of the agency or entity subjected to audit. These audits can take the form of financial statements audits, compliance audits or performance management systems audits.

Internal Audit

Treasurer's Direction Part 3, section 2 requires an Accountable Officer to ensure his/her Agency has an adequate internal audit capacity. Internal audit is a management tool designed to provide assurance to Accountable Officers that systems and internal controls operating within Agencies are adequate and effective. Internal audit carries out its functions by undertaking audits, reviews and other related tasks for improving the performance of organisations. The Accountable Officer is ultimately responsible for selection of audit topics, risk management and audit frameworks and the delivery of internal audit services.

Types of Financial Reports

Financial reports submitted for independent audit are prepared under either a general purpose or special purpose framework.

General Purpose Financial Report

A general purpose financial report comprises a complete set of financial statements, including the related notes, and an assertion statement by those responsible for the financial report, prepared in accordance with a financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

Special Purpose Financial Report

A special purpose financial report comprises a complete set of financial statements, including the related notes, and an assertion statement by those responsible for the financial report, prepared in accordance with a special purpose framework. The requirements of the applicable financial reporting framework determine the format and content of a financial report prepared in accordance with a special purpose framework.

Guide to Using this Report cont…

Types of Assurance Engagements

The amount of audit work performed, and the resultant independent opinion, varies between an audit and a review. The level of assurance provided by the opinion is either reasonable or limited.

Reasonable Assurance

A reasonable assurance engagement is commonly referred to as an audit. A reasonable assurance engagement is an assurance engagement where the auditor is required to perform sufficient work to reduce the risk of misstatement to an acceptably low level in order to provide a positive form of conclusion.

Limited Assurance

A limited assurance engagement is commonly referred to as a review. A limited assurance engagement is an assurance engagement where the assurance practitioner's objective is to perform sufficient audit procedures to reduce the risk of misstatement to a level that is acceptable in the circumstances but where the risk is not reduced to the level of a reasonable assurance engagement. A negative opinion is provided that states that nothing has come to the attention of the reviewer that indicates material misstatement or non-compliance with established criteria.

Audit Opinions

There are two overarching categories of audit opinion, an unmodified audit opinion (sometimes referred to as a "clean" opinion) and a modified audit opinion.

Unmodified Audit Opinion

Unmodified opinions provide a reasonable level of assurance from the auditor that the financial statements present a true and fair reflection of an entity's results for the period reported.

Notwithstanding an audit opinion may positively attest to the truth and fairness of the financial statements, additional paragraphs may be included in the audit opinion in relation to a matter the auditor believes requires emphasis.

An "Emphasis of Matter" paragraph means a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial report that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial report. The inclusion of an emphasis of matter paragraph in the audit opinion is intended to draw the reader's attention to the relevant disclosure in the financial report.

An "Other Matter" paragraph means a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial report that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities and/or the auditor's report.

Under the going concern basis of accounting, a financial report is prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial reports are prepared using the going concern basis of accounting unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. A "Material Uncertainty Related to Going Concern" paragraph is included in the auditor's report where there is material uncertainty as to whether the entity is a going concern and adequate disclosure about the material uncertainty has been made in the financial report.

Guide to Using this Report cont…

Australian Auditing Standard ASA 701 *Communicating Key Audit Matters in the Independent Auditor's Report* deals with the auditor's responsibility to communicate key audit matters in the auditor's report. The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing additional information to intended users of the financial report to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial report of the current period.

Modified Audit Opinion

Australian Auditing Standard ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*, paragraph 2, establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

a) the nature of the matter giving rise to the modification, that is, whether the financial report is materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and

b) the auditor's judgement about the pervasiveness of the effects or possible effects of the matter on the financial report.

Qualified Opinion

An auditor shall express a qualified opinion when:

a) the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial report; or

b) the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be material but not pervasive. [ASA 705, paragraph 7]

Adverse Opinion

An adverse opinion is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial report. [ASA 705, paragraph 8]

Disclaimer of Opinion

An auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial report of undetected misstatements, if any, could be both material and pervasive. [ASA 705, paragraph 9]

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial report due to the potential interaction of the uncertainties and their possible cumulative effect on the financial report. [ASA 705, paragraph 10]

Guide to Using this Report cont...

Assurance Engagements Conducted by the Auditor-General

The types of assurance engagements conducted through the Auditor-General's Office include:

- Statutory Audits of Financial Statements;
- End of Year Reviews;
- Information Technology Audits;
- Controls and Compliance Audits; and
- Performance Management Systems Audits.

Statutory Financial Statements Audits

Statutory audits of financial statements are conducted on the full financial reports of government business divisions, government owned corporations and other government controlled entities that prepare statutory financial statements.

Agencies are required, by Treasurer's Directions issued pursuant to the *Financial Management Act 1995*, to prepare financial statements that comply with Australian Accounting Standards. Agencies are not, however, required to submit those statements to the Auditor-General unless directed to do so by the Treasurer pursuant to section 11(3) of the *Financial Management Act 1995*. As no such direction has been given, Agencies' financial statements are not audited separately, but are reviewed as part of the audit of the Public Account and of the Treasurer's Annual Financial Statement.

In the case of a financial statement audit, an 'unqualified audit opinion' means that the Auditor-General is satisfied that the Agency or entity has prepared its financial statements in accordance with Australian Accounting Standards and other mandatory financial reporting requirements or, in the case of acquittal audits, the relevant legislation or the agreement under which funding was provided. It also means that the Auditor-General believes that the report is free of material error and that there was nothing that limited the scope of the audit. If any of these conditions should not be met, a 'modified audit opinion' is issued together with an explanation of why a modified audit opinion was issued.

Within this report, the audit opinions, key audit matters and summaries of audit observations represent the more important matters relating to each audit. By targeting these sections, readers can quickly understand the major issues faced by a particular agency or entity or by the public sector more broadly.

Information Technology Audits

Information technology audits are undertaken as stand-alone audits of key agency or across-government systems. Each of the systems selected for audit plays an important role in processing data and providing information for the purposes of financial management and, more particularly, for the purposes of financial reporting and the preparation of the Treasurer's Annual Financial Statement.

Guide to Using this Report cont…

End of Year Reviews

The End of Year Review provides an audit focus on year end balances particularly within agencies. The nature of the review is determined annually whilst planning the audit of the Treasurer's Annual Financial Statement, but includes testing of transactions occurring around year end to provide a degree of confidence about the data provided to Treasury and which will form part of the overall reporting on the Public Account.

Controls and Compliance Audits

Controls and Compliance Audits are conducted of selected systems or accounting processes to determine whether the systems and processes achieve compliance with legislated or otherwise mandated requirements. These audits are intended to assist in the audit of the Public Account.

Performance Management Systems Audits

The audit process determines whether existing systems or practices, or management controls over systems, are adequate to provide relevant and reliable performance information that will assist intended users of the information make decisions relating to accountability and the achievement of results. These audits are also intended to assist in the audit of the Public Account.

Public Information Act 2010 Referrals

The *Public Information Act 2010* requires the Auditor-General, upon receipt of a written request of an Assembly member, or on the Auditor-General's initiative, to conduct a review of particular public information to determine whether the Act is contravened in relation to the information. If review of the information suggests a contravention, a preliminary opinion is issued to the public authority that gave the relevant public information. When preparing the report about the review, any comments provided by the public authority following the preliminary opinion are taken into consideration. The associated reports are included in my reports to the Legislative Assembly.

Reports on the Results of Audits, Reviews and Assessments

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Board of the Museum and Art Gallery of the Northern Territory

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

The Board of the Museum and Art Gallery of the Northern Territory (the Board) was established pursuant to the *Museum and Art Gallery of the Northern Territory Act 2014* and is owned by the Northern Territory. The Museum and Art Gallery of the Northern Territory consists of:

- the ground and facilities prescribed by the Museum and Art Gallery of the Northern Territory Regulations 2014 (the Regulations);
- the collection (including art works, specimens, exhibits, equipment, data and publications owned by the Northern Territory and held for the purpose of the Board); and
- any other thing prescribed by the Regulations.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Board of the Museum and Art Gallery of the Northern Territory for the year ended 30 June 2020.

Audit Opinion

The audit of the Board of the Museum and Art Gallery of the Northern Territory for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 25 September 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Board recognised a net deficit of $526,000 for the year ended 30 June 2020 compared to a surplus of $104,000 for the year ended 30 June 2019.

The Board is primarily funded from grants received from the Northern Territory Government. The largest expenditure categories are employee expenses, property management costs and purchases of goods and services.

Grant income for 2020 decreased by $1,033,000 when compared to 2019 (2020: $8,653,000, 2019: $9,686,000). The decrease is attributable to a decrease in grant funding of $780,000 from the NT Government and a decrease in Commonwealth Government grants of $370,000, partially offset by an increase in grants from other sources of $36,000.

Employee expenses increased by $609,000 (2020: $6,079,000, 2019: $5,470,000). Of this increase, $402,000 represents the recognition of costs associated with voluntary redundancies with the remainder of the increase largely attributable to annual increases in salary as required in accordance with employment agreements.

Board of the Museum and Art Gallery of the Northern Territory cont…

Purchases of goods and services decreased by $1,098,000 from $3,276,000 in the prior year to $2,178,000 in the year ending 30 June 2020. This decrease reflects:

- reduced expenditure on Artworks purchased for the collection of $192,000;
- reduced exhibition fees of $135,000 (The Spider, Yidaki and Nyapanyapa exhibitions presented during 2019 contributed to increased exhibition fees in that year);
- reduced consultants' costs of $54,000, as there were two consultancies in 2019 with no similar expenditure occurring in 2020; and
- reduced travel costs and print advertising due to COVID-19.

Late adjustments to the financial statements

The 2019 Annual Report (which was not available when the 2019 financial statements were finalised) provided details of Gold, Silver and Bronze donors that included key management personnel. The donations from key management personnel identified in the 2019 Annual Report should have been disclosed in the 2019 financial statement related party transactions note.

Donations made by key management personnel were also not disclosed within the draft financial statements for the year ended 30 June 2020 resulting in a late adjustment being requested to the related party transactions note to ensure that all related party transactions were adequately disclosed in accordance with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

Identification and disclosure of all related party transactions allows the Board to apply appropriate oversight in relation to these transactions.

Impact of the COVID-19 pandemic

The Territory Government modified its debt recovery process and postponed the payment date for a number of regulatory fees and charges to ease financial hardship faced by individuals and businesses as a result of COVID-19.

Although the Board was not entitled to the Job Keeper scheme payments in relation to casual employees, the Board decided to maintain the services of all casual employees through the creation of additional duties, for example back-of-house activities. The Board also decided not to pursue the café and shop rental income in arrears which amounted to $53,000. Additional health and safety expenditure, in the vicinity of $24,000, was approved. Due to the enforced closure of the Museum of Central Australia, the Board also incurred loss of admission fees, in the vicinity of $14,000.

Board of the Museum and Art Gallery of the Northern Territory cont…

Going Concern

Despite reporting a net deficit of $526,000 for the 2020 financial year, the financial statements of the Board have been prepared on a going concern basis as the Board has:

- secured a five-year funding agreement with the Northern Territory Government from 1 July 2017 to 30 June 2022 inclusive of $38,165,000 (plus indexation). The Board is expected to receive annual funding of $7,513,000 for the financial years 2021 and 2022 based on the agreement;
- forecast an increase in cash inflow associated with operating activities in the forthcoming financial year of $460,000;
- a positive cash balance of $2,426,000 as at 30 June 2020; and
- a positive working capital ratio as at 30 June 2020.

Board of the Museum and Art Gallery of the Northern Territory cont…

Financial Performance for the year

	2020	2019
	$'000	**$'000**
Income		
Sales of goods and/or services	425	546
Current grants and subsidies	8,653	9,686
Other	220	212
Total income	**9,298**	**10,444**
Expenditure		
Employee expenses	(6,079)	(5,470)
Supplies and services	(2,178)	(3,276)
Depreciation and amortisation	(24)	(19)
Property management	(1,543)	(1,575)
Total expenditure	**(9,824)**	**(10,340)**
Surplus/(deficit)	**(526)**	**104**

Board of the Museum and Art Gallery of the Northern Territory cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Cash and cash equivalents	2,426	1,972
Receivables and other current assets	89	301
Less current liabilities	(2,015)	(1,270)
Working capital	**500**	**1,003**
Add non-current assets	136	159
Less non-current liabilities	-	-
Net assets	**636**	**1,162**
Represented by:		
Accumulated funds	395	921
Capital	241	241
Equity	**636**	**1,162**

Central Australia Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

The Central Australia Health Service (the Service) was established as a health service pursuant to the *National Health Reform Agreement* and the *Health Services Act 2014*. The Treasurer has deemed the Service to be a Government Business Division for the purposes of the *Financial Management Act 1995.*

The Service comprises the Alice Springs and Tennant Creek hospitals, primary health care, aged care and mental health and is funded predominantly by national health reform payments paid through the Department of Health.

The host Agency is the Department of Health.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Central Australia Health Service for the year ended 30 June 2020.

Audit Opinion

The audit of the Central Australia Health Service for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 23 October 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Service incurred a net deficit of $9.2 million for the year ended 30 June 2020. An analysis of key balances from the financial statements of the Service over the past five years is presented below.

	2020 $'000	2019 $'000	2018 $'000	2017 $'000	2016 $'000
Net surplus/(deficit)	(9,192)	2,765	(21,601)	(932)	(4,616)
Add back depreciation	16,398	12,718	12,393	12,186	10,480
Net surplus/(deficit) before depreciation	**7,206**	**15,483**	**(9,208)**	**11,254**	**5,864**
Total current assets	100,927	96,471	71,669	76,027	60,690
Total current liabilities	(103,107)	(96,141)	(85,452)	(79,826)	(73,112)
Working capital surplus/(deficit)	**(2,180)**	**330**	**(13,783)**	**(3,799)**	**(12,422)**

Central Australia Health Service cont…

Revenue

Total revenue for the Service has increased by approximately $17.4 million from the prior year. The increase is largely attributable to an increase in the NT National Health Reform Block and Teaching, Training and Research funding of approximately $8.5 million and an increase of $7.3 million reflected in goods and services received free of charge due to the repairs and maintenance function being transferred to the Department of Infrastructure, Planning and Logistics.

The Service recognises both revenue and expenditure associated with cross border charges. Cross border charges represent the funding paid (expenditure) for Northern Territory residents to receive medical treatment interstate or funding received (revenue) by the Service for treating Australian residents from jurisdictions other than the Northern Territory.

In previous years, the health data upon which the accrued revenue and expenditure calculation was based was approximately three years old. From the 2020 financial year, the cross border revenue and expenditure data is now available up until the end of the previous financial period thus improving the accuracy of the estimates. Further refinements have been made to the cross border process resulting in a number of historical provisions being settled in the current financial year. This has led to adjustments to the estimates of the revenue and expenditure accrued from previous years to ensure the calculation is determined using the most recent and accurate data available.

Expenditure

Total expenditure increased this year by approximately $29.3 million from the prior year. Employee expenses increased by approximately $17.1 million and were affected by an increase in full time equivalent staff transferred (together with their work functions) from the Department of Health to the Service and a 2.5% increase in most salaries effective from August 2019 in accordance with the relevant Enterprise Bargaining Agreement. Purchases of goods and services increased this year by approximately $7.9 million from the prior year as a result of the changes to accounting for cross border charges discussed above in relation to revenue.

Assets

Total assets increased by approximately $56.4 million from the prior year reflecting an increase in property, plant and equipment by $51.9 million. Of this increase, $45.4 million related to an increase in values as a result of a revaluation of land and buildings. The introduction of the new accounting standard AASB 16 *Leases* led to the recognition of right-of-use assets valued at approximately $12.8 million.

Liabilities

Total liabilities increased by approximately $15.6 million from the prior year. Of the increase, $12.4 million was due to the introduction of the new accounting standard AASB 16 *Leases* which resulted in the recognition on the balance sheet of finance lease liabilities of $13.1 million.

Equity

Equity increased by approximately $40.8 million reflecting the revaluation of land and buildings increasing the asset revaluation reserve by $45.4 million and equity transfers into the Health Service during the period, partially offset by the deficit of $9.2 million incurred during the year.

Central Australia Health Service cont…

Financial Performance for the year

	2020	2019
	$'000	**$'000**
Income		
Sales of goods and/or services	233,120	233,205
Current grants and subsidies	201,964	191,955
Other	7,790	339
Total income	**442,874**	**425,499**
Expenditure		
Employee expenses	(281,646)	(264,587)
Repairs and maintenance	-	(5,954)
Supplies and services	(136,103)	(120,628)
Depreciation and amortisation	(16,398)	(12,718)
Interest expense	(221)	(36)
Grants and subsidies	(17,698)	(18,811)
Total expenditure	**(452,066)**	**(422,734)**
Surplus/(deficit)	**(9,192)**	**2,765**

Central Australia Health Service cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Cash and cash equivalents	39,835	31,929
Receivables and other current assets	61,092	64,542
Less current liabilities	(103,107)	(96,372)
Working Capital	**(2,180)**	**99**
Add non-current assets	269,313	217,387
Less non-current liabilities	(9,537)	(659)
Net Assets	**257,596**	**216,827**
Represented by:		
Accumulated funds	(89,178)	(80,119)
Capital	291,141	286,692
Asset revaluation reserve	55,633	10,254
Equity	**257,596**	**216,827**

Charles Darwin University

Audit Findings and Analysis of the Financial Statements for the Year Ended 31 December 2019

Background

Charles Darwin University (the University) is established under the *Charles Darwin University Act 2003*. The University controls the following entities:

- Menzies School of Health Research including the Bridging the Gap Trust;
- CDU Amenities Limited (a company limited by guarantee);
  - Cairns Business College Pty Ltd (a small proprietary company with CDU Amenities Limited as the parent entity);
  - Cairns Education Australia Pty Ltd (a small proprietary company with CDU Amenities Limited as the parent entity);
  - Cairns Language Centre Pty Ltd (a small proprietary company with CDU Amenities Limited as the parent entity);
  - ICHM Pty Ltd (a small proprietary company with CDU Amenities Limited as the parent entity);
- Charles Darwin University Foundation, a company limited by guarantee and which acts as trustee of the Charles Darwin University Foundation Trust; and
- Charles Darwin University Charitable Trust.

The financial results of Menzies School of Health Research and the consolidated financial results of the CDU Amenities Limited Group are consolidated within the financial statements of the University. The financial results of the Charles Darwin University Foundation Trust are also consolidated into the financial statements of the University.

The University provides both higher education and vocational education and training (VET). Higher education funding is provided to the University by the Commonwealth Government through direct grants and through the proceeds of student loans under the auspices of the HECS-HELP Scheme. VET funding is provided by the Northern Territory Government through monies appropriated by the Legislative Assembly through the Department of Trade, Business and Innovation.

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Charles Darwin University for the year ended 31 December 2019.

Audit Opinion

The audit of the Charles Darwin University for the year ended 31 December 2019 resulted in an unmodified independent audit opinion, which was issued on 25 June 2020.

Charles Darwin University cont…

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The University (parent entity only) incurred a net deficit of $8.8 million (2018: $21.4 million). The decrease in deficit was primarily due to an increase in revenue.

- NT Government assistance increased by $7.5 million received to undertake the VET self-sustainability review.
- Australian Government HELP assistance increased by $4.3 million due to an increased number of students deferring payment to HECS.
- Fees and charges increased by $1.2 million due to an increase in the number of courses in which international students enrolled.
- Employee related expenses increased by $1.4 million caused by a 2% salary increment applied to employees and redundancy costs, partially offset by a reduction in staff head count.
- Other expenses decreased by $1.7 million primarily due to cost reduction strategies put in place by management.

The University (parent entity only) had a net asset position of $508.5 million as at 31 December 2019 in comparison to a net asset position of $507.8 million as at 31 December 2018. The following significant movements were observed:

- Current other financial assets reduced by $341 million from the prior year as there was no dividend receivable in the current year. An accrued dividend receivable of $1.9 million was recorded in 2018.
- Non-current other financial assets increased by $17.0 million as a result of an increase in the share price of Education Australia as at 31 December 2019.
- Property, plant and equipment decreased by $7.2 million. The decrease in value reflects:
    - Additions of $7.2 million;
    - Recognition of right-of-use assets of $7.2 million (associated with the recognition of leases upon adoption of Australian Accounting Standard AASB 16 *Leases*); less
    - Depreciation of $16.1 million;
    - Net disposals of assets of $0.6 million; and
    - Devaluation/impairment of assets upon valuation of $4.3 million.
- Upon adoption of AASB 16 *Leases*, CDU recognised lease liabilities of $7.5 million at 31 December 2019.

At a consolidated level, the Group incurred a net deficit of $5.7 million (2018: $19.1 million) and recorded net assets of $551.7 million (2018: $574. 5 million). The individual results of each of the entities consolidated within the Group are analysed in this report within the entities' individual financial statements.

Charles Darwin University cont…

Subsequent events which had no impact on the year ended 31 December 2019 but are likely to have an impact on the forthcoming year ending 31 December 2020 include COVID-19, the discontinuation of a number of businesses and the sale of ICHM Pty Ltd. These matters have been adequately disclosed in the financial statements.

Impact of the COVID-19 pandemic

In response to COVID-19, management implemented an alternate operational approach for Vocational Education Training (VET) to deliver teaching and support to students online. Online delivery has been in place for Higher Education for a number of years. As a result, there is no material financial impact expected in semester one of 2020. Whilst it is likely that new international student numbers into semester two of 2020 will be lower, a larger cohort of students will be continuing their studies either on campus or online. Management estimates that other revenue categories such as research, rental from student accommodation, VET fee-for-service income and other investment income will be impacted. At the time of reporting, management estimated the revenue impact for the 2020 year to be a decline in the range of $20 million to $30 million. The extent of the true financial impact is not expected to be realised until August 2020 when the semester two census date occurs. Mitigation strategies to reduce expenditure are being implemented across the Group to respond to the financial impact.

The University's management are of the view that the mitigation strategies to reduce expenditure that are being implemented are sufficient and the impacts from COVID-19 will not affect the going concern basis of preparation.

Taking the impact of the COVID-19 pandemic into consideration, assessment of forecast cash-flows to twelve months from the date of signing the financial statements supported the preparation of the financial statements on a going concern basis.

Sale of subsidiary

On 30 January 2017 CDU Amenities Limited (a subsidiary Company of the University) acquired ICHM Pty Limited. The consideration transferred for this entity was $1,270,925.

In December 2019, CDU Amenities Limited executed a share sale agreement to sell 100% ownership of shares held in ICHM Pty Ltd. Transfer of ownership occurred on 14 February 2020. The consideration received for this entity was $1,774,127.

	Year to 31 December 2017 $	Year to 31 December 2018 $	Year to 31 December 2019 $	Total $
ICHM Pty Ltd	119,179	(639,581)	(593,914)	**(1,114,316)**

Charles Darwin University cont…

Discontinued Businesses

On 11 November 2016, CDU Amenities Limited (a subsidiary Company of the University) acquired three entities in Cairns, these being Cairns Language Centre Pty Limited (CLC); Cairns Business College Pty Limited (CBC); and Cairns Education Australia Pty Limited (CEA). The consideration transferred for these entities was $214,348.

On 23 March 2020, the Board of Directors of CLC, CBC and CEA resolved to commence closure of the operations of those entities.

The deficit or surplus after income tax for each entity is presented in the following table:

	7 weeks to 31 December 2016 $	Year to 31 December 2017 $	Year to 31 December 2018 $	Year to 31 December 2019 $	Total $
CBC	30,988	20,130	(288,073)	(248,952)	**(485,907)**
CEA	239	(7,727)	(18,416)	(10,000)	**(35,904)**
CLC	(46,640)	(1,023,918)	(1,530,393)	(2,116,303)	**(4,717,254)**
Total	**(15,413)**	**(1,011,515)**	**(1,836,882)**	**(2,375,255)**	**(5,239,065)**

Charles Darwin University cont…

Financial Performance for the year

	2019	2018
	$'000	$'000
Revenue from continuing operations		
Financial assistance and grants from the Commonwealth	117,292	112,246
Financial assistance from the NTG	66,879	59,336
Other revenue (HECS, fees, interest)	86,678	87,082
Total revenue from continuing operations	**270,849**	**258,664**
Less expenses from continuing operations		
Employee expenses	(162,732)	(161,317)
Administration, operational and other expenses	(116,879)	(118,728)
Total expenses from continuing operations	**(279,611)**	**(280,045)**
Deficit before income tax	**(8,762)**	**(21,381)**
Income tax expense	-	-
Net result for the year	**(8,762)**	**(21,381)**

Charles Darwin University cont…

Financial Position at year end

	2019	2018
	$'000	$'000
Cash and cash equivalents	72,027	71,513
Receivables and other current assets	15,645	19,102
Less current liabilities	(74,103)	(72,912)
Working capital	**13,569**	**17,703**
Add non-current assets	504,900	495,836
Less non-current liabilities	(9,965)	(5,760)
Net assets	**508,504**	**507,779**
Represented by:		
Restricted and accumulated funds	255,296	266,912
Reserves	253,208	240,867
Equity	**508,504**	**507,779**

Bridging the Gap Foundation

Audit Findings and Analysis of the Financial Statements for the Year Ended 31 December 2019

Background

Bridging the Gap Foundation (the Foundation) is a company limited by guarantee that acts as trustee of the Bridging the Gap Foundation Trust (the Trust).

The Foundation and Trust are a fundraising arm of the Menzies School of Health Research and are controlled entities of the University within the meaning of section 41 of the *Charles Darwin University Act 2003.*

The purpose is to support and assist Menzies School of Health Research, Charles Darwin University and other such organisations in the health, research and education sectors to encourage and foster the interest and financial support of those persons and organisations interested in assisting and promoting Menzies School of Health Research, Charles Darwin University and other such organisations in the health, research and education sectors.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Foundation and the Trust for the year ended 31 December 2019.

Audit Opinion

The audits of the Foundation and Trust for the year ended 31 December 2019 resulted in unmodified independent audit opinions for both entities, which were issued on 24 June 2020.

Audit Observations

The audits did not identify any material weaknesses in internal controls.

Performance Overview

Financial Analysis

The Foundation entered into two grant agreements with the Commonwealth Department of Health in the current year.

The Foundation’s total income was $1,857,368 derived from grant funding received and interest during the period with $1,857,283 being disbursed as grant payments thus the Foundation recorded a surplus of $85.

The Foundation’s cash balance at 31 December 2019 was $128,510 and trade payables associated with grant expenditure totalled $128,425.

The Trust’s total income was $13,007 derived from donations received and interest. Trust donations of $8,690 were disbursed and $61 in other expenses (bank charges) were incurred. The Trust recorded a surplus of $4,256.

The Trust’s cash balance at 31 December 2019 was $14,762.

Bridging the Gap Foundation cont…

Cash donations

The trust has determined that it is impractical to establish control over the collection of cash donations received ‘over the counter’ prior to the entry of the donation onto its financial records. My understanding is that the only control regarding cash donations received is that donors generally request a receipt for tax purposes however this is not always the case.

As the evidence available to me regarding revenue from this source was limited, my audit procedures with respect to over the counter cash donations had to be restricted to the amounts recorded in the financial records. As the number of individual cash donations made to the Trust is not significant, I feel that it is not necessary to issue a modified opinion in relation to completeness of revenue.

Bridging the Gap Foundation cont…

Financial Performance for the year (Company)

	2019	2018
	$'000	**$'000**
Grant income	1,857	-
Interest	-	-
Grant expense	(1,857)	-
Surplus	**-**	**-**

Financial Performance for the year (Trust)

	2019	2018
	$'000	**$'000**
Donations received	13	10
Interest	-	-
Trust donations disbursed	(9)	-
Other expenses	-	-
Surplus	**4**	**10**

Bridging the Gap Foundation cont...

Financial Position at year end (Company)

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	129	-
Receivables and other current assets	-	-
Less current liabilities	(129)	-
Working capital	**-**	**-**
Add non-current assets	-	-
Net assets	**-**	**-**
Represented by:		
Retained earnings	-	-
Contributed sum	-	-
Equity	**-**	**-**

Financial Position at year end (Trust)

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	15	11
Receivables and other current assets	-	-
Less current liabilities	-	-
Working capital	**15**	**11**
Add non-current assets	-	-
Net assets	**15**	**11**
Represented by:		
Settled funds	-	-
Retained surplus	15	11
Trust funds	**15**	**11**

CDU Amenities Limited

Audit Findings and Analysis of the Financial Statements for the Year Ended 31 December 2019

Background

CDU Amenities Limited (the Company) is a company limited by guarantee with the liability of each member being limited to an amount of $20. The sole member of the company is Charles Darwin University.

The Company was formed in March 2007 to coordinate support activities for students and student organisations.

During the year ended 31 December 2019, the Company controlled four subsidiary entities: CBC; CEA; CLC; and ICHM Pty Ltd. The financial statements of the Company do not consolidate the subsidiaries as they are consolidated by the ultimate parent (Charles Darwin University).

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of CDU Amenities Limited for the year ended 31 December 2019.

Audit Opinion

The audit of CDU Amenities Limited for the year ended 31 December 2019 resulted in an unmodified independent audit opinion, which was issued on 12 June 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Company reported a deficit of $64,278 for the year ended 31 December 2019 compared to a surplus of $235,231 for the previous year. The Company received no income during the year ended 31 December 2019. In 2018, grant income of $200,000 was received from Charles Darwin University.

The Company had a net asset position of $107,673 as at 31 December 2019. In comparison, a net asset position of $171,951 was disclosed as at 31 December 2018. This decrease reflects the current year deficit. The most significant movement between balance dates is an increase in related party payables of $101,881, partially offset by a reduction in trade payables of $28,100.

On 14 February 2020, the sale of ICHM Pty Ltd was finalised, supporting the carrying value of the investment. The investment was recorded as held for sale at 31 December 2019.

On 23 March 2020, the Board of Directors of CLC, CBC and CEA resolved to commence closure of the entities' operations.

The sale of ICHM and resolution to commence closure of CEA, CLC and CBC were disclosed as subsequent events.

CDU Amenities Limited cont…

The Company had no income and incurred an operating loss for the current year. These circumstances have led the Directors to consider whether there is certainty that the Company is able to pay its debts as and when they full due for at least 12 months after the financial statements are authorised. The ultimate parent entity Charles Darwin University, has provided the entity with a Deed of Guarantee agreeing to provide the Company with financial support to enable the Company to pay its debts as and when they fall due and to continue to trade. The ultimate parent has the capacity to provide the aforementioned financial support for a period of at least twelve months from the date that the financial statements were signed. The nature and extent of financial support that can be provided is outlined in the executed Deed of Guarantee. Notably, the guarantee provided by the Deed is unconditional (limited only by the liability of the company) and is not limited in time, such that the Deed may only be terminated with the written agreement of the ultimate parent and Company. As a result the financial statements have been prepared on a going concern basis.

CDU Amenities Limited cont…

Financial Performance for the year

	2019	2018
	$'000	$'000
Revenue from continuing operations		
Grant income	-	200
Other revenue	-	581
Total revenue from continuing operations	**-**	**781**
Less expenses from continuing operations		
Employee related costs	(2)	(194)
Administration, operational and other expenses	(62)	(315)
Total expenses from continuing operations	**(64)**	**(509)**
Surplus before income tax expense	**(64)**	**272**
Income tax expense	**-**	**-**
Surplus after income tax expense	**(64)**	**272**
Loss on disposal of discontinued operation	-	(37)
Net result for the year	**(64)**	**235**

CDU Amenities Limited cont…

Financial Position at year end

	2019	2018
	$'000	$'000
Cash and cash equivalents	-	-
Receivables and other current assets	1,271	-
Less current liabilities	(1,163)	(1,098)
Working capital	**108**	**(1,098)**
Add non-current assets	-	1,271
Less non-current liabilities	-	(1)
Net assets	**108**	**172**
Represented by:		
Accumulated funds	108	172
Equity	**108**	**172**

Cairns Business College Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 31 December 2019

Background

Cairns Business College Pty Ltd (the Company) was incorporated in 1987 and became a controlled entity of Charles Darwin University from 11 November 2016 when the Company was acquired by CDU Amenities Limited. Audits of the Company are required by section 41 of the *Charles Darwin University Act 2003*.

The Company was registered as a not-for-profit organisation with the Australian Charities and Not-for-profits Commission on 22 February 2018. The Company generates revenue by offering courses and other qualifications in tourism, business and hospitality to students. The Company's principal place of business is in Cairns.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Cairns Business College Pty Ltd for the year ended 31 December 2019.

Audit Opinion

The audit of the Cairns Business College Pty Ltd for the year ended 31 December 2019 resulted in an unmodified independent audit opinion, which was issued on 2 June 2020.

Emphasis of Matter – Basis of Preparation

The Company, in Note 2(a) of the Financial Report, indicated that the financial statements of the Company for the year ended 31 December 2019 have not been prepared on a going concern basis and have been prepared on an alternative realisation basis thus writing assets down to their net realisable value based on the conditions existing at the end of the reporting period. My opinion was not modified in respect of this matter.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Company reported a deficit of $248,952 (2018: $288,073 deficit). There was an increase in course fees and charges received in the year ended 30 December 2019 however this was largely offset by an increase in administration expenses.

The Company has a net liability position of $464,185 (2018: $215,233). The increased net liability position is primarily as a result of an increase in trade and intercompany payables to Cairns Language Centre Pty Ltd for management fees charged to the Company. The following significant movements were observed:

- Intercompany payables increased by $227,637 due to direct costs paid by Cairns Language Centre Pty Ltd on behalf of the Company.
- Other liabilities increased by $35,033 due to income received in advance resulting from increased student numbers.

Cairns Business College Pty Ltd

The Company has incurred an operating loss for the current and prior year, with total and current liabilities exceeding total and current assets. These circumstances have led the Directors to consider whether there is certainty that the Company is able to pay its debts as and when they fall due for at least 12 months after the financial statements are authorised. The ultimate parent entity Charles Darwin University, has provided the entity with a Deed of Guarantee agreeing to provide the Company with financial support to enable the Company to pay its debts as and when they fall due and to continue to trade. The ultimate parent has the capacity to provide the aforementioned financial support for a period of at least twelve months from the date that the financial statements were signed. The nature and extent of financial support that can be provided is outlined in the executed Deed of Guarantee. Notably, the guarantee provided by the Deed is unconditional (limited only by the liability of the company) and is not limited in time, such that the Deed may only be terminated with the written agreement of the ultimate parent and Company.

In performing subsequent event procedures, I was advised that on 23 March 2020 the Directors made a decision that the Company will cease operations. As a result, the financial statements have been prepared on a realisation basis.

Cairns Business College Pty Ltd cont…

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Revenue	138	83
Cost of sales	(2)	(1)
Other revenue	12	1
Administration expenses	(395)	(349)
Other expenses	(2)	(14)
Deficit before income tax expense	**(249)**	**(280)**
Income tax expense	-	(8)
Deficit after income tax expense	**(249)**	**(288)**

Cairns Business College Pty Ltd cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	34	4
Receivables and other current assets	27	36
Less current liabilities	(525)	(255)
Working capital	**(464)**	**(215)**
Add non-current assets	-	-
Less non-current liabilities	-	-
Net assets	**(464)**	**(215)**
Represented by:		
Accumulated deficits	(464)	(215)
Equity	**(464)**	**(215)**

Cairns Education Australia Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 31 December 2019

Background

Cairns Education Australia Pty Ltd (the Company) was incorporated in 1987 and became a controlled entity of Charles Darwin University from 11 November 2016 when the Company was acquired by CDU Amenities Limited. Audits of the Company are required by section 41 of the *Charles Darwin University Act 2003*.

The Company was registered as a not-for-profit organisation with the Australian Charities and Not-for-profits Commission on 22 February 2018. The Company generates rental income from the sublease of a property. The Company's principal place of business is in Cairns.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Cairns Education Australia Pty Ltd for the year ended 31 December 2019.

Audit Opinion

The audit of the Cairns Education Australia Pty Ltd for the year ended 31 December 2019 resulted in an unmodified independent audit opinion, which was issued on 23 March 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Company reported a deficit of $10,000 for the year ended 31 December 2019 compared to a deficit of $18,416 for the period to 31 December 2018. This is attributed to the difference in rental income and related expenditure and the receipt in 2019 of a tax refund associated with historical tax returns.

The Company had a net liability position of $35,882 as at 31 December 2019 in comparison to $25,882 as at 31 December 2018. The following significant movements were observed:

- Intercompany payables increased by $6,017 as a result of an amount payable to a related party, CLC.
- Accrued audit expenses increased by $2,727.

Cairns Education Australia Pty Ltd cont…

The Company has incurred an operating loss for the current and prior year, with total and current liabilities exceeding total and current assets. These circumstances have led the Directors to consider whether there is certainty that the company is able to pay its debts as and when they fall due for at least 12 months after the financial statements are authorised. The ultimate parent entity Charles Darwin University, has provided the entity with a Deed of Guarantee agreeing to provide the Company with financial support to enable the Company to pay its debts as and when they fall due and to continue to trade. Charles Darwin University has the capacity to provide the aforementioned financial support for a period of at least twelve months from the date that the financial statements were signed. The nature and extent of financial support that can be provided is outlined in the executed Deed of Guarantee. Notably, the guarantee provided by the Deed is unconditional (limited only by the liability of the company) and is not limited in time, such that the Deed may only be terminated with the written agreement of Charles Darwin University and the Company.

Cairns Education Australia Pty Ltd cont…

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Revenue	324	315
Cost of sales	(324)	(319)
Other expenses	(15)	(14)
Deficit before income tax expense	**(15)**	**(18)**
Income tax benefit	**5**	**-**
Deficit after income tax expense	**(10)**	**(18)**

Cairns Education Australia Pty Ltd cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	-	1
Less current liabilities	(36)	(27)
Working capital	**(36)**	**(26)**
Add non-current assets	-	-
Less non-current liabilities	-	-
Net liabilities	**(36)**	**(26)**
Represented by:		
Accumulated deficits	(36)	(26)
Equity	**(36)**	**(26)**

Cairns Language Centre Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 31 December 2019

Background

Cairns Language Centre Pty Ltd (the Company) was incorporated in 1987 and became a controlled entity of Charles Darwin University from 11 November 2016 when the Company was acquired by CDU Amenities Limited. Audits of the Company are required by section 41 of the *Charles Darwin University Act 2003*.

The Company was registered as a not-for-profit organisation with the Australian Charities and Not-for-profits Commission on 22 February 2018. The Company generates revenue by offering English language and hospitality courses to students. The Company's principal place of business is in Cairns.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Cairns Language Centre Pty Ltd for the year ended 31 December 2019.

Audit Opinion

The audit of the Cairns Language Centre Pty Ltd for the year ended 31 December 2019 resulted in an unmodified independent audit opinion, which was issued on 2 June 2020.

Emphasis of Matter – Basis of Preparation

The Company, in Note 2(a) of the Financial Report, indicated that the financial statements of the Company for the year ended 31 December 2019 have not been prepared on a going concern basis and have been prepared on an alternative realisation basis thus writing assets down to their net realisable value based on the conditions existing at the end of the reporting period. My opinion was not modified in respect of this matter.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Company reported a deficit of $2,116,303 for the year ended 31 December 2019 compared to $1,530,393 for the period to 31 December 2018. This was primarily due to the increase in expenditure related to tour costs, marketing and travel exceeding the increase in revenue and the impairment of related party receivables upon the announcement of the closure of both Cairns Business College Pty Ltd and Cairns Education Australia Pty Ltd.

Cairns Language Centre Pty Ltd cont…

The Company had a net liability position of $4,654,734 as at 31 December 2019 in comparison to a net liability position of $2,538,431 as at 31 December 2018. The following significant movements were observed:

- Related party payables increased by $1,666,436 representing additional loans provided to the Company by Charles Darwin University.
- Related party receivables amounting to $426,787 were impaired following the parent entity's decision to cease operations in Cairns Business College Pty Limited and Cairns Education Australia Pty Ltd.

The Company has incurred an operating loss for the current and prior years, with total and current liabilities exceeding total and current assets. These circumstances have led the Directors to consider whether there is certainty that the Company is able to pay its debts as and when they fall due for at least 12 months after the financial statements are authorised. The ultimate parent entity, Charles Darwin University, has provided the entity with a Deed of Guarantee undertaking to provide the Company with financial support to enable the payment of debts as and when they fall due. Charles Darwin University has the capacity to provide the aforementioned financial support for a period of at least twelve months from the date that the financial statements are signed. The nature and extent of financial support that can be provided is outlined in the executed Deed of Guarantee. The guarantee provided by the Deed is unconditional (limited only by the liability of the Company) and is not limited in time, such that the Deed may only be terminated with the written agreement of the ultimate parent and Company. This financial support will assist with settling third party liabilities and termination costs as part of the Company closure as reported below.

In performing subsequent event procedures, I was advised that, on 23 March 2020, the Directors made a decision to cease operations in the Company. As a result the financial statements have been prepared on a realisation basis.

Cairns Language Centre Pty Ltd cont…

Financial Performance for the year

	2019	2018
	$'000	$'000
Revenue	1,510	1,221
Cost of sales	(757)	(659)
Other revenue	381	331
Administration expenses	(483)	(257)
Building costs	(408)	(405)
Depreciation	-	(71)
Employee related expenses	(1,550)	(1,442)
Other expenses	(809)	(248)
Deficit before income tax expense	**(2,116)**	**(1,530)**
Income tax expense	-	-
Deficit after income tax expense	**(2,116)**	**(1,530)**

Cairns Language Centre Pty Ltd cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	150	139
Receivables and other current assets	87	353
Less current liabilities	(4,892)	(3,018)
Working capital	**(4,655)**	**(2,526)**
Add non-current assets	-	-
Less non-current liabilities	-	(12)
Net liabilities	**(4,655)**	**(2,538)**
Represented by:		
Accumulated deficits	(4,655)	(2,538)
Equity	**(4,655)**	**(2,538)**

Charles Darwin University Foundation

Audit Findings and Analysis of the Financial Statements for the Year Ended 31 December 2019

Background

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

The Foundation and the Trust were established as the fundraising arm of Charles Darwin University (the University) and both are controlled entities of the University within the meaning of section 41 of the *Charles Darwin University Act 2003*.

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

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Foundation and the Trust for the year ended 31 December 2019.

Audit Opinion

The audits of the Foundation and Trust for the year ended 31 December 2019 resulted in unmodified independent audit opinions for both entities, which were issued on 23 March 2020.

Audit Observations

The audits did not identify any material weaknesses in internal controls.

Performance Overview

Financial Analysis

The Trust's total revenue decreased from $1,403,697 in 2018 to $1,056,206 in 2019. The decrease was mainly attributable to decreased donations.

Total expenses of the Trust decreased from $1,895,761 in 2018 to $1,002,448 in 2019. Disbursements in 2018 included a once off distribution of $1 million for an upgrade of the CDU Theatre. The decrease is consistent with expectations.

The Trust recorded a surplus of $53,758 in 2019 (2018:$492,064 deficit).

Charles Darwin University Foundation cont…

Cash donations

The Trust has determined that it is impractical to establish control over the collection of cash donations received 'over the counter' prior to entry of the donation onto its financial records. My understanding is that the only control regarding cash donations received is that donors generally request a receipt for tax purposes, however, this is not always the case.

As the evidence available to me regarding revenue from this source was limited, my audit procedures with respect to over the counter cash donations had to be restricted to the amounts recorded in the financial records. As the number of individual cash donations made to the Trust is not significant, I feel that is not necessary to issue a modified audit opinion in relation to completeness of revenue.

Charles Darwin University Foundation cont…

Financial Performance for the year

	2019	2018
	$'000	$'000
Revenue	1,056	1,404
Trust donations disbursed	(870)	(1,839)
Decrease in market value of investment property	(95)	(5)
Donations in kind – operational	(36)	(51)
Other	(1)	(1)
Surplus/(deficit) before income tax expense	**54**	**(492)**
Income tax expense	-	-
Surplus/(deficit) after income tax expense	**54**	**(492)**

Charles Darwin University Foundation cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	1,402	1,305
Receivables and other current assets	4,180	4,128
Less current liabilities	-	-
Working capital	**5,582**	**5,433**
Add non-current assets	471	542
Net assets	**6,053**	**5,975**
Represented by:		
Accumulated funds	167	142
Capital	5,886	5,833
Equity	**6,053**	**5,975**

Darwin Waterfront Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

Darwin Waterfront Corporation (the Corporation) was established pursuant to the *Darwin Waterfront Corporation Act 2006* to develop, manage and service the Darwin Waterfront Precinct (the Precinct) for the benefit of the community and to promote the Precinct as a place of residence and business and as a venue for public events and entertainment.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Darwin Waterfront Corporation for the year ended 30 June 2020.

Audit Opinion

The audit of the Darwin Waterfront Corporation for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 6 October 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Corporation reported a deficit of $2.9 million compared to the prior year's deficit of $3.0 million.

Whilst the Corporation had a negative working capital position of $1.5 million (2019: $2.1 million), overall the Corporation continues to hold a strong net asset position. As at 30 June 2020, the net asset position of the Corporation was $189.9 million (2019: $191.9 million).

The following grants and other contributions were received during the year in order to meet the payments due to the Operator of the Darwin Convention Centre:

- **Territory Availability Payment** (TAP) (2020: $3.3 million, 2019: $3.2 million). The TAP is paid quarterly in arrears and covers capital, interest, return on equity (part) and maintenance costs.
- **Territory Operating Payment** (TOP) (2020: $4.0 million, 2019: $4.0 million). The TOP is an operational subsidy paid quarterly in advance and is based on the fixed 25 year budget which can only be increased with the Territory's approval.
- **Territory Efficiency Payment** (TEP) (2020 nil, 2019: nil). The TEP is a capped annual bonus payment to the Operator of the Darwin Convention Centre where there are demonstrated savings between the actual revenue and expenditure and the base business case operating contribution for that operating year measured against the subsidy portion of the TOP.
- **Territory Incentive Payment** (TIP) (2020: $0.2 million, 2019: $0.8 million). The TIP is paid annually and is assessed against the base 2005 business case to encourage the Operator to exceed the levels of performance established in the business case.

Darwin Waterfront Corporation cont…

Impact of the COVID-19 pandemic

The Corporation has been impacted significantly since March 2020 with all bookings for the Darwin Convention Centre being cancelled from mid-March, however the eligibility of the Operator of the Darwin Convention Centre to access JobKeeper assistance has reduced the need for additional Territory Operating Payments. The decline in visitor numbers, along with free parking being implemented between March and June, has also affected car parking revenue.

Darwin Waterfront Corporation cont…

Financial Performance for the year

	2020	2019
	$'000	$'000
Income		
Sales of goods and/or services	3,306	3,397
Current grants and subsidies	22,151	21,836
Other	564	1,039
Total income	**26,021**	**26,272**
Expenditure		
Territory availability payments	(3,294)	(3,229)
Territory efficiency payments	-	-
Territory incentive payments	(230)	(839)
Territory operating payments	(4,055)	(3,998)
Agent service arrangements	(1,034)	(880)
Depreciation and amortisation	(6,902)	(6,730)
Employee expenses	(1,255)	(1,192)
Finance costs	(4,791)	(4,952)
Property maintenance	(3,654)	(3,942)
Other	(3,685)	(3,532)
Total expenditure	**(28,900)**	**(29,294)**
Deficit	**(2,879)**	**(3,022)**

Darwin Waterfront Corporation cont…

Financial Position at year end

	2020	2019
	$'000	$'000
Cash and cash equivalents	3,015	1,800
Receivables and other current assets	847	1,000
Less current liabilities	(5,357)	(4,926)
Working capital	**(1,495)**	**(2,126)**
Add non-current assets	258,466	264,175
Less non-current liabilities	(67,102)	(70,153)
Net assets	**189,869**	**191,896**
Represented by:		
Accumulated funds	(35,143)	(32,264)
Reserves	44,088	44,088
Capital	180,924	180,072
Equity	**189,869**	**191,896**

Darwin Waterfront Corporation cont…

The Darwin Waterfront Corporation has commented:

The 2020 financial year reports a surplus of $4.0 million when excluding the depreciation and amortisation expense of $6.9 million, the surplus mainly relates to a capital grant received of $2.8 million and a underspend of incentive payments to the Darwin Convention Centre of $0.6 million.

The capital grant is used to reduce the principal component of the finance lease liability in respect of the Darwin Convention Centre.

Data Centre Services

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

Data Centre Services is a Government Business Division established to manage the Northern Territory Government's Data Centre and provide mainframe and mid-range hardware support to Government Agencies.

The host Agency is the Department of Corporate and Digital Development. The host Agency at 30 June 2020 was the former Department of Corporate and Information Services.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Data Centre Services for the year ended 30 June 2020.

Audit Opinion

The audit of Data Centre Services for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 29 September 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

Data Centre Services generated a net surplus before tax of $3.3 million in 2019-20 compared to $4.5 million for the comparative year.

- Total income of $27.3 million (2019: $25.8 million) increased from the prior year by $1.5 million, primarily attributable to an increase in Midrange income aligned with increased demand.
- Total expenses of $24.0 million (2019: $21.3 million) increased from the prior year by $2.7 million. This increase in expenditure is predominantly due to an increase of $2.4 million in purchases of goods and services, influenced by information technology charges and communication and increased use of consultants. There has also been an increase in the depreciation expense of $1.3 million, reflecting the amortisation of right-of-use assets recognised this year due to the application of Australian Accounting Standard AASB 16 *Leases*.

Data Centre Services will pay an income tax equivalent of $1.0 million (2019: $1.3 million) and return a dividend of $1.1 million to the NT Government for year ended 30 June 2020. A special dividend of $2.0 million is also to be returned as a contribution to the Chan Data Centre Relocation Project.

The net asset position of Data Centre Services was $24.6 million (2019: $22.4 million)

Data Centre Services cont…

Impact of the COVID-19 pandemic

Data Centre Services has disclosed the following in the financial statements for the year ended 30 June 2020:

> "*There was no activity that affected the financial statements of DCS as a result of the COVID 19 pandemic*".

It is difficult to determine the extent Data Centre Services will be affected because it remains unclear how widespread the virus may become or how long it will remain in existence. Due to the continuous uncertainty of the effects of the COVID-19 pandemic impact, Data Centre Services will need to continue to monitor any potential impacts that will affect Data Centre Services.

Financial statement overview

The financial statement overview accompanying the financial statements reports the performance of Data Centre Services in comparison to the 'final estimate' for the year.

It is customary for the Budget Papers for the forthcoming financial year (published toward the end of the current financial year) to include Estimate information for each entity. The Estimate information incorporates the financial consequences of government policy decisions and changes that have occurred since the adoption of the budget by the Legislative Assembly in May/June of the previous financial year.

Postponement of the 2020/21 Commonwealth Budget resulted in postponement of the 2020/21 Northern Territory Budget. As the Budget Papers were not produced and Estimates Hearings were not held, the Estimate information had not been published in any manner prior to the completion of the financial statements of Data Centre Services.

The comparison to final estimate therefore has limited relevance to a user of the financial report as no Estimate information explaining the approved changes to the original approved budget has been made publically available.

As no Estimate information has been tabled in the Legislative Assembly, a more relevant comparison would be between the Budget (tabled in May 2019) and the actual results.

Data Centre Services cont…

Financial Performance for the year

	2020	2019
	$'000	$'000
Income		
Sales of goods and/or services	26,772	24,769
Other	518	1,000
Total income	**27,290**	**25,769**
Expenditure		
Operational costs	(14,237)	(12,510)
Employee expenses	(6,325)	(6,604)
Depreciation and amortisation	(3,431)	(2,181)
Impairment losses	(37)	-
Total expenditure	**(24,030)**	**(21,295)**
Surplus	**3,260**	**4,474**
Income tax expense	(978)	(1,342)
Surplus after income tax expense	**2,282**	**3,132**
Dividends	(1,142)	(1,566)
Special dividend	(2,000)	(1,000)
Net surplus/(deficit)	**(860)**	**566**

Data Centre Services cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Cash and cash equivalents	10,515	9,226
Receivables and other current assets	7,253	4,893
Less current liabilities	(5,643)	(4,914)
Working capital	**12,125**	**9,205**
Add non-current assets	24,717	13,178
Less non-current liabilities	(12,222)	-
Net assets	**24,620**	**22,383**
Represented by:		
Accumulated funds	20,057	20,917
Capital	4,563	1,466
Equity	**24,620**	**22,383**

Data Centre Services cont…

Data Centre Services has commented:

Data Centre Services financial statement audit received an unmodified audit opinion with no material weaknesses in internal controls identified. Data Centre Services used the 2019-20 unpublished final estimate provided by the Department of Treasury and Finance to assess its performance against the updated budget as this was considered more relevant. A comparison between the original published budget and the actual results is provided in note 29 of the financial statements.

Department of Corporate and Information Services

Contract Management – Adherence to A Guide to Contract Management

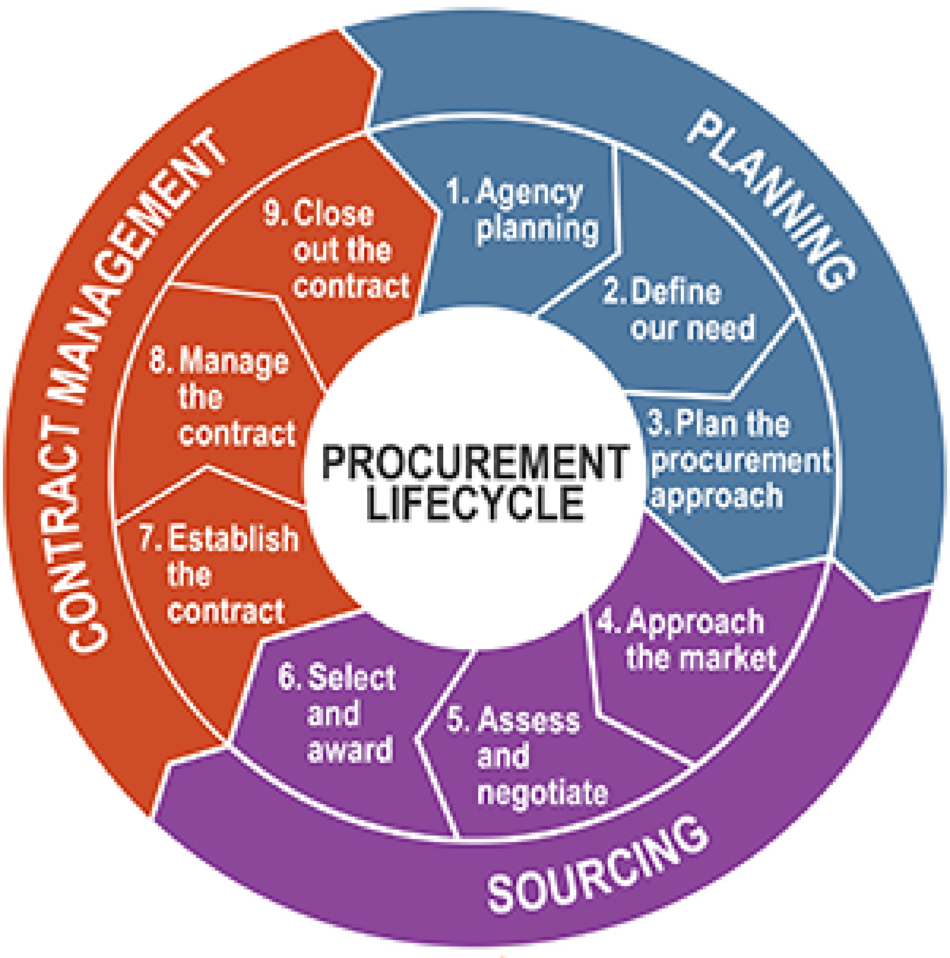
Background

NTG Procurement Framework

The NTG Procurement Framework comprises legislative and policy instruments.

The Legislation and Directions are mandatory requirements that all agencies must follow when undertaking procurement. Guidance documentation provides additional information to agencies on recommended approaches that may be adopted when undertaking procurement in each stage of the procurement lifecycle as depicted below.

Figure 1: NTG Procurement Lifecycle



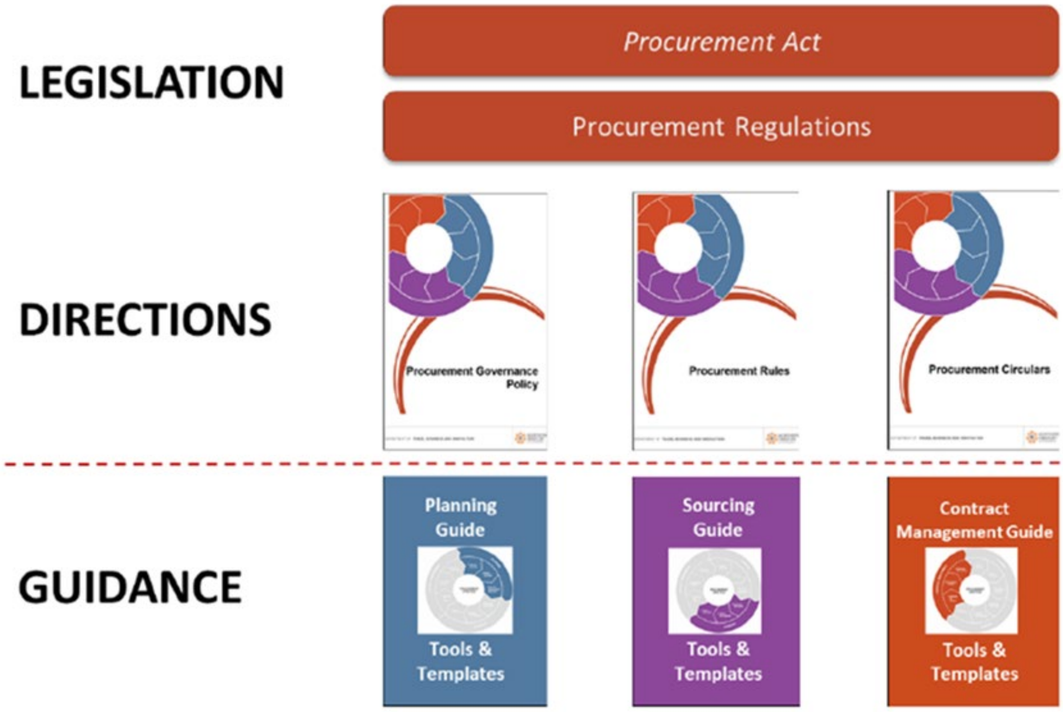
Source: NTG Procurement Governance Policy

Department of Corporate and Information Services cont…

The NTG Procurement Framework comprises the following legislative and policy instruments. The three guidance documents presented in Figure 2 support the three stages of the procurement lifecycle demonstrated in Figure 1, those being:

- Planning
- Sourcing
- Contract Management

Figure 2: NTG Procurement Framework



Source: NTG Procurement Governance Policy

A Guide to Contract Management

The former Department of Trade, Business and Innovation (DTBI) released *A Guide to Contract Management* (the Guide) in November 2016. The Guide provides recommended contract management practices for NTG agencies to effectively manage their contracts. DTBI also developed and released a range of tools and templates for use by NTG agencies when managing contracts.

The Guide provides:

1. an understanding of the benefits associated with effective contract management practices;
2. an overview of contract management practices; and
3. guidance on recommended activities to be performed in the contract management stage.

Department of Corporate and Information Services cont…

The Guide does not address procurement activities that occur prior to the contract being awarded. Those activities are addressed within a range of procurement guidance available to all agencies to support compliance with NTG mandated procurement practices. The recommended activities espoused in the Guide were used as the criteria against which to evaluate the agencies' systems and processes.

Scope and Objectives

The objective of the performance management systems audit was to determine the performance management systems in place at the Department of Corporate and Information Services (the Agency) that enable the agency to manage contracts (and the performance of contractors) in order to achieve the Agency's objectives. The audit also assessed the Agency's compliance with the Guide through evaluating the systems, controls and processes in place at each agency to manage awarded contracts.

The audit covered the period 1 July 2019 to 31 January 2020 however the Agency was asked to provide support for processes that occurred outside of that period, which was dependent on the term of the contracts selected for testing.

Index

The report on this audit is structured as follows:

Department of Corporate and Information Services cont…

Audit Opinion

The objective of the performance management systems audit was to determine the performance management systems in place at the Agency that enable it to manage contracts (and the performance of contractors) in order to achieve its objectives economically, efficiently and effectively. The audit also assessed the Agency's compliance with the activities recommended in the Guide through evaluating the systems, controls and processes in place at the Agency to manage awarded contracts.

As a result of the matters identified during the audit, I have concluded that the performance management systems within the Agency that enable personnel to manage contracts (and the performance of contractors) require strengthening in order to enable management to assess whether their objectives are being achieved economically, efficiently and effectively (as they apply to contract outcomes).

Recommendations

As indicated by the observations above, I have identified opportunities for the Agency to improve its systems and processes which are detailed below. These opportunities relate to:

- the establishment of a contract management framework, to support the guidance from the *A Guide to Contract Management* that is made available to employees and promulgated by management.
- the development of a contract management policy to support the framework and assist in ensuring the contract management framework is consistently applied across all Agency business divisions and units.
- ensuring controls and processes are in place to ensure effective oversight of panel contracts and for monitoring contractor performance at the panel contract level based on input from agencies and business units accessing the panel contracts.
- establishing a contract information management approach within the contract management framework to improve the methods by which contract information is recorded, managed and communicated across the Agency to ensure efficiency, consistency and completeness and provide value to future procurement and contract management processes in addition to reducing risks associated with poor record keeping and contract management.
- implementing a process to support the classification of contracts based on value and/or risk in accordance with the practices espoused in the Guide to improve the contract management process.
- formalising a risk-based contract management plan for each contract that documents contract deliverables, responsibilities of the parties involved and the processes required to effectively monitor and guide performance against contract objectives.
- implementing a system and strategy for panel contracts to ensure that the Agency has effective oversight over the relevant contract management process at other agencies (where those agencies avail themselves of the Agency's contracts) and to ensure regular reviews of performance data relating to contract deliverables, obligations and KPIs are established within panel contract and respective contract management plans.

Department of Corporate and Information Services cont…

- introducing a process for obtaining regular feedback from and to all contractors about any concerns regarding contract performance. Such a process should ensure feedback is used to assist the Agency to improve the effectiveness and efficiency of the contract management process and support greater transparency of the contract management process.
- proactively facilitating regular contract performance review meetings with individual contractors to keep all parties informed, assist in the early identification of issues impacting performance, increase the contractor's ability to provide a high quality of service and to improve contractor performance, and foster a professional working relationship between all involved parties.
- establishing a contractor relationship management approach that supports a continued and valued investment in the relationship with contractors. This approach would encompass a complaints recording and management process.
- ensuring all future performance discussions are documented in writing, such as through meeting minutes, file notes, email and letter correspondence.
- ensuring documentation clearly reflects the consideration of mandated procurement requirements relating to contract variations in order to reduce the Agency's (and Territory's) risk exposure.
- ensuring contracts are formally closed according to the agreed terms and conditions, utilising an established close-out checklist to document and assist in the close-out activities. For across-government panel contracts, such a process would identify the party with overall responsibility for undertaking contract close-out procedures.
- undertaking a formal review session (or industry consultation) as each contract nears its completion to capture the lessons learned using an established template.

Audit Observations

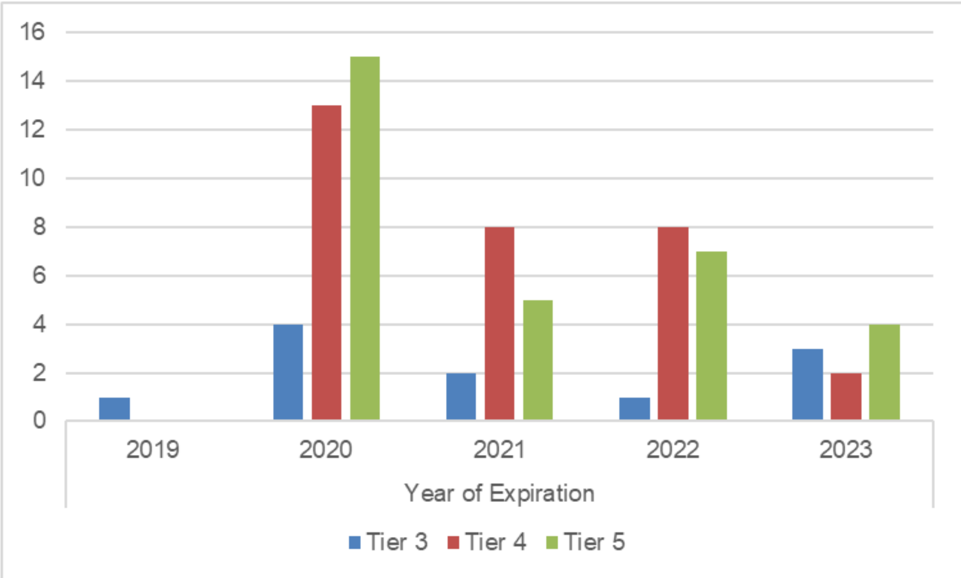
As a result of the NTG's *A Plan for Budget Repair – Final Report* released in April 2019, a major reform agenda including the centralisation of corporate support services was implemented with effect from 1 July 2019. With this, a substantial cohort of staff from across government were brought into the Agency to create a newly formed Enterprise Corporate Services function. This impacted on corporate support services including financial and human resource, contract services, procurement services, and Information and Communications Technology. As a result of this change, various ongoing procurements and contract processes were transferred from other agencies to be centralised at the Agency.

The existence of a comprehensive contract management framework should result in existing and newly transferred personnel having an improved understanding of the Agency's contract processes and assist in ensuring consistency in contract management throughout the Agency.

Department of Corporate and Information Services cont…

As at 4 February 2020, the Agency held 73 contracts across Tiers 3 to 5. As illustrated in Figure 3: Agency Contracts as at 4 February 2020, 32 contracts will expire in 2020, 16 in 2021, 16 in 2022 and 9 in 2023. 11 of these contracts related to Tier 3 procurements, whilst Tiers 4 and 5 each included 31 contracts.

Figure 3: Agency Contracts as at 4 February 2020



Source: DCIS Tier 3 – 5 Audit Contract Management Process 4 February 2020[1]

From this listing, three contracts out of 73 contracts were selected for testing within this audit. The contracts were selected based on their differing stages in the procurement lifecycle, as defined in the Guide (i.e. 'Establish the Contract', 'Manage the Contract' and 'Close-out the Contract').

My observations are based on findings from testing the sample of contracts.

The three sampled contracts varied both in terms of the contract management stage in their respective procurement lifecycle and in the way each contract was managed. It was evident from the sample testing that the Agency does not consistently use the tools and templates from the Guide nor does the Agency have a formal alternative contract management framework to consistently manage contracts across its business divisions and units. The contracts managed by the Agency are varied and a contract management framework that takes into account the variety of contracts would assist in achieving consistency in the contract management approach across the Agency.

[1] DCIS refers to the Department of Corporate and Information Services (the Agency).

Department of Corporate and Information Services cont…

Criteria

The following criteria were used as the basis of assessment for the audit.

Establish the Contract

Has the Agency:

1. defined clear roles and responsibilities for managing the contract?
2. determined an information management structure that supports management of the contract?
3. classified the contract based on its value and risks, ensuring the allocation of appropriate resources?
4. defined and agreed the necessary activities for managing the contract?
5. formulated a risk-based contract management plan?
6. established and communicated clear expectations with all parties at the commencement of the contract execution phase?

Manage the Contract

Does the Agency:

7. regularly review performance data in relation to contract deliverables, obligations and key performance indicators in the contractual documentation and contract management plans?
8. have a regular structured approach to gather feedback from the contractor and contract stakeholders where relevant?
9. have a regular structured process to communicate performance concerns and resolve identified issues (including scheduled meetings, standing agenda items)?
10. document the results of performance discussions and provide those minutes to all parties?
11. have a structured records management system to retain contractual records (with access restrictions where appropriate)?
12. have a defined process for the financial management of the contract including regular monitoring of contract expenditure and processes for authorisation/approval of costs?
13. have a defined process for identifying, agreeing and approving contract variations?
14. have a defined process for identifying, agreeing and approving contract extensions and renewals?
15. have a defined contractor relationship management approach including a complaints recording and management process?

Department of Corporate and Information Services cont…

Close-out the Contract

Does the Agency:

16. have a process to ensure appropriate inspection/testing is undertaken to check for any issues or defects and to communicate and remediate any identified defects?
17. have a process in place to transition the requirements of the contract to another contractor where the need for goods and services remains yet the provider of the goods and services is changing?
18. have a process in place to finalise the contract including:
    - a process to capture lessons learned from the managing the contract?
    - a process to evaluate the contractor’s performance, capturing feedback that can be used as a reference for future work?

Contrax

The NTG recently implemented an across-government information system, Contrax, to be used by NTG agencies when managing contracts. Contrax was intended to assist in improving transparency, compliance and active contract management, as well as underpin the work of the Buy Local Industry Advocate in reporting upon across Government performance. There are varying stages of adoption across government. Not all agencies are using the information system whereas some agencies are using it to manage contracts that have been entered into after the date of system implementation.

Contract Management Framework

All sampled contracts were observed to be managed differently, and the guidance from the *A Guide to Contract Management* has not been consistently applied.

It is acknowledged that the contracts the Agency managed are varied and a contract management framework would need to take into account the variety of contracts in order to ensure consistency in the contract management approach across the Agency. A contract management framework will assist in ensuring that associated contractual risks are adequately managed. This can be supported by the recommended practices and tools included in the Guide.

Acknowledging the variety of contracts managed by the Agency, it is appropriate that the Agency consider its approach to incorporating the differences and nuances applicable to various contracts in its contract management framework. The contract management framework could also take into account the Agency’s approach to using Contrax or an alternate contract management information system.

Department of Corporate and Information Services cont…

Oversight of across-government panel contracts

For the panel contract selected for testing as part of the sample, the Buyer's Guide identified the roles and responsibilities of the Management Committee assigned to the contract.

A key observation is that the contract management responsibility for the child contract lies with the respective agencies and Agency Business Units that procure services from the contract. Given that multiple agencies are accessing the panel contract, the Agency, as the contract owner, is responsible for ensuring its overall contract accountability obligations are met.

As the panel contract owner, the Agency needs to ensure it has appropriate controls and processes in place to ensure effective oversight of this panel contract and the fulfilment of its overall responsibility for monitoring contractor performance at the panel contract level, based on input from the agencies and Agency Business Units accessing the contract.

Improved contract management may result from increasing existing reporting requirements for contract expenditure and requirements for external agencies to provide information on contractor performance. The additional information will assist the Agency when considering contract renewals, extensions and future tender processes and ensure that the Agency's objectives are met.

Contract management information system

Although there was evidence of the use of Contrax, the full functions of Contrax had not been fully utilised to demonstrate the effective and efficient management of records and information.

It was also observed that Contrax is not used for all contracts managed by the Agency. Such a system would assist the Agency to standardise contract processes, increase compliance with the NTG Procurement Framework and improve the visibility of contracts across NTG agencies. This is especially applicable for panel contracts that are used by multiple agencies.

A contract information management approach describing where, what and how to store contract related documents and communication including specifying the contracts that do not require management through Contrax will ensure that all relevant stakeholders are fully informed of the required approach and that information is not inadvertently lost or inappropriately secured and maintained.

Contract risk review and monitoring

The Agency had undertaken a preliminary risk assessments at the strategic and Agency Business Unit levels for all three contracts tested as part of the audit. A value and risk segmentation process was not formally performed in relation to the sampled contracts, based on each contract's value and risks, which can assist in the allocation of appropriate resources to ensure an effective and efficient contract management process.

Ongoing formal risk assessments were not performed for two of the three contracts sampled, following initiation of the contract.

For two of the three contracts, risks and lessons learned were not identified in a timely manner, with one having a risk identified two years after the contract commenced. There is an opportunity for risks to be identified earlier in the procurement lifecycle and, had ongoing risk assessments been performed, the risk and solution may have been recognised at an earlier point in time.

Department of Corporate and Information Services cont…

Contract management plans

A formal risk-based contract management plan was not developed for one of the three tested contracts.

Although the Buyer's Guide relevant to the contract provides some guidance in relation to contract management, it does not include comprehensive detail relevant to contract deliverables, responsibilities of all parties involved or the processes necessary to monitor and guide performance management against contract objectives. Where a Buyer's Guide is used as an alternative to a risk-based contract management plan, establishment of a separate contract management risk register would assist the Agency to proactively monitor contract risks.

A risk-based contract management plan is a valuable tool to assist a contract management team to effectively manage a contract and the performance of the contractors.

Performance monitoring of across-government panel contracts

Agency representatives confirmed that the ongoing monitoring of performance of one of the panel contracts is performed by the individual agencies accessing the contract. The Buyer's Guide states that contractor performance reporting to Contract Managers is required to be undertaken twice yearly by agencies and Agency Business Units accessing the contract. Agency representatives advised that although requests had been sent to other agencies seeking such reports, responses and reporting from external agencies has been limited.

The Agency does not have a formal process to gather regular feedback from and to contractors providing services under a panel contract that would help identify issues relating to performance or quality of service at an early stage. Agency representatives advised that feedback is received as and when issues or complaints are escalated.

There was limited evidence to demonstrate that feedback has been sought, or that relevant feedback had been provided to the relevant contractor.

A system and strategy to ensure that effective oversight occurs of the contract management processes at other agencies including regular reviews of performance data relating to contract deliverables, obligations and KPIs established within panel contracts and respective contract management plans would improve the contractor performance monitoring process.

Contractor performance issues monitoring and reporting

For one sample, no performance assessment was documented in relation to negative reports of past performance by the current contractor. No evidence exists to suggest the performance feedback was provided to the contractor nor was there evidence that the information was considered in the award of the new contract following the conclusion of the sampled contract. There was no evidence of proactive formal review of the contractor's performance on a regular basis.

Scheduling and holding regular contract performance review meetings with individual contractors will keep all parties informed and aid in the early identification of issues impacting performance; increase the contractor's ability to provide a high quality of service and foster a professional working relationship between all involved parties.

Department of Corporate and Information Services cont…

Contractor relationship management and meeting minutes

The Agency had not established a formal contractor parent contract relationship management approach for a panel contract that proactively guides a continued investment in the relationship with the more than 80 panel contractors.

Although the Agency had held quarterly performance meetings, no minutes of these meetings were recorded until three years after the contact commenced. There was a lack of evidence of performance discussions held with one contractor notwithstanding that the contractor had not met the performance obligations established in the original contract.

An effective contractor relationship management approach would underpin the investment in the relationship with contractors and support robust output-focused contract management. Such an approach would encompass a complaints recording and management process.

It is imperative that all meetings and discussions with contractors are documented in writing, such as through meeting minutes, file notes, email and letter correspondence. This ensures all information necessary for resolution of issues is obtained and maintained and provides necessary evidence should formal dispute resolution processes be required.

Where contractor meetings are used as a means to provide performance feedback, the resultant minutes should be provided to the contractor for confirmation and acknowledgement.

Contract variation

Procurement Rule 29 requires variations to only be made where the scope of the original contract does not change with consideration to be given to returning to the market for additional supplies not included in the original scope.

One of the contracts tested underwent a variation in 2016 to expand the contract scope.

The Agency had not used the variation template tool but had prepared a variation memorandum that was approved by the authorised delegates. The variation memorandum did not clearly reflect the Agency's consideration on whether the variation constituted a scope change and, if so, how the decision was made to not return to market as mandated by the procurement requirements relating to contract variations.

Contract finalisation procedures including a disengagement plan

For the panel contract tested, Agency representatives advised that all appropriate documentation required to be undertaken prior to the closure of the panel contract is detailed within a Disengagement Plan however, no evidence was provided supporting the existence of a Disengagement Plan. My Authorised Auditors were informed that a close-out checklist is completed as part of the Disengagement Plan, however no evidence was provided to support this claim.

Agency representatives informed my Authorised Auditors that procedures relating to the finalisation of the panel contract are the responsibility of the agencies accessing the contract, rather than the sole responsibility of the Agency.

Department of Corporate and Information Services cont...

For another sample, no review of the close-out procedures was performed. Whilst the original contractor was subsequently awarded the new contract, contractor obligations in the original contract were not formally closed out and agreed with the contractor prior to the new contract commencing. No close-out letter was issued to the contractor following the completion of the contract.

Established practice would result in the Contract Manager ensuring the contract is formally closed according to the agreed terms and conditions at the conclusion of each contract, utilising an established close-out checklist to document and assist in the close-out activities.

A robust process would ensure the Agency effectively identifies the party with overall responsibility for undertaking contract close-out procedures and what processes the Agency should undertake in order to close out large across-government panel contracts over which the Agency has ultimate accountability.

Lessons learned

There were activities undertaken by the Agency to reflect on and document lessons learned from previous contracts in order to apply those learnings to new contracts however, there was limited evidence of the application of documented lessons learned.

Testing identified that the lessons learned template was not used during the close out of one of the three contracts in order to document what worked well and what did not work well or what lessons could be adopted to better manage future contracts.

As each contract nears its completion, effective contact management would ensure the Contract Manager brings together the contract management team and undertakes a formal review session (or an industry consultation) to capture the lessons learned using an established template. Evidence of how the findings from these sessions are considered and used to facilitate future processes and performance assessments, should be retained as relevant. Such a process would support the NTG's objective to continually improve its contract management capability.

Department of Corporate and Information Services cont…

The Department of Corporate and Information Services has commented:

The Department of Corporate and Digital Development is developing a Contract Management Framework that addresses the diverse contractual requirements across the Agency's span of functions, while providing greater consistency. The guide referenced is generally not well suited to the agency's complex contracts and business needs. The Contract Management Framework, which is approaching completion, sets out the overarching approach and requirements aligned to the Northern Territory Government Procurement Framework and is supplemented by a suite of specific processes and protocols for the agency's major contracting areas.

Department of Corporate and Information Services

Incorrect Payment of Superannuation (Section 14 Directive)

Foreword

In accordance with section 14 of the Act, the Chief Minister directed me to undertake an audit in order to assess the systems, processes and controls within the Department of Corporate and Information Services and, to the extent necessary, within the Office of the Commissioner of Public Employment in relation to miscalculated superannuation payments identified between 2009 and 2019. As required by the Act, the Chief Minister has tabled my report on the findings from the audit in the Legislative Assembly within the required timeframe.

The content below has been extracted directly from my report to the Chief Minister, as tabled in the Legislative Assembly. The only substantive change to the content is to replace, where appropriate the word “you” to “the Chief Minister” and to remove my suggestion for the Chief Minister to seek an update from the former Department of Corporate and Information Services and the former Office of the Commissioner for Public Employment.

Introduction

This report presents the findings from audit procedures undertaken between 1 January 2020 and 5 June 2020 and presents the circumstances in relation to the incorrect payment of superannuation as evidenced by information provided to me on or before 5 June 2020.

The following content is presented within this report:

Department of Corporate and Information Services cont…

Audit Scope and Objectives

Section 14 of the *Audit Act 1995* provides that "*the Minister may, either generally or in relation to a specific aspect, by notice, direct the Auditor-General to carry out an audit which the Auditor-General has power under this Act to carry out, in relation to an Agency specified in the notice, within the time specified in the notice or within such further time as is reasonably necessary to enable the audit to be completed, and the Auditor-General must carry out the audit accordingly*".

The audit objective was to assess the systems, processes and controls within Department of Corporate and Information Services (DCIS) and, to the extent necessary, within the Office of the Commissioner of Public Employment (OCPE), to enable me to provide you assurance that:

- current Enterprise Agreement (EA) provisions are correctly implemented within the Personnel Information Payroll System (PIPS) resulting in accurate calculations by and payments from PIPS;
- the systems, processes and internal controls (both manual and automated) relevant to the application of provisions (determined under the relevant EA) within PIPS are designed and operating effectively;
- adequate governance arrangements exist to support the correct implementation of EA provisions and the subsequent calculation and payment of provisions from PIPS;
- all legislated superannuation guarantee contribution provisions are correctly implemented in PIPS, (including where changes arise due to legislative amendments and/or on updated advice on interpretation of the legislation from the Australian Taxation Office);
- superannuation paid on behalf of employees is paid to their nominated superannuation funds in accordance with legislation;
- the methodology applied by DCIS to determine the nature and quantum of underpayments and overpayments of superannuation is reasonable and appropriate;
- the quantum of underpayments and overpayments of superannuation entitlements is not materially misstated; and
- consideration has been given by DCIS and the Office of the Commissioner of Public Employment to any consequential flow on effect to other corporate taxation matters (e.g. Fringe Benefits Tax) relating to superannuation and other employee payment matters.

Inherent Limitations

It should be noted that the primary purpose of my procedures was to obtain sufficient and appropriate evidence to assess the systems, processes and controls within DCIS and, to the extent necessary, within OCPE in accordance with the above objectives. The procedures did not encompass a comprehensive review of all systems and processes and were not designed to uncover all weaknesses, breaches and irregularities in those systems and processes. Inherent limitations in any management process and system of internal control may mean that errors or irregularities might occur and not be detected. The procedures did not constitute a complete examination of all relevant data and were not designed to uncover all processing errors and therefore may not have detected all breaches and irregularities that could have occurred.

Department of Corporate and Information Services cont…

The fact that the audit has identified matters as reported below does not mean that there are no other matters of which the Chief Minister should be aware in meeting his responsibilities, nor does this report absolve the Chief Minister from taking appropriate action to meet his responsibilities.

The Accountable Officer of DCIS and the Commissioner for Public Employment are responsible for ensuring the systems and processes achieve compliance with enterprise agreements and all relevant legislation. The fact that the audit has identified matters as reported within this letter does not mean that there are no other matters of which the Accountable Officer of DCIS and the Commissioner for Public Employment should be aware in meeting their responsibilities, nor does this report absolve them from taking appropriate action to meet their responsibilities.

Background

Incorrect payments of various superannuation guarantee amounts to employees across the Northern Territory Public Sector, the Legislative Assembly and the Supreme Court, have recently been identified. The directive issued in accordance with section 14 of the *Audit Act 1995* by the Chief Minister directed me to assess the systems, processes and controls in place to ensure that the payment of salary and allowances, and superannuation guarantee contributions, by the Department of Corporate and Information Services (DCIS) are in line with relevant Enterprise Agreements (EAs) and superannuation guarantee legislative provisions.

In a media release issued by the Department of Corporate and Information Services on 5 December 2019, the Commissioner for Public Employment announced that the Northern Territory Government Department of Corporate and Information Services (DCIS) had recently identified it had been underpaying and overpaying some superannuation entitlements for NT Public Sector employees for periods of up to 10 years.

According to the Commissioner for Public Employment, the situation came to light following advice published by the Australian Taxation Office relating to rules for the application of superannuation guarantee to recreation leave loading.

The media release stated that, following the publication of the ATO advice, DCIS examined the payment of superannuation and discovered errors in the payment of some superannuation entitlements. It further noted that the historical errors were due to a combination of misinterpretation of the legislation and coding errors, which resulted in the underpayment of superannuation for four payment categories and the overpayment of superannuation for two categories.

The media release stated “*the payroll system has been reprogrammed and additional processes introduced to ensure superannuation is paid correctly and on time*”.

Department of Corporate and Information Services cont…

Conclusion

Whilst acknowledging the significant body of work undertaken by DCIS in recent months to address known errors in superannuation calculations, due to the number of errors identified during my audit and the extent of the matters still being investigated by DCIS, I am unable to conclude that:

- current Enterprise Agreement (EA) provisions are correctly implemented within the Personnel Information Payroll System (PIPS) resulting in accurate calculations by and payments from PIPS;
- the systems, processes and internal controls (both manual and automated) relevant to the application of provisions (determined under the relevant EA) within PIPS are designed and operating effectively;
- adequate governance arrangements exist to support the correct implementation of EA provisions and the subsequent calculation and payment of provisions from PIPS;
- all legislated superannuation guarantee contribution provisions are correctly implemented in PIPS, (including where changes arise due to legislative amendments and/or on updated advice on interpretation of the legislation from the Australian Taxation Office);
- the methodology applied by DCIS to determine the nature and quantum of underpayments and overpayments of superannuation is reasonable and appropriate; and
- the quantum of underpayments and overpayments of superannuation entitlements is not materially misstated.

Notwithstanding my inability to form an opinion on the matters listed above, I can confirm that the value of the identified errors, at the date of this report, is not material to the Treasurer's Annual Financial Statement, either individually or in aggregate, and would not have resulted in a related qualification to the audit opinion on the Treasurer's Annual Financial Statement as issued for the financial years ended 30 June 2009 to 30 June 2019.

My audit procedures found no evidence that indicated superannuation paid on behalf of employees has not been paid to their nominated superannuation funds in accordance with legislation.

Audit Observations

Superannuation Guarantee (SG) is the term applied to compulsory superannuation contributions that employers are required to make on behalf of their employees in accordance with the *Superannuation Guarantee (Administration) Act 1992* and the subsequent *Superannuation Guarantee Ruling SGR2009/02*.

The *Superannuation Guarantee (Administration) Act 1992* provides that the minimum amount of superannuation payable for an employee, to avoid paying a superannuation guarantee shortfall charge, is calculated as a percentage of the employee's ordinary time earnings (OTE) multiplied by the superannuation rate (which is currently 9.5%).

An employee's entitlement to SG is limited by a cap set down in the *Superannuation Guarantee (Administration) Act 1992.* The cap was $55,270 per quarter for the 2019-20 financial year. That means that where an employee's OTE in a quarter is greater than the $55,270 cap, their employer is only obliged to pay SG on the first $55,270 of an employee's OTE.

Department of Corporate and Information Services cont…

SG is payable for employees of the Territory contributing to a Choice of Fund (CoF) superannuation scheme; this does not extend to active NTGPASS or CSS members. NTG Executive Contract Officers fund their superannuation contributions from within their contract package and are not affected by overpayments.

The superannuation entitlements identified by DCIS as being underpaid were:

- Recreation leave loading, including penalties in lieu of leave loading (PILS) since 2009.
- Payments in lieu of notice for termination and redundancy notice periods since 2009.
- Acting Judges of the Supreme Court over 70 years of age following removal of employee age limits for SG eligibility in 2013.
- NTG enterprise agreement commitment over and above SG requirements to pay superannuation during certain periods of unpaid parental leave since 2010.

It has been identified by DCIS that the NTG has been paying excessive superannuation (hereafter referred to as superannuation 'overpayments') by making contributions above the minimum entitlements for:

- Employees who have earned above the OTE cap in a quarter – this OTE cap was not applied to limit SG contributions which mostly affects medical officers and employees with once-off large payments (such as leave cashed-up).
- Some Members of the Legislative Assembly (MLAs) – by not applying the quarterly OTE cap in the contribution methodology to calculate their superannuation entitlements, which is recorded in legislation specific to MLAs.

The table below summarises the key under/over payment areas, impact and timeline for the errors being paid/lodged and corrected in DCIS systems.

It should be noted that the SG shortfall calculation has been processed in two rounds at the time of drafting this letter (hereafter referred to as Round 1 and Round 2). The shortfall calculation was unable to be processed in one calculation as there were additional factors and circumstances affecting employees subject to the SG shortfall calculations that were not addressed by the methodology applied in the initial round of calculations. Round 2 calculations included a number of these aberrant cases/circumstances and also included SG shortfall on Acting Judges and payment in lieu of notice period. Not all calculations were included in Round 2 as there are further aberrant cases or circumstances that require review and manual calculation.

Department of Corporate and Information Services cont…

Nature of under/over payment	# of employees Impacted	Quantity of error	Date lodged/ processed	Date Systems Fixed	Status
SG on Leave Loading and Penalties in Lieu of Leave Loading (includes LSL payout and Estate payments)	52,352 – Round 1 775 – Round 2 Approximately 15 aberrant cases pending further review and manual calculation	$25,107,293 * Round 1 $580,458 * Round 2 Aberrant cases are pending further review and manual calculation	Lodged with ATO on 18 February 2020 – Round 1 Lodged with ATO on 25 March 2020 – Round 2	OTE flags for Leave bonus and PILS codes updated – October 2019 OTE flags for LSL payouts and Estate payment codes updated – December 2019	Ongoing - Aberrant cases pending further review and manual calculation
SG on Payments in Lieu of Notice for Termination and Redundancy	533 – Round 2 Approximately 15 aberrant cases pending further review and manual calculation	$1,062,676 * Round 2 Aberrant cases are pending further review and manual calculation	Lodged with ATO on 25 March 2020 – Round 2	DCIS issued a bulletin and updated its 'Voluntary Retrenchment Checklist Worksheet' – February 2020 New codes were created for the notice period portion which attracts SG – September 2019	Ongoing - Aberrant cases pending further review and manual calculation
SG on Acting Judges	8 – Round 2	$110,769 * Round 2	Lodged with ATO on 25 March 2020 – Round 2	Testing completed by DCIS Corporate Systems to implement the change in SG legislation pertaining to the age limit – June 2013 Super codes were set up for Acting Judges – March 2020	Yes
SG on Unpaid Parental Leave	739 – Period 2010 to 2018 380 – Period 2018 onwards	$1,158,160 ** Period 2010 to 2018 $1,018,666 ** Period 2018 onwards	Processed in Pay 17 – 2010 to 2018 Processed in Pay 13 and Pay 14 – 2018 onwards	Ongoing fortnightly solution implemented in an ongoing User Acceptance Testing mode – November 2019	Yes with ongoing monitoring through User Acceptance Testing expected to continue until November 2020

Department of Corporate and Information Services cont…

Nature of under/over payment	# of employees Impacted	Quantity of error	Date lodged/ processed	Date Systems Fixed	Status
SG for Employees Above Quarterly Cap	705 – before waiver 415 – after waiver	$8,149,309 before waiver $7,112,116 after waiver	A maximum of $2,805,598 to be recovered via payroll, offsetting current year contributions – recovery commenced in Pay 15 A minimum of $4,306,518 to be recovered via superfunds – work in progress	System fix for capping was implemented Pay 13 – December 2019	Ongoing - recovery from superfunds is pending. Additionally on 22 May 2020, the CPE advised lawyers representing Medical Officers that the NTG would no longer be seeking to recover “overpayments” of SG to Medical Officers and that the amounts recovered to date from Medical Officers will be repaid.
SG for Members of the Legislative Assembly	13	$43,262	$14,822 to be recovered via payroll, offsetting current year contributions – recovery commenced in Pay 15 $28,440 to be recovered via superfunds – work in progress	Creation of new award codes – October 2019 System fix for capping was implemented Pay 13 – December 2019 Standard Operating Procedures updated – February 2020 Manual intervention will be required on an ongoing basis.	Yes, however manual intervention will be required on an ongoing basis

* - Amount excludes interest and administration charges applied by the ATO

** - Amount includes interest

Department of Corporate and Information Services cont…

SG on Leave Loading and Penalties in Lieu of Leave Loading

A clarification of Superannuation Guarantee (SG) rules by the Australian Taxation Office (ATO) in 2019 advised that *Superannuation Guarantee Ruling SGR 2009/02* provides that annual leave loading will be ordinary time earnings (OTE) unless it is demonstrably paid to compensate for a lost opportunity to work overtime:

> "*238. By way of exception an annual leave loading that is payable under some awards and industrial agreements is not OTE if it is demonstrably referable to a notional loss of opportunity to work overtime. However, the loading is always included in 'salary or wages'*".

The ATO has recognised that there has been uncertainty for employers in applying this view and determining if their annual leave loading is '*demonstrably referable*' as most awards do not specifically state the reason the annual leave loading entitlement is provided. OCPE has determined that leave loading payable under NTG Employment Agreements is not demonstrably referable to a lost opportunity to work overtime.

The payroll system was not re-programmed when recreation leave loading became subject to SG in 2009, following the issue of *Superannuation Guarantee Ruling SGR2009/02*. As a result affected employees were underpaid superannuation. Programming changes to the payroll system have now been completed, with superannuation now being paid for employees who receive a recreation leave loading ('leave bonus') or PILS payment.

The majority of NTG employees are entitled to payment of leave loading. Accordingly, there were around 53,000 current and former employees identified over the period 2009 to 2019 that were affected by this error.

The calculation of the SG shortfall pertaining to leave bonus and PILS started in October 2019. To commence the calculation, all payroll transactions of all NTG employees from 2009 to 2019 were extracted from the NTG data warehouse. This was carried out by the Corporate Reporting team within DCIS Corporate Systems who manages the data warehouse. This information was then supplied to DCIS Enterprise Project Services (EPS) to calculate the SG underpayment based on a set of instructions from DCIS Employment and Payroll Services (DCIS Payroll). EPS developed a sophisticated program within the Power BI (Business Intelligence) system to calculate the SG shortfall pertaining to the leave bonus and PILS.

During the process to develop the program, a detailed review of SGR 2009/2 undertaken in January 2020 identified that there were other employee entitlements to which SG should have been applied but had not been. These were Long Service Leave (LSL) cash-outs and estate payments. These two items were included in determining the SG shortfall calculations within the program developed by EPS.

In accordance with the *Superannuation Guarantee (Administration) Act 1992*, where the minimum SG payable on behalf of the employee is not paid by the due date, the employer may have to pay the superannuation guarantee charge (SGC). The charge is made up of:

- SG shortfall amounts (calculated on the employee's salary or wages base);
- interest on those amounts; and
- an administration fee of $20 per employee, per quarter.

Department of Corporate and Information Services cont…

The SG shortfall amount for the employee must be calculated on the salary or wages base for the quarter and not OTE. OTE is a subset of salary and wages.

The SG shortfall calculation has been processed in two rounds at the date of compiling this report. The shortfall calculation was unable to be processed in one calculation as there were additional factors and circumstances affecting employees subject to the SG shortfall calculations that were not covered in the methodology applied in the initial round of calculations. Round 2 calculations included a number of these aberrant cases/circumstances and also included SG shortfall on Acting Judges and payment in lieu of notice period. The additional factors and circumstances that were considered in the second round of calculations are described below.

- SG was not required to be paid on behalf of employees aged 70 years or over between 1 July 2009 and 30 June 2013. Thus, there should be no SG shortfall for these employees during this period.
- Executive Contract Officers (ECOs) are paid a total remuneration package, inclusive of superannuation. Superannuation contributions are funded from within this remuneration package and are therefore not affected by overpayments. There are instances however, where ECO's may be affected by underpayments in circumstances where an employee transitions to an ECO position during a quarter and, prior to transitioning, the employee had received leave bonuses.
- There were employees identified who have both CoF and NTGPASS/CSS records in PIPS. This generally occurs where an employee ceases NTGPASS/CSS membership and subsequently joins a CoF scheme or where a CoF SG contribution was paid in error despite the employee being an active NTGPASS/CSS member.

Not all calculations were included in Round 2 as there were further aberrant cases or circumstances that require review and manual calculation. I have been informed that this relates to approximately 30 cases. These matters remain outstanding at the date of this report. Given that there have continued to be further matters identified following each iteration of calculations, I am not confident that all errors and miscalculations have been identified and corrected.

Round 1 calculations were lodged with the ATO on 18 February 2020. The total SG shortfall in Round 1 calculations was $25.1 million with $12.5 million in interest and $3.5 million in administration costs. Round 2 calculations were lodged with the ATO on 25 March 2020. Total SG shortfall in Round 2 calculations was $1.7 million with $0.8 million in interest and $0.1 million in administration costs. The ATO is yet to provide receipt of formal payment advice due to system fixes and backdating in addition to the recent passing of the 'superannuation guarantee amnesty'. The superannuation guarantee amnesty is a one-off opportunity to correct past unpaid SG amounts. Employers have a six-month window, until 7 September 2020, to disclose, lodge and pay unpaid SG amounts for their employees. Employers can claim deductions and not incur administration charges or penalties during this amnesty.

Department of Corporate and Information Services cont…

SG on Payments in Lieu of Notice for Termination and Redundancy

Superannuation guarantee is to be applied to the notice period for an employee who has accepted or been given a voluntary retrenchment or notice of redundancy. Employees aged 45 years and below are subject to 4 weeks' notice period while those above 45 years old are subject to 5 weeks' notice period.

Historically, SG was not paid on the total severance payment. The total severance payment is normally comprised of a payment in lieu of the notice period and a payment for years of service component. The payment in lieu of notice is OTE in accordance with SGR 2009/2 paragraph 38. The years of service component 'redundancy payment' is not OTE in accordance with SGR 2009/2 paragraph 46.

Underpayments of SG have occurred because SG was not being paid on the payment in lieu of notice.

Severance payments were coded to LSD001 (tax free) and LSC001 (ETP) during payroll processing. Both of these codes did not attract SG payments. These codes are still being used moving forward however, to account for SG, new codes have been created for the notice period portion, LSD002 (Notice period tax free) and LSC002 (Notice period ETP).

To compute the unpaid SG, Payroll Managers were tasked to locate existing redundancy payment calculations and ascertain the notice period component. This process was manually performed by DCIS Payroll. If reasons of termination were not clear, DCIS Payroll applied generic rules based on exit type. The approach was approved by the Acting Chief Executive DCIS. The notice period amounts determined by DCIS Payroll were then provided to EPS to calculate the SG shortfall. User Acceptance Testing (UAT) was performed by DCIS payroll of the calculations performed using the EPS program.

DCIS has issued a bulletin and updated its 'Voluntary Retrenchment Checklist Worksheet' as a result of the SG issues with the old process. As mentioned above, new codes have been created for the notice period portion which attracts SG: LSD002 (Notice period tax free) and LSC002 (Notice period ETP).

There were 533 former employees affected by this error resulting in a SG shortfall amount of $1.1 million. This was lodged with the ATO as part of the Round 2 calculations on 25 March 2020.

Not all calculations were included as there were aberrant cases or circumstances that required further review and manual calculation. I have been advised that these matters affected approximately 30 cases which are yet to be calculated and lodged with the ATO.

Department of Corporate and Information Services cont…

SG on Acting Judges

In March 2012 the *Superannuation Guarantee (Administration) Amendment Act 2012* repealed paragraph 27(1)(a) of the *Superannuation Guarantee (Administration) Act 1992* whereby salary and wages paid to employee who were aged 70 or over were excluded from the calculation of SG, effective 1 July 2013.

At the time the payroll system was set up to pay SG to employees up to 75 years old. Although the NTG was not legally required to pay SG, the system was set to pay to 75 years old to support mature-aged workers. With the implementation of the amendment on 1 July 2013, the suppression set in the payroll system was removed and all employees aged 75 years and above were paid SG.

Although the suppression was removed in the system, Acting Judges are processed differently in the payroll system compared to other employees as they do not receive salary on a regular basis. Additionally superannuation codes had not been applied to Acting Judges and as such they were not paid SG when the suppression was removed.

Payroll officers within the Employment Business Unit (EBU) of DCIS create manual pay transaction records (PTRs) for Acting Judges every fortnight. The PTRs, which are created for any employee, including Acting Judges, are then checked and certified by a senior payroll officer, just like any other employee PTRs. During the error period, SG was not included in the manual PTRs due to the erroneous belief that Acting Judges were not subject to SG.

Superannuation codes have now been set up for all Acting Judges. This will automate the SG calculation when a PTR is created.

There were eight employees affected by this error resulting in SG shortfall amount of $0.1 million. This was lodged with the ATO as part of the Round 2 calculations on 25 March 2020. The ATO is yet to provide receipt of formal payment advice due to system fixes and backdating in addition to the recent passing of the superannuation guarantee amnesty.

Superannuation on Unpaid Parental Lave

Various NT Public Sector Enterprise Agreements provide for superannuation to be paid while an employee is on parental Leave Without Pay (LWOP). This provision was initially applied to the first six months of parental LWOP from 2010. In later agreements from 2018, the provision was extended to apply to the first 12 months of parental LWOP.

The payroll system was not re-programmed to process this entitlement during periods of unpaid parental leave and, as a result, affected employees were not paid superannuation whilst on parental LWOP. This has been an issue known by senior personnel within DCIS and OCPE since at least 2013. Manual calculations were not performed by DCIS payroll during this period.

It was not until August 2019 that system changes were made to address the payment of superannuation whilst on parental LWOP.

Compulsory SG is payable based on an employee’s ordinary time earnings (OTE). Provisions within various EAs agree to pay superannuation on the period of LWOP (which is not OTE) during the employee’s parental leave. This provision is therefore not subject to the SG Act. Hence the SG Act was not breached and consequently, there is no requirement to report the non-payment to the ATO.

Department of Corporate and Information Services cont…

DCIS Corporate Systems developed a program in the payroll system to calculate the back adjustment for superannuation on parental LWOP for both the 2010 EA and the current 2018 EA. In contrast to the SG on Leave bonus, the data required for the calculations was already within the PIPS system.

The calculations (report RP8757) were provided to DCIS Payroll by DCIS Corporate Systems on the following dates:

- Period 2018 onwards (2018 EA) – on 12 December 2019
- Period 2010 to 2018 (2010 EA) – on 20 January 2020

These reports were manually reviewed and recalculated by the Business Development Unit (BDU) within DCIS payroll. The retrospective adjustment pertaining to superannuation for the Period 2018 onwards was paid in Pay 13 (24 December 2019) and in Pay 14 (8 January 2020) for the corresponding interest. The total amount relating to Period 2018 onwards (2018 EA) was $1.0 million. The retrospective adjustment pertaining to superannuation for the Period 2010 to 2018 was paid in Pay 17 (19 February 2020) for both the superannuation and the interest. The total amount relating to Period 2010 to 2018 (2010 EA) was $1.2 million.

All calculation parameters for each employee appearing in the report were checked and verified by the BDU against PIPS records and source documents before processing.

Two of the system-related errors identified were duplicate entries and the use of one SG rate when parental leave crossed over two financial periods. There were also errors identified that were not related to the program such as human errors in data entry. Some of these errors were the use of incorrect leave codes and incorrect start dates. Any system-related issues arising from the review were raised to DCIS Corporate Systems for resolution.

Starting in Pay 11, a fortnightly report is generated from the payroll system that lists employees who have recently finished their 12-month parental leave period. This report captures employees that have commenced parental leave in the immediately preceding 12 months. PTRs are automatically generated in PIPS based on the report and certified by the system. The BDU however are still manually checking all details and computations in the report as part of the ongoing user acceptance testing. If any errors are identified they are manually corrected before being processed. Any errors identified are reported to DCIS Corporate Systems for corrections/improvements in future report runs. The BDU plans to continue user acceptance testing for a year before fully automating the process. Given this process is still undergoing user acceptance testing, I am unable to verify the extent to which this calculation is complete or accurate.

Department of Corporate and Information Services cont…

SG for Employees above Quarterly Cap

The *Superannuation Guarantee (Administration) Act 1992* provides that the minimum amount of superannuation payable for an employee, to avoid paying a superannuation guarantee shortfall charge, is calculated as a percentage of the employee's ordinary time earnings (OTE) multiplied by the superannuation rate (which is currently 9.5%).

An employee's entitlement to SG is limited by a cap set down in the *Superannuation Guarantee (Administration) Act 1992.* The cap was $55,270 per quarter for the 2019-20 financial year. That means that where an employee's OTE in a quarter is greater than the $55,270 cap, their employer is only obliged to pay SG on the first $55,270 of an employee's OTE. The NTG does not have a policy that requires the payment of superannuation above the SG cap amount.

Previously the payroll system was not programmed to suspend superannuation contributions once the quarterly SG cap was reached in a particular quarter.

The calculation of the SG overpayment pertaining to the SG cap started in October 2019. To commence the calculation, all payroll transactions of all NTG employees from 2009 to 2019 were extracted from the NTG data warehouse. This was carried out by the Corporate Reporting team within DCIS Corporate Systems who manages the data warehouse. This information was then supplied to EPS to work on based on a set of instructions from DCIS Payroll. EPS developed a sophisticated program within the Power BI system to calculate the SG overpayments. The overpayment calculation was straightforward and did not involve complex programming rules.

DCIS received legal advice that the relevant limitation period is three years based on section 12(1)(d) of the *Limitation Act.* In accordance with the advice, DCIS determined to recover the overpayment relating to the past three years and not any earlier. The overpayment calculation covers the period 2016/17 Quarter 3 (1 January 2017) up to 2019/20 Quarter 2 (31 December 2019) which is exactly three years.

In accordance with section 35(2)(a) of the *Financial Management Act 1995*, a waiver of the recovery of the first $2,000 of SG overpayments relating to current and former employees arising in the past three years was approved by the Treasurer on 17 December 2019.

Consideration has been given by DCIS to the consequential flow on effects of the waiver as it pertains to potential Fringe Benefits Tax. The DCIS taxation services team have advised they would be including the waivers in the 2019/20 NTG FBT return meaning that FBT will be required to be paid by the NTG. The value of any FBT payment had not been determined at the date of my report.

The SG overpayment calculation involved the following steps:

1. Total SG paid per quarter was determined for each AGS.
2. This was compared to the SG cap for that quarter as published by the ATO.
3. The difference between the SG paid and the SG cap is the amount of overpayment.
4. The recoverable amount is the SG overpayment less the amount waived of $2,000. This waiver did not apply to SG overpayments to MLAs.

DCIS Payroll performed sample testing of the EPS system calculations. No issues were noted and DCIS Payroll were satisfied with the EPS calculations of the SG overpayments.

Department of Corporate and Information Services cont…

DCIS is seeking to recover SG overpayments from current employees for the period from 2018/19 Quarter 3 (1 January 2019) to 2019/20 Quarter 2 (31 December 2019) through payroll transactions from 1 January 2020 up to 31 December 2020 as an offset to current year contributions.

DCIS Payroll provided the recovery amounts to DCIS Corporate Systems for set up in the payroll system. The first recovery file was processed in Pay 15. There is no requirement to report the overpayment of SG to the ATO.

Any outstanding amounts at the end of the 12-month period, being 31 December 2020, will be included in the recovery action from superannuation funds for the remaining SG overpayments. This body of work is still in progress.

There were 705 current and former employees impacted by this error during the period 1 January 2017 to 31 December 2019. The total gross overpayment for this period was $8.1 million. After applying the waiver, this was reduced to 415 current and former employees being impacted by the error bringing the total SG overpayment down to $7.1 million. The majority of overpayments related to medical officers.

DCIS Corporate Systems has now developed a functionality in PAPMS to automatically apply a quarterly cap of Superannuation Guarantee (SG) to employees' across-government. The SG capping is applied where the OTE exceeds the legislated cap. The cap is indexed annually by the Australian Taxation Office.

When the cap is reached in any pay during a quarter, SG contribution is suspended for the remainder of the quarter. SG contributions automatically recommence at the beginning of the next quarter. This solution commenced in Pay 13 of the 2019-20 financial year.

Since the implementation of the solution and commencement of recovery action, there has been resistance from medical officers to repaying the overpayments. The Australian Salaried Medical Officers' Federation (ASMOF) had initiated legal proceedings on behalf of medical officers. On 3 June 2020 I was informed that the NTG has written to lawyers representing the AMSOF advising that the NTG will no longer be seeking repayments of the "overpayments" and will repay any amounts previously recovered. This matter is ongoing at the date of this report. Accordingly, it is uncertain as to how much of the $7.1 million will be recovered, if any.

Department of Corporate and Information Services cont…

SG for Members of the Legislative Assembly

SG overpayments occurred for 13 Members of the Legislative Assembly (MLAs) as the payroll system was not set up to correctly apply the provisions within the relevant legislation. Part 2 Division 1 section 6 of the *Legislative Assembly Members' Superannuation Contributions Act 2004*, states that the Superannuation contribution for MLA's is an amount equal to the greater of:

a. 9% of the sum of the member's basic salary and additional salary, or

b. The minimum amount necessary to avoid a superannuation guarantee shortfall within the meaning of the *Superannuation Guarantee (Administration) Act 1992* of the Commonwealth.

SG was set at 9.5% in the payroll system and was not programmed to limit superannuation contributions once the maximum superannuation contribution base was reached in a particular quarter. This resulted in SG overpayments in some circumstances.

The data required to calculate the overpayment was provided by the Corporate Reporting team within DCIS Corporate Systems to EBU. The calculation was performed manually.

The calculation involved the following steps:

1. Total salary and SG paid were determined and summarised.
2. Option 1 (being 9% of the sum of the members basic salary and additional salary) was calculated.
3. Option 2 (being the minimum amount necessary to avoid a superannuation guarantee shortfall within the meaning of the *Superannuation Guarantee (Administration) Act 1992* of the Commonwealth) was calculated.
4. The calculations of SG based on these options was compared and the higher amount determined.
5. The overpayment is calculated as the actual superannuation paid less the superannuation due as determined from step 4 above.

DCIS received advice from the Solicitor for the Northern Territory that the relevant limitation period is three years based on section 12(1)(d) of the *Limitation Act.* In accordance with the advice, DCIS determined to recover the overpayment relating to the past three years and not any earlier. The overpayment calculation covers the period 2016/17 Quarter 3 (1 January 2017) up to 2019/20 Quarter 2 (31 December 2019) which is exactly three years.

The SG overpayment for the period 1 January 2017 to 31 December 2019 was $43,262.

DCIS is seeking to recover SG overpayments for the period from 2018/19 Quarter 3 (1 January 2019) up to 2019/20 Quarter 2 (31 December 2019) through payroll transactions from 1 January 2020 up to 31 December 2020 as an offset to current year contributions.

DCIS Payroll provided the recovery amounts to DCIS CS for set up in the payroll system. The first recovery file was processed in Pay 15. There is no requirement to report the overpayment to the ATO.

Department of Corporate and Information Services cont…

Any outstanding amounts at the end of the 12-month period, being 31 December 2020, will be included in the recovery action from superannuation funds for the remaining SG overpayments. This body of work is still in progress. Accordingly, it is uncertain as to how much will be recovered.

Historically one SG rate was set up in the system being 9.5%. To address the MLA SG calculation, a system administration change was enacted to create two new award codes:

1. MLA9SG – which sets up the 9.0% rate with no SG cap applied.
2. MLA9.5SG – retains the 9.5% rate but now with SG cap applied.

With these changes, the payroll system has the functionality to process either option.

It was noted that although new codes have been established, the selection of the correct SG code is manually selected by payroll officers, hence, it is still prone to human error.

Procedural changes have been documented in a draft Standard Operating Procedure developed by DCIS Payroll to guide payroll officers when processing MLA entitlements.

Each quarter, payroll officers are required to prepare a quarterly projection of each MLA’s salary to determine which SG option provides the greater amount. Information regarding MLA remuneration is provided by MLA HR to EBU. The risk of incorrect determination arises due to adjustments to individual MLA’s salary during a quarter.

Where salary adjustments are required, EBU recalculate the quarterly income projection and re-evaluate SG options. Any additional or excess SG is to be adjusted in the PTR.

In addition to the above, Corporate Reporting will provide a post quarterly report to EBU. This report will be created to allow for quarterly checking rather than annual verification.

Enterprise Agreements

The Commissioner for Public Employment is the statutory employer for NT Public Sector employees. OCPE is a central agency within the NTPS, responsible for public sector workforce management and development, industrial relations, Aboriginal employment and career development and reviews of NTPS employee treatment. OCPE is also responsible for formulating strategic whole of sector employment policies for the NTPS and negotiating employment conditions.

The process of preparing Enterprise Agreements begins by writing to Agency CEOs, engaging bargaining representatives and collecting feedback from agencies. Bargaining teams are formed and bargaining parameters are established. Bargaining teams generally consist of representatives from OCPE, DCIS payroll and DCIS Corporate Systems. The Bargaining team participates in the negotiation and implementation process.

As part of the bargaining process, implementation tables are created by OCPE which highlight the proposed changes to the Enterprise Agreement (“EA”). The implementation tables are used as working documents, to prompt discussion within the Bargaining team. The Bargaining teams meet regularly to discuss the proposed changes, system capabilities and how proposed changes will be implemented.

Department of Corporate and Information Services cont…

An Allowance Request form is created for any new allowances. This form is prepared by OCPE, reviewed and signed off by the DCIS Tax Unit, the NT Superannuation Office and DCIS CS. This is to ensure that new allowance codes are set up correctly, with the correct classifications relation to OTE, PAYG and FBT.

The Fair Work Commission must approve new EAs before changes can be implemented. OCPE will issue a bulletin or a letter to the relevant Agency CEOs covered by the EA once the EA has been approved.

The process undertaken by DCIS Corporate Systems depends on the nature of the changes to be made. Some changes require systems administration changes, which have a defined process, while other substantial changes (such as ‘enhancements’ and ‘improvements’) require more work and the process to implement the changes is more complex and less defined. ‘Enhancements’ refer to the process of developing an entirely new program while ‘improvements’ refer to making changes to an existing program.

Changes in an EA can be classified as a systems administration change, an enhancement or an improvement depending on the complexity of the requirements.

DCIS Corporate Systems will raise tickets for action items that require system administration changes, enhancements or improvements. Regardless of the type of change to be made, a ticket will be raised in Jira, the Corporate Systems service management system. Tickets are triaged based on their priority.

Changes to be made are generally based on the approved EA. In certain circumstances, when an EA is still in process of ratification, DCIS Corporate Systems may make changes based on Determinations issued by the Commissioner for Public Employment. This happens when there is a delay in the approval of the EA by the Fair Work Commission.

For significant and complex system changes, DCIS Corporate Systems develops a Functional Requirement Specifications document (FRS or FRD). This is reviewed and approved by the key stakeholders (mainly OCPE and DCIS Payroll) before programmers make changes to the system.

For salary updates (which constitute system administration changes), DCIS Corporate Systems has formal guidelines to follow. Work performed is documented in a checklist.

Processing enhancements and improvements are less structured and can include more ad hoc procedures. Nevertheless, tickets raised will follow the “Main Jira Project Workflow” from creation to closure.

Once program changes are loaded, DCIS Corporate Systems performs their own internal checks before stakeholders perform user acceptance testing.

In relation to salary increases, checking by DCIS Corporate Systems is done in accordance with the EA Translation and Salary Increase Procedures. This involves checking the production output to ensure the new salary rates have been correctly processed during the bulk upload. Additionally, DCIS Corporate Systems provides standard output reports to DCIS Payroll to check individual entitlements as a result of the bulk upload. If there are any errors in the new salary rates, it will be identified during the review of the Pay Transaction Record (PTR) by the Senior Payroll Officer before the PTRs are “certified".

Department of Corporate and Information Services cont…

Output reports and checking procedures for enhancements and improvements are non-standard and depend on the stakeholder's requirements. As an example, for SG on Parental LWOP, the output reports were the SG shortfall calculations. The user acceptance testing performed encompassed the manual recalculation of all employees appearing on the reports. After user acceptance testing, the stakeholder then decides whether to accept or reject the solution. If the solution is accepted, it will be rolled into production and the ticket is closed.

Detailed Transactional Testing

The audit procedures included assessing whether current Enterprise Agreement (EA) provisions were correctly implemented within the Personnel Information Payroll System (PIPS) resulting in accurate calculations by and payments from PIPS. An audit does not constitute a complete examination of all relevant data and procedures are not designed to uncover all processing errors. Audit testing occurs on a sample basis. Consistent with this approach, a sample of current EAs applicable to the NT Public Sector were selected for consideration as part of this audit.

The following Enterprise Agreements were considered during the audit:

1. Northern Territory Public Sector 2017 - 2021 Enterprise Agreement;
2. Northern Territory Public Sector Teachers and Assistant Teachers' 2017-2021 Enterprise Agreement;
3. Medical Officers Northern Territory Public Sector 2018 - 2021 Enterprise Agreement;
4. Northern Territory Public Sector Fire and Rescue Service 2017 - 2021 Enterprise Agreement; and
5. Correctional Officer (NTPS) 2017 - 2021 Enterprise Agreement.

Sample testing of 25 employees from each Enterprise Agreement was undertaken to assess whether employees were being correctly paid from the PIPS system, in accordance with the provisions of the Enterprise Agreements, and to ensure that superannuation paid on behalf of employees had been paid to their nominated superannuation fund.

Department of Corporate and Information Services cont…

The following exceptions were identified:

Agreement	Exceptions Noted
Northern Territory Public Sector 2017 - 2021 Enterprise Agreement	In one instance an allowance paid to an employee was paid at the incorrect rate. The employee was receiving Higher Duties Allowance (HDA) as a Professional Level 3 designation P3 for the period but the allowance paid was as a Professional Level 2 designation P2.
Northern Territory Public Sector Teachers and Assistant Teachers' 2017-2021 Enterprise Agreement	In one instance, a letter of permanent appointment could not be obtained. In this instance the original contract ended 12 March 2010. A subsequent letter of permanent appointment could not be obtained.
Medical Officers Northern Territory Public Sector 2018 - 2021 Enterprise Agreement	• In one instance an employee contract had not been signed by the employee. • In one instance overtime had been incorrectly paid at a higher rate. Overtime was calculated at a salary that included HDA, although at the time the employee was not acting with Higher Duties. This issue occurred because the HDA had not been deactivated in a timely manner. • In one instance, documentation could not be obtained to support payment of a Second Roster allowance per clause 40.7(d) of the EA. • In one instance an employee was not paid an allowance they were entitled to. Additionally, as a result they were also not paid superannuation they were entitled to. Under the EA, a Senior/Staff Specialist Public Health Medicine Medical Officer is eligible to receive payment of a Practitioner Allowance. In this instance it was not paid. Enquiry with Payroll identified this was an oversight on commencement and the allowance was not added to the employee record. SG is also understated to the extent of the allowance due. According to DCIS Payroll, the system does not automatically assign allowances to employee classification. • In one instance, an employee was paid an allowance they were not entitled to receive. Additionally, as a result they were incorrectly paid superannuation. A Community Medical Officer was paid a Practitioner Allowance, however, Community Medical Officers are not covered by Practitioner Allowance under the EA. SG paid is also overstated to the extent of the allowance paid.

Department of Corporate and Information Services cont…

Agreement	Exceptions Noted
	• In one instance, a shift allowance was paid at an incorrect rate. Additionally, as a result, the superannuation entitlement was not correctly calculated. The hourly rate used to compute the shift allowance included the Senior Rural Medical Practitioner Allowance. This is not consistent with Cl 36.6 where shift allowance rates are based on ordinary salary. SG was also overstated to the extent of the allowance paid.
Northern Territory Public Sector Fire and Rescue Service 2017 - 2021 Enterprise Agreement	In one instance, gross salary paid to a casual employee was incorrect. Instead of $326.08, they were paid $320.08 due to a typographical error.
Correctional Officer (NTPS) 2017 - 2021 Enterprise Agreement	• In one instance an allowance was paid at an incorrect rate. Additionally, as a result, the superannuation entitlement was not correctly calculated. In this instance, the 34% consolidated allowance was being paid at the level 1.03, instead of the correct level of 2.03. SG was also understated to the extent of the understated allowance. • In one instance, overtime was paid at incorrect rates. In this instance, overtime occurred on 8 and 9 February 2020, however, when the overtime was processed on 18 February 2020, the employee’s base salary had increased and the overtime was paid at the higher rates (SCOR 2.03) instead of the rate effective when the overtime was rendered (SCOR 1.03). • In one instance, shift allowance had been paid at incorrect rates. Additionally, as a result, superannuation entitlement was not correctly calculated. In this instance, an employee worked a "C" shift for 12 hours. Section 36 of the EA provides for the employee to be paid at overtime rates. In this instance, overtime rates should have been time and a half for the first two hours and double time thereafter, however the employee was paid double time for the entire shift hours. SG was also overstated to the extent of the overpaid allowance amount.

Department of Corporate and Information Services cont…

General Findings

The audit highlighted the following findings and observations:

1. Governance

   It is evident from the number of errors identified during this audit that since 2009, there has been no person/position in the Northern Territory Government with responsibility for ensuring superannuation guarantee amounts have been paid correctly across the Northern Territory Public Sector in accordance with superannuation legislation. No-one that I or my Authorised Auditors have spoken to have stated that they were specifically responsible for ensuring superannuation was being paid in accordance with applicable legislation.

   Section 12 of the Public Sector Employment and Management Act 1993, states that "*the Commissioner for Public Employment is taken to be the employer of all employees on behalf of the Territory or an Agency.*"

   One of the functions of the Commissioner for Public Employment is to determine the respective designations and other terms and conditions (including the remuneration) of employment for employees.

   As the designated employer, the Commissioner for Public Employment is responsible for ensuring NTG employees are paid superannuation in accordance with relevant legislation.

   Section 5 of the *Superannuation Guarantee (Safety Net) Act 1993* states that "*where superannuation benefits, if any, to which an employee is entitled are less than the amount required to avoid payment of a superannuation guarantee charge under the Commonwealth Act in respect of the employee, the Territory shall pay, in respect of the employee, a superannuation benefit of an amount not less than that required to avoid payment of the charge*."

   Furthermore the *Superannuation Guarantee (Safety Net) Act 1993* section 6(1) states that the Commissioner for Superannuation shall "*prepare administrative instructions setting out the employees of classes of employees entitled to superannuation benefits under the Act, the method of calculating and paying those benefits, the notification to be given to employees of those benefits and such other matters as are necessary or convenient to ensure the efficient processing of benefit payments under this Act*".

   In accordance with section 6, the Commissioner for Superannuation has issued Administrative Instructions. It does not appear that the Commissioner for Superannuation has obligations under the Act to ensure compliance with the Administrative Instructions.

   The Department of Corporate and Information Services has provided shared corporate services to support Northern Territory Government Agencies since 1998. One of these shared services is the provision of payroll services for NTG Agencies.

Department of Corporate and Information Services cont…

It appears that other NTG Agencies, including OCPE, have relied on DCIS to ensure that the payment of employee entitlements is in accordance with relevant legislation and Enterprise Agreements. I have seen no evidence that OCPE, the Commissioner for Superannuation or other NTG Agencies have been provided with formal assurance from DCIS that DCIS has appropriate policies, procedures and controls in place to ensure that employees are paid in accordance with relevant legislation and Enterprise Agreements.

Discussions with DCIS personnel indicate that DCIS is considered to be a transactional agency in relation to payroll and is not responsible for policy.

As a result, DCIS payroll staff are trained to apply certain rules and policies in the payment of payroll but do not have the expertise to determine whether relevant payments are in accordance with relevant legislation. Historically no position in DCIS has been specifically tasked with ensuring that superannuation payments are made in accordance with relevant legislation.

Whilst DCIS has a Corporate Tax unit ("DCIS Tax"), I have been informed that they are only responsible for ensuring compliance with Commonwealth Taxes including:

a. Goods and Services Tax (GST)

b. Fringe Benefits Tax (FBT)

c. Pay As You Go (PAYG) Withholding

d. Fuel Tax Credits (FTC)

e. National Tax Equivalent Regime (NTER).

I understand in the past there was a Steering Committee to oversee payroll matters that consisted of representatives from DCIS Tax, DCIS HR, OCPE and NTSO. Anecdotal evidence suggests this committee disbanded over six years ago.

As a result of the discovery of the errors in superannuation payments, a newly formed Governance Board was established in December 2019. The Governance of Payment of Employee Entitlements Committee consists of the Commissioner for Public Employment, Deputy Under-Treasurer and Deputy Chief Executive DCIS. The committee has two main roles:

- Ongoing assurance oversight of accurate and timely payment of employee entitlements, including superannuation, and management of all risks.
- Oversight of priority projects, including the December 2019 Superannuation Remediation Project, in relation to employee entitlements to ensure they are fully implemented in a timely manner and all risks are appropriately managed.

Department of Corporate and Information Services cont…

It is my view that the absence of an individual with sufficient expertise being delegated responsibility for ensuring superannuation guarantee payments are made in accordance with relevant legislation has contributed significantly to the erroneous payments of superannuation.

Of concern is the amount of documentary evidence demonstrating that the issue of not paying superannuation on parental leave without pay has been known by senior personnel within DCIS and OCPE since at least 2013 and yet no action was taken to address the issue.

2. Review of Salary Codes

   As a result of clarification in 2019 by the Australian Taxation Office (ATO) in relation to *Superannuation Guarantee Ruling SGR 2009/02*, a review of salary codes was undertaken by DCIS.

   DCIS focused its review on specific entitlement codes where compliance issues were identified (e.g., leave loading, PILS, LSL payouts and estate payments). The OTE flag for these specific entitlement codes has since been updated to ensure SG is paid when these pay codes are used to process employee entitlements. Aside from this, DCIS has not performed a comprehensive review to ensure all entitlement codes have been set up correctly for SG. I have not seen any evidence that such a review was performed at the time SGR2009/02 was issued or at any point since the issuing of SGR 2009/2.

   In the absence of a comprehensive review being performed, there is a risk that other entitlement codes have not been correctly set up to ensure compliance with the requirements of *Superannuation Guarantee Ruling SGR 2009/02.*

3. Calculation of SG where Salary and Wages are less than $450 per month

   The *Superannuation Guarantee (Administration) Act 1992* provides a number of exemptions from the payment of superannuation. One of these is section 27(2) which states that "*if an employer pays an employee less than $450 by way of <u>salary or wages</u> in a calendar month, the salary or wages so paid are not to be taken into account for the purpose of making a calculation*".

   Audit testing identified that the payroll system is applying the $450 rule to OTE and not to salary and wages, therefore there is a risk that superannuation has been underpaid in instances where salary and wages were greater than $450 and where OTE was less than $450 in a calendar month.

4. Calculation of SG shortfall where OTE is zero or negative

   The calculation of the SG shortfall on leave loading and penalties in lieu of leave loading was developed by EPS after designing a sophisticated program within Power BI. To commence the calculation, all payroll transactions of all NTG employees from 2009 to 2019 were extracted from the NTG data warehouse and filtered through the system using specific rules to extract payroll transactions for entitlement codes that had been impacted by the changes, namely leave loading or leave bonus (LVB codes), PILS (PPL codes), LSL payouts to employees while still employed (SAR020, ALW240), and certain estate payments (ALW254).

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Audit testing noted instances where an SG shortfall had been calculated where total salary and wages for the period were greater than $450 in addition to where OTE for the period was nil or less than nil (negative OTE for the period occurs due to payroll adjustments).

The total shortfall calculation in these specific instances was $292,634 and $2,860 (before interest and administrative charges) in the first and second round of calculations respectively. It is unclear to me why an SG shortfall would be payable where OTE for the period was nil or less than nil. Ordinarily SG on OTE that is nil or less than nil would be nil, there is no obligation for SG and no underpayment in these instances.

As a result it is possible the shortfall calculation is overstated by these amounts and that affected employees are being overpaid superannuation. I understand that DCIS payroll is currently clarifying this matter with the ATO. This matter remains outstanding at the time of my report.

5. Enterprise Agreement Implementation Process

As part of the EA implementation process, OCPE creates implementation tables which outline the proposed EA changes, issues and action items among others. These are discussed within the relevant Bargaining team which consists of OCPE, DCIS Payroll and DCIS Corporate Systems to understand the requirements, assess if existing payroll system functionalities can accommodate the EA changes and assess the impact of the EA changes on payroll operations. Action items impacting system changes arising from these meetings are generally raised by DCIS Corporate Systems in its ticketing system however, there are no formal minutes and action lists recorded for these meetings.

In the absence of a formal record or minutes of meetings relating to the EA implementation process, there is a risk that necessary changes are not adequately addressed and implemented.

The EA implementation process appears to focus on changes to Enterprise Agreements. I have seen no evidence that a complete comparison of an EA to the payroll system has been undertaken to ensure that all employee entitlements within the EA are correctly captured in the payroll system.

During sample audit testing of the NTPS Fire and Rescue Service 2017-2021 Enterprise Agreement, it was noted that Schedule 3 of the EA has a ‘per week’ amount for the payment of Outstation Relief Allowance. Currently this amount is paid on a ‘per day’ basis. According to management within DCIS and OCPE this is a typographical error in the EA. There has been no an addendum or determination issued to correct this error. It is unclear to me why this “typographical error” has not been corrected in the EA.

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6. Other SG matters (Salary Sacrifice, Workers Compensation)

   Salary Sacrifice

   Effective 1 January 2020, the *Superannuation Guarantee (Administration) Act 1992* no longer allows salary sacrifice superannuation amounts to reduce an employee's OTE or offset super contributions that employers are required to pay. DCIS payroll confirmed this change affected Executive Contract Officers on remuneration packages who elect to make additional superannuation contributions. I have been informed that this issue is currently being investigated further by DCIS payroll. At the date of this report, no changes have been made to the system to address this legislated amendment.

   Workers' Compensation Top Up

   The Northern Territory Police Force Consent Agreement 2017 clause 42(a) and Northern Territory Police Force Consent Agreement 2019 clause 43(a) state that *"where a member is in receipt of workers' compensation benefits in accordance with the Return to Work Act, the Commissioner shall maintain the member's normal weekly earnings for a period of 12 months, or such longer period as allowed by the Commissioner on a case by case basis."*

   SGR 2009/2 (paragraphs 39, 46, 68, 271-273) states that workers' compensation payments, including top-up payments, received by an employee who does not work or is not required to attend work due to incapacity to work, are not considered OTE or Salary or Wages.

   The entitlement code used by DCIS to pay 'workers compensation top up' is a salary code flagged as OTE, thus SG is automatically being paid. In these instances it appears that SG is being overpaid to employees.

   I understand that DCIS is currently in discussion with NT Police, Fire and Emergency Services (NTPFES) regarding the potential SG overpayments on the workers' compensation 'top up'. Overpayments as a result of this matter have not been calculated therefore I am unable to form an opinion on the completeness or accuracy of any proposed resolution.

7. Manual Process for MLAs

   Part 2 Division 1 section 6 of the *Legislative Assembly Members' Superannuation Contributions Act 2004* states that the SG contribution for MLAs is an amount equal to the greater of 9% of the sum of the members basic salary and additional salary, or the minimum amount necessary to avoid a superannuation guarantee shortfall within the meaning of the *Superannuation Guarantee (Administration) Act 1992* of the Commonwealth. The first option is not subject to a maximum contribution base (or SG cap) while the second option is.

   Historically one SG rate (9.5%) was set up in the system. To address the MLA SG calculation, a system administration change was enacted to create two new award codes:

   1. MLA9SG – which sets up the 9.0% rate with no SG cap applied.
   2. MLA9.5SG – retains the 9.5% rate but now with SG cap applied.

   Although new codes have been set up, the selection of the correct SG code for use requires manual intervention and an assessment to be undertaken quarterly. The requirement for manual intervention increases the risk that SG may not be paid correctly.

Department of Corporate and Information Services cont…

8. Payment of Overtime

   During sample testing of the Correctional Officer (NTPS) 2017 - 2021 Enterprise Agreement it was identified that in one instance, overtime was paid at the salary rates when the overtime was processed and not when overtime was rendered.

   This appears to be a systemic error which could mean that numerous employees have been incorrectly paid.

9. Non-standard Employment Terms and Conditions

   As reported earlier, overpayment of superannuation above the quarterly cap to Medical Officers had been disputed by the ASMOF. I have been informed that a number of Medical Officers have non-standard employment contract terms and conditions. These non-standard employment contract terms and conditions may mean these individuals have not been overpaid superannuation depending on the content of their contracts. Of concern is that there is the ability to contract with an NTPS employee outside of established EA arrangements.

10. Overtime Rates for Specialist on First Roster

    Clause 37.16 of the Medical Officers Northern Territory Public Sector 2018 - 2021 EA states that a Specialist on First Roster who is called back to the workplace to perform duty shall have their overtime payment calculated based on a Fixed Hourly Call Back Rate. The Fixed Hourly Call Back Rates specified in Clause 37.16 are higher than the overtime rates based on an employee's salary. DCIS payroll confirmed that affected medical officers are currently being paid overtime based on their salary. In this instance it appears specialists in these circumstances are not being paid in accordance with the Medical Officers Northern Territory Public Sector 2018 - 2021 EA.

11. Review of Allowance Codes

    Not all allowances in the NTG Enterprise Agreements have a corresponding code set up in the payroll system. In these instances, DCIS Corporate Systems confirmed that an allowance creation form was not requested for their set-up.

    Additionally, there are codes set up for pre-calculated allowances which require the amount of the allowance to be input manually during payroll processing.

    Both of these matters increase the risk that allowances are paid incorrectly where manual input is required and there is a further risk that employees are not being paid a relevant allowance because a code has not been created within the system.

12. SG on Payments in Lieu of Notice for Termination and Redundancy

    To compute the unpaid SG on payments in lieu of notice for termination and redundancy, Payroll Managers were tasked with locating existing redundancy payment calculations and ascertaining the notice period component. This process was performed manually by DCIS Payroll.

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Sample audit testing of 21 calculations identified two instances where the notice period component had been incorrectly calculated. The extrapolated error across the population was $76,321, whereby the notice period component was determined to be understated by this amount, resulting in the understatement of the calculation of SG shortfall.

Additionally, instances were identified where an employee had been impacted by SG on Leave Loading and Penalties in Lieu of Leave Loading (Round 1 calculations) as well as by SG on payments in lieu of notice for termination and redundancy (Round 2 calculations), the calculation of the SG shortfall in Round 2 calculations was understated due to incorrect rules being applied to the calculation. In these instances, the SG shortfall calculated in Round 1 was added to the SG paid amount in the Round 2 calculation which impacted the percentage charge reduction, instead of reducing the SG shortfall calculation. This has impacted approximately 65 calculations, resulting in an estimated understatement of the SG shortfall of $17,305. As a result, in these instances, the SG shortfall on payments in lieu of notice for termination and redundancy has not been calculated correctly.

13. SG on Payments to transitioning Executive Contract Officers

As noted previously, the SG shortfall calculation had been processed in two rounds to date. The shortfall calculation was unable to be processed in one calculation as there were additional factors and circumstances affecting employees subject to the SG shortfall calculations that were not covered in the methodology applied in the initial round of calculations.

One of these circumstances was in relation to transitioning Executive Contract Officers (ECO). ECOs fund their superannuation contributions from within their contract package and are therefore not affected by overpayments. There are however, instances where ECOs may be affected by underpayments in circumstances where an employee transitions to an ECO position during a quarter and was paid leave bonuses that were accrued pre-transition.

Audit testing of a sample of five calculations identified three instances where the EPS program had incorrectly calculated the percentage charge reduction. In one of these instances, there was nil effect on the SG shortfall as the SG paid during the quarter was above the maximum super contribution base, however, in the other two instances, the SG shortfall calculated by the EPS program was overstated. In these two instances the EPS program had understated the percentage charge reduction.

Certain pay items such as higher duty allowances have been duplicated in the EPS calculation causing the OTE base to be higher which results in a lower percentage charge reduction. This particular error has only been identified during the testing of transitioning ECOs and has not been identified in other testing. The total population basis for transitioning ECOs was approximately 360 individuals. In these instances the SG shortfall on payments of leave bonuses to transitioning ECO’s has not been calculated correctly.

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14. Draft Standard Operating Procedure (SOP)

    DCIS Corporate Systems is currently developing a formal SOP document that deals with the implementation of changes in employee entitlements arising from changes from EAs. Prior to this the implementation of changes was guided by an EA Translation and Salary Increase Procedures document as well as a Salary Increase Checklist.

    DCIS Payroll has recently developed a draft SOP for processing superannuation guarantee payments for MLAs. It is understood that no similar procedural documents existed previously.

    Both SOPs are in draft at the date of this report. In the absence of a formal policy or SOP document, roles and responsibilities are not properly identified which can lead to a lack of accountability. It also increases the risk of employee entitlements not being paid in accordance with EAs and legislation.

Recommendations

1. Superannuation Expertise

   I recommend that a role or roles be created within the Northern Territory Government tasked with the responsibility for ensuring superannuation payments are made in accordance with relevant legislation. This/these position/s should have sufficient expertise and knowledge to undertake this role or be provided with access to advice from external experts. This/these position/s should be responsible for reporting matters back to the Governance of Payment of Employee Entitlements Committee on a regular basis.

2. Assurance to Agencies

   I recommend that DCIS provide assurance to Agencies that its policies, procedures and controls in relation to the payment of employee entitlements are operating effectively and employees are paid in accordance with relevant legislation and Enterprise Agreements.

3. Additional Training and Education of Payroll Staff

   A number of exceptions noted in the testing of employee entitlements, as noted above under Enterprise Agreements, pertain to data entry errors. This indicates the current review and approval process within DCIS payroll is not operating as effectively as it might. I recommend that additional training, education and guidance be provided to payroll staff to reduce the incidence of errors.

4. Review of Salary Codes

   I recommend a comprehensive review of all salary codes be undertaken to ensure they are correctly set up to comply with the requirements of *Superannuation Guarantee Ruling SGR 2009/0*2 and the *Superannuation Guarantee (Administration) Act*.

5. Calculation of SG where Salary and Wages are less than $450 per month

   I recommend that the payroll system is reprogrammed so that superannuation is calculated on Ordinary Times Earnings (“OTE”) where salary or wages for the month is more than $450.

   I recommend that DCIS investigate the extent of possible underpayments in the past and rectifies any identified underpayments.

Department of Corporate and Information Services cont…

6. Calculation of SG shortfall where OTE is zero or negative

   I recommend that DCIS continues to investigate and clarify whether an SG shortfall is required in instances where OTE is nil or negative in a quarter.

7. Enterprise Agreement Implementation Process

   I recommend that minutes and action lists are maintained as formal records of the EA Implementation process to ensure action items are addressed and changes implemented in a timely manner.

   Furthermore I recommend a complete comparison of finalised EA's to the payroll system be undertaken to ensure that all employee entitlements within the EA are correctly captured in the payroll system.

   Where errors are believed to be identified in EAs, I recommend these be communicated back to OCPE so the Commissioner can determine whether the interpretation (that the matter is an error) is a correct interpretation and, if so, issue a Determination to rectify the error.

8. Other SG matters (Salary Sacrifice, Workers Compensation)

   I recommend that DCIS continue to investigate and follow-up the impact of recent changes to the *Superannuation Guarantee (Administration) Act 1992* impacting Executive Contract Officer salary sacrifice superannuation amounts and investigate, determine and rectify potential overpayments of superannuation on workers' compensation 'top up' payments.

9. Payment of Overtime

   I recommend that DCIS investigate whether systems can be enhanced to ensure that overtime is paid at the rates that were applicable at the time overtime was rendered rather than when it was paid.

10. Non-standard Employment Terms and Conditions

    I recommend that the practice of issuing contracts with non-standard terms and conditions is investigated further and rectified where necessary. It would appear necessary to remind agencies of their obligations in this regard.

11. Overtime Rates for Specialist on First Roster

    I recommend that the payroll system be updated to ensure the correct payment of Overtime rates for Medical Officers impacted by Clause 37.16 of the Medical Officers Northern Territory Public Sector 2018 - 2021 EA.

12. Review of Allowance Codes

    I recommend that a comprehensive review of all allowance codes be undertaken to ensure they are correctly set up to align with the allowances set out in each of the Enterprise Agreements.

13. SG on Payments in Lieu of Notice for Termination and Redundancy

    I recommend that further testing of notice period components is conducted to ensure amounts included in the SG shortfall calculation are correct. A recalculation of SG shortfall on approximately 65 calculations is also required to ensure their accuracy.

Department of Corporate and Information Services cont…

14. SG on Payments to transitioning Executive Contract Officers

    I recommend that further testing of the SG shortfall calculation for transitioning ECOs is conducted to ensure amounts included in the SG shortfall calculation are correct.

15. Draft SOP for EA Implementation and MLA Superannuation

    I recommend that the draft SOP for EA implementation currently under development by DCIS Corporate Systems and the draft SOP for MLA Superannuation under development by DCIS Payroll are finalised as soon as practicable to ensure that roles and responsibilities are formally documented and changes to employee entitlements are updated and processed accordingly.

Desert Knowledge Australia

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

Desert Knowledge Australia was established under the *Desert Knowledge Australia Act 2003* (the Act), which came into effect on 18 September 2003. Desert Knowledge Australia is a body corporate that has been declared by its enabling Act to be excluded from the provisions of the Commonwealth *Corporations Act 2001*. The objectives of Desert Knowledge Australia are centred on a range of activities intended to promote economic and social development in desert and arid land areas.

Desert Knowledge Australia is managed by a Board, the members of which hold office in accordance with the provisions of the Act.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Desert Knowledge Australia for the year ended 30 June 2020.

Audit Opinion

The audit of the Desert Knowledge Australia for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 22 October 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

Desert Knowledge Australia (DKA) reported a deficit of $226,823 compared to the prior year's deficit of $560,480. Analysis of the significant items contributing to the deficit is presented below:

- Total revenue of $2,759,546 (2019: $2,323,952) increased by $435,594 from the prior year. Key contributing factors to this increase were:
    - Grant revenue of $1,999,791 increased by $400,825 from the prior year. The increase relates to the grant received from the Department of the Chief Minister for the 'Intyaleheme' project which is a $5 million agreement to be delivered over three years. The objective of the project is to establish a Centre of Excellence and assist the Northern Territory to meet its commitment of 50% renewable energy by 2030. This grant is required to be retained within a separate bank account that was opened specifically for this project. The increase is partially offset by a decrease in operational grant funding received from the former Department of Trade, Business and Innovation. Although funding remained the same as the prior year at $560,000, the prior year also included grant income carried forward from 2018 and appropriately recognised in 2019.

Desert Knowledge Australia cont…

  - Revenue from the Business and Innovation Centre of $77,778 decreased by $48,436 from the prior year. DKA started charging for the use of the Business and Innovation Centre's function and meeting rooms from 2019. The revenue from this source has been impacted due to COVID-19 travel and physical distancing restrictions from March 2020 with most functions and meetings either postponed or held online.
  - Miscellaneous revenue received from other sources of $92,897 increased by $38,975 from the prior year due to revenue from one-off grants.
- Total expenses of $2,986,369 (2019: $2,884,432) were largely consistent with the comparative year, with a marginal increase of $104,187 (3.5%). Significant movements in expenditure were:
  - An increase in employee expenses of $28,991 to $1,460,824 (2019: $1,431,833) reflecting separation payments made to five employees. During the year, five additional staff joined DKA.
  - Consultancy expenditure increased by $69,650 from $207,422 in the comparative year to $277,072 in the current reporting year. The increase in consultancy expenditure is due to:
    - cultural consultants engaged for Codes for Life (C4L) program which was consistent with the National Indigenous Australians Agency contract; and
    - technical and legal consultants were engaged for the Intyalheme program.
  - Expenses associated with the Desert Knowledge Precinct have increased by $38,424 in comparison to the prior year. The increase is mainly due to agreed increases in rental income together with increased on-charging of costs associated with tenancies.
  - The decrease in travel and accommodation costs of $31,008 to $22,244 is due to less travel being undertaken by the Chief Executive during the year due to COVID-19 travel restrictions.

As at 30 June 2020 the net asset position of Desert Knowledge Australia was $9.8 million (2019: $10.1 million).

Desert Knowledge Australia cont…

Financial Performance for the year

	2020	2019
	$'000	$'000
Income		
Grants – Northern Territory Government	2,000	1,599
Rent received	198	169
Interest revenue	17	31
Solar Centre revenue	128	127
Other	417	398
Total income	**2,760**	**2,324**
Expenditure		
Employee expenses	(1,461)	(1,432)
Depreciation and amortisation	(369)	(404)
Impairment expense	4	(41)
Board costs	(29)	(32)
Consultants	(277)	(207)
Media/marketing/advertising	(33)	(46)
Travel	(22)	(53)
Desert Knowledge Precinct	(339)	(300)
Solar Centre maintenance	(69)	(54)
Other	(392)	(315)
Total expenditure	**(2,987)**	**(2,884)**
Deficit	**(227)**	**(560)**

Desert Knowledge Australia cont…

Financial Position at year end

	2020	2019
	$'000	$'000
Cash and cash equivalents	2,691	3,073
Receivables and other current assets	1,778	110
Less current liabilities	(4,103)	(2,806)
Working capital	**366**	**377**
Add non-current assets	11,513	11,833
Less non-current liabilities	(2,051)	(2,155)
Net assets	**9,828**	**10,055**
Represented by:		
Retained earnings	7,809	7,809
Capital	2,019	2,246
Equity	**9,828**	**10,055**

Land Development Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

The Land Development Corporation (the Corporation) was declared a Government Business Division on 11 October 2011. The Corporation has advised this declaration had retrospective application from 1 July 2011. The Corporation was established to develop and manage land for use by new and existing industries in the Territory, for use for residential developments and for associated activities, and for related purposes.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Land Development Corporation for the year ended 30 June 2020.

Audit Opinion

The audit of the Land Development Corporation for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 2 October 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Corporation reported a deficit after tax of $516 thousand compared to the prior year's restated deficit of $4.16 million. Total revenue of $43.16 million for the year ended 30 June 2020 included revenue from land sales of $40.55 million. The land sales represent sales from both industrial and residential developments. The increase in land sales from the prior year is largely a result of two significant industrial sales arrangements that were completed in the current year. The current year sales were not consistent with the budget as the budget did not take into consideration sales from industrial land.

The Corporation's main operating expenditure during the year relates to residential and industrial land development being the cost of land sold of $30.49 million.

The Corporation employed 20 full time equivalent employees as at 30 June 2020 (19 employees in the prior period) and employee expenses for the year were $2.79 million.

The Corporation had a strong net asset position of $121.25 million as at 30 June 2020 compared to $126.72 million in the prior period. The Corporation had a secure liquidity position with $27.87 million in cash and a healthy portfolio of land with $39.20 million in current land inventory and $75.51 million in non-current land inventory.

Recognition and measurement of land and related revenue

AASB 15 *Revenue from Contracts with Customers* became effective for the Corporation for the 2019-20 financial year onward. The requirement under AASB 15 to only recognise revenue when it is earned has had a significant impact on the Corporation given the nature and complexity of the land sales contracts it enters into.

Land Development Corporation cont…

During the year, the Corporation sought and received comprehensive advice from an accounting firm in relation to accounting for the recognition and measurement of land under AASB 102 *Inventories* and associated revenue under AASB 15 *Revenue from Contracts with Customers*.

This has resulted in the Corporation clarifying its position in relation to the recognition of revenue and identifying a number of matters in relation to accounting treatment for sales contracts that have been completed in the current year as well as contracts from prior periods for which underlying contractual arrangements were still in place in the current period. The financial statements, in turn, have been restated in relation to the correction of errors and restatements identified.

Land Development Corporation cont…

Financial Performance for the year

	2020	2019 Restated
	$'000	$'000
Income		
Revenue from land sales	40,553	22,555
Royalties, rents and dividends	1,547	1,627
Capital grants	182	-
Other	882	1,518
Total income	**43,164**	**25,700**
Expenditure		
Cost of land sold	(30,490)	(20,802)
Depreciation and amortisation	(752)	(511)
Employee expenses	(2,792)	(2,935)
Interest	(898)	(899)
Impairment losses	(5,746)	(567)
Operational costs	(3,002)	(4,145)
Total expenditure	**(43,680)**	**(29,859)**
Deficit before income tax expense	**(516)**	**(4,159)**
Income tax expense	**-**	**-**
Deficit after income tax expense	**(516)**	**(4,159)**
Dividends	**-**	**-**
Net deficit	**(516)**	**(4,159)**

Land Development Corporation cont…

Financial Position at year end

	2020	2019 Restated
	$'000	**$'000**
Cash and cash equivalents	27,865	30,965
Receivables and other current assets	39,542	50,947
Less current liabilities	(20,679)	(33,866)
Working capital	**46,728**	**48,046**
Add non-current assets	90,552	112,104
Less non-current liabilities	(16,031)	(33,431)
Net assets	**121,249**	**126,719**
Represented by:		
Capital	54,339	54,339
Reserves	-	591
Accumulated funds	66,910	71,789
Equity	**121,249**	**126,719**

Menzies School of Health Research

Audit Findings and Analysis of the Financial Statements for the Year Ended 31 December 2019

Background

The Menzies School of Health Research (the School) was established under the *Menzies School of Health Research Act 1985* and operates as a medical research institute within the Northern Territory. The School is deemed to be controlled by Charles Darwin University by virtue of section 11(1) of the *Menzies School of Health Research Act 1985* which, at the time of the audit, specified that the Vice-Chancellor of the University will be a member of the School's Board, and that five Board members, but no more than nine Board members, will be appointed by the Council of the Charles Darwin University.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Menzies School of Health Research for the year ended 31 December 2019.

Audit Opinion

The audit of the Menzies School of Health Research for the year ended 31 December 2019 resulted in an unmodified independent audit opinion, which was issued on 24 June 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

Menzies reported a surplus of $3.9 million for the year ended 31 December 2019 compared to a surplus of $1.9 million for the year ended 31 December 2018. The following significant increases in revenue were observed from the prior year:

- $2.5 million in Australian Government financial assistance;
- $1.1 million in NT Government funding;
- $1.8 million in consultancy and contract research;
- $0.3 million in fees and charges; and
- $0.2 million in other revenue.

The above increases in revenue were largely offset by increases of:

- $3.6 million in employee related expenses; and
- $1.3 million in direct research costs.

On transition to the new lease accounting standard AASB 16 *Leases*, Menzies derecognised an intangible asset valued at $26.6 million with an adjustment to opening retained earnings. Accordingly, there is no related amortisation charge for the year ended 31 December 2019 ($1.69 million in 2019).

Menzies School of Health Research cont…

Menzies' net asset position as at 31 December 2019 decreased from the previous year by $22.7 million to $39.2 million due to the adjustment upon transition in relation to AASB 16 *Leases* of $26.6 million slightly offset by the $3.9 million surplus.

The financial report for the year end 31 December 2019 discloses the emergence of COVID-19 as a subsequent event that has not had a material financial impact upon Menzies

Menzies School of Health Research cont…

Financial Performance for the year

	2019	2018
	$'000	**$'000**
Income		
Financial assistance from the Commonwealth	20,805	18,317
Financial assistance from the NTG	7,435	6,326
Other revenue	19,934	17,586
Gain on disposal of assets	5	54
Total Income	**48,179**	**42,283**
Less expenditure		
Employee expenses	(27,985)	(24,437)
Administration, operational and other expenses	(16,276)	(15,967)
Total expenditure	**(44,261)**	**(40,404)**
Surplus before income tax	**3,918**	**1,879**
Income tax expense	**-**	**-**
Surplus after income tax expense	**3,918**	**1,879**

Menzies School of Health Research cont…

Financial Position at year end

	2019	2018
	$'000	**$'000**
Cash and cash equivalents	9,153	3,997
Receivables and other current assets	35,878	35,836
Less current liabilities	(6,811)	(5,239)
Working capital	**38,220**	**34,594**
Add non-current assets	2,063	27,664
Less non-current liabilities	(1,089)	(335)
Net assets	**39,194**	**61,923**
Represented by:		
Reserves	9,124	8,463
Retained earnings	30,070	53,460
Equity	**39,194**	**61,923**

Menzies School of Health Research cont…

The Menzies School of Health Research has commented:

During 2019, Menzies School of Health Research continued to attract significant national and international funding to support the conduct of research. Ongoing partnerships with community organisations, health services and government underpin the successful conduct of research to address health priorities for the people of the Northern Territory.

Motor Accidents (Compensation) Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

Effective 1 January 2015, the insurance business of the Territory Insurance Office was sold to Allianz Australia Insurance Ltd and the banking business sold to People's Choice Credit Union.

By virtue of the *Motor Accidents (Compensation) Commission Act 2014*, the Motor Accidents Compensation Fund in existence at that date continues after 31 December 2014 under the name of the Motor Accidents (Compensation) Commission (the Commission).

The Commission's functions are to administer the Motor Accidents (Compensation) scheme, manage the Motor Accidents (Compensation) Fund, promote road safety, and perform any other function conferred on it under an Act. Administration of the Motor Accidents (Compensation) Fund is outsourced to Allianz Australia Insurance Ltd in accordance with a Management Agreement for a contracted value.

All liabilities of the Commission in relation to the Motor Accidents (Compensation) scheme are guaranteed by the Territory.

Three audit tasks have been undertaken in relation to the Commission since 1 July 2020. These were:

- the audit of the financial statements for the year ended 30 June 2020;
- the audit of the Annual Return to the Treasurer for the year ended 30 June 2020; and
- the annual review of compliance with prudential standards issued by the Australian Prudential Review Authority (APRA).

Scope and Objectives

The objective of the audit of the financial statements was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Motor Accidents (Compensation) Commission for the year ended 30 June 2020

Audit Opinion

The audit of the financial statements of the Motor Accidents (Compensation) Commission for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 6 October 2020.

Key Audit Matters

Outstanding Claims Provision and Insurance and Other Recoveries Receivable

The determination of the value of the Outstanding Claims Provision and associated value of Insurance and Other Recoveries Receivable involve significant assumptions and judgements by management and complex actuarial calculations.

Motor Accidents (Compensation) Commission cont…

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Commission generated a profit of $99.4 million for the year ended 30 June 2020 compared to a loss of $41.6 million in the previous financial year. The difference in result of $141.1 million was primarily attributable to a credit adjustment processed to claims expense of $232.6 million. Revenue and expenditure decreased by $101.6 million and $10.0 million respectively, offsetting the improvement in results attributable to claims expense by $91.5 million.

Analysis of revenue for the year ended 30 June 2020 demonstrated the Commission experienced a decrease in the fair value of its investments in unit trusts and bonds as a result of lower rates of return through the economic downturn exacerbated by the COVID-19 pandemic. The Commission recognised a loss on financial investments of $4.5 million during the year ended 30 June 2020 compared to a gain of $67.6 million in the year ended 30 June 2019. This comprised $72.1 million of the $101.6 million reduction in revenue from the prior year.

Another significant contributor to the decrease in revenue when compared to the year ended 30 June 2019 resulted from changes in actuarial estimates and assumptions which caused insurance and other recoveries revenue to be $20.7 million less than the prior year. The Commission received no rental revenue in the current year following the sale of its investment property in July 2019. In the prior year, rental revenue totalled $8.9 million.

Of the $242.6 million movement in expenditure, $232.6 million was attributable to the movement in outstanding claims provision which is recognised in the statement of profit or loss and other comprehensive income. Factors affecting the actuarial calculation of outstanding claims provision included the removal of the prudential risk margin applied to all earlier years; changes to actuarial assumptions as a result of claims experiences; and impacts arising from the economic downturn.

Expenditure on management fees decreased by $3.9 million compared to the year ended 30 June 2019.

Impact of AASB 17 Insurance Contracts

AASB 17 *Insurance Contracts* establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts issued with discretionary participation features. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of AASB 17 have on the financial position, financial performance and cash flows of the entity. AASB 17 is applicable to annual reporting periods beginning on or after 1 January 2021 however the standard is not currently applicable to not-for-profit public sector entities.

Motor Accidents (Compensation) Commission cont…

Whilst I note that Commission currently accounts for its contractual arrangements under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* rather than AASB 1023 *General Insurance Contracts*, it should be noted that the Australian Accounting Standards Board is presently considering mandatory application of insurance standards to all public sector entities providing 'insurance-like' arrangements. The Australian Accounting Standards Board's current work program proposes an Exposure Draft to be issued in relation to *Insurance Contracts – amendments for NFP public sector entities* sometime after the second quarter of 2020. To that end, it would be prudent for the Commission to keep appraised of developments in accounting practices and assess the impacts, if any, of the adoption of the insurance related Australian Accounting Standards as the requirements become more certain.

Audit Opinion – Annual Return

The Annual Return has been prepared by the Commission for the purpose of fulfilling the reporting requirements of the Commission under the *Motor Accidents (Compensation) Commission Act 2014*, the *Motor Accidents (Compensation) Commission Act Treasurer Determination 1/2017* and the Prudential Standards. I have issued an unmodified independent audit opinion as a result of my audit of the Annual Return.

Review Opinion – Prudential Review

The *Motor Accidents (Compensation) Commission Act Treasurer Determination 1/2017* (the Determination) requires the Commission to comply with prudential standards issued by the Australian Prudential Regulatory Authority (APRA). Thus while the Commission may lie outside the jurisdiction of APRA, the effect of the Determination is to subject the Commission to the same level of prudential regulation that applies to APRA regulated entities.

For the purposes of the Determination, the Auditor-General has been deemed to be the 'appointed auditor' consistent with the requirements imposed upon general insurers that are subject to direct supervision by APRA. Accordingly, I conducted a review of the Commission's functions during the year ended 30 June 2020 to assess the extent to which the Commission met the requirements of the APRA prudential standards.

Following the review I issued an unqualified review report to the Commissioner of the Motor Accidents (Compensation) Commission.

Treasurer Determination 1/2017

Treasurer Determination 1/2017 (the Determination) was written prior to the retirement of GPS 320 *Actuarial and Related Matters* and the subsequent introduction of CPS 320 *Actuarial and Related Matters*, which introduced the requirement for an Actuarial Advice Framework. I noted that the Actuarial Advice Framework is not required under the current Determination.

As the Determination still refers to previous versions of the prudential standards, the prudential review was conducted against GPS 320 as referenced in the Determination rather than CPS 320, the prudential standard currently in effect.

A compliance gap in relation to the Actuarial Advice Framework requirement might remain if the Determination is not updated to reflect the recent changes in the prudential standards.

Motor Accidents (Compensation) Commission cont…

Financial Performance for the year

	2020	2019 Restated
	$'000	**$'000**
Income		
Compulsory third party contributions	86,339	86,428
Insurance and other recoveries	(7,750)	12,992
Finance revenue	(4,531)	67,596
Property revenue	9	8,893
Other	903	622
Total income	**74,970**	**176,531**
Expenditure		
Insurance expense	(1,805)	(5,034)
Claims incurred/(expense)	47,180	(185,405)
Road safety program grants	(4,171)	(4,657)
Other	(16,761)	(23,076)
Total expenditure	**24,443**	**(218,172)**
Surplus/(deficit) before income tax expense	**99,413**	**(41,641)**
Income tax expense	-	-
Surplus/(deficit) after income tax expense	**99,413**	**(41,641)**

Motor Accidents (Compensation) Commission cont…

Financial Position at year end

	2020	2019 Restated
	$'000	**$'000**
Cash and cash equivalents	79,208	98,177
Receivables and other current assets	761,594	717,179
Less current liabilities	(83,513)	(101,979)
Working capital	**757,289**	**713,377**
Add non-current assets	89,380	119,893
Less non-current liabilities	(594,246)	(680,260)
Net assets	**252,423**	**153,010**
Represented by:		
Retained earnings	252,423	153,010
Equity	**252,423**	**153,010**

Northern Territory Legal Aid Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

The Northern Territory Legal Aid Commission (the Commission) is established under the *Legal Aid Act 1990*. The Commission's charter is to ensure that people in the Northern Territory, particularly those who are disadvantaged, understand and have access to help to protect and enforce their legal rights and interests.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Northern Territory Legal Aid Commission for the year ended 30 June 2020.

Audit Opinion

The audit of the Northern Territory Legal Aid Commission for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 19 October 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Commission incurred a surplus for the year of $296,455 (2019: deficit of $1,263,769).

Total revenue of $16,750,726 increased from the prior year (2019: $14,630,461) due to an increase in grant income and Treasurer's Advances received to assist with the costs of expensive cases.

Total expenditure of $16,454,271 increased from the prior year (2019: $15,894,230). There was an increase in employee benefits expense of $283,311 due to higher headcount and pay rate increases that took effect in 2020. The Commission also recorded amortisation expenses of $999,183 and interest of $177,962 due to recognition of leases in accordance with Australian Accounting Standard AASB 16 *Leases*. Other expenses reduced primarily due to the recognition of leases on the Commission's statement of financial position (rather than as operating lease expenditure within the statement of profit and loss) and reduced costs associated with travel which was deferred in response to the COVID-19 pandemic.

The Commission's net asset position of $2,177,653 (2019: $1,941,078) increased in 2020 due to the surplus achieved for the year. The Commission held cash balances of $3,412,035 as at 30 June 2020 compared to $2,723,956 as at 30 June 2019.

Northern Territory Legal Aid Commission cont…

Financial Performance for the year

	2020	2019
	$'000	**$'000**
Income		
Grants – Northern Territory Government	7,148	7,038
Grants – Commonwealth	6,582	6,494
Grants – other	2,570	765
Rendering of services	317	196
Other	134	137
Total income	**16,751**	**14,630**
Expenditure		
Administration	(973)	(1,209)
Employee expenses	(10,674)	(10,391)
Legal	(2,216)	(2,234)
Depreciation and amortisation	(1,110)	(197)
Other	(1,481)	(1,863)
Total expenditure	**(16,454)**	**(15,894)**
Surplus/(deficit)	**297**	**(1,264)**

Northern Territory Legal Aid Commission cont…

Financial Position at year end

	2020	2019
	$'000	$'000
Cash and cash equivalents	3,412	2,724
Investments	500	-
Receivables and other current assets	538	472
Less current liabilities	(3,702)	(1,930)
Working capital	**748**	**1,266**
Add non-current assets	9,283	1,056
Less non-current liabilities	(7,854)	(381)
Net assets	**2,177**	**1,941**
Represented by:		
Reserves	1,519	1,709
Retained earnings	658	232
Equity	**2,177**	**1,941**

Northern Territory Major Events Company Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

The Northern Territory Government (NTG) established the Northern Territory Major Events Company Pty Ltd (the Company) with the objective of attracting major events to the Northern Territory and promoting and coordinating events such as the Darwin round of the Supercar Championship, BASSINTHEGRASS and Red CentreNats.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2020.

Audit Opinion

The audit of the Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 12 October 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Company reported a profit for the year of $143 thousand (2019 profit: $109 thousand). Total revenue of $24.1 million for the year ended 30 June 2020 included the recognition of grant revenue of $23.0 million received to fund events that took place during the year.

The main operating expenditure during the year was $18.9 million and related to the expenditure incurred for events and festivals. Employee expenses for the year totalled $4.8 million, a slight increase in comparison to the prior year (2019: $4.7 million). The notable decrease in revenue and expenditure, compared to the prior year resulted from the cancellation of events such as BASSINTHEGRASS 2020 and Arafura Games 2021.

The Company had a net asset position of $1.6 million as at 30 June 2020 (2019: $1.4 million).

Impact of the COVID-19 pandemic

The Company has been impacted due to the cancellation and deferment of all events with the exception of the Red Centre NATS held in September 2019. Festivals and events that receive funding from NT Grant program were also cancelled or deferred and these grants were renegotiated with milestones reset. Most of the contractual renegotiations were not finalised at 30 June 2020.

Prepayments of $1.9 million have been disclosed relating to deferred and cancelled events. The Company has negotiated with the suppliers to transfer their remaining services to events that will be held in the future. Due to the uncertainty surrounding the long term impact of the COVID-19 pandemic, these prepayments have been treated as potentially impaired with a 20% allowance being provided against prepayments expected to be realised in the year ending 30 June 2021 and 100% for the outer years.

Northern Territory Major Events Company Pty Ltd cont…

Financial Performance for the year

	2020	2019
	$'000	$'000
Income		
Government grants	23,006	32,472
Interest	584	645
Other	510	4,453
Total income	**24,100**	**37,570**
Expenditure		
Employee expenses	(4,753)	(4,694)
Depreciation	(115)	(12)
Other	(19,087)	(32,757)
Total expenditure	**(23,955)**	**(37,463)**
Surplus before income tax expense	**145**	**107**
Income tax expense	**-**	**-**
Surplus after income tax expense	**145**	**107**
Unrealised foreign currency gain/(loss)	(2)	2
Dividends paid or provided for[1]	-	-
Net surplus	**143**	**109**

[1] No dividend has been paid or declared since the commencement of the financial year and the Directors did not recommend declaration of a dividend.

Northern Territory Major Events Company Pty Ltd cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Cash and cash equivalents	14,078	20,684
Receivables and other current assets	4,002	1,794
Less current liabilities	(16,986)	(21,209)
Working capital	**1,094**	**1,269**
Add non-current assets	451	134
Less non-current liabilities	-	-
Net assets	**1,545**	**1,403**
Represented by:		
Event reserve	431	413
Retained profits	1,114	990
Equity	**1,545**	**1,403**

Northern Territory Treasury Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

The Northern Territory Treasury Corporation (the Corporation) is constituted under the *Northern Territory Treasury Corporation Act 1994* (the Act) and is the investment and borrowing agent for the Northern Territory Government.

The Under Treasurer constitutes the Corporation and is the Accountable Officer. There is an Advisory Board constituted under section 8 of the Act and the Board may, pursuant to section 11 of the Act, delegate any of its powers and functions to a member of the advisory board, an employee of the Corporation or an employee within the meaning of the *Public Sector Employment and Management Act 1993*.

The Corporation is a Government Business Division and maintains its accounts in accordance with accounting principles applied generally by financial institutions. It is required to submit its financial statements for audit by the Auditor-General each year.

The host Agency is the Department of Treasury and Finance.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Northern Territory Treasury Corporation for the year ended 30 June 2020.

Audit Opinion

The audit of the Northern Territory Treasury Corporation for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 24 September 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Northern Territory Government Budget for 2019-20, handed down by the Treasurer in May 2019, required the Corporation to undertake a borrowing program of $1.107 billion during the financial year ended 30 June 2020. This was comprised of $28 million to refinance maturing debt and $1.079 billion to fund the new borrowing requirements of the NT Government. The borrowing program was increased to $1.2 billion in the mid-year budget update in December 2019 to capture additional refinancing requirements.

In July 2019, the Corporation issued a new $600 million benchmark bond series maturing on 21 May 2029 at a yield of 2.13%. In February 2020, the Corporation issued another new $700 million benchmark bond series maturing on 21 April 2031 at a yield of 1.90%, thereby fulfilling the 2019/20 borrowing program.

The Corporation's retail bonds, 'Territory Bonds' raised about $92.1 million in 2019-20 at a weighted average rate of 1.63% with an average term of 2.7 years.

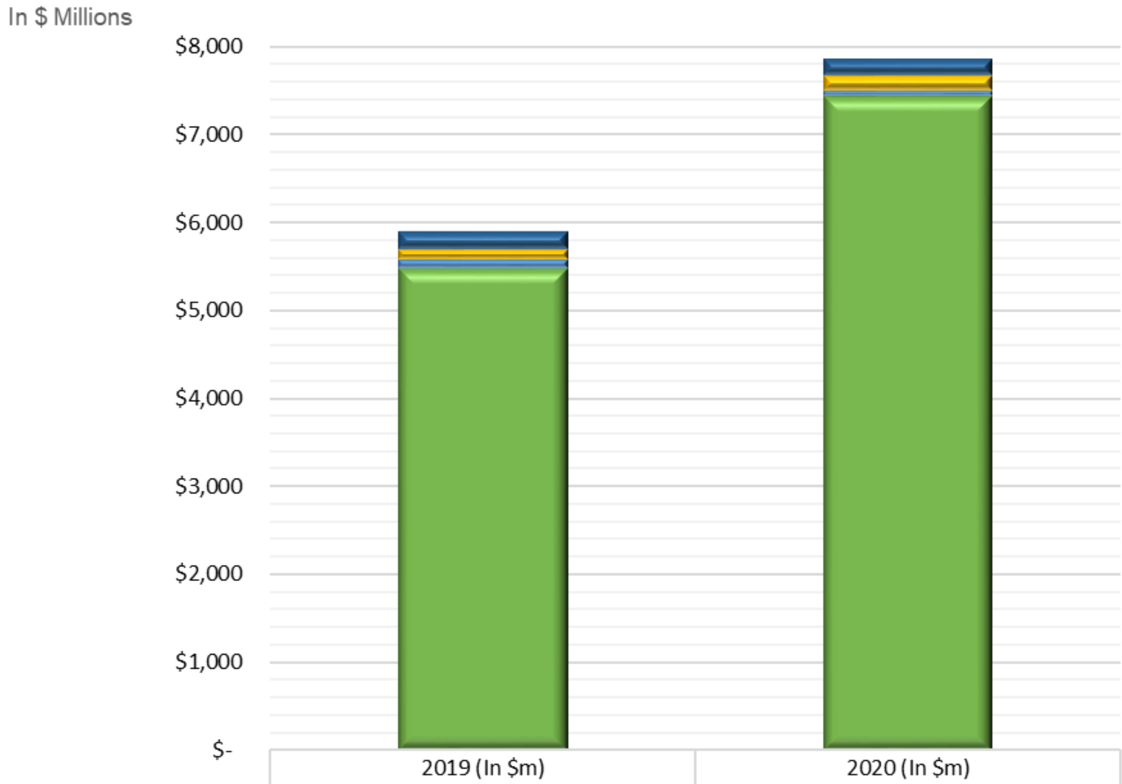
Northern Territory Treasury Corporation cont…

Given the level of retail borrowings undertaken in the financial year ended 30 June 2020, the Corporation only issued two Promissory Notes (PN) during the financial year. The Corporation rolled the $50 million PN which matured in April 2020, for a further term of six months, with the same counterparty. There was no tender process undertaken in relation to the rolling of the PN when it matured in April 2020. Prior to maturity the investor approached the Corporation to discuss their desire to roll the PN at similar terms as the original PN. As the Corporation does not have a policy or procedure that stipulates that a tender process is required to be undertaken when issuing a new PN, or rolling an existing PN, and given the investor demand combined with the COVID-19 situation during April 2020, the Corporation chose not to approach the market via competitive tender and agreed to roll the PN at the same terms as the original PN.

On 23 March 2020, the Treasurer approved a request of the Corporation to increase the interest rate exposure band to a lower limit of $500 million and a maximum limit of $1 billion.

The Corporation issued an additional $595 million into existing bond lines in May and June 2020. The Corporation ultimately completed a borrowing program of $2.03 billion for the year including $708 million of prefunding towards the 2020/21 borrowing program.

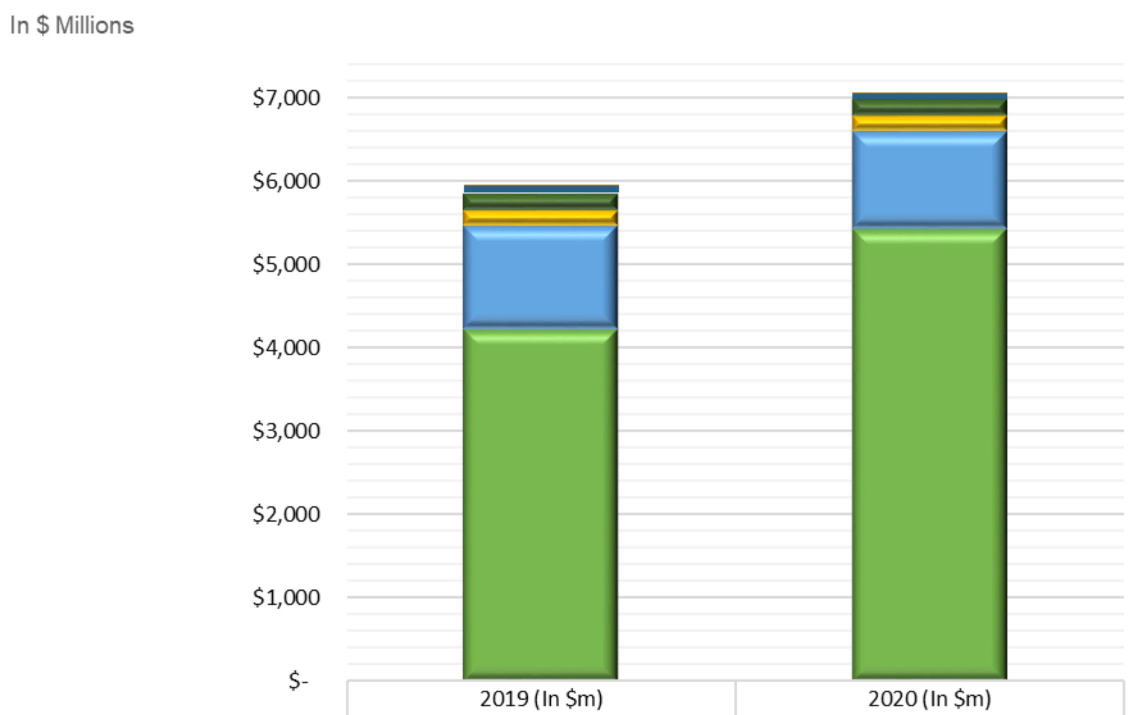
Outstanding borrowing balances at 30 June 2020 were:



	2019 (In $m)	2020 (In $m)
Credit Foncier Loans	$201	$193
Migration Linked Bonds	$1	$1
Territory Bonds	$119	$181
Promissory Notes	$99	$50
Fixed Interest Securities	$5,476	$7,430

Northern Territory Treasury Corporation cont…

In line with the increase in borrowings, the loan portfolio also increased by $1,117 million at 30 June 2020 ($736 million in 2019). These loans consisted of the following:



	2019 (In $m)	2020 (In $m)
Land Development Corporation	$20	$20
Department of Housing	$69	$67
Territory Generation	$200	$200
NT Home Ownership	$191	$184
Power and Water Corporation	$1,242	$1,162
Central Holding Authority	$4,230	$5,436

The Corporation's profit after tax for the year was $28 million compared to $22 million in 2019 reflecting an increase in net interest income as a result of the increase in loan balances.

The average interest rate on outstanding borrowings reduced from 3.96% in 2019 to 3.58% in 2020 as new borrowings were achieved at rates lower than the existing average rate. There was a similar reduction in the average interest rate on outstanding loans from 4.54% in 2019 to 4.40% in 2020.

Northern Territory Treasury Corporation cont…

Financial Performance for the year

	2020	2019
	$'000	**$'000**
Income		
Interest	288,006	257,500
Other	822	822
Total income	**288,828**	**258,322**
Expenditure		
Interest	(246,785)	(224,719)
Administration	(2,062)	(1,952)
Total expenditure	**(248,847)**	**(226,671)**
Surplus before income tax expense	**39,981**	**31,651**
Income tax expense	**(11,994)**	**(9,495)**
Surplus after income tax expense	**27,987**	**22,156**
Dividends	**(27,987)**	**(22,156)**
Net surplus	**-**	**-**

Northern Territory Treasury Corporation cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Total assets	7,976,100	6,001,145
Less total liabilities	(7,954,470)	(5,979,515)
Net assets	**21,630**	**21,630**
Represented by:		
Contributed capital	21,630	21,630
Equity	**21,630**	**21,630**

NT Build

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

NT Build was established under the *Construction Industry Long Service Leave and Benefits Act 2005* (the Act). The role of NT Build is to administer a scheme, also established under the Act, to provide construction workers with entitlements to long service leave and long service benefits.

Scope and Objectives

The objective of the audit was to complete sufficient audit verification to enable an opinion to be expressed upon the financial statements of NT Build for the year ended 30 June 2020.

Audit Opinion

The audit of NT Build for the year ended 30 June 2020 resulted in an unqualified independent audit opinion, which was issued on 7 October 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The audit opinion on the financial statements of NT Build for the year ended 30 June 2020 was unqualified however an emphasis of matter paragraph was included to draw the attention of users of the financial statements to uncertainties relating to the long service leave liability valuation.

Due to the nature of the long service leave liability and the inability to complete the valuation based on long term scheme historical data, there remains a high level of uncertainty associated with this estimate. It is acknowledged that the estimate of unreported service credits may be inaccurate. The service credit total for the first six months of 2020 is an extrapolation of past reporting patterns, introducing moderate uncertainty in this element. Any inaccurate estimation of service credits will have a direct effect on the liability determined. The series of assumptions made regarding the benefit payments and timing of exits is uncertain and changes to these assumptions can result in significant differences in reported results. Specific sensitivities include:

- decreasing withdrawal rates for active members by 25% would increase the liability by 3%;
- increasing withdrawal rates for active members by 50% would decrease the liability by 4%;
- increasing or decreasing the future benefit rate inflation by 1% would move the liability in the same direction by about 4%.
- increasing or decreasing the discount rate used in the valuation by 1% would move the liability in the opposite direction by about 5%.

NT Build cont…

Financial Analysis

NT Build reported a surplus of $18.8 million compared to prior year's surplus of $0.4 million. The movement in total income to $23.7 million in 2020 from $15.9 million in 2019 is primarily driven by the levy income attributed to the Inpex project ($19.5 million) offset by the decrease in investment income, loss on equity investment valuation and decrease in reciprocal income (net impact $12.3million). Total expenses of $4.9 million in 2020 decreased by $10.6 million from 2019 ($15.5 million) primarily due to the net effect of the decrease in the long service leave benefit payments from $18.0 million in the prior year to $10.8 million in the current year and the increase in gain from the long service leave scheme revaluation of $3.3 million when compared to the prior year.

The net asset position of NT Build as at 30 June 2020 remains strong despite concerns that the levy contributions and revenue earned on investments are not sufficient to meet long service leave payments in the longer term. The net asset position as at 30 June 2020 was $42.3 million (2019: $23.5 million).

NT Build cont…

Financial Performance for the year

	2020	2019
	$'000	$'000
Income		
Contributions from levy payers	21,614	1,378
Movement in equity investments	(6,015)	(2,256)
Investment Income	4,459	7,339
Reciprocal income	3,472	9,142
Other	204	241
Total income	**23,734**	**15,844**
Expenditure		
Employee expenses	(1,003)	(1,026)
Occupancy costs	(26)	(95)
Depreciation and amortisation	(153)	(82)
Fees and allowances	(40)	(39)
Long service leave benefit payment	(10,767)	(17,973)
Long service scheme revaluation – current	7,524	4,220
Other	(474)	(468)
Total expenditure	**(4,939)**	**(15,463)**
Surplus	**18,795**	**381**

NT Build cont…

Financial Position at year end

	2020	2019
	$'000	$'000
Cash and cash equivalents	1,012	945
Receivables and other current assets	95,879	84,486
Less current liabilities	(11,269)	(9,982)
Working capital	**85,622**	**75,449**
Add non-current assets	771	168
Less non-current liabilities	(44,133)	(52,152)
Net assets	**42,260**	**23,465**
Represented by:		
Implementation funding	297	297
Accumulated surplus	41,963	23,168
Equity	**42,260**	**23,465**

NT Fleet

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

NT Fleet is a Government Business Division that is responsible for the management of the Northern Territory Government's motor vehicle fleet with the exception of vehicles controlled by Northern Territory Police, Fire and Emergency Services.

NT Fleet's revenues are derived from rental charges levied upon agencies that lease vehicles.

The host Agency is the Department of Corporate and Digital Development. The host Agency at 30 June 2020 was the former Department of Corporate and Information Services.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of NT Fleet for the year ended 30 June 2020.

Audit Opinion

The audit of NT Fleet for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 29 September 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

Financial Analysis

NT Fleet produced a net surplus before tax of $4.8 million for the year ended 30 June 2020 largely due to a one year extension of light vehicle lease periods initiated in response to the *Plan for Budget Repair*.

Total revenue of $36.5 million (2019: $41.8 million) decreased from the prior year by $5.3 million. This is predominantly due to a $5.2 million decline in goods and services income, due to the extension by one year of the lease period for light vehicles from 'three to four years' to 'four to five years'. This lease period extension was actioned in response to the *Plan for Budget Repair*.

Total expenses of $31.7 million (2019: $32.7 million) decreased from the prior year by $1.0 million. This has primarily been caused by a $0.9 million decrease in the depreciation and amortisation expense, mainly as a result of a decline in the carrying book value of motor vehicles. Employee expenses have also decreased by $0.7 million, as a result of the transfer of personnel to DCIS. This has been partially offset by a $0.7 million increase in other administrative expenses, which includes DCIS service charges.

NT Fleet will pay an income tax equivalent of $1.5 million and return a dividend of $1.7 million to the NT Government for the year ended 30 June 2020.

NT Fleet cont…

Impact of the COVID-19 pandemic

NT Fleet disclosed the following information in the financial statements for the year ended 30 June 2020:

> *"The Northern Territory Government modified its debt recovery process and postponed the payment date for a number of regulatory fees and charges to ease financial hardship faced by individuals and businesses as a result of COVID-19.*
>
> *NT Fleet has provided 25 vehicles for key agencies such as Department of Health, Northern Territory Police Fire and Emergency Services and Territory Families to carry out required services to prevent Northern Territory communities from COVID-19. There was no impact on the financial statements of these leases. No extra vehicles were purchased and no other impacts were identified on NT Fleet's operations."*

It is difficult to determine the extent NT Fleet will be affected because it remains unclear how widespread the virus will be and how long it will remain in existence. Due to the continuous uncertainty of the effects of the COVID-19 pandemic impact, NT Fleet will need to remain agile and monitor any potential impacts that will affect NT Fleet.

Financial statement overview

The financial statement overview accompanying the financial statements reports the performance of NT Fleet in comparison to the 'final estimate' for the year.

It is customary for the Budget Papers for the forthcoming financial year (published toward the end of the current financial year) to include Estimate information for each entity. The Estimate information incorporates the financial consequences of government policy decisions and changes that have occurred since the adoption of the budget by the Legislative Assembly in May/June of the previous financial year.

Postponement of the 2020/21 Commonwealth Budget resulted in postponement of the 2020/21 Northern Territory Budget. As the Budget Papers were not produced and Estimates Hearings were not held, the Estimate information had not been published in any manner prior to the completion of the financial statements of NT Fleet.

The comparison to final estimate therefore has limited relevance to a user of the financial report as no Estimate information explaining the approved changes to the original approved budget has been made publically available.

As no Estimate information has been tabled in the Legislative Assembly, a more relevant comparison would be between the Budget (tabled in May 2019) and the actual results.

NT Fleet cont…

Financial Performance for the year

	2020	2019
	$'000	$'000
Income		
Revenue from vehicle lease rentals	34,454	39,653
Gain on disposal of assets	1,742	1,582
Other revenues	337	538
Total income	**36,533**	**41,773**
Expenditure		
Operational costs	(12,929)	(12,371)
Employee expenses	(1,732)	(2,382)
Depreciation and amortisation	(17,032)	(17,979)
Total expenditure	**(31,693)**	**(32,732)**
Surplus before income tax expense	**4,840**	**9,041**
Income tax expense	**(1,452)**	**(2,712)**
Surplus after income tax expense	**3,388**	**6,329**
Dividends	**(1,694)**	**(3,164)**
Net surplus	**1,694**	**3,165**

NT Fleet cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Cash and cash equivalents	34,759	32,284
Receivables and other current assets	2,428	2,181
Less current liabilities	(4,924)	(8,058)
Working capital	**32,263**	**26,407**
Add non-current assets	92,518	96,262
Less non-current liabilities	(418)	-
Net assets	**124,363**	**122,669**
Represented by:		
Accumulated funds	123,798	122,104
Capital	565	565
Equity	**124,363**	**122,669**

NT Fleet cont…

NT Fleet has commented:

NT Fleet's financial statement audit received an unmodified audit opinion with no material weaknesses in internal controls identified. NT Fleet used the 2019-20 unpublished final estimate provided by the Department of Treasury and Finance to assess its performance against the updated budget as this was considered more relevant. A comparison between the original published budget and the actual results is provided in note 32 of the financial statements.

NT Home Ownership

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

NT Home Ownership is a Government Business Division which oversees the Government's home purchase assistance initiative.

The host Agency is the Department of Territory Families, Housing and Communities. The host Agency at 30 June 2020 was the former Department of Local Government, Housing and Community Development.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of NT Home Ownership for the year ended 30 June 2020.

Audit Opinion

The audit of NT Home Ownership for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 29 September 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

NT Home Ownership (NTHO) recorded a net deficit before tax of $5.2 million this financial year (2019: $2.2 million). Actual revenue was $1.4 million less than budgeted, primarily due to interest revenue being $1.2 million less than expected. Total expenditure was $4.5 million more than budgeted. Two significant unbudgeted events were a $3 million loss on the revaluation of shared equity investments and a $1.7 million increase in the provision for impairment of loans. Of the impairment provision, $811,000 is directly attributable to the impact of the COVID-19 pandemic.

Total revenue of $10.7 million (2019: $11.9 million) decreased from the prior year with interest revenue being impacted by low interest rates and the declining loan portfolio. Total expenditure was $15.9 million (2019: $14.1 million). Expenditure increased from the prior year as result of the revaluation loss and the increase in impaired loans, reflecting the continued decline in the Northern Territory property market and the impact of the COVID-19 pandemic.

NT Home Ownership continues to maintain a strong net asset position of $7.8 million (2019: $13.0 million) at 30 June 2020.

NT Home Ownership cont…

Financial Performance for the year

	2020	2019
	$'000	$'000
Income		
Sales of goods and services	3	2
Interest revenue	7,330	8,509
Community service obligations	3,414	3,414
Total income	**10,747**	**11,925**
Expenditure		
Employee expenses	(244)	(160)
Administration fees	(2,111)	(1,964)
Borrowing costs	(8,323)	(8,982)
Loss on revaluation of investments	(3,011)	(1,424)
Loss on disposal of investments	(257)	(197)
Write-offs and impairment expense	(1,779)	(1,176)
Other expenses	(217)	(228)
Total expenditure	**(15,942)**	**(14,131)**
Deficit before income tax expense	**(5,195)**	**(2,206)**
Income tax expense	-	-
Deficit after income tax expense	**(5,195)**	**(2,206)**

NT Home Ownership cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Cash and cash equivalents	7,013	3,295
Receivables and other current assets	3,371	3,429
Less current liabilities	(7,003)	(6,747)
Working Capital	**3,381**	**(23)**
Add non-current assets	182,084	197,276
Less non-current liabilities	(177,643)	(184,236)
Net Assets	**7,822**	**13,017**
Represented by:		
Accumulated funds	(14,923)	(9,728)
Capital	22,745	22,745
Equity	**7,822**	**13,017**

Power and Water Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

The Power and Water Corporation (the Corporation) is the primary provider of electricity distribution services, and the sole provider of water and sewerage services in the Northern Territory. Through its subsidiary, Indigenous Essential Services Pty Ltd, the Corporation is the primary provider of electricity in remote areas of the Northern Territory.

The Corporation became a Government Owned Corporation on 1 July 2002 following the commencement of the *Government Owned Corporations Act 2001* in December 2001.

The Corporation controls one fully owned subsidiary company (Indigenous Essential Services Pty Ltd) and holds 50 per cent of the ordinary shares issued by BGP Tenure Holdings Pty Ltd.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Power and Water Corporation for the year ended 30 June 2020.

Audit Opinion

The audit of the Power and Water Corporation for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 30 October 2020.

Delays in finalising the financial statements and consequential delays in completing the audit required the Corporation to seek and receive an extension to the date of lodgement from the Treasurer required by the *Government Owned Corporations Act 2001*.

Key Audit Matters

Unbilled Revenue

Revenue from the sale of goods includes estimated values for unbilled revenue from Power Networks, System Control, Electricity and Water totalling $36.78 million. The estimated values are based upon unbilled units supplied to customers between the date of the last meter reading and the year end. The relevant units comprise kilowatt hours for Power Networks, System Control and Electricity, and kilolitres for Water.

The estimation of the unbilled revenue is a key audit matter as it requires significant management judgment to estimate customer consumption between the last invoice date and the end of the reporting period.

Valuation of Property, Plant and Equipment

Property, plant and equipment totalled $2,269.69 million as at 30 June 2020.

The valuation of non-current assets is a key audit matter due to the complexity involved in estimating the recoverable amount of assets which requires significant judgement in determining key assumptions supporting the expected future cash flows of the Corporation and expected utilisation of the relevant assets.

Power and Water Corporation cont…

Provision for Onerous Contracts

The Corporation has recorded a reversal of the provision for onerous contract of $66.67 million which existed at 30 June 2019 when the economic costs associated with some gas-related contracts were determined to outweigh the benefits expected to be received based on the circumstances that existed at that date. Changes to the circumstances and events affecting future opportunities in the gas market have resulted in the Corporation reversing the previously existing provision as at 30 June 2020.

The calculation of the net present value of contracts is a key audit matter as the calculation is complex and the valuation model is based on assumptions and estimates that are affected by future performance and market conditions.

Classification and valuation of Capital Work in Progress

The Corporation has recorded Capital Work in Progress valued at $143.73 million as at 30 June 2020.

The valuation of Capital Work in Progress is a key audit matter due to the judgements and assumptions involved in the valuation of Capital Work in Progress accrued at year end and the degree of judgement involved in the classification between operational and capital expenditure.

First-time adoption of AASB 16

The Corporation adopted AASB 16 *Leases* effective 1 January 2019. AASB 16 replaced the previous standard AASB 117 *Leases* and specifies how operating leases are to be recognised, measured and disclosed. The Corporation has applied the modified retrospective approach for transition accounting with the cumulative effect adjusted in equity.

The application of the new standard gave rise to a right-of-use asset of $362.51 million and increased lease liabilities totalling $393.30 million as at 30 June 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Corporation's income increased by $61.37 million compared to the prior year. The increase was attributable to increases in gas sales from new contracts and increased network revenue.

Total expenditure [excluding the balance related to impairment of non-current assets and the provision for onerous contracts (2020: $217,458 credit; 2019: $156,166 debit) which are material and fluctuate significantly between years] was $732,689 (2019: $630,598) and represented an increase of $102.1 million from the year ended 30 June 2019. Of this increase, $17.66 million was attributable to depreciation and amortisation.

The reversal of the onerous contract provision ($66.67 million), banked gas impairment provision ($95.39 million) and previous write-downs of infrastructure assets ($57.08 million), with an offsetting impairment of property, plant and equipment of $1.68 million resulted in a $217.46 million reduction in expenses. In the year ended 30 June 2019, the impairment provision recognised in the financial statements was $156.17 million, consequently the variance between years for this account balance was $373.62 million.

Power and Water Corporation cont…

Unfavourable expense variances were associated with energy and materials ($40.68 million), employee benefits ($13.32 million), external service agreements ($9.61 million) and other expenses ($14.64 million). Effective management of these costs will be required to ensure that growth in operating expenditure does not continue to exceed growth in revenue.

Power and Water Corporation cont…

Financial Performance for the year

	2020	2019
	$'000	**$'000**
Income		
Revenue from contracts with customers	689,236	625,410
Finance revenue	2,347	1,427
Other	36,567	39,943
Total income	**728,150**	**666,780**
Expenditure		
Raw materials and consumables used	(279,770)	(239,089)
Finance costs	(61,439)	(49,600)
Repairs and maintenance expenses	(48,997)	(53,845)
Employee expenses	(100,693)	(87,378)
External service agreements	(40,862)	(31,253)
Depreciation and amortisation	(136,958)	(119,295)
Impairment of non-current assets and onerous contract provisions	217,458	(156,166)
Net loss on disposal of property, plant and equipment	(2,407)	(3,212)
Other expenditure	(61,563)	(46,926)
Total expenditure	**(515,231)**	**(786,764)**
(Loss)/profit before income tax expense	**212,919**	**(119,984)**
Income tax (expense)/benefit	(68,253)	33,667
(Loss)/profit after income tax expense	**144,666**	**(86,317)**
Dividends paid or provided for[1]	(9,640)	(9,000)
Net profit/(loss) after dividends	**135,026**	**(95,317)**

[1] Since the end of the financial year, the Directors have declared a dividend of $1.0 million.

Power and Water Corporation cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Cash and cash equivalents	67,246	94,069
Receivables and other current assets	132,075	143,657
Less current liabilities	(457,819)	(452,978)
Working capital	**(258,498)**	**(215,252)**
Add non-current assets	2,805,318	2,358,457
Less non-current liabilities	(1,369,738)	(1,113,681)
Net assets	**1,177,082**	**1,029,524**
Represented by:		
Retained profits	653,018	516,376
Contributed equity	54,336	44,336
Asset revaluation reserve	469,728	468,812
Equity	**1,177,082**	**1,029,524**

Indigenous Essential Services Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

Indigenous Essential Services Pty Limited (the Company) is a not-for-profit entity formed on 26 June 2003, commencing operations on 1 July 2003, which provides electricity, water and sewerage services to remote communities in the Northern Territory. The Company is a proprietary company (limited by shares) pursuant to the *Corporations Act 2001* that is controlled by Power and Water Corporation. Power and Water Corporation is a Government Owned Corporation pursuant to the Northern Territory's *Government Owned Corporations Act 2001*.

Power and Water Corporation guarantees the solvency of the Company and provides corporate support for all management and accounting services.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Indigenous Essential Services Pty Ltd for the year ended 30 June 2020.

Audit Opinion

The audit of Indigenous Essential Services Pty Ltd for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 6 October 2020.

My audit opinion included the following paragraph:

> ***Material Uncertainty Related to Going Concern***
>
> *I draw attention to Note 2(b) in the financial report, which indicates that the Company incurred a net deficit of $27.8 million during the year ended 30 June 2020 and, as of that date, the Company's current liabilities exceeded its current assets by $8.0 million. As stated in Note 2(b), these events or conditions, along with other matters as set forth in Note 2(b), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. My opinion is not modified in respect of this matter.*

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Restatement of Prior Period Financial Statements as a Result of Material Error

During the course of my external audit procedures for the year ended 30 June 2020, I became aware that the Company had identified a number of transactions that were either materially incorrect as a result of incorrect underlying information or had not been accounted for in accordance with the requirements of Australian Accounting Standards that existed at the time due to misinterpretation of the substance of legal arrangements.

The comparative financial statements for the Company were required to be restated as a result of errors identified during the year ended 30 June 2020.

Indigenous Essential Services Pty Ltd cont…

The Company has corrected the prior period errors and restated the comparative results presented within the audited financial statements as at 30 June 2020 in accordance with the requirements of Australian Accounting Standards AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* and AASB 101 *Presentation of Financial Statements*.

As the Company is regulated by the Australian Securities and Investment Commission (ASIC), ASIC Regulatory Guide 34 *Auditor's obligations: Reporting to ASIC* (the Guide) obligates me, in my capacity as auditor of the Company, to report contraventions of the *Corporations Act 2001*.

Paragraph RG34.83 of the Guide states: *"An auditor should notify ASIC about instances in which an entity's financial report fails to comply with the accounting standards under s296 of the Corporations Act and a previously issued financial report was materially misstated. Whether the misstatement is revealed by new information that has come to light or whether the non-compliance was intentional do not change the requirement to notify ASIC about the failure. However, where an entity's financial report complied with the accounting standards when that report was issued, and a restatement is required by the relevant accounting standard due to a change in accounting policy or the adoption of a new accounting standard and does not represent the correction of an error, we do not consider that an auditor would be required to notify ASIC.*"

To that end, I advise that I have reported to ASIC in accordance with the Guide.

Performance Overview

Financial measures reported by the Company over the past two financial years are:

	2020	**2019 (Restated)**
	$'000	**$'000**
Net deficit	(27,753)	(3,642)
Add back depreciation and amortisation	67,465	45,064
Net surplus before depreciation	**39,712**	**41,422**
Total current assets	60,552	90,292
Total current liabilities	(68,590)	(99,955)
Working capital deficit	**(8,038)**	**(9,663)**

A letter of support was obtained from Power and Water Corporation, however the working capital deficit position in the current year continues to highlight the risk of financial challenges being faced by the Company in paying its debts and extinguishing its liabilities as and when they fall due.

Indigenous Essential Services Pty Ltd cont…

Financial Performance for the year

	2020	2019 Restated
	$'000	**$'000**
Income		
Revenue from contracts with customers	43,199	42,412
Revenue from sale of goods	-	-
Grants – recurrent	56,235	55,895
Grants – capital	39,930	44,020
Other capital contributions	171	874
Revenue from rendering of services	-	-
Other revenues	374	457
Total income	**139,909**	**143,658**
Expenditure		
Raw materials and consumables	(35,006)	(37,563)
Contract labour expenses	(16,784)	(16,333)
Repairs and maintenance	(15,572)	(17,313)
Corporate allocation costs	(5,706)	(5,568)
Agents – community contract fees	(12,670)	(11,700)
Depreciation and amortisation	(67,465)	(45,064)
Finance costs	(2,548)	(1,424)
Other costs	(11,911)	(12,335)
Total expenditure	**(167,662)**	**(147,300)**
Deficit	**(27,753)**	**(3,642)**

Indigenous Essential Services Pty Ltd cont…

Financial Position at year end

	2020	2019 Restated
	$'000	$'000
Cash and cash equivalents	56,325	83,541
Receivables and other current assets	4,227	6,751
Less current liabilities	(68,590)	(99,955)
Working capital	**(8,038)**	**(9,663)**
Add non-current assets	742,908	747,452
Less non-current liabilities	(65,635)	(40,801)
Net assets	**669,235**	**696,988**
Represented by:		
Accumulated funds	188,048	213,034
Asset revaluation reserve	481,187	483,954
Equity	**669,235**	**696,988**

Power Generation Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

Power Generation Corporation trading as Territory Generation (Territory Generation) was established pursuant to the *Power Generation Corporation Act 2014* primarily to generate, acquire and supply electricity, and to acquire, transport and supply energy sources from which electricity may be generated.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Power Generation Corporation for the year ended 30 June 2020.

Audit Opinion

The audit of the Power Generation Corporation for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 22 September 2020.

Key Audit Matters

Property, Plant and Equipment

Property, plant and equipment totalling $302.88 million represents a significant balance. The net asset impairment reversal of $0.98 million disclosed in the statement of profit or loss and other comprehensive income also represents a significant balance.

Significant management judgement is applied in determining the value in use of property, plant and equipment and any related impairment adjustment attributable to each cash generating unit.

The valuation of property, plant and equipment is a key audit matter due to the complexity in the evaluation of the recoverable amount of the assets which requires significant judgement in determining the key assumptions supporting the expected future cash flows of the Corporation, the utilisation of the relevant assets and the useful lives of property, plant and equipment.

The COVID-19 pandemic has led to increased volatility, though limited, in key assumptions including the cash flow projections and growth rates used in the expected future cash flow calculations.

The utilisation and useful life of each asset can change significantly as a result of technical innovations or other events.

Decommissioning Provision

The provision of $5.31 million associated with decommissioning the Ron Goodin Power Station represents a significant balance.

The estimation of future decommissioning costs requires significant judgement as decommissioning is an evolving activity and there is limited historical precedent against which to benchmark estimated future costs.

Power Generation Corporation cont…

Recoverability of deferred tax assets

The deferred tax asset of $26.35 million represents a significant balance in the Corporation's financial statements. Recognition of the deferred tax asset is influenced by management's assessment of the ability of the Corporation to realise the asset.

Unbilled Revenue

Unbilled revenue of $17.05 million represents an estimate of the value of electricity generated and sent out but not billed as at 30 June 2020. Management's estimate is based upon information provided by the market operator.

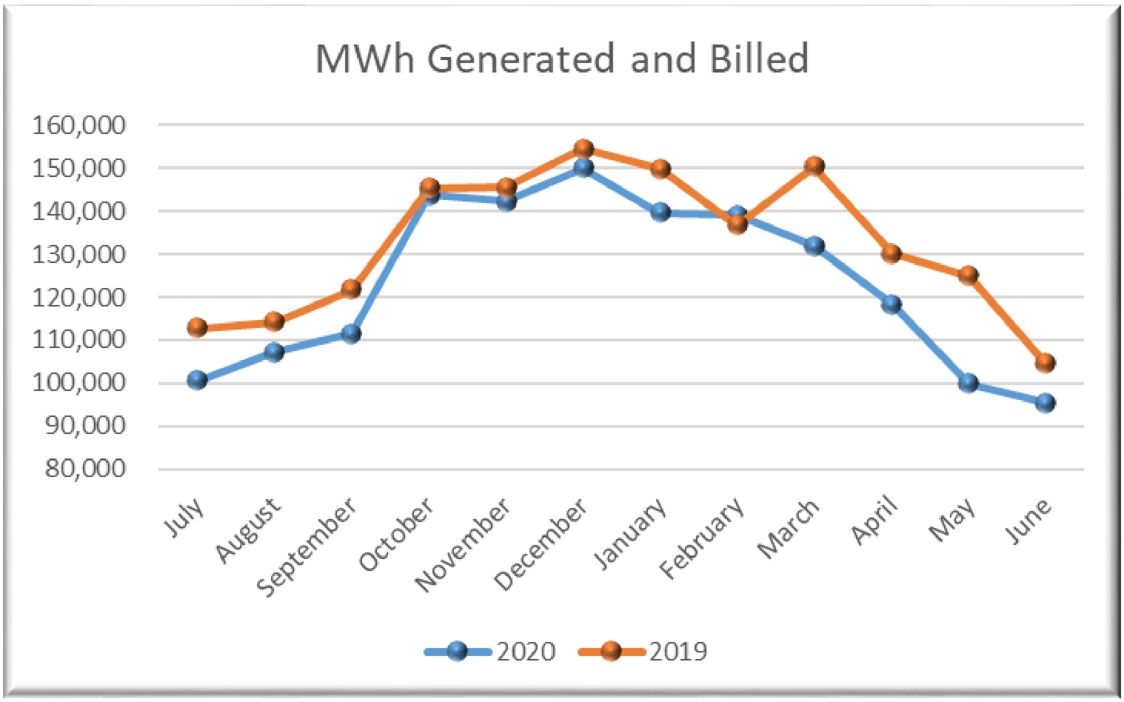
Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

For the year ended 30 June 2020, the Corporation recognised a profit after tax of $7.90 million compared to a net profit of $8.50 million for the year ended 30 June 2019.

Consistent with the previous year, the influx of solar generator players and the preference of end users for renewable energy impacted the Corporation's electricity sales during the year as illustrated in the chart below:



Sales were also affected by an increase in preference for renewable energy during the day and the Northern Territory's current economic climate where population growth is slow. These factors continued to impact the Corporation's energy sales resulting in a 6.5% (2019: 7%) decrease of megawatts delivered during the year. The value of the reduction in total megawatts sold was offset by the increase in average selling price during the year.

Overall, the Corporation's electricity sales decreased by $3.36 million (1.27%) when compared to the previous year.

Power Generation Corporation cont…

The Corporation's directors declared and paid a dividend of $4.25 million during the financial year ending 30 June 2020 and have declared a dividend of $3.95 million to be paid during the financial year ending 30 June 2021.

Impact of the COVID-19 pandemic

The impact of the COVID-19 pandemic on the Corporation has been disclosed in the financial statements.

Although the Corporation has responded well to the COVID-19 pandemic with the establishment and implementation of systems to manage the pandemic's impact on business operations, the uncertainty arising from the COVID-19 pandemic is expected to continue through to 2021. The Board and management will need to remain agile and monitor and respond to the effects of the pandemic on the Corporation.

Going Concern

The continued growth of solar installations by households and commercial entities will impact the Corporation's commercial environment by reducing its overall market share. It is expected that a number of large scale solar farms will commence operations during the forthcoming financial year contributing an estimated 45 megawatts of renewable energy to the Darwin-Katherine system.

In recognising these threats to the Corporation's market share, moderate underlying demand growth and the returns from an existing contract somewhat mitigated the impact of the influx of solar operators.

The Corporation generated positive net cash inflows from its operating activities in the years ended 30 June 2019 and 30 June 2020 and working capital has improved significantly from the previous year. The Corporation has agreed a course of action with Northern Territory Treasury Corporation for refinancing debt of $30 million scheduled to mature during the year ending 30 June 2021.

Whilst the implementation of strategic initiatives to reduce and manage costs have enabled the Corporation's operations to remain financially sustainable to date, it is apparent that a reduction of market share will have a significant effect on the Corporation's longer term prospects as a going concern. Continued oversight and management of the Corporation's cash flow position and operating model will be essential to ensure the Corporation's future financial viability.

Power Generation Corporation cont…

Financial Performance for the year

	2020	2019
	$'000	$'000
Income		
Electricity sales	261,453	264,816
Deferred grant income	3,333	1,278
Interest revenue	248	331
Other revenue	2,243	2,108
Total income	**267,277**	**268,533**
Expenditure		
Cost of energy	(216,795)	(221,954)
Administrative expenses	(28,145)	(28,097)
Finance costs	(8,119)	(8,817)
Impairment reversal/(expense)	98	21,144
Other expenses	(2,908)	(955)
Total expenditure	**(255,869)**	**(238,679)**
Profit before income tax expense	**11,408**	**29,854**
Income tax expense	(3,509)	(21,364)
Profit after income tax expense	**7,899**	**8,490**
Dividends paid or provided for(1)	(4,246)	-
Net profit after dividends	**3,653**	**8,490**

(1) Since the end of the financial year, the directors have declared a dividend of $3.95 million (2019: $4.25 million).

Power Generation Corporation cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Cash and cash equivalents	45,541	33,245
Receivables and other current assets	51,769	52,074
Less current liabilities	(41,962)	(40,190)
Working Capital	**55,348**	**45,129**
Add non-current assets	325,979	334,081
Less non-current liabilities	(250,964)	(252,500)
Net Assets	**130,363**	**126,710**
Represented by:		
Retained earnings	(83,337)	(86,990)
Reserves	107	107
Contributed equity	213,593	213,593
Equity	**130,363**	**126,710**

Power Retail Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

Power Retail Corporation trading as Jacana Energy (the Corporation) was established pursuant to the *Power Retail Corporation Act 2014* to supply electricity to consumers, buy and sell electricity, and supply services designed to improve the efficiency of electricity supply and the management of demand for electricity.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Power Retail Corporation for the year ended 30 June 2020.

Audit Opinion

The audit of the Power Retail Corporation for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 28 September 2020.

Key Audit Matters

Unbilled Consumption

Revenue from sale of goods includes estimated values for unbilled revenue from electricity totalling $44.0 million. The estimated values are based upon unbilled kilowatt hours supplied to customers between the date of the last meter reading and the year end. There is a significant risk around the measurement and recognition of revenue related to unbilled revenue due to the complexity and estimates required in determining actual consumption levels relating to unbilled revenue.

Allowance for Impairment of Receivables/Provision for Doubtful Debts

The provision for doubtful debts constitutes an estimate of $8.5 million. Australian Accounting Standard AASB 9 *Financial Instruments* establishes principles for the financial reporting of financial assets including impairment of assets and specifies the approach to determining and recognising a loss allowance for expected credit losses.

There is a significant risk around the measurement of the provision for doubtful debts due to the complexity and estimates required in determining the expected credit losses when calculating the provision.

Power Retail Corporation cont…

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Reliance on Power and Water Corporation

During the financial year, the Corporation has sought to resolve a range of issues in relation to incorrect application of fees and charges by Power and Water Corporation (PWC). These issues relate to:

- The absence of metering infrastructure at zone substations owned by PWC resulting in the Corporation not being able to calculate or bill PWC for electricity used within the unmetered zone substations.
- Inaccurate charging and billing in respect of Kilovolt-amperes (kVa) and Current Transformer/Voltage Transformer resulting in previous erroneous bills and credit notes issued by PWC to the Corporation.
- Inaccurate application of step tariffs in relation to network costs charged by PWC to the Corporation.

As reported previously, the function of meter reading is managed by PWC under an agreement with the Corporation. The Corporation currently does not have any audit / assurance report (by the Corporation or PWC) on controls related to the meter reading function performed by PWC.

Due to the significance of these processes to the operation and financial viability of the Corporation, I recommended that management consider what action could be taken to obtain assurance over the validity, accuracy and completeness of transactions. It may be necessary to revisit requirements contained in existing service arrangements between the Corporation and PWC.

Impact of the COVID-19 pandemic

The outbreak of COVID-19 has impacted aspects of the Corporation's operations.

The Northern Territory Government announced a Hardship Relief Package for Northern Territory businesses impacted by the COVID-19 situation. Under this package, eligible customers are issued a Business Hardship Package certificate by the former Department of Trade, Business and Innovation, which entitles that customer to a 50% reduction to the regulated electricity retail tariffs for all or part of the relevant period being 1 April 2020 to 30 September 2020. Related discounts are expected to be refunded to the Corporation through the receipt of additional Community Service Obligation payments from the Department of Treasury and Finance.

Management have communicated that steps are currently being implemented to support customers financially impacted by COVID-19. These steps include:

- Proactively encouraging customers who experience difficulties paying their bills to enter into manageable payment plans and hardship plans.
- Revising credit management processes to ensure customers are supported during the pandemic.
- Administering the Northern Territory Government undertaking that regulated electricity prices will not change before 30 June 2021.

Power Retail Corporation cont…

The current Statement of Corporate Intent (SCI), which was approved by the then Treasurer on 29 July 2020 was prepared without considering the impact of the COVID-19 pandemic. Community Service Obligation funding of $75.17 million has been approved for the financial year ending 30 June 2021.

The then Treasurer, in a letter dated 29 July 2020, acknowledged that the SCI did not consider the impact of the COVID-19 pandemic and confirmed that, once the impact of the COVID-19 pandemic is fully assessed, the Treasurer will consider providing financial support, if required, to ensure the entity is able to meet its financial obligations as and when they fall due.

The Corporation has considered three scenarios to assess the cash flow impact of the COVID-19 pandemic. The Corporation has determined that COVID-19 will have the most significant impact on the provision for doubtful receivables and cash losses due to customers' inability to pay their bills on time.

Consideration of these scenarios has resulted in management concluding that the Corporation will be able to meet its financial obligations as and when they fall due. The scenarios do not indicate that the Corporation will require additional financial support from the Department of Treasury and Finance. The Corporation observed a positive trend in the consumption and cash collection subsequent to the year end, hence the financial statements have been prepared on going concern basis.

Power Retail Corporation cont…

Financial Performance for the year

	2020	2019
	$'000	**$'000**
Income		
Sale of goods	396,655	411,346
Community service obligations	91,938	71,524
Interest revenue	266	596
Other income	3,788	1,555
Total income	**492,647**	**485,021**
Expenditure		
Energy cost of sales	(470,815)	(454,515)
Depreciation	(3,178)	(2,718)
Employee expenses	(9,580)	(9,295)
External service agreements	(1,310)	(2,456)
Other expenses	(9,857)	(8,843)
Total expenditure	**(494,740)**	**(477,827)**
Profit/(loss) before income tax expense	**(2,093)**	**7,194**
Income tax benefit/(expense)	627	(2,157)
Profit/(loss) after income tax expense	**(1,466)**	**5,037**
Dividends paid or provided for[(1)]	(2,519)	(5,039)
Net loss after dividends	**(3,985)**	**(2)**

[(1)] Directors have not recommended declaration of a dividend since the end of the financial year (2019: $2.5 million).

Power Retail Corporation cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Cash and cash equivalents	39,391	43,108
Receivables and other current assets	78,523	75,700
Less current liabilities	(73,402)	(71,604)
Working capital	**44,512**	**47,204**
Add non-current assets	8,549	7,052
Less non-current liabilities	(2,976)	(187)
Net assets	**50,085**	**54,069**
Represented by:		
Accumulated funds	2,419	6,403
Capital	47,666	47,666
Equity	**50,085**	**54,069**

Power Retail Corporation cont…

Power Retail Corporation has commented:

With respect to the Auditor-General's observations on Jacana Energy's reliance on Power and Water Corporation (PWC), Jacana Energy notes that the authority to conduct an audit of metering transactions does not currently exist within the Coordination Agreement with PWC, but that the Corporation will aim to influence a change through negotiation of a new agreement with PWC, or through other regulatory mechanisms where appropriate.

Jacana Energy notes that eligibility for the Business Hardship Package mentioned in the report has now been extended from 30 September 2020 to 1 July 2021.

The Treasurer, in a letter dated 29 July 2020 advised consideration of the provision of liquidity support in the event of a deteriorating cash position, rather than the provision of financial support.

Jacana Energy has observed a positive trend in cash collection subsequent to the year end, however positive consumption trends have not necessarily been observed at this time.

Selected Agencies

Corporate Credit Cards

Background

The Electronic Card Management System (the system) is an online web-based system used by Northern Territory Government corporate credit card holders to process their credit card transactions.

Data analytics were used to examine transactions using Corporate Credit Cards at selected entities that were verified between 1 July 2019 and 31 March 2020 in order to identify transactions that displayed unusual characteristics or characteristics that might suggest the existence of fraud, or other irregularities, and to provide information about those transactions to the entity's Accountable Officer for review and investigation.

Observations

During the period 1 July 2019 to 31 March 2020, 73,683 transactions, with a value of $16 million, were processed within the system.

Following an initial high level review of the data provided, a small number of transactions were selected and referred to the relevant entity for further investigation.

The table below presents each selected agency, the total value of transactions recorded and the number of corporate credit card transactions.

	Total $'000	Total Transactions
Department of Environment and Natural Resources	810	3,865
Department of Primary Industry and Resources	1,531	7,071
Department of the Attorney-General and Justice	1,720	8,719
Department of the Chief Minister	468	2,616
Department of the Legislative Assembly	351	1,146
Department of Tourism, Sport and Culture	1,275	6,519
Department of Trade, Business and Innovation	376	1,665
Northern Territory Legal Aid Commission	115	521
Northern Territory Police, Fire and Emergency Services	845	4,750
Office of the Independent Commissioner Against Corruption	9	94

Selected Agencies cont…

The transactions were selected as they displayed characteristics that suggested the purchase, or the nature of the purchase was non-routine or irregular. Examples include:

- Purchases at well-known consumer product shops;
- Expense descriptions which contained specific words;
- Significant expense items;
- Same vendor in quick succession which could indicate potential splitting of payments; and
- Purchases that contravene Treasurer's Directions, for example purchases of fuel on a corporate credit card or payment of Traffic Infringement Notices;

  Treasurer's Direction C3.3.4 states "*A corporate credit card must only be used for official, pre-approved purposes and must not be used for: … purchase of fuel and oils other than in exceptional circumstances*".

Whilst assessing the transactions identified within this report it should be remembered that the use of purchasing cards is simply a method of payment, it is not an alternate method of procurement, therefore all procurement procedures (including obtaining quotations and authorisations) must occur prior to payment being made using the purchasing card.

Department of Environment and Natural Resources

The Agency verified 3,865 transactions using Corporate Credit Cards during the period 1 July 2019 to 31 March 2020 totalling $810,188.

There were 102 cardholders that recorded transactions during the period under assessment. At 31 March 2020, the Agency had 94 cards on issue thus 34% of the Agency's personnel held an official card.

26 cardholders initiated less than ten transactions (i.e. an average of one per month) within the nine months analysed, however five of these cards were cancelled during the year.

There were 93 transactions that were selected as warranting further attention.

- Eight transactions were identified as "accidental purchase", "unauthorised", "mistaken Itunes purchase" or "personal expense".
- After eliminating fuel purchases with descriptions such as "no puma card accepted", boats, hire vehicles and "awaiting fuel card", 84 transactions relating to fuel purchases remained.
- A parking fine of $40 incurred on 4 September 2019 was paid using a corporate credit card. NT Fleet Handbook – Driver responsibilities states "*Pay all Traffic Infringement Notices and fines incurred whilst the vehicle is in their control, including parking, speed and red light camera fines. Fines are the responsibility of the driver of the vehicle. It is therefore important that the vehicle log is kept up to date enabling easy identification of responsible drivers. Late payment of fines may incur additional penalties.*"

The Department of Environment and Natural Resources has commented:

The Department notes the findings of the Corporate Credit Card Review and is looking to improve current internal controls which can be challenging given the significant level of both seasonal and remote field work undertaken across the Agency.

Selected Agencies cont…

Department of Primary Industry and Resources

The Agency verified 7,071 transactions using Corporate Credit Cards during the period 1 July 2019 to 31 March 2020 totalling $1,530,983.

There were 183 cardholders that recorded transactions during the period under assessment. At 31 March 2020, the Agency had 176 cards on issue thus 42% of the Agency's personnel held an official card.

During the year, a card was on issue to the Accountable Officer with the 130 transactions (total net value of $52,352) being verified by a subordinate. Where the nominated verifier is a subordinate, there is a risk that the verifier will feel limited in the degree to which they may be able to effectively perform their functions in relation to verifying, or challenging, the transactions of the cardholder.

33 cardholders initiated less than ten transactions (i.e. an average of one per month) within the nine months analysed, however six of these cards were cancelled during the year.

There were 212 transactions that were selected as warranting further attention.

- Two transactions were identified as "fraudulent".
- 22 transactions were identified as "accidental purchase" or "accidental use".
- After eliminating fuel purchases with descriptions such as generators, fork lifts, "card not accepted", "no Puma facility", hire vehicles and "awaiting fuel card", 83 transactions relating to fuel purchases remained.
- There were four transactions with no description recorded.
- There were two transactions, totalling $198.00, for "Phone repairs" which both occurred on the same day. These transactions were allocated to the same cost centre and standard classification leading to the perception of splitting an invoice to circumvent card or delegation limits.

Selected Agencies cont...

Department of the Attorney-General and Justice

The Agency verified 8,719 transactions using Corporate Credit Cards during the period 1 July 2019 to 31 March 2020 totalling $1,720,325.

There were 96 cardholders that recorded transactions during the period under assessment. At 31 March 2020, the Agency had 97 cards on issue thus 7% of the Agency's personnel held an official card.

During the year, a card was on issue to the Accountable Officer with the two transactions (total net value of $550) being verified by a subordinate. Where the nominated verifier is a subordinate, there is a risk that the verifier will feel limited in the degree to which they may be able to effectively perform their functions in relation to verifying, or challenging, the transactions of the cardholder.

17 cardholders initiated less than ten transactions (i.e. an average of one per month) within the nine months analysed, however three of these cards were cancelled during the year.

There were 154 transactions (excluding those made on behalf of persons in custody) that were selected as warranting further attention.

- After eliminating fuel purchases with descriptions such as "card not working", "locked pin on fuel card" and hire vehicles, 25 transactions relating to fuel purchases remained.
- There were 129 transactions with no description recorded.

The following items apparently made on behalf of persons in custody were observed:

- 33 payments for birth certificates – generally described with a name and an identifier.
- 581 payments to the "fines recoveries unit" – generally described with a name and an identifier.
- Over 1,100 payments described variously as "weekly buy" "SBUY", "BWC Prisoner BUYS" followed, generally, by an ID number and a name.

As there is the potential for misuse by a cardholder paying a personal fine or purchasing goods for personal use and allocating the payment to a prisoner's account, the Agency needs to ensure that the controls in place to prevent fraudulent activity being identified as a payment by, or on behalf of, a person in custody are robust and regularly subject to review.

Selected Agencies cont…

Department of the Chief Minister

The Agency verified 2,616 transactions using Corporate Credit Cards during the period 1 July 2019 to 31 March 2020 totalling $468,106.

There were 44 cardholders that recorded transactions during the period under assessment. At 31 March 2020, the Agency had 43 cards on issue thus 14% of the Agency's personnel held an official card.

Ten cardholders initiated less than ten transactions (i.e. an average of one per month) within the nine months analysed, however four of these cards were cancelled during the year.

There were 19 transactions that were selected as warranting further attention.

- Seven transactions were identified as 'fraudulent'.
- After eliminating fuel purchases described as being for generators etc, 11 transactions relating to fuel purchases remained.
- There was one transaction with no description recorded.

The Department of the Chief Minister and Cabinet has commented:

Corporate Credit Cards – seven transactions were identified as *'fraudulent'*

Comment: The relevant cardholders identified and reported the transactions as fraudulent and as such disputed the use of their card to the agency credit card administrator and to the former Department of Corporate and Information Services Corporate Cards section. These transactions were subsequently reported to the government's corporate credit card provider, the National Australia Bank, whereby the process for cancelling the card was actioned.

The reported transactions were confirmed to be at no fault of the cardholders, or the Department, and they have all been reimbursed by the credit card provider.

Corporate Credit Cards – 11 fuel purchases warranting further attention

Comment: All fuel purchases were confirmed to have occurred due to exceptional circumstances as these purchases occurred in remote areas where the vendors did not accept NTG supplied fuel cards, with the exception of one transaction, where the NTG fuel card was not in the government vehicle, and another transaction where diesel fuel cans were purchased for remote travelling.

Corporate Credit Cards – one transaction with no description

Comment: It was noted a description was included on the transaction identified and a screen shot of the transaction was provided as supporting evidence.

Selected Agencies cont...

Department of the Legislative Assembly

The Agency verified 1,146 transactions using Corporate Credit Cards during the period 1 July 2019 to 31 March 2020 totalling $350,928.

There were 15 card holders that recorded transactions during the period under assessment. At 31 March 2020, the Agency had 15 cards on issue thus 15% of the Agency's personnel held an official card.

During the year, a card was on issue to the Accountable Officer with the seven transactions (total net value of $2,000) being verified by a subordinate. Where the nominated verifier is a subordinate, there is a risk that the verifier will feel limited in the degree to which they may be able to effectively perform their functions in relation to verifying, or challenging, the transactions of the cardholder.

Four cardholders initiated less than ten transactions (i.e. an average of one per month) within the nine months analysed.

Two transactions were identified as being for fuel purchases.

The Department of the Legislative Assembly has commented:

The Auditor-General's letter of 12 August 2020 included a summary of findings relating to the Department of the Legislative Assembly's corporate credit card transactions for the period 1 July 2019 to 31 March 2020.

Clarification on the transactions identified by Auditor-General's letter as requiring further attention are as follows:

Two transactions for purchase of fuel on 18 March 2020 and 19 March 2020 have been noted with reference to Treasurer's Direction C3.3.4 which states "*A corporate credit card must only be used for official, pre-approved purposes and must not be used for: …..purchase of fuel and oils other than in exceptional circumstances*".

The Department of the Legislative Assembly provided the following response providing the legislative basis to support the correct treatment of the two transactions which have met the definition of "exceptional circumstances" and permissible by Treasurer's Direction Corporate Credit Card.

The verifier of these two transactions relied on the following information to complete the processing of these transactions:

1. Treasurer's Direction C3.3.4 (iii) which states, "*Use of a fuel card is the preferred option for purchases of fuel and oils. Corporate credit cards may be used for the purchase of fuel and oils where a fuel card is not available or not accepted by the relevant supplier*". In this instance, the fuel was purchased for a hire car which does not have a fuel card provided.
2. Prior approval via memorandum of 12 February 2020 provided approval for the total cost of the Parliamentary regional and remote schools outreach programme including accommodation, travel allowance, car hire and fuel.
3. Compliant tax invoices were submitted by the corporate credit cardholder stating the type of fuel, quantity, date of purchase and location. The cost of fuel was identified to be within the approved amount.

Selected Agencies cont…

The Department of the Legislative Assembly comments continued:

The Department of the Legislative Assembly performs periodic review of the list of personnel to whom corporate credit cards are issued and assesses the corporate card holder's need to retain a corporate credit card, noting section C3.3.5(ii) of Treasurer's Direction C3.3 Corporate Credit Card "*a register of cardholders is maintained that is subject to periodic review as to each cardholder's need to retain a corporate credit card*". As a consequence, three corporate credit cards, including one issued to the Accountable Officer, were cancelled on 7 September 2020.

Department of Tourism, Sport and Culture

The Agency verified 6,519 transactions using Corporate Credit Cards during the period 1 July 2019 to 31 March 2020 totalling $1,275,148.

There were 163 cardholders that recorded transactions during the period under assessment. At 31 March 2020, the Agency had 157 cards on issue thus 34% of the Agency's personnel held an official card.

During the year, a card was on issue to the Accountable Officer with the 54 transactions (total net value of $5,000) being verified by a subordinate. Where the nominated verifier is a subordinate, there is a risk that the verifier will feel limited in the degree to which they may be able to effectively perform their functions in relation to verifying, or challenging, the transactions incurred by the cardholder.

33 cardholders initiated less than ten transactions (i.e. an average of one per month) within the nine months analysed, however 11 of these cards were cancelled during the year.

There were 33 transactions that were selected as warranting further attention.

- Six transactions were identified as 'fraudulent'.
- Three transactions were described as accidental transactions.
- After eliminating fuel purchases described as being for hire vehicles, six transactions relating to fuel purchases remained.
- There were 15 transactions with no description recorded.
- Three transactions with the same vendor on the same date were allocated to the same cost centre and standard classification leading to the perception of splitting an invoice to circumvent card or delegation limits.

Selected Agencies cont…

Department of Trade, Business and Innovation

The Agency verified 1,665 transactions using Corporate Credit Cards during the period 1 July 2019 to 31 March 2020 totalling $375,646.

There were 53 cardholders that recorded transactions during the period under assessment. At 31 March 2020, the Agency had 51 cards on issue thus 22% of the Agency's personnel held an official card.

During the year, a card was on issue to the Accountable Officer with the 69 transactions (total net value of $8,563) being verified by a subordinate. Where the nominated verifier is a subordinate, there is a risk that the verifier will feel limited in the degree to which they may be able to effectively perform their functions in relation to verifying, or challenging, the transactions of the cardholder.

10 cardholders initiated less than ten transactions (i.e. an average of one per month) within the nine months analysed, however four of these cards were cancelled during the year.

There were 22 transactions that were selected as warranting further attention.

- Three transactions were identified as 'fraudulent'.
- One transaction was identified as 'accidental personal use'.
- Four transactions were identified as 'incorrect charge' that were corrected on 24 March 2020.
- Nine transactions relating to fuel purchases were identified.
- Four transactions had no description recorded.
- One charge for $200 was for car detailing.

Selected Agencies cont…

Northern Territory Legal Aid Commission

The Commission verified 521 transactions using Corporate Credit Cards during the period 1 July 2019 to 31 March 2020 totalling $115,068.

There were eight cardholders that recorded transactions during the period under assessment. At 31 March 2020, the Commission had seven cards on issue thus 7% of the Commission's personnel held an official card.

Three cardholders initiated less than ten transactions (i.e. an average of one per month) within the nine months analysed, however one of these cards was cancelled during the year.

There were 150 transactions selected as warranting further attention.

- Eight transactions were identified as farewell, anniversary and service recognition gifts. The value of these gifts ranged from $133.71 to three gifts each valued at $880 with a total value of $3,491.96.

  Notwithstanding that the Commission is not an NT Government agency, the expenditure identified above may be perceived as inappropriate taking into account the funding sources of the Commission.

  NT Government guidance relating to gifts and recognition of service may be of assistance in determining the appropriateness of the gifts and related expenditure. Furthermore, in the absence of a mandated framework, I recommended that the Commission develop its own policy and procedures relating to gifts and benefits.
- 140 transactions related to food purchases with many being described as "TEA CLUB". The total value of the transactions was $7,409.09.
- Two transactions had either no description provided or an incorrect description.

The Northern Territory Legal Aid Commission has commented:

The Commission has tight controls on the issuing of credit cards and all but one of the cardholders are from Corporate Services. This enables them to process payments in instances where a credit card is the only option and/or when there is no vendor up on the NT Government Accounts Payable system. This has proved to be an efficient practice, particularly for kitchen supplies (labelled 'tea club' as a description). The Domestic Violence Legal Service Local Support Coordinator has the other credit card to use for emergency purchases and Woolworth gift cards (for food) for victims of domestic violence when deemed appropriate and in accordance with the Commonwealth funding agreement.

The Commission uses the NT Government's electronic card management system to submit and verify transactions, to ensure compliance with the Commission's delegations and procurement. The credit cardholders and the needs of the Commission have been reviewed and I am satisfied with the processes in place and that staff will ensure that appropriate descriptions are entered for each transaction.

Acknowledging the 20th anniversary of service of an employee with the presentation of a small gift is done in accordance with the Commission's Gift/Benefit Guidelines. Staff retention is essential to the effective and efficient provision of legal services, which is at the core of our function, in challenging circumstances every day across the NT.

Selected Agencies cont…

Northern Territory Police, Fire and Emergency Services

The Agency verified 4,750 transactions using Corporate Credit Cards during the period 1 July 2019 to 31 March 2020 totalling $845,294.

There were 167 cardholders that recorded transactions during the period under assessment. At 31 March 2020, the Agency had 177 cards on issue thus 8% of the Agency's personnel held an official card.

48 cardholders initiated less than ten transactions (i.e. an average of one per month) within the nine months analysed, however nine of these cards were cancelled during the year.

95 transactions were selected as warranting further attention.

- One transaction was identified as 'fraudulent'.
- 18 transactions were identified as 'unauthorised'. All of these transactions were subsequently reversed.
- Three transactions were identified as 'accidental use' or 'accidental purchase'.
- After eliminating fuel purchases with descriptions such as generators, hire vehicles, boats and aircraft, 59 transactions relating to fuel purchases remained.
- Seven purchases identified as generator fuel were recorded on 10 February 2020 at Jabiru. The lowest purchase was $34.45 with the highest purchase being $57.10.
- Three transactions with no description recorded.
- Two transactions with only the dollar value being recorded as the expense description.
- One transaction with the description 'none' that was reversed on the same day.
- A traffic infringement fine of $225 was paid 5 September 2019. Whilst acknowledging that the Agency vehicles are not NT Fleet vehicles, the guidance provided by NT Fleet may be appropriate to consider. The NT Fleet handbook states that it is the driver's responsibility to "*Pay all Traffic Infringement Notices and fines incurred whilst the vehicle is in their control, including parking, speed and red light camera fines. Fines are the responsibility of the driver of the vehicle. It is therefore important that the vehicle log is kept up to date enabling easy identification of responsible drivers. Late payment of fines may incur additional penalties*."

Northern Territory Police, Fire and Emergency Services has commented:

Northern Territory Police, Fire and Emergency Services (NTPFS) has noted the findings of the Audit and has provided a detailed response for each item as identified. NTPFES is committed to continuous improvement and the findings of this Audit have been utilised to strengthen the controls already in place.

Selected Agencies cont…

Office of the Independent Commissioner Against Corruption

The Agency verified 94 transactions using Corporate Credit Cards during the period 1 July 2019 to 31 March 2020 totalling $8,970.

There were six card holders that recorded transactions during the period under assessment. At 31 March 2020, the Agency had six cards on issue thus 35% of the Agency's personnel held an official card.

During the year, a card was on issue to the Accountable Officer with the 19 transactions (total net value of $1,467.96) being verified by a subordinate. Where the nominated verifier is a subordinate, there is a risk that the verifier will feel limited in the degree to which they may be able to effectively perform their functions in relation to verifying, or challenging, the transactions incurred by the card holder.

Two cardholders initiated less than ten transactions (i.e. an average of one per month) within the nine months analysed, however one of these cards was cancelled during the year.

There were four transactions that were selected as warranting further attention.

- One transaction for the purchase of fuel.
- Three transactions identified as 'Prohibited Use'.

The Office of the Independent Commissioner Against Corruption has commented:

The Office of the Independent Commissioner Against Corruption (OICAC) provided a response to the Auditor-General on 17 September 2020 as to the specific findings made following the corporate credit card analytics conducted on the office.

The matters raised have been investigated and findings reported to the Auditor-General. As per one of the recommendations, the Commissioner as the Accountable Officer has also cancelled his corporate credit card, due to minimal use, and appropriate staff members now have corporate credit cards to assist the Commissioner. The provision of corporate credit cards to OICAC staff will continue to be monitored regularly.

Selected Agencies

End of Year Reviews

Background

The purpose of the end of year reviews of the Public Account was to provide support to the audit of the Treasurer's Annual Financial Statement through reviewing the reasonableness of agencies' end of year financial data consolidated into the Treasurer's Annual Financial Statement by the Department of Treasury and Finance. The review methodology involves reviewing the reasonableness and effectiveness of agencies' end of financial year reporting and controls relevant to accounting processes and practices and reviewing material financial transactions that have occurred within the agencies.

Findings and observations from these reviews may also provide matters for Accountable Officers to consider when they are preparing their representations to their relevant Ministers.

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

- Aboriginal Areas Protection Authority;
- Department of Corporate and Information Services;
- Department of Education;
- Department of Environment and Natural Resources;
- Department of Health;
- Department of Infrastructure, Planning and Logistics;
- Department of Local Government, Housing and Community Development;
- Department of Primary Industry and Resources;
- Department of the Attorney-General and Justice;
- Department of the Chief Minister;
- Department of the Legislative Assembly;
- Department of Tourism, Sport and Culture;
- Department of Trade, Business and Innovation;
- Department of Treasury and Finance;
- Northern Territory Police, Fire and Emergency Services;
- Office of the Commissioner for Public Employment;
- Office of the Independent Commissioner Against Corruption;
- Ombudsman's Office; and
- Territory Families.

Selected Agencies cont…

Scope and Objectives

The objective of the end of year review was to review the adequacy of selected aspects of end of financial year reporting and controls over accounting and material financial transactions at each agency. The reviews are undertaken under section 13 of the *Audit Act 1995* in order to support the audit fieldwork and resultant independent audit opinion issued upon the Treasurer's Annual Financial Statement.

The reviews were not directed to auditing financial information contained within each Agencies' annual report.

Audit Observations

Whilst an audit opinion is not expressed on the financial statements of each agency, each Authorised Auditor provided a representation to my Office at the completion of each review confirming that the reviewed financial information entered by each agency into the APEX system for the purpose of preparing the Treasurer's Annual Financial Statement for the year ended 30 June (effectively a trial balance) contained no material misstatements.

Reviews conducted at most agencies identified no material or significant weaknesses in controls.

Number of Issues Raised	Number of Agencies 2020	Number of Agencies 2019
0	5	9
1	5	6
2	4	2
3	4	1
4	-	2
5	-	-
6	1	-
Total Agencies	**19**	**20**
Total Issues Raised	**31**	**21**

A number of findings were raised in relation to the general controls environment. These findings included the need for adherence to Agency Accounting and Property Manuals, improved processes for recording transactions surrounding year end (cut off) and the need for more timely and accurate reconciliations. In particular it was noted that:

- There were instances where journals were submitted by agencies after Period 14 had closed on 19 July 2020. In most instances, established month-end processes in place at the agencies should have identified the need for these journals to be processed within the normal month-end close timeframe. The processing of journals by agencies after the mid-July ledger close date may affect the timely completion of the audit of the Treasurer's Annual Financial Statements and may result in material unanticipated changes to forecast results.

Selected Agencies cont…

- The actual results to budget analysis required to be included within the Agency's financial statements is an analysis of the actual results in comparison to the original Budget Paper No 3 as tabled in the Legislative Assembly. Some agencies originally provided an analysis of actual results compared to revised budgets rather than Budget Paper No 3 as tabled in the Legislative Assembly. As the revised budgets are not subject to scrutiny by the Legislative Assembly, Australian Accounting Standards require the analysis to always be to the Budget Paper as tabled.
- At one Agency, the cultural asset collections were not well documented and the qualitative detail and consistency in the database records could be improved. The Agency's independent valuer reported that some assets within the collection were unable to be located.
- A prior period error was identified at one Agency regarding the reclassification of an outstanding advance of $660,001 from an asset to grant expenditure. To correct this error, the Agency processed a journal on 17 July 2020 to recognise the outstanding balance as an asset and at the same time reduce equity. Subsequently the Department of Treasury and Finance instructed this journal be treated as a 'transfer out of equity' instead of the correction of a prior year error.

Beyond these findings, observations arising from the reviews were mostly related to two areas, being accounting for property, plant and equipment, and accounting for revenue.

In relation to accounting for property, plant and equipment, the following matters were identified:

- Infrastructure additions had not been assessed to determine what amounts represented repairs and maintenance and therefore should have been expensed rather than capitalised.
- Accounting processes and controls could be improved in relation to property, plant and equipment.
- Instances were identified where an asset was unable to be physically verified as part of an asset stock take.
- A number of assets were disposed of during the year but were still recorded on the asset register at year end.
- Cultural assets have not been valued in accordance with the revaluation model required by the Treasurer's Direction.
- The following disposals of assets related to prior financial periods however were not accounted for during the correct financial period and were identified by the Agency during the 2020 financial year as requiring correction:
    - A transfer of land (Smith Street Mall) valued at $5.5 million to the City of Darwin.
    - A transfer of land (Willard Road) valued at $10.0 million to Litchfield Council.
    - A transfer of land (Katherine East Stage 2) valued at $6.4 million to the Power and Water Corporation.
    - A transfer of land (Berrimah Farm) valued at $18.48 million to a private developer.
    - De-recognition of a building valued at $6.1 million where the land upon which the building was located (at Rapid Creek) had been previously transferred to a private school.
    - Transfers of infrastructure collectively valued at $6.5 million to the Power and Water Corporation.

Selected Agencies cont…

- There were inconsistencies within one Agency in relation to the accuracy of the date on which transfers of completed works-in-progress are recorded. As a result there was no evidence supporting the appropriateness of the transfer date for a sample of transfers tested.

In relation to accounting for revenue, the following matters were identified:

- The approach to classification of revenue was not clearly articulated or consistently applied.
- Reconciliations between revenue/receivables systems and ledger systems were not completed.
- In one Agency, rebates were not processed in a timely manner resulting in an overstatement of gross debtors. This matter has been reported annually to the Agency since 2009.

Selected Agencies cont...

The Department of Environment and Natural Resources has commented:

The Department acknowledges the findings of the End of Year Review and will take the necessary action to address the findings.

The Department of Treasury and Finance has commented:

DTF is continuing its review of the Northern Territory Financial Management and Accountability Framework, with a focus on the Treasurer's Directions (TD) to strengthen financial management internal controls and processes, and compliance with the TDs and the Australian accounting standards. During 2019-20, DTF reviewed and issued nine new or revised Treasurer's Directions, with supporting guidance material and workshops provided to agencies.

Northern Territory Police, Fire and Emergency Services has commented:

Northern Territory Police, Fire and Emergency Services acknowledges the three issues as identified during the End of Year review and is actively addressing the root causal agents as a matter or priority.

The Office of the Independent Commissioner Against Corruption has commented:

The Office of the Independent Commissioner Against Corruption (OICAC) values the Auditor-General's oversight and constructive feedback.

Notwithstanding, the OICAC did not have any findings as a result of its 30 June 2020 end of year review, the office will continue to act on the recommendations in the Auditor-General's Report as they assist our office in strengthening our resistance to improper conduct, they demonstrate that our office is accountable for our actions and more broadly they assist in strengthening confidence in public administration.

Territory Wildlife Parks

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

Territory Wildlife Parks is a Government Business Division that operates the Territory Wildlife Park at Berry Springs and the Alice Springs Desert Park. Territory Wildlife Parks has required ongoing financial support, through its host Agency, to enable it to meet its operating expenses.

The host Agency is the Department of Environment, Parks and Water Safety. The host Agency at 30 June 2020 was the Department of Tourism, Sport and Culture.

Scope and Objectives

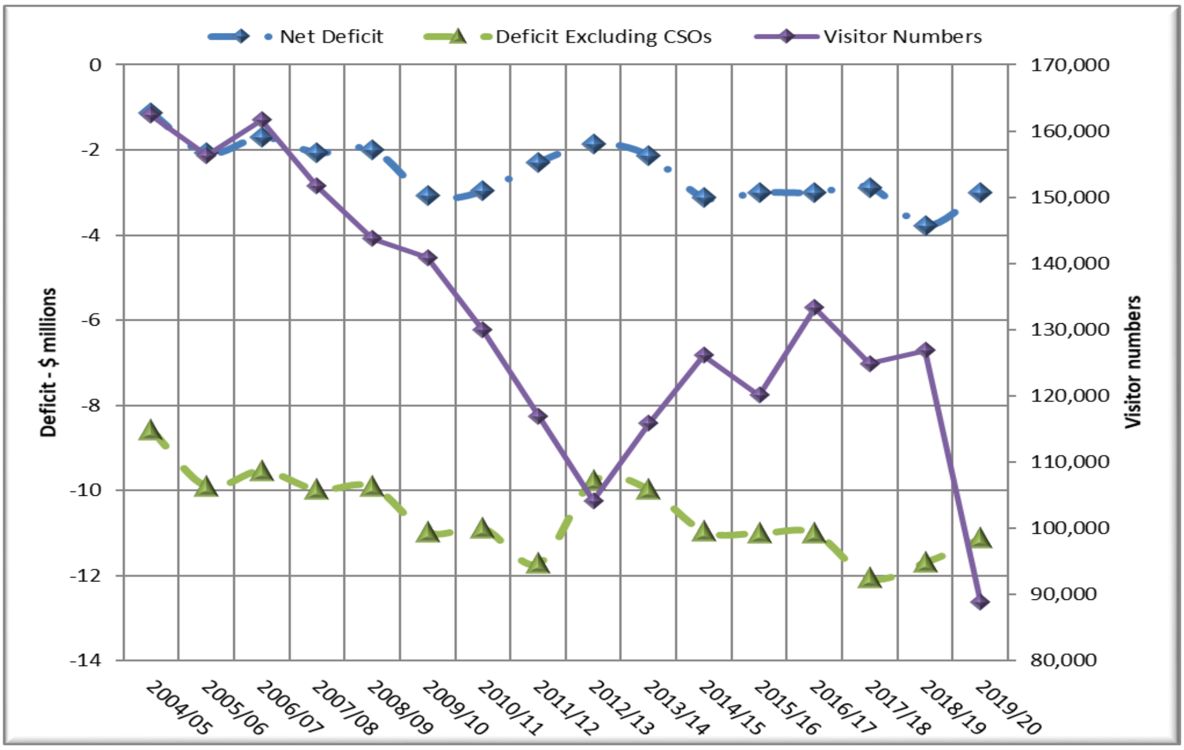
The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Territory Wildlife Parks for the year ended 30 June 2020.

Audit Opinion

The audit of Territory Wildlife Parks for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 25 September 2020.

Audit Observations

Whilst my audit did not identify any material weaknesses in internal controls, it is notable that Territory Wildlife Parks has recorded financial deficits since its inception and that it continues to rely upon financial support in the form of Community Service Obligations to enable it to manage its cash flow requirements. Information in the following table and graph was sourced from the published annual reports of the former Department of Tourism, Sport and Culture and antecedent agencies.



Territory Wildlife Parks cont…

	Net Deficit $'000	CSO Income $'000	Deficit Excluding CSO's $'000	Visitor Numbers
2004/2005	(1,123)	7,445	(8,568)	162,424
2005/2006	(2,080)	7,817	(9,897)	156,323
2006/2007	(1,700)	7,834	(9,534)	161,660
2007/2008	(2,063)	7,915	(9,978)	151,675
2008/2009	(1,990)	7,915	(9,905)	143,775
2009/2010	(3,063)	7,915	(10,978)	140,854
2010/2011	(2,970)	7,915	(10,885)	129,933
2011/2012	(2,294)	9,418	(11,712)	116,954
2012/2013	(1,854)	7,915	(9,769)	104,177
2013/2014	(2,128)	7,842	(9,970)	115,877
2014/2015	(3,118)	7,842	(10,960)	126,153
2015/2016	(2,818)	7,824	(10,642)	120,073
2016/2017	(2,868)	7,824	(10,692)	133,327
2017/2018	(2,882)	9,174	(12,056)	124,888
2018/2019	(3,772)	7,913	(11,685)	126,856
2019/2020	(3,464)	7,660	(11,124)	88,800

Employee expenses are understated in Budget Paper No. 3.

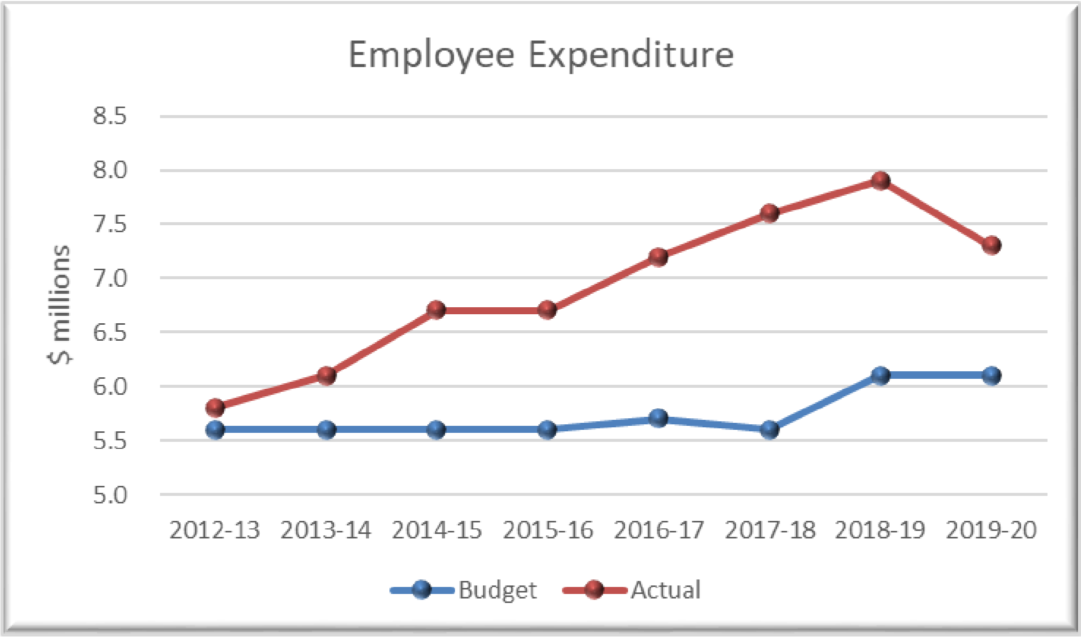
Note 28 – Budgetary Information states that the actual employee expenses for the year ended 30 June 2020 were $7,321 thousand with the original budget being $6,077 thousand. The explanation provided by Territory Wildlife Parks was "*Accumulated unfunded wage increases*".

For agencies (not GBDs) the parameter growth is dealt with through an indexation factor applied by the Department of Treasury and Finance to address Enterprise Bargaining Agreement increments consequently these increments are not factored into budget submissions that are provided by agencies to the Department of Treasury and Finance.

As a GBD, Territory Wildlife Parks is not part of the agency process therefore Territory Wildlife Parks is expected to adjust its budget between categories of expenditure or fund the increased expenditure through increased own-sourced revenue.

Territory Wildlife Parks cont…

The following graph was sourced from the published annual reports of the former Department of Tourism, Sport and Culture and antecedent agencies and Budget Paper No. 3 relating to the relevant financial year.



Budget Paper No.3, debated and published in May 2019, indicated a deficit of $2.0 million for the financial year ended 30 June 2020. Had the correctly estimated employee expenditure been included within the budget process, the resultant budgetary deficit would been significantly more. Failing to adjust the budget to take into consideration adjustments to employee expenses results in incorrect budgetary information being placed before the Members of the Legislative Assembly when the Budget Papers are tabled and debated.

I recommended that Territory Wildlife Parks ensures that its budget is complete and includes all expected expenditure and income so as to correctly inform the Members of the Legislative Assembly of the expected financial results of Territory Wildlife Parks.

The Territory Wildlife Parks did not accept my recommendation and provided the following response:

> *"As the entity is a GBD it is only funded by raising goods and services revenue, and a Community Service Obligation (CSO).*
>
> *The CSO is semi fixed and only increases for changes in the repairs and maintenance program.*
>
> *To increase the budget to cover the increase in employee costs, as a result of the non-commercial NTPS fixed pay rises each year, would mean a corresponding increase in revenue. The employee budget issue would be fixed however the anticipated revenue budget would be overstated and not achievable."*

Territory Wildlife Parks cont…

I reiterate that the published budget for employee expenditure misrepresents the best estimate of intended expenditure and is thus misleading to the ultimate decision-makers and the public. The ability to effectively manage the GBD in accordance with the approved budget is impaired where the budget is known to be incorrect in the first instance.

Performance Overview

As can be seen in the above table, visitor numbers fluctuate significantly between years. The parks had 88,800 visitors during the year ended 30 June 2020, representing a decrease in visitor numbers of 38,056 (30%) from the prior year predominantly due to the impact of the COVID-19 pandemic. Sales of goods and services decreased by $822,000 (27%) from the prior year reflecting the decreased visitor numbers.

Operating losses

Territory Wildlife Parks incurred an operating loss of $3.5 million this year (2019: $3.8 million). This loss again calls into question the viability of the entity in the medium to longer term.

Negative Working Capital

Territory Wildlife Parks has reported negative working capital since 2008. In 2020, total current liabilities of $1.5 million (2019: $1.3 million) exceeded total current assets of $0.9 million (2019: $0.7 million). This resulted in negative working capital as at 30 June 2020 of $0.6 million (2019: $0.7 million). Negative working capital is an indicator of the potential for financial failure in the future. Without support from the Northern Territory Government, Territory Wildlife Parks will not be likely to have sufficient available funds to meet its financial obligations as they fall due and as such, the going concern basis of accounting may no longer be appropriate. My audit opinion was premised on the expectation that such funding will continue.

Negative Cash Flows from Operating Activities

Territory Wildlife Parks has also been reporting negative cash flows from operating activities over the past few years, including $1.0 million in 2020 (2019: $1.5 million).

Negative cash flows from operating activities are considered an indicator that Territory Wildlife Parks does not have sufficient cash to cover operational expenses which casts doubt in relation to the applicability of the going concern assumption.

Territory Wildlife Parks cont…

Financial Performance for the year

	2020	2019
	$'000	$'000
Income		
Community Service Obligations	7,660	7,913
Sales of goods and services	2,238	3,060
Other revenues	213	193
Total income	**10,111**	**11,166**
Expenditure		
Employee expenses	(7,321)	(7,882)
Depreciation and amortisation	(2,385)	(2,184)
Repairs and maintenance	(513)	(710)
Other expenses	(3,356)	(4,162)
Total expenditure	**(13,575)**	**(14,938)**
Deficit	**(3,464)**	**(3,772)**

Territory Wildlife Parks cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Cash and cash equivalents	759	479
Receivables and other current assets	115	174
Less current liabilities	(1,507)	(1,315)
Working Capital	**(633)**	**(662)**
Add non-current assets	36,779	37,197
Less non-current liabilities	(505)	-
Net Assets	**35,641**	**36,535**
Represented by:		
Accumulated losses	(37,112)	(33,648)
Contributed equity	34,057	32,350
Asset revaluation reserve	38,696	37,833
Equity	**35,641**	**36,535**

Top End Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

The Top End Health Service was established as a health service pursuant to the *National Health Reform Agreement* and the *Health Services Act 2014*. The Treasurer has deemed the Service to be a Government Business Division for the purposes of the *Financial Management Act 1995*.

The Service comprises the Royal Darwin, Gove and Katherine hospitals, primary health care, aged care and mental health and is funded predominantly by national health reform payments paid through the Department of Health. From the year ending 30 June 2019, Palmerston Regional Hospital also became part of the Top End Health Service.

The host Agency is the Department of Health.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of the Top End Health Service for the year ended 30 June 2020.

Audit Opinion

The audit of the Top End Health Service for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 23 October 2020.

Audit Observations

The audit did not identify any material weaknesses in internal controls.

Performance Overview

The Top End Health Service incurred a net deficit of $46.9 million for the year ended 30 June 2020. An analysis of key balances from the financial statements of Top End Health Service over the past five years is presented below.

	2020 $'000	**2019 $'000**	**2018 $'000**	**2017 $'000**	**2016 $'000**
Net surplus/(deficit)	(46,858)	(16,483)	(1,166)	(43,223)	(71,640)
Add back depreciation	46,136	38,488	30,092	28,540	25,671
Net surplus/(deficit) before depreciation	**(722)**	**22,005**	**28,926**	**(14,683)**	**(45,969)**
Total current assets	116,524	118,092	72,105	49,959	54,540
Total current liabilities	(190,871)	(177,696)	(152,004)	(140,768)	(129,439)
Working capital deficit	**(74,347)**	**(59,604)**	**(79,899)**	**(90,809)**	**(74,899)**

Top End Health Service cont...

The financial performance of Top End Health Service has deteriorated over the past three years however the cash flow from operating activities has improved. The ongoing working capital deficit has increased and continues to highlight an increased risk that Top End Health Service will be unable to pay its debts as and when they fall due without additional financial support.

Revenue

Total revenue for the Top End Health Service has increased by approximately $31.6 million from the prior year reflecting:

- an increase of revenue from goods and services received free of charge in the current year that amounted to $23.6 million due to the transfer of activities from Health Service to the former Department of Corporate and Information Services and the Department of Infrastructure, Planning and Logistics changes;
- increase in Current Grants and Subsidies Revenue during the year of $25.8 million including $11.5 million from increased Commonwealth funding and an increase in local government funding of $14.0 million; partially offset by
- a decrease in Sales of Goods and Services income amounting to $18.2 million largely due to decreased Commonwealth Activity Based Funding.

Expenditure

Total expenditure increased by approximately $62.0 million from the prior year. Payroll expenses increased by $45.0 million (7.1%) due to an increase in the number of employees upon the transfer of some activities from the Department of Health to the Health Service. Depreciation expense increased during the period by $7.7 million following the adoption of AASB 16 *Leases* and the resultant depreciation on the right-of-use assets.

Assets

Total assets increased by approximately $139.4 million from the prior year as a result of the upward revaluation of property, plant and equipment of $141.0 million following an asset valuation exercise that was conducted at financial year end.

Liabilities

Total liabilities have increased by $29.5 million from the prior year reflecting increased borrowings and advances of $22.9 million due to the adoption of Australian Accounting Standard AASB 16 *Leases* and a higher liability for employee entitlements due to the transfer in of personnel from the Department of Health.

Equity

Equity increased by $109.9 million from the prior year comprising the increase in revaluation reserve of $124.2 million and equity transfers attributed to machinery of government changes partially impacted by the net deficit of $46.9 million.

Top End Health Service cont…

Financial Performance for the year

	2020	2019
	$'000	**$'000**
Income		
Current grants and subsidies	641,699	616,219
Sales of goods and/or services	431,495	449,637
Other revenues	25,737	1,452
Total income	**1,098,931**	**1,067,308**
Expenditure		
Employee expenses	(681,824)	(636,874)
Repairs and maintenance	-	(21,339)
Supplies and services	(342,754)	(344,958)
Depreciation and amortisation	(46,136)	(38,488)
Interest expense	(601)	(197)
Current grants and subsidies	(49,444)	(40,748)
Other expenses	(25,030)	(1,187)
Total expenditure	**(1,145,789)**	**(1,083,791)**
Deficit	**(46,858)**	**(16,483)**

Top End Health Service cont…

Financial Position at year end

	2020	2019
	$'000	**$'000**
Cash and cash equivalents	56,224	38,650
Receivables and other current assets	60,300	79,442
Less current liabilities	(190,871)	(177,696)
Working Capital	**(74,347)**	**(59,604)**
Add non-current assets	905,946	764,963
Less non-current liabilities	(41,390)	(25,049)
Net Assets	**790,209**	**680,310**
Represented by:		
Accumulated funds	(218,303)	(172,123)
Asset revaluation reserve	292,465	168,263
Capital	716,047	684,170
Equity	**790,209**	**680,310**

Treasurer's Annual Financial Statement

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2020

Background

This report outlines the results of the audit of the Treasurer's Annual Financial Statement (TAFS) for the year ended 30 June 2020. TAFS forms part of the Treasurer's Annual Financial Report (TAFR).

The Northern Territory Government's Budget and the TAFS are prepared based on the reporting standards of the Australian Bureau of Statistics Government Financial Statistics (GFS) accrual based Uniform Presentation Framework. This financial reporting framework is promulgated by the *Fiscal Integrity and Transparency Act 2001* which requires the Northern Territory Government to report on a basis consistent with external reporting standards.

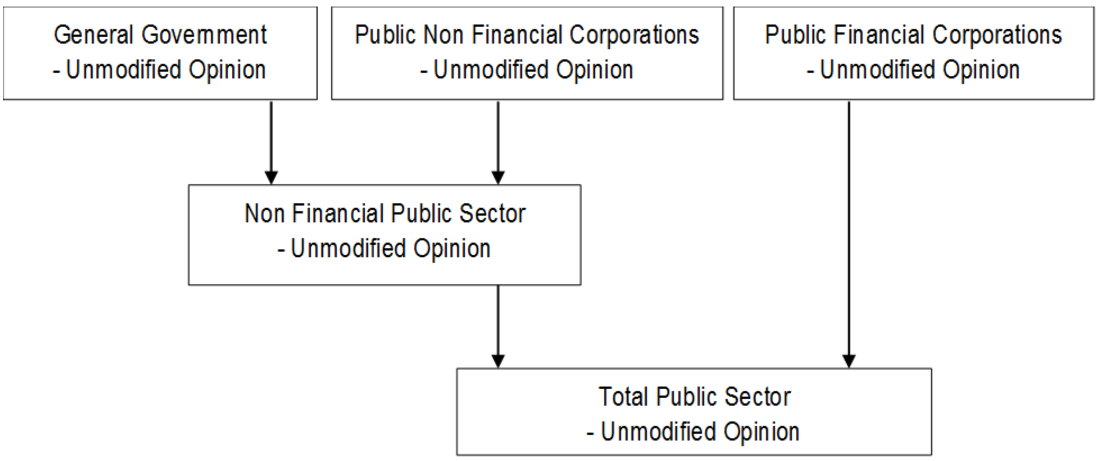
The TAFR provides information about the financial performance, financial position and cash flows of the Northern Territory Government (NTG) with the principal objectives of providing informative, comprehensive and clear information on financial outcomes. The Members of the Legislative Assembly represent the Northern Territory community in scrutinising this performance information and have the opportunity to directly question the Government about its financial stewardship and management.

The Legislative Assembly, through the *Financial Management Act 1995* and the *Fiscal Integrity and Transparency Act 2001*, requires the Treasurer to account for the Government's stewardship of the financial resources made available to it each year through the budget allocations in accordance with the *Appropriation Act*. Section 9 of the *Financial Management Act 1995* sets out broad areas to be reported upon yet allows the Treasurer discretion in how those matters will be reported.

Reporting by Sectors and by Whole of Government (Total Public Sector)

A key aspect of the GFS is the identification of different sectors, recognising that Territory and State Government operations cover a wide range of activities. Three sectors (which are then consolidated into two additional sectors) of government activity are reported as demonstrated by the following diagram.

Figure 1: TAFS Composition



Treasurer's Annual Financial Statement cont…

Table 1 outlines the key reporting elements of the NTG.

Table 1: NTG reporting entity

General Government Sector	Public Non Financial Corporations Sector	Public Financial Corporations Sector
Includes: All government departments; Other administrative units such as NT Police, Fire and Emergency Services and the Office of the Independent Commissioner Against Corruption; and Other entities that provide services that are mainly non-market in nature, for the collective consumption by other agencies or by the community. This sector also includes the results of the Motor Accidents (Compensation) Commission.	*Comprises:* Power and Water Corporation and its subsidiary Indigenous Essential Services Pty Ltd; Power Retail Corporation (trading as Jacana Energy); Power Generation Corporation (trading as Territory Generation); and Land Development Corporation.	*Comprises:* Northern Territory Treasury Corporation

In summary the three sectors and their consolidated sectors are defined as:

General Government Sector – all budget dependent agencies providing services free of charge or at prices below their cost of production or service cost. These agencies are mainly engaged in the delivery of goods and services outside the normal market mechanism for consumption by governments and the general public. Costs of production are mainly financed from public tax revenues. For this reason, this sector tends to be the focus of fiscal targets (deficit or surplus).

Public Non Financial Corporations Sector (PNFCs) – trading enterprises mainly engaged in the production of goods and supply of services of a Non Financial nature for sale in the market place at prices that aim to recover all or most of the costs involved in production or supply.

Non Financial Public Sector – the sector formed through a consolidation of the General Government Sector and the Public Non Financial Corporation Sector. This sector provides the focus for the determination of net debt.

Public Financial Corporations Sector (PFCs) – public enterprises mainly engaged in acquiring financial assets and incurring liabilities in the financial market on their own account.

Total Public Sector – comprises the consolidation of the Non Financial Public Sector and the Public Financial Corporations Sector and represents the "whole of Territory financial statements".

Treasurer’s Annual Financial Statement cont…

Entities not consolidated into any of the above sectors

The consolidated financial statements of the Total Public Sector comprise all agencies, Government Business Divisions, Government Owned Corporations and other entities controlled by the Northern Territory Government. The following entities are excluded from the consolidation:

- Charles Darwin University and its associated entities
- Menzies School of Health Research and its associated entities
- Northern Territory Land Corporation
- Northern Territory Conservation Land Corporation
- Cobourg Peninsula Sanctuary and Marine Park Board
- Nitmiluk (Katherine Gorge) National Park Board
- Northern Territory Grants Commission
- Northern Territory Police Supplementary Benefit Scheme
- Public Trustee Common Funds
- Local government entities.

These entities have not been consolidated into the TAFS on the basis that they are not controlled by the NTG or their net assets are not available to the NTG (for example the superannuation funds). The TAFS does however include the unfunded element of superannuation liabilities.

In addition, with the exception of payroll costs and land and buildings, the TAFS excludes revenues, costs, assets and liabilities of Territory schools.

The compilation of the TAFS is a complex process that is undertaken by the Department of Treasury and Finance. It requires the consolidation of the financial statements of each entity that is deemed to be controlled by the Northern Territory, with the General Government Sector and Public Non Financial Corporation Sector being consolidated to form the Non Financial Public Sector. The Non Financial Public Sector is then consolidated with the Public Financial Corporation Sector to form the Total Public Sector. During the consolidation process, all intra-entity balances for each sector are eliminated so that each set of financial statements only reflects the results of transactions with external parties or non-sector entities. In the case of the Total Public Sector, only transactions occurring with entities external to the Northern Territory Public Sector are presented.

Treasurer's Annual Financial Statement cont…

Financial statements prepared in accordance with GFS requirements include measures of financial performance and position.

Net Operating Balance – a measure of financial performance calculated as the excess of revenues over expenses. The Net Operating Balance is a measure of the sustainability of a government.

Fiscal Balance – a measure of financial performance sometimes referred to as Net Lending/Borrowing and calculated as the Net Operating Balance less the net acquisition of non-financial assets. It is a measure of the extent to which a government is either putting financial resources at the disposal of other sectors in the economy or utilising the financial resources generated by other sectors. A net lending (or fiscal surplus) balance indicates that a government is saving more than enough to finance all its investment spending. A net borrowing (or fiscal deficit position) indicates that a government's level of investment is greater than its level of savings.

Net Worth – a measure of financial position calculated as total financial and non-financial assets less total liabilities and contributed capital. This measure includes non-current physical assets (land and fixed assets) and employee entitlements such as unfunded superannuation and employee leave balances. The change in net worth is the preferred measure for assessing the sustainability of fiscal activities.

Net Financial Worth – a measure of financial position calculated as total financial assets less total liabilities. This measure can be viewed as an alternative measure for assessing the sustainability of fiscal activities as it may be difficult to attach market values to some general government sector non-financial assets that form part of the calculation of Net Worth.

Net Debt – a measure of financial position comprising certain financial liabilities less financial assets. The items included in this measure are discussed in some detail in the Budget Papers.

Net Financial Liabilities – a measure that is broader than net debt as it includes significant liabilities, other than borrowings. Significant liabilities include accrued employee liabilities such as superannuation and long service leave entitlements. This measure is used only in the case of the General Government Sector.

Scope and Objectives

The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the Treasurer's Annual Financial Statement for the year ended 30 June 2020.

The purpose of an audit report on a financial report is to enhance the credibility of the financial information presented in relation to an entity's financial performance, financial position and cash flows and, where relevant, advise readers of matters of importance relating to the financial report. The audit report is structured to clearly define the financial report being audited, identify those responsible for preparing the financial report, explain the scope of the audit and present the auditor's opinion on the financial report.

Treasurer's Annual Financial Statement cont…

The extent or scope of the audit

The first paragraph of my audit report details my opinion and the elements of the TAFS upon which I am forming an opinion.

The audit report explains that the Treasurer is responsible for preparing and presenting the TAFS and the information it contains is in accordance with the requirements of the *Financial Management Act 1995* and the *Fiscal Integrity and Transparency Act 2001*. Section 9 of the *Financial Management Act 1995* allows the Treasurer to prescribe the form of the TAFS, including the accounting policies to be used, and these are detailed in the Reporting Framework.

The audit report also details the nature and extent of the audit work. I indicate that my audit was conducted in accordance with Australian Auditing Standards, which includes a requirement that I consider whether the TAFS complies with Accounting Standards and other mandatory professional reporting requirements in Australia. The Auditing Standards applied provide professional guidance that is required to be followed to ensure the appropriateness and quality of the audit work and the reliability of the audit opinion.

My audit report indicates that the audit procedures are performed to provide reasonable assurance as to whether the TAFS is free of material misstatement and is prepared from proper accounts and records and, in all material respects, is presented fairly. The audit provides a high, but not absolute, level of assurance. Absolute assurance in auditing is not attainable because of such factors as the use of judgements and estimates in the preparation of financial reports, the use of testing and sampling for gathering and evaluating evidence, the inherent limitations of systems of internal control and the fact that much of the evidence available to auditors is persuasive rather than conclusive in nature.

An audit is not designed to detect all errors in the vast number of transactions that make up a financial report, but the audit procedures are designed to ensure that the aggregate of any errors detected do not exceed a level above which the users of financial reports would have their judgement affected by that level of error.

I explain in my audit report that judgements are made evaluating the reasonableness of significant accounting estimates included in the TAFS. Many of the significant amounts detailed in the TAFS, such as the valuation of certain assets, outstanding claims liabilities and the calculation of unfunded superannuation and other employee liabilities are based on estimates made by public sector entities. In order to determine whether misstatements exist in these estimates, a review is undertaken of the validity of the assumptions and the completeness of the data used in determining the estimates.

Impact of materiality and audit procedures on the audit opinion

The aggregate of all misstatements in a financial report is considered material if, in light of the surrounding circumstances, it is probable that the misstatements would change or influence the decision of a person who was relying on that financial report and who had reasonable knowledge of the Northern Territory public sector and its activities. Where I am unable to determine the impact, if any, on a user's decision making, however believe the impact on the financial report may be materially pervasive to the report, I am required to disclaim the opinion.

Treasurer's Annual Financial Statement cont…

Australian Auditing Standards require that the audit work "provides assurance" that any misstatements aggregating to more than a predetermined level of materiality will be revealed in the audit opinion. Before commencing the audit, a judgement is made based on the NTG's total revenues, expenditures, assets and liabilities as to what dollar magnitude (materiality) of misstatements in the financial report would influence the decisions of users about the allocation of scarce resources or the discharge of accountability. The dollar amount is then used as a basis for determining the nature, extent and timing of the audit work required. Materiality also involves a qualitative aspect involving judgements as to the nature of any errors and whether any omissions or misstatements have the potential to adversely affect decisions of users.

In planning the audit, risk is accepted that the audit procedures may fail to detect whether the financial report is materially misstated. The pre-determined level of risk is accepted because of the judgements involved in determining the nature, timing and extent of audit procedures, evaluating the evidence obtained and also to enable the audit to be conducted cost effectively. In order to reduce this risk to an acceptable level, detailed audit procedures are performed. These procedures include, for example, understanding the business of government, obtaining an understanding of and evaluating the internal control structure and, where considered necessary, testing significant internal controls and samples of transactions and account balances, performing tests of the reasonableness of amounts and confirming year end balances with third parties.

What the audit opinion does not provide

The audit opinion is not designed to consider whether the resources used by the NTG were applied efficiently, economically or effectively nor is my work designed to provide assurance that all the transactions of the NTG are in compliance with laws and regulations, except for those that impact on the information presented in the TAFS.

My audit of the Public Account assists considerably in forming a view on the TAFS however users of this report are reminded that I do not separately audit and form an opinion on the financial statements of individual agencies.

Audit Opinion

The audit of the Treasurer's Annual Financial Statement for the year ended 30 June 2020 resulted in an unmodified independent audit opinion, which was issued on 20 October 2020.

Restatement of financial results for the comparative year

Note 46 to the TAFS discloses the impacts of restating the results for the comparative year ended 30 June 2019 for errors, misstatements and reclassification of balances identified during the year ended 30 June 2020. The restatement addressed recognition of the financial impacts associated with the correction of erroneous payments of public sector employees' superannuation entitlements between 2009 and 2019; correct classification of expenditure associated with ongoing information, communication and technology projects from plant and equipment to intangible assets; and corrections to misstated asset and expenditure balances.

The effect of these restatements at the general government sector have resulted in a net worsening to the comprehensive result of $14.0 million and a reduction to property, plant and equipment values of $82.2 million, accumulated funds of $65.3 million and asset revaluation reserves of $13.4 million. Restatements at the total public sector do not match the amounts at the general government sector as payments to the non financial public sector were eliminated on consolidation.

Treasurer's Annual Financial Statement cont…

Audit Observations

Performance Overview

My comments and findings on the most recent audits I have conducted in relation to individual entities within the Total Public Sector are reported separately within this report. Accordingly, the comments that follow are largely confined to the General Government Sector. The sector is arguably the most important sector of government. It is that sector that is funded largely through taxation and on that basis alone deserves to be considered, but it is also the sector that is responsible for the provision of those services that the community commonly associates with the role of a government.

The financial performance of the General Government Sector, as measured by the Net Operating Balance, deteriorated during the year ended 30 June 2020 when compared to the prior year. The Net Operating Balance for the year ended 30 June 2020 was a deficit of $765.7 million. The deficit was $295.6 million higher than the restated deficit of $470.1 million reported for the year ended 30 June 2019. Total revenues decreased by $280.9 million when compared to the previous year. Revenue sources contributing the largest decreases were other revenue ($166.8 million) and taxation revenue ($143.9 million) offset by an increase in current grants received from the Commonwealth Government of $128.0 million.

Whilst total revenues decreased by $280.9 million from the prior year, total expenses were $14.6 million lower than the total (restated) expenditure for the prior year indicating further restraint is required in the current economic environment. The largest component of the decrease in expenditure related to other expenses (a decrease of $141.2 million). A significant decrease also affected capital grants ($63.9 million). These two significant decreases however were offset entirely by an increase in employee expenditure of $121.1 million and increases in depreciation and amortisation totalling $123.7 million.

Depreciation and amortisation represent the annual charge recognised as the benefits from controlled assets are consumed. This distinction is important as these expenses are not met through the application of cash and will fluctuate in response to non-cash movements such as revaluation and impairment of fixed assets. Rates of depreciation and amortisation are established based on the estimated useful lives of the underlying assets and the estimated level of use required to meet demand, therefore there is limited ability to actively reduce these expenditure categories.

The Fiscal Balance deficit of $893.0 million for the year ended 30 June 2020 was $33.5 million smaller than the restated deficit of $926.5 million for the year ended 30 June 2019. The prior year saw a considerably higher investment in Non Financial assets. For the year ended 30 June 2020, $329.1 million less was invested in the acquisition of Non Financial assets (2020: $127.3 million, 2019: $456.4 million).

The financial position of the General Government Sector, as measured by Net Debt, deteriorated by $1,603.7 million for the year. The following significant changes are shown within the statement of financial position:

- an increase in cash and deposits of $1,000.5 million;
- an increase in investments, loans and placements of $69.2 million; and
- an increase in deposits held, advances received and borrowings of $2,661.0 million.

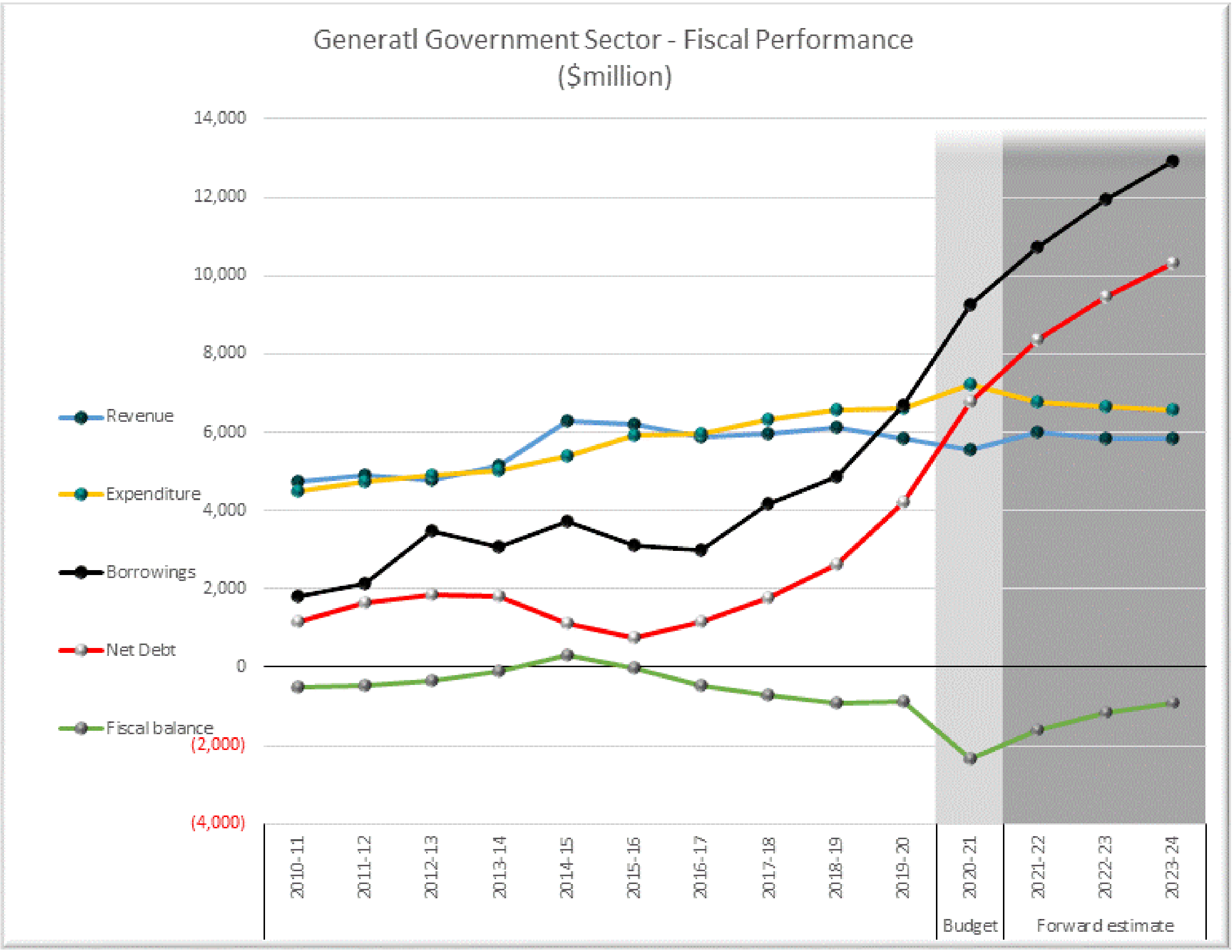
Treasurer's Annual Financial Statement cont…

Net Financial Worth deteriorated by $1,646.2 million to negative $7,848.5 million when compared with the position at 30 June 2019 demonstrating that total liabilities exceeded financial assets.

Net Financial Liabilities increased by $1,725.5 million for the year reflecting the deterioration in Net Financial Worth of $1,646.2 million and a $79.3 million increase in equity assets, being the value of investments in other public sector entities.

Depicted in the graph below are the movements in five key indicators of fiscal performance from the TAFS data for the financial years 2010-11 to 2019-20 and the forward estimates for the same five indicators from Budget Paper No. 2 2020-21 for the years 2020-21 to 2023-24.

Figure 2: Fiscal Performance from 2010-11 to 2023-24



Source: Treasurer's Annual Financial Reports and Budget Paper No. 2 2020-21

Treasurer's Annual Financial Statement cont…

Total public sector expenses by function

Figures 3 and 4 present the total public sector expenses from transactions reported in Note 15 of the TAFS classified according to the Classifications of Functions of Government Australia.

Figure 3: Total Public Sector expenses by function ($'million)

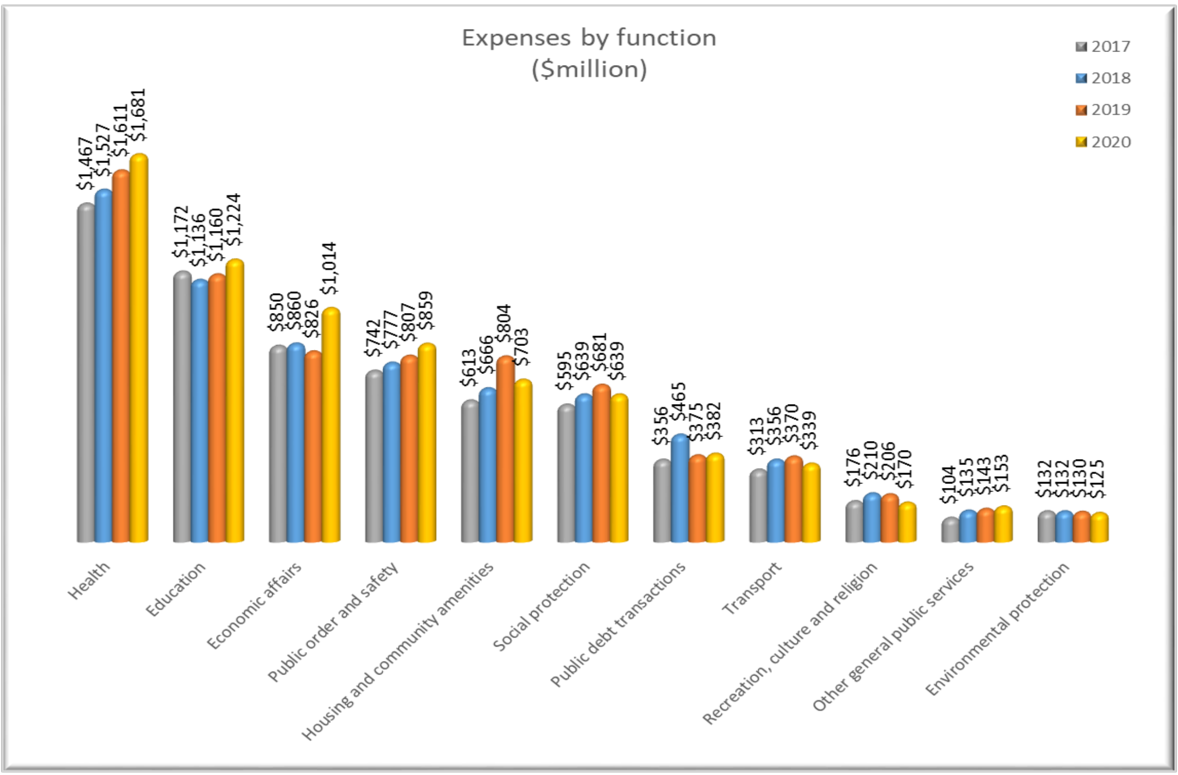
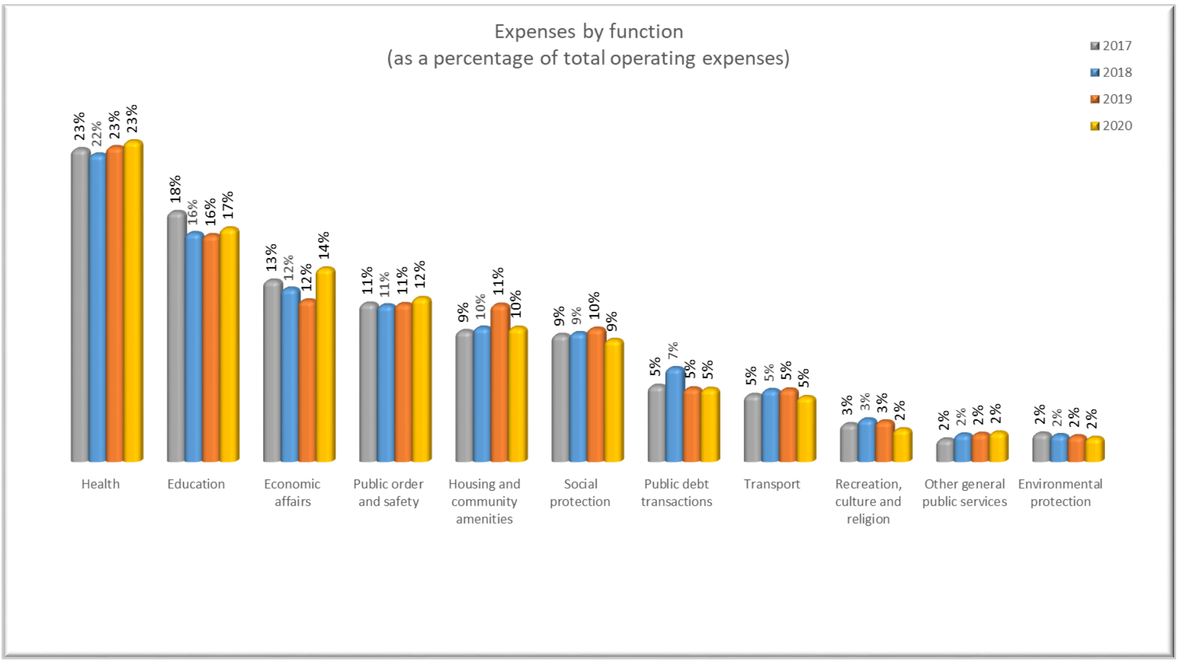


Figure 4: Total Public Sector expenses by function (as a percentage of total operating expenses)



Source: Note 15 of the Treasurer's Annual Financial Statement

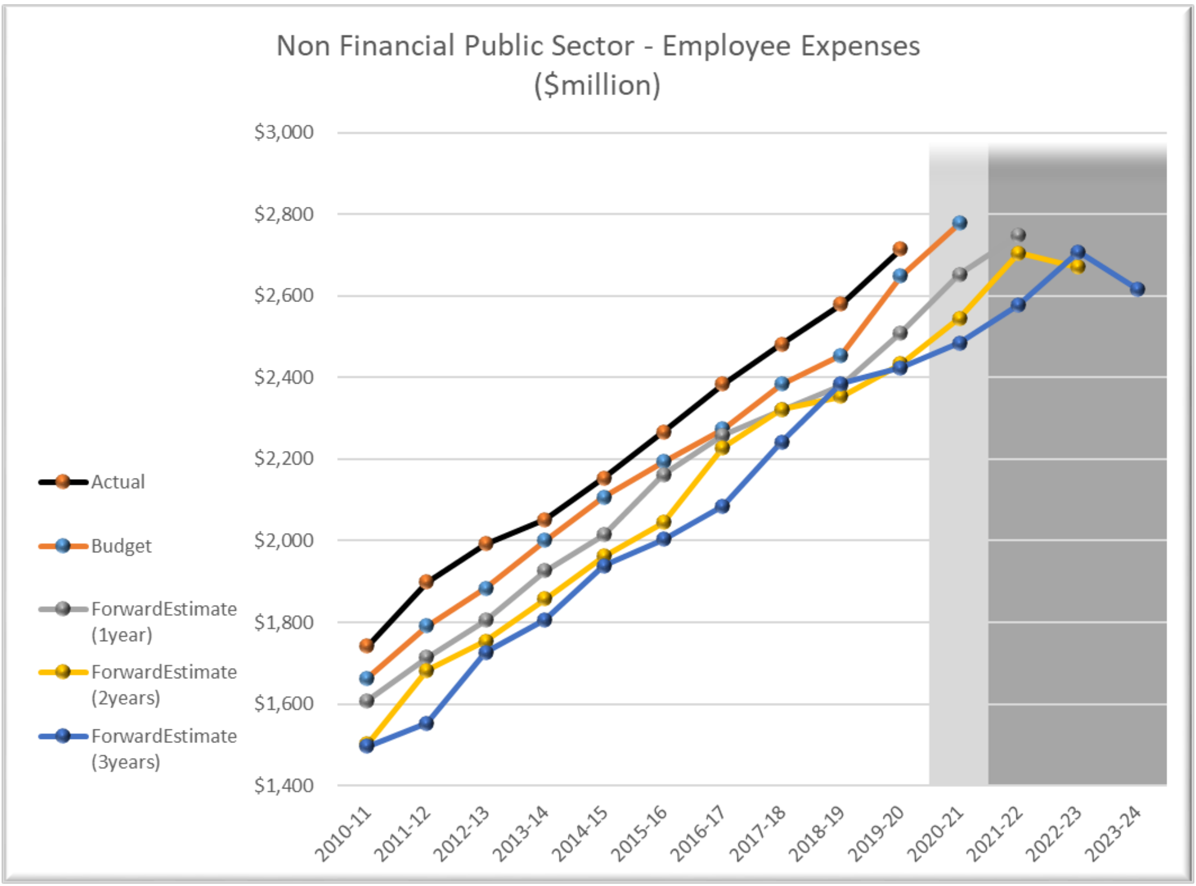
Treasurer's Annual Financial Statement cont…

Employee expenses

Employee expenses represent the largest expenditure category within the General Government Sector and the Total Public Sector. Employee expenses in the General Government Sector were $2,578.4 million for the year ended 30 June 2020. This is an increase of $121.1 million from the prior year. At a Total Public Sector level, employee expenses were $2,714.5 million for the year ended 30 June 2020, an increase of $135.2 million from the prior year.

Presented below is a summary of the Non Financial Public Sector actual, budget and estimated employee expenses from the Treasurer's Annual Financial Statements data for 2010-2011 to 2019-2020 and Budget Paper No. 2. Total Public Sector forward estimates are not available for analysis as the Total Public Sector includes the Northern Territory Treasury Corporation and previously included the Territory Insurance Office. The Territory Insurance Office was an off-budget entity thus budgets, and forward estimates, were not available.

Figure 5: Non Financial Public Sector – Employee Expenses ($'million)



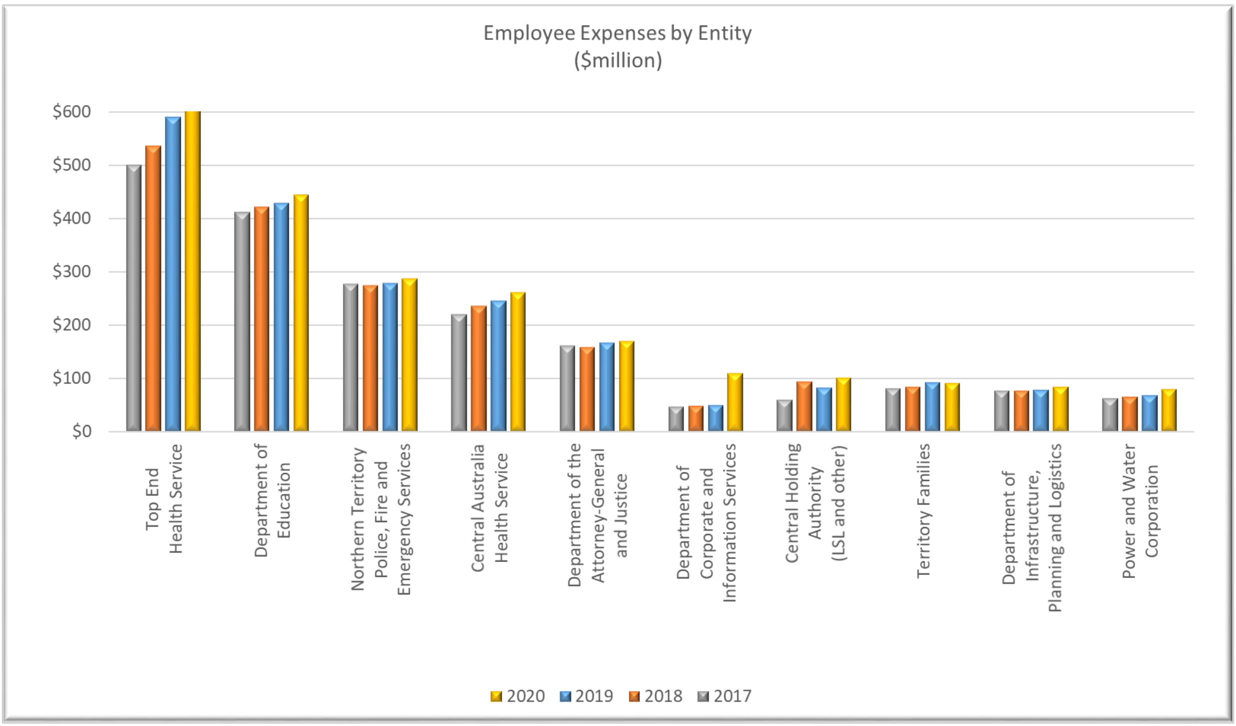
Source: Treasurer's Annual Financial Statements and Budget Paper No. 2

The figure demonstrates, as expected, that the accuracy of the estimated employee expenditure increases as the year in which the expenditure is incurred approaches. Notwithstanding, actual employee expenditure has exceeded the budgeted expenditure and all forward estimates of employee expenditure for each of the years presented in the figure above.

Treasurer's Annual Financial Statement cont…

Presented below is a summary of the employee expenses by entity for the ten entities with the highest employee expenses. This figure demonstrates the movement in employee expenditure within these entities over the past four reporting periods. With the exception of Territory Families, employment expenses in 2019-20 have increased within each of the entities

Figure 6: Employee expenses by entity



Source: NTAGO developed from Treasurer's Annual Financial Statement consolidation data

Treasurer's Annual Financial Statement cont…

General Government Sector – Components of Financial Performance

	2020	2019 Restated
	$'million	$'million
Taxation revenue	518.5	662.4
Grants – current	4,087.5	3,959.5
Grants – capital	206.1	264.0
Sales of goods and services	394.2	435.4
Interest income	105.1	107.9
Dividend and income tax equivalent income	71.5	67.9
Other	446.9	613.7
Total revenues	**5,829.8**	**6,110.8**
Employee expenses	(2,578.4)	(2,457.3)
Superannuation expense	(310.4)	(331.1)
Depreciation	(555.8)	(432.1)
Other expenses	(1,392.9)	(1,534.1)
Interest expense	(295.7)	(252.5)
Other property expenses	(4.3)	(3.4)
Grants – current	(1,051.1)	(1,090.0)
Grants – capital	(172.2)	(236.1)
Subsidies and personal benefit payments	(234.7)	(244.3)
Total expenses	**(6,595.5)**	**(6,580.9)**
Net operating balance	**(765.7)**	**(470.1)**
Other economic flows	(58.4)	(102.9)
Operating result	**(824.1)**	**(573.0)**
Net operating balance	**(765.7)**	**(470.1)**
Less net acquisition of Non Financial assets	(127.3)	(456.4)
Fiscal balance	**(893.0)**	**(926.5)**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

General Government Sector – Components of Financial Position

	Balance at 30 June 2020	Movement for 2019/2020	Balance at 30 June 2019 Restated
	$'million	$'million	$'million
Cash and deposits	1,485.5	1,000.5	485.0
Advances paid	198.2	(12.4)	210.6
Investments, loans and placements	2,344.3	69.2	2,275.1
Deposits held	(1,293.7)	(839.2)	(454.5)
Advances received	(277.0)	11.3	(288.3)
Borrowing	(6,681.8)	(1,833.1)	(4,848.7)
Net debt	**(4,224.5)**	**(1,603.7)**	**(2,620.8)**
Other non-equity financial assets	635.1	175.5	459.6
Equity assets	2,287.8	79.3	2,208.5
Superannuation liabilities	(4,268.6)	(86.3)	(4,182.3)
Other employee entitlements and provisions	(786.4)	(69.5)	(716.9)
Other non-equity liabilities	(1,491.9)	(141.5)	(1,350.4)
Net financial worth	**(7,848.5)**	**(1,646.2)**	**(6,202.3)**
Less: Equity assets	(2,287.8)	(79.3)	(2,208.5)
Net financial liabilities	**(10,136.3)**	**(1,725.5)**	**(8,410.8)**
Net carrying amounts of Non Financial assets	18,310.2	2,747.7	15,562.5
Equity assets	2,287.8	79.3	2,208.5
Net worth	**10,461.7**	**1,101.5**	**9,360.2**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

General Government Sector – Changes in Equity

	Equity at 1 July	Comprehensive Result	Equity at 30 June
2019/2020	**$'million**	**$'million**	**$'million**
Accumulated funds	**933.4**	**(824.1)**	**109.3**
Adjustment on adoption of AASB 15/1058	54.2	-	54.2
Transfers from reserves	-	17.1	17.1
Other movements directly to equity	-	(157.3)	(157.3)
Total accumulated funds	**987.6**	**(964.3)**	**23.3**
Reserves			
Asset revaluation surplus	6,873.3	1,942.4	8,815.7
Adjustment on adoption of AASB 15/1058	(4.8)	-	(4.8)
Investments in public sector entities revaluation surplus	1,536.2	74.2	1,610.4
Other reserves	17.3	(0.2)	17.1
Total reserves	**8,422.0**	**2,016.4**	**10,438.4**
Total equity at end of financial year	**9,409.6**	**1,052.1**	**10,461.7**
2018/2019 restated			
Accumulated funds	**2,009.4**	**(573.0)**	**1,436.4**
Adoption of AASB 9	(1.4)	-	(1.4)
Transfers from reserves	-	52.2	52.2
Other movements directly to equity	-	(553.8)	(553.8)
Total accumulated funds	**2,008.0**	**(1,074.6)**	**933.4**
Reserves			
Asset revaluation surplus	6,915.6	(42.3)	6,873.3
Investments in public sector entities revaluation surplus	1,608.7	(72.5)	1,536.2
Other reserves	18.3	(1.0)	17.3
Total reserves	**8,542.6**	**(115.8)**	**8,426.8**
Total equity at end of financial year	**10,550.6**	**(1,190.4)**	**9,360.2**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

Total Public Sector – Components of Financial Performance

	2020	2019 Restated
	$'million	$'million
Taxation revenue	507.8	651.7
Grants – current	4,087.5	3,959.4
Grants – capital	206.1	272.5
Sales of goods and services	1,078.6	1,055.7
Interest income	105.4	108.0
Other	485.6	643.1
Total revenues	**6,471.0**	**6,690.4**
Employee expenses	(2,714.5)	(2,579.3)
Superannuation expense	(325.9)	(343.9)
Depreciation	(775.2)	(619.1)
Other expenses	(1,898.9)	(1,951.1)
Interest expense	(327.6)	(282.5)
Other property expenses	(4.3)	(3.4)
Grants – current	(992.4)	(1,032.2)
Grants – capital	(145.4)	(168.3)
Subsidies and personal benefit payments	(104.3)	(133.3)
Total expenses	**(7,288.5)**	**(7,113.1)**
Net operating balance	**(817.5)**	**(422.7)**
Other economic flows	63.9	(245.7)
Operating result	**(753.6)**	**(668.4)**
Net operating balance	**(817.5)**	**(422.7)**
Less net acquisition of Non Financial assets	(3.7)	(456.5)
Fiscal balance	**(821.2)**	**(879.2)**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

Total Public Sector – Components of Financial Position

	Balance at 30 June 2020	Movement for 2019/2020	Balance at 30 June 2019 Restated
	$'million	**$'million**	**$'million**
Cash and deposits	1,485.5	1,000.4	485.1
Advances paid	198.2	(12.4)	210.6
Investments, loans and placements	2,344.3	69.2	2,275.1
Deposits held	(156.1)	(30.1)	(126.0)
Advances received	(219.0)	10.3	(229.3)
Borrowing	(9,314.3)	(2,992.3)	(6,322.0)
Net debt	**(5,661.4)**	**(1,954.9)**	**(3,706.5)**
Other non-equity financial assets	752.7	160.9	591.8
Equity assets	-	-	-
Superannuation liabilities	(4,268.6)	(86.3)	(4,182.3)
Other employee entitlements and provisions	(848.9)	(74.7)	(774.2)
Other non-equity liabilities	(1,701.6)	(112.7)	(1,588.9)
Net financial worth	**(11,727.8)**	**(2,067.7)**	**(9,660.1)**
Less: Equity assets	-	-	-
Net financial liabilities	**(11,727.8)**	**(2,067.7)**	**(9,660.1)**
Net carrying amounts of Non Financial assets	22,189.5	3,169.2	19,020.3
Equity assets	-	-	-
Net worth	**10,461.7**	**1,101.5**	**9,360.2**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

Total Public Sector – Changes in Equity

	Equity at 1 July	Comprehensive Result	Equity at 30 June
2019/2020	**$'million**	**$'million**	**$'million**
Accumulated funds	**1,511.1**	**(753.6)**	**757.5**
Adjustment on adoption of AASB 15/1058	49.4	-	49.4
Transfers from reserves	-	21.9	21.9
Other movements directly to equity	-	(157.2)	(157.2)
Total accumulated funds	**1,560.5**	**(888.9)**	**671.6**
Reserves			
Asset revaluation surplus	7,831.9	1,941.1	9,773.0
Other reserves	17.3	(0.2)	17.1
Total reserves	**7,849.2**	**1,940.9**	**9,790.1**
Total equity at end of financial year	**9,409.7**	**1,052.0**	**10,461.7**
2018/2019 Restated			
Accumulated funds	**2,677.6**	**(668.4)**	**2,009.2**
Adjustment on adoption of AASB 9	(1.4)	-	(1.4)
Transfers from reserves	-	57.5	57.5
Other movements directly to equity	-	(554.2)	(554.2)
Total accumulated funds	**2,676.2**	**(1,165.1)**	**1,511.1**
Reserves			
Asset revaluation surplus	7,856.2	(24.3)	7,831.9
Other reserves	18.3	(1.0)	17.3
Total reserves	**7,874.5**	**(25.3)**	**7,849.2**
Total equity at end of financial year	**10,550.7**	**(1,190.4)**	**9,360.3**

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont…

The Department of Treasury and Finance has commented:

DTF notes that the 2019-20 Treasurer's Annual Financial Statements were issued an unmodified audit opinion. DTF acknowledges that employee expenses represents the largest expenditure item in the general government sector. In recognition of this, the Territory Government's fiscal strategy includes objectives and targets specifically aimed at containing Territory-funded employee expenses. Measurement and assessment against these objectives and targets are reported in the Territory budget papers and Treasurer's Annual Financial Report.

Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010*

Background

The *Public Information Act 2010* (the Act), and its associated Regulations, which came into effect in 2010 and was subsequently amended effective 14 February 2017, seeks to achieve a transparent and accountable mechanism for the review of public information produced by public authorities. A public authority is defined in section 5 of the Act and that definition is broad, capturing:

- an Assembly member;
- the holder or occupier of any of the offices of a Minister, the Speaker, the Leader of the Opposition or any other office of the Legislative Assembly;
- the holder or occupier of an office established by or under a law of the Territory;
- person appointed or engaged to perform work for a public authority;
- an Agency;
- a body (whether incorporated or not) established by or under a law of the Territory;
- body corporate to which one or both of the following apply:
  - the capital of the body corporate is owned by one or more public authorities;
  - one or more public authorities have a total of more than one-half of the voting power in the management of the body corporate;
- a body corporate that is a subsidiary of a public authority (whether or not through any interposed entity).

Excluded from the definition are:

- holders or occupiers of:
  - judicial office;
  - an office as a member of a tribunal established under a law of the Territory;
  - the office of the Auditor-General;
- a local government council;
- Jacana Energy;
- the Power and Water Corporation;
- Territory Generation; and
- a person or body prescribed by regulation.

Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010* cont…

Section 4(1) of the Act defines public information as "*information given by a public authority to the public by using money or other property of the Territory*". Exemptions from this definition are:

- information given to members of the electorate of an Assembly member if the preparation and giving of the information is funded by an allowance payable to the Member for the electorate under a law of the Territory; and
- a media release of a Member of the Legislative Assembly; and
- information prescribed by regulation.

The Act does place a limit on the scope of what might be considered to be public information in that section 4(2) provides that a "*public authority gives information to the public when it makes the information available to the public generally (rather than any particular members of the public) through any medium*".

Section 6(1) of the Act provides that the Auditor-General must, upon the receipt of a written request of a Member of the Legislative Assembly, or may, on the initiative of the Auditor-General, conduct a review of that information to determine whether the provisions of the Act have been contravened, with regard to the Public Information Regulations.

The Auditor-General may determine that the Act is contravened in relation to particular public information if the Auditor-General is satisfied one or more of the following applies to the information:

- the information promotes particular party political interests;
- the information includes statements that are misleading;
- the information is an advertisement that includes an image of a minister or a minister's message;
- for public information that is not an advertisement – the information includes an image of a minister or a minister's message other than:
    - the Chief Minister; or
    - the relevant minister;
- the information includes facts (including comparisons), statistics or data that are not presented accurately; or
- the information fails to specify the source, or a means for identifying a source, of any facts (including comparisons), statistics or data.

Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010* cont…

COVID-19 Financial Report July 2020

On 29 July 2020, I conducted a review to determine whether information presented within a report entitled "*COVID-19 Financial Report July 2020*" jointly released by the Chief Minister and then Treasurer on 29 July 2020 contravened the provisions of the Act, in particular:

- Section 6(2)(b), which states that the Act is contravened if the information *includes statements that are misleading*;
- Section 6(2)(e), which states that the Act is contravened if the information *includes facts (including comparisons), statistics or data that are not presented accurately*; and
- Section 6(2)(f), which states that the Act is contravened if the information *fails to specify the source, or a means for identifying a source, of any facts (including comparisons), statistics or data*.

Review of Allegation

The following facts are presented to provide context:

- On 20 March 2020, the Northern Territory Government announced it would suspend the delivery of the 2021 budget until after the Commonwealth delivers its budget in October 2020.
- At that time, the 2020-21 Budget was expected to be tabled in the Legislative Assembly during November 2020.
- The *COVID-19 Financial Report July 2020* was released to the public through the Department of Treasury and Finance's internet site on 29 July 2020. The accompanying Media Release stated that the report "*shows the impact of the coronavirus crisis on the budget position*".
- The issue of the writ for the 2020 Northern Territory election occurred on 30 July 2020.
- The 2019-20 Treasurer's Annual Financial Report, tabled in October 2020, presents the Territory's actual 2019-20 financial performance, including whole of government audited financial statements, as required under the *Financial Management Act 1995* and *Fiscal Integrity and Transparency Act 2001*.

After examining the content of the referred information and making enquiries with the Under Treasurer and representatives of the Department of Treasury and Finance being the Agency responsible for preparing the report, I have presented below the specific content within the *COVID-19 Financial Report July 2020* that I determined as having contravened the provisions of the Act and/or the Regulations.

Potential health and economic impacts if no action was taken

COVID-19 Financial Report July 2020, page 8, states *"Based on initial national modelling of the impacts of COVID-19 conducted by the Commonwealth, in the absence of health measures such as border controls and business restrictions, it is estimated that up to 92 500 Territorians (37.7 per cent of the population) could have become infected with COVID-19, with up to 5400 Territorians hospitalised (2.2 per cent of the population).*

Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010* cont…

It is estimated that the direct costs associated with dealing with 92 500 infections and an additional 5400 hospitalisations would have exceeded $200 million. This figure is based on the potential additional number of patients infected, multiplied by the average occupied bed days and cost per bed day of the patients that have been infected in the Territory to date."

(COVID-19 Financial Report July 2020, page 8)

The report references the Commonwealth information and provides a link to the relevant webpage however clicking on the link at the time of my review returned an error message stating "page not found". Whilst the formula for deriving the numbers is explained, there is no source to support the calculations of the estimated impact on the Northern Territory.

Thus I determined that the content contravenes part 2, section 6(2)(f) in that *the information fails to specify the source, or a means for identifying a source, of any facts (including comparisons), statistics or data*.

Table 6: Key fiscal indicators – operating statement

Table 6: Key fiscal indicators – operating statement

	2019-20 Outcome[1]	2020-21 Estimate
	$M	$M
General government sector		
Net operating balance		
2019-20 Mid-Year Report	- 787	- 420
Updated estimate	**- 887**	**- 1 504**
Variation from 2019-20 Mid-Year Report	- 100	- 1 084
Non financial public sector		
Fiscal balance		
2019-20 Mid-Year Report	- 1 049	- 1 003
Updated estimate	**- 970**	**- 2 283**
Variation from 2019-20 Mid-Year Report	79	- 1 280

(COVID-19 Financial Report July 2020, page 15)

Table 6 makes reference to the Net Operating Balance in respect of the General government sector and the Fiscal balance in respect of the Non financial public sector. There is no explanation of what entities are included in either sector nor is a glossary provided to support the terminology used to enable a reader to understand and interpret the report.

Furthermore, the reference to "updated estimate" is not clarified to enable a user of the report to understand from where this balance is derived (noting that no Estimates process occurred prior to the release of the report). The absence of a Glossary of Terms exacerbates the risk that the published information will be misinterpreted.

Thus I determined that the content contravenes part 2, section 6(2)(b) in that the information includes statements that are misleading.

Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010* cont…

Table 10: Non financial public sector – net debt and net debt to revenue ratio.

Table 10: Non financial public sector – net debt and net debt to revenue ratio

	2019-20 Outcome[1]	2020-21 Budget
	$M	$M
Net debt		
2019-20 Mid-Year Report	5 927	6 893
Updated estimate	**5 777**	**8 245**
Variation from 2019-20 Mid-Year Report	- 150	1 352
Net debt to revenue (%)		
2019-20 Mid-Year Report	90	102
Updated estimate	**88**	**134**
Variation from 2019-20 Mid-Year Report	- 2	32

1 Updated estimate reflects the preliminary unaudited outcome for 2019-20.

(COVID-19 Financial Report July 2020, page 19)

Monitoring of news articles following the release of the COVID-19 Financial Report July 2020 identified a number of instances where users of the report made reference to the debt of the Territory being $8.2 billion by the end of the 2020-2021 financial year. The figure of $8.2 billion is actually net debt.

Net debt = Deposits held + Advances received + Borrowings - Cash and deposits - Advances paid - Investments, Loans and Placements.

Therefore actual debt (Deposits held + Advances received + Borrowings) is higher than net debt.

Disclosure in the *COVID-19 Financial Report July 2020* equivalent to that in the *Mid-Year Report* would demonstrate that actual debt (being Deposits held + Advances received + Borrowings) as at 30 June 2020 (unaudited) was $8.5 billion and estimated to reach $10.9 billion by the end of the 2020-2021 financial year.

The absence of a Glossary of Terms exacerbates the risk that the published information will be misinterpreted.

Thus I determined that the content contravenes part 2, section 6(2)(b) in that the information includes statements that are misleading.

Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010* cont…

Table 11: Total expenses by agency

Table 11: Total expenses by agency

	2019-20 Budget estimate	2019-20 Preliminary outcome	Overspend (+)/ underspend (-)
	$000	$000	$000
Auditor-General's Office	4 924	5 248	324
Department of the Chief Minister	100 107	100 297	190
Department of the Legislative Assembly	24 300	22 686	- 1 614
Northern Territory Electoral Commission	2 524	2 907	383
Office of the Independent Commissioner Against Corruption	5 622	4 319	- 1 303
Ombudsman's Office	2 482	2 377	- 105
Department of Trade, Business and Innovation	239 920	233 763	- 6 157
Department of Treasury and Finance	162 249	144 771	- 17 478
Office of the Commissioner for Public Employment	6 476	6 213	- 263
Northern Territory Police, Fire and Emergency Services	403 973	409 207	5 234
Territory Families	312 256	307 316	- 4 940
Department of the Attorney-General and Justice	371 430	373 565	2 135
Department of Health	1 614 585	1 635 023	20 438
Top End Health Service	1 065 503	1 074 709	9 206
Central Australia Health Service	431 806	427 909	- 3 897
Department of Local Government, Housing and Community Development	417 022	420 073	3 051
Department of Tourism, Sport and Culture	203 575	201 869	- 1 706
Department of Corporate and Information Services	279 754	279 791	37
Department of Environment and Natural Resources	54 519	54 242	- 277
Aboriginal Areas Protection Authority	5 272	5 329	57
Department of Infrastructure, Planning and Logistics	354 893	332 234	- 22 659
Department of Education	1 003 365	988 774	- 14 591
Department of Primary Industry and Resources	88 815	82 287	- 6 528

(COVID-19 Financial Report July 2020, page 20)

Table 11 is entitled '*Total Expenses by agency*' but does not include all agencies as defined by the Administrative Arrangements Order. The table also includes entities that are government business divisions, not agencies.

Table 11 does not, as its title suggests, report total expenses because administrative expenses, depreciation and amortisation and services received free of charge are not included in the totals presented in the table.

In respect of the three data columns, entitled: *'2019-20 Budget estimate'; '2019-20 Preliminary outcome';* and *'Overspend (+)/Underspend(-)'*, the report does not reference the source of the information in these columns.

2019-20 Budget estimate

As there was no budget prepared, presented or approved for the 2020-21 year, there was no published 2019-20 Budget estimate.

Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010* cont…

2019-20 Preliminary outcome

The term outcome is synonymous with 'result'. The amounts reported are not the outcome attributable to each entity, these amounts represent total expenses less administrative expenses, depreciation and amortisation and services received free of charge. The 'preliminary outcome' also does not take into account any unbudgeted movements in own-source revenue.

An attempt to confirm the financial balances reported in the COVID-19 Financial Report - July 2020 to the actual financial information confirmed with all NTG agencies on 27 July 2020 was not successful for four of the 23 entities reported in Table 11 as adjustments had been made to other expenditure items.

Overspend (+)/Underspend(-)

Of the 23 entities listed in Table 11, ten are reported as having 'overspent' but it is not clear what is meant by this. It could reasonably be interpreted as the amount by which each reported entity has spent in excess of their available income. As the 'preliminary outcome' does not take into account any unbudgeted movements in own-source revenue, a number of agencies reported as overspent were in surplus and a number reported as underspent were in deficit at the date the report was prepared.

Thus I determined that the content contravenes part 2, section 6(2)(b) in that the information includes statements that are misleading.

Conclusion

Following from the above I concluded that the following provisions of the Act were contravened:

- Section 6(2)(b), which states that the Act is contravened if the information includes statements that are misleading; and
- Section 6(2)(f), which states that the Act is contravened if the information fails to specify the source, or a means for identifying a source, of any facts (including comparisons), statistics or data.

Recommendation

Section 8(3) of the Act permits me to make recommendations however any recommendations under that section are limited to:

- the withdrawal of the public information; or
- that specified changes be made to the content of the public information.

Whilst the Act requires me to allow 10 working days to receive comments, under section 8(3) of the Act, I am able to make recommendations prior to the completion of the review. Through discussion and email correspondence with representatives of the Department of Treasury and Finance, in accordance with section 8(3), I recommended that the Department of Treasury and Finance make specified changes to the content of the public information.

Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010* cont…

The specified changes I recommended in order to rectify the contraventions were:

- The inclusion of a Glossary of Terms consistent with the Glossary of Terms appended to the Mid-Year Report 2019-2020 that includes, at a minimum, definitions of: Advances/advances paid; Agency; Comprehensive result; Extraordinary costs; Fiscal balance; General government sector; Government business division; Government owned corporation; Net debt; Net operating balance; Non financial public sector; Deposits held; advances received; borrowings; cash and deposits; advances paid; ad investments loans and placements and Operating result.
- The inclusion of a list of entities comprising the General government sector and the Non financial public sector.
- The inclusion in Table 10, or in a further table accompanying Table 10, of the following elements and balances comprising net debt: Deposits held; advances received; borrowings; cash and deposits; advances paid; and investments loans and placements.
- Amendment to the column headings in Table 11 to clearly demonstrate the reported balances represent Budgeted expenditure (and the source of the information) (Column 2); Preliminary actual expenditure (Column 3); and Variance between Budget and Preliminary actual expenditure (Column 4).
- To accompany Table 11, the inclusion of the income; expense and net operating balance / comprehensive result of each Agency (as defined in the Glossary of Terms) and each Government business division comprising the General government sector.
- Reference to a source/calculations for the 92 500 infections and an additional 5400 hospitalisations would have exceeded $200 million.

I further recommended that the specified changes to the content be communicated consistent with the communication of the release of the *COVID-19 Financial Report July 2020*.

On 19 August 2020, representatives of the Department of Treasury and Finance advised me that a publication entitled *COVID-19 Financial Report July 2020 Supplementary explanatory information* had been made publically available on the website of the Department of Treasury and Finance and could be accessed on the webpage where the initial report was available.

I am satisfied that the information provided within the publication entitled *COVID-19 Financial Report July 2020 Supplementary explanatory information* has largely addressed the matters raised and, thus, addressed the contraventions of the Act as notified to the Under Treasurer.

The Under Treasurer, in a formal response following my preliminary determination, provided the following observations:

- the information provided in the COVID-19 Financial Report July 2020 was not misleading or unsourced;
- the Auditor-General did not find error in the financial data published in the report; and
- from an abundance of caution, and on the recommendation of the Auditor-General, the Agency published supplementary information to further assist users of the report.

Matters Referred to the Auditor-General Pursuant to Section 6 of the *Public Information Act 2010* cont…

In closing this matter, I would like to express my appreciation to the Under Treasurer and representatives of the Department of Treasury and Finance for the prompt action taken to respond to the matters raised, particularly given the same representatives were simultaneously preparing the Treasurer's Annual Financial Statement and responding to pre-election information conventions.

Appendices

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Appendix 1: Audit Opinions Issued

Issued between 31 May 2020 and 30 June 2020

Financial Statements for the year ended 31 December 2019

	Date 2019 Financial Statements tabled to Legislative Assembly	Date of Audit opinion year ended 31 December 2019	Date of Audit opinion year ended 31 December 2018
Bridging the Gap Foundation (a company limited by guarantee)	Not required	24 June 2020	31 May 2019
Bridging the Gap Foundation	Not required	24 June 2020	31 May 2019
Cairns Business College Pty Ltd	Not required	2 June 2020	17 May 2019
Cairns Language Centre Pty Ltd	Not required	2 June 2020	17 May 2019
CDU Amenities Limited	Not required	12 June 2020	7 June 2019
Charles Darwin University	11 November 2020	25 June 2020	7 June 2019
ICHM Pty Ltd(1)	Not required	18 June 2020	17 June 2019
Menzies School of Health Research	11 November 2020	24 June 2020	7 March 2019

Not required – Financial statements are not required to be tabled
(1) Not separately reported within this report

Acquittals or other returns for the year ended 31 December 2019

	Deadline for submission of Audited Financial Statements	Date of Audit opinion year ended 31 December 2019	Date of Audit opinion year ended 31 December 2018
Charles Darwin University Higher Education Research Data Collection(1)	30 June 2020	19 June 2020	18 June 2019

(1) Not separately reported within this report

Appendix 1: Audit Opinions Issued cont…

Issued between 1 July 2020 and 31 October 2020

Financial Statements for the year ended 30 June 2020

	Date 2020 Financial Statements tabled to Legislative Assembly	Date of Audit opinion year ended 30 June 2020	Date of Audit opinion year ended 30 June 2019
Board of the Museum and Art Gallery of the Northern Territory	Not yet tabled	25 September 2020	4 October 2019
Central Australia Health Service	11 November 2020	23 October 2020	1 October 2019
Darwin Waterfront Corporation	10 November 2020	6 October 2020	26 September 2019
Data Centre Services	21 October 2020	29 September 2020	17 September 2019
Desert Knowledge Australia	12 November 2020	22 October 2020	28 October 2019
Indigenous Essential Services Pty Ltd	Not required	6 October 2020	15 October 2019
Land Development Corporation	10 November 2020	2 October 2020	11 October 2019
Motor Accidents (Compensation) Commission	11 November 2020	6 October 2020	8 October 2019
Northern Territory Grants Commission(1)	11 November 2020	16 September 2020	14 October 2019
Northern Territory Legal Aid Commission	Not yet tabled	19 October 2020	24 September 2019
Northern Territory Major Events Company Pty Ltd	Not required	12 October 2020	29 October 2019
Northern Territory Treasury Corporation	22 October 2020	24 September 2020	18 September 2019
NT Build	11 November 2020	7 October 2020	12 November 2019
NT Fleet	21 October 2020	29 September 2020	17 September 2019
NT Home Ownership	11 November 2020	29 September 2020	27 September 2019
Power and Water Corporation	11 November 2020	30 October 2020	15 October 2019
Power Generation Corporation	22 October 2020	22 September 2020	19 September 2019
Power Retail Corporation	22 October 2020	28 September 2020	24 September 2019
Territory Wildlife Parks	21 October 2020	25 September 2020	24 September 2019

Appendix 1: Audit Opinions Issued cont…

	Date 2020 Financial Statements tabled to Legislative Assembly	Date of Audit opinion year ended 30 June 2020	Date of Audit opinion year ended 30 June 2019
Top End Health Service	11 November 2020	23 October 2020	1 October 2019
Treasurer's Annual Financial Statement	21 October 2020	20 October 2020	11 October 2019

Not yet tabled – as at 30 November 2020
Not required – Financial statements are not required to be tabled
(1) Not separately reported within this report

Acquittals or other returns for the year ended 30 June 2020

	Deadline for submission of Audited Financial Statements	Date of Audit opinion year ended 30 June 2020	Date of Audit opinion year ended 30 June 2019
Health Pool Funding Acquittal(1)	30 September 2020	16 September 2020	6 September 2019
Local Government Financial Assistance Acquittal(1)	Not specified	18 August 2020	16 October 2019
Motor Accidents (Compensation) Commission Annual Return(1)	31 October 2020	28 October 2020	31 October 2019
National Land Transport Act 2014			
Roads to Recovery(1)	31 October 2020	29 October 2020	31 October 2019

(1) *Not separately reported within this report*

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Appendix 2: Status of Audit Activity

Listed below is the status of non-routine audits and reviews identified as not yet complete in Appendix 2 of my June 2020 Report to the Legislative Assembly:

Department of Corporate and Information Services	
Contract Management – Adherence to A Guide to Contract Management	Refer page 70
Incorrect Payment of Superannuation (Section 14 Directive)	Refer page 83
Department Infrastructure, Planning and Logistics	
Accounting for Assets on Leased Land	Not yet completed at 31 October

In addition to the routine audits, primarily being compliance audits of agencies and audits of financial statements, the following audits and reviews were identified in Appendix 3 of my June 2020 Report to the Legislative Assembly as scheduled to be conducted during the six months to 31 December 2020:

Department of Corporate and Information Services	
E-Medication Management System	Not yet completed at 31 October
PROMIS Replacement Project (SerPro)	Not yet completed at 31 October
Department of the Attorney-General and Justice	
Stimulus Initiatives	Not yet completed at 31 October
Department of Trade, Business and Innovation	
Stimulus Initiatives	Not yet completed at 31 October
Department of Treasury and Finance	
Stimulus Initiatives	Not yet completed at 31 October

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Appendix 3: Abbreviations

AASB	Australian Accounting Standards Board
APEX	APEX budget and reporting system
APRA	Australian Prudential Review Authority
ASA	Australian Auditing Standard
ASIC	Australian Securities and Investment Commission
ASMOF	Australian Salaried Medical Officers' Federation
ATO	Australian Taxation Office
BDU	Business Development Unit
BI	Business Intelligence
CBC	Cairns Business College
CDU	Charles Darwin University
CEA	Cairns Education Australia
CLC	Cairns Language College
CoF	Choice of Fund
COVID-19	Coronavirus Disease of 2019
CPS	Cross Industry Prudential Standard
CSO	Community Service Obligation
CSS	Commonwealth Superannuation Scheme
DCIS	Department of Corporate and Information Services
DCS	Data Centre Services
DKA	Desert Knowledge Australia
DTBI	Department of Trade, Business and Innovation
EA	Enterprise Agreement
EBU	Enterprise Business Unit
ECO	Executive Contract Officer
EPS	Enterprise Project Services
ETP	Eligible Termination Payment
FBT	Fringe Benefits Tax
FRD	Functional Requirement Document
FRS	Functional Requirement Specifications
FTC	Fuel Tax Credits
GBD	Government Business Division

Appendix 3: Abbreviations cont...

GFS	Government Financial Statistics
GPS	General Insurance Prudential Standard
GST	Goods and Services Tax
HDA	Higher Duties Allowance
HECS-HELP	Higher Education Contribution Scheme – Higher Education Loan Program
HR	Human Resources
kVa	Kilovolt amperes
LSL	Long Service Leave
LWOP	Leave Without Pay
MLA	Member of the Legislative Assembly
NT	Northern Territory
NTAGO	Northern Territory Auditor-General's Office
NTER	National Tax Equivalent Regime
NTG	Northern Territory Government
NTGPASS	NT Government and Public Authorities' Superannuation Scheme
NTPFES	Northern Territory Police, Fire and Emergency Services
NTPS	Northern Territory Public Sector
NTSO	Northern Territory Superannuation Office
OCPE	Office of the Commissioner for Public Employment
OICAC	Office of the Independent Commissioner Against Corruption
OTE	Ordinary Time Earnings
PAPMS	Payroll & Payment Management Services System
PAYG	Pay As You Go
PILS	Penalties in Lieu of Leave Loading
PIPS	Personnel Information Payroll System
PN	Promissory Note
PTR	Pay Transaction Record
PWC	Power and Water Corporation
SCI	Statement of Corporate Intent
SG	Superannuation Guarantee
SGC	Superannuation Guarantee Charge
SOP	Standard Operating Procedure

Appendix 3: Abbreviations cont…

TAFR	Treasurer’s Annual Financial Report
TAFS	Treasurer’s Annual Financial Statement
TAP	Territory Availability Payment
TEP	Territory Efficiency Payment
TIP	Territory Incentive Payment
TOP	Territory Operating Payment
VET	Vocational Education and Training

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Appendix 4: Engagement Letter

Services provided by the Northern Territory Auditor-General's Office

It is quite common for auditors to issue "letters of engagement" to their clients. These are intended to assist in ensuring that there is a clear understanding between the auditor and the client about the objectives and scope of the audit, the extent of the auditor's responsibilities and the form of any reports.

In the public sector there is generally no requirement for Auditors-General to issue letters of engagement as the roles and responsibilities are set out in relevant legislation. There has however, been an increasing tendency to provide parliaments with a form of letter of engagement to assist them to have a better understanding of the audit role.

Meeting the Legislative Assembly's expectations

The principal legislation that governs the conduct of audits in the Northern Territory public sector is the *Audit Act 1995*. That Act:

- requires me to audit the Public Account and other accounts in such manner as I think fit having regard to recognised professional standards and practices;
- provides for the Minister to direct me to carry out an audit which I have the power under the Act to carry out;
- permits me to conduct an audit of performance management systems of any Agency or other organisation in respect of the accounts of which I am required or permitted by a law of the Territory to conduct an audit; and
- extends the functions of the Auditor-General to an organisation in which the Territory, an Agency or a Territory controlled entity has an interest, at the request of a Minister.

Financial attest and compliance audits

Financial attest and compliance audits are conducted by the Office in accordance with legislated requirements and Australian Auditing Standards. The main purpose of an audit is to add credibility to a financial report by providing an independent audit opinion. When reading an opinion, it is essential to have a clear understanding of what it provides and what a financial report audit covers.

The audit opinion provides users of a financial report with reasonable assurance that it is free of material error and complies with legislation and applicable accounting standards. It does not:

- provide a guarantee of absolute accuracy in the financial report;
- express a view on the adequacy of the organisation's systems or the efficiency and effectiveness with which management conducts its affairs; or
- provide any assurance about the organisation's future viability.

An audit does not guarantee that every amount and disclosure in the financial report is error free. An audit does not examine every transaction of an organisation, as this would be prohibitively expensive and time-consuming. A financial compliance or attest audit is a combination of systems checks and examination of samples of transactions for all items in the financial report that are considered to be material or of high risk and which, if materially misstated as a result of an error or fraud, could affect the judgements made by users on the basis of that report.

Appendix 4: Engagement Letter cont...

It is also important to understand that the organisation's management, not the auditor, is responsible for:

- maintaining adequate accounting records and preparing the financial report; and
- maintaining a system of internal controls to prevent or detect errors or irregularities.

I recognise that, in the public sector, financial report audit opinions by themselves will not meet the Legislative Assembly's expectations. Firstly, because the principal objective of most public sector Agencies is to provide services rather than to generate profits, their financial reports give only limited information about their performance. Secondly, the Legislative Assembly and the community have higher expectations of probity and proper conduct in public sector Agencies.

Accordingly, when the Audit Office conducts financial report audits, it also has regard to:

- agency performance;
- wastage of public resources;
- probity or financial prudence in the management of financial resources; and
- compliance by Agencies with legislative requirements and government policies and procedures.

Audit of performance management systems

The *Audit Act 1995* also permits me to conduct an audit of performance management systems of Agencies or entities or other organisations in respect of the accounts or financial report of which I am required or permitted by a law of the Territory to conduct an audit.

The conduct of these audits is governed by Part 3 of the *Audit Act 1995*. These audits may be separate audits or they may be undertaken as part of another audit. The objective is to determine whether the performance management systems of the Agency or organisation enable the Agency or entity to assess whether its objectives are being achieved economically, efficiently and effectively. It is important to note that the provisions of the *Audit Act 1995* do not countenance audits of economy, efficiency or effectiveness.

Performance management systems audits can be conducted at a corporate, output or category of cost level. My Office has developed a framework for its approach to the conduct of performance management systems audits.

Over the years, the Northern Territory Auditor-General's Office has encouraged improved reporting of performance by Agencies and other Government entities. It has also encouraged Agencies and other entities to report performance indicators that address the criteria of economy, efficiency and effectiveness. In applying the audit framework referred to above, the Office continues to apply the following definitions that are contained in Australian Auditing Standard ASAE 3500 *Performance Engagements*:

- Economy – the acquisition of the appropriate quality and quantity of resources at the appropriate times and the lowest cost.
- Efficiency – the use of resources such that output is optimised for any given set of resource inputs, or input is minimised for any given quantity and quality of output.
- Effectiveness – the achievement of the objectives or other intended effects of activities at a program or entity level.

Appendix 4: Engagement Letter cont…

Quality control

In acknowledgement of the fact that most audits are conducted through the use of professional services firms under period panel contract arrangements, quality control systems, policies and procedures are also the responsibility of each Lead Authorised Auditor as there is an obligation to establish and maintain a system of quality control to provide reasonable assurance that:

a) personnel within the firms comply with Australian Auditing Standards, relevant ethical requirements, and applicable legal and regulatory requirements; and

b) the reports recommended to be issued by the Lead Authorised Auditor are appropriate in the circumstances.

Within the context of the Lead Authorised Auditor's system of quality control, the engagement teams have a responsibility to implement quality control procedures that are applicable to the audit engagement and provide the Lead Authorised Auditor with relevant information to enable the functioning of that part of the firm's system of quality control relating to independence.

My Authorised Auditor teams are entitled to rely on their firm's system of quality control, unless information provided by the firm or other parties suggests otherwise.

Whilst the Lead Authorised Auditor is responsible for the overall quality on each audit task assignment they undertake, the Auditor-General is ultimately responsible for the quality control systems, policies and procedures of the Audit Office.

Reporting to the Legislative Assembly

Auditor-General's reports to the Legislative Assembly present the findings of my financial report audits of Agencies and other public sector entities. These reports address high-level issues on Agency operations. Minor matters are reported only where they are symptomatic of a larger problem or where it is considered that insufficient attention has been given by the Agency to addressing issues raised.

Management letters to Agencies

A more detailed report is issued to the Accountable Officers of Agencies on matters identified during audits and these may include recommendations for operational improvements. These matters are in addition to any matters that may be included as part of the Independent Audit Report.

Procedural fairness

The Audit Office submits its draft reports to the relevant Accountable Officers and staff in their Agencies to ensure factual accuracy and to provide an opportunity for Agencies to submit comments on my findings for inclusion in my reports to the Legislative Assembly.

Appendix 4: Engagement Letter cont...

Enhancing the value of the audit function

As part of the discharge of my role, I will seek to maximise the value to the Agency, the Government and the Legislative Assembly of all audit work including where appropriate the framing of recommendations to address:

- improvement in the framework of accountability;
- opportunities for cost savings and efficiency gains; and
- recognition of good practice in use by Agencies, entities and units of administration.

Audit fees

Audit fees are not charged by the Audit Office for audits of Agencies. In these circumstances the costs of the audit are met from monies appropriated by the Legislative Assembly.

In most instances, where an audit is performed in respect of an organisation that is a statutory entity or where the audit is performed for a third party, for example, audits of acquittals of expenditure on behalf of the Commonwealth, the costs of the audit are recovered directly from the organisation in question.

Independence

Independence is the hallmark of audit. It is a fundamental concept that requires me to approach my work with integrity and objectivity. I must both be, and be seen to be, free of any interest which is incompatible with objectivity. It is essential therefore that I am independent of the Agencies being audited and free of interests that could be incompatible with integrity and objectivity.

Index of Matters Reported

Index of Matters Reported cont…

Index of Matters Reported cont…

Index of Matters Reported cont…

Index of Matters Reported cont…