



**Northern Territory
Auditor-General's Office**

Auditing for Parliament

November 2021

Report to the Legislative Assembly

*Our Purpose – To assist
Parliament in the oversight of the
performance of the
NT Government by providing
independent analysis through the
conduct of audits and reviews*

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We continually strive to improve our communication to our stakeholders and invite you to provide feedback on this report via our email address NT.Audit@nt.gov.au.

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

30 November 2021

Dear Madam Speaker,

Accompanying this letter is my report to the Legislative Assembly on matters arising from audits, reviews and assessments completed during the period from 3 July 2021 to 31 October 2021 that have not been previously reported and I request that you table the report in the Legislative Assembly.

This report presents the results of financial statements audits completed during the period.

The results from two performance management system audits are included in this report. Both audits were intended to assess the status of activity undertaken by agencies in response to audits conducted by my Office in previous years. These audits relate to:

- the allocation of water licences at the Department of Environment, Parks and Water Security; and
- the incorrect payment of superannuation which involved the Department of Corporate and Digital Development and the Office of the Commissioner for Public Employment.

End of year reviews were conducted at 16 agencies in order to gain assurance over transactions and balances consolidated into the Treasurer's Annual Financial Statement. The findings from these reviews are reported within this report.

My Office recently conducted a review into six procurement activities undertaken at the Department of Health in order to assess compliance with the Procurement Rules, the results of which are included in this report.

Yours sincerely,

Julie Crisp
Auditor-General for the Northern Territory

Auditor-General's Overview

Summary of this Report

This report outlines the results of 40 separate audits and other tasks completed during the period 3 July 2021 to 31 October 2021. 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; and
- Performance Management Systems Audits.

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 16 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. The focus for these reviews is primarily the end of year financial data consolidated into the Treasurer's Annual Financial Statement. The results of the audit of the Treasurer's Annual Financial Statement for the year ended 30 June 2021 are presented in this report.

Also included are the results of audits of financial statements for those entities with a financial year ended 31 December 2020 and 30 June 2021 where the audits were completed between 3 July 2021 and 31 October 2021.

The results from two performance management system audits are included in this report. Both audits were intended to assess the status of activity undertaken by agencies in response to audits conducted by my Office in previous years. These audits relate to:

- the allocation of water licences at the Department of Environment, Parks and Water Security; and
- the incorrect payment of superannuation which involved the Department of Corporate and Digital Development and the Office of the Commissioner for Public Employment.

My Office recently conducted a review into six procurement activities undertaken at the Department of Health in order to assess compliance with the Procurement Rules, the results of which are included in this report.

Agencies and entities are provided with the opportunity to comment on any of the matters reported in relation to their audit results. Where they choose to do so, their responses are detailed at the end of the relevant section.

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 second report provided for tabling within the Legislative Assembly for the year ending 30 June 2022, the last report was tabled during August 2021.

A number of audits scheduled to be commenced and completed in the period 1 July 2021 to 31 December 2021 are still to be completed. The outcomes of these audits (listed in Appendix 4: Status of Audit Activity) will be presented in future reports to the Legislative Assembly.

Reports on the Results of Audits, Reviews and Assessments

Batchelor Institute of Indigenous Tertiary Education

Audit Findings and Analysis of the Financial Statements for the Year Ended 31 December 2020

Background

Batchelor Institute of Indigenous Tertiary Education (the Institute) is established under the *Batchelor Institute of Indigenous Tertiary Education Act 1999*. Section 46 of the Institute's enabling Act requires the Institute to prepare financial statements within three months of the end of the Institute's financial year (31 December) and to submit those financial statements to the Auditor-General.

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 Batchelor Institute of Indigenous Tertiary Education for the year ended 31 December 2020.

Audit Opinion

The audit of the Batchelor Institute of Indigenous Tertiary Education for the year ended 31 December 2020 resulted in an unmodified independent audit opinion, which was issued on 30 July 2021.

Audit Observations

Performance Overview

The Institute reported a loss of \$0.2 million (2019: loss of \$2.7 million). The decrease in deficit of approximately \$2.5 million when compared to the prior year is mainly attributable to:

- a net decrease in expenditure of \$5.5 million attributed to:
 - \$4.2 million in employee related expenses; and
 - \$1.4 million in other expenses including \$0.4 million in repairs and maintenance and services received free of charge; partially offset by
- a decrease in revenue of \$3 million due to reductions of:
 - \$1.7 million in Australian Government financial assistance;
 - \$0.8 million in consultancy and contracts fees; and
 - \$0.4 million in services received free of charge, investment income and other income.

Batchelor Institute of Indigenous Tertiary Education cont...

The Institute's net asset position decreased at 31 December 2020 from \$30.9 million to \$30.7 million resulting from decreases in:

- cash and deposits of \$0.8 million between the years due to reduced revenue;
- receivables of \$0.7 million attributable to a reduction in outstanding trade debtors at year end;
- property, plant and equipment of \$1.0 million caused by the offsetting movements of \$1.1 million of additions and a \$2.1 million depreciation charge;
- trade and other payables of \$1.2 million associated with reduced operating expenses; and
- other liabilities of \$1.4 million mainly attributable to the reduction of contract liabilities at the end of the year.

Going Concern

The Institute's statutory financial results reported for the previous five financial years were:

- 2020 – \$0.2 million loss against a budgeted deficit of \$1.3 million;
- 2019 – \$2.7 million loss against a budgeted deficit of \$1.6 million;
- 2018 – \$1.2 million loss against a budgeted deficit of \$1.3 million;
- 2017 – \$0.2 million loss against a budgeted surplus of \$0.5 million; and
- 2016 – \$6.9 million loss against a budgeted deficit of \$2.2 million.

In an effort to improve the Institute's results, the following initiatives were implemented from 1 September 2020:

- a 30-day payment policy;
- stricter financial delegations for travel expenditure; and
- a three-quote procurement process for all purchases greater than \$1,000.

The Institute sought external assistance to assess existing governance and financial management processes and recommend improvements.

During the year, the Institute engaged a consultant to develop a Financial Sustainability Plan as part of a broader Cost of Delivery and Financial Sustainability Review. The Financial Sustainability Plan released in October 2020 identified a range of further actions that require implementation by the Institute in order to sustain an improved financial and operating position over the longer term.

Batchelor Institute of Indigenous Tertiary Education cont...

Overall cash position

The Institute's cash position was \$11.6 million at 13 May 2021. A forecast of the cash position to 30 June 2022, prepared by management, estimates cash holdings of \$7.1 million at that time.

The cash forecast indicates that, for the 2021 financial year and for the 12 month period from signing the financial statements (to 30 June 2022), the Institute is expected to be in a cash surplus each month and therefore has the ability to pay debts as and when they fall due for at least 12 months from the date of signing the 31 December 2020 financial statements. Net cash provided by operating activities, as reported in the Institute's cash flow statement as at 31 December 2020, was \$0.1 million. Those charged with governance will need to continue to closely monitor cash balances and maintain tight controls in relation to operating expenditure.

The going concern basis of preparation has been appropriately disclosed in the financial statements including the economic dependency in respect to ongoing funding from the Australian and Northern Territory (NT) Governments which is expected into the future, however, is only committed each year. In continuing to prepare the financial statements on the basis that the Institute is a going concern, management has also given due consideration to the known impacts of COVID-19.

Delays in finalisation of the financial statements

The Institute's information technology systems were unable to be accessed between 3 March and 26 March 2021. As a result of the system downtime, management needed to seek an extension associated with the requirement to provide financial statements for audit by 31 March 2021. This matter does highlight the need to ensure system patches and upgrades are processed as soon as practicable following receipt of notification that a patch or upgrade has been released.

In addition to the extension sought to provide financial statements for audit by 31 March 2021, a further extension was subsequently obtained to finalise the financial statements by 31 July 2021. Opportunities to address the more timely preparation and quality review of the financial statements have been discussed with management.

Payroll tax refund

The Institute has submitted a claim for a payroll tax refund of \$6 million. Based on the current status and uncertainty over the claim, the anticipated refund has not been disclosed in the financial statements.

Batchelor Institute of Indigenous Tertiary Education cont...

Financial Performance for the year

	2020	2019
	\$'000	\$'000
Revenue from continuing operations		
Australian Government financial assistance	11,905	13,603
Northern Territory Government financial assistance	13,865	13,861
Other revenue	5,469	6,769
Total revenue from continuing operations	31,239	34,233
Less expenses from continuing operations		
Employee expenses	(20,300)	(24,471)
Depreciation and amortisation	(2,197)	(2,190)
Other expenses	(8,956)	(10,304)
Total expenses from continuing operations	(31,453)	(36,965)
Deficit before income tax expense	(214)	(2,732)
Income tax expense	-	-
Deficit after income tax expense	(214)	(2,732)

Batchelor Institute of Indigenous Tertiary Education cont...

Financial Position at year end

	2020	2019
	\$'000	\$'000
Cash and cash equivalents	6,615	7,448
Receivables and other current assets	2,005	2,608
Less current liabilities	(7,489)	(9,934)
Working Capital	1,131	122
Add non-current assets	30,117	31,154
Less non-current liabilities	(547)	(361)
Net Assets	30,701	30,915
Represented by:		
Reserves	30,741	30,741
Retained surplus/(accumulated deficit)	(40)	174
Equity	30,701	30,915

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 2021

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 2021.

Audit Opinion

The audit of the Board of the Museum and Art Gallery of the Northern Territory for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 1 October 2021.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

The Board made an operating surplus of \$269 thousand this year compared to a loss of \$526 thousand in the prior year.

The main turnaround is the direct result of a significant reduction in employee expenses resulting from the decision in the prior year to provide separation and redundancy packages to a number of employees.

The prior year's provision for redundancies was \$401 thousand. Approximately \$264 thousand of this provision was used, resulting in the reversal of the remainder of the provision being recognised as a gain of \$137 thousand in the current year. Excluding the reversal of the provision of \$137 thousand, overall employee expenses declined by \$974 thousand from the prior year.

Grants from the NT Government showed a modest increase of \$48 thousand (0.6%). The reduction in Commonwealth Government grants of \$191 thousand from the prior year arises from the non-renewal of the Australia Council grant of \$100 thousand and the correction of prior year accounting for \$77 thousand in grant funding. The \$77 thousand was initially recognised as a liability for unexpended grants however the conditions associated with the grant required upfront recognition upon receipt of the funds.

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

Rental income declined by \$128 thousand due to a waiver of rent for the previous café operator and museum gift shop in response to COVID-19 impacts and the late opening by the new café operator in April.

COVID-19 impacts on visitor numbers and the temporary closure of the underlying facilities were the main reasons for the decline in goods and services sales of \$138 thousand.

Interest revenue declined by \$30 thousand due to lower interest rates.

The decline in purchases of supplies and services of \$141 thousand is a direct result of the impact of COVID-19. There were no paid exhibitions during the period, consequently direct freight costs of exhibitions reduced by \$44 thousand and design / production costs decreased by \$73 thousand.

Cash and deposits of \$2,863 thousand increased by \$437 thousand during the year.

Prepayments of \$85 thousand relate to payments for an opening ceremony which did not occur until after year end.

Plant and equipment increased by \$30 thousand to recognise six Halolens units which had been expensed in prior years but were capitalised in 2021 as they operate as a joint unit. There was a corresponding increase to the asset revaluation reserve in accordance with the requirements of Treasurer's Directions.

A canoe valued at \$17 thousand was the only addition to heritage and cultural assets.

Accrued expenses increased by \$95 thousand. The most significant elements of the increase were the quarterly fees charged by the Department of Corporate and Digital Development of \$50 thousand and research consultants' fees of \$18 thousand.

Provisions declined by \$451 thousand, most of which was the redundancy provision of \$401 thousand which is no longer required.

Unearned revenue increased by \$664 thousand to \$1,385 thousand. The largest component of the unearned revenue is \$1,139 thousand for the State Square Art Gallery Content Development Project which is only partially complete at balance date. The total grant received was \$1.3 million.

Apart from the surplus for the period, the only other change in equity during the period was the \$30 thousand asset revaluation relating to the Halolens units reported above.

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

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Sales of goods and/or services	287	425
Current grants and subsidies	8,467	8,653
Other	62	220
Total income	8,816	9,298
Expenditure		
Employee expenses	(4,968)	(6,079)
Supplies and services	(2,037)	(2,178)
Depreciation and amortisation	(30)	(24)
Property management	(1,512)	(1,543)
Total expenditure	(8,547)	(9,824)
Surplus/(deficit)	269	(526)

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

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	2,863	2,426
Receivables and other current assets	142	89
Less current liabilities	(2,223)	(2,015)
Working Capital	782	500
Add non-current assets	153	136
Less non-current liabilities	-	-
Net Assets	935	636
Represented by:		
Accumulated funds	664	395
Reserves	30	-
Capital	241	241
Equity	935	636

Central Australia Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

Background

The Central Australia Health Service (the 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 comprised 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 2021.

Audit Opinion

The audit of the Central Australia Health Service for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 29 September 2021.

The audit opinion, while unmodified, did include the following emphasis of matter paragraphs:

“Emphasis of matter – Restatement of comparative balances

I draw attention to Note 29 to the financial statements, which states that the amounts reported in the previously issued financial statements for the year ended 30 June 2020 have been restated and disclosed as comparatives in the financial report. My opinion is not modified in respect of these matters.

Emphasis of matter – Restructure of health services

I draw attention to Note 26 to the financial statements, which states that Central Australia Health Service was restructured under the Health Services Act 2021 which came into effect on 1 July 2021 and has resulted in all functions of Central Australia Health Service transferring to the Northern Territory Department of Health. As a result, Central Australia Health Service will cease to exist as a reporting entity. As the functions of Central Australia Health Service will continue, the going concern basis of accounting has been applied as disclosed in Note 2b) to the financial statements. My opinion is not modified in respect of these matters.”

Central Australia Health Service cont...

Audit Observations

Going Concern

The *Health Services Act 2021* that came into force on 1 July 2021 has resulted in the Central Australia Health Service transferring all functions to the Department of Health effective 1 July 2021. As a result, the 30 June 2021 financial statements are the last set of financial statements prepared for the Health Service as a reporting entity.

As the functions of the Health Service are being transferred rather than discontinued, the going concern assumption is still applicable, with no disclosures of discontinued operations.

An emphasis of matter paragraph was included within my audit opinion in relation to the restructure.

Prior period restatements

Restatements have been made to the comparative balances reported in the 2021 financial statements in relation to:

1. The incorrect recording of the 2020 revaluation of hospital assets. A prior period adjustment has been made reducing the carrying amount of hospital assets and the corresponding revaluation reserve.
2. A misapplication of the payroll tax exemption under the *Payroll Tax Act 2009*. The notices of assessment were finalised in July 2021 across the financial periods 2016-17 to 2019-20. On 11 August 2021, the Health Service obtained a waiver from the Treasurer and has considered this to be an adjusting subsequent event. Prior period errors have been reflected in the financial statements to increase the payroll tax provision and reduce accumulated funds in the comparative financial results as at 30 June 2020. A reversing entry has been recorded in the 30 June 2021 financial year to increase other income and reverse payroll tax provisions.

Performance Overview

The Health Service incurred a net surplus of \$178 thousand for the year ended 30 June 2021. An analysis of the key impacts within the financial statements is discussed below.

Revenue

Total revenue for the Health Service increased by \$45.0 million from the prior year.

Grants and subsidies revenue from the Commonwealth and Northern Territory governments increased by \$32.0 million.

Sales of goods and services decreased by \$432 thousand affected by a decrease in cross border revenue amounting to \$706 thousand, partially offset by an increase in patient revenue amounting to \$297 thousand.

Another significant contribution to the increase in revenue was the waiver of payroll tax liability that was granted to the Health Service reversing the payroll tax liability of \$13.6 million.

Central Australia Health Service cont...

Expenditure

Total expenditure increased by \$31.8 million from the prior year.

Payroll expenses increased by \$16.7 million due to an increase in the number of employees during the period, largely driven by the need for additional employees to meet the delivery demands of the COVID-19 National Partnership Response.

Purchases of goods and services expenses increased by \$13.1 million due to the increase in agent service arrangements of \$8.2 million and an increase of cross border expenditure amounting to \$3.1 million.

Assets

Total assets increased by \$24.3 million including increases in cash and deposits balances of \$13.9 million and increases of receivables of \$4.9 million. Non-current assets increased by \$4.0 million due to transfers in from the Department of Infrastructure, Planning and Logistics.

Liabilities

Total liabilities increased by \$16.1 million due to an increases of \$18.1 million in payables and \$6.7 million in borrowings and advances, partially offset by a decrease of \$8.0 million in provisions.

Equity

Equity for the Health Service increased by \$8.2 million from the prior year primarily due to an increase in the asset revaluation reserve of \$2.5 million and equity transfers of \$5.5 million from the Department of Infrastructure, Planning and Logistics.

Central Australia Health Service cont...

Financial Performance for the year

	2021	2020 Restated
	\$'000	\$'000
Income		
Sales of goods and/or services	232,599	233,120
Current grants and subsidies	233,930	201,964
Other	7,779	7,790
Reversal of payroll tax provision	13,547	-
Total income	487,855	442,874
Expenditure		
Employee expenses	(302,149)	(281,646)
Supplies and services	(149,194)	(136,103)
Depreciation and amortisation	(16,501)	(16,398)
Interest expense	(256)	(221)
Grants and subsidies	(19,577)	(17,698)
Total expenditure	(487,677)	(452,066)
Surplus/(deficit)	178	(9,192)

Central Australia Health Service cont...

Financial Position at year end

	2021	2020 Restated
	\$'000	\$'000
Cash and cash equivalents	53,756	39,835
Receivables and other current assets	67,408	61,092
Less current liabilities	(126,054)	(116,654)
Working Capital	(4,890)	(15,727)
Add non-current assets	244,745	240,699
Less non-current liabilities	(16,269)	(9,537)
Net Assets	223,586	215,435
Represented by:		
Accumulated funds	(102,547)	(102,725)
Asset revaluation reserve	29,504	27,019
Capital	296,629	291,141
Equity	223,586	215,435

Darwin Waterfront Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 2021.

Audit Opinion

The audit of the Darwin Waterfront Corporation for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 18 October 2021.

The audit opinion, while unmodified, did include the following emphasis of matter paragraph:

“Emphasis of matter – Restatement of comparative balances

I draw attention to Note 2 (e) to the financial statements, which states that the amounts reported in the previously issued financial statements for the year ended 30 June 2020 have been restated and disclosed as comparatives in the financial report. My opinion is not modified in respect of this matter.”

Audit Observations

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

Performance Overview

The Corporation reported a deficit of \$992 thousand compared to the prior year's deficit of \$2.879 million. The improved performance was impacted by increased income from grants and subsidies and sales of goods and services together with reduced Territory operating payments.

Australian Accounting Standard AASB 1059 Service Concession Arrangements: Grantors (AASB 1059) was required to be applied by the Corporation for the first time in the financial year ended 30 June 2021. AASB 1059 mandates the accounting treatment for arrangements that involve an operator providing public services related to a service concession asset on behalf of a public sector grantor for a specified period of time and managing at least some of those services. Where a transaction meets the definition of a service concession arrangement, a service concession asset and liability will be recognised on the balance sheet and valued in accordance with the standard. The Corporation adopted the modified retrospective approach on transition to AASB 1059 with 1 July 2019 as the date of initial application, being the beginning of the comparative reporting period. The Corporation's public private partnership arrangements in relation to the Darwin Convention Centre meet the criteria for recognition in accordance with the provisions of AASB 1059.

Darwin Waterfront Corporation cont...

Upon transition to the new accounting standard, the Corporation was required to reclassify service concession assets amounting to \$107.17 million within the respective property, plant and equipment category. Reclassification has not affected the total property, plant and equipment balances of the Corporation. Liabilities associated with service concession arrangements have been reclassified from finance lease liabilities to service concession liabilities of \$72.94 million within the Borrowing and advances category. Reclassification has not affected the total borrowings and advances balances of the Corporation. There is no financial statement impact in the opening accumulated funds.

During the financial year ended 30 June 2021, the Corporation identified various parcels of land recorded in the Corporation's balance sheet that should have been derecognised in prior financial years. Correction of the misstatements has resulted in a reduction to property, plant and equipment values of \$18.64 million, capital transactions with owners of \$14.96 million and asset revaluation reserves of \$3.68 million.

Upward revaluation of land and service concession assets resulted in an increase in property, plants and equipment of \$15.622 million with a corresponding increase in the asset revaluation reserve.

The Corporation had a positive working capital position of \$0.8 million (2020: negative \$1.5 million). As at 30 June 2021, the net asset position of the Corporation was \$189.9 million (2020: \$171.2 million). The net assets at 30 June 2021 comprised:

- Cash and cash equivalents of \$4.3 million (2020: \$3.0 million);
- Trade and other receivables of \$0.7 million (2020: \$0.7 million);
- Prepayments of \$0.2 million (2020: \$0.1 million);
- Property, plant and equipment of \$253.1 million (2020: \$239.7 million); and
- Heritage and cultural assets of \$0.1 million (2020: \$0.1 million); offset by
- Trade and other payables of \$0.8 million (2020: \$2.2 million)
- Borrowings and advances of \$67.7 million (2020: \$70.3 million); and
- Other liabilities of \$0.02 million (2020: \$0.02 million).

Darwin Waterfront Corporation cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Sales of goods and/or services	3,831	3,306
Current grants and subsidies	22,637	22,151
Other	740	564
Total income	27,208	26,021
Expenditure		
Territory availability payments	(3,300)	(3,294)
Territory efficiency payments	-	-
Territory incentive payments	(45)	(230)
Territory operating payments	(2,305)	(4,055)
Agent service arrangements	(1,074)	(1,034)
Depreciation and amortisation	(7,031)	(6,902)
Employee expenses	(1,335)	(1,255)
Finance costs	(4,581)	(4,791)
Property maintenance	(3,455)	(3,654)
Other	(5,074)	(3,685)
Total expenditure	(28,200)	(28,900)
Deficit	(992)	(2,879)
Changes in asset revaluation reserve	15,622	-
Comprehensive result	14,630	(2,879)

Darwin Waterfront Corporation cont...

Financial Position at year end

	2021	2020 restated
	\$'000	\$'000
Cash and cash equivalents	4,340	3,015
Receivables and other current assets	903	847
Less current liabilities	(4,424)	(5,357)
Working Capital	819	(1,495)
Add non-current assets	253,206	239,828
Less non-current liabilities	(64,163)	(67,102)
Net Assets	189,862	171,231
Represented by:		
Accumulated funds	(36,135)	(35,143)
Reserves	56,034	40,412
Capital	169,963	165,962
Equity	189,862	171,231

Data Centre Services

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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.

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 2021.

Audit Opinion

The audit of Data Centre Services for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 27 September 2021.

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 \$5.9 million for the year ended 30 June 2021, \$2.6 million more than the prior year's surplus of \$3.3 million.

- Total income of \$30.1 million (2020: \$27.3 million) increased from the prior year by \$2.8 million due to increased levels of demand for midrange services.
- Total expenses of \$24.2 million (2020: \$24.0 million) increased from the prior year by \$0.2 million. Employee expenses and depreciation and amortisation expense both increased however these increases were largely offset by reduced expenditure on purchases of goods and services and property management.

Data Centre Services will pay an income tax equivalent of \$1.8 million (2020: \$1.0 million) and return a dividend of \$2.1 million (2020: \$1.1 million) to the NT Government for the year ended 30 June 2021.

Data Centre Services continues to maintain a strong net assets position. As at 30 June 2021, the net assets position of Data Centre Services was \$26.7 million (2020: \$24.6 million), comprising:

- cash and deposits of \$8.6 million;
- receivables and prepayments totalling \$13.8 million; and
- property, plant and equipment and intangibles of \$25.6 million; offset by
- payables and accrued expenses totalling \$1.3 million;
- employee and other provisions of \$3.1 million;
- lease liabilities and other liabilities of \$13.3 million and \$1.8 million respectively; and
- tax payable of \$1.8 million.

Data Centre Services cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Sales of goods and/or services	30,026	26,772
Other	72	518
Total income	30,098	27,290
Expenditure		
Operational costs	(13,427)	(14,237)
Employee expenses	(6,730)	(6,325)
Depreciation and amortisation	(4,048)	(3,431)
Impairment losses	(20)	(37)
Total expenditure	(24,225)	(24,030)
Surplus	5,873	3,260
Income tax expense	(1,762)	(978)
Surplus after income tax expense	4,111	2,282
Dividends	(2,056)	(1,142)
Special dividend	-	(2,000)
Net surplus/(deficit)	2,055	(860)

Data Centre Services cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	8,579	10,515
Receivables and other current assets	10,608	7,253
Less current liabilities	(7,699)	(5,643)
Working Capital	11,488	12,125
Add non-current assets	28,757	24,717
Less non-current liabilities	(13,570)	(12,222)
Net Assets	26,675	24,620
Represented by:		
Accumulated funds	22,112	20,057
Capital	4,563	4,563
Equity	26,675	24,620

Data Centre Services cont...

Data Centre Services has commented:

Data Centre Service's financial statement audit received an unmodified audit opinion with no material weaknesses in internal controls identified.

Desert Knowledge Australia

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 2021.

Audit Opinion

The audit of the Desert Knowledge Australia for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 19 October 2021.

Audit Observations

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

Performance Overview

Desert Knowledge Australia (DKA) reported a surplus of \$2.6 million compared to the prior year's deficit of \$0.2 million. The significant items contributing to the surplus are presented below.

- Total revenue of \$6.0 million (2020: \$2.8 million) increased by \$3.2 million from the prior year. Key contributing factors to this increase were:
 - Grant revenue of \$3.1 million, which increased by \$1.1 million from the prior year. The increase predominantly relates to the grant received from Department of Industry, Science, Energy & Resources of \$1.2 million.

The objective of the funded project is to support scale up implementation of microgrid systems in regional and remote communities and increase human capital (skills/ knowledge) in the development of microgrid.

This is a three-year project and the grant funding received in this first year has been recognised in full as the purpose of the grant was not sufficiently specific to record the funds as unspent grants. DKA has incurred costs of \$0.5 million with the remainder of the funds received to be applied to expenditure over the next two years.

Desert Knowledge Australia cont...

- During the 2010 financial year, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) funded and managed an extension to the Desert Knowledge Business and Innovation Centre (owned by the entity) valued at \$3.3 million.

In exchange for the extension, a lease agreement with nil value was entered into for 30 years of the 40 year estimated building life. The fair value of the extension was recorded as rent received in advance and was being amortised over the agreement period.

During the financial year ended 30 June 2021, an agreement was signed by DKA and CSIRO to surrender the lease with no further financial consequence between the parties. Consequently, the remaining balance of rent received in advance (\$2.2 million) was recognised as revenue. There was no cash flow associated with this transaction.

- Total expenses of \$3.3 million (2020: \$3.0 million) increased by \$0.3 million. The significant movements in expenditure are explained below:
 - A decrease in employee expenses of \$0.1 million to \$1.3 million (2020: \$1.4 million) with high staff turnover including separation payments made to six former employees. During the year, salaries were allocated to the project commencing under the Consortium Agreement started with Desert Knowledge Research Institute. These costs have subsequently been invoiced to Desert Knowledge Research Institute.
 - An increase in consultancy expenditure of \$0.6 million from \$0.3 million in the comparative year to \$0.9 million in the reporting year. The increase in consultancy expenditure relates to consultants hired for the Intyalheme program.
 - Clarification of the useful life of earthwork assets resulted in a shorter useful life being attributed to the assets. As a result, the depreciation for the year increased by \$0.1 million to \$0.5 million (2020: \$0.4 million)

As at 30 June 2021, the net asset position of Desert Knowledge Australia was \$12.5 million (2020: \$9.8 million).

The positive working capital position of \$1.4 million (2020: \$0.4 million) is largely attributable to the Institute's cash position which includes the cash received to fund the microgrid project with the related expenditure outflows on the project to eventuate in future years.

Desert Knowledge Australia cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Grants – Government	3,107	2,000
Government subsidies	100	-
Rent received	210	198
Interest revenue	7	17
Solar Centre revenue	109	128
Gain on lease surrender	2,045	-
Other	379	417
Total income	5,957	2,760
Expenditure		
Employee expenses	(1,335)	(1,461)
Depreciation and amortisation	(505)	(369)
Reversal of impairment expense	38	4
Board costs	(22)	(29)
Consultants	(856)	(277)
Media/marketing/advertising	(12)	(33)
Travel	(20)	(22)
Desert Knowledge Precinct	(292)	(339)
Solar Centre maintenance	(68)	(69)
Other	(251)	(392)
Total expenditure	(3,323)	(2,987)
Surplus/(deficit)	2,634	(227)

Desert Knowledge Australia cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	3,755	2,691
Receivables and other current assets	552	1,778
Less current liabilities	(2,902)	(4,103)
Working capital	1,405	366
Add non-current assets	11,073	11,513
Less non-current liabilities	(16)	(2,051)
Net assets	12,462	9,828
Represented by:		
Retained earnings	4,653	2,019
Capital	7,809	7,809
Equity	12,462	9,828

Land Development Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 2021.

Audit Opinion

The audit of the Land Development Corporation for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 27 September 2021.

Audit Observations

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

Performance Overview

The Corporation reported a surplus before tax of \$4.38 million compared to the prior year's deficit of \$0.52 million. Total revenue of \$14.42 million (net of cost of land sold of \$23.47 million) for the year ended 30 June 2021 included net revenue from land sales of \$8.06 million. The land sales represent sales from both industrial and residential developments. Although there has been a decrease in land sales when compared to the prior year, overall income has increased by \$1.74 million due to the recognition of grants and subsidies income of \$3.83 million during the current year.

The Corporation's expenditure predominantly relates to the cost of land sold, being \$23.47 million, for its current residential and industrial land developments. The next two most significant categories of cost are operational costs and employee expenses which increased by \$1.36 million and \$0.16 million respectively.

The Corporation employed 20 full time equivalent employees at 30 June 2021 (20 employees as at 30 June 2020) and employee related expenditure for the year was \$2.95 million.

The Corporation has continued to hold a strong net asset position of \$125.18 million at 30 June 2021, compared to \$121.25 million in the prior period.

The Corporation has a strong liquidity position with \$21.55 million in cash and a portfolio of land with \$36.95 million in current land inventory and \$77.93 million in non-current land inventory.

Land Development Corporation cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Revenue from land sales	31,529	40,553
Cost of land sold	(23,467)	(30,490)
Net revenue from land sales	8,062	10,063
Royalties, rents and dividends	1,641	1,547
Capital grants	3,825	182
Other	888	882
Total income	14,416	12,674
Expenditure		
Depreciation and amortisation	(735)	(752)
Employee expenses	(2,947)	(2,792)
Interest	(771)	(898)
Impairment losses	(1,221)	(5,746)
Operational costs	(4,363)	(3,002)
Total expenditure	(10,037)	(13,190)
Surplus/(deficit) before income tax expense	4,379	(516)
Income tax expense	(208)	-
Surplus/(deficit) after income tax expense	4,171	(516)
Dividends	(242)	-
Net surplus/(deficit)	3,929	(516)

Land Development Corporation cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	21,548	27,865
Receivables and other current assets	37,546	39,542
Less current liabilities	(15,392)	(20,679)
Working capital	43,702	46,728
Add non-current assets	92,226	90,552
Less non-current liabilities	(10,750)	(16,031)
Net assets	125,178	121,249
Represented by:		
Capital	54,339	54,339
Reserves	-	-
Accumulated funds	70,839	66,910
Equity	125,178	121,249

Motor Accidents (Compensation) Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 2021. These were:

- the audit of the financial statements for the year ended 30 June 2021;
- the audit of the Annual Return to the Treasurer for the year ended 30 June 2021; 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 2021.

Audit Opinion

The audit of the financial statements of the Motor Accidents (Compensation) Commission for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 28 September 2021.

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 \$169.4 million for the year ended 30 June 2021 compared to a profit of \$99.4 million in the previous financial year. The difference in result of \$70 million was primarily attributable to the net impact of the increase in revenue by \$133.8 million offset by increases in other expenditure of \$1.7 million and in claims expense of \$62.2 million.

An analysis of revenue for the year ended 30 June 2021 demonstrated the Commission experienced an increase in the fair value of its investments in unit trusts and bonds as a result of improvements in the Australian Capital markets in the post COVID-19 pandemic. The Commission recognised a profit on financial investments of \$138.6 million during the year ended 30 June 2021 compared to a loss of \$4.6 million in the year ended 30 June 2020. Insurance and other recoveries revenue was reduced by \$10.4 million in the current year as a result of changes in actuarial estimates and assumptions.

Of the \$63.8 million movement in expenditure, \$62.2 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 reflected changes due to economic factors, assumptions and claims experience. Expenditure on management fees increased by \$0.5 million compared to the year ended 30 June 2020.

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 with discretionary participation features issued. 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 2023 however the standard is not currently applicable to not-for-profit public sector entities.

The Commission currently accounts for its contractual arrangements under AASB 137 Provisions, Contingent Liabilities and Contingent Assets rather than AASB 1023 General Insurance Contracts. The Australian Accounting Standards Board ("AASB") is presently considering mandatory application of insurance standards to all public sector entities providing 'insurance-like' arrangements. In early 2021, the AASB instructed its staff to identify whether relevant insurance-like activities should be accounted for under AASB 17. The Commission is keeping apprised of developments in accounting practices and will need to assess the impacts, if any, of the adoption of AASB 17 as the requirements are confirmed.

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.

Motor Accidents (Compensation) Commission cont...

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 2021 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 Acting 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. The Determination, in its current form, does not require an Actuarial Advice Framework.

As the Determination in place 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.

Until the Determination is updated, a compliance gap in relation to the requirement to have an Actuarial Advice Framework will remain.

Motor Accidents (Compensation) Commission cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Compulsory third party contributions	87,309	86,339
Insurance and other recoveries	(18,195)	(7,750)
Finance revenue	138,629	(4,531)
Property revenue	1	9
Other	1,040	903
Total income	208,784	74,970
Expenditure		
Insurance expense	(1,814)	(1,805)
Claims incurred/(expense)	(15,069)	47,180
Road safety program grants	(4,073)	(4,171)
Other	(18,455)	(16,761)
Total expenditure	(39,411)	24,443
Surplus	169,373	99,413

Motor Accidents (Compensation) Commission cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	73,394	79,208
Receivables and other current assets	921,285	761,594
Less current liabilities	(85,549)	(83,513)
Working capital	909,130	757,289
Add non-current assets	65,650	89,380
Less non-current liabilities	(552,984)	(594,246)
Net assets	421,796	252,423
Represented by:		
Retained earnings	421,796	252,423
Equity	421,796	252,423

Northern Territory Legal Aid Commission

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

Background

The Northern Territory Legal Aid Commission (the Commission) is established under the *Legal Aid Act 1990* (the Act). The function of the Commission is to provide legal assistance in accordance with the Act. The Commission commenced its activities on 1 July 1990 and is registered as a charity with the Australian Charities and Not-for-profits Commission.

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 2021.

Audit Opinion

The audit of the Northern Territory Legal Aid Commission for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 24 September 2021.

Audit Observations

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

Performance Overview

The Commission reported a surplus for the year of \$0.9 million (2020: \$0.3 million).

Total revenue of \$18.1 million increased from the prior year (2020: \$16.8 million) due to an increase in grant income and Treasurer's Advances received to assist with the costs of expensive cases.

Total expenditure of \$17.2 million increased by \$0.7 million from the prior year (2020: \$16.5 million). The increase was partially attributable to increased employee expenses of \$171 thousand due to Enterprise Bargaining Agreement arrangements and higher duty allowances paid as a result of vacancies during the year. The Commission also incurred increased legal expenses due to a greater level of work being outsourced to private solicitors.

The Commission's net asset position of \$3.1 million (2020: \$2.2 million) increased in 2021 due to the surplus for the year. The Commission held cash balances of \$5.1 million as at 30 June 2021 compared to \$3.4 million as at 30 June 2020.

Northern Territory Legal Aid Commission cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Grants – Northern Territory Government	7,256	7,148
Grants – Commonwealth	6,934	6,582
Grants – other	3,595	2,570
Rendering of services	195	317
Other	72	134
Total income	18,052	16,751
Expenditure		
Administration	(656)	(973)
Employee expenses	(10,846)	(10,674)
Legal	(2,807)	(2,216)
Depreciation and amortisation	(1,143)	(1,110)
Other	(1,719)	(1,481)
Total expenditure	(17,171)	(16,454)
Surplus/(deficit)	881	297

Northern Territory Legal Aid Commission cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	5,100	3,412
Investments	-	500
Receivables and other current assets	570	538
Less current liabilities	(3,923)	(3,702)
Working capital	1,747	748
Add non-current assets	8,205	9,283
Less non-current liabilities	(6,893)	(7,854)
Net assets	3,059	2,177
Represented by:		
Reserves	2,442	1,519
Retained earnings	617	658
Equity	3,059	2,177

Northern Territory Major Events Company Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 2021.

Audit Opinion

The audit of the Northern Territory Major Events Company Pty Ltd for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 14 October 2021.

Audit Observations

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

Performance Overview

The Company reported a profit for the year of \$312 thousand (2020: \$143 thousand).

Total revenue of \$37.1 million for the year ended 30 June 2021 (2020: \$24.1 million) included recognition of grant revenue of \$30 million received to fund events and festivals that took place during the year. Operating expenditure for the year was \$36.7 million primarily incurred to deliver events and festivals. Of this amount, employee expenses for the year totalled \$4.6 million, a slight decrease from the prior year (2020: \$4.8 million). The notable increase in revenue and expenditure from the prior year was attributed to the major events held during the 2021 financial year (such as Parrtjima, BASSINTHEGRASS, and the Supercar Championship) that were not held in the previous financial year due to restrictions imposed in response to the COVID-19 pandemic.

As at 30 June 2021, the net assets of the Company were \$1.9 million (2020: \$1.6 million), including:

- Cash and cash equivalents of \$23.5 million (2020: \$14.1 million);
- Trade and other receivables and prepayments of \$0.7 million (2020: \$4.0 million); and
- Property, plant and equipment of \$0.4 million (2020: \$0.5 million); offset by
- Trade and other payables of \$6.9 million (2020: \$1.2 million); and
- Income received in advance of \$15.8 million (2020: \$15.8 million).

Northern Territory Major Events Company Pty Ltd cont...

Cash and cash equivalents increased from \$14.1 million in 2020 to 23.5 million in 2021 due to funding received in advance for events to be held in 2022 and a transfer to the operating account of \$2 million from a term deposit that was recognised in 'other financial assets' in 2020. Prepayments decreased from \$1.2 million in 2020 to \$0.1 million in 2021. Prepaid artists' fees were fully impaired as at 30 June 2021 by management in response to uncertainty of events occurring during the COVID-19 pandemic.

Trade and other payables increased from \$1.2 million in 2020 to \$6.9 million in 2021 reflecting an increased number of events being organised during June 2021.

Impact of the COVID-19 pandemic

Prepayments of \$0.8 million relating to deferred and cancelled events have been disclosed in the Company's financial statements as impaired. The Company has negotiated with suppliers to postpone delivery of their services to events that will be held in the future. Due to the uncertainty surrounding the response to the COVID-19 pandemic impact, and the high probability of events being cancelled at short notice, prepayments intended to be realised in the year ending 30 June 2022 have been fully impaired.

Northern Territory Major Events Company Pty Ltd cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Government grants	30,380	23,006
Interest	240	584
Other	6,357	510
Total income	36,977	24,100
Expenditure		
Employee expenses	(4,600)	(4,753)
Depreciation	(105)	(115)
Other	(31,960)	(19,087)
Total expenditure	(36,665)	(23,955)
Surplus before income tax expense	312	145
Income tax expense	-	-
Surplus after income tax expense	312	145
Unrealised foreign currency gain/(loss)	-	(2)
Dividends paid or provided for ⁽¹⁾	-	-
Net surplus	312	143

⁽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

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	23,497	14,078
Receivables and other current assets	663	4,002
Less current liabilities	(22,649)	(16,986)
Working capital	1,511	1,094
Add non-current assets	346	451
Less non-current liabilities	-	-
Net assets	1,857	1,545
Represented by:		
Event reserve	628	431
Retained profits	1,229	1,114
Equity	1,857	1,545

Northern Territory Treasury Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 Advisory 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 2021.

Audit Opinion

The audit of the Northern Territory Treasury Corporation for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 24 September 2021.

Audit Observations

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

Performance Overview

The financial year ended 30 June 2021 saw a reduced surplus driven by a decrease in net interest. The average interest rate on outstanding borrowings reduced to 3.21% in 2021 from 3.58% in 2020 as new borrowings were at rates lower than the 2020 average rate. There was a similar reduction in the average interest rate on outstanding loans from 4.42% in 2020 to 3.97% in 2021.

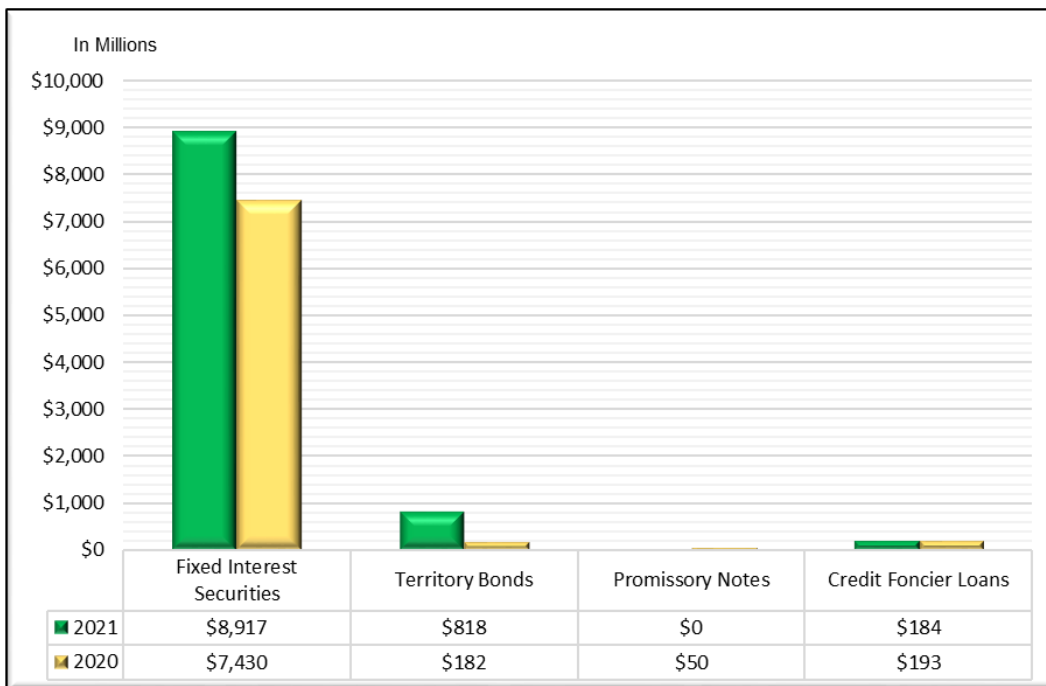
The Northern Territory Government Budget for 2020-21, handed down by the Treasurer in November 2020, estimated that the Northern Territory would need to borrow an additional \$1.68 billion. Of the amount, \$708 million was prefunded in May – June 2020.

By March 2021, the Corporation achieved its 2020-21 borrowing requirements. This was largely attributed to the issuance of a new \$650 million bond series undertaken in March 2021 (to 21 May 2032). A further \$350 million resulted from tap increases of the bond series (to 21 April 2033) undertaken in September and November 2020, taking the outstanding amount in this series from \$400 million as at 30 June 2020 to \$750 million. In addition, a combined \$125 million was issued into the 21 November 2042 bond series in October 2020, increasing the series balance to \$410 million from \$285 million as at 30 June 2020.

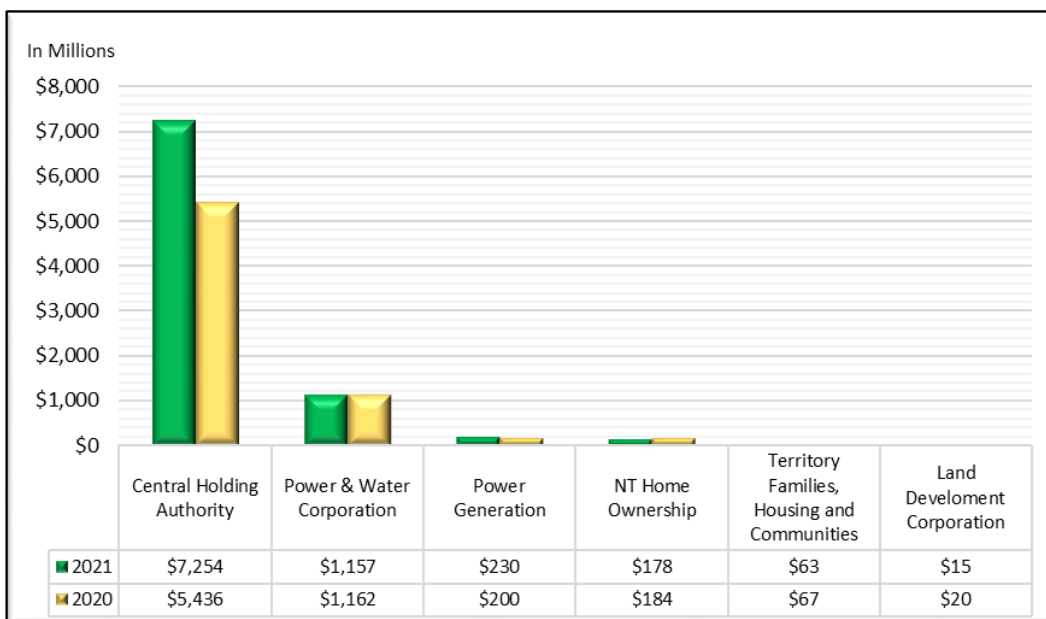
Northern Territory Treasury Corporation cont...

In terms of retail borrowing activity, the Corporation raised \$685 million in 2020-21 from Territory Bonds. This approximated a third of the borrowing program. Given the level of retail borrowings undertaken, the Corporation did not need to issue any Promissory Notes during the financial year. The Promissory Notes carried forward from the previous year were settled upon maturity.

In the June 2021 quarter, the Corporation committed to pre-fund part of the 2021-22 borrowing program, by raising a further \$870 million, taking the total borrowing program during the 2020-21 financial year to slightly above \$2 billion. Total outstanding issued debt as at 30 June 2021 was \$9.9 billion compared to \$7.9 billion as at 30 June 2020. Outstanding borrowing balances at 30 June 2021 are presented in the chart below.



In line with the increase in borrowings, the loan portfolio also increased by \$1.83 billion at 30 June 2021 (\$1.12 billion in 2020). These loans are presented in the chart below.



Northern Territory Treasury Corporation cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Interest	317,262	288,006
Other	822	822
Total income	318,084	288,828
Expenditure		
Interest	(284,568)	(246,785)
Administration	(1,856)	(2,062)
Total expenditure	(286,424)	(248,847)
Surplus before income tax expense	31,660	39,981
Income tax expense	(9,498)	(11,994)
Surplus after income tax expense	22,162	27,987
Dividends	(22,162)	(27,987)
Net surplus	-	-

Northern Territory Treasury Corporation cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Total assets	10,039,274	7,976,070
Less total liabilities	(10,017,643)	(7,954,439)
Net assets	21,631	21,631
Represented by:		
Contributed capital	21,631	21,631
Equity	21,631	21,631

NT Build

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 2021.

Audit Opinion

The audit of NT Build for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 25 October 2021.

The audit opinion, while unmodified, did include the following emphasis of matter paragraph:

“Emphasis of matter

I draw attention to Note 12(b) and (c) to the financial statements which describes the uncertainty related to the Long Service Leave liability valuation as carried out on 3 August 2021. My opinion is not modified in respect of this matter.”

Audit Observations

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

Performance Overview

Uncertainties related to the Long Service Leave liability

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 noted that the estimate of unreported service credits may be inaccurate. The service credit total for the first six months of the 2021 financial year is an extrapolation of past reporting patterns, introducing moderate uncertainty in this element. Any error in the 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 \$11.8 million compared to the prior year's surplus of \$18.8 million. Total income of \$19.3 million in the 2021 financial year declined by \$4.4 million from the prior year (\$23.7 million). Levy income received in the 2020 financial year in relation to the Inpex Project was \$19.5 million. There was no equivalent size project remitting levies in the 2021 financial year. Reciprocal income also decreased by \$2.4 million. The gain on equity valuation of \$11.0 million (2020: loss of \$6.0 million) partially offset the impacts associated with these reduced income sources.

Total expenses of \$7.5 million increased by \$2.6 million from the prior year (\$4.9 million) primarily due to the net effect of the decrease in long service leave benefit payments from \$10.8 million in the prior year to \$5.6 million in the current year and the downward revaluation of long service leave of \$0.3 million compared to the prior year gain of \$7.5 million.

The net asset position of NT Build remains strong despite concerns that levy contributions and revenue earned from investments are not sufficient to meet long service leave payments in the longer term. The net asset position as at 30 June 2021 was \$54.1 million (2020: \$42.3 million).

NT Build cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Contributions from levy payers	2,814	21,614
Movement in equity investments	11,017	(6,015)
Investment income	4,120	4,459
Reciprocal income	1,103	3,472
Other	255	204
Total income	19,309	23,734
Expenditure		
Employee expenses	(895)	(1,003)
Occupancy costs	(26)	(26)
Depreciation and amortisation	(164)	(153)
Fees and allowances	(36)	(40)
Long service leave benefit payment	(5,624)	(10,767)
Long service scheme revaluation – current	(288)	7,524
Other	(434)	(474)
Total expenditure	(7,467)	(4,939)
Surplus	11,842	18,795

NT Build cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	8,132	1,012
Receivables and other current assets	100,989	95,879
Less current liabilities	(13,182)	(11,269)
Working capital	95,939	85,622
Add non-current assets	607	771
Less non-current liabilities	(42,443)	(44,133)
Net assets	54,103	42,260
Represented by:		
Implementation funding	297	297
Accumulated surplus	53,806	41,963
Equity	54,103	42,260

NT Fleet

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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.

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 2021.

Audit Opinion

The audit of NT Fleet for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 27 September 2021.

Audit Observations

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

Performance Overview

NT Fleet produced a net surplus before tax of \$8.4 million for the year ended 30 June 2021, \$3.6 million more than the prior year's surplus of \$4.8 million.

- Total income of \$40.3 million (2020: \$36.5 million) increased from the prior year by \$3.8 million due to higher gains on disposal of assets caused by increased levels of disposals in the 2021 financial year in conjunction with a higher demand for second-hand vehicles in the Northern Territory.
- Total expenses of \$31.9 million (2020: \$31.7 million) increased from the prior year by \$0.2 million. The increased expenditure represents an increase in employee expenses which has been partially offset by the reduction in purchases of goods and services during the year.

NT Fleet will pay an income tax equivalent of \$2.5 million (2020: \$1.5 million) and return a dividend of \$2.9 million (2020: \$1.7 million) to the NT Government for the year ended 30 June 2021.

NT Fleet cont...

NT Fleet continues to maintain a strong net asset position. As at 30 June 2021, the net asset position of NT Fleet was \$127.3 million (2020: \$124.4 million), comprising:

- cash and deposits of \$39.4 million;
- receivables and prepayments of \$1.4 million and \$0.2 million respectively;
- assets held for sale of \$0.7 million; and
- property, plant and equipment and intangibles of \$92.4 million; offset by
- payables and deferred revenue totalling \$0.7 million;
- employee and other provisions of \$0.3 million;
- lease liabilities of \$0.4 million; and
- tax payable of \$2.5 million and a dividend payable of \$2.9 million.

NT Fleet cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Revenue from vehicle lease rentals	34,745	34,454
Gain on disposal of assets	5,332	1,742
Other revenues	187	337
Total income	40,264	36,533
Expenditure		
Operational costs	(12,743)	(12,929)
Employee expenses	(2,090)	(1,732)
Depreciation and amortisation	(17,050)	(17,032)
Total expenditure	(31,883)	(31,693)
Surplus before income tax expense	8,381	4,840
Income tax expense	(2,514)	(1,452)
Surplus after income tax expense	5,867	3,388
Dividends	(2,933)	(1,694)
Net surplus	2,934	1,694

NT Fleet cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	39,406	34,759
Receivables and other current assets	2,361	2,428
Less current liabilities	(6,706)	(4,924)
Working capital	35,061	32,263
Add non-current assets	92,436	92,518
Less non-current liabilities	(200)	(418)
Net assets	127,297	124,363
Represented by:		
Accumulated funds	126,732	123,798
Capital	565	565
Equity	127,297	124,363

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 Home Ownership

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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.

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 2021.

Audit Opinion

The audit of NT Home Ownership for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 29 September 2021.

Audit Observations

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

Performance Overview

NT Home Ownership recorded a net surplus before tax of \$1.4 million for the year ended 30 June 2021 (2020: \$5.2 million deficit), with carried forward losses being applied to eliminate any taxable income.

Total revenue of \$11.1 million (2020: \$10.7 million) has increased from the prior year due to the revaluation gain resulting from the recovering Northern Territory property market. Interest rates continue to be low, demonstrated by the declining interest revenue. Community service obligation funding, received from the NT government, remained consistent with the prior year at \$3.41 million. NT Home Ownership can apply for community service obligation funding where it is obligated to carry out activities which it would not elect to do on a commercial basis.

Total expenditure of \$9.8 million (2020: \$15.9 million) decreased from the prior year reflecting lower interest expenditure, a gain on the revaluation of shared equity investments compared to a revaluation loss in the prior year and reduction in the provision for impaired loans following reassessment of factors affecting the loan portfolio as at 30 June 2021.

NT Home Ownership continues to maintain a strong net asset position at 30 June 2021 of \$9.2 million (2020: \$7.8 million).

NT Home Ownership cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Sales of goods and services	3	3
Interest revenue	6,639	7,330
Community service obligations	3,414	3,414
Other income	1,087	-
Total income	11,143	10,747
Expenditure		
Employee expenses	(244)	(244)
Administration fees	(2,149)	(2,111)
Borrowing costs	(7,859)	(8,323)
Loss on revaluation of investments	-	(3,011)
Loss on disposal of investments	-	(257)
Write-offs and impairment expense	638	(1,779)
Other expenses	(139)	(217)
Total expenditure	(9,753)	(15,942)
Deficit before income tax expense	1,391*	(5,195)
Income tax expense	-	-
Deficit after income tax expense	1,391*	(5,195)

* Rounding

NT Home Ownership cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	11,528	7,013
Receivables and other current assets	3,472	3,371
Less current liabilities	(7,241)	(7,003)
Working Capital	7,759	3,381
Add non-current assets	172,269	182,084
Less non-current liabilities	(170,815)	(177,643)
Net Assets	9,213	7,822
Represented by:		
Accumulated funds	(13,532)	(14,923)
Capital	22,745	22,745
Equity	9,213	7,822

Power and Water Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 2021.

Audit Opinion

The audit of the Power and Water Corporation for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 30 September 2021.

The audit opinion, while unmodified, did include the following emphasis of matter paragraph:

“Emphasis of Matter

I draw attention to Notes 2.3(b), 2.3(l), 2.5 and 14 of the financial report, which describe the key sources of estimation uncertainty associated with measurement of the fair value of property, plant and equipment and the sensitivity associated with assumptions underlying the asset valuation approaches including the significance of the impacts on carrying values when assumptions are adjusted. My opinion is not modified in respect of these matters.”

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 \$34.5 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.

Power and Water Corporation cont...

Valuation of Property, Plant and Equipment

Property, plant and equipment totalled \$2,336.5 million as at 30 June 2021.

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.

Provision for Onerous Contracts

The Corporation undertakes an annual assessment to determine the extent, if any, that the economic costs associated with some gas-related contracts are determined to outweigh the net present value (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 may result in the Corporation recognising, adjusting or derecognising a provision for onerous contracts at each reporting date. As at 30 June 2021, no provision for onerous contract has been determined or reported.

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 \$145.3 million as at 30 June 2021.

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.

Audit Observations

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

Impact of Estimated Balances

The net results of the Corporation have fluctuated significantly over past years which may impede the ability of a user of the financial statements to ascertain whether the Corporation's underlying performance is stable, improving or worsening. The fluctuations are, for the most part, attributable to movements in estimated values which can be significantly impacted by small or large changes to assumptions.

Examples of factors that can lead to material financial changes in balances include:

- timing of investment in capital projects;
- changes to project and enterprise risk;
- changes in the weighted average cost of capital;
- likelihood and certainty of future revenue opportunities and future cash flows;
- condition and life of assets;
- impairment of assets; and
- availability of finance.

Power and Water Corporation cont...

The quantitative materiality of changes to estimated balances demonstrates the need for the Corporation to:

- robustly challenge the assumptions and data used in modelling of gas-related transactions, enterprise value and expected credit losses;
- apply and test sensitivity analysis; and
- report and explain the causes behind significant movements.

The impacts resulting from changes to estimated values is demonstrated below.

	2017	2018	2019	2020	2021
	\$'000	\$'000	\$'000	\$'000	\$'000
Profit/(loss) before tax	2,451	10,257	(119,984)	212,919	(7,786)
Impact of impairment of non-current assets and onerous contract provisions	(54,867)	(20,316)	(156,166)	217,458	(1,940)
Profit/(loss) excluding impact	57,318	30,573	36,182	(4,539)	(5,846)

Performance Overview

The Corporation's income decreased by \$27.3 million compared to the prior year. The decrease was primarily attributable to lower revenues from electricity distribution and water services by approximately \$30.0 million.

In the year ended 30 June 2021, the impairment provision recognised in the financial statements was \$1.9 million, whereas in the prior year, the reversal of the onerous contract provision (\$66.7 million), banked gas impairment provision (\$95.4 million) and previous write downs of infrastructure assets (\$57.1 million), with an offsetting impairment of property, plant and equipment of \$1.8 million resulted in a \$217.4 million reduction in expenses. The movement between these expense line items resulted in a variance of (\$219.4 million) between the two years.

Excluding the effects from the impairment of non-current assets and the provision for onerous contracts, expenses of \$519.4 million for the year ended 30 June 2021 decreased by \$16.9 million from \$534.3 million reported for the prior year.

Unfavourable expense variances were associated with repairs and maintenance (\$9.3 million) and energy and material (\$0.8 million). Employee benefits expense of \$87.3 million (2020: \$100.7 million) does not include the employee costs directly attributable to projects and capitalised to work in progress. 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

	2021	2020
	\$'000	\$'000
Income		
Revenue from contracts with customers	659,625	689,236
Finance revenue	2,100	2,347
Other	39,173	36,567
Total income	700,898	728,150
Expenditure		
Raw materials and consumables used	(280,588)	(279,770)
Finance costs	(56,799)	(61,439)
Repairs and maintenance expenses	(58,361)	(48,997)
Employee expenses	(87,291)	(100,693)
External service agreements	(35,943)	(40,862)
Depreciation and amortisation	(132,504)	(136,958)
Impairment of non-current assets and onerous contract provisions	(1,940)	217,458
Net loss on disposal of property, plant and equipment	(1,884)	(2,407)
Other expenditure	(53,374)	(61,563)
Total expenditure	(708,684)	(515,231)
Profit/(loss) before income tax expense	(7,786)	212,919
Income tax (expense)/benefit	631	(68,253)
Profit/(loss) after income tax expense	(7,155)	144,666
Dividends paid or provided for ⁽¹⁾	(1,000)	(9,640)
Net profit/(loss) after dividends	(8,155)	135,026

⁽¹⁾ Since the end of the financial year, the Directors have declared a dividend of \$2.0 million (2020: \$1.0 million).

Power and Water Corporation cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	81,947	67,246
Receivables and other current assets	163,181	132,075
Less current liabilities	(389,130)	(457,819)
Working capital	(144,002)	(258,498)
Add non-current assets	2,824,654	2,805,318
Less non-current liabilities	(1,442,553)	(1,369,738)
Net assets	1,238,099	1,177,082
Represented by:		
Retained profits	645,428	653,018
Contributed equity	74,336	54,336
Asset revaluation reserve	518,335	469,728
Equity	1,238,099	1,177,082

Indigenous Essential Services Pty Ltd

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 (PWC). PWC is a Government Owned Corporation pursuant to the Northern Territory's *Government Owned Corporations Act 2001*.

PWC 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 2021.

Audit Opinion

The audit of Indigenous Essential Services Pty Ltd for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 30 September 2021.

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 \$2.35 million during the year ended 30 June 2020 and, as of that date, the Company's current liabilities exceeded its current assets by \$1.4 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.

Performance Overview

The Company is a wholly owned and controlled subsidiary of PWC and under current structural arrangements, is fully reliant on PWC for the provision of personnel, systems, policies, processes, controls and management decisions about day to day activities.

I have previously highlighted the importance of recognising the Company as a separate legal entity, including the challenges of remote operations and governance issues, such as the implications of not complying with the *Corporations Act 2001*. The Company remains reliant on the reports that are generated by PWC from its systems for decision making purposes.

Indigenous Essential Services Pty Ltd cont...

Working capital deficit

Significant financial measures reported by the Company over the past two financial years are presented below.

	2021	2020
	\$'000	\$'000
Net deficit	(23,491)	(27,753)
Add back depreciation and amortisation	61,714	67,465
Net surplus before depreciation	38,223	39,712
Total current assets	81,887	60,552
Total current liabilities	(83,278)	(68,590)
Working capital deficit	(1,391)	(8,038)

A letter of financial support was provided by PWC to the Company. Notwithstanding the letter of support, the working capital deficit position in the current year continues to highlight ongoing risks to the ability of the Company to pay its debts and meet its obligations as and when they fall due.

Indigenous Essential Services Pty Ltd cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Revenue from contracts with customers	43,146	43,199
Grants – recurrent	48,577	56,235
Grants – capital	33,959	39,930
Other capital contributions	438	171
Other revenues	78	374
Total income	126,198	139,909
Expenditure		
Raw materials and consumables	(26,918)	(35,006)
Contract labour expenses	(15,029)	(16,784)
Repairs and maintenance	(15,702)	(15,572)
Corporate allocation costs	(5,850)	(5,706)
Agents – community contract fees	(12,839)	(12,670)
Depreciation and amortisation	(61,715)	(67,465)
Finance costs	(2,511)	(2,548)
Other costs	(9,125)	(11,911)
Total expenditure	(149,689)	(167,662)
Deficit	(23,491)	(27,753)

Indigenous Essential Services Pty Ltd cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	66,720	56,325
Receivables and other current assets	15,168	4,227
Less current liabilities	(83,278)	(68,590)
Working capital	(1,390)	(8,038)
Add non-current assets	711,452	742,908
Less non-current liabilities	(64,318)	(65,635)
Net assets	645,744	669,235
Represented by:		
Accumulated funds	166,824	188,048
Asset revaluation reserve	478,920	481,187
Equity	645,744	669,235

Power Generation Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 2021.

Audit Opinion

The audit of the Power Generation Corporation for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 28 September 2021.

Key Audit Matters

Property, Plant and Equipment

Property, plant and equipment totalling \$324.4 million represents a significant balance. The net asset impairment reversal of \$0.74 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 utilisation and useful life of each asset can change significantly as a result of technical innovations or other events.

Decommissioning Provision

A provision of \$5.901 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

A deferred tax asset of \$219.73 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 \$18.37 million represents an estimate of the value of electricity generated and sent out but not billed as at 30 June 2021. Management's estimate is based upon information provided by the market operator.

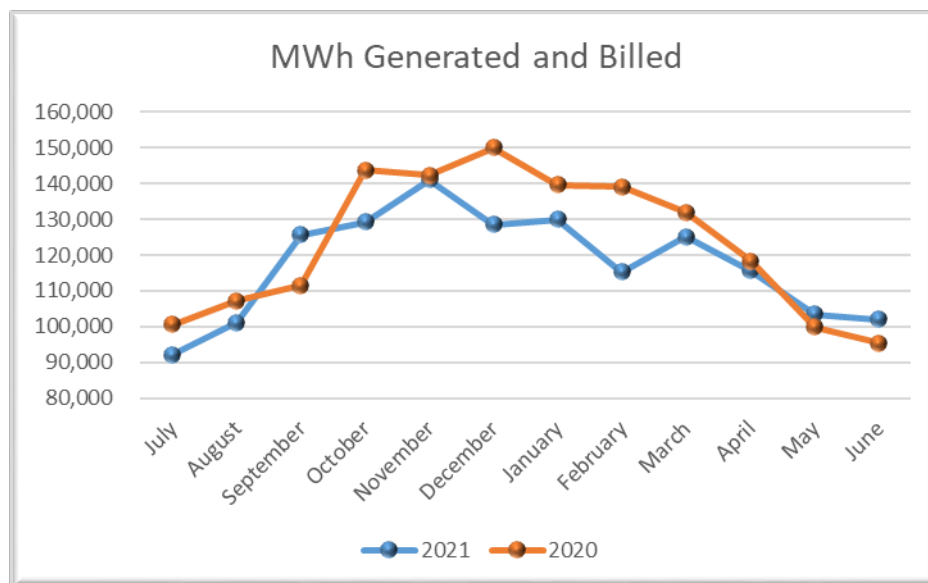
Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

For the year ended 30 June 2021, the Corporation recognised a net profit of \$10.86 million compared to a net profit of \$7.90 million for the year ended 30 June 2020.

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 economic climate where population growth was slow during the financial year. These factors continued to impact the Corporation's energy sales resulting in a 4.8% (2020: 6.5%) 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 of 4.99% when compared to previous year's average selling price.

Overall, the Corporation's electricity sales amounted to \$261.56 million (2020: \$261.45 million).

The Corporation's directors declared and paid a dividend of \$3.95 million and have declared a dividend of \$5.43 million to be paid during the financial year ending 30 June 2022.

Power Generation Corporation cont...

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.

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

The Corporation generated positive net cash inflows from its operating activities in both the 2021 and 2020 financial years and working capital has improved significantly from the previous year. The Corporation received additional financing requirements through its new \$30 million borrowing from Northern Territory Treasury Corporation which helped fund its operations and capital expenditure.

Whilst to date, the implementation of strategic initiatives to reduce and manage costs have enabled the Corporation's operations to remain financially sustainable, 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

	2021	2020
	\$'000	\$'000
Income		
Electricity sales	261,563	261,453
Deferred grant income	3,333	3,333
Interest revenue	105	248
Other revenue	3,988	2,243
Total income	268,989	267,277
Expenditure		
Cost of energy	(214,601)	(216,795)
Administrative expenses	(27,837)	(28,145)
Finance costs	(7,114)	(8,119)
Impairment reversal/(expense)	(74)	98
Other expenses	(3,873)	(2,908)
Total expenditure	(253,499)	(255,869)
Profit before income tax expense	15,490	11,408
Income tax expense	(4,632)	(3,509)
Profit after income tax expense	10,858	7,899
Dividends paid or provided for ⁽¹⁾	(3,950)	(4,246)
Net profit after dividends	6,908	3,653

⁽¹⁾ Since the end of the financial year, the directors have declared a dividend of \$5.43 million (2020: \$3.95 million).

Power Generation Corporation cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	58,567	45,541
Receivables and other current assets	58,889	51,769
Less current liabilities	(45,149)	(41,962)
Working Capital	72,307	55,348
Add non-current assets	344,125	325,979
Less non-current liabilities	(279,159)	(250,964)
Net Assets	137,273	130,363
Represented by:		
Retained earnings/(deficit)	(76,427)	(83,337)
Reserves	107	107
Contributed equity	213,593	213,593
Equity	137,273	130,363

Power Retail Corporation

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 2021.

Audit Opinion

The audit of the Power Retail Corporation for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 30 September 2021.

Key Audit Matters

Unbilled Consumption

Revenue from sale of goods includes estimated values for unbilled revenue from electricity totalling \$41.0 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 \$9.2 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.

Audit Observations

The audit did not identify any material weaknesses in controls.

Performance Overview

Mitigation of risks associated with reliance on third party information

The Statement of Corporate Intent (SCI) relevant to the year ended 30 June 2021 was approved by the former Treasurer on 29 July 2020 and could not have reasonably assessed and addressed the range of likely impacts of COVID-19.

Power Retail Corporation cont...

As evidenced in the SCI, Community service obligation funding of \$75.14 million was 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 COVID-19 and confirmed that, once the impact of COVID-19 was fully assessed, the Treasurer will consider providing financial support, if required, to ensure the Corporation's ability to meet its financial obligations as and when they fall due.

Discussions between the Corporation and the Northern Territory Department of Treasury and Finance prior to and immediately after the end of the financial year resulted in additional community service obligation funding being approved in addition to funding due as a result of the Business Hardship Program delivered by the Northern Territory Government.

The Corporation necessarily places significant reliance on the network service provider to provide accurate and complete information relating to network charges and metering data. The year ended 30 June 2021 saw the Corporation being invoiced for \$2.1 million by the network service provider related to prior period errors in the billing process. The previous financial year was similarly impacted with receipt of charges previously unbilled amounting to \$3.3 million.

Whilst I appreciate there may be limited opportunity for the Corporation to influence the arrangements between itself, NT funding arrangements and the network service provider, I encourage management to consider what action could be taken to obtain assurance over the validity, accuracy and completeness of transactions in addition to scrutinising the information it receives.

Financial sustainability

The Corporation's SCI 2020-21 forecast net profits after tax of \$1.1 million for this financial year and net profits after tax in excess of \$1.3 million for the next three financial years (i.e. 2022, 2023 and 2024).

The result before tax for the financial year ended 30 June 2021 was a loss of \$0.13 million. I recognise that, in the absence of billing adjustments resulting from calculation errors from the network service provider, the 30 June 2021 result would have been a pre-tax surplus of approximately \$1.9 million and the 30 June 2020 result would have been a pre-tax surplus of approximately \$1.2 million. Comparison of the actual revenue and expenditure to that forecast in the SCI demonstrates that whilst revenue for 2021 was higher than the 2021 budget for both electricity revenue and community service obligation funding, actual energy costs exceeded budgeted energy costs by more than the variance in revenue. Together with the rigorous review of external drivers of revenue, close monitoring and management of expenditure will be required to ensure the ongoing financial sustainability of the Corporation.

Power Retail Corporation cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Sale of goods	389,335	396,655
Community service obligations	90,041	91,938
Interest revenue	76	266
Other income	2,911	3,788
Total income	482,363	492,647
Expenditure		
Energy cost of sales	(463,818)	(470,815)
Depreciation	(1,476)	(3,178)
Employee expenses	(9,495)	(9,580)
External service agreements	(955)	(1,310)
Other expenses	(6,798)	(9,857)
Total expenditure	(482,542)	(494,740)
Profit/(loss) before income tax expense	(179)	(2,093)
Income tax benefit/(expense)	54	627
Profit/(loss) after income tax expense	(125)	(1,466)
Dividends paid or provided for ⁽¹⁾	-	(2,519)
Net loss after dividends	(125)	(3,985)

⁽¹⁾ Directors have not recommended declaration of a dividend since the end of the financial year (2020: nil).

Power Retail Corporation cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	21,518	39,391
Receivables and other current assets	99,213	78,523
Less current liabilities	(75,739)	(73,402)
Working capital	44,992	44,512
Add non-current assets	9,923	8,549
Less non-current liabilities	(4,955)	(2,976)
Net assets	49,960	50,085
Represented by:		
Accumulated funds	2,294	2,419
Capital	47,666	47,666
Equity	49,960	50,085

Power Retail Corporation cont...

Power Retail Corporation has commented:

Jacana Energy now has monthly reconciliations of network charges and billed amounts to obtain assurance over the validity, accuracy and completeness of information received from Power Water Corporation (PWC). Further, a revised agreement is now in place with PWC to ensure that any back-billing of network charges is limited to a 9 month period.

Territory Wildlife Parks

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

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 Security.

Scope and Objectives

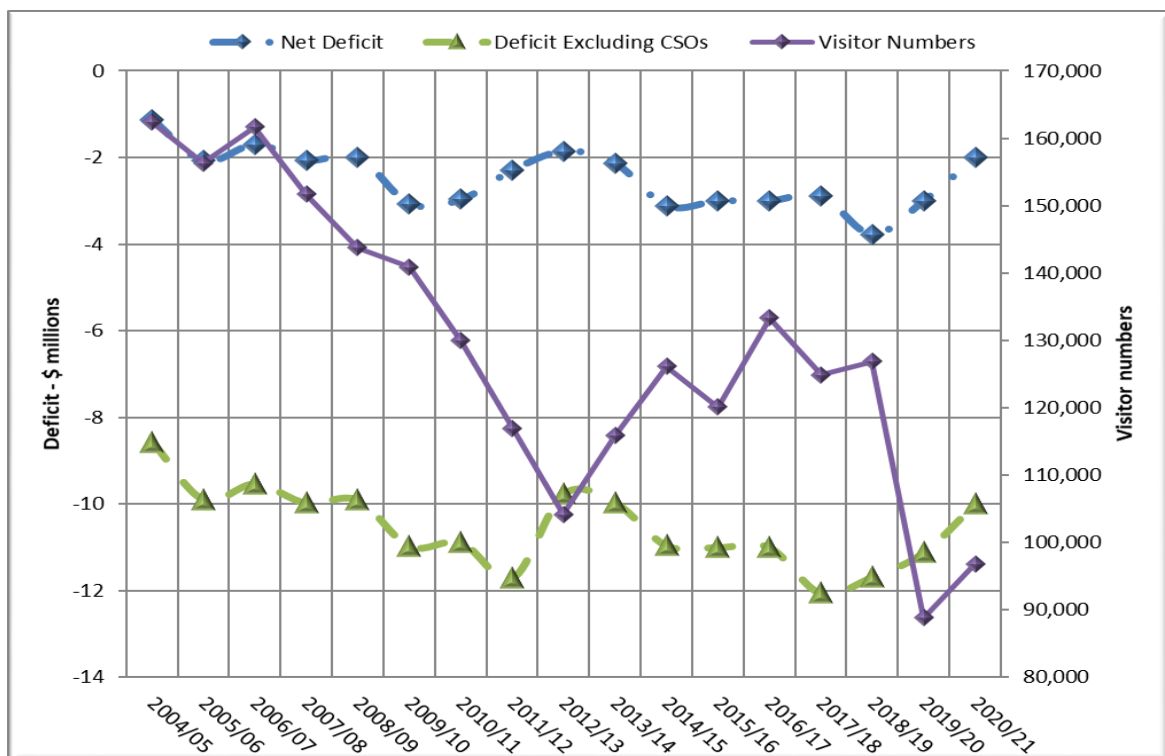
The objective of the audit was to complete sufficient audit procedures to enable an opinion to be expressed upon the financial statements of Territory Wildlife Parks for the year ended 30 June 2021.

Audit Opinion

The audit of Territory Wildlife Parks for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 30 September 2021.

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
2020/2021	(2,159)	7,676	(9,835)	96,800

Employee expenses are understated in Budget Paper No. 3.

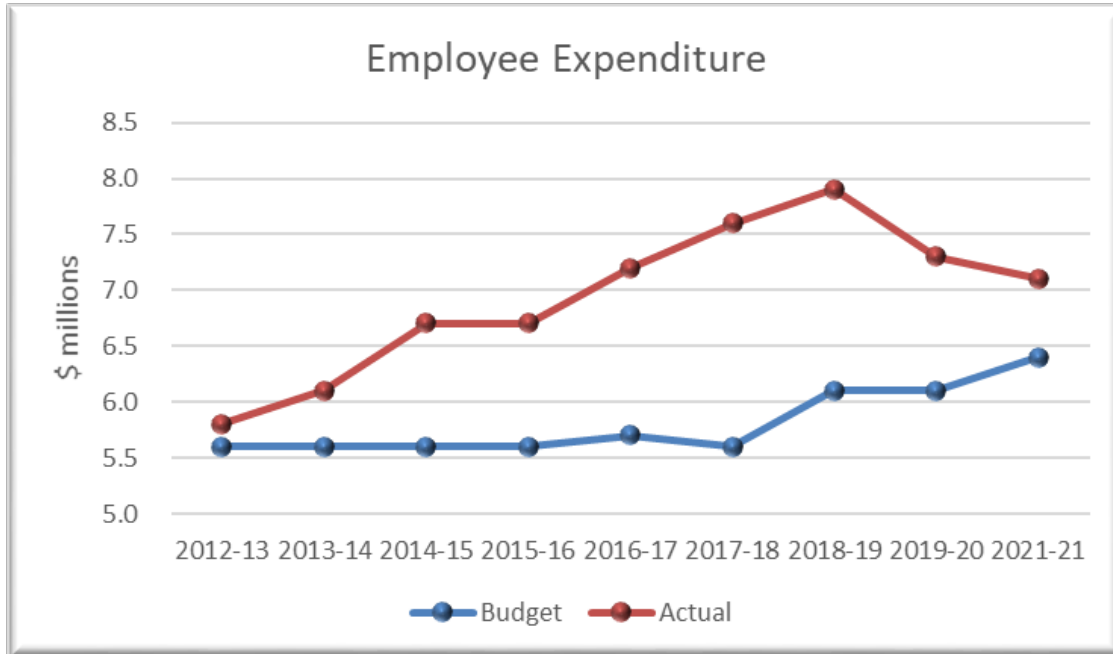
Within the Territory Wildlife Park's financial statements, Note 28 – Budgetary Information states that the actual employee expenses for the year ended 30 June 2021 were \$7,072 thousand with the original budget being \$6,427 thousand. The explanation provided by Territory Wildlife Parks was "Accumulated unfunded wage increases". The same explanation was provided for the prior year's difference.

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 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-source 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 \$2.2 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 be 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:

“The budget recommendation is not accepted.

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 non-commercial NTPS fixed pay rises each year, would require a corresponding increase in revenue. By doing this, 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

In the financial year ended 30 June 2021, visitor numbers showed signs of recovering with an increase of 8,000 (9%) visitors to 96,800 (2020: 88,800). This is after a decrease in visitor numbers of 38,056 (30%) in the previous financial year predominantly due to the impact of the COVID-19 pandemic.

Sales of goods and services increased by \$115,000 (5%) from the prior year reflecting the recovering visitor numbers.

Operating losses

Territory Wildlife Parks incurred an operating loss of \$2.2 million this year (2020: \$3.5 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 2021, total current liabilities of \$1.4 million (2020: \$1.5 million) exceeded total current assets of \$1.0 million (2020: \$0.9 million). This resulted in negative working capital as at 30 June 2021 of \$0.4 million (2020: \$0.6 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 recorded net cash from operating activities of \$0.2 million in 2021 following negative cash flows from operating activities over the past few years.

Negative cash flows from operating activities are considered an indicator that an entity does not have sufficient cash to cover operational expenses which casts further doubt in relation to the applicability of the going concern assumption.

Territory Wildlife Parks cont...

Financial Performance for the year

	2021	2020
	\$'000	\$'000
Income		
Community Service Obligations	7,676	7,660
Sales of goods and services	2,353	2,238
Other revenues	1,013	213
Total income	11,042	10,111
Expenditure		
Employee expenses	(7,072)	(7,321)
Depreciation and amortisation	(2,518)	(2,385)
Repairs and maintenance	(434)	(513)
Other expenses	(3,177)	(3,356)
Total expenditure	(13,201)	(13,575)
Deficit	(2,159)	(3,464)

Territory Wildlife Parks cont...

Financial Position at year end

	2021	2020
	\$'000	\$'000
Cash and cash equivalents	754	759
Receivables and other current assets	215	115
Less current liabilities	(1,420)	(1,507)
Working Capital	(451)	(633)
Add non-current assets	34,963	36,779
Less non-current liabilities	(554)	(505)
Net Assets	33,958	35,641
Represented by:		
Accumulated losses	(39,271)	(37,112)
Contributed equity	34,533	34,057
Asset revaluation reserve	38,696	38,696
Equity	33,958	35,641

Top End Health Service

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

Background

The Top End Health Service (the 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 Health Service to be a Government Business Division for the purposes of the *Financial Management Act 1995*.

The Health Service comprised 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.

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 2021.

Audit Opinion

The audit of the Top End Health Service for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 29 September 2021.

The audit opinion, while unmodified, did include the following emphasis of matter paragraphs:

“Emphasis of matter – Restatement of comparative balances

I draw attention to Note 30 to the financial statements, which states that the amounts reported in the previously issued financial statements for the year ended 30 June 2020 have been restated and disclosed as comparatives in the financial report. My opinion is not modified in respect of these matters.

Emphasis of matter – Restructure of health services

I draw attention to Note 27 to the financial statements, which states that Top End Health Service was restructured under the Health Services Act 2021 which came into effect on 1 July 2021 and has resulted in all functions of Top End Health Service transferring to the Northern Territory Department of Health. As a result, Top End Health Service will cease to exist as a reporting entity. As the functions of Top End Health Service will continue, the going concern basis of accounting has been applied as disclosed in Note 2b) to the financial statements. My opinion is not modified in respect of these matters.”

Top End Health Service cont...

Audit Observations

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

Going Concern

The *Health Services Act 2021* that came into force on 1 July 2021 has resulted in the Health Service transferring all functions to the Department of Health effective 1 July 2021. As a result, the 30 June 2021 financial statements are the last set of financial statements prepared for the Health Service as a reporting entity.

As the functions of the Health Service are being transferred rather than discontinued, the going concern assumption is still applicable, with no disclosures of discontinued operations.

An Emphasis of Matter paragraph has been included within my audit opinion in relation to the restructure.

Prior period restatements

Restatements have been made to the 2021 financial statements in relation to:

1. The incorrect recording of the 2020 revaluation of hospital assets. A prior period adjustment has been made reducing the carrying amount of hospital assets and the corresponding revaluation reserve.
2. A misapplication of the payroll tax exemption under the *Payroll Tax Act 2009*. The notices of assessment were finalised in July 2021 across the financial periods 2016-17 to 2019-20. On 11 August 2021, the Health Service obtained a waiver from the Treasurer and has considered this to be an adjusting subsequent event. Prior period errors have been reflected in the financial statements to increase payroll tax provision and reduce accumulated funds in the comparative financial results as at 30 June 2021. A reversing entry has been recorded in the 30 June 2021 financial year to increase other income and reverse payroll tax provisions.
3. CareFlight leases historically classified as operating leases were determined to be finance leases. An adjustment has been made to recognise right of use assets and lease liabilities.

Performance Overview

The Health Service incurred a net deficit of \$49.0 million for the year ended 30 June 2021. An analysis of the key impacts within the financial statements is discussed below.

Revenue

Total revenue for the Health Service increased by approximately \$119.6 million from the prior year.

The increase in revenue is largely due to an increase of \$43.9 million received as Commonwealth grants and activity-based funding and an increase of \$41.5 million from the Northern Territory Government.

Another significant contribution is the waiver of payroll taxes amounting to \$29.9 million.

Top End Health Service cont...

Expenditure

Total expenditure increased by approximately \$113.0 million from the prior year.

Payroll expenses increased by \$54.9 million due to an increase in the number of employees in order to meet delivery demands of the COVID-19 National Partnership Response.

Purchases of goods and services increased by \$41.7 million due to an increase in the purchase of medical supplies and agent service arrangements in response to COVID-19.

Grants and subsidies expenses increased by \$10.7 million due to an increase in aeromedical and ambulance services.

Assets

Total assets decreased by \$14.4 million from the 2020 financial year. The decrease reflected a decrease in the cash and deposits balance of \$11.0 million and a decrease in receivables of \$10.9 million, partially offset by an increase in inventories of \$7.4 million on hand to meet COVID-19 response requirements and mitigate supply risks.

Liabilities

Total liabilities decreased by \$9.8 million from the prior year. The decrease results from a reduction in lease liabilities of \$5.3 million and a decrease in provisions amounting to \$22.7 million as a result of payroll tax liabilities that were waived on 11 August 2021. These decreases were largely offset by an increase in payables of \$20.7 million as a result of an increase in cross border accrued expenses.

Equity

Equity for the Health Service decreased by \$4.6 million as result of the deficit of \$49.0 million offset by an increase in revaluation surplus of \$10.6 million and equity transfers in of \$33.9 million.

Top End Health Service cont...

Financial Performance for the year

	2021	2020
	\$'000	Restated \$'000
Income		
Current grants and subsidies	723,020	641,699
Sales of goods and/or services	436,821	431,495
Other revenues	28,784	25,737
Reversal of payroll tax provision	29,908	-
Total income	1,218,533	1,098,931
Expenditure		
Employee expenses	(744,829)	(689,911)
Supplies and services	(382,079)	(340,418)
Depreciation and amortisation	(49,722)	(48,534)
Interest expense	(1,081)	(1,226)
Current grants and subsidies	(60,094)	(49,444)
Other expenses	(29,765)	(25,030)
Total expenditure	(1,267,570)	(1,154,563)
Deficit	(49,037)	(55,632)

Top End Health Service cont...

Financial Position at year end

	2021	2020 Restated
	\$'000	\$'000
Cash and cash equivalents	45,185	56,224
Receivables and other current assets	56,809	60,300
Less current liabilities	(219,228)	(222,571)
Working Capital	117,234	(106,047)
Add non-current assets	743,052	742,926
Less non-current liabilities	(45,720)	(52,190)
Net Assets	580,098	584,689
Represented by:		
Accumulated funds	(303,842)	(254,807)
Asset revaluation reserve	134,014	123,449
Capital	749,926	716,047
Equity	580,098	584,689

Treasurer’s Annual Financial Statement

Audit Findings and Analysis of the Financial Statements for the Year Ended 30 June 2021

Background

This report outlines the results of the audit of the Treasurer’s Annual Financial Statement (TAFS) for the year ended 30 June 2021. 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 Finance 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.

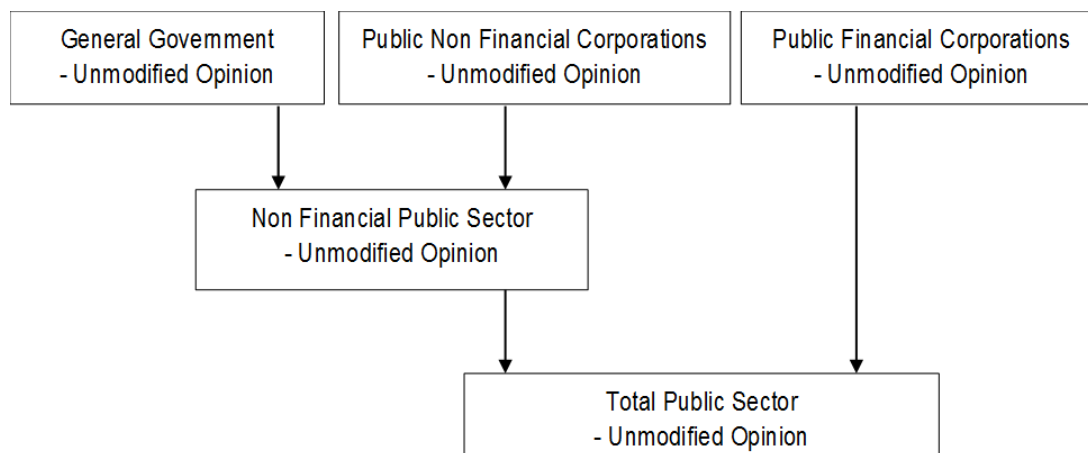
The TAFR provides information about the financial performance, financial position and cash flows of the Northern Territory Government (NTG) with the principal objectives of providing informative, comprehensive and clear information on financial outcomes. The Members of the Legislative Assembly represent 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
<i>Includes:</i>	<i>Comprises:</i>	<i>Comprises:</i>
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.	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.	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 – 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 – 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. Net debt equals the sum of deposits held, advances received, government securities, loans and other borrowings, less the sum of cash and deposits, advances paid and investments, loans and placements.

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 TAFS for the year ended 30 June 2021.

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 two paragraphs of my audit report detail 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 TAFS for the year ended 30 June 2021 resulted in an unmodified independent audit opinion, which was issued on 22 October 2021.

The audit opinion, while unmodified, did include the following emphasis of matter paragraphs:

“Emphasis of matter – Restatement of comparative balances

I draw attention to Note 1 (e) to the Financial Report, which states that the amounts reported in the previously issued financial statements for the year ended 30 June 2020 have been restated and disclosed as comparatives in the financial report. My opinion is not modified in respect of this matter.

Emphasis of matter – Short-term salary increment rate

I draw attention to Note 34 to the Financial Report, which states that, reflecting the Northern Territory Public Sector wages policy, a short-term salary increment rate of zero percent per annum has been applied to superannuation liabilities. My opinion is not modified in respect of this matter.”

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 seen as the most important sector of government, being the sector that is funded largely through taxation and also the sector that is responsible for the provision of those services that the community commonly associates with the role of government.

The financial performance of the General Government Sector, as measured by the Net Operating Balance, deteriorated during the year ended 30 June 2021 when compared to the prior year. The Net Operating Balance for the year ended 30 June 2021 was a deficit of \$832.5 million. The deficit was \$66.2 million higher than the restated deficit of \$766.3 million reported for the year ended 30 June 2020. Total revenues increased by \$241.1 million when compared to the previous year. Revenue sources contributing the largest increases were GST revenue (\$301.5 million), National Partnerships (\$113.4 million) and capital grants (\$55.2 million) offset by a decrease in other current grants (\$212.1 million), specific purpose payments (\$48.8 million) and dividends (\$32.7 million).

Whilst total revenues increased by \$241.1 million from the prior year, total expenses were \$307.3 million higher than the total (restated) expenditure for the prior year indicating further restraint is required in the current economic environment. The largest component of the increase in expenditure related to 'other expenses' that saw an increase of \$155.6 million of which \$138.6 million related to 'other operating expenses'. Significant increases were also seen in employee expenditure (\$136.6 million) and capital grants (\$57.2 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 \$1,154.9 million for the year ended 30 June 2021 was \$263.7 million larger than the restated deficit of \$891.2 million for the year ended 30 June 2020. The prior year saw a considerably lower investment in non financial assets. For the year ended 30 June 2021, the value of non financial assets increased largely due to the recognition of leased buildings valued at \$244 million. There were lower acquisitions of non financial assets which contributed to the overall movement of \$197.5 million in the net acquisition of non financial assets (2021: \$322.4 million, 2020: \$124.9 million).

The financial position of the General Government Sector, as measured by Net Debt, deteriorated by \$983.5 million for the year. The following significant changes are shown within the statement of financial position:

- an increase in borrowings of \$1,913.0 million;
- an increase in deposits held of \$246.7 million; offset by
- an increase in cash and deposits of \$1,149.2 million; and
- an increase in investments, loans and placements of \$17.1 million.

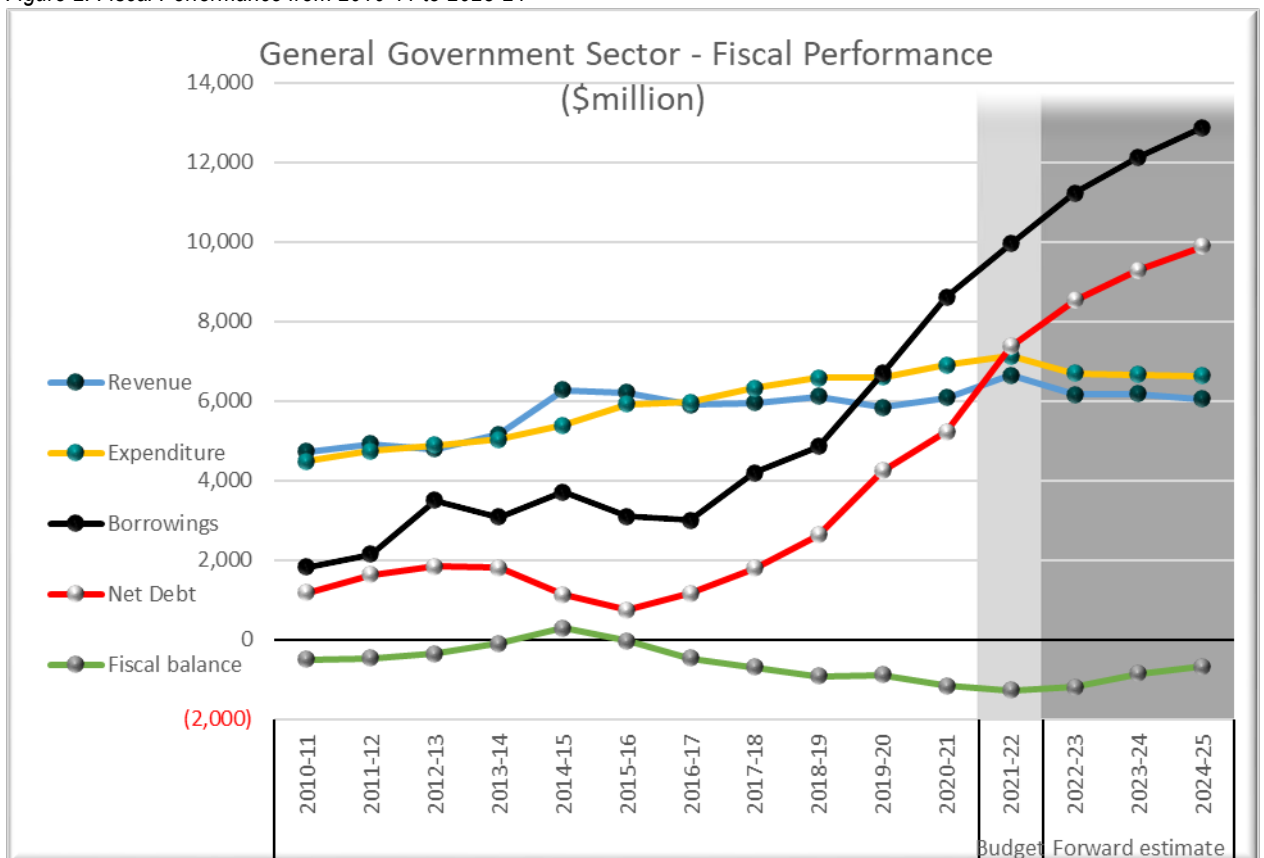
Treasurer’s Annual Financial Statement cont...

Net Financial Worth deteriorated by \$550.0 million to negative \$8,411.2 million when compared to the restated position at 30 June 2020 demonstrating that total liabilities exceeded financial assets.

Net Financial Liabilities increased by \$629.8 million for the year reflecting the deterioration in Net Financial Worth of \$550.0 million and a \$79.7 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 2020-21 and the forward estimates for the same five indicators from Budget Paper No. 2 2021-22 for the years 2021-22 to 2024-25.

Figure 2: Fiscal Performance from 2010-11 to 2023-24



Source: Treasurer’s Annual Financial Reports and Budget Paper No. 2 2020-21

The above graph demonstrates that maintaining fiscal restraint is imperative to stay within the legislated debt ceiling.

Note 8 to the TAFS shows that, excluding the motor accidents compensation payments which are largely outside the government’s direct control, operating expenses increased by \$192 million. Of this increase, \$31 million is related to increases attributable to medical expenditure, including movements in medical and dental supplies, cross border patient charges and patient and other client travel. The increases related to medical expenditure are understandable given the present pandemic.

Treasurer's Annual Financial Statement cont...

Agency scrutiny of shared service arrangements will also be critical to ensuring efficiencies and economies of scale intended from recent machinery of government changes are delivered as planned to achieve budget repair. This will involve ensuring the appropriate type and level of services are delivered, that functions and positions are not duplicated and that agencies work together to deliver internal and external services in the most efficient manner.

Current grants represent the third largest expense component. Stronger across-government monitoring of these arrangements will be necessary to ensure these grants are delivering agreed and optimal returns to the public.

As noted in the TAFS, pre-funding of \$870 million of the 2021-22 borrowing program was brought forward into the 2020-21 financial year in order to take advantage of low interest rates. This approach is intended to provide a long-term benefit greater than the costs associated with the interest on borrowings noting that surplus cash is reinvested to return interest commensurate with the interest cost. Together with delays in delivering the infrastructure program, this advanced borrowing has resulted in increased cash balances. Any consequential improvement in the liquidity position will reduce as the funds are expended on capital and operating expenditure. The daily interest expense incurred at the time of audit was approximately \$1.1 million per day.

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)

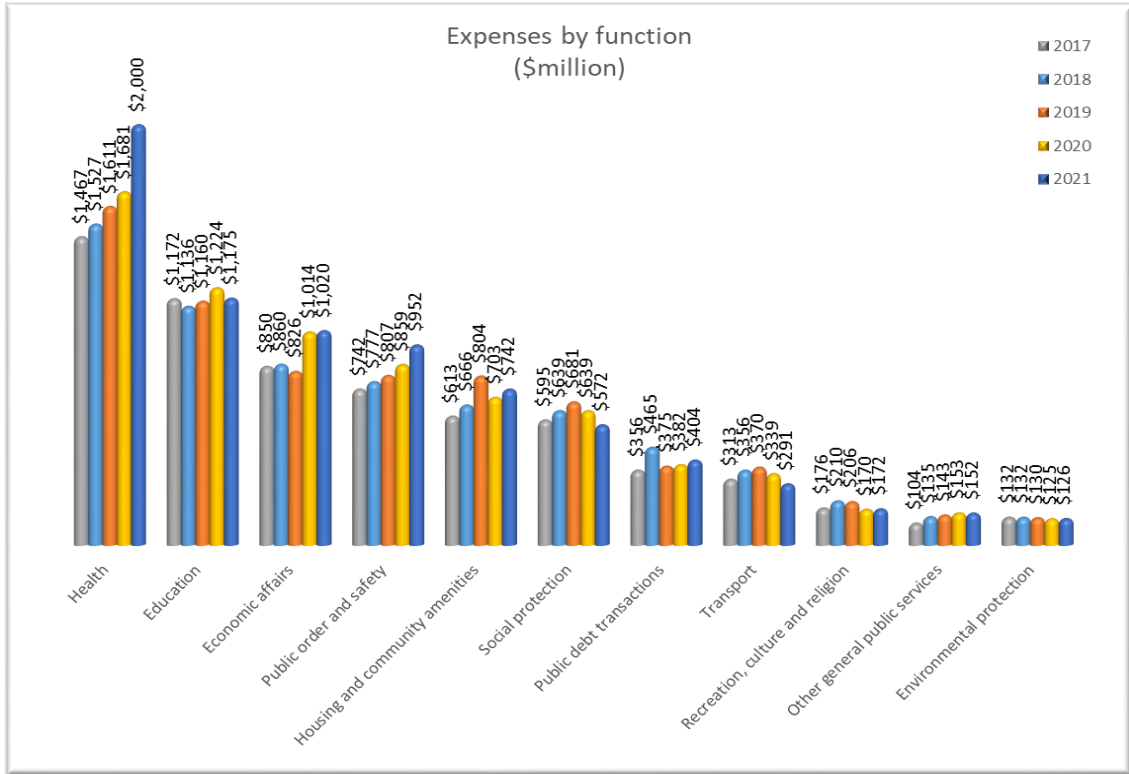
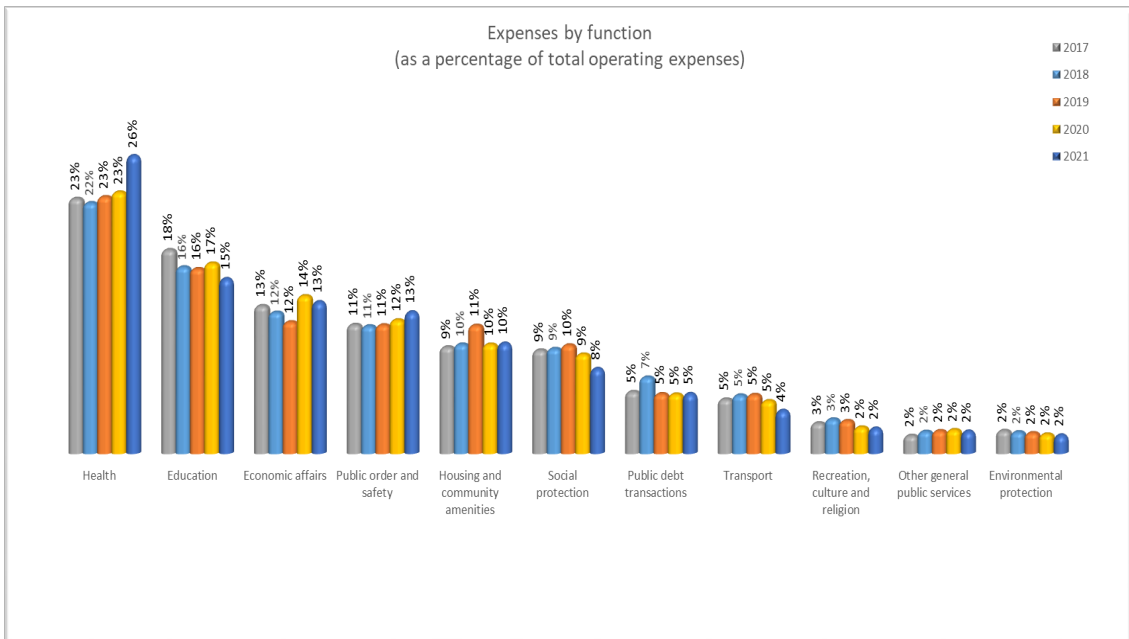


Figure 4: Total Public Sector expenses by function (as a percentage of total operating expenses)



Source: Note 15 of the Treasurer’s Annual Financial Statement

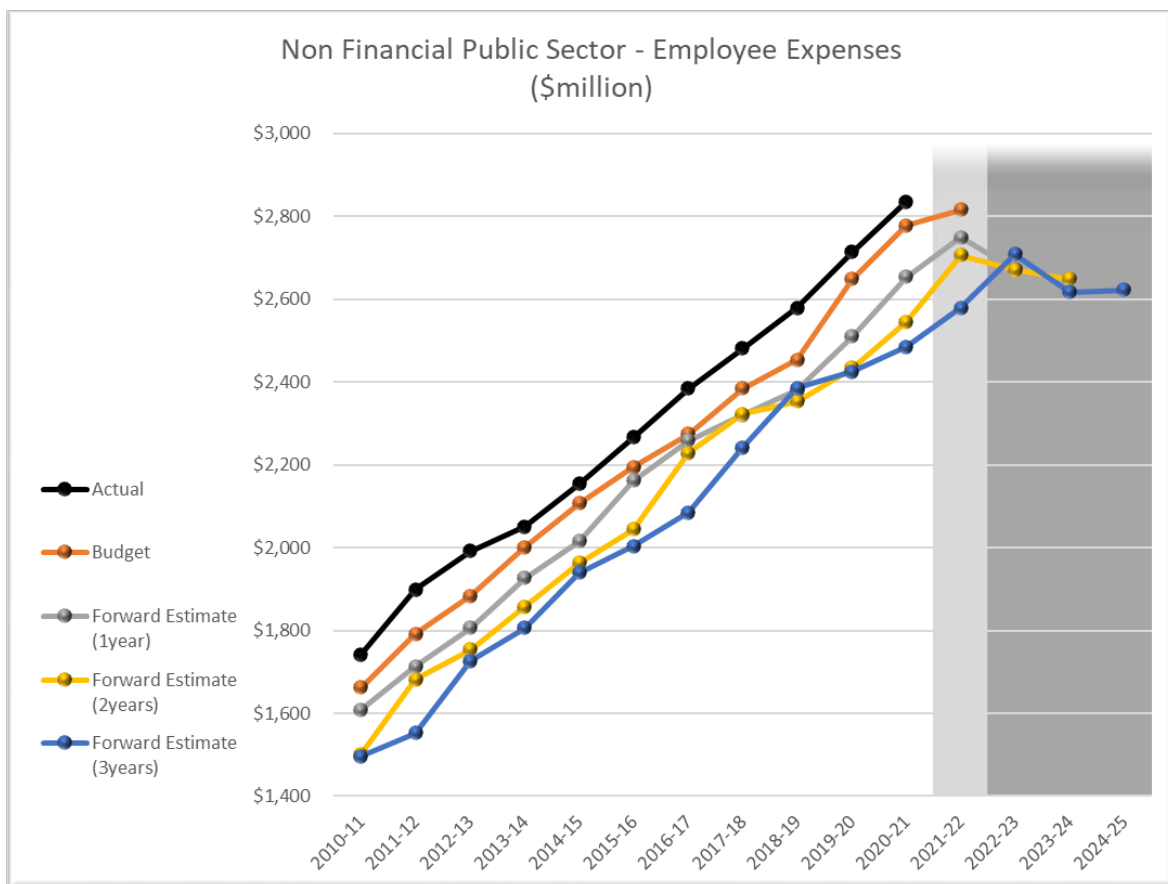
Treasurer’s Annual Financial Statement cont...

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 \$2,715.1 million for the year ended 30 June 2021. This is an increase of \$136.6 million from the prior year. At a Total Public Sector level, employee expenses were \$2,835.2 million for the year ended 30 June 2021, an increase of \$120.7 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 2020-2021 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)



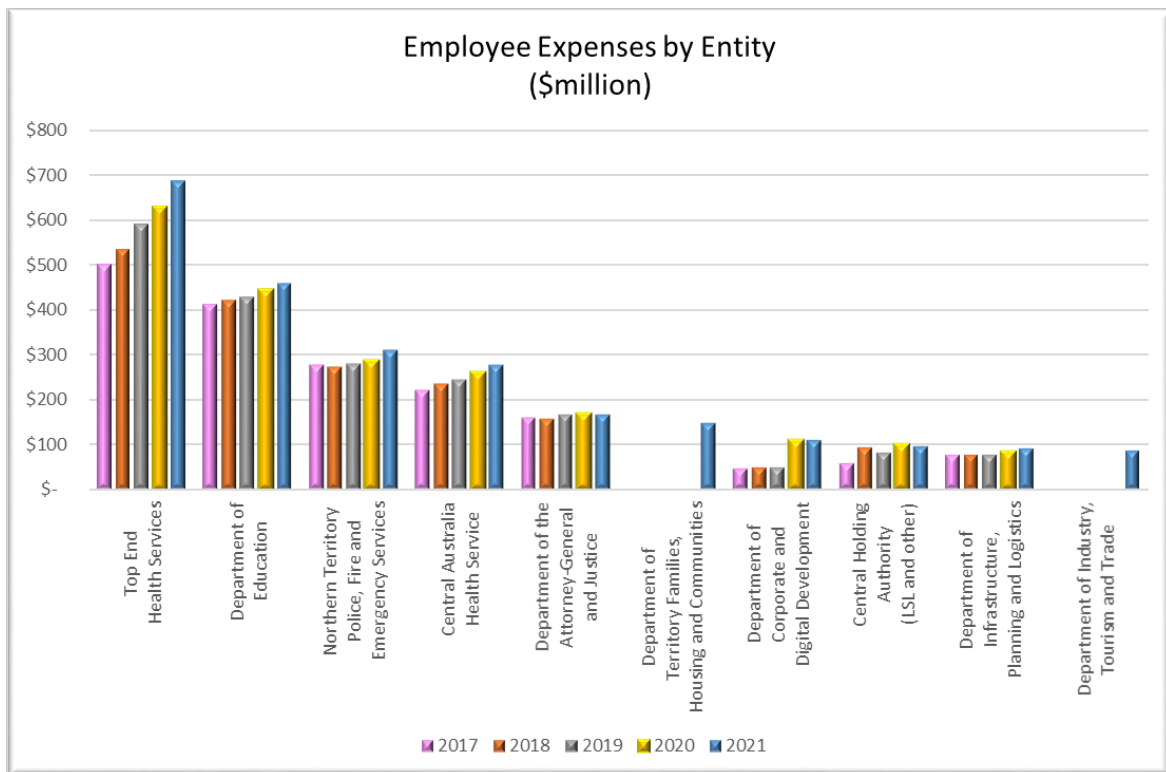
Source: Treasurer’s Annual Financial Statements and Budget Paper No. 2

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. The Department of Territory Families, Housing and Communities and the Department of Industry, Tourism and Trade are new agencies formed as a result of the recent Machinery of Government changes.

Figure 6: Employee expenses by entity



Source: NTAGO developed from Treasurer’s Annual Financial Statement consolidation data

Related to employee expenditure are the government’s obligations for long service leave and superannuation defined benefit arrangements. The results for the year ended 30 June 2021 benefit from applying the government’s wage freeze policy as future escalation is not factored into the liabilities reported in the balance sheet. Any future change to the wages policy that introduces regular salary increments will result in increased financial obligations and a detrimental impact on fiscal balance and net worth.

Audits continue to identify instances where consultants are being used to deliver services where staffing caps prohibit employment of permanent personnel. Whilst in some instances, this approach may be the most cost effective solution for the public sector, the associated costs are likely to continue to rise unless these arrangements (and the associated risks) are monitored and managed effectively.

Treasurer's Annual Financial Statement cont...

General Government Sector – Components of Financial Performance

	2021	2020 Restated
	\$'million	\$'million
Taxation revenue	529.8	518.5
Grants – current	4,241.6	4,087.5
Grants – capital	261.3	206.1
Sales of goods and services	401.5	394.2
Interest income	126.6	105.1
Dividend and income tax equivalent income	38.8	71.5
Other	471.3	446.9
Total revenue	6,070.9	5,829.8
Employee expenses	(2,715.1)	(2,578.4)
Superannuation expenses	(296.7)	(310.4)
Depreciation	(545.1)	(558.2)
Other expenses	(1,546.1)	(1,390.5)
Interest expenses	(331.8)	(296.3)
Other property expenses	(3.5)	(4.3)
Grants – current	(1,041.0)	(1,051.1)
Grants – capital	(229.4)	(172.2)
Subsidies and personal benefit payments	(194.8)	(234.7)
Total expenses	(6,903.5)	(6,596.1)
Net operating balance	(832.6)	(766.3)
Other economic flows	246.5	(58.4)
Operating result	(586.1)	(824.7)
Net operating balance	(832.6)	(766.3)
Less net acquisition of Non Financial assets	322.4	124.9
Fiscal balance	(1,155.0)	(891.2)

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 2021	Movement for 2020-21	Balance at 30 June 2020 Restated
	\$'million	\$'million	\$'million
Cash and deposits	2,634.7	1,149.2	1,485.5
Advances paid	197.1	(1.1)	198.2
Investments, loans and placements	2,361.4	17.1	2,344.3
Deposits held	(1,540.4)	(246.7)	(1,293.7)
Advances received	(266.1)	10.9	(277.0)
Borrowing	(8,607.5)	(1,193.1)	(6,694.4)
Net debt	(5,220.8)	(983.7)	(4,237.1)
Other non-equity financial assets	617.5	(17.6)	635.1
Equity assets	2,367.5	79.7	2,287.8
Superannuation liabilities	(3,872.7)	395.9	(4,268.6)
Other employee entitlements and provisions	(807.4)	(21.0)	(786.4)
Other non-equity liabilities	(1,495.5)	(3.6)	(1,491.9)
Net financial worth	(8,411.4)	(550.3)	(7,861.1)
Less: Equity assets	(2,367.5)	(79.7)	(2,287.8)
Net financial liabilities	(10,778.9)	(630.0)	(10,148.9)
Net carrying amounts of Non Financial assets	18,523.5	458.4	18,065.1
Equity assets	2,367.5	79.7	2,287.8
Net worth	10,112.1	(91.9)	10,204.0

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
2020-21	\$'million	\$'million	\$'million
Accumulated funds	16.7	(586.0)	(569.3)
Transfers from reserves	-	8.1	8.1
Other movements directly to equity	-	304.8	304.8
Total accumulated funds	16.7	(273.1)	(256.4)
Reserves			
Asset revaluation surplus	8,564.6	120.8	8,685.4
Investments in public sector entities revaluation surplus	1,605.6	59.7	1,665.3
Other reserves	17.1	0.9	18.0
Total reserves	10,187.3	181.4	10,368.7
Total equity at end of financial year	10,204.0	(91.7)	10,112.3
2019-20 restated			
Accumulated funds	981.7	(824.8)	156.9
Transfers from reserves	-	17.1	17.1
Other movements directly to equity	-	(157.3)	(157.3)
Total accumulated funds	981.7	(965.0)	16.7
Reserves			
Asset revaluation surplus	6,819.8	1,744.8	8,564.6
Investments in public sector entities revaluation surplus	1,531.5	74.1	1,605.6
Other reserves	17.3	(0.2)	17.1
Total reserves	8,368.6	1,818.7	10,187.3
Total equity at end of financial year	9,350.3	853.7	10,204.0

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont...

Total Public Sector – Components of Financial Performance

	2021	2020 Restated
	\$'million	\$'million
Taxation revenue	519.3	507.8
Grants – current	4,241.6	4,087.5
Grants – capital	261.5	206.1
Sales of goods and services	1,130.4	1,078.6
Interest income	127.1	105.4
Other	488.3	485.6
Total revenues	6,768.2	6,471.0
Employee expenses	(2,835.2)	(2,714.5)
Superannuation expenses	(310.9)	(325.9)
Depreciation	(756.3)	(777.6)
Other expenses	(2,089.3)	(1,896.6)
Interest expenses	(364.3)	(328.2)
Other property expenses	(3.5)	(4.3)
Grants – current	(981.0)	(992.4)
Grants – capital	(201.3)	(145.4)
Subsidies and personal benefit payments	(63.9)	(104.3)
Total expenses	(7,605.7)	(7,289.2)
Net operating balance	(837.5)	(818.2)
Other economic flows	241.4	63.9
Operating result	(596.1)	(754.3)
Net operating balance	(837.5)	(818.2)
Less net acquisition of Non Financial assets	289.4	1.3
Fiscal balance	(1,126.9)	(819.5)

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 2021	Movement for 2020-21	Restated Balance at 30 June 2020
	\$'million	\$'million	\$'million
Cash and deposits	2,636.9	1,151.5	1,485.5
Advances paid	197.1	(1.1)	198.2
Investments, loans and placements	2,361.4	17.1	2,344.3
Deposits held	(155.4)	0.7	(156.1)
Advances received	(209.5)	9.5	(219.0)
Borrowing	(11,477.9)	(2,151.0)	(9,326.9)
Net debt	(6,647.3)	(973.3)	(5,674.1)
Other non-equity financial assets	759.2	6.4	752.7
Equity assets	-	-	-
Superannuation liabilities	(3,872.7)	395.9	(4,268.6)
Other employee entitlements and provisions	(872.5)	(23.6)	(848.9)
Other non-equity liabilities	(1,689.4)	12.1	(1,701.6)
Net financial worth	(12,322.9)	(582.4)	(11,740.4)
Less: Equity assets	-	-	-
Net financial liabilities	(12,322.9)	(582.4)	(11,740.4)
Net carrying amounts of Non Financial assets	22,435.1	490.7	21,944.4
Equity assets	-	-	-
Net worth	10,112.3	(91.7)	10,204.0

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
2020-21	\$'million	\$'million	\$'million
Accumulated funds	665.0	(596.1)	68.9
Transfers from reserves	-	10.9	10.9
Other movements directly to equity	-	305.1	305.1
Total accumulated funds	665.0	(280.1)	384.9
Reserves			
Asset revaluation surplus	9,521.8	187.5	9,709.3
Other reserves	17.1	0.9	18.0
Total reserves	9,538.9	188.4	9,727.3
Total equity at end of financial year	10,204.0	(91.7)	10,112.3
2019-20 Restated			
Accumulated funds	1,554.5	(754.2)	800.3
Transfers from reserves	-	21.9	21.9
Other movements directly to equity	-	(157.2)	(157.2)
Total accumulated funds	1,554.5	(889.5)	665.0
Reserves			
Asset revaluation surplus	7,778.4	1,743.4	9,521.8
Other reserves	17.3	(0.2)	17.1
Total reserves	7,795.7	1,743.2	9,538.9
Total equity at end of financial year	9,350.3	853.7	10,204.0

Note: Totals may not add due to rounding

Treasurer's Annual Financial Statement cont...

The Department of Treasury and Finance has commented:

The Department of Treasury and Finance (DTF) notes the 2020-21 Treasurer's Annual Financial Statements was issued an unmodified audit opinion, with an emphasis of matter drawing attention to the restatement of comparative balances as a result of correcting prior year errors (in accordance with the requirements of accounting standards), and the impact of the current NTPS wages policy on the Territory's superannuation liabilities.

DTF acknowledges the Auditor-General's findings that maintaining fiscal restraint is imperative for the Territory. New measures to support the Territory Government's fiscal objectives have been implemented for the first time in 2021-22, including a legislated debt ceiling to constrain the Territory's borrowings; greater scrutiny and increased accountability for chief executive officers; combined with changes to the carry over process to reward agencies that operate within their expenditure budgets. Measurement and assessment against the Territory's fiscal objectives and targets are reported in the Territory budget papers and Treasurer's Annual Financial Report.

Allocation of Water Licences

Department of Environment, Parks and Water Security

Background

The Department of Environment, Parks and Water Security (the Agency) was established on 8 September 2020 following machinery of government changes that combined the functions of the previous Department of Environment and Natural Resources and the Parks and Wildlife Commission from the former Department of Tourism, Sport and Culture. The Agency is responsible for many of the key functions that foster and protect the environment and natural resources in the Northern Territory including the management of water, land resources, environmental matters and parks and wildlife.

The 2021-24 Strategic Plan identifies that the purpose of the Agency is to *“provide evidence-based advice and regulation to support sustainable use of the Northern Territory’s natural resources, and protect and present our wildlife, parks and reserves.”*

The *Northern Territory Water Act 1992* (the Act) enables effective water resource management.

Water Licences

Water extraction licences are granted on the basis that the licence holder has legal right of access to the land on which water will be taken in accordance with section 45 (surface water) and section 60 (groundwater) of the Act. Requirements for water licence decisions are outlined in Part 6A of the Act.

Licensed water entitlements are granted from the consumptive pool allocated for a water resource.

The consumptive pool is the volume of water that can be licensed after a proportion of water has been allocated to the needs of the environment and other public benefits including cultural values, referred to as non consumptive beneficial uses.

An application for a water extraction licence is assessed taking into consideration each of the following criteria:

- availability of water in the area;
- existing water licence entitlements;
- water allocation plan rules;
- potential effects of water extraction and the condition of the water resource; and
- development and land use in the area.

Allocation of Water Licences cont...

Prior Audit

An independent review of water extraction licences commissioned by the Agency's antecedent entity in July 2017 recommended that the Agency:

- Develop a checklist and process for preparing a Controller's brief.
- Develop a checklist for receipt and processing of licence applications.
- Develop and implement formal processes for assessment of licence applications.
- Develop and implement processes to ensure Notice of Intention requirements are fulfilled and evidenced.
- Develop a process to ensure licence conditions are consistent with Statement of Decision and application.
- Ensure licence durations are consistent with the *Water Act 1992*.
- Formalise first in first served practices.
- Review the practice of issuing licences with Annual Announced Allocation conditions in areas with limited water trading opportunity.
- Develop best practice in administrative decision-making.
- Improve systems to ensure sound document control.
- Improve systems to ensure sound records management.
- Develop a policy for preparing the Statement of Decision and prepare a Statement of Decision template.
- Document integrated model-based assessment procedures and improve reporting on inherent uncertainties.
- Undertake a comprehensive hydrochemistry and environmental isotope assessment of the Mereenie Aquifer System.
- Improve processes for communicating and publishing licence decisions.
- Develop a policy and assessment process for own motion grants.
- Develop a formal process for preparing Ministerial briefings for Section 30 reviews.
- Formalise key approaches to water allocation.
- Develop, recalibrate or refine key models.
- Establish local pumping rules for the Ooloo Aquifer.
- Commit to ongoing monitoring and investigations.

Allocation of Water Licences cont...

I conducted an audit on the implementation of these recommendations during 2019 with the findings published in my March 2020 Report to the Legislative Assembly. I concluded: *“Except for the matters reported as exceptions and recommendations... the Agency has undertaken adequate actions to address the recommendations from the Independent Review of Water Extraction Licences.”*

Scope and Objectives

Section 15 of the *Audit Act 1995* provides that *“the Auditor-General may conduct an audit of 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”*.

The objective of an audit conducted under Section 15 includes *“determining whether the performance management systems of the 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”*.

This audit assessed the performance management systems and processes implemented at the Agency to enable it to manage the allocation of water licences. Audit evidence was drawn from a sample of ‘decisions’ related to groundwater licences made between 1 January 2020 and 30 April 2021 inclusive.

Limitations

The audit was not intended to, and did not, assess the appropriateness of outcomes of the water licence applications or the adequacy of the environmental reports or Water Allocation Plans.

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The report on this audit is structured as follows:

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Allocation of Water Licences cont...

Audit Opinion

Except for the matters raised in my report to the Agency, the performance management systems enable the Agency to assess whether its objectives, as they relate to the allocation of groundwater licences are being achieved economically, efficiently and effectively.

The audit identified that the Agency could implement improvements in order to demonstrate the Agency's objectives are being achieved economically, efficiently and effectively.

Recommendations

Findings and observations from the audit gave rise to the following recommendations which were communicated to management:

- Finalise and implement the draft Standard Operating Procedures and Process Diagram.
- Ensure procedures are subject to a pre-determined review period unless changes in legislation or procedures require an earlier review.
- Conduct a skills analysis and identify any additional training that may be required for team members, either individually or as a whole.
- Actively and regularly re-assess situations that have a high risk of leading to actual, perceived or potential conflicts of interest to determine if the existing mitigating controls remain effective.
- Proceed with the centralisation of corporate registers to ensure adequate and effective oversight of risks to the Agency.
- Consider what additional processes, reviews and/or training may be required to ensure all standard procedures are performed and all assessment processes comply with the legislated requirements.

Allocation of Water Licences cont...

Audit Observations

Current status of NTAGO 2019 Audit Recommendations

The following table presents the status of actions taken by the Agency to address the findings from the audit undertaken by my Office in 2019.

Table 1: 2020 Water Licence Exceptions / Recommendations

No.	NTAGO Audit Recommendation (1)	Current Status
P1-1	The checklist and process have been developed. Completion of the checklist and fields within WALAPS could be enhanced through the inclusion of explanatory comments.	Not applicable
P1-3	Action to address the recommendation was yet to be fully implemented at the time of my audit. I note that remediation of the underlying issue leading to the recommendation is overdue by more than 24 months based on the timeline recommended by the independent reviewer.	This recommendation has now been completed and is part of routine business operations with the finalisation of the policy applicable to mining and petroleum licensing.
P1-4	Processes have been developed. The recommendation also proposed the provision of training on completion of the Notice of Intention template which has not occurred.	This recommendation was not supported by the Agency as there are only a few licensing staff and turnover of permanent staff is low. In the Agency's view, one-on-one training provides the most efficient means of delivering training on the system to new starters.
P1-7	Processes have been developed. WALAPS does not have the functionality to electronically queue, track and prioritise water applications from the commencement of applications to completion. I recommended the Agency investigate whether the functionality of the system could be enhanced to ensure a consistent and systemic approach.	Government approved a Policy for Prioritising Water Extraction Licence Applications in November 2018. This is publicly available from the Agency's water policies website. This policy has been reviewed in 2020 and updated to reflect current practice. The independent review recommendation did not require the policy to be implemented through the licensing database system. In the Agency's view, updating WALAPS to add this feature would have significant financial implications and there is unlikely to be sufficient budget or public benefit delivered by updating WALAPS in this way.

Allocation of Water Licences cont...

No.	NTAGO Audit Recommendation	Current Status
P1-9	<p>The recommendation has largely been addressed. Formal training for decision making has not been undertaken on a regular basis. At the time of the audit, formal training had only been delivered once, in October 2017.</p> <p>I recommended personnel undertake regular decision-making training to support better judgement and decision making practices when processing and issuing water licences.</p>	<p>The 2020 recommendation was not supported by the Agency as the Manager of licensing has completed training and the Director of licensing is a qualified lawyer who practiced in administrative law prior to commencing in the role. All decision documents are approved by the Manager and then the Director prior to being provided to The Controller of Water Resources. It is not considered that the expense of additional training is justified.</p>
P1-10	<p>The recommendation has largely been addressed. At the time of my audit, there was no Standard Operating Procedure (SOP) for the use of WALAPS as the application is still undergoing development.</p> <p>I recommended that SOP be established as soon as practicable after the system has been fully developed.</p> <p>Acknowledging WALAPS is new and is currently being enhanced, I also recommended the delivery of formal training on systems and processes for all water licensing officers.</p>	<p>The Agency now has a draft standard operating procedure for the use of WALAPS and detailed procedures to be followed in granting water extraction licenses. The draft standard operating procedures are expected to be finalised and approved by the end of the calendar year.</p>
P-14	<p>Action to address the recommendation is yet to be fully implemented.</p> <p>I note that remediation of the underlying issue leading to the recommendation is overdue by more than 24 months based on the timeline recommended by the independent reviewer.</p>	<p>A project to address the issues identified in the Licence Review is complete.</p>
P2-2	<p>I note the Agency's advice of the intent to repeal the provision for own motion grants, and as a result, no formal policy has been prepared in response to this recommendation.</p> <p>Until the legislation is formally amended, I recommended that the intent be formally endorsed and communicated.</p>	<p>The Controller of Water Resources has determined that provisions for own motion grants will not be used.</p> <p>This will be considered for repeal as part of a future <i>Water Act 1992</i> reform processes.</p>

Allocation of Water Licences cont...

No.	NTAGO Audit Recommendation	Current Status
P2-3	<p>The Agency policy provided for audit purposes that constitutes the formal process is still marked as draft.</p> <p>I recommended that the Agency's policy for ministerial briefing be formally approved, endorsed and implemented.</p>	<p>This is now complete. Administrative procedures for processing an application for review of a decision are in place.</p>

(1) NTAGO March 2020 Report to the Legislative Assembly

Water Allocation Framework

The Act provides the overarching legislative framework for water resource management.

The Agency has developed policies in relation to water licencing to provide guidance, transparency, consistency and assistance.

The Controller of Water Resources (the Controller) is the principal licencing and regulatory authority under the Act. The Controller has the power to grant water extraction licences under sections 45 and 60 of the Act. The Controller has the power to set the terms and conditions of a licence.

Licences are granted subject to conditions, including setting a minimum and maximum volume of water that can be extracted by the licence holder in any period.

In deciding on a water extraction licence application, the Controller must consider the relevant factors set out in section 90(1) of the Act.

An NT Water Allocation Planning Framework is established. *"The Framework sets out how water is to be allocated between consumptive and non-consumptive beneficial uses and is based on the principle that water should be allocated to non-consumptive beneficial uses (e.g. environmental and cultural values) as a matter of priority, and once this allocation is set, remaining water can be allocated to consumptive beneficial uses (e.g. agriculture)."*

The Framework includes the following policies for water licencing:

- Water Resources Division Policy
- Compliance and Enforcement Policy
- Water Extraction Licencing – Mining And Petroleum Activity Policy
- Processing Water Extraction Licence Applications Policy
- Water Resources Division Operational Policy
- Recovery Of Unused Licensed Water Entitlements Policy
- Trading Licensed Water Entitlements Policy
- Management Of Unused Licensed Water Entitlements Policy (expired 20 July 2020)
- Prioritising Water Extraction Licence Applications Policy (expired 1 July 2020)

Allocation of Water Licences cont...

Water allocation plans are developed to assist with water allocation planning. Plans are developed in regions where:

- there are competing demands for water,
- there are scientific environmental risk or cultural values, or
- there is a need to manage the whole system (surface water and groundwater reserves) due to their scientific inter-connection.

Table 2: Water Allocation Plans as at May 2021

Water Allocation Plan	Status
Ti-Tree Water Allocation Plan	Declared 2020
Katherine Tindall Limestone Aquifer Water Allocation plan	Declared 2019
Ooloo Dolostone Aquifer Water Allocation Plan	Declared 2019
Western Davenport Water Allocation Plan	Declared 2018
Alice Springs Water Allocation Plan	Declared 2016
Berry Springs Water Allocation Plan	Declared 2016
Great Artesian Basin Water Allocation Plan	New Plan under development
Mataranka Tindall Limestone Aquifer Water Allocation Plan	New Plan under development
Howard Water Allocation Plan	New Plan under development

Source: (DEPWS Website: About Water Allocation Planning, 2021)

Process for approval of groundwater licences

The lodgement and assessment of an application is performed by a Water Licensing Officer. This process includes drafting the Notice of Intention, Statement of Decision and Notice of Decision. Water Licensing Officers are based in Darwin, Katherine, and Alice Springs and work on applications across the Territory.

The standard operating procedures and process diagram are the two key documents referred to by the Water Licensing Team during the processing of licence applications. At the time of testing (June 2021), these documents remain in draft.

It is an Agency requirement for the standard operating procedures to be followed to promote consistency and ensure all procedural requirements are met when processing water extraction licence applications.

Part of the assessment process requires the preparation of a location map relevant to the applicant using the Natural Resources maps. The map prepared will determine the neighbouring sites of the applicant's location and any nearby area with a known consumptive pool managed by a declared water allocation plan.

Once the application is lodged, the Water Licensing Officer will submit a water assessment request to the Water Assessment Branch to check the water availability of the location to which the application relates.

Allocation of Water Licences cont...

The applicant must be advised if there is insufficient water available in the consumptive pool to satisfy the application. Assessments of available water for allocation must consider estimates of water demand for rural stock and domestic purposes.

Systems

The following two information systems are used:

Water Act Licensing and Permit System (WALAPS)

WALAPS is a portal used by all process owners relevant to a water licensing application. All documents needed by the Controller to enable decision-making are lodged on this portal.

Water extraction licences application tracker

The application tracker is maintained by the Water Licensing Division to track the progress of each application.

Personnel

The management of water allocation and licenses is the responsibility of the Water Licensing and Regulation Branch within the Agency. There are 11 full time positions assigned to the Branch comprising one director, three managers and seven officers. Five staff are dedicated to the water licensing function.

All the roles require a level of experience in water resource management and experience in interpreting and applying legislation and regulations.

Induction into the licensing team is undertaken internally. Additional training had been undertaken by some staff and there is an opportunity for more training to be provided.

Risk Management

The Water Resources division has a risk register which includes risks associated with Water Licensing and Resources. The risk register helps the division identify risks and risk mitigation actions and controls associated with licensing activities.

A risk assessment is performed and risk register reviewed at least annually. Quarterly updates are obtained and discussed at the Audit and Risk Management Committee.

The Agency's current internal audit plan does not address any of the systems, procedures and internal controls that are in place at the Water Licensing and Regulation Division.

Conflict of Interest Management

A Water Licensing Officer performs searches to identify all natural persons related to each application. Where a party to an application may have a direct relationship with a member of the water licensing team, that member is excluded from the application review process.

The Agency has a delegation policy to guide the water licensing division on the appropriate delegate to approve/review the application where a conflict of interest is identified.

Allocation of Water Licences cont...

There is one recognised and recorded instance where an Agency executive officer holds an external position that may result, or be perceived as resulting in, a conflict of interest if not effectively managed. The Agency has embedded processes designed to manage and mitigate the risk that the conflict of interest could materialise.

Multiple conflict of interest registers are maintained however management advised that the intention is to maintain one centralised conflict of interest register.

Appeals / Complaints

The Water Licensing Division has a dedicated email address to receive all comments from the public.

Each public comment needs to be addressed and be documented in the Statement of Decision. Further, all commenters must be notified of the determination, regardless of the outcome. This must occur in the form of a letter accompanying a copy of the Statement of Decision. These letters are signed by the Controller when determining the application.

If there are further comments to the decision, the public can submit the additional information through the Agency website.

If the further comment is against an action or decision of the Controller, the portfolio minister may decide to:

- uphold the action or decision;
- substitute a new decision; or
- refer the matter back to the Controller.

The portfolio minister may make a decision or refer the comment to the Water Resources Review Panel. The review panel will then hold one or more hearings to consider the application. The applicant will be advised of hearing dates and may be asked to appear to present the appeal and answer questions. The review panel will provide its advice to the minister in a report. The composition of the panel is determined by the Executive Committee.

The Appeals/Complaints register is maintained at the Agency level by the Agency. The information currently included in the register is limited and could be expanded.

Findings from Audit Testing

This audit tested a small targeted sample of 13 applications. Of the 13 applications tested, nine (69%) were identified to have not met established criteria or the assessment of the application was inconsistent with the documented assessment process. In total, 17 deficiencies were identified during the audit testing (with some applications having multiple deficiencies).

Audit testing identified:

- One sample had an inadequate water assessment report that was used as the basis of the decision of the Controller.
- For seven samples, the Notice of Intention was published outside the statutory timeframe.
- For two samples, the checklist for Processing Water Extraction Licence was not used correctly.
- Seven samples selected exceeded the 120-day processing threshold.

Allocation of Water Licences cont...

The Department of Environment, Parks and Water Security has commented:

The department welcomes every opportunity for continuous improvement. Overall, the department is satisfied with the outcomes of the audit. The department notes that the majority of the audit findings relate to administrative processes that would not change the outcome of the controller's decision. In response to the individual findings, the department provides the following:

- With regard to the adequacy of the water assessment for one of the decisions sampled, it is important to note that when making a decision, the Controller of Water Resources is required to consider a number of relevant factors, having regard to and weighing each of those factors.
- The *Water Act 1992* requires the Controller to publish a Notice of Intention to make a water extraction licence decision in the newspaper within 30 days of the application being accepted. The purpose of the notice is to ensure that the public and adjacent landowners/occupiers are informed of the application and its purpose and are able to provide comments for consideration by the Controller of Water Resources in deciding whether or not to grant the licence. The Department is satisfied that despite there being instances where the application is not published within 30 days, that this does not materially affect the decision. In all instances the Notice of Intention is published as required and comments on the application are invited, considered and responded to in the Statement of Decision and/or the granted licence. The Statement of Decision also transparently advises on when the notice has not been published within the 30 day period. The Department is assessing its procedures to ensure that all timeframes outlined in the Act are met to ensure timely decisions, balanced against the requirement to manage workloads and workflows. These efforts are supported by the commitment to a non-statutory timeframe for decisions within 120 days, which is referred to below.
- The Act outlines particular stages for processing a water extraction licence and for each stage either specifies a hard time-frame e.g. within x days the Controller must or a soft time-frame e.g. if possible within x days. The 120-day processing threshold for water extraction licence decisions is not a legislative timeframe or requirement. It has been implemented within the Department to facilitate business improvements and efficiencies and to support business certainty and the Department's Customer Service Charter. The target is established taking into account the specific and proposed time-frames listed in the Act. The department continues to strive toward meeting this threshold.

Incorrect Payment of Superannuation Follow-up

Selected Agencies

Background

Incorrect payments of various superannuation guarantee (SG) amounts to employees across the Northern Territory Public Sector, the Legislative Assembly and the Supreme Court, were identified by the former Department of Corporate and Information Services (DCIS).

In a media release issued on 5 December 2019, the Commissioner for Public Employment announced that DCIS had recently identified it had been underpaying and overpaying some superannuation entitlements for Northern Territory Government (NTG) 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 (ATO) relating to rules for the application of the SG to recreation leave loading.

In 2020, in accordance with section 14 of the *Audit Act 1995*, the Chief Minister directed the Auditor-General to assess the systems, processes and controls in place to ensure that the payment of salary and allowances, and SG contributions, by the NTG (through DCIS) was in line with relevant Enterprise Agreements (EA) and SG legislative provisions.

A comprehensive report was provided to the Chief Minister at the conclusion of the audit and the Chief Minister tabled the report in its entirety during Parliamentary Sittings in October 2020. The audit report was also included in my December 2020 Report to the Legislative Assembly.

The objective of the 2020 audit was to provide the Legislative Assembly with an overview of the systems, processes and controls within DCIS and, to the extent necessary, within the Office of the Commissioner for Public Employment (OCPE), that provide 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 SG 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 ATO);
- 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

Incorrect Payment of Superannuation Follow-up cont...

- consideration has been given by DCIS and OCPE to any consequential flow on effect to other corporate taxation matters (e.g. Fringe Benefits Tax) relating to superannuation and other employee payment matters.

The 2020 audit covered the period from when the incorrect superannuation payments commenced in 2009 through to 5 June 2020. The fieldwork supporting the audit was conducted between 1 January 2020 and 5 June 2020.

I concluded that *“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 EA provisions are correctly implemented within the 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.”*

The recommendations, as they appeared in my December 2020 Report are related to:

1. Superannuation Expertise
2. Provision of Assurance to Agencies
3. Additional Training and Education of Payroll Staff
4. Review of Salary Codes
5. Calculation of SG where Salary and Wages are less than \$450 per month
6. Calculation of SG shortfall where Ordinary Times Earning is zero or negative
7. EA Implementation Process
8. Other SG matters (Salary Sacrifice, Workers Compensation)
9. Payment of Overtime
10. Non-standard Employment Terms and Conditions
11. Overtime Rates for Specialists on First Roster
12. Review of Allowance Codes
13. SG on Payments in Lieu of Notice for Termination and Redundancy

Incorrect Payment of Superannuation Follow-up cont...

14. SG on Payments to transitioning Executive Contract Officers (ECO)
15. Draft Standard Operating Procedures for EA Implementation and MLA Superannuation

Following machinery of government changes in September 2020:

- DCIS was renamed as Department of Corporate and Digital Development (DCDD).
- OCPE became structurally positioned within the Department of Chief Minister and Cabinet.

The ongoing responsibility for addressing the recommendations sits with DCDD and OCPE. Beyond addressing the findings raised in the external audits, the ongoing responsibility for ensuring compliance with all EA arrangements with also rests with DCDD and OCPE. Enhanced controls could involve a rolling program of verification between each piece of employment legislation and each EA applicable to the NTPS and the payroll systems (whether automated or manual) as part of DCDD's annual internal audit program.

Scope and Objectives

Section 13 of the *Audit Act 1995* provides for the Auditor-General to “*audit the Public Account and other accounts in such manner as the Auditor-General thinks fit having regard to the character and effectiveness of the internal control and recognised professional standards and practices*”.

The objectives of this audit were to:

- provide the Legislative Assembly with an overview of the actions taken by DCDD and OCPE to address the recommendations arising from the prior audit of the Incorrect Payment of Superannuation (Section 14 Directive) as tabled in the December 2020 sittings of the Legislative Assembly; and
- assess the current status of the key under/over payment areas.

This audit covered the period from June 2020 to February 2021.

Incorrect Payment of Superannuation Follow-up cont...

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Audit Opinion

This audit identified that DCDD and OCPE have undertaken a number of actions to address the matters raised as a result of my previous audit. A number of these matters require ongoing and additional works as detailed in my observations and recommendations.

In recognition of the limited scope of this audit and the previous audit, I encourage DCDD and OCPE to consider more broadly how the matters identified in the audits are indicative of other pre-existing issues that require addressing and undertake a more robust evaluation of controls. This would include undertaking reviews of existing controls and in some instances, applying similar verification procedures to EA arrangements that were not tested as part of the scope applicable to the external audits.

Incorrect Payment of Superannuation Follow-up cont...

One document sourced for review as part of this audit noted *“Regular external audit by the Auditor-General as part of the rolling program of controls audits. The Auditor-General has noted that future compliance audits will include review of employment conditions in a selected enterprise agreement.”* Whilst I am of the view that this approach would be beneficial, and reflects my earlier comments, I can confirm there is no current commitment to extending the audit program in this regard given the current resources and capacity in the Northern Territory Auditor-General’s Office. The responsibility for ensuring and testing compliance with enterprise agreements belongs to DCDD and OCPE.

In undertaking actions to remediate the matters raised in my previous audit, DCDD have identified additional possible under and overpayments of superannuation that will require further investigation and action.

DCDD and OCPE should remain vigilant to emerging risks including legislative change.

I note that the age of the payroll processing systems and the complexity of the various EA and Commissioner’s Determinations exacerbate the risk of errors arising and not being detected and consequently, some of the identified shortcomings and weaknesses can currently only be resolved through the implementation of manual processes. To the extent that opportunities arise where employee entitlements can be simplified and automated solutions can be implemented, such opportunities should be adopted.

Recommendations

Implementation of the solutions to the conditions leading to the previous findings requires a number of interrelated (and sometimes consecutive) actions forming a broad program of work, which may be impacted by imminent changes to existing EA. Whilst acknowledging that work is underway to address the initial recommendations, some further observations and recommendations arose from this audit as listed below.

In some instances, further work is required to ensure the original recommendation is adequately implemented. It may be beneficial for the agencies involved to undertake a program evaluation to ensure actions taken in response to the findings fully address the recommendations. The solution needs to ensure systems and processes are in place to enable those tasked with management and oversight of the government’s superannuation obligations to effectively discharge their responsibilities.

There will be an ongoing need to continue to enhance the processes to support the provision of assurance by central agencies to agencies that the NTG’s 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 EA.

I recommended DCDD ensure training and education is undertaken by all payroll personnel in a timely manner following the completion of updates to Standard Operating Procedures and that appropriate records are maintained of training and education provided to payroll personnel.

I recommended DCDD personnel continue to prioritise the review of all entitlement codes (including but not limited to salary, allowance and other codes) to ensure they are correctly set up to comply with the requirements of Superannuation Guarantee Ruling SGR 2009/02 and the *Superannuation Guarantee (Administration) Act 1992*.

To ensure continued compliance, the entitlement codes need to be regularly reviewed, including against new EAs to ensure that all employee entitlements within the EA are correctly captured in the payroll system. This includes removing entitlements that are no longer relevant.

Incorrect Payment of Superannuation Follow-up cont...

I recommended DCDD continue to calculate necessary amendments and ensure that any incorrect payments of SG are appropriately remitted to the ATO accordingly.

When manual processes are deemed to be required, I recommended DCDD personnel further investigate ways to enhance current processes and procedures to ensure that entitlements are paid in line with the EA and legislative requirements.

Audit Observations

The audit confirmed the following processes and actions undertaken by DCDD and OCPE to address the recommendations arising from the prior audit of the Incorrect Payment of Superannuation (Section 14 Directive) as tabled in my December 2020 report to the Legislative Assembly (prior audit).

The Agency Response below refers to the responses provided in the prior audit.

The implementation status and assessment of actions taken are based on the status for the period from June 2020 to February 2021.

1. Superannuation Expertise

2020 Recommendation

"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."

Agency Response	Agency Implementation Status
Accepted	Complete

Assessment of Action Taken

The duties and responsibilities of the Commissioner of Superannuation were expanded.

The role was advertised in September 2020 and the former Commissioner of Superannuation was appointed to the role in October 2020. The new responsibilities of the Commissioner of Superannuation are to *"provide policy advice and assistance to the Commissioner for Public Employment and to payroll areas to ensure NT Government superannuation contributions are made in accordance with relevant legislation and other obligations, as well as reporting matters back to the Governance of Payment of Employee Entitlements Committee on a regular basis"*.

The requirement to *"provide policy advice and assistance"* differs to the recommendation of being tasked with *"responsibility for ensuring superannuation payments are made in accordance with relevant legislation"*.

The Commissioner of Superannuation is a statutory officeholder role established under the *Superannuation Act 1986* that administers the NTG Public Sector defined benefit superannuation schemes. A limited number of NTG employees use these superannuation schemes. The previous Commissioner of Superannuation role did not require visibility or oversight of superannuation payments made by NTG.

Incorrect Payment of Superannuation Follow-up cont...

Although the Commissioner of Superannuation's role has been expanded to incorporate additional responsibilities for providing policy advice and assistance on all superannuation matters including the SG, no additional systems or processes have been established to support the Commissioner of Superannuation in effectively performing the new role.

The Commissioner of Superannuation reports matters to the Employment Entitlement Advisory Group and/or the Allowance Review Steering Committee.

It remains unclear who within the Northern Territory Government is tasked with responsibility for ensuring superannuation payments are made in accordance with relevant legislation. As a result, a risk remains that non-compliance with SG requirements is not identified and rectified in a timely manner.

2. Assurance to Agencies

2020 Recommendation

"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 EA."

Agency Response	Implementation Status
Accepted	In progress

The Chief Executive of DCDD provides a representation letter to NTG agencies each year. The representation letter states that *"proper records are kept of transactions undertaken by DCDD on behalf of your agency and that the employees under my control observe the provisions of the Financial Management Act 1995, the Financial Management Regulations, Treasurer's Directions and Part 9 of the Information Act 2002"*.

Additionally, DCDD has expanded its assurance program to include targeted internal audits on specific employee entitlements. These internal audits and activities will be overseen by the DCDD Audit Committee. The proposed audits are intended to span across two years but had not commenced at the time of this audit.

The assurance statement asserting that *"proper records are kept of transactions undertaken"*, differs to the recommendation to provide assurance that *"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."*

For clarification, as this audit and my earlier 2020 audit were both limited in scope, and external audits by my Office at DCDD do not assess the NTG's policies, procedures and controls in relation to the payment of employee entitlements, such assurance could only be given by DCDD if supported by a robust assessment of the effectiveness of controls.

Incorrect Payment of Superannuation Follow-up cont...

3. Additional Training and Education of Payroll Staff

2020 Recommendation

“A number of exceptions noted in the testing of employee entitlements, as noted above under EA, 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.”

Agency Response	Agency Implementation Status
Accepted	Complete

Assessment of Action Taken

DCDD personnel advised they provided additional training and ongoing professional development to Payroll Officers. Additionally, DCDD have stated that they are in the process of:

- finalising additional standard operating procedures identified in the prior audit;
- undertaking a review of the existing library of standard operating procedures to identify any gaps that need to be addressed;
- conducting structured training for Payroll Officers on new and updated standard operating procedures; and
- training relevant Payroll Officers where new standard operating procedures are developed.

DCDD personnel were unable to provide evidence that training programs have increased or that ongoing professional development of Payroll Officers has occurred since June 2020 (date of prior audit).

4. Review of Salary Codes

2020 Recommendation

“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 2009/02 and the Superannuation Guarantee (Administration) Act.”

Agency Response	Agency Implementation Status
Accepted	Complete

Assessment of Action Taken

DCDD personnel completed a review of five salary codes (SAL001, SAL002, SAL003, SAR003, and SAR004). An examination performed by DCDD confirmed that these five salary codes had the correct SG calculations applied.

The review performed by DCDD related to basic salary and wage codes. Although my recommendation used the term “salary codes”, I intended to refer to all codes to which SG may apply, that is, all entitlements that NTG employees are paid (including allowances). I recognise the ambiguity in my earlier recommendation has resulted in this recommendation being raised again.

Incorrect Payment of Superannuation Follow-up cont...

During the prior audit, a list of all entitlement codes was obtained which included 1,004 entitlement codes. The SG issues identified in the prior audit relate to employee entitlement codes such as leave loading, penalties in lieu and long service leave payouts.

DCDD management confirmed that they had only reviewed the five salary codes, but are able to review all entitlement codes using the existing governance model.

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

2020 Recommendation

"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."

Agency Response	Implementation Status
Accepted	In progress

Assessment of Action Taken

DCDD personnel clarified this matter with the ATO and received a response in September 2020. The ATO confirmed the relevant amount for determining an employee's SG contribution is more than \$450 salary and wages in a calendar month. This is consistent with the issue and recommendation raised in the prior audit.

DCDD personnel implemented a system fix in November 2020, however they have been unable to provide evidence, such as user acceptance testing, to demonstrate that the system is operating as intended. DCDD personnel are currently undertaking additional work to capture data which will require further analysis to identify employees (both current and former) affected by the issue to determine any amount of SG underpaid.

The remediation process is being overseen by the Governance of Payment of Employee Entitlements Committee.

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

2020 Recommendation

"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."

Agency Response	Implementation Status
Accepted	In progress

Assessment of Action Taken

DCDD personnel clarified this matter with the ATO and received a response in September 2020. The ATO confirmed that an SG shortfall does not arise where the net OTE paid to an employee during a quarter is negative or zero.

Incorrect Payment of Superannuation Follow-up cont...

DCDD personnel conducted sample testing to identify the frequency of calculations where a SG shortfall had been declared to the ATO when a person's OTE was zero or negative for a quarter. The sample period tested was Quarter 2 2018-19 to Quarter 1 2019-20 (12 months) and the total SG shortfall declared to the ATO was \$21,200. Simple extrapolation calculated by DCDD personnel determined an estimated overstatement of \$210,000 over 10 years. This was similar to the calculation my Authorised Auditors performed in the prior audit which determined an overpayment of around \$295,000 over the same period. The amounts previously remitted to the ATO can be recovered.

7. EA Implementation Process

2020 Recommendation

"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."

Agency Response	Implementation Status
Accepted	Complete

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

Agency Response	Implementation Status
Accepted in-principle	Complete

"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."

Agency Response	Implementation Status
Accepted	Complete

Incorrect Payment of Superannuation Follow-up cont...

Assessment of Action Taken

DCDD and OCPE have established a governance structure which includes the committees outlined in Table 1.

Table 1: DCDD Governance Committees relating to EA

Committee	Role
Response Oversight Committee	Principal responsibility is for the development of an agreed response and action to the prior audit and its recommendations and to ensure actions are fully implemented in a timely manner.
Governance Committee of Payment of Employee Entitlements	Has two main roles. Firstly the ongoing assurance oversight of accurate and timely payment of employee entitlements, including superannuation, and ensuring all risks are appropriately managed. Secondly, the 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.
Employment Entitlements Advisory Group	Provide expert advice and guidance in relation to the implementation of employee entitlements derived from EA, instruments made under the <i>Public Sector employment and Management Act 1993</i> or other employment legislation including the <i>Fair Work Act 2009 (Cth)</i> and to ensure the correct implementation and application of employee entitlements.
Employment Entitlements Working Group	Provide expert advice and guidance in relation to the implementation of employee entitlements derived from EA, instruments made under the <i>Public Sector Employment and Management Act 1993</i> or other employment legislation, including the <i>Fair Work Act 2009 (Cth)</i> and coordinate activities and implement the process for the correct application of employee entitlements.

I have been informed that, when new EA are finalised, a comparative analysis of changes to employee entitlements will be undertaken by DCDD personnel, with consideration of the extent to which changes can be addressed via the NTG's payroll systems. Where anomalies are identified, they will be communicated to OCPE. This new process is being overseen through the governance structure.

DCDD personnel have developed an 'Employee Entitlements and Rule Change Process'. This is currently being reviewed and updated with oversight by the Employment Entitlements Advisory Group.

As there have been no new EAs implemented since the prior audit, I have been unable to assess the effectiveness of the new process.

Incorrect Payment of Superannuation Follow-up cont...

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

2020 Recommendation

"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."

Agency Response	Implementation Status
Accepted	In progress

Assessment of Action Taken

For ECO salary sacrifice payments, DCDD have stated that all affected ECOs have been contacted explaining the change in the ATO legislation and providing the opportunity for ECOs to change how they salary sacrifice their SG. DCDD are in the process of reporting amended contribution reports to the relevant funds.

An automated system fix has not been introduced. The computation of SG payable reflecting the change in the legislation involves a manual process which increases the risk of error.

For workers' compensation 'top up' payments, DCDD obtained legal advice which confirmed the NTG was under no legal obligation to make super contributions in relation to 'top up' payments to members of the NT Police Force on long term workers' compensation payments. As a result, DCDD have created a new salary code for NTPFES salary top up.

DCDD is yet to determine the amount of any SG overpayments on workers' compensation 'top up' payments previously made and is yet to instigate recovery action.

9. Payment of Overtime

2020 Recommendation

"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."

Agency Response	Implementation Status
Noted	In progress

Assessment of Action Taken

DCDD have been unable to address this matter by reprogramming the NTG payroll systems.

A system change request ("ticket") was raised to develop an exception report which will identify employees who have a salary increase and overtime paid in the same pay period. This ticket was completed on 22 June 2021 and the exception report is in production and implementation is in progress. A payroll bulletin was also issued on 17 June 2021. The bulletin could be enhanced by specifying that the correct rate is the rate that was applicable at the time overtime was rendered.

Incorrect Payment of Superannuation Follow-up cont...

There is a risk that the exception reporting will not be effective in addressing the issue where overtime is paid to employees in periods subsequent to the change in salary as a result of a backdated/late claim for overtime.

10. Non-standard Employment Terms and Conditions

2020 Recommendation

"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."

Agency Response	Agency Implementation Status
Accepted	Complete

Assessment of Action Taken

My Authorised Auditors were advised that investigations were undertaken by DCDD and OCPE and, apart from the prior audit findings in relation to Medical Officers, no issues were identified. Notwithstanding that no other exceptions were identified, OCPE issued instructions to all agencies to emphasise the requirement to use only the standard templates, terms and conditions and to seek approval from the Commissioner of Public Employment to use any non standard terms and conditions prior to entering into a contract.

Since issuing the prior audit findings, OCPE has introduced new documentation for the recruitment of Medical Officers including new standard templates. DCDD have been working with the Department of Health to ensure all relevant documentation is available electronically in eRecruit and for Medical Officer offer/acceptance letters to be generated.

Once Department of Health transition to using DCDD Employment Services and eRecruit, only the standard templates, terms and conditions issued through eRecruit will be available for use. Any non standard terms and conditions will need approval by the Commissioner of Public Employment prior to entering into a contract.

11. Overtime Rates for Specialist on First Roster

2020 Recommendation

"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."

Agency Response	Implementation Status
Noted	Complete

Assessment of Action Taken

During the prior audit, DCDD personnel confirmed that affected Medical Officers were currently being paid overtime based on their salary and not based on the fixed hourly call back rates specified in Clause 37.16 of the relevant EA. The manual processes that were in place to enable payment of overtime remain in place due to the small quantity of employees impacted by these overtime rates.

Incorrect Payment of Superannuation Follow-up cont...

12. Review of Allowance Codes

2020 Recommendation

"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 EA."

Agency Response	Implementation Status
Accepted	In progress

Assessment of Action Taken

A program to review the tax, superannuation and leave implications of all allowance codes, including Commissioner's Determinations and by laws, has commenced. A risk based approach has been used to determine the approach to prioritisation of the codes that require review. The prioritisation was approached by identifying allowance codes with a compliance risk, such as those with OTE flag and tax free flags. Approximately 1,500 allowance codes are under review.

The Allowance Review Steering Committee is responsible for reviewing all allowance codes. Early work completed by the Committee involved identifying and deleting codes that had not been used in the past six years, resulting in the removal of 415 codes.

The Allowance Review Steering Committee is continuing to review all other allowance codes and match them to relevant Determinations or EA. The Allowance Working Group advised that OCPE are yet to provide approximately 500 Determinations that require confirmation to the fields within the payroll system.

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

2020 Recommendation

"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."

Agency Response	Agency Implementation Status
Accepted	Complete

Assessment of Action Taken

DCDD personnel clarified this matter with the ATO and received a response in September 2020. The ATO confirmed the correct approach to calculate SG shortfall for employees included in both Round 1 and Round 2 lodgements.

Additionally, DCDD obtained legal advice relating to SG on ECO severance / termination payments. Following this advice, DCDD has revised the Termination Checklist Template to reflect inclusion of SG being paid on notice period payments for ECOs.

DCDD Enterprise Project Services identified 69 impacted records for review, of which 65 required calculation amendments. DCDD emailed the ATO in November 2020 advising of the revised SG shortfall calculations of approximately \$20,000. At the time of the audit, the revised payment had not been remitted to the ATO.

Incorrect Payment of Superannuation Follow-up cont...

14. SG on Payments to transitioning Executive Contract Officers

2020 Recommendation

"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."

Agency Response	Agency Implementation Status
Accepted	Complete

Assessment of Action Taken

SG errors were identified in the prior audit through testing a sample of 360 transitioning ECOs who were included in the Round 2 lodgement to the ATO. DCDD personnel reviewed 146 records that resulted in identification of 11 SG shortfall errors. For the 11 errors, a revised submission was sent to the ATO in December 2020 and letters sent to affected employees.

The 146 records related to a different cohort of ECOs to the 360 tested in the prior audit.

15. Draft Standard Operating Procedure for EA Implementation and MLA Superannuation

2020 Recommendation

"I recommend that the draft standard operating procedures for EA implementation currently under development by DCIS Corporate Systems and the draft standard operating procedures 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."

Agency Response	Agency Implementation Status
Accepted	Complete

Assessment of Action Taken

The standard operating procedure for EA implementation was approved by the Senior Director Corporate Systems in September 2020 and the standard operating procedure for MLA Superannuation was approved by the Director HR Systems (formerly Director Employment Services) in April 2020.

Incorrect Payment of Superannuation Follow-up cont...

The Department of Corporate and Digital Development and the Office of the Commissioner for Public Employment has commented:

DCDD and OCPE maintain ongoing responsibility for ensuring compliance with Enterprise Agreement provisions, employee entitlement governance and addressing the audit recommendations. The agencies, including DTF, have implemented governance arrangements which reflect their joint responsibilities and enable access to expert superannuation advice.

Superannuation remediation works remain a priority for DCDD and OCPE. A prioritisation approach is applied to address recommendations considering complexity, breadth, value and sequencing of events. Priority actions will continue to be oversighted by the Employee Entitlements Governance Committee which is determining appropriate treatments and remedial actions.

End of Year Review

Selected Agencies

Background

The purpose of conducting end of year reviews of the Public Account is to provide support to the audit of the Treasurer's Annual Financial Statement through reviewing the reasonableness of agencies' end of year financial data that is 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.

Reviews were performed in each of the following Agencies during the six months covered by this report:

- Aboriginal Areas Protection Authority;
- Department of Corporate and Digital Development;
- Department of Education;
- Department of Environment, Parks and Water Security;
- Department of Health;
- Department of Industry, Tourism and Trade;
- Department of Infrastructure, Planning and Logistics;
- Department of Territory Families, Housing and Communities;
- Department of the Attorney-General and Justice;
- Department of the Chief Minister and Cabinet;
- Department of the Legislative Assembly;
- Department of Treasury and Finance;
- Northern Territory Electoral Commission;
- Northern Territory Police, Fire and Emergency Services;
- Office of the Independent Commissioner Against Corruption; and
- Ombudsman's Office.

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.

Selected Agencies – End of Year Review

The reviews were not directed to auditing financial information contained within each agencies' annual report.

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 2021	Number of Agencies 2020
0	6	5
1	4	5
2	2	4
3	2	4
4	1	-
5	1	-
6	-	1
Total Agencies	16	19
Total Issues Raised	23	31

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 22 July 2021. 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.
- Not all accrued expenses were identified and appropriately recognised as at 30 June 2021.
- The entitlements of a former Accountable Officer were not correctly accounted for over a period of three financial years.
- Management review of processes and documentation prior to submission for independent audit could be strengthened to avoid delays in providing the initial documentation for review and subsequent late amendments to documentation.
- Internal control weaknesses were identified in relation to accounting for fixed assets and capital work in-progress.

Selected Agencies – End of Year Review

- The fixed asset register at one agency contained details of an asset controlled by another agency.
- An agency recorded revaluation adjustments in the incorrect period.
- In one agency, rebates were not processed in a timely manner resulting in overstatement of gross debtors. This matter has been reported annually to the agency since 2009.
- Inventory balances reported in an agency's general ledger had not been reconciled to actual inventory held by the agency.
- At one agency, unresolved variances were identified in the reconciliations for accounts categorised as Accountable Officer's Trust Accounts and Deposits held – Other. This matter has been a weakness reported to the agency since 2010.
- Outstanding debtors had not been actively monitored, addressed or provided for.
- Review of governance documentation at one agency identified the establishment of the agency's social club as an organisation under the *Associations Act 2003* and the intention for the association to be licensed for the sale of alcohol and gaming activities. Risks arising from this arrangement may include the perception that the association (if established) is controlled or supported (either financially or through human resource capacity) by the Northern Territory government. Other risks may materialise if the association does not comply with provisions in the *Associations Act 2003*, liquor licensing or work, health and safety requirements. I note that recent amendments proposed to the *Liquor Act 2019* may obviate the need for the licensing. I have provided some observations and recommendations to the agency in relation to this matter.

Selected Agencies – End of Year Review

The Department of Corporate and Digital Development has commented:

The department has end of year processes in place and will continue to make every effort to ensure processes are observed, noting that circumstances will arise at times that necessitate specific action.

Regular reviews will be undertaken at end of year to ensure expenses are recognised in the year in which they are incurred.

The Department of Industry, Tourism and Trade has commented:

The one audit issue raised relating to the late posting of a period 14 journal has been noted, and year-end processes will be reviewed.

The Department of the Attorney-General and Justice has commented:

The department is reviewing the findings and determine if it needs to adapt its practices to ensure compliance with the identified requirements.

The Department Treasury and Finance has commented:

The Department of Treasury and Finance continues to review 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 TDs and Australian accounting standards within government agencies. During 2020-21, DTF issued and made amendments to ten TDs, including three new TDs, along 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 matters noted in the End-of-Year Review 2021 that will be progressed by management.

Selected Procurement Activity

Department of Health

Background

A consultancy procurement undertaken by the Department of Health (the Agency) was brought to my attention surrounding concerns that the procurement had not been undertaken in accordance with NT government legislated requirements. I initiated a review relating to that specific procurement, however following my initial assessment, I expanded the scope of my review and requested the Agency to provide all documentation relating to each procurement activity between the Agency and the consultant that was either initiated, in progress, or completed at any time between 1 July 2019 and 29 March 2021.

Scope and Objectives

The purpose of my review was to assess the Agency's compliance with the Procurement Rules (in force by virtue of section 11.1 of the *Procurement Act 1995*) for each procurement activity between the Agency and the consultant that was initiated, in progress, or completed at any time between 1 July 2019 and 29 March 2021. Six procurement activities were identified as within the scope of the review.

Review Opinion

In my opinion, the Agency did not comply in all material respects with the Procurement Rules and thereby section 11.1 of the *Procurement Act 1995* for two procurements.

In my opinion, except for the matters raised to the attention of the Agency, the Agency has complied, in all material respects with the Procurement Rules and thereby section 11.1 of the *Procurement Act 1995* for three procurements.

As the Agency provided no documents relating to one procurement, I am unable to and consequently do not express an opinion on whether or not the Agency has complied, in all material respects, with the Procurement Rules and thereby section 11.1 of the *Procurement Act 1995* for that procurement.

Limitation of Scope

The findings outlined in this letter are based on the documentation provided by the Agency in response to my letter dated 29 March 2021 where I requested *"the following documentation relating to each procurement activity between the Agency and [the consultant] that were either initiated, in progress, or completed at any time between 1 July 2019 and 29 March 2021 to be provided to my office by close of business on Friday 9 April 2021:*

1. *All procurement documentation;*
2. *All contractual documentation; and*
3. *All deliverables and correspondence between the Agency and [the consultant]."*

As a result of my request, the Agency provided documents relating to five procurements.

No documents were provided by the Agency relating to the sixth procurement for \$38,478 awarded on 4 November 2020.

Selected Procurement Activity – Department of Health cont...

Recommendations

In my correspondence to the Agency, I made the following recommendations:

1. All pricing documentation clearly state whether or not the value includes or excludes GST, travel and expenses.
2. The procurement methodology be accurately and appropriately identified at the commencement of the procurement and that the criteria for any certificate of exemption be clearly articulated with documentary evidence retained to demonstrate that each criterion was met.
3. The Agency ensure that the scope of the assignment is clearly identified prior to the commencement of the procurement and that documentation of any contract variations clearly demonstrates that there has not been a change in the scope of the original contract.
4. The Agency enhance the documentation relating to Aboriginal participation to clearly evidence the opportunities related to the procurement activity.
5. Any conflicts, either actual, potential or perceived be clearly documented and management of any such conflicts be clearly actioned and documented.
6. Declarations be obtained to confirm that there are no conflicts of interest from all personnel involved in the procurement or subsequent contract management.
7. All documents relating to procurement activities be retained for a period of at least three years after the contract is awarded.
8. The Agency consider a longer retention period for documents relating to significant procurement activities.
9. The Agency implement controls and processes to ensure that the Agency uses APRO for all procurement activity over \$15,000.
10. The Agency implement controls and processes to ensure that the approval of the delegate is obtained prior to commencing project specific procurement planning and that the approval is clearly documented.
11. The Agency ensure that specific assessment criteria are developed for use when assessing the tenders/quotations received. The criteria should be supported by guidance as to the relevant elements to be assessed.
12. The Agency implement controls and processes to ensure that Local Benefit Commitment is appropriately evidenced.
13. The Agency ensure that Standard Terms and Conditions are provided to the contractor. If Standard Terms and Conditions are not applicable, the Agency should obtain approval from “the agency responsible for procurement policy” to use alternative or additional clauses and obtain legal advice as outlined in the former Department of Trade, Business and Innovation document (dated 1 August 2019) “*P24 non-standard conditions process*” relating to any non-standard terms and conditions requested by respondents.
14. An assessment of respondent’s submissions be undertaken, documented and retained with proof that all required approvals were obtained and the successful tenderer was formally notified. The assessment of submissions should include the identification, assessment and documentation of risks associated with each submission.

Selected Procurement Activity – Department of Health cont...

15. Approval be obtained from the Delegate to conduct non-price negotiations and the Accountable Officer to conduct price negotiations.
16. The Agency retain evidence that they have provided the respondent the opportunity to be debriefed following a sourcing activity. I further recommend that the Agency retain evidence that they have provided information at the debrief that assists respondents to identify opportunities to improve future offers.
17. The Agency ensure that the contract is appropriately disclosed or, in limited and justified circumstances, that approval by the Minister is obtained to not publish the contract.
18. The Agency retain evidence that the Agency developed Contract Management Plans commensurate with the value and risk of a contract and that it has systems, processes and resources assigned to adequately manage the Agency's contracts
19. The Agency retain evidence that personnel who have a role in contract management have the necessary skills and training.
20. The Agency complete contractor performance reports commensurate to the value and risk of a specific contract. For complex contracts, it would be beneficial and appropriate for contractor performance reports to be undertaken and discussed with the contractor prior to any significant variations being approved. A copy of the performance reports should be retained.
21. The Agency report on the contractor's performance against local benefit commitments and provide feedback to the contractor against which to respond.
22. The Agency ensure that all documents are reviewed prior to being endorsed, approved and/or actioned.
23. If the procurement is identified as 'urgent' the Agency should ensure that the justification for the urgency is clearly documented and the urgency should be reflected in the time taken by the assessment panel to assess the respondent's documentation.
24. The Agency ensure that respondents are provided with a sufficient period of time to respond to a request for offer.

Selected Procurement Activity – Department of Health cont...

Observations

Procurement One

When assessed against the Procurement Rules, the Agency did not comply, or the documents provided were unclear in relation to compliance, with 42 of the required criteria.

The Project Specific Procurement Plan (PSPP), approved on 19 April 2020, identified the procurement method as “*Direct Purchasing*” with a whole of life cost estimate including goods and services tax (GST) of \$750,000.

Section 5.5 of the Procurement Rules states that “*Direct Purchasing*” is an alternative procurement method for Tier 1 and Tier 2 (i.e. <\$100,000).

The remainder of the PSPP and the memorandum to the Agency’s Chief Procurement Officer (CPO) from the Agency’s Chief Executive Officer (CEO), dated 28 April 2020, identified the procurement method as “*Direct Contracting*”.

Procurement Rules relating to “*Direct Contracting*” state:

“The agency must only use direct contracting with the approval of the Delegate where there is a single supplier capable of meeting the requirements or clause 6.3.4 E10 H. Government Occupied Buildings applies, and:

- *there is evidence that it is the most effective manner to deliver best Value for Territory, or*
- *it is impractical or impossible to use an open procurement process,*

and the contract awarded will be:

- *in the form of lease, licence agreement or substantially nonstandard contract, or*
- *an extension or renewal of an existing contract, or*
- *for the support or maintenance of existing software, systems or assets, or*
- *for goods or services to be delivered in a remote area from a legal entity which has a minimum of 30% of its full-time personnel who are Aboriginal as per exemption 6.3.4 E10 O. Remote Procurements.”*

Neither the PSPP nor the memorandum refer to the procurement being undertaken under the exemption afforded by Procurement Rule 6.3.2 E8 Emergency Exemption.

The criteria for the awarding of the contract as “*Direct Contracting*” (as detailed above) was not met by the Agency.

For this procurement activity, initiated by the Agency in April 2020, the Agency estimated the procurement to have whole of life costs including goods and services tax (GST) of \$750,000. The initial contract was for \$700,000 excluding GST. Variation number six of this procurement, actioned in February 2021, resulted in a total contract value of \$4,315,907.75.

This initial procurement was followed by variations as detailed in Table 1 - Contract Variations.

The significant number of high value variations is indicative that the scope of works was not well considered nor well defined at the outset.

Selected Procurement Activity – Department of Health cont...

Table 1 - Contract Variations

	Date	Variation	Contract value	% of contract award value
Initial contract	April 2020		\$700,000.00	
Variation 1	August 2020	\$900,000.00	\$1,600,000.00	Not stated ¹
Variation 2	October 2020	\$400,000.00	\$2,000,000.00	159.74%
Variation 3	October 2020	\$1,500,000.00	\$3,500,000.00	354.00%
Variation 4	January 2021	\$215,197.00	\$3,715,197.00	382.49%
Variation 5	February 2021	\$140,385.30	\$3,855,582.20	400.72%
Variation 6	February 2021	\$460,325.45	\$4,315,907.75	460.50%

¹ A "Contract variation approval form" was not provided with the variation being documented only by emails.

In addition to the variations in Table 1 - Contract Variations, a further amount of \$52,800 (excluding GST, travel and expenses) was approved on 16 July 2020 however there was no clear alignment between this payment and a specific variation.

Procurement Two

Estimated value \$95,000.

When assessed against the Procurement Rules, the Agency did not comply, or the documents provided were unclear in relation to compliance, with 17 of the required criteria. Compliance with a further eight criteria was not evidenced however those criteria are optional for this procurement tier.

Procurement Three, Four and Five

Estimated values \$360,000, \$400,000 and \$250,000 respectively.

The Agency complied in all material respects with the Procurement Rules apart from non-compliance with the requirements that the Agency:

- develop Contract Management Plans commensurate with the value and risk of a contract; and
- ensure it has systems, processes and resources assigned to adequately manage the agency's contracts.

For one of the three contracts, the Procurement Assessment Recommendation did not address the changes to the Conditions of Contract and the Agency did not engage legal services to review the changes.

Procurement Six

Estimated value \$35,000.

No documents relating to this procurement were provided by the Agency.

Selected Procurement Activity – Department of Health cont...

The Department of Health has commented:

The Department of Health takes on board the recommendations and continues to strengthen its capability in procurement and contracting.

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 2020, 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...

The definition of what constitutes public information is equally broad and is defined in section 4(1) of the Act 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;
- 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, 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 has been contravened if the material that is the subject of the review contravenes section 6(2) of the Act in that it:

- promotes particular party interests;
- includes statements that are misleading or factually inaccurate;
- does not clearly distinguish a statement of facts from a statement of comments; or
- is an advertisement that includes an image of the holder or occupier of the office of a Minister.

Section 6(2A) of the Act requires the Auditor-General to determine the Act has been contravened in relation to particular public information if the Auditor-General is satisfied the content of the information does not meet the criteria prescribed by regulation for the giving of information. Section 6(3)(b) of the Act requires the Auditor-General to have regard to any requirement or prohibitions prescribed by regulation for the giving of public information.

There have been no matters referred since my August 2021 Report to the Legislative Assembly.

Appendices

Appendix 1: 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 system 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.

Appendix 1: 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 noted 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.

Appendix 1: 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 system 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 system 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.

Appendix 2: 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 system 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.

Appendix 2: 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.

Appendix 2: 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]

Appendix 2: 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 System 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.

Appendix 2: 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 System 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.

Appendix 3: Audit Opinions Issued

Issued between 2 July 2021 and 31 October 2021

Financial Statements for the year ended 31 December 2020

	Date 2020 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 31 December 2020	Date of Audit report year ended 31 December 2019
Batchelor Institute of Indigenous Tertiary Education	21 September 2021	30 July 2021	26 May 2020

Financial Statements for the year ended 30 June 2021

	Date 2021 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 30 June 2021	Date of Audit report year ended 30 June 2020
Board of the Museum and Art Gallery of the Northern Territory	Not yet tabled	1 October 2021	25 September 2020
Central Australia Health Service	Not yet tabled	29 September 2021	23 October 2020
Darwin Waterfront Corporation	Not yet tabled	18 October 2021	6 October 2020
Data Centre Services	27 October 2021	27 September 2021	29 September 2020
Desert Knowledge Australia	Not yet tabled	19 October 2021	22 October 2020
Indigenous Essential Services Pty Ltd	Not required	30 September 2021	6 October 2020
Land Development Corporation	27 October 2021	27 September 2021	2 October 2020
Motor Accidents (Compensation) Commission	Not yet tabled	28 September 2021	6 October 2020
Northern Territory Grants Commission ⁽¹⁾	27 October 2021	31 August 2021	16 September 2020
Northern Territory Legal Aid Commission	Not yet tabled	24 September 2021	19 October 2020
Northern Territory Major Events Company Pty Ltd	Not required	14 October 2021	12 October 2020

Appendix 3: Audit Opinions Issued cont...

	Date 2021 Financial Statements tabled to Legislative Assembly	Date of Audit report year ended 30 June 2021	Date of Audit report year ended 30 June 2020
Northern Territory Treasury Corporation	26 October 2021	24 September 2021	24 September 2020
NT Build	Not yet tabled	25 October 2021	7 October 2020
NT Fleet	27 October 2021	27 September 2021	29 September 2020
NT Home Ownership	Not yet tabled	29 September 2021	29 September 2020
Power and Water Corporation	26 October 2021	30 September 2021	30 October 2020
Power Generation Corporation	27 October 2021	28 September 2021	22 September 2020
Power Retail Corporation	26 October 2021	30 September 2021	28 September 2020
Territory Wildlife Parks	27 October 2021	30 September 2021	25 September 2020
Top End Health Service	Not yet tabled	29 September 2021	23 October 2020
Treasurer's Annual Financial Statement	26 October 2021	22 October 2021	20 October 2020

Not yet tabled – as at 31 October 2021

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 2021

	Deadline for submission of Audited Financial Statements	Date of Audit report year ended 30 June 2021	Date of Audit report year ended 30 June 2020
Health Pool Funding Acquittal ⁽¹⁾	30 September 2021	9 September 2021	16 September 2020
Local Government Financial Assistance Acquittal ⁽¹⁾	Not specified	4 August 2021	18 August 2020
Motor Accidents (Compensation) Commission Annual Return	31 October 2021	29 October 2021	28 October 2020
<i>National Land Transport Act 2014</i>			
Roads to Recovery ⁽¹⁾	31 October 2021	26 October 2021	29 October 2020

⁽¹⁾ Not separately reported within this report

Appendix 4: Status of Audit Activity

Listed below is the status, as at 31 October 2021, of non-routine audits and reviews identified as not yet complete in Appendix 4 of my August 2021 Report to the Legislative Assembly:

Department of Infrastructure, Planning and Logistics

Accounting for Assets on Leased Land Not yet completed

Department of Corporate and Digital Development

Shared Services Not yet completed

Department of Treasury and Finance

Budget Repair Not yet completed

Selected Agencies

Incorrect Payment of Superannuation Follow-up Refer page 126

In addition to the routine audits, primarily being end of year audits of agencies and audits of financial statements, the following audits and reviews were identified in Appendix 5 of my August 2021 Report to the Legislative Assembly as scheduled to be conducted during the six months to 31 December 2021:

Department of Corporate and Digital Technology

Data centre physical and environmental security Not yet completed

Grant/Stimulus Management Not yet completed

Service Continuity and Resilience Not yet completed

Department of Health

Procurement Audit Not yet completed

Department of the Chief Minister and Cabinet

Darwin City Deal Management Not yet completed

Department of Territory Families, Housing and Communities

Grant/Stimulus Management Not yet completed

Selected Agencies

Root and Branch Review Not yet reported

Appendix 5: Proposed Audit Activity in the Six Months Ending 30 June 2022

In addition to the routine audits, primarily being agency compliance audits and audits of financial statements conducted at entities with a 31 December financial year end, the following audits have been scheduled for the period:

Department of Corporate and Digital Development

- NAB Transact Banking
- Operations and Service Management
- Payment Gateway

Department of the Chief Minister and Cabinet

- Implementation of the TERC Recommendations
- Local Jobs Fund

Selected Agencies

- Prefabricated Housing Project
- Youth Justice Facility

Appendix 6: 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
ATO	Australian Taxation Office
COVID-19	Coronavirus Disease 2019
CPS	Cross Industry Prudential Standard
CSIRO	Commonwealth Scientific and Industrial Research Organisation
CSO	Community Service Obligation
DCDD	Department of Corporate and Digital Development
DCIS	former Department of Corporate and Information Services
DKA	Desert Knowledge Australia
EA	Enterprise Agreement
ECO	Executive Contract Officer
GBD	Government Business Division
GFS	Government Financial Statistics
GPS	General Insurance Prudential Standard
HR	Human Resources
NT	Northern Territory
NTAGO	Northern Territory Auditor-General's Office
NTG	Northern Territory Government
NTPFES	Northern Territory Police, Fire and Emergency Services
NTPS	Northern Territory Public Sector
OCPE	Office of the Commissioner for Public Employment
OTE	Ordinary Time Earnings
PIPS	Personnel Information Payroll System
PWC	Power and Water Corporation
SCI	Statement of Corporate Intent
SG	Superannuation Guarantee

Appendix 6: Abbreviations cont...

TAFR	Treasurer's Annual Financial Report
TAFS	Treasurer's Annual Financial Statement
WALAPS	Water Act Licensing and Permit System

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