

Defence SA

Financial report
for the year ended
30 June 2020



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To the Chief Executive Defence SA

Opinion

I have audited the financial report of Defence SA for the financial year ended 30 June 2020.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of Defence SA as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2020
- a Statement of Financial Position as at 30 June 2020
- a Statement of Changes in Equity for the year ended 30 June 2020
- a Statement of Cash Flows for the year ended 30 June 2020
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Chief Executive and the Executive Director, Corporate Services.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of Defence SA. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 Code of Ethics for Professional Accountants (including Independence Standards) have been met.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Executive for the financial report

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with the Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and the Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987*, I have audited the financial report of Defence SA for the financial year ended 30 June 2020.

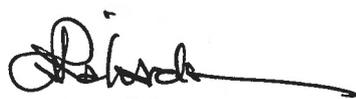
My objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Defence SA's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.



Andrew Richardson

Auditor-General

4 September 2020

DEFENCE SA

Certification of the Financial Statements

We certify that the attached general purpose financial statements for Defence SA:

- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of Defence SA; and
- present a true and fair view of the financial position of Defence SA as at 30 June 2020 and the results of its operation and cash flows for the financial year.

We certify that the internal controls employed by Defence SA for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period.



Richard Price
Chief Executive

17 August 2020



Robert Barnett
Executive Director, Corporate Services

17 August 2020

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STATEMENT OF COMPREHENSIVE INCOME**for the year ended 30 June 2020**

| | Note | 2020 \$' 000 | 2019 \$' 000 |
|-----------------------------------|------|-----------------|-----------------|
| Income | | | |
| Appropriation | 3.1 | 20,115 | 10,516 |
| Fees and charges | 3.2 | 339 | 181 |
| Grants | 3.3 | 643 | 1,310 |
| Recoveries | 3.4 | 841 | 330 |
| Resources received free of charge | 3.5 | 53 | 45 |
| Other income | | - | 1 |
| Total income | | 21,991 | 12,383 |
| Expenses | | | |
| Employee benefits expenses | 2.3 | 4,224 | 3,721 |
| Supplies and services | 4.1 | 3,499 | 3,621 |
| Depreciation | 4.2 | 272 | 3 |
| Grants and subsidies | 4.3 | 6,859 | 4,694 |
| Interest on leases | 4.4 | 28 | - |
| Resources received free of charge | 3.5 | 53 | 45 |
| Cash alignment transfer | | 1,913 | 1,980 |
| Other expenses | 4.5 | 435 | 100 |
| Total expenses | | 17,283 | 14,164 |
| Net result | | 4,708 | (1,781) |
| Total comprehensive result | | 4,708 | (1,781) |

The accompanying notes form part of these financial statements.

The net result and total comprehensive result are attributable to the SA Government as owner.

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STATEMENT OF FINANCIAL POSITIONas at 30 June 2020

| | Note | 2020 \$' 000 | 2019 \$' 000 |
|--------------------------------------|------|-----------------|-----------------|
| Current assets | | | |
| Cash | 5.1 | 14,968 | 9,152 |
| Receivables | 5.2 | 390 | 468 |
| Total current assets | | <u>15,358</u> | <u>9,620</u> |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 3,527 | 6 |
| Total non-current assets | | <u>3,527</u> | <u>6</u> |
| Total assets | | <u>18,885</u> | <u>9,626</u> |
| Current liabilities | | | |
| Payables | 7.1 | 2,213 | 1,215 |
| Lease liabilities | 7.2 | 395 | - |
| Unearned revenue | 7.3 | 324 | 328 |
| Employee benefits | 2.4 | 677 | 542 |
| Provisions | 7.4 | 4 | 3 |
| Total current liabilities | | <u>3,613</u> | <u>2,088</u> |
| Non-current liabilities | | | |
| Payables | 7.1 | 12 | 13 |
| Lease liabilities | 7.2 | 3,170 | - |
| Employee benefits | 2.4 | 190 | 207 |
| Provisions | 7.4 | 8 | 5 |
| Total non-current liabilities | | <u>3,380</u> | <u>225</u> |
| Total liabilities | | <u>6,993</u> | <u>2,313</u> |
| Net assets | | <u>11,892</u> | <u>7,313</u> |
| Equity | | | |
| Retained earnings | | 11,892 | 7,313 |
| Total equity | | <u>11,892</u> | <u>7,313</u> |

The accompanying notes form part of these financial statements.
The total equity is attributable to the SA Government as owner.

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STATEMENT OF CHANGES IN EQUITYfor the year ended 30 June 2020

| | Note | Retained earnings \$' 000 | Total equity \$' 000 |
|--|------|---------------------------------|----------------------------|
| Balance at 1 July 2018 | | 9,094 | 9,094 |
| Total comprehensive result for 2018-19 | | (1,781) | (1,781) |
| Balance at 30 June 2019 | | 7,313 | 7,313 |
| Total comprehensive result for 2019-20 | | 4,708 | 4,708 |
| Transactions with SA Government as owner | | | |
| Net liabilities transferred as a result of an administrative restructure | 1.4 | (129) | (129) |
| Balance at 30 June 2020 | | 11,892 | 11,892 |

The accompanying notes form part of these financial statements.
All changes in equity are attributable to the SA Government as owner.

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STATEMENT OF CASH FLOWSfor the year ended 30 June 2020

| | Note | 2020 \$' 000 | 2019 \$' 000 |
|--|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Cash inflows | | | |
| Appropriations | | 20,115 | 10,516 |
| Fees and charges | | 348 | 39 |
| Grants | | 664 | 2,447 |
| Recoveries | | 1,097 | 155 |
| GST recovered from the ATO | | 699 | 698 |
| Other receipts | | 14 | 14 |
| Cash generated from operations | | <u>22,937</u> | <u>13,869</u> |
| Cash outflows | | | |
| Employee benefits payments | | (4,318) | (3,694) |
| Payments for supplies and services | | (4,338) | (3,670) |
| Payments of grants and subsidies | | (6,231) | (5,366) |
| Interest payments on leases | | (28) | - |
| Cash alignment transfer | | (1,913) | (1,980) |
| Other payments | | (8) | (12) |
| Cash used in operations | | <u>(16,836)</u> | <u>(14,722)</u> |
| Net cash provided by/(used in) operating activities | | <u>6,101</u> | <u>(853)</u> |
| Cash flows from financing activities | | | |
| Cash outflows | | | |
| Repayment of leases | | (285) | - |
| Cash used in financing activities | | <u>(285)</u> | <u>-</u> |
| Net cash used in financing activities | | <u>(285)</u> | <u>-</u> |
| Net increase/(decrease) in cash | | <u>5,816</u> | <u>(853)</u> |
| Cash at the beginning of the period | | 9,152 | 10,005 |
| Cash at the end of the period | 5.1 | <u>14,968</u> | <u>9,152</u> |

The accompanying notes form part of these financial statements.

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1 About Defence SA

Defence SA is a not-for-profit government agency of the State of South Australia, established pursuant to the *Public Sector Act 2009*. Defence SA is an administrative unit acting on behalf of the Crown.

Defence SA does not control any other entity and has no interests in unconsolidated structured entities.

Defence SA administers the ANZAC Day Commemoration Fund. Financial information is presented in note 11.

1.1 Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- section 23 of the *Public Finance and Audit Act 1987*;
- Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the *Public Finance and Audit Act 1987*; and
- relevant Australian Accounting Standards with reduced disclosure requirements.

For the 2019-20 financial statements Defence SA adopted AASB 15 *Revenue From Contracts with Customers*, AASB 16 *Leases* and AASB 1058 *Income of Not-for-Profit Entities*. Further information is provided in note 8.

The financial statements have been prepared based on a 12 month reporting period and presented in Australian currency.

The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with that item.

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from the investing and financing activities, which is recoverable from, or payable to the ATO is classified as part of operating cash flows.

1.2 Objectives and programs

Defence SA is South Australia's lead government agency for all defence and space related matters. Defence SA's mission is to maximise investment and jobs from the defence and space sectors. Working closely with the Australian Government and industry, Defence SA targets investment and expansion opportunities, drives and supports the delivery of major projects and facilities, and pursues the location of additional defence and space capabilities in the state.

Defence SA plays a key role in supporting the Australian Government's strategic defence policy by increasing local industry participation and ensuring that a highly skilled, industry-ready workforce is in place to underpin defence projects.

Defence SA is working towards capturing further investment opportunities in the shipbuilding, cyber and systems, defence science and research and space domains.

As a result of an administrative restructure effective 1 July 2019, Defence SA is responsible for providing leadership and policy development across government on veterans support and services.

In achieving its objectives Defence SA provides a range of services classified into the following programs:

Program 1 - Defence Industry Development

This program delivers strategy and policy development that provides leadership across government on all defence related matters.

It targets national and international business development opportunities and supports Defence SA's administrative, financial and operational services.

The program seeks to maximise local industry participation and ensures that a highly skilled, industry-ready workforce is in place and the necessary infrastructure exists to underpin defence projects.

This program seeks to support the growth of Defence and sustainable defence industries in South Australia across shipbuilding, cyber and systems and defence science and research domains.

The program also incorporates the state's initiatives to promote the growth of defence research and development activity in South Australia through the Defence Innovation Partnership established in collaboration with the Australian Government and the three South Australian based universities.

Program 2 - South Australian Space Industry Centre

The South Australian Space Industry Centre (SASIC) facilitates industry collaboration within the space sector at all levels, locally, nationally and internationally and in particular with the Australian Space Agency to play a key role in the national space agenda.

Through the Space Innovation Fund SASIC supports space entrepreneurs to create an environment where new space technologies can be rapidly developed and brought to market. The fund supports initiatives in three key areas; space scholarships, a space incubator program and a space accelerator program.

1.2 Objectives and programs (continued)

Program 3 - Veterans SA

Veterans SA, established in 2008, supports our ex-servicemen and women and those who support them, by providing a central contact point for information about the state government's services to veterans across departments, including health, transport, disability and mental health.

Veterans SA provides administrative support to the Veterans' Advisory Council to ensure veterans receive a voice at the highest levels of government and helps to raise public awareness of the sacrifices made by South Australia's veterans.

Program 4 – Techport Australia

This program has delivered the state's shipbuilding and infrastructure commitment to the Air Warfare Destroyer project through establishment and operation of the former Techport as Australia's premier naval industry hub.

In May 2017, a Memorandum of Understanding was signed to transfer the state owned Techport and its assets to the Australian Government. The transfer included the Common User Facility (CUF) and all associated infrastructure and equipment, the Maritime Skills Centre, the CUF expansion land and vacant land within and adjacent to the Techport Australia Suppliers precinct.

Following disposal of the Techport assets in November 2017, Defence SA has focused on finalising the residual state commitments under the Memorandum of Understanding.

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1.2 Objectives and programs (continued)

Expenses and income by program

for the year ended 30 June 2020

| | Defence Industry Development | | South Australian Space Industry Centre | | Veteran's SA | | Techport Australia | | Total Defence SA | |
|-----------------------------------|------------------------------|-----------------|--|-----------------|-----------------|-----------------|--------------------|----------------|------------------|-----------------|
| | 2020 \$' 000 | 2019 \$' 000 | 2020 \$' 000 | 2019 \$' 000 | 2020 \$' 000 | 2019 \$' 000 | 2020 \$'000 | 2019 \$'000 | 2020 \$' 000 | 2019 \$' 000 |
| Income | | | | | | | | | | |
| Appropriation | 20,115 | 10,516 | - | - | - | - | - | - | 20,115 | 10,516 |
| Fees and charges | 83 | 154 | 256 | 27 | - | - | - | - | 339 | 181 |
| Grants | 507 | 1,310 | - | - | 136 | - | - | - | 643 | 1,310 |
| Recoveries | 460 | 130 | 381 | 180 | - | - | - | 20 | 841 | 330 |
| Resources received free of charge | 53 | 45 | - | - | - | - | - | - | 53 | 45 |
| Other income | - | 1 | - | - | - | - | - | - | - | 1 |
| Total income | 21,218 | 12,156 | 637 | 207 | 136 | - | - | 20 | 21,991 | 12,383 |
| Expenses | | | | | | | | | | |
| Employee benefits expenses | 3,084 | 3,339 | 514 | 377 | 626 | - | - | 5 | 4,224 | 3,721 |
| Supplies and services | 1,905 | 2,576 | 808 | 678 | 172 | - | 614 | 367 | 3,499 | 3,621 |
| Depreciation | 66 | 3 | 206 | - | - | - | - | - | 272 | 3 |
| Grants and subsidies | 4,361 | 4,055 | 1,206 | 639 | 515 | - | 777 | - | 6,859 | 4,694 |
| Interest on leases | 1 | - | 27 | - | - | - | - | - | 28 | - |
| Resources received free of charge | 53 | 45 | - | - | - | - | - | - | 53 | 45 |
| Cash alignment transfer | 1,913 | 1,980 | - | - | - | - | - | - | 1,913 | 1,980 |
| Other expenses | 80 | 66 | - | - | 105 | - | 250 | 34 | 435 | 100 |
| Total expenses | 11,463 | 12,064 | 2,761 | 1,694 | 1,418 | - | 1,641 | 406 | 17,283 | 14,164 |
| Net result | 9,755 | 92 | (2,124) | (1,487) | (1,282) | - | (1,641) | (386) | 4,708 | (1,781) |

⁽¹⁾ Appropriation and cash alignment transfer are not allocated between activities.

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1.2 Objectives and programs (continued)

Assets and liabilities by program

as at 30 June 2020

| | Defence Industry Development | | South Australian Space Industry Centre | | Veteran's SA | | Techport Australia | | Total Defence SA | |
|-------------------------------|------------------------------|-----------------|--|-----------------|-----------------|-----------------|--------------------|----------------|------------------|-----------------|
| | 2020 \$' 000 | 2019 \$' 000 | 2020 \$' 000 | 2019 \$' 000 | 2020 \$' 000 | 2019 \$' 000 | 2020 \$'000 | 2019 \$'000 | 2020 \$' 000 | 2019 \$' 000 |
| Assets | | | | | | | | | | |
| Cash ⁽¹⁾ | 14,968 | 9,152 | - | - | - | - | - | - | 14,968 | 9,152 |
| Receivables | 216 | 224 | 128 | 224 | 32 | - | 14 | 20 | 390 | 468 |
| Property, plant and equipment | 115 | 6 | 3,412 | - | - | - | - | - | 3,527 | 6 |
| Total assets | 15,299 | 9,382 | 3,540 | 224 | 32 | - | 14 | 20 | 18,885 | 9,626 |
| Liabilities | | | | | | | | | | |
| Payables | 1,417 | 684 | 752 | 486 | 56 | - | - | 58 | 2,225 | 1,228 |
| Lease liabilities | 115 | - | 3,450 | - | - | - | - | - | 3,565 | - |
| Unearned revenue | 272 | 328 | 52 | - | - | - | - | - | 324 | 328 |
| Employee benefits | 584 | 644 | 128 | 105 | 155 | - | - | - | 867 | 749 |
| Provisions | 12 | 8 | - | - | - | - | - | - | 12 | 8 |
| Total liabilities | 2,400 | 1,664 | 4,382 | 591 | 211 | - | - | 58 | 6,993 | 2,313 |
| Net assets | 12,899 | 7,718 | (842) | (367) | (179) | - | 14 | (38) | 11,892 | 7,313 |

⁽¹⁾ Cash has not been allocated between activities.

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1.3 Impact of COVID-19 pandemic on Defence SA

The COVID-19 pandemic has not had a material impact on Defence SA's operations.

1.4 Changes to Defence SA

As a result of administrative arrangements outlined in the Chief Executive Agreement (24 May 2019), the Department of the Premier and Cabinet relinquished responsibility for Veterans Affairs, a business unit of the Department. Assets and liabilities relating to this business unit were transferred to Defence SA effective 1 July 2019.

This included six employees and associated operating budget. Veteran's SA provides advocacy and support to the veteran's community of South Australia.

Transferred in

| | |
|---|----------------|
| On transfer of Veteran's SA Defence SA recognised the following assets and liabilities: | \$' 000 |
| Intangible assets (refer note 6.4) | 106 |
| Total assets | 106 |
| Payables | 24 |
| Employee benefits liabilities | 195 |
| Provisions | 16 |
| Total liabilities | 235 |
| Total net liabilities transferred in | 129 |

Net liabilities transferred in as a result of the administrative restructure were recognised at the carrying amount.

1.5 Budget performance

The budget performance table compares Defence SA's outcomes against budget information presented to Parliament (*2019-20 Budget Paper 4*). The budget amounts have not been adjusted to reflect revised budgets or administrative restructures. The budget process is not subject to audit.

| Statement of Comprehensive Income | Note | Original budget 2020 \$' 000 | Actual 2020 \$' 000 | Variance ⁽¹⁾ 2020 \$' 000 |
|-----------------------------------|------|---------------------------------------|---------------------------|--|
| Income | | | | |
| Appropriation | | 20,249 | 20,115 | (134) |
| Fees and charges | | - | 339 | 339 |
| Grants | | 75 | 643 | 568 |
| Recoveries | | - | 841 | 841 |
| Resources received free of charge | | - | 53 | 53 |
| Other income | | 289 | - | (289) |
| Total income | | 20,613 | 21,991 | 1,378 |
| Expenses | | | | |
| Employee benefits expenses | | 4,617 | 4,224 | 393 |
| Supplies and services | | 3,866 | 3,499 | 367 |
| Depreciation | | 15 | 272 | (257) |
| Grants and subsidies | (a) | 11,959 | 6,859 | 5,100 |
| Interest on leases | | - | 28 | (28) |
| Resources received free of charge | | - | 53 | (53) |
| Cash alignment transfer | (b) | - | 1,913 | (1,913) |
| Other expenses | | 95 | 435 | (340) |
| Total expenses | | 20,552 | 17,283 | 3,269 |
| Net result | | 61 | 4,708 | 4,647 |
| Total comprehensive result | | 61 | 4,708 | 4,647 |

⁽¹⁾ The use of brackets identifies an adverse variance

Explanations are provided for variances where the variance exceeds the greater of 10% of the original budgeted amount and 5% of original budgeted total expenses.

(a) The \$5.100 million grant expenditure variance is due to delays in achievement of program milestones and project completion on the part of the recipients

(b) Surplus cash returned to Department of Treasury and Finance (\$1.913 million)

2 Advisory Board, Council and employees

Defence SA Advisory Board

The Defence SA Advisory Board (Board) plays a key role in guiding the state's defence industry strategy and provides high-level advice to the South Australian Government to promote the growth of the defence industry in South Australia.

The Board has a core skills base made up of strategic defence expertise and networking capability across the full range of defence capabilities and extensive knowledge of the tertiary education and research sector. Defence SA has recruited staff from Defence, defence industry and organisations involved in research providing unique skills and experience to facilitate industry engagement with a view to attracting major Defence projects to the State.

Veteran's Advisory Council

The Veteran's Advisory Council provides strategic and policy advice to the State Government on behalf of the veteran's community, investigates matters referred by the Minister for Veterans' Affairs for response on behalf of the veteran's community and provides advice to the public on behalf of the Minister on veteran's related events, programs, projects and funding opportunities. The Council is also responsible for providing recommendations to the Minister regarding the expenditure of annual grant funding for the Anzac Day Commemorative Fund. Appointments are made by the Minister based on an individual's experience and connection with the community of those who have served and their families.

The functions of the Veteran's Advisory Council were transferred from the Department of the Premier and Cabinet to Defence SA as part of an administrative restructure on 1 July 2019.

2.1 Key management personnel

Key management personnel of Defence SA include the Premier, the Chief Executive and members of the Executive Team who have the responsibility for the strategic direction and management of Defence SA.

Total compensation paid by Defence SA for key management personnel was \$1.128 million (\$1.041 million). The compensation disclosed in this note excludes salaries and other benefits the Premier receives. The Premier's remuneration and allowances are set by the *Parliamentary Remuneration Act 1990* and the Remuneration Tribunal of SA respectively and are payable from the Consolidated Account (via the Department of Treasury and Finance) under section 6 of the *Parliamentary Remuneration Act 1990*.

Transactions with key management personnel and other related parties

Defence SA had no transactions with key management personnel and other related parties other than those in the normal course of business.

2.2 Advisory Board and Council members

Members of the Defence SA Advisory Board during the financial year were:

ACM Sir A Houston AK AFC (Ret'd) (Chair)
Hon S Marshall MP Premier⁽¹⁾
VADM R Crane AO CSM RANR (Ret'd)
S Ludlam FREng
R Price⁽²⁾
Prof P Quester (retired 31 August 2019)
RADM T Ruting AM CSC RAN (Ret'd) (retired 31 August 2019)
M Davis (commenced 1 September 2019)

Members of the Veteran's Advisory Council during the financial year were:

COL S Neuhaus AM CSC (Ret'd) (Chair) (commenced 17 February 2020)
COL C Burns CSC (Rsv)
C Cates
CMDR A Cooper ADC RAN (commenced 1 January 2020)⁽⁴⁾
Dr P Dabovich
AIRCDRE M Forster CSM (Rsv)
J Godwin (Deputy Chair)
LTCOL A Gower (commenced 1 January 2020)⁽⁴⁾
J Hanrahan (commenced 1 January 2020)
MAJ S Heidenreich (Rsv)
R Kemp OAM
N Klinge (commenced 1 January 2020)
F Lampard OAM⁽³⁾
Dr S Mascall-Dare
J Milham (commenced 1 January 2020)
J O'Hanlon
AIRCDRE B Rogers CSC CSM⁽⁴⁾
M Thiele
C Tilley⁽²⁾
CMDR A Burnett ADC RAN (retired 31 December 2019)⁽⁴⁾
L Eddy OAM (retired 31 December 2019)
BRIG L Lewis AM (Ret'd) (retired 31 December 2019)
Ms K May (retired 31 December 2019)
Ms H Meyer (retired 31 December 2019)
LTCOL J Holloway (retired 31 December 2019)⁽⁴⁾

⁽¹⁾ The Premier the Hon Stephen Marshall MP did not receive any remuneration for board duties during the period.

⁽²⁾ Pursuant to the Department of the Premier and Cabinet Circular PC016, government employees did not receive any remuneration for board duties during the financial year.

⁽³⁾ Elected not to receive any remuneration for council duties during the financial year.

⁽⁴⁾ Ex-Officio Australian Defence Force members did not receive any remuneration for council duties during the financial year.

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2.2 Advisory Board and Council members (continued)

Advisory Board and Council remuneration

The number of members whose remuneration received or receivable falls within the following bands is:

| | 2020 No. | 2019 No. |
|--------------------------------|-------------|-------------|
| \$1 to \$19 999 | 20 | 2 |
| \$20 000 to \$39 999 | 3 | 4 |
| \$60 000 to \$79 999 | 1 | 1 |
| Total number of members | 24 | 7 |

Total remuneration received or receivable, by board and council members was \$198 000 (\$221 000).

Remuneration of members includes sitting fees, superannuation contributions, salary sacrifice benefits, fringe benefits and related fringe benefits tax.

Member numbers for 2019-20 include the Veterans Advisory Council, responsibility for which was transferred to Defence SA on 1 July 2019 was a part of an administrative arrangement.

2.3 Employee benefits expenses

| | 2020 \$' 000 | 2019 \$' 000 |
|--|-----------------|-----------------|
| Salaries and wages | 3,239 | 2,727 |
| Long service leave | (59) | 69 |
| Annual leave | 251 | 201 |
| Skills and experience retention leave | 12 | 7 |
| Employment on-costs - superannuation ⁽¹⁾ | 353 | 306 |
| Employment on-costs - other | 201 | 169 |
| Fees paid to Advisory Board and Council members (refer note 2.2) | 176 | 202 |
| Workers compensation | (13) | (1) |
| Other employee related expenses | 64 | 41 |
| Total employee benefits expenses | 4,224 | 3,721 |

⁽¹⁾ The superannuation employment on-cost charge represents Defence SA's contribution to superannuation plans in respect of current services of current employees.

Executive remuneration

| | 2020 \$' 000 | 2019 \$' 000 |
|---|-----------------|-----------------|
| The number of employees whose remuneration received or receivable falls within the following bands: | | |
| | No | No |
| \$174 001 to \$194 000 | 1 | 1 |
| \$194 001 to \$214 000 | 3 | 3 |
| \$214 001 to \$234 000 | - | 1 |
| \$234 001 to \$254 000 | - | 1 |
| \$254 001 to \$274 000 | - | 1 |
| \$274 001 to \$294 000 | 1 | - |
| \$334 001 to \$354 000 | 1 | 1 |
| Total number of employees | 6 | 8 |

The total remuneration received by those employees for the year was \$1.400 million (\$1.900 million).

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year.

Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any fringe benefits tax paid or payable in respect of those benefits.

Targeted voluntary separation packages

The number of employees who received a targeted voluntary separation package during the reporting period was nil (nil).

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2.4 Employee benefits liability

| | 2020 | 2019 |
|--|------------|------------|
| | \$' 000 | \$' 000 |
| Current | | |
| Accrued salaries and wages | 94 | 54 |
| Annual leave | 237 | 174 |
| Long service leave | 325 | 303 |
| Skills and experience retention leave | 21 | 11 |
| Total current employee benefits - liability | <u>677</u> | <u>542</u> |
| Non-current | | |
| Long service leave | 190 | 207 |
| Total non-current employee benefits - liability | <u>190</u> | <u>207</u> |
| Total employee benefits - liability | <u>867</u> | <u>749</u> |

Employee benefits accrue as a result of services provided up to the reporting date that remain unpaid.

Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

Salaries and wages, annual leave, skills and experience retention leave and sick leave

The liability for salary and wages is measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date.

The annual leave liability and the skills and experience retention leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave expected to be taken in future years by employees is estimated to be less than the annual entitlement for sick leave.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Details about the measurement of long service leave liability is provided in note 10.1.

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3 Income

Defence SA is primarily funded through appropriations received from the South Australian Government. Other income sources include grant funding from other South Australian Government departments, event participation revenue, rental income and cost recoveries.

3.1 Appropriation

| | 2020 | 2019 |
|--|---------------|---------------|
| | \$' 000 | \$' 000 |
| Appropriation | | |
| Appropriations from Consolidated Account pursuant to the <i>Appropriation Act 2019</i> | 20,105 | 10,516 |
| Transfers received - Department of Treasury and Finance | 10 | - |
| Total appropriation | <u>20,115</u> | <u>10,516</u> |

Appropriations are recognised on receipt.

3.2 Fees and charges

| | 2020 | 2019 |
|-------------------------------|------------|------------|
| | \$' 000 | \$' 000 |
| Event participation fees | 125 | 174 |
| Rental income | 28 | - |
| Service fees | 55 | - |
| Event sponsorships | 131 | 7 |
| Total fees and charges | <u>339</u> | <u>181</u> |

3.3 Grants

| | 2020 | 2019 |
|----------------------------|------------|--------------|
| | \$' 000 | \$' 000 |
| Intra-government transfers | 378 | 1,035 |
| Other | 265 | 275 |
| Total grants | <u>643</u> | <u>1,310</u> |

3.4 Recoveries

| | 2020 | 2019 |
|---|------------|------------|
| | \$' 000 | \$' 000 |
| Techport Australia recoveries | - | 20 |
| Defence Innovation Partnership recoveries | 135 | 129 |
| Property recoveries | 279 | 180 |
| Industry assistance grants recovered | 325 | - |
| Other recoveries | 102 | 1 |
| Total recoveries | <u>841</u> | <u>330</u> |

3.5 Resources received free of charge

| | 2020 | 2019 |
|--|-----------|-----------|
| | \$' 000 | \$' 000 |
| Services received free of charge from Shared Services SA | 53 | 45 |
| Total resources received free of charge | <u>53</u> | <u>45</u> |

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4 Expenses

Employee benefits expenses are disclosed in note 2.3

4.1 Supplies and services

| | 2020 \$' 000 | 2019 \$' 000 |
|--|-----------------|-----------------|
| Promotion and events | 1,025 | 1,632 |
| Contractors | 868 | 301 |
| Accommodation and service costs | 336 | 332 |
| Property | 316 | 210 |
| Provision of corporate services under Service Level Agreements | 196 | 136 |
| Travel and related expenses | 168 | 244 |
| Consultants | 136 | 137 |
| Legal fees | 111 | 182 |
| Staff safety, development and recruitment | 63 | 62 |
| Service recoveries South Australian Government | 5 | 97 |
| Other expenses | 275 | 288 |
| Total supplies and services | 3,499 | 3,621 |

Accommodation

Defence SA's office accommodation is provided by the Department of Planning, Transport and Infrastructure under a Memorandum of Administrative Arrangement (MoAA), issued in accordance with Government-wide accommodation policies. MoAA do not meet the definition of leases set out in AASB 16.

Consultants

The number of consultancies and dollar amount paid/payable that fell within the following bands:

| | 2020 | | 2019 | |
|--|----------|------------|----------|------------|
| | No | \$' 000 | No | \$' 000 |
| Below \$10 000 | - | - | - | - |
| \$10 000 and above | 1 | 136 | 2 | 137 |
| Total paid/payable to the consultants engaged | 1 | 136 | 2 | 137 |

4.2 Depreciation

| | 2020 \$' 000 | 2019 \$' 000 |
|---|-----------------|-----------------|
| Right of use buildings and improvements | 262 | - |
| Right of use vehicles | 7 | - |
| Plant and equipment | 3 | 3 |
| Total depreciation | 272 | 3 |

All non-current assets, with a limited useful life are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential.

Useful life

Depreciation/amortisation is calculated on a straight line basis over the estimated useful life of the classes of assets as follows:

| Class of asset | Useful life (years) |
|---|---------------------|
| Right of use buildings and improvements | Lease term |
| Right of use vehicles | Lease term |
| Leasehold improvements | Lease term |
| Plant and equipment | 4 |

Review of accounting estimates

Assets' residual values, useful lives and depreciation and amortisation methods are reviewed and adjusted if appropriate, on an annual basis.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate.

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4.3 Grants and subsidies

| | 2020 | 2019 |
|------------------------------------|--------------|--------------|
| | \$' 000 | \$' 000 |
| AWD program | 1,084 | 687 |
| Industry development | 1,550 | 1,368 |
| Industry assistance | 2,572 | 1,700 |
| Research programs | 906 | 874 |
| Support for the Veterans community | 415 | - |
| Intra-government payments | 332 | 65 |
| Total grants and subsidies | 6,859 | 4,694 |

4.4 Interest on leases

| | 2020 | 2019 |
|---------------------------------|-----------|----------|
| | \$' 000 | \$' 000 |
| Buildings and improvements | 28 | - |
| Total interest on leases | 28 | - |

4.5 Other expenses

| | 2020 | 2019 |
|--|------------|------------|
| | \$' 000 | \$' 000 |
| Audit fees - Auditor General | 41 | 41 |
| Internal audit | 38 | 24 |
| Donated land ⁽¹⁾ | - | 35 |
| Impairment losses on non-financial assets (refer note 6.4) | 106 | - |
| Other ⁽²⁾ | 250 | - |
| Total other expenses | 435 | 100 |

⁽¹⁾ During the 2018-19 year land was acquired from Renewal SA for \$35 000 and transferred to Australian Naval Infrastructure Pty Ltd for nil consideration in accordance with the Memorandum of Understanding.

⁽²⁾ During the 2019-20 Defence SA reimbursed \$250,000 to Australian Naval Infrastructure Pty Ltd being the purchase price of a parcel of land at Osborne in accordance with the Memorandum of Understanding.

5 Financial assets

5.1 Cash

| | 2020 | 2019 |
|--|---------------|--------------|
| | \$' 000 | \$' 000 |
| Deposits with the Treasurer | | |
| Defence SA operating account | 11,570 | 5,747 |
| Accrual Appropriation Excess Funds Account | 3,398 | 3,405 |
| Total deposits with the Treasurer | 14,968 | 9,152 |

Although Defence SA controls the funds in the Accrual Appropriation Account, its use must be approved by the Treasurer. Defence SA does not earn interest on its deposits with the Treasurer.

5.2 Receivables

| | 2020 | 2019 |
|---|------------|------------|
| | \$' 000 | \$' 000 |
| Current | | |
| Receivables | 254 | 415 |
| Less allowance for impairment loss on receivables | (153) | (153) |
| Prepayments | 71 | 106 |
| GST recoverable from the ATO | 218 | 100 |
| Total current receivables | 390 | 468 |

Receivables arise in the normal course of business. Receivables are normally settled within 30 days after the issue of an invoice or the goods/services have been provided under a contractual arrangement. Receivables, prepayments and accrued revenues are non-interest bearing.

The net amount of GST receivable from or payable to the ATO is included as part of receivables.

There was no movement in allowance for impairment loss on receivables during the period.

Collectability of receivables is reviewed on an ongoing basis. Bad debts are written off when identified. Refer to note 10.3 for details regarding credit risk and the methodology for determining impairment.

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6 Property, plant and equipment

6.1 Property, plant and equipment by asset class

| | 2020 \$' 000 | 2019 \$' 000 |
|--|-----------------|-----------------|
| Right of use assets | | |
| Right of use buildings and improvements | | |
| Right of use buildings and improvements at cost | 3,779 | - |
| Accumulated depreciation at the end of the period | (262) | - |
| Total right of use buildings and improvements | 3,517 | - |
| Right of use vehicles | | |
| Right of use vehicles at cost | 14 | - |
| Accumulated depreciation at the end of the period | (7) | - |
| Total right of use vehicles | 7 | - |
| Total right of use assets | 3,524 | - |
| Leasehold improvements | | |
| Leasehold improvements at cost | 884 | 884 |
| Accumulated amortisation at the end of the period | (884) | (884) |
| Total leasehold improvements | - | - |
| Plant and equipment | | |
| Plant and equipment at cost | 14 | 27 |
| Accumulated depreciation at the end of the period | (11) | (21) |
| Total plant and equipment | 3 | 6 |
| Total property, plant and equipment | 3,527 | 6 |
| Total property, plant and equipment at cost | 4,691 | 911 |
| Total accumulated depreciation/amortisation at the end of the period | (1,164) | (905) |
| Total property, plant and equipment | 3,527 | 6 |

Reconciliation 2019-20

| | Right of use | Plant and equipment | Total assets |
|--|--------------|---------------------|--------------|
| Carrying amount at 1 July 2019 | - | 6 | 6 |
| Acquisitions and additions | 3,793 | - | 3,793 |
| Disposals | - | (14) | (14) |
| Depreciation | (269) | (3) | (272) |
| Depreciation reversal on disposal of asset | - | 14 | 14 |
| Carrying amount at 30 June 2020 | 3,524 | 3 | 3,527 |

6.2 Property, plant and equipment owned by Defence SA

Property, plant and equipment with a value equal to or in excess of \$10 000 is capitalised, otherwise it is expensed.

Property, plant and equipment is recorded at fair value. Detail about Defence SA's approach to fair value is set out in note 10.2.

Impairment

Leasehold improvements and plant and equipment have not been assessed for impairment as they are non-cash generating assets, that are held for continual use of their service capacity.

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6.3 Property, plant and equipment leased by Defence SA

Property, plant and equipment leased by Defence SA is recorded at cost.

Short-term leases of 12 months or less and low value leases where the underlying asset value is less than \$15 000 are not recognised as right-of-use assets. The associated lease payments are recognised as an expense and are disclosed as accommodation costs in note 4.1.

Defence SA has a limited number of leases consisting of:

- One motor vehicle lease with the South Australian Government Financing Authority (SAFA). Motor vehicle leases are non-cancellable, with rental payments monthly in arrears. Motor vehicle lease terms can range from three years (60 000 km) up to five years (100 000 km). No contingent rental provisions exist within these lease agreements and no options exist to renew the lease at the end the term.
- Office space within Lot Fourteen leased from Renewal SA. This space is utilised by the Space Innovation Precinct and the Defence and Space Landing Pad. The Space Innovation Precinct is occupied by the Australian Space Agency and other key space organisations. The Defence and Space Landing Pad provides a facility for international companies to explore the opportunity to establish operations in South Australia's thriving defence and space sectors.

The lease liabilities related to the right-of-use assets are disclosed in note 7.2. Defence SA's maturity analysis of its lease liabilities is disclosed in note 10.3. Expenses related to leases, including depreciation and interest expenses, are disclosed in note 4.

Impairment

Property, plant and equipment leased by Defence SA has been assessed for impairment. There was no indication of impairment. No impairment loss or reversal of impairment loss was recognised.

6.4 Intangible assets

Computer software

| | 2020 | 2019 |
|--|----------|----------|
| | \$' 000 | \$' 000 |
| Computer software transferred at cost (refer note 1.4) | 106 | - |
| Impairment loss (refer note 4.5) | (106) | - |
| Total computer software | <u>-</u> | <u>-</u> |

Intangible assets are initially measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Defence SA has assessed the computer software transferred at cost to have no realisable value and has subsequently impaired the intangible asset in full.

Reconciliation 2019-20

| | Purchased computer software | Total intangible assets |
|---|-----------------------------------|-------------------------------|
| Carrying amount at 1 July 2019 | - | - |
| Acquisition through administrative restructure (refer note 1.4) | 106 | 106 |
| Impairment losses (refer note 4.5) | (106) | (106) |
| Carrying amount at 30 June 2020 | <u>-</u> | <u>-</u> |

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7 Liabilities

Employee benefits liabilities are disclosed in note 2.4.

7.1 Payables

| | 2020 \$' 000 | 2019 \$' 000 |
|------------------------------------|-----------------|-----------------|
| Current | | |
| Creditors and accrued expenses | 2,098 | 1,136 |
| GST payable | 7 | - |
| Employment on-costs | 102 | 78 |
| Paid parental leave scheme payable | 6 | 1 |
| Total current payables | <u>2,213</u> | <u>1,215</u> |
| Non-current | | |
| Employment on-costs | 12 | 13 |
| Total non-current payables | <u>12</u> | <u>13</u> |
| Total payables | <u>2,225</u> | <u>1,228</u> |

Payables and accruals are raised for all amounts owing but unpaid. Sundry payables are normally settled within 30 days from the date the invoice is first received. All payables are non-interest bearing. The carrying amount of payables represents fair value due to their short-term nature.

Employment on-costs

Employee benefits on-costs include payroll tax and superannuation contributions.

Defence SA contributes to State Government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid to these superannuation schemes.

As a result of an actuarial assessment performed by the Department of Treasury and Finance, the proportion of long service leave taken as leave has increased to 42% (41%) and the average factor for the calculation of employer superannuation cost on-cost has remained the same as the 2019 rate of 9.8%.

There is no material financial effect from changes in actuarial assumptions in employment on-costs and employee benefits expense. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of assumptions. A key assumption is the proportion of long service leave taken as leave instead of a lump sum, a result determined by the actuary based on current period data.

Paid parental leave scheme

The paid parental leave scheme payable represents amounts which Defence SA has received from the Australian Government to forward on to eligible employees via Defence SA's standard payroll processes. That is, Defence SA is acting as a conduit through which the payment to eligible employees is made on behalf of the Family Assistance Office.

7.2 Lease liabilities

| | 2020 \$' 000 | 2019 \$' 000 |
|---|-----------------|-----------------|
| Current | | |
| Buildings and improvements | 388 | - |
| Vehicles | 7 | - |
| Total current leases | <u>395</u> | <u>-</u> |
| Non-current | | |
| Buildings and improvements | 3,169 | - |
| Vehicles | 1 | - |
| Total non-current leases | <u>3,170</u> | <u>-</u> |
| Total leases | <u>3,565</u> | <u>-</u> |
| Movements in leases | | |
| Carrying amount at the beginning of the period | - | - |
| Additional leases recognised | 3,793 | - |
| Lease repayments | (228) | - |
| Carrying amount at the end of the period | <u>3,565</u> | <u>-</u> |

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7.3 Unearned revenue

| | 2020 | 2019 |
|---------------------------------------|------------|------------|
| | \$' 000 | \$' 000 |
| Current | | |
| Unearned revenue | 324 | 328 |
| Total current unearned revenue | <u>324</u> | <u>328</u> |
| Total unearned revenue | <u>324</u> | <u>328</u> |

7.4 Provisions

| | 2020 | 2019 |
|--|-----------|----------|
| | \$' 000 | \$' 000 |
| Current | | |
| Provision for workers compensation | 4 | 3 |
| Total current provisions | <u>4</u> | <u>3</u> |
| Non-current | | |
| Provision for workers compensation | 8 | 5 |
| Total non-current provisions | <u>8</u> | <u>5</u> |
| Total provisions | <u>12</u> | <u>8</u> |
| Movements in provisions | | |
| Carrying amount at the beginning of the period | 8 | 10 |
| Additional provisions recognised | - | - |
| Reductions resulting from re-measurement | (12) | (2) |
| Veterans SA provisions transferred in (refer note 1.4) | 16 | - |
| Carrying amount at the end of the period | <u>12</u> | <u>8</u> |

A provision has been reported to reflect potential workers compensation claims.

The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2020 provided by a consulting actuary engaged through the Office of the Commissioner for the Public Sector. The provision is for the estimated cost for ongoing payments to employees as required under current legislation.

Defence SA is responsible for the payment of workers compensation claims.

8 Changes in accounting policy

8.1 AASB 16 Leases

AASB 16 sets out a comprehensive model for lessee accounting that addresses recognition, measurement, presentation and disclosure of leases. Lessor accounting is largely unchanged. AASB 16 *Leases* replace AASB 117 *Leases* and related interpretations.

The adoption of AASB 16 *Leases* from 1 July 2019 resulted in adjustments to the amounts recognised from a lessee perspective in the financial statements:

- AASB 117 *Leases* only required the recognition of an asset and lease liability in relation to finance leases. AASB 16 *Leases* applies a comprehensive model to all leases. Applying AASB 16 will result in leases previously classified as operating leases having right-of-use assets and related lease liabilities being recognised in the Statement of Financial Position; and
- AASB 117 *Leases* resulted in operating lease payments being recognised as an expense under Supplies and Services. AASB 16 *Leases* largely replaces this with depreciation expense that represents the use of the right-of-use asset and interest expense that represent the cost associated with financing the right-of-use asset.

New leases of \$3.779 million were entered into during the current period. These were recognised as contractual commitments as at 30 June 2019. There was no impact on Defence SA's retained earnings.

Defence SA disclosed in its 2018-19 financial statement total undiscounted operating lease commitments of \$4.700 million under AASB 117.

Defence SA has accommodation services provided by the Department of Planning, Transport and Infrastructure (DPTI) under a Memorandum of Administrative Arrangement (MoAA) issued in accordance with Government-wide accommodation policies.

This MoAA does not meet the definition of a lease set out either in AASB 16 or in the former standard AASB 117. Accordingly, the 2018-19 undiscounted operating lease commitments should have been disclosed as \$4.030 million under AASB 117.

Commitments related to accommodation services provided by DPTI are included in note 9.1.

Accounting policies on transition

The transitional provisions of AASB 16 were applied to the lease of a vehicle from SAFA.

AASB 16 sets out accounting policies on transition in its transitional provisions. The Treasurer's Instructions (Accounting Policy Statements) requires certain choices in those transitional provisions to be taken. Defence SA has adopted the following accounting policies:

- to apply AASB 16 retrospectively. The cumulative effect of initially applying the Standard was recognised at 1 July 2019. Comparatives have not been restated;
- at 1 July 2019 AASB 16 was applied only to contracts that were previously identified as containing a lease under AASB 117 and related interpretations;
- the initial measurement of lease liability was the present value of the remaining leases payments discounted using the relevant incremental borrowing rate published by the Department of Treasury and Finance as at 1 July 2019 based on the SA Government's cost of borrowing. The average weighted incremental borrowing rate for this purpose was 3.13%; and
- the initial measurement of right-of-use assets has been calculated as an amount equal to the lease liability on transition adjusted for prepaid or accrued lease payments and lease incentive liabilities.

8.1 AASB 16 Leases (continued)

Ongoing accounting policies

The Treasurer's Instructions (Accounting Policy Statements) specify required accounting policies for public authorities in applying AASB 16. These requirements are reflected in Defence SA's accounting policies as follows:

- AASB 16 is not applied to leases of intangible assets;
- right-of-use assets and lease liabilities are not recognised for leases of low value assets, being assets which have a value of \$15 000 or less, nor short-term leases, being those with a lease term of 12 months or less;
- Defence SA, in the capacity of a lessee, does not include non-lease components in lease amounts;
- right-of-use assets are not measured at fair value on initial recognition for leases that have significantly below-market terms and conditions principally to enable the public authority to further its objectives; and
- right-of-use assets are subsequently measured applying a cost model.

Significant accounting policies relating to the application of AASB 16 are disclosed under relevant notes.

8.2 AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* establishes a revenue recognition model for revenue arising from contracts with customers. It requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 supersedes AASB 111 *Construction Contracts*, AASB 118 *Revenue* and related Interpretations and applies to all revenue arising from contracts with customers.

Accounting policies on transition

The adoption of AASB 15 had no impact on revenue or retained earnings recognised by Defence SA.

Ongoing accounting policies

The Treasurer's Instructions (Accounting Policy Statements) specify requirements for public authorities in applying AASB 15. These requirements are reflected in Defence SA's accounting policies as follows:

- there is no adjustment to the promised amount of consideration for the effects of a significant financing component if the period between the transfer of goods/services and the payment date is one year or less;
- the incremental costs of obtaining a contract are expensed when incurred when the amortisation period of the asset that Defence SA would have recognised is one year or less; and
- for measuring progress towards satisfaction of performance obligations when the output method is applied, revenue is recognised in the amount to which there is a right to invoice corresponding directly to the value to the customers of Defence SA's performance completed to date.

8.3. AASB 1058 Income of Not-for-Profit Entities

AASB 1058 *Income of Not-for-Profit Entities* establishes new income recognition requirements for not-for-profit entities. Its requirements apply where the consideration to acquire an asset, including cash, is significantly less than fair value principally to the entity to further its objectives. AASB 1058 supersedes income recognition requirements in AASB 1004 *Contributions*, AASB 118 *Revenue* and AASB 111 *Construction Contracts*. However, elements of AASB 1004 remain in place, primarily in relation to restructures of administrative arrangements and other contributions and distributions by owners.

Accounting policies on transition

On transition, there was no impact on retained earnings.

8.4. Effects on financial statements from AASB 15 and AASB 1058

There were no effects on financial statements from the adoption of AASB 15 and AASB 1058.

8.5. Presentation of Financial Statements

Treasurer's Instructions (Accounting Policy Statements) effective from 1 June 2020 removed the previous requirement for financial statements to be prepared using the net cost of services format. The net cost of services is the total cost of services less any revenue retained by public authorities involved in the provision of services but does not include items classified as revenues from and payments to the South Australian Government.

Presentation of the Statement of Comprehensive Income on an income and expense basis allows information to be presented in such a way that eliminates potential confusion as to the source of funding for Defence SA. As well as changes to the format of the Statement of Comprehensive Income, there are presentational changes to remove the net cost of services format from the Statement of Cash Flows. These statements now show income before expenses and cash receipts before cash payments. Related disclosures also reflect this changed format.

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9 Outlook

9.1 Unrecognised contractual commitments

Commitments include operating and outsourcing arrangements arising from contractual sources and are disclosed at their nominal value.

Unrecognised contractual commitments are disclosed net of the amount of GST recoverable from, or payable to the ATO. If GST is not payable to, or recoverable from the ATO, the commitments are disclosed on a gross basis.

Expenditure commitments

| | 2020 | 2019 |
|---|---------------|---------------|
| | \$' 000 | \$' 000 |
| Within 1 year | 8,612 | 14,632 |
| Later than 1 year but not longer than 5 years | 4,139 | 8,412 |
| Later than 5 years | 643 | - |
| Total expenditure commitments | 13,394 | 23,044 |

Defence SA's operating expenditure commitments are for agreements for:

- MoAA with the Department of Planning, Transport and Infrastructure for office accommodation;
- Grant and fee for service contracts for defence and space industry development.

Operating lease commitments

| | 2020 | 2019 |
|---|----------|--------------|
| | \$' 000 | \$' 000 |
| Within 1 year | - | 234 |
| Later than 1 year but not longer than 5 years | - | 1,539 |
| Later than 5 years | - | 2,257 |
| Total lease commitments* | - | 4,030 |

* The commitments figures in 2019-20 for operating leases included a current lease for the Defence SA office space and two leases for Defence SA which commenced during the 2019-20 financial year:

| | 2020 | 2019 |
|--|----------|--------------|
| | \$' 000 | \$' 000 |
| Defence Landing Pad, commenced 1 October 2019 | - | 178 |
| Space Innovation Hub, commenced 1 January 2020 | - | 3,852 |
| Total lease commitments | - | 4,030 |

Defence Landing Pad and Space Innovation Hub leases commenced during 2019-20 and have been classified as leases under the newly adopted AASB 16 *Leases* accounting standard and are now disclosed as liabilities. Following a government wide review the lease for the Defence SA office space was determined not to be lease under the AASB16 accounting standard, accordingly the commitment for this lease has been disclosed as an expenditure commitment for 2019-20 with comparative figures adjusted accordingly.

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9.2 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

Unrecognised contingencies are disclosed net of the amount of GST recoverable from, or payable to the ATO. If GST is not payable to, or recoverable from the ATO, the contingencies are disclosed on a gross basis.

| | 2020 | 2019 |
|---|----------|--------------|
| | \$' 000 | \$' 000 |
| Contingent liabilities to which a value can be assigned | - | 3,540 |
| Total | <u>-</u> | <u>3,540</u> |

Contingent Liabilities to which values cannot be applied

Continuous Naval Shipbuilding

In May 2017 the state signed a Memorandum of Understanding (MoU) to transfer the Techport Australia Common User Facility and associated assets to Australian Naval Infrastructure Pty Ltd (Australian Government entity) during the 2017-18 year.

Under the MoU the state is responsible for construction of overpass(es) to provide pedestrian access to the shipyard. The value cannot be determined until designs are finalised and costing completed.

9.3. COVID-19 pandemic outlook for Defence SA

The COVID-19 pandemic is not expected to have a material impact on Defence SA's operations or financial position in 2020-21.

9.4 Events after the reporting period

Adjustments are made to amounts recognised in the financial statements where an event occurs after 30 June and before the date the financial statements are authorised for issue, where the event provides information about conditions that existed at 30 June.

There are no reportable events after the reporting period.

10 Measurement and risk

10.1 Long service leave liability - measurement

AASB 119 *Employee Benefits* describes the calculation methodology for long service leave liability.

The actuarial assessment performed by the Department of Treasury and Finance has provided a basis for the measurement of long service leave and is based on actuarial assumptions over expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data over SA Government entities.

AASB 119 *Employee Benefits* requires the use of the yield on long-term Australian Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Australian Government bonds has decreased to 0.75% (1.25%).

This decrease in the bond yield, which is used as the rate to discount future long service leave cash flows, results in an increase in the reported long service leave liability.

The net financial effect of the changes to actuarial assumptions in the current financial year is a decrease in the long service leave liability of \$45 000 and employee benefits expense of \$45 000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions including the long-term discount rate.

The actuarial assessment performed by the Department of Treasury and Finance reduced the salary inflation rate to 2.5% (4.0%) for long service leave liability. The long service leave liability was reduced as a result of changes in the salary inflation rate.

The unconditional portion of the long service leave provision is classified as current as Defence SA does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The unconditional portion of long service leave relates to an unconditional legal entitlement to payments arising after 10 years service.

10.2 Fair value

AASB 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date

Initial recognition

Non-current tangible assets are initially recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition.

Where assets are acquired at no value, or minimal value, they are recorded at fair value in the Statement of Financial Position.

If the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements then the assets are recognised at book value, (i.e. the amount recorded by the transferor public authority immediately prior to the restructure.)

Revaluation

Property, plant and equipment are subsequently measured at fair value less accumulated depreciation.

Assets held by Defence SA have not been revalued as they are either fully written down or are of an immaterial value. The carrying value of these items are deemed to approximate fair value.

Right of use assets are only revalued when there are significant variations to the leases to which they apply.

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10.3 Financial instruments

Financial risk management

Risk management is exercised by Defence SA's corporate services section.

Defence SA's risk management policies are in accordance with the *Risk Management Policy Statement* issued by the Premier and Treasurer and the principles established in the Australian Standard *Risk Management Principles and Guidelines*.

Defence SA's exposure to financial risk (liquidity risk, credit risk and market risk) is low due to the nature of financial instruments held.

Impairment of financial assets

The following financial assets of Defence SA are subject to AASB 9's expected credit loss model:

- receivables from provision of goods and services

Categorisation of financial instruments

Details of the significant accounting policies and methods adopted including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised with respect to each class of financial asset, financial liability and equity instrument are disclosed in the respective financial asset / financial liability note.

Classification of financial instruments

Defence SA measures all financial instruments at amortised cost.

| Category of financial asset and financial liability | 2020 Carrying amount / fair value \$'000 | 2020 Contractual maturities | | |
|--|---|-----------------------------|---------------------|--------------------------------|
| | | Within 1 year \$'000 | 1-5 years \$'000 | More than 5 years \$'000 |
| Financial assets | | | | |
| Cash | 14,968 | n/a | n/a | n/a |
| Receivables | 101 | n/a | n/a | n/a |
| Total financial assets | 15,069 | | | |
| Financial liabilities | | | | |
| Payables | 1,854 | | | |
| Lease liabilities | 3,565 | 395 | 1,370 | 1,800 |
| Total financial liabilities | 5,419 | | | |
| Category of financial asset and financial liability | 2019 | | | |
| | Carrying amount | | | |
| | \$'000 | | | |
| Financial assets | | | | |
| Cash | 9,152 | | | |
| Receivables | 262 | | | |
| Total financial assets | 9,414 | | | |
| Financial liabilities | | | | |
| Payables | 656 | | | |
| Lease liabilities | - | | | |
| Total financial liabilities | 656 | | | |

Receivables and payables

The receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables (e.g. Australian, State and Local Government taxes, fees and charges; Auditor General's Department audit fees). In government certain rights to receive or pay cash may not be contractual and therefore in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levies, tax and equivalents, they are excluded from disclosure. The standard defines contract as enforceable by law. All amounts recorded are carried at cost.

The receivables amount disclosed here excludes prepayments as they are not financial assets. Prepayments are disclosed in note 5.2.

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11 Administered item

11.1 ANZAC Day Commemoration Fund

The ANZAC Day Commemoration Fund was established under the *ANZAC Day Commemoration Act 2005*. The object of the Act is to ensure that the contribution of all men and women who have served Australia in time of war or armed conflict, or in international peace-keeping operations, in which Australia has been involved, is recognised and commemorated in this State.

As a result of administrative arrangements outlined in the Chief Executive Agreement (24 May 2019), the Department of the Premier and Cabinet relinquished responsibility for Veterans Affairs (including the ANZAC Commemoration Fund), a business unit of the Department. Assets and liabilities relating to this business unit were transferred to Defence SA effective 1 July 2019.

| | 2020 \$' 000 | 2019 \$' 000 |
|-----------------------------|-----------------|-----------------|
| Income | | |
| Interest | - | 1 |
| Grants | 100 | 100 |
| Other income | 7 | - |
| Total income | 107 | 101 |
| Expenses | | |
| Grants and subsidies | 93 | 92 |
| Total expenses | 93 | 92 |
| Net result | 14 | 9 |
| Current assets | | |
| Cash | 75 | 61 |
| Total current assets | 75 | 61 |
| Net assets | 75 | 61 |
| Equity | | |
| Retained earnings | 75 | 61 |
| Total equity | 75 | 61 |

The comparative amounts were included in the Department of the Premier and Cabinet's financial statements for 2018-19.