

Report 12 of 2021

Annual report

for the year ended 30 June 2021

Part B: Controls opinion



Report of the Auditor-General

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for the year ended 30 June 2021
Part B: Controls opinion

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*The Auditor-General's Department acknowledges and respects
Aboriginal people as the State's first people and nations, and
recognises Aboriginal people as traditional owners and occupants of
South Australian land and waters.*



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Department**

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1 Executive summary

Controls opinion	<p>In my opinion, the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, is sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law.</p>
Agencies included	<p>49 public authorities were included in various areas of our controls opinion audit program. Specific focus was on those agencies processing material levels of financial transactions in 2020-21.</p>
Key areas of review	<p>Our control reviews focused on several areas of financial transaction processing, but we had a particular focus in 2020-21 on:</p> <ul style="list-style-type: none">— procurement and contract management— asset management (including the across government facilities management arrangements (AGFMA))— employment screening checks— staff performance management— delegations and approvals.
Key outcomes	<p>My controls opinion is not modified.</p> <p>We identified a number of issues from the work we performed. Some are significant and some recurring, but we did not identify systemic weaknesses in controls across the SA Government.</p> <p>The broad nature of my opinion under the <i>Public Finance and Audit Act 1987</i> (PFAA) is such that issues would need to be very significant or fundamental to warrant modifying it.</p> <p>We did, however, identify a number of common themes and issues. While they were identified at individual agencies, all public sector agencies should consider them as part of ensuring they have sound financial management control practices in place.</p>

I would like to draw attention to the continuing significant contract management issues identified at a number of agencies.

Public authorities enter into significant outsourcing arrangements. This increases the need for them to clearly set frameworks and expectations for effective contract management, and invest in the capability and capacity of their human and IT resources to support effective management.

Entering into these contracts does not remove the risks related to providing the services involved from the public authority. At times, it can increase these risks or introduce new ones. If the risks are not effectively managed through sound contract management practices, it may result in increased costs to the State and loss of services.

Similar to prior years, we found that contract management processes need to further improve to ensure contracts are managed effectively, risks are properly addressed and contract performance is properly assessed.

Key issues

Other key issues we identified were as follows:

- Procurement processes need to improve, with instances of inadequate or missing documentation supporting key procurement decisions and processes.
- Asset management processes for large infrastructure agencies could be improved, with gaps in asset management planning and the oversight of assets under contract arrangements.
- Agencies that participate in the AGFMA need to ensure they have asset management plans in place and asset condition assessments provided.
- In some cases employment screening requirements needed to improve.
- Performance management processes for staff need to be consolidated and improved.
- Some key payroll processing controls need to improve.

2 Introduction

Each year I issue an opinion on whether the controls exercised by the Treasurer and public authorities in relation to a range of financial transactions are sufficient to provide reasonable assurance that those transactions have been conducted properly and in accordance with law. I consider this requirement a vital responsibility of the Auditor-General.

The PFAA empowers the Auditor-General to decide how to carry out the functions or exercise the powers under the PFAA and the priority given to a matter in carrying them out.

In my 2018-19 Annual Report, I issued the first controls opinion from a whole of government perspective. Before that the controls opinion was informed from individual agency audit programs. Since then our approach has identified significant gaps in the whole of government control environment, particularly for asset management, contract management, procurement and payroll. This continues to be the case in 2020-21.

Through our controls opinion audit program, our audits of financial statements and some of our performance audits, we have comprehensively reviewed individual agency controls. Part A of this Report explains our overall coverage in more detail.

In this section I explain my controls opinion responsibilities under the PFAA, our approach for 2020-21 and the impact of COVID-19 on control environments. Section 3 explains our audit coverage and section 4 contains the significant control matters we identified this year in our controls opinion audit program.

We prepare our reports for the Parliament. We aim for them to also provide the opportunity for all public authorities to review them and consider the findings and recommendations, so that they can make changes to their own control environments if needed. Our goal is for our work to result in financial transactions being processed with a greater level of accountability and integrity across the public sector.

2.1 Background

2.1.1 Controls are important

Each year billions of dollars are raised, spent and managed by the Treasurer and public authorities to deliver core services to South Australians. The public expects the financial management of these funds to be undertaken properly and in line with the law.

Public sector managers are responsible for cost effectively managing and controlling financial resources, operations and risk exposures within their agencies and for complying with relevant laws, regulations and instructions. The ability of an agency to operate properly and to report reliable, accurate and timely information is underpinned by having an effective control framework.

If controls exercised by the Treasurer and public authorities are not sufficient, agencies are exposed to increased risk in financial probity and propriety and in delivering cost effective public services.

2.1.2 The Auditor-General must express an opinion on controls

The Auditor-General has a statutory responsibility to express an opinion each year on the sufficiency of controls and how well they provide reasonable assurance that financial transactions of the Treasurer and public authorities were conducted properly and in accordance with law.

We define ‘properly’ as conforming to established standards of financial management practice.¹ We define ‘in accordance with law’ as complying with relevant Acts, regulations and Treasurer’s Instructions.

In performing our audit work for this opinion we use relevant criteria to assess whether controls conform to established standards of financial management practice and behaviour. The primary sources of these criteria are laws, regulations, instructions (such as Treasurer’s Instructions) and agency policies. Where these sources are absent, we consider generally accepted standards of financial management practice and behaviour, especially where other Australian jurisdictions have issued authoritative guidance.

Assessing what is reasonable is a matter of judgement and circumstance having regard to facts, changing practices, expectations and behaviours. Fundamental principles that underpin our audits of controls include public accountability, integrity, financial probity and propriety, discharging responsibilities within the letter and spirit of the law, and value for money. They are inherent values and essentially do not change over time.

However there is still a significant amount of judgement involved, and auditors and management will sometimes disagree.

An important outcome of our audits is to communicate significant audit findings to those charged with governance. This may be a board chair or chief executive or the Parliament. This is a prudent and valuable outcome from the audit, an obligation under the PFAA and a professional responsibility under Australian Auditing Standards.

2.1.3 What does the controls opinion mean

The controls opinion is an independent opinion on whether the public can be reasonably assured that the government of the day is operating in their best interests when conducting financial transactions. This involves much more than getting the financial reporting right.

Consequently, our controls work focuses on the propriety of transactions – that they lawfully occurred and were properly administered to an appropriate standard for the transaction type, scale and effect.

Our audits conclude with a procedural fairness process where the audit issues we identified are subject to agency scrutiny to ensure they are factually correct, logically sound and

¹ *The Macquarie dictionary* (2017) defines proper as ‘Conforming to established standards of behaviour or manners; correct or decorous’.

presented fairly. This also gives us an opportunity to discuss the effect and practicality of our recommendations and any other relevant issues. Agency feedback from these discussions is considered and reflected in our final audit management letters and reports.

The procedural fairness process results in auditors and management agreeing on most audit findings and recommendations. It is then up to agencies to determine whether to adopt these recommendations.

Agencies have regard to their view of risks, costs and benefits. Occasionally, they put forward reasons for not accepting our recommendations. The primary differences in our views arise where agencies decide that their existing practices sufficiently address any risk involved.

Responses we receive from agencies to issues we raised in the current year are evaluated in the next audit. Should we continue to disagree with an agency’s assessment and have a different view, we raise the issues again for further consideration.

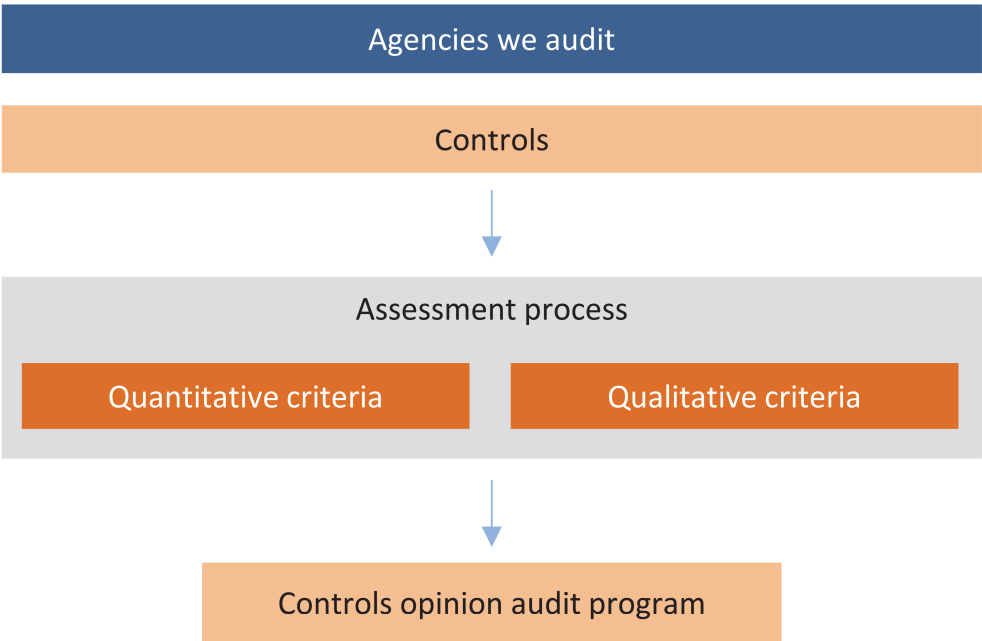
2.2 Our approach

2.2.1 The 2020-21 controls opinion approach

Our 2020-21 approach to forming the controls opinion started from a whole of government perspective. The population we consider for the opinion is the agencies we are required to audit, including the general government sector, public financial and non-financial corporations and universities.

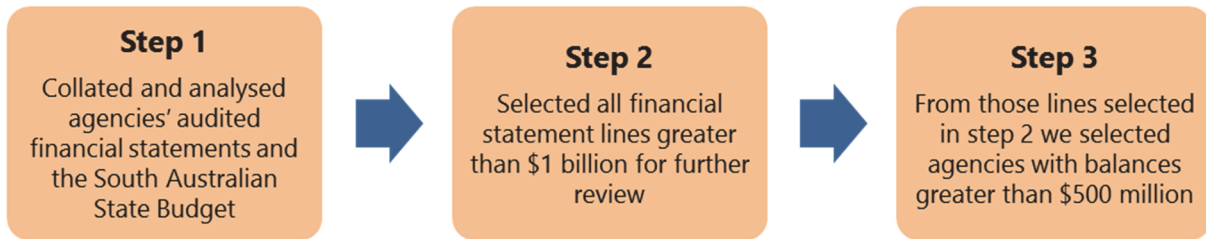
To produce our 2020-21 controls opinion audit program, we considered key quantitative and qualitative factors.

Figure 2.1: Developing our controls opinion audit program



When considering what was quantitatively significant we performed the following steps.

Figure 2.2: Determining quantitative significance



We then considered qualitative factors to identify any areas that were not quantitatively material but warranted review for other reasons. These qualitative factors were based on our agency audit experience as well as economic and social factors, and included:

- public sector governance practices
- new developments
- matters of public interest
- expectations of Parliament
- significant new systems/initiatives
- past audit findings.

The agencies and areas we identified formed the 2020-21 controls opinion audit program, which is outlined in section 3. The significant outcomes from our audit work are discussed in section 4.

2.2.2 What controls to audit

We seek to audit the controls exercised by the Treasurer and public authorities that most directly influence whether a financial transaction is conducted properly and lawfully.

Financial transactions usually go through many steps. Each has a purpose that can range from planning for a transaction (such as preparing a business case) through to performing the transaction (such as confirming receipt of goods and approving the expenditure). These steps are typically described as the financial systems that transactions go through.

Not all steps have the same importance in ensuring a transaction is conducted properly and lawfully.

To ensure we achieve the best coverage from our resources, we seek to prioritise based on risk assessments we perform. Part of our strategy for reviewing controls is to cycle through systems as our risk assessments change from year to year. Accordingly, an area we focus on in one year may not have the same focus in the next. We may review in detail specific areas of planning for transactions in some years, where in others we may review the process for performing certain types of transactions. Our assessment of what we review each year will be driven by the risk assessments we perform.

Section 3 explains what we decided to review in 2020-21.

2.3 Impact of COVID-19 on control environments

In Part A of this Report I discuss the continuing impact that COVID-19 has had on areas of the public sector. I also outline our review of some of the more significant COVID-19 initiatives like grant programs that occurred in 2020-21.

Our 2020-21 controls opinion program did not identify any significant impacts or changes to the control environments of the public authorities we audit as a result of COVID-19.

We note that in 2020 the State Procurement Board (SPB) issued a COVID-19 Major Emergency Procurement Policy. It has since been suspended. Public authorities with responsibilities for responding to emergencies under the State Emergency Management Plan, or formal arrangements outlined in other State or Commonwealth emergency services legislation, can apply the SPB's Emergency Situation Procurement Policy. When we audited our sample of procurements for agencies with significant expenditure in 2020-21 we considered the applicable frameworks in place at the time.

3 Coverage

This section explains our areas of focus in 2020-21 for the controls opinion required by the PFAA. It outlines the agencies we audited, the types of transactions we focused on and the key areas we reviewed.

Not all agencies we audit are included in our controls opinion work. This does not mean that we have not reviewed their control environments. Australian Auditing Standards require us, as part of our financial audits, to gain an understanding of the control environment of each agency and, where appropriate, to test controls. The more significant findings identified through these audits, for the agencies included in this Report, are discussed in Part C. We will release a separate report on the outcomes of our financial audits of the agencies that are not included in this Report, including details of our more significant findings.

We also conduct several performance audits each year, which may at times involve reviewing specific controls. The outcomes of these audits and the details of any matters we identified are provided in individual reports to Parliament.

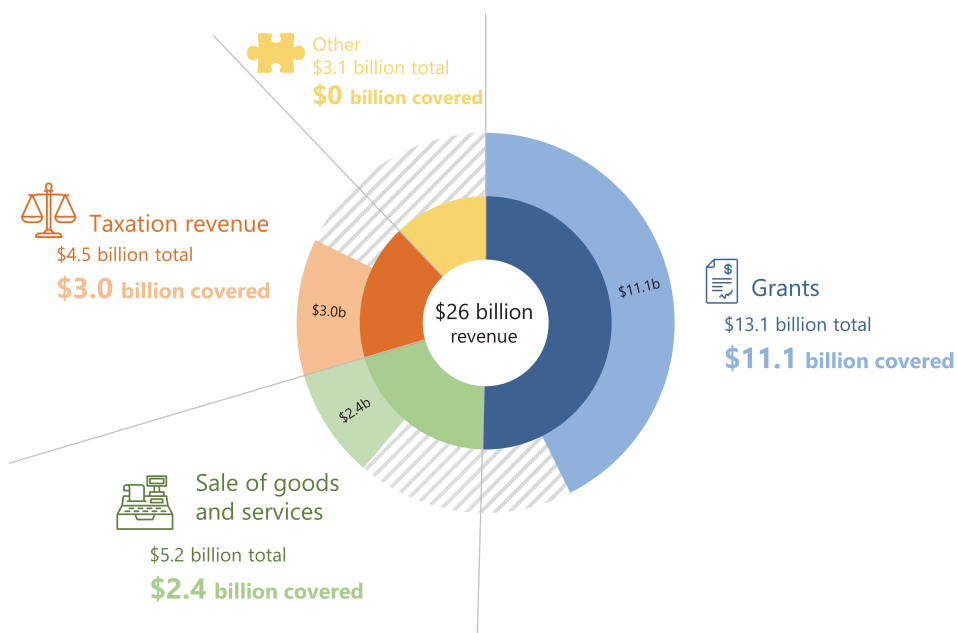
3.1 Revenue coverage

The agencies we audit receive around \$26 billion each year. Applying sound financial management practices and complying with legislation in the receipt of this money are fundamental to these agencies being able to deliver their outcomes.

We reviewed revenue across these agencies and applied our quantitative and qualitative factors to identify where we would focus our 2020-21 controls opinion work.

Overall, we reviewed selected controls for \$16.5 billion of revenue transactions. Figure 3.1 shows our coverage across the different types of revenue.

Figure 3.1: Revenue coverage in 2020-21



In addition to these areas, we reviewed selected controls over receipts to the Consolidated Account special deposit accounts and deposit accounts (see section 3.5).

3.1.1 Key areas of coverage

Taxation revenue: \$3 billion reviewed



We reviewed selected controls over payroll tax, stamp duties on conveyances and motor vehicle registration transactions. This revenue is raised and collected by the Department of Treasury and Finance (DTF) and the Department for Infrastructure and Transport (DIT).

Grant revenue: \$11.1 billion reviewed



We reviewed selected controls relating to Commonwealth grant revenue including GST receipts and Commonwealth specific purpose payments. This revenue is received by DTF and the Department for Health and Wellbeing (DHW).

Sale of goods and services revenue: \$2.4 billion reviewed



We reviewed selected controls over transactions for:

- water and sewerage rates at the South Australian Water Corporation (SA Water)
- insurance premiums at the Return to Work Corporation of South Australia (RTWSA)
- rental income at the South Australian Housing Trust (SAHT)
- ticket sales for the Lotteries Commission of South Australia.

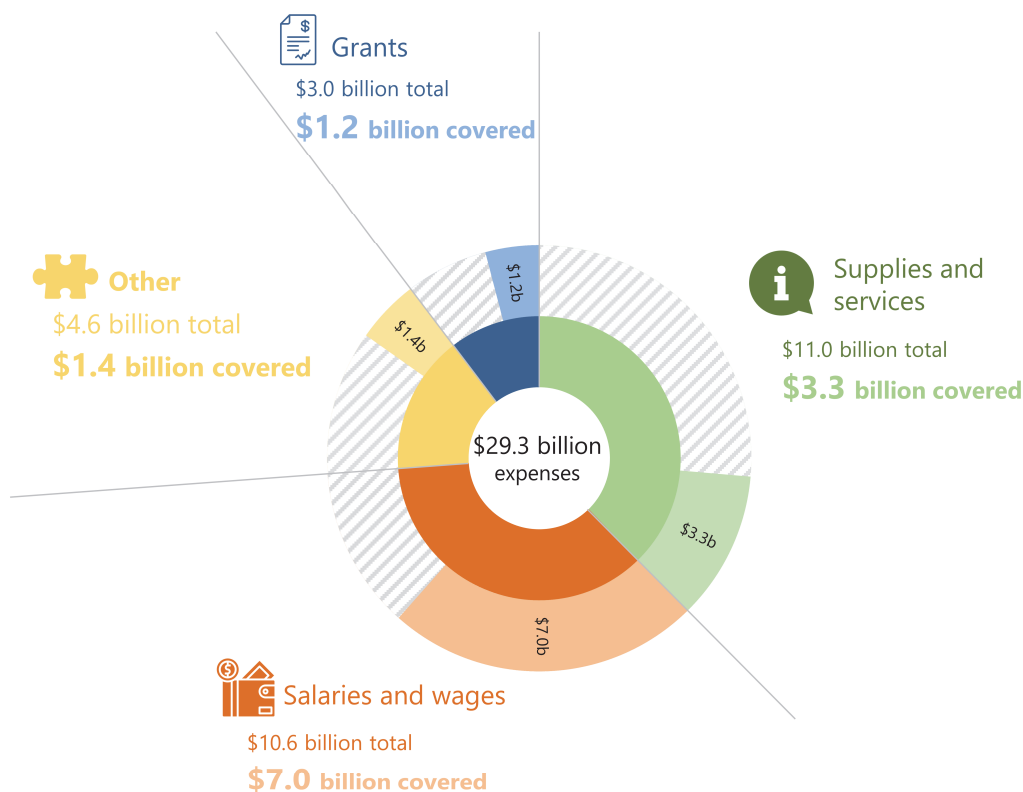
3.2 Expenditure coverage

In 2020-21 the agencies we audit spent around \$29.3 billion. Applying sound financial management practices to this expenditure and ensuring it is spent in accordance with the law are significant to these agencies being able to deliver their outcomes.

We reviewed expenditure across these agencies and applied our quantitative and qualitative factors to identify where we would focus our 2020-21 controls opinion work.

Overall, we reviewed selected controls for \$12.9 billion of expenditure transactions. Figure 3.2 shows our coverage across the different types of expenditure. While not specifically included in the coverage, we also reviewed controls over key grant programs implemented in response to COVID-19, as discussed in Part A of this Report.

Figure 3.2: Expenditure coverage in 2020-21



In addition to these areas, we reviewed selected controls over payments to the Consolidated Account, special deposit accounts and deposit accounts (see section 3.5).

3.2.1 Key areas of coverage

Supplies and services: \$3.3 billion reviewed

We reviewed selected controls over supplies and services (also referred to as goods and services) expenditure transactions at:

- SA Health – DHW, CALHN, SALHN and NALHN
- Department for Education
- DIT
- whole of government procurements.

We also reviewed selected controls at Shared Services SA (SSSA) over the processing of approximately 2.5 million invoices a year on behalf of many agencies.

Our review focused on

Delegations and approvals – ensuring expenditure is appropriately authorised reduces the risk of incurring expenditure that does not achieve value from spending public money.

Procurement and contract management – sound procurement and contract management practices are fundamental to financial management, increasing the confidence that procurements and management of contracts will achieve value for money, will be conducted ethically and will have an appropriate level of probity, accountability and transparency.

DTF undertakes some procurements on behalf of the whole of government. We reviewed a sample of these procurements and contract management arrangements in 2020-21.

Salaries and wages: \$7 billion reviewed

Over \$10 billion of salaries and wages are paid annually across the agencies we audit, to around 109 000 staff.

We reviewed selected controls over salaries and wages transactions at:

- South Australia Police
- Department for Education
- University of Adelaide
- SA Health – CALHN, SALHN and NALHN.

We also reviewed selected controls at SSSA over processing salaries and wages transactions on behalf of a large number of agencies.

Our review focused on

- Workforce planning – adequate planning supports agencies in achieving their objectives while helping to plan for future business needs. It helps mitigate increased costs associated with temporary staffing solutions.
- Performance management processes – effective performance management systems ensure employees are aware of their expected performance standards and whether they are achieving them. Actively managing performance helps agencies to achieve their objectives.
- Employment screening checks – adequate checks during the hiring process and subsequent monitoring ensure agencies comply with relevant legislation, lessening the risk to staff and the public.
- Review of payroll reports – effective reviews of key payroll reports reduce the risk that payments are made at incorrect rates or for work not performed and that leave is incorrectly or incompletely recorded, resulting in potential financial loss to the agency.

Interest expenses: \$745 million reviewed

We reviewed selected controls over interest expense transactions processed by the South Australian Government Financing Authority (SAFA).

Maintenance expenditure: \$334 million reviewed

We reviewed selected controls over maintenance expenditure incurred under the AGFMA. This arrangement is significant given the value of assets it maintains and the number of agencies involved.

Public authorities we reviewed were:

- Department for Education
- DIT
- SA Health – CALHN, SALHN and NALHN
- Department for Correctional Services (DCS).

We also followed up on issues raised previously with DIT on the management of the AGFMA, including its contract with Spotless for the provision of maintenance services across specific regions.

**Other expenses:
\$656 million reviewed**

We reviewed selected controls over National Disability Insurance Scheme (NDIS) contributions made by the Department of Human Services.

**Grant expenses:
\$1.2 billion reviewed**

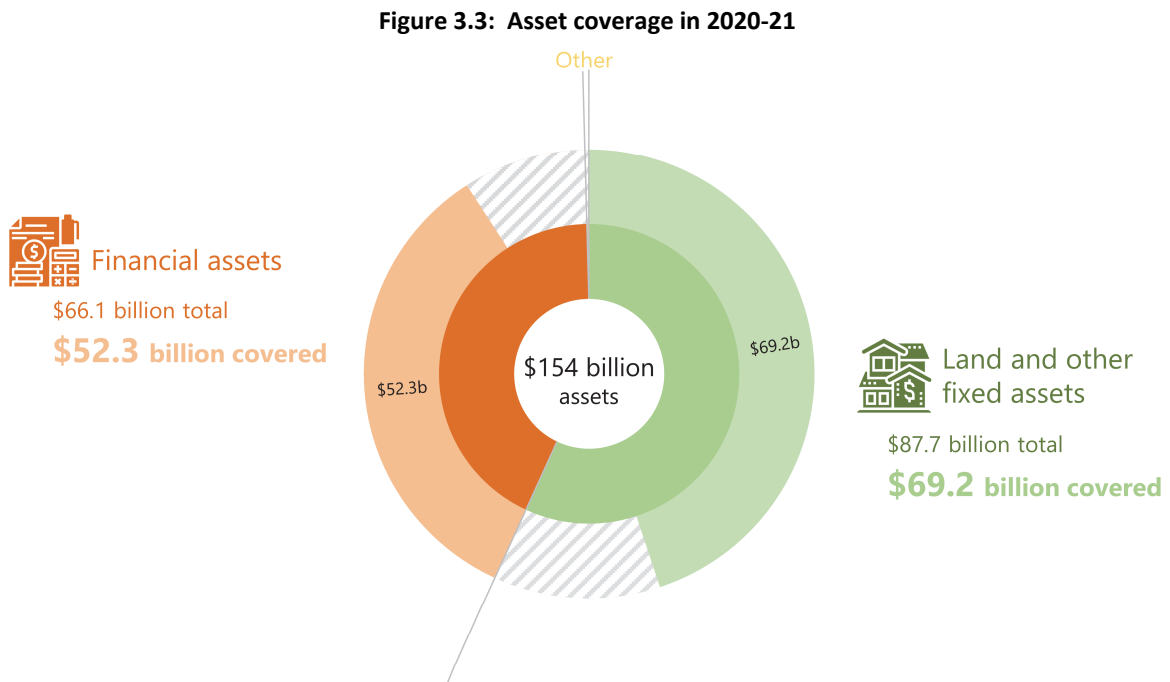
We reviewed selected controls over grant expenditure for the Department for Education.

3.3 Asset coverage

The agencies we audit have assets worth around \$154 billion. Applying sound financial management practices in the investment of money and the acquisition and disposal of assets, and ensuring it is performed in line with the law, are fundamental to these agencies delivering their outcomes.

We reviewed the asset balances held and applied our quantitative and qualitative factors to identify the agencies and balances we would audit for the 2020-21 controls opinion.

Overall, we reviewed selected controls for \$121.5 billion of assets. Figure 3.3 shows our coverage across the different types of assets held.



3.3.1 Key areas of coverage

Land: \$8.2 billion reviewed

We reviewed selected controls over land assets at:

- SAHT

- Department for Environment and Water
- DIT.

We focused our review on asset management planning and approvals for the acquisition, use and disposal of land, as well as compliance with legislative requirements.

Heritage assets: \$786 million reviewed

We reviewed selected controls over the acquisition, disposal and stocktake processes for the Art Gallery of South Australia’s heritage assets.

Loans and advances: \$3 billion reviewed

We reviewed selected controls at HomeStart Finance and the Local Government Finance Authority of South Australia over issuing and approving loans and advances in line with policies, procedures and legislative requirements.

Inventories: \$320 million of land inventory reviewed

We reviewed selected controls at the Urban Renewal Authority for transactions relating to the acquisition, holding, development and sale of land.

Areas of review included planning and approval for acquisitions, holding, developing and disposing of land inventories, procurement and contract management processes for the development of land and the associated compliance with legislative requirements.

Investments: \$49 billion reviewed

We reviewed selected controls over investments at:

- SAFA
- RTWSA
- Funds SA – for investments managed on behalf of superannuation funds and other entities.

Our focus included governance arrangements, appointing and managing external fund managers, approving new investments, managing settlements, monitoring and managing asset allocations and monitoring compliance with specific policies and procedures.

We also reviewed selected controls over \$1 billion of investments held in the common funds of the Public Trustee. These are investments managed by the Public Trustee on behalf of members of the public and government organisations.

We have not listed the Public Trustee’s investments in figure 3.3 as they are not considered to be assets of the Public Trustee. They are held in trust. We reviewed whether these investments are managed properly and in accordance with the law because of their quantitative significance, the purpose of this investment portfolio and the SA Government’s responsibility as manager of assets in trust. Our areas of focus were similar to those for SAFA, Funds SA and RTWSA.

Asset management

**Infrastructure assets:
\$43 billion reviewed**

**Buildings and improvements:
\$18 billion reviewed**

Proper asset management practices are fundamental to South Australia's long-term financial sustainability. Full knowledge of the type, performance, cost and age of assets is needed to make proper and fully informed decisions about asset renewal, maintenance and replacement. This increases the likelihood that government assets will effectively support the delivery of key public services, the State's development and the needs of the public.

We reviewed asset management practices over infrastructure, buildings and improvement assets at the following public authorities:

- DIT
- Department for Education
- SA Health – DHW, CALHN and SALHN
- DCS
- SA Water
- SAHT
- Adelaide Venue Management Corporation
- TAFE SA
- University of Adelaide
- Flinders University
- University of South Australia.

We evaluated agency asset management practices using the DIT developed *Strategic Asset Management Framework* (SAMF) as guidance. It aligns with a recognised best practice approach – the International Standard on asset management (ISO 55000).

For 2020-21 we followed up on a number of issues raised in prior years about governance, risk management, condition monitoring and the maintenance of asset data. For some public authorities in 2020-21 we tested elements of controls in these areas.

The link between this work and the expenditure controls opinion program

We reviewed selected controls over maintenance planning and expenditure, including expenditure under the AGFMA, for several agencies listed in section 3.2.1.

Capital projects (work in progress)

We reviewed a sample of significant capital projects at the following public authorities:

- DIT (in its own right and managing projects on behalf of other agencies)
- SA Water
- SAHT
- Department for Education
- DCS

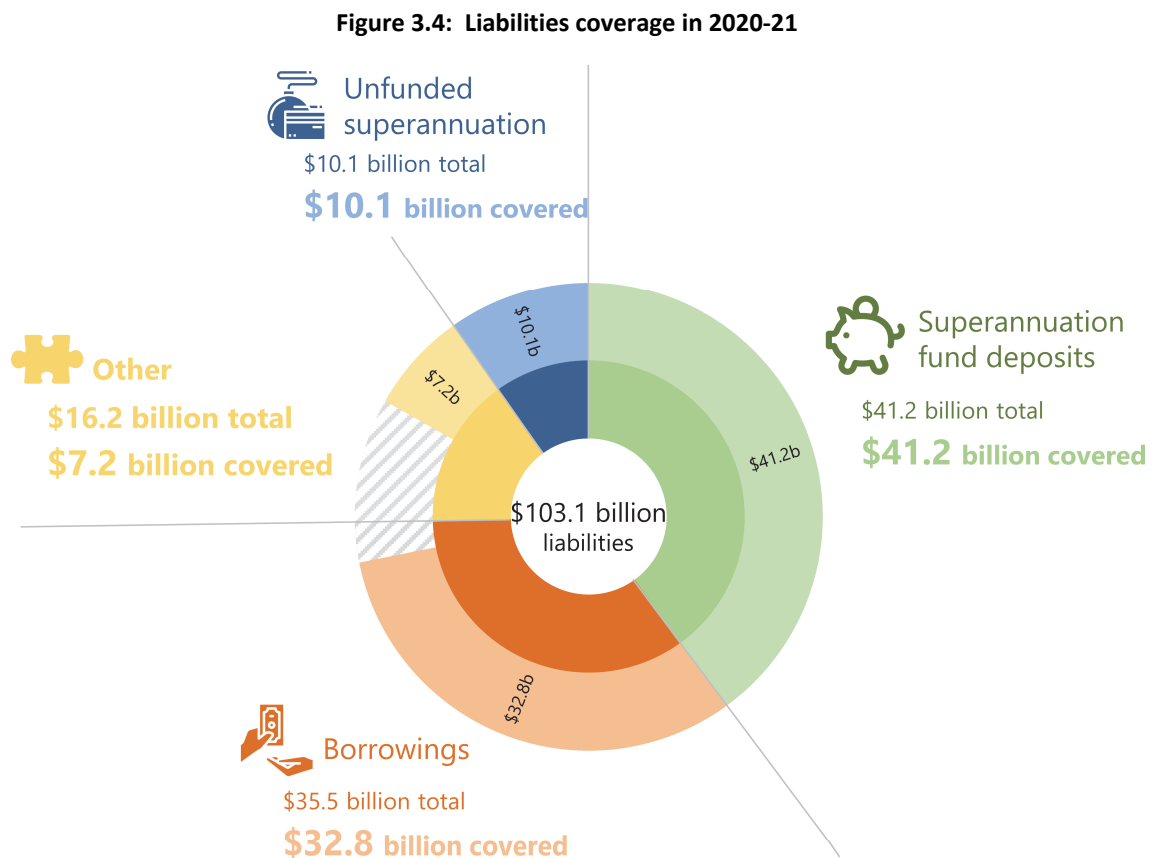
Our focus was on project delivery, procurement and contract management practices and ensuring appropriate approvals were obtained at key stages of the project.

3.4 Liabilities coverage

The agencies we audit have around \$103.1 billion of liabilities. Applying sound financial management practices in the incurring and management of liabilities is critical to ensuring sound financial management. The incurring of liabilities must also comply with the law.

We applied our quantitative and qualitative criteria to identify the agencies and balances we would audit for the 2020-21 controls opinion.

Overall, we reviewed selected controls for \$91.4 billion of liabilities. Figure 3.4 shows our coverage across the different types of liabilities held.



3.4.1 Key areas of coverage

Borrowings: \$32.8 billion reviewed

SAFA is the State's central borrowing authority. It is responsible for managing most of the State's debt and for implementing the SA Government's debt management policy as determined by the Treasurer. We reviewed selected controls over SAFA's borrowings, including ensuring that proper approvals are given for new borrowings and that monitoring and risk management processes are in place to ensure borrowings remain within approved limits.

We considered those same controls over borrowings at HomeStart Finance and SA Water.

We reviewed selected controls over financial lease payments at CALHN for the arrangements with Celsus for the Royal Adelaide Hospital.

**Superannuation fund deposits:
\$41.2 billion reviewed**

We reviewed selected controls at Funds SA for investments held on behalf of superannuation funds and other funds.

**Unfunded superannuation liability:
\$10.1 billion reviewed**

Unfunded superannuation is reported in the Consolidated Financial Report.

We reviewed selected controls to ensure the completeness and accuracy of data used in individual scheme valuations and that the actuaries' calculated valuations are reasonable.

**Employee benefit liabilities:
\$769 million reviewed**

We reviewed selected controls at the Department for Education over the management of leave, accuracy of leave recorded and valuation of leave liabilities.

**Outstanding claims:
\$5.7 billion reviewed**

We reviewed the Claims Agent Assurance Program in place at RTWSA. This program ensures claim payments are properly approved and are made in line with legislative requirements.

We also reviewed selected controls at the Lifetime Support Authority and SAFA over the acceptance and payment of claims, and the reinsurance arrangement for the Motor Accident Commission.

3.5 Treasurer's statements

The Treasurer's statements are prepared annually as required by section 22 of the PFAA. They reflect transactions of the Treasurer as shown in the Treasurer's accounts and records. The main public accounts are the Consolidated Account, special deposit accounts and deposit accounts established under the PFAA.

Our audit program reviewed controls over key areas of these statements, including receipts to and payments from the Consolidated Account (Statement A), the indebtedness of the Treasurer (Statement I) and the special deposit accounts (Statement F) and deposit accounts (Statement G). Specific areas of coverage included access to key systems, approvals, compliance with key requirements of the PFAA and Treasurer's Instructions and the recording of transactions accurately.

At an agency level we reviewed several special deposit and deposit accounts. We ensured agencies had controls in place to ensure these accounts operated only in line with approved purposes and that the agencies complied with key requirements of the PFAA and Treasurer's Instructions (such as performing regular reconciliations).

4 Outcomes

This section details the significant outcomes informing the controls opinion given under the PFAA.

Further details of the individual controls opinion audit findings and other (non-controls opinion) matters we identified through our audits are provided in our commentary on individual agencies in Part C of this Report.

4.1 Contract management

4.1.1 Summary of findings

What we found

Our audit of a sample of contract arrangements continued to find that agencies collectively need to lift the maturity of their contract management practices. We found:

- continuing instances where contract management plans were not developed, were not promptly approved, did not meet SPB requirements and did not address all key areas of contract management
- contract management practices did not always ensure key contractual requirements were met
- contract management practices did not always ensure all aspects of the arrangements were assessed through appropriate reporting such as KPIs and annual reviews
- contract management processes did not always demonstrate a clear understanding of risks to the agency, how they were managed and whether that response was effective
- opportunities to strengthen the way agencies respond to risks over the accuracy of supplier provided performance information
- instances where key contract management records were not maintained, including meeting minutes and reviews/inspections required under the contract
- some contract management systems/registers were not complete
- an instance when an agency did not use detailed or independent information to assess the ongoing viability of a service provider or perform related sensitivity analysis
- instances where contractually required meetings with suppliers were not held or were held with no documented outcomes
- instances where contract managers were not appointed at all, were not appointed promptly or had not completed SPB contract management training.

Some of these findings represent non-compliance with SPB policies and the agency's own policies and procedures.

These findings do not include the findings from our review of the AGFMA (see section 4.4.1).

Public authorities continue to enter into significant outsourcing arrangements. This increases the need for them to clearly set frameworks and expectations for effective contract management, and invest in the capability and capacity of their human and IT resources to support effective management.

Entering into these contracts does not remove from the public authority the risks involved in providing the services involved. At times, it can increase these risks or introduce new ones. If the risks are not effectively managed through sound contract management practices, it may result in increased costs to the State and loss of services.

What public authorities should do

Regardless of the nature of the contract, it is important that agencies take an active role in lifting the maturity of their contract management practices by:

- having comprehensive policies and procedures that are communicated to staff and that reflect contract management processes specific to the agency, which should reflect the new DTF contract management requirements and other relevant guidelines
- understanding the contracts they are party to, typically by having some form of contract register
- clearly identifying staff who are responsible for contract management and the expectations attached to their roles, and providing support and training to them
- implementing contract management plans that accurately reflect the contract requirements, as well as meeting the new DTF contract management requirements and other relevant rules and guidelines
- identifying and treating the risks associated with their contract arrangements
- actively managing contracts, ensuring deliverables occur as contracted and performance indicators or targets are effectively monitored
- ensuring staff responsible for approving charges under contract arrangements have access to up-to-date contract price schedules to verify that the agency is paying the correct amount
- having evidence to support their contract management activities (minutes of meetings, copies of correspondence, etc).

From 2021-22 a new Treasurer's Instruction 18 *Procurement* (TI 18) will apply to procurement and contract management practices. This instruction is supported by a policy framework that includes a governance policy, procurement planning policy, sourcing policy, contract management policy and subordinate schedules. It is the responsibility of public authorities to have in place systems, processes and procedures to comply with this framework.

Our recommendations should be considered in conjunction with the new framework.

4.1.2 Background

Contracting by the SA Government takes many forms. Contracts can relate to ongoing purchasing arrangements, outsourced service delivery, managing assets and ongoing maintenance arrangements (for assets, software, buildings or plant and equipment).

Contract management is the process of proactively managing a contractual relationship between a supplier and a public authority, including addressing risks and disputes that arise, to achieve the agreed contract outcomes.² For 2020-21 contract management practices should reflect public sector rules such as those established by the PFAA, *Public Sector Act 2009*, *State Procurement Act 2004* (SP Act), Premier and Cabinet Circular PC028 *Construction Procurement Policy: Project Implementation Process* (PC028) and Treasurer's Instructions.

Contract management is critical to achieving value-for-money outcomes while managing risks to the public authority. Managing goods and services contracts should have regard to, and be consistent with, the objectives of the SP Act (where the supply or service is not a construction contract or grant, and where the agency is not a listed prescribed public authority. Listed prescribed public authorities establish their own contract management frameworks and PC028 applies to prescribed construction projects).

Treasurer's Instruction 28 *Financial Management Compliance Program* also outlines expectations that chief executives will ensure:

- contractor/supplier performance against orders, contracts, service level agreements (including services outsourced and public private partnership contracts) or equivalent is regularly monitored and reviewed to ensure services are received and payments are made in line with agreed arrangements
- reductions in payments (abatements) are promptly applied in line with contractual arrangements where abatable contract performance failures occur.

We review a lot of arrangements that involve contract management each year. For some we find well established processes in place. The issues discussed below relate to the areas where controls need to be improved.

Our findings are discussed in the following sections.

4.1.3 Contract management plans were not documented or used in managing many significant contracts we reviewed

This year we focused our attention on evidence to support how agencies manage their contractual arrangements for a number of significant contracts.

An important tool in managing a significant contract is a contract management plan. In 2020-21, for goods and services contracts above \$4.4 million or that are high risk, the SPB

² State Procurement Board, *Contract Management Policy*, July 2017.

requires a contract management plan to be developed. It should identify contract risks and outline the key strategies, activities and tasks required to effectively manage the contract. The plan is a systematic and accountable way of ensuring both parties fulfil their contractual arrangements. It guides the review of contract performance and the achievement of the contract's objectives.

Where there is no structured and effective approach to managing, reviewing and monitoring contract obligations and risks, there is an increased risk that contractors will fail to deliver the contracted services in line with specifications, regulations and laws. If the contract relates to the maintenance of an asset, it may lead to the asset not meeting its desired level of service.

Our review of a sample of significant contract arrangements across the public authorities we audited found many instances where contract management plans did not exist, were not promptly reviewed, did not meet SPB requirements and did not address all key areas of contract management.

4.1.4 Improvement required when monitoring performance measures in the contract

Our review also focused on how selected public authorities monitored compliance and performance associated with the effective delivery of services under contracts. Active monitoring of contract deliverables and performance enables public authorities to manage identified risks, ensure performance is in line with expectations and respond to disputes and other issues as they arise. Without it, the risk that the contract objectives are not achieved increases.

For 2020-21 the SPB outlines the typical performance measures that may be monitored, including targets, key milestones, service metrics and technical considerations. These will differ depending on the requirements and risks of the contract. Some of these elements may link directly to the contract and may result in financial costs if not met.

Contracts often provide for self-reporting on the performance of services under the contract. Relying on this reporting alone is not sufficient. A level of review is required by the public authority to ensure the reporting is accurate, complete and valid. The SPB also recommends an independent assessment or periodic audit for complex or highly technical matters, to determine if the performance measures have been met.

In some instances the contracts relate to public authority owned assets and their maintenance. If the services provided under the contract are not actively monitored it may result in safety risks to the users of the assets and the inefficient and/or ineffective use of public money.

Our review of a sample of contracts found instances where monitoring contract performance needed to improve, including:

- opportunities to strengthen agency documentation of processes for monitoring contract performance

- regular reports outlining progress and performance against the contract that were not provided, incomplete, not followed up or not verified by the agency
- instances where agencies relied solely on information provided by the supplier to support the achievement of KPIs and other delivery plans, with no process to validate the claims or ability to assess the adequacy of what was provided
- an agency could not always provide evidence that it had followed up on KPIs for a contract
- instances where contractual obligations were not performed or monitored.

4.2 Procurement

4.2.1 Summary of findings

What we found

Our audit of a sample of goods, services and asset procurements found that public authorities need to better manage their procurement planning and evaluation processes. We found:

- instances where agency procurement policies need to be updated
- opportunities to improve documentation supporting some governance arrangements
- approvals required at key points of the procurement that were not provided
- instances where there was a lack of comprehensive documentation supporting key steps and decisions in the procurement process, in some cases for significant procurements with a high level of risk
- missing key procurement records, including conflict of interest declarations, negotiation plans and meeting minutes
- instances where declared potential conflicts of interest were not managed in line with policy
- an instance where the agency could not demonstrate an adequate risk management assessment for a significant procurement or any ongoing review of risks
- an instance where a probity plan did not consider some probity risks and probity assurance arrangements were not clearly defined, documented or agreed
- an instance where a probity report was not provided by the probity advisor
- instances where post-sourcing reviews were not performed.

Several of these findings represented in non-compliance with SPB policies and procedures or the agency's policies and procedures.

What public authorities should do

They should:

- ensure policies and procedures for procuring supplies, services and assets are clearly documented and communicated, and that staff adhere to them
- increase the capability of their procurement staff through adequate training on framework requirements and risk management principles
- ensure appropriate approvals are obtained throughout the procurement process at the right stage by all relevant people, in line with SPB or agency policies and procedures
- ensure documentation supporting the procurement process, including key plans and reports, is adequate to support key procurement decisions
- ensure procurement risks are identified and appropriately responded to
- ensure adequate recordkeeping so that evidence of conflicts of interest, key decisions, approvals, etc is retained.

As mentioned in section 4.1.1, a revised procurement framework will apply from 1 July 2021 and our recommendations should be considered in conjunction with these new requirements.

4.2.2 Background

Each year public authorities procure billions of dollars worth of goods, services and assets.

In 2020-21 procurement practices should reflect public sector rules such as those established by the PFAA, *Public Sector Act 2009*, SP Act, PC028 and Treasurer's Instructions.

In section 4.1.1 we noted that on 29 June 2021 the new TI 18 was issued. It is now the key regulatory instrument governing procurement by public authorities. This marked the start of a new procurement regime that has seen the abolition of the State Procurement Board, the establishment of Procurement Services SA, a business unit of DTF, and a new framework for public authorities that applies from 1 July 2021.

For the purposes of our 2020-21 audit, the SP Act provided the framework for procurement by public authorities (where the procurement is for a supply or service that is not a construction contract or grant, and where the agency is not a listed prescribed public authority). The objectives of the SP Act were to advance government priorities and objectives directed towards:

- obtaining value in the expenditure of public money
- providing for ethical and fair treatment of participants
- ensuring probity, accountability and transparency in procurement operations.

If procurements do not adhere to these objectives, it can result in procurement that is too expensive, is not value for money or does not achieve the intended outcomes. This, in turn,

can damage public confidence in the effectiveness of the procurement process to operate in the public interest.

The SPB established policies and procedures to achieve the objectives of the SP Act. They applied to the 2020-21 financial year.

Listed prescribed public authorities establish their own procurement frameworks, which generally apply the same principles as the SP Act. For prescribed construction projects PC028 applies, again adopting the same principles as the SP Act.

Our findings are discussed in the following sections.

4.2.3 Management of actual, perceived or potential conflicts of interest when procuring requires improvement

The *Code of Ethics for the South Australian Public Sector* requires public sector employees to avoid actual or perceived conflicts of interest. The *Public Sector (Honesty and Accountability) Act 1995* outlines the requirements for public sector employees in disclosing these conflicts, and the consequences if they are not disclosed and managed appropriately.

Procurement in particular is an area where there is a heightened risk that individuals involved may unfairly affect or influence the proper outcome of a decision for personal gain. In its Probity and Ethical Procurement Guideline, the SPB highlights the need for all potential, actual or perceived conflicts of interest to be identified and managed throughout a procurement process. It requires all participants in the procurement and evaluation process to complete a conflict of interest declaration and confidentiality agreement. Any identified potential, actual or perceived conflicts of interest need to be actively managed. Without evidence that this has been done the integrity of the procurement process may be compromised.

Consistent with our findings in previous years we identified instances across many procurements where conflict of interest forms could not be provided for everyone involved in the procurement.

We also identified some instances where conflicts were declared and the agency did not comply with their own policy requirements to appropriately manage them. In one instance, the management plan established was not approved by the responsible officer and a briefing to the chief executive was not provided. The evaluation panel member was only removed after the first stage of the procurement had been completed.

4.2.4 Procurement planning and evaluation processes, documentation and approvals need to be better managed to ensure good procurement outcomes

The SPB highlights in its Acquisition Planning Policy that successful acquisition planning ensures the most appropriate acquisition strategy is selected to meet the public authority's

procurement objectives in a timely manner and at an acceptable cost. This results in:

- improved management of procurement
- improved risk identification and risk management
- better value-for-money outcomes
- improved relationships with suppliers.

The tool used to document this planning is an acquisition plan. There is detailed guidance on this in the SPB's policies. If the plan is not comprehensive, the procurement may not achieve its objectives.

We focused our attention on agency documentation of procurement planning. We found that some acquisition plans were not comprehensive enough to support the decisions made. For example, we identified acquisition plans that:

- had insufficient evidence and no risk management plan to demonstrate that an agency fully considered procurement risks and their responses
- included broad sustainability impact assessments but did not discuss key items considered
- were approved without specific financial approval to support the availability of funds.

We also looked at evaluation planning and reporting, which should demonstrate that a selection process is impartial, unbiased and not subject to conflicts of interest. Failing to ensure evaluation plans and reports are properly approved or signed by all evaluation team members can potentially impact public and private sector confidence in the procurement process. Not signing the evaluation report reduces accountability, as the approval indicates that the report is a true reflection of the process.

Our review of evaluation planning and reporting found that documentation and approvals was sometimes inadequate. For example, we identified instances where:

- there was no documented justification for progressing a tender through to the next stage of the procurement process when it did not comply with mandatory criteria
- the evaluation plan was not signed by all evaluation members
- there was no approval for deviations to the approved acquisition plan
- there was no documented assessment of risks for deviations from the approved acquisition plan
- changed evaluation criteria was released to tenderers before assessing the risk and impact of these deviations on the procurement
- advice from a financial assessment was not implemented and the reason was not documented in the purchase recommendation
- the evaluation report was not completed as planned
- the purchase recommendation was not approved by all evaluation team members
- the purchase recommendation did not adequately describe the evaluation process.

4.3 Asset management – infrastructure, buildings and improvements

4.3.1 Summary of findings

What we found

Our audit of asset management at agencies that manage large infrastructure portfolios found some areas where improvement is required including:

- continued opportunities to improve asset management policies and plans
- instances where levels of service and performance measures for assets were not established, measured, monitored and reported
- opportunities to strengthen information on the condition of assets and scheduling condition assessments
- an instance where asset condition assessments were not performed
- the management of some identified asset risks and proposed controls could improve
- opportunities to strengthen information used for planning maintenance activities on some assets
- the long-term asset management plan of a significant asset identified that there were insufficient funds to pay for projected expenditure over the life of its lease
- opportunities to improve the oversight of assets under contractual arrangements (see to contract management issues raised in section 4.1.1).

Our audit of asset management over infrastructure, buildings and improvements for agencies who participate in the AGFMA found that agencies are generally taking positive steps to address some of the issues we have previously raised. However, we continue to find instances where:

- asset management policies and frameworks necessary for sound financial management of infrastructure, buildings and improvements are being developed but not implemented
- asset condition assessments are not performed or are performed but not always used for asset management planning purposes
- asset data recorded still does not meet the minimum data requirements of Premier and Cabinet Circular PC114 *Government Real Property Management* (PC114).

What public authorities should do

Large infrastructure agencies should:

- revisit their asset management policies and plans to ensure they are adequate for the size, complexity and nature of the assets they own. Plans should be based on reliable data
- clearly communicate to staff their roles and responsibilities for asset management and provide them with adequate training to build their asset management capability
- ensure the levels of service and performance measures for assets are identified, measured and reported to ensure they deliver on service expectations
- ensure condition assessments are performed in line with policies and plans, are based on how critical the assets are, are reported on and are used to inform asset management decisions
- ensure risks are identified, managed and reported on regularly
- ensure adequate monitoring controls are in place for assets managed under contractual arrangements.

Agencies who participate in the AGFMA should:

- continue to develop their asset management policies and plans and ensure they are adequate for the size, complexity and nature of the assets they own. Plans should be based on reliable data
- clearly communicate to staff their roles and responsibilities for asset management and provide them with adequate training to build their asset management capability
- continue to consult with facilities services providers to ensure all assets have adequate condition assessments and that this information is documented and available for consideration when the agency is preparing its asset management plans
- consider the minimum asset data requirements of PC114 and revisit their records to ensure they comply, which may require consultation with the facilities services provider. They should ensure this data is used to inform their asset management plans.

4.3.2 Background

The agencies we audit are responsible for around \$70 billion in infrastructure, buildings and improvements.

Asset management continues to be a key focus of our controls opinion audit program. Asset management is the coordinated activity of an organisation to realise value from its assets. It is the practice of organising, planning, designing and controlling the acquisition, care,

refurbishment and disposal of assets to support the delivery of services. It involves balancing costs, opportunities and risks against the desired or optimal performance of assets. This balancing process may need to be considered over various time frames and against stakeholder needs and expectations.

Unlike some other Australian jurisdictions, there is currently no mandatory asset management framework for assets owned by the SA Government. We therefore evaluated agency asset management practices using DIT's SAMF (developed to support the AGFMA) as guidance. It is aligned to the recognised best practice approach – ISO 55000. The SAMF is based on building assets, does not cover other types of assets and is not mandatory.

We also used guidance on the application of ISO 55000 provided by the Institute of Public Works Australasia in its *International Infrastructure Management Manual*. We took into account each agency's size, operations and complexity when reviewing their practices against these guidelines.

Our review included agencies that manage their own asset maintenance and have extensive infrastructure portfolios, such as SA Water, DIT, SAHT and the Urban Renewal Authority. The three South Australian universities were also included as they manage their own assets.

We also reviewed asset management at agencies that participate in the AGFMA, including the Department for Education, SA Health, TAFE SA and DCS.

Our findings are discussed in the following sections. We also noted significant matters relating to assets maintained under contractual arrangements. Some of these issues that relate to contract management practices are discussed in section 4.1.1. The contractual arrangements related to significant infrastructure assets such as jetties, rail and the Adelaide Oval.

4.3.3 Governance arrangements continue to need improvement

Documented asset management policies and plans are critical to agencies aligning their asset management activities and the outputs from their assets with their objectives. Agencies need to clearly set their asset management objectives to make properly informed strategic decisions about acquiring, operating, maintaining and disposing of assets. Not having documented policies and plans increases the risk that agencies fail to cost effectively manage their assets or fail to deliver planned services.

These policies and plans are described in DIT's guidance in the SAMF on the expected level of asset management planning. The intention is for them to address:

- the principles the agency intends to apply to asset management to achieve its organisational objectives (asset management policy)
- the agency's asset management objectives, practices and action plans for asset management improvement (asset management strategy)
- the agency's approach to implementing its asset management strategies (asset management plan).

4.3.3.1 Large infrastructure agencies

In prior years we have raised a number of opportunities for agencies to improve their documented asset management policies and plans. In 2020-21 we found that agencies generally responded positively to our recommendations for improvement and made some progress on addressing the issues we raised.

We note some continuing opportunities for improvement for individual agencies. These include finalising draft asset management policies and plans and improving key information about condition monitoring, levels of service and performance for some asset types.

4.3.3.2 Agencies that participate in the AGFMA

In 2018-19 we found that several of the agencies who participate in the AGFMA did not have documented asset management policies and plans. In 2020-21 we found that agencies continued to work towards developing asset management policies and plans but, at the time of our audit, had not finalised and implemented them.

In 2019-20 we conducted a performance audit, reported in Auditor-General's Report 9 of 2020 *Education capital works: planning and governance*, on the Department for Education's capital works program. We identified opportunities to improve asset management policies and plans to better inform the prioritisation of capital works programs and their alignment with the agency's strategic objectives. This continues to be a work in progress, with the Department for Education continuing to develop new asset management policies and plans.

4.3.4 Opportunities to continue to improve the identification, measurement and reporting of levels of service and performance measures

Defining, establishing and measuring levels of service and performance measures is important for asset management planning and decision-making. The information should provide an understanding of:

- the levels of service customers require and their willingness to pay
- the technical levels of service required
- actual asset performance and capability to deliver those levels of performance.

Deficiencies in the process to establish desired levels of service, and in monitoring actual asset performance against targets, may lead to the level of planned/actual service delivered by the public authority not meeting the levels expected by key stakeholders.

The absence of reporting on performance measures may impact an agency's ability to appropriately prioritise asset maintenance and renewal.

4.3.4.1 Large infrastructure agencies

Our review of the management of levels of service and performance measures at agencies found, for some asset types, opportunities to improve.

We found, for one asset type we reviewed, improvements were still needed to ensure that:

- asset management plans define all desired levels of service and that actual performance is monitored and reported on regularly
- customer expectations are integrated into levels of service and linked to performance measures in the revised asset management plans.

For another asset type we reviewed, further improvements were required for measuring and reporting some customer and technical levels of service.

4.3.5 Condition assessments were not performed or were performed but not used for asset management planning purposes

Assessing the condition of an agency's properties is critical to properly informing its future maintenance and infrastructure costs and future asset management plans. Without these assessments there is an increased risk of assets not being in the condition expected by the agency and decisions about asset management planning being based on incorrect or inadequate information.

Not knowing the condition and then properly responding through adequate maintenance and renewal activities may increase the safety risk to users of the assets, decrease the life of the asset and increase maintenance costs.

Collectively in 2020-21 we have seen agencies take positive steps to address the issues we identified last year. There are still some opportunities to improve.

4.3.5.1 Large infrastructure agencies

We found opportunities to improve the asset condition monitoring of large infrastructure agency asset portfolios. They included:

- establishing documented processes to ensure formal condition assessments are scheduled based on criticality and regularly performed, and that the outcomes are used to plan and prioritise maintenance activities
- ensuring results of condition assessments are recorded in asset data systems.

4.3.5.2 Agencies that participate in the AGFMA

We found opportunities to improve performance and reporting on condition assessments. In particular we found:

- one agency that participates in the AGFMA did not have condition assessments for its assets in 2020-21
- opportunities at some agencies to enhance the guidance on condition ratings and information on the condition of assets provided so that they can better use this information for asset management planning.

4.3.6 The quality of asset data needs to improve

Asset data collection is critical to asset management. Without accurate and up-to-date information the integrity of asset management decision-making is compromised.

PC114 requires that agencies establish and maintain a regularly updated minimum level of property data for all their physical property assets. It also states that DIT's SAMIS asset management system is the preferred location for storing this data for those agencies with significant non-residential built assets. For agencies who participate in the AGFMA, the facilities services providers are required to update SAMIS for information about the checks they perform on agency assets.

4.3.6.1 Agencies that participate in the AGFMA

Consistent with prior years we found instances where asset data could be improved for agencies participating in the AGFMA. Some agencies did not use SAMIS for decision-making purposes, but rather used their own internal records which were not up to date and did not comply with the minimum property dataset requirements of PC114.

4.4 Across government facilities management arrangements

4.4.1 Summary of findings

What we found

Our 2020-21 follow-up of previously raised findings found that the AGFMA continues to require improvement. DIT established an AGFMA improvement program to address issues identified with the AGFMA. While there has been positive action taken by stakeholders, it will take time to adequately address these issues.

Our 2018-19 review of the AGFMA found:

- governance arrangements to support the AGFMA needed to improve
- while guidance existed to help agencies fully understand the AGFMA, agencies found this guidance unhelpful, meaning that roles and responsibilities were not clearly allocated, understood and met
- asset condition monitoring and reporting was not adequately performed
- asset data collection was insufficient, impacting its usefulness in asset management decisions
- controls were not adequate to provide assurance that only qualified subcontractors are used.

Our 2018-19 asset management review of selected agencies that participated in the AGFMA found:

- the absence of asset management policies and plans
- property condition assessments were not performed or were performed but not used for asset management planning purposes
- asset data quality did not always meet minimum standards.

Our follow-ups in 2019-20 and 2020-21 found that DIT and the agencies participating in the AGFMA have taken positive steps to address these findings. We found:

- an updated contract management plan was approved in September 2020 which included some previously missing information, although we noted further potential for improvements to the plan
- memorandums of administrative arrangements with participating agencies had been executed for most AGFMA stakeholders
- establishing asset hierarchies in SAMIS for many agencies was in progress
- management controls to ensure subcontractors held valid qualifications, licences and clearances were still being established
- progress was made to address condition reporting, with a project to develop the report within SAMIS completed in March 2021, but implementation of the reports was still in progress at the time of our review.

Participating agencies have engaged with DIT and are working towards addressing the issues we raised previously for condition monitoring and reporting and data collection. They have also started drafting asset management policies and plans. The status of their progress is discussed further in section 4.3.1.

What public authorities should do

The AGFMA's success will depend on all stakeholders understanding their responsibilities, implementing processes to meet them, actively managing the services provided by the facilities services providers, and ensuring that asset information is properly maintained across multiple IT systems.

DIT is the lead agency for the AGFMA. It has a key role in managing these arrangements in conjunction with the participating agencies. As part of its AGFMA improvement program it should continue to address our findings and take action to improve AGFMA controls so that the AGFMA achieves its objectives.

In June 2020 the SA Government approved the establishment of a fully outsourced service delivery model for a future AGFMA. The new contract was awarded in July 2021 to commence in December 2021, with transition arrangements in place from July 2021 to November 2021. Services will be provided by Ventia. DIT and agencies participating in the AGFMA will need to actively work with Ventia to ensure a smooth transition and implementation under the new model.

Agencies participating in the AGFMA should continue to:

- actively work with DIT and the facilities services provider to ensure they are clear about their roles and responsibilities
- clearly communicate to their staff their roles and responsibilities and provide them with adequate training
- revisit/improve their asset management controls to ensure they receive effective facilities management services for their assets.

4.4.2 Background

The AGFMA is an integral part of the SA Government's approach to maintaining, managing and improving building assets including building fabric, plant and equipment. It is designed to enable the SA Government to identify the building work that needs to be done, negotiate a fair price for it, manage any risks and maintain public records of work performed. Over 30 agencies participate in the AGFMA.

In 2020-21 the value of services provided under the AGFMA was approximately \$334 million and they were provided by two facilities services providers:

- Spotless, as an outsourced contractor for the Central and Northern Adelaide service regions, under a detailed contract
- DIT's Facilities Services, mainly for the Southern Adelaide and Country South Australian service regions, which is self-governing and operates under a services framework.

Both the Spotless contract and the DIT services framework aim to provide a similar service to AGFMA participating agencies.

Both DIT, which administers the AGFMA, and participating agencies have responsibilities under these arrangements. I explained their responsibilities in my 2018-19 Annual Report and they were unchanged in 2020-21.

We included the AGFMA in our controls opinion audit program due to its significance in terms of the large maintenance expenditure incurred by agencies, the value of the assets maintained and the number of participating agencies.

Our 2020-21 audit of the AGFMA followed up the findings we raised in 2018-19. In 2018-19 we focused on DIT's controls for governance, contract management, asset data collection, asset condition monitoring, subcontractor accreditation and IT user access controls. We also considered controls at selected participating agencies relating to their responsibilities for governance, asset data collection and asset condition monitoring. We summarised these findings in section 4.4.1.

Further detail on our review of the AGFMA is provided in Part C of this Report in the section titled 'Department for Infrastructure and Transport'.

4.5 Salaries and wages expenditure

4.5.1 Summary of findings

What we found

Our audit of controls over salaries and wages expenditure found:

- employment screening practices need significant improvement to ensure employees hold valid and current clearance checks
- a continuing need for performance management processes to be improved, with large numbers of outstanding reviews identified at most agencies where we looked at this
- differing levels of workforce planning maturity continue to exist at some agencies
- the recording and management of leave requires improvement
- an ongoing need for key payroll processing controls to improve.

What public authorities should do

They should:

- clearly document which positions require employment screening checks (eg working with children clearances) and implement effective monitoring controls to ensure employees in those positions hold valid and up-to-date checks
- continue to improve their performance management systems to ensure staff are trained and understand their roles and responsibilities and whether they are meeting them, and to manage staff who need to improve their performance
- implement or monitor workforce plans appropriate to the complexity, scope and nature of their operations and ensure they align with the agency's objectives
- implement controls to ensure all leave taken is recorded and approved in the system they use and make sure any excessive or negative leave is effectively managed
- identify key risks in their payroll processing environment around the validity, accuracy and completeness of payments and ensure they have implemented effectively designed controls to mitigate them.

4.5.2 Background

The largest type of expenditure incurred by the agencies we audit is salaries and wages. Collectively they employ around 109 000 staff and pay over \$10 billion in salaries and wages every year.

Proper financial management of salaries and wages expenditure starts with planning how many staff to employ, hiring those staff, and paying and managing them until the end of their employment. There are many transactions through this cycle and a diverse range of

legislative requirements, government frameworks and enterprise agreements that need to be complied with.

Our findings are discussed in the following sections.

4.5.3 Monitoring of employment screening checks still needs to improve

This year we continued our focus on the identification and management of positions in organisations that require clearance checks, such as working with children and aged care clearances. These checks are fundamental to ensuring that an agency meets community expectations in the hiring and ongoing employment of staff in line with legislative requirements. This is particularly important when employees are working with vulnerable members of the public.

Our review of agencies' control environments found that many agencies still need to improve their practices. We found:

- some agencies still have not documented those prescribed positions requiring screening checks and then implemented processes to actively monitor them to ensure all checks are current
- instances where working with children and aged care clearances had lapsed for employees who were directly working with children or the elderly
- outdated, incomplete or non-compliant registers for employees requiring clearance checks
- an instance where an agency was using statutory declarations to cover gaps between criminal history checks.

4.5.4 Performance management reviews continue to need improvement

Performance management is fundamental to ensuring an agency meets community expectations and delivers services effectively and efficiently. Effective performance management systems ensure staff understand their individual roles and responsibilities, and how they will achieve them. If an agency is paying an employee for work that is not being performed or not being performed to the level expected, it is not properly managing its salaries and wages expenditure.

The importance of performance management is recognised in various requirements that reinforce the need for agencies to establish and administer effective performance management and development systems. These include:

- the *Public Sector Act 2009*
- Direction of the Premier: *Performance Management and Development*
- Commissioner for Public Sector Employment guidelines.

We continue to see overdue performance reviews across most agencies where we have looked at this area. In 2020-21 we have seen improvement in the number of overdue performance reviews for some agencies we reviewed, while others are still working towards increased compliance with required frameworks.

4.5.5 Some key payroll processing controls need to improve

Typical payroll processing environments include input checks (approval of timesheets, rosters, etc) and output checks (bona fide reviews, payroll exception reports, etc) to ensure salaries and wages expenditure recorded in financial systems and paid is valid, accurate and complete. The appropriate design and implementation of these controls is fundamental to the proper financial management of salaries and wages expenditure.

In previous years we have reported, across several agencies, instances where these checks were not occurring as designed or where their implementation did not meet management's expectations. In 2020-21 we reviewed key controls in the payroll processing environments of selected agencies and again identified instances where:

- timesheets were not properly approved
- key payroll reports (bona fides and leave returns) were not reviewed, or the review was not adequate or not performed promptly
- medical rostering practices were inconsistent
- the verification of certain allowances was not performed.

4.6 Delegations and approvals

4.6.1 Summary of findings

What we found

Our audit of controls over delegations and approvals found:

- in one agency's delegation framework:
 - improvements were needed to the process of checking chief executive approved delegations to the financial systems
 - instances where officers had the ability to approve transactions in the financial systems but did not have any delegation
 - instances identified where delegations in the financial systems did not agree to the chief executive approved delegations
- significant payments were automatically approved or inappropriately approved for some maintenance expenditure incurred at some agencies
- one agency was not approving contract variation requests for maintenance orders in line with its approved variation to Treasurer's Instruction 8 *Financial Authorisations*.

What public authorities should do

They should:

- continue to reinforce the importance of controls to monitor user access and online delegation limits set in financial systems

- monitor all automatic approval processes to ensure that there are adequate controls to confirm the validity and accuracy of the expenditure being incurred
- ensure compliance with Treasurer’s Instructions and any approved variations to them.

4.6.2 Background

Every year billions of dollars of public money is spent by public sector employees who have been given approval through a delegated authority to transact on behalf of a public authority. Delegated authority is a practical necessity to allow public authorities to meet operational and business requirements effectively and efficiently.

Individual transactions can commit public money to individually high amounts or accumulating commitments over many years, whether for ongoing employees – the largest part of government spending – or contracts for goods or services. Many individual transactions are of high value and the amounts exposed to misspending are accordingly high. Because of the responsibility and trust associated with using public money, the standards of expected behaviour and compliance are high. If public sector employees do not adhere to delegated authorities, they risk committing the SA Government to, or incurring, expenditure that does not achieve value from spending public money and is not in the public interest.

Delegations provide a structured framework for approving payments. They should reflect public sector rules that govern this activity, such as those established by the PFAA, *Public Sector Act 2009*, SP Act and Treasurer’s Instructions. The consequences of deliberately misapplying delegated authorities are potentially severe for individuals.

The findings summarised in section 4.6.1 continue to demonstrate the need for public authorities to ensure that financial system delegation limits align with approved financial delegations. They also highlight the need to ensure that user access in other systems that incur expenditure (eg maintenance systems) reflect financial delegations where applicable.

4.7 Other accounts payable matters

4.7.1 Summary of findings

What we found

Our audit of accounts payable controls found:

- opportunities at one agency to strengthen invoice and vendor processing checks
- instances where manual payments associated with purchase orders were paid without independent review

- opportunities to strengthen segregation of duties in the acceptance and approval of jobs
- confirmation that services were received did not always occur before payment
- purchase orders were not always used when required, demonstrating a continuing non-compliance with agency policies and procedures
- ongoing instances where regular services were provided but no contract was established.

What public authorities should do

They should:

- ensure agency policies and procedures are complied with
- ensure comprehensive checks are performed on the processing of invoice data and the addition of new vendors
- ensure goods and services are confirmed as received before payment
- ensure appropriate segregation of duties across accounts payable processes
- review regular expenditure with specific vendors and investigate opportunities to establish formal contract arrangements
- ensure staff are aware of their roles and responsibilities and are provided with relevant training.

4.7.2 Background

Each year millions of invoices are processed for public authorities. Having a high number of suppliers inherently increases the risk of fraud. To minimise this risk, public authorities need to assess their processing environments, including those at SSSA where applicable, and ensure they have appropriate controls in place. This is required by the Treasurer's Instructions.

A key step in the accounts payable process is agreeing invoices back to purchase orders raised and ensuring that goods and services are received, as requested, before payment. If purchase orders are not raised when required, it may be difficult for an agency to manage its commitments. If the invoice is not agreed back to the purchase order and goods and services are not confirmed as received, a public authority may be paying for goods and services it did not need.

All agencies will deal with some suppliers regularly for day-to-day goods and services. Establishing contracts for significant or regular spend is an effective way of ensuring certainty of arrangement and price. It may also provide opportunities for both better pricing (for volume) and service provision. This enables agencies to understand their costs with more certainty and make appropriate financial decisions based on this knowledge. It also helps suppliers to understand the level of goods and services required, which helps them plan to ensure they are available.

Establishing contracts also provides a basis for measuring performance, enabling agencies to have certainty over what they receive.

The findings summarised in section 4.7.1 highlight the need for agencies to continue to work on strengthening controls over the accounts payable process.

4.8 Asset acquisition – project delivery and management of construction projects

Each year the agencies we audit undertake significant construction projects. Most are undertaken by agencies with relevant expertise. The SA Government's infrastructure agency, DIT, is responsible for managing construction projects in the civil and building (commercial) construction sectors. SAHT and Urban Renewal Authority are prescribed public authorities under the SP Act and regulations. They are also infrastructure agencies, having the expertise to undertake construction projects in the residential and land development sectors.

Construction projects should comply with public sector rules such as those established by the PFAA, Department of the Premier and Cabinet circulars and Treasurer's Instructions. In 2020, Infrastructure SA released its independent assurance framework, which aims to improve the planning, prioritisation, operation and implementation of major SA Government infrastructure projects.

In 2020-21 we reviewed selected controls over aspects of infrastructure planning and investment, project delivery and management.

We identified opportunities to improve governance practices and policies over project management at one agency we reviewed.

4.9 Revenue

The agencies we audit receive around \$26 billion of revenue annually, around half of which is from Commonwealth grants. The types of revenue received include taxation, grants and revenue from sales of goods and services.

The proper financial management of revenue includes raising revenue under legislation, grant programs or through the provision of goods or services. The revenue process has many steps, including identifying revenue to be raised, entering and managing agreements, billing the customer, debt management and receipting the revenue. We considered a range of criteria when performing our audits, including the relevant legislative framework supporting the revenue, Treasurer's Instructions and agency financial policies and procedures.

The revenue processes we reviewed were generally operating effectively. We identified an opportunity to strengthen one agency's processes for obtaining assurance over the accuracy and completeness of its revenue. We also raised findings relating to the contract management practices for this arrangement, which are summarised in section 4.1.1.

Our work continues to reinforce that agencies should have processes to ensure they understand what revenue they should be raising and that they are raising it correctly. The consequence of not implementing controls to ensure the completeness of revenue is that the agency may not receive all the money it should.

4.10 Treasurer’s statements

4.10.1 Summary of findings

What we found

Our audit of the management of the SA Government’s central general ledger and special deposit and deposit accounts found:

- an instance where the appropriation paid to an agency exceeded the prescribed limit in the Appropriations Act
- opportunities to improve the review of journals processed to the central general ledger and the promptness of monthly control sheet processes
- opportunities to improve the management of some special deposit and deposit accounts.

What public authorities should do

Those managing the central general ledger should:

- only pay appropriations up to the prescribed limit
- appropriately review journals
- perform monthly processes promptly.

All public authorities should:

- ensure they reconcile and follow up any outstanding items on bank reconciliations regularly
- ensure they comply with legislative requirements.

4.10.2 Background

The Treasurer’s statements are prepared annually as required by section 22 of the PFAA. They reflect transactions of the Treasurer as shown in the Treasurer’s accounts and records. The main public accounts are the Consolidated Account, and special deposit and deposit accounts established under the PFAA.

Our audit program included reviewing controls over key areas of these statements, including receipts to and payments from the Consolidated Account (Statement A), the indebtedness of the Treasurer (Statement I) and the special deposit (Statement F) and deposit accounts (Statement G). SAFA is responsible for managing the central general ledger on behalf of DTF

and for processing the financial transactions that support these statements. We identified some issues, reported in section 4.10.1, with the processing of transactions and month end processes that are currently being addressed.

Other findings are discussed below.

4.10.3 Opportunities to improve the management of special deposit and deposit accounts

Special deposit and deposit accounts are established under the PFAA. The establishment and purpose of each account are approved by the Treasurer. The use of these accounts should reflect the approved purpose and the requirements of the Treasurer's Instructions.

We found that the controls over the operation of these accounts were generally satisfactory. However, we did identify some isolated instances where agencies could improve their management of deposit accounts, including that:

- bank reconciliations should occur regularly and be reviewed promptly
- unmatched reconciling items should be rectified promptly
- specific legislative requirements should be adhered to when using funds from a special deposit account
- funds should not become overdrawn.

Appendix 1 – Abbreviations used in this report

A number of acronyms and abbreviations are used throughout this report. Most are summarised here.

AGFMA	Across government facilities management arrangements
CALHN	Central Adelaide Local Health Network Incorporated
DCS	Department for Correctional Services
DHW	Department for Health and Wellbeing
DIT	Department for Infrastructure and Transport
DTF	Department of Treasury and Finance
Funds SA	Superannuation Funds Management Corporation of South Australia
KPI	Key performance indicator
NALHN	Northern Adelaide Local Health Network Incorporated
PC028	Premier and Cabinet Circular PC028 <i>Construction Procurement Policy: Project Implementation Process</i>
PC114	Premier and Cabinet Circular PC114 <i>Government Real Property Management</i>
PFAA	<i>Public Finance and Audit Act 1987</i>
RTWSA	Return to Work Corporation of South Australia
SA Health	Department for Health and Wellbeing and associated local health networks
SAFA	South Australian Government Financing Authority
SAHT	South Australian Housing Trust
SALHN	Southern Adelaide Local Health Network Incorporated
SAMF	Strategic Asset Management Framework
SAMIS	Strategic Asset Management Information System
SA Water	South Australian Water Corporation
SP Act	<i>State Procurement Act 2004</i>
SPB	State Procurement Board
SSSA	Shared Services SA



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