

Report 13 of 2020

Annual report

for the year ended 30 June 2020

Part B: Controls opinion



Report of the Auditor-General

Report 13 of 2020

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for the year ended 30 June 2020

Part B: Controls opinion

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Auditor-General's 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 2019-20.</p>
Key areas of review	<p>Our control reviews focused on several areas of financial transaction processing but there was a particular focus in 2019-20 on:</p> <ul style="list-style-type: none">— procurement and contract management— asset management (including the across government facilities management arrangements (AGFMA))— workforce planning— 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 which, while being identified at individual agencies, should be considered by all public sector agencies as part of ensuring they have sound financial management control practices in place.</p>

Key issues

The key issues we identified were as follows:

- The maturity of contract management processes needs to improve to ensure contracts are managed effectively, risks are properly addressed and contract performance is properly assessed.
- Procurement processes need to improve, with instances of policies being out of date, approvals not being provided at the right time and missing key procurement process documents.
- Asset management processes for large infrastructure agencies could be improved, with gaps in asset management planning, condition assessments 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.
- There were varying levels of workforce planning maturity across the agencies we reviewed.
- Some key payroll processing controls need to improve.
- There were opportunities to strengthen controls over the use of delegations and approvals.
- There were also some opportunities to improve processes to manage capital works, including project governance.

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. I felt that this, at times, did not give us enough flexibility to focus our attention and resources on the aspects of financial management that are most significant to the whole of government. Adjusting our focus to these aspects delivers more relevant reports. We therefore changed our approach to allow for greater use of our resources on the areas we consider most significant and where there are greater consequential risks for the expenditure of public funds.

This is the second year of this revised approach. Our controls opinion planning again focused on the areas we assessed as being of most quantitative and qualitative significance to the whole of government. 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.

Our approach is still evolving and while any change brings challenges, I believe this is moving us towards achieving the outcome I sought in focusing our resources on the matters of most significance that arise from year to year.

In this section I explain my controls opinion responsibilities under the PFAA, our approach for 2019-20 and the impact of COVID-19 on control environments. Section 3 explains our audit coverage and section 4 contains the significant control matters identified from 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.

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

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 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.

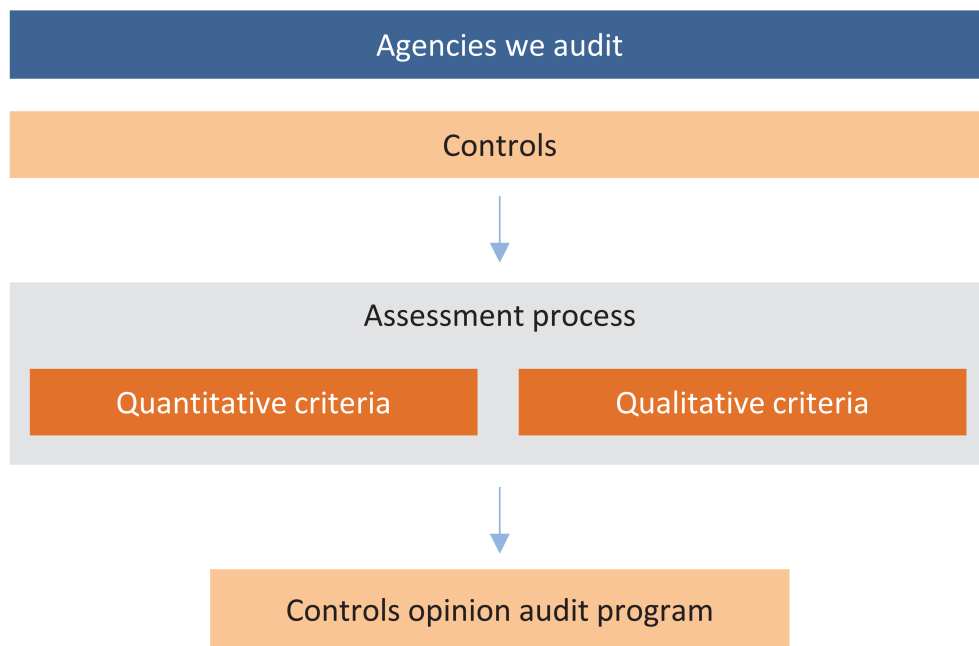
2.2 Our approach

2.2.1 The 2019-20 controls opinion approach

Our 2019-20 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.

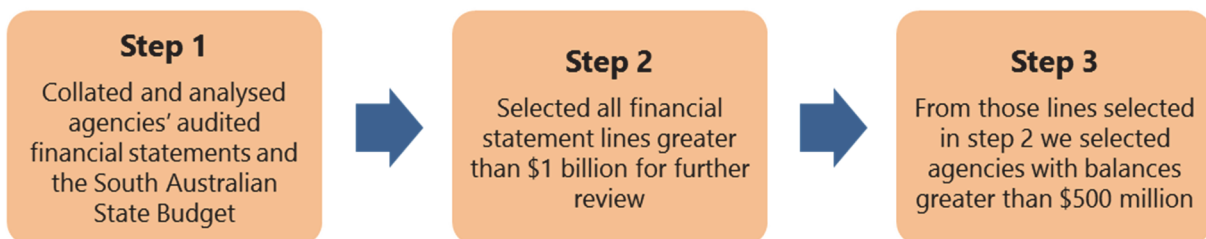
To produce our 2019-20 controls opinion audit program, we considered key quantitative and qualitative factors.

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 2019-20 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 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, whereas in others we may review the process for conducting 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 2019-20.

2.3 Impact of COVID-19 on control environments

In Part A of this Report I detail the significant impact COVID-19 has had on areas of the public sector.

In May 2020 I wrote to public authorities highlighting the risk that COVID-19 brings to control environments. I referred to useful references issued by the Queensland Audit Office and the Australian National Audit Office, including the *Rapid implementation of Australian Government initiatives* audit insight published on the ANAO's website. These references highlight the risks associated with:

- increased spending of public money
- rapidly implementing new projects
- changes in working arrangements.

I recommended that the references be considered by key governance staff and committees.

Our review, as outlined in Part A, included a specific focus on controls for the immediate COVID-19 responses such as the significant grant programs.

Most of the procurements and other arrangements entered into by SA Health in response to COVID-19 occurred in the last half of the financial year. This involved the commitment of significant SA Health resources. We will review the controls over these transactions and report on the outcomes in 2020-21. Doing it then is a practical response that recognises the level of effort and focus within SA Health to respond within a short time to current needs, and reflects that we did not want to impact SA Health's ability to focus on the immediate needs during that period.

Our 2020-21 program will also include reviewing controls over other COVID-19 initiatives that commenced in 2020-21, such as bringing forward maintenance expenditure and planning and undertaking capital projects.

3 Coverage

This section explains our areas of focus in 2019-20 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. Any matters we identified through those audits were communicated to the relevant agencies. The more significant findings for the agencies included in this Report are also discussed in Part C.

We will release a separate report later, 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.

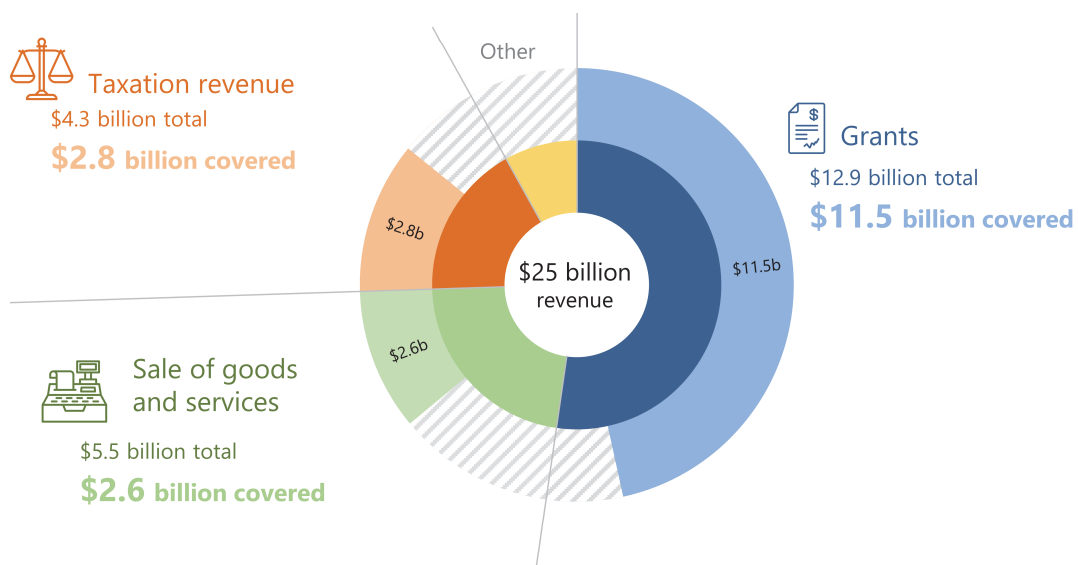
3.1 Revenue coverage

The agencies we audit receive around \$25 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 2019-20 controls opinion work.

Overall, we reviewed selected controls for \$17 billion of revenue transactions. Figure 3.1 shows our coverage across the different types of revenue.

Figure 3.1: Revenue coverage in 2019-20



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

3.1.1 Key areas of coverage

Taxation revenue: \$2.8 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 of Planning, Transport and Infrastructure (DPTI).

Grant revenue: \$11.5 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: \$2.6 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
- ticket sales for the Lotteries Commission of South Australia.

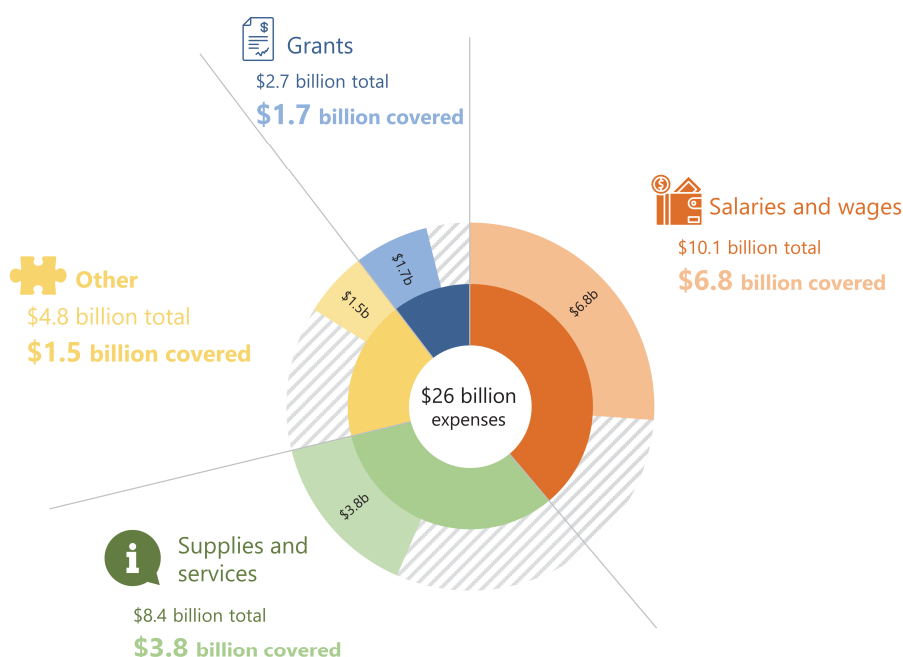
3.2 Expenditure coverage

In 2019-20 the agencies we audit spent \$26 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 2019-20 controls opinion work.

Overall, we reviewed selected controls for \$14 billion of expenditure transactions. Figure 3.2 shows our coverage across the different types of expenditure.

Figure 3.2: Expenditure coverage in 2019-20



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

While not specifically included in the above coverage, we also reviewed controls over key grant programs implemented in response to COVID-19, as discussed in Part A of this Report.

3.2.1 Key areas of coverage

Supplies and services: \$3.8 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
- DPTI
- whole of government procurements.

In addition to this specific work, we 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 incurred is appropriately authorised reduces the risk of incurring expenditure that does not achieve value from spending public money.

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

achieving their objectives. It ensures they are paying for supplies and services that are meeting expectations and achieving value for money.

DTF undertakes some procurements on behalf of the whole of government. We reviewed a sample of these procurements and contract management arrangements in 2019-20.

Salaries and wages: \$6.8 billion reviewed

\$10 billion of salaries and wages are paid annually across the agencies we audit, to around 108 000 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.
- Hiring processes including 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: \$846 million reviewed

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

Maintenance expenditure: \$298 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
- DPTI
- SA Health – CALHN, SALHN and NALHN
- Department for Correctional Services.

We also considered how DPTI manages its contract with Spotless for the provision of maintenance services across specific regions.

Other expenses: \$612 million reviewed

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

Grant expenses: \$1.7 billion reviewed

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

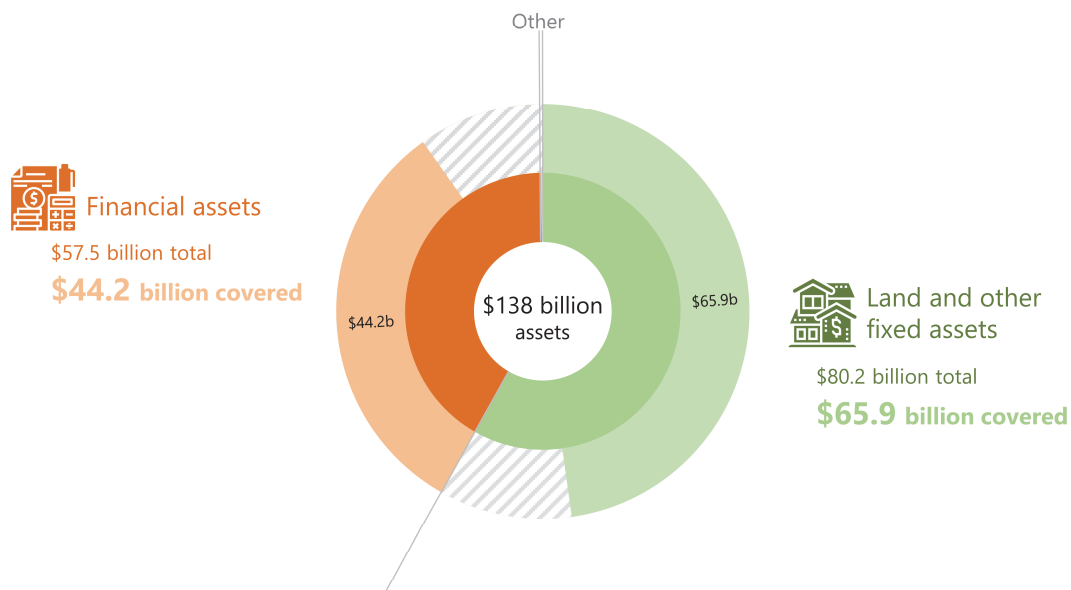
3.3 Asset coverage

The agencies we audit have assets worth \$138 billion. Applying sound financial management practices in the investment of money and 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 2019-20 controls opinion.

Overall, we reviewed selected controls for \$110 billion of assets. Figure 3.3 shows our coverage across the different types of assets held.

Figure 3.3: Asset coverage in 2019-20



3.3.1 Key areas of coverage

Land: \$8 billion reviewed

We reviewed selected controls over land assets at:

- South Australian Housing Trust
- Department for Environment and Water
- DPTI.

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: \$781 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: \$237 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: \$40.6 billion reviewed

We reviewed selected controls over investments at:

- SAFA
- RTWSA
- Funds SA – for investments managed on behalf of superannuation fund 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 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:
\$38.7 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, or 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:

- DPTI
- Department for Education
- SA Health – DHW, CALHN and SALHN
- Department for Correctional Services
- SA Water
- South Australian Housing Trust
- Adelaide Venue Management Corporation
- TAFE SA
- University of Adelaide
- Flinders University
- University of South Australia.

We evaluated agency asset management practices using the DPTI 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 2019-20 the focus of our controls work over asset management was that:

- governance arrangements were in place
- risk management practices were in place
- asset condition monitoring was occurring
- adequate asset data was maintained.

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:

- DPTI (in its own right and managing projects on behalf of other agencies)
- SA Water
- South Australian Housing Trust
- Department for Education
- SA Health – DHW

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

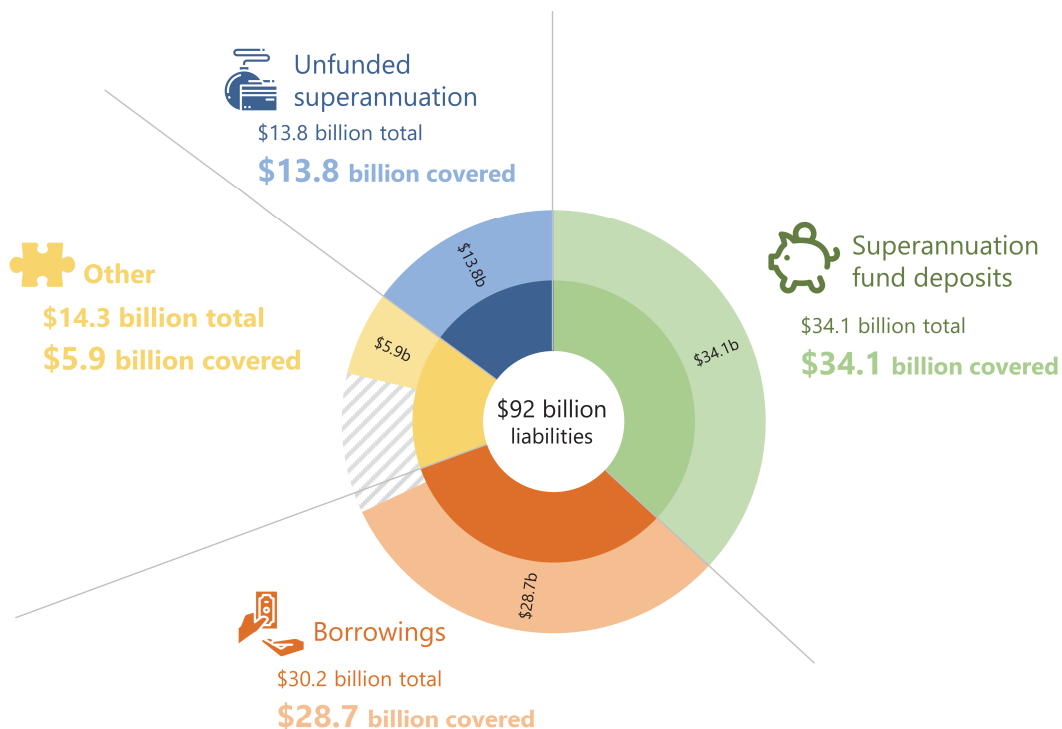
3.4 Liabilities coverage

The agencies we audit have \$92 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 2019-20 controls opinion.

Overall, we reviewed selected controls for \$82 billion of liabilities. Figure 3.4 shows our coverage across the different types of liabilities held.

Figure 3.4: Liabilities coverage in 2019-20



3.4.1 Key areas of coverage

Borrowings: \$28.7 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 its 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 also considered those same controls over borrowings at HomeStart Finance and SA Water.

We reviewed selected controls over financial lease payments and changes to repayment schedules at CALHN for the finance lease with Celsus for the Royal Adelaide Hospital (RAH).

**Superannuation fund deposits:
\$34.1 billion reviewed**

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

**Unfunded superannuation liability:
\$13.8 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:
\$734 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:
\$5.2 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 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). 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 found that collectively agencies need to lift the maturity of their contract management practices. We found:

- continuing instances where contract management plans were not developed, were not approved, did not meet State Procurement Board (SPB) requirements, did not address all key areas of contract management or were out of date
- contract management practices did not always ensure all aspects of the arrangements were assessed through appropriate reporting such as key performance indicators and annual reviews
- contract management practices did not always ensure key contractual requirements were met
- contract management processes did not always demonstrate a clear understanding of risks to the agency and how they were mitigated
- some contract management systems/registers still needed to be improved, did not include all contracts or did not always accurately reflect contract details
- instances where the management of prequalified suppliers and contractors could be improved
- instances where the assessment of key performance indicators for contracts was not documented
- some reports reviewing contract performance were not completed when required for finalised contracts
- instances where contractually required meetings with suppliers were not held
- an instance where no contract manager was appointed
- continuing opportunities to update contract management policies and procedures.

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 (refer section 4.3).

Public authorities continue to enter into significant outsourcing arrangements, for example the Adelaide Remand Centre, land services commercialisation and, most recently, the operation of Adelaide's train and tram services. This increases the need for public authorities to clearly set frameworks and expectations for effective contract management, as well as the need to invest in the capability and capacity of their human and IT resources to support effective management.

Entering into contracts does not remove risks from the public authority in relation to the provision of the services involved. At times, it can increase risk or introduce new risks. If the risks are not managed it may result in increased costs to the State and loss of services. The risks need to be well controlled through effective contract management practices.

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 through:

- comprehensive policies and procedures that are communicated to staff and that reflect contract management processes specific to the agency, which should reflect SPB 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 SPB 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).

In 2020-21 a new procurement framework and a new procurement branch in DTF will establish the criteria public authorities should apply when procuring goods, services and assets.

This change will incorporate a range of recommendations made by the South Australian Productivity Commission and the Statutory Authorities Review Committee of Parliament in 2019. Our recommendations about contract management should be considered in conjunction with the new requirements when they are issued.

The change will also mean that agencies will have more direct responsibility for procurement and contract management and will need to invest in the capability to support that.

4.1.2 Background

Contracting by the SA Government takes a number of 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 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.

While the SPB currently establishes key requirements for contract management, Treasurer's Instruction 28 *Financial Management Compliance Program* (TI 28) 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.

Our findings are discussed in the following sections.

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

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. For goods and services contracts above \$4.4 million or that are high risk, the SPB 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 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, were in draft, were incomplete or were out of date.

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.

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, for complex or highly technical matters, an independent assessment or periodic audit 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 the following:

- regular reports outlining progress and performance against the contract were not always provided, were not followed up or were not verified by the agency
- there were instances where agencies solely relied on information provided by the supplier to support the achievement of key performance indicators and other delivery plans, with no process to validate the claims or ability to assess the adequacy of what was provided
- agencies could not always provide evidence that they had followed up on key performance indicators for a contract
- there were 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:

- instances where agency procurement policies need to be updated
- approvals required at key points of the procurement were, in some cases, not provided by all relevant people or were provided after the fact
- instances where there was a lack of comprehensive documentation supporting key steps in the procurement process, including some significant procurements with a high level of risk
- missing key procurement records, including conflict of interest declarations and minutes of key meetings
- an instance where insufficient time was allowed for a procurement process to be finalised before the end of the existing service agreement
- an instance where a public authority did not define the procurement as construction or goods, resulting in non-compliance with agency specific policies and procedures as well as SA Government procurement requirements
- services commencing and/or payments being made before the contract was signed
- inappropriate approval of direct negotiation procurements
- an instance where an insufficient risk assessment occurred, resulting in increased expenditure due to late procurement
- opportunities to improve post-sourcing reviews.

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

Many of these findings demonstrate the need for public authorities to invest in increasing the capability of their procurement staff, particularly in understanding key framework requirements and applying risk management principles to identify and manage procurement risks effectively.

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. Adequate training should be provided
- 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
- when applying professional judgement to make key procurement decisions, document adequate justification that is specific to the procurement being undertaken
- ensure adequate recordkeeping so that evidence of conflicts of interest, key decisions, approvals, etc is retained.

As mentioned in section 4.1.1, revised procurement requirements are likely in 2020-21 and our recommendations should be considered in conjunction with the new requirements when they are issued.

4.2.2 Background

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

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.

The SP Act currently provides 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 are 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, 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.

The SPB establishes policies and procedures to achieve the objectives of the SP Act.

Listed prescribed public authorities establish their own procurement frameworks (which

generally apply the same principles as the SP Act) and for prescribed construction projects PC028 applies (again adopting the same principles as the SP Act).

In 2020-21 a new procurement framework and a new procurement branch in DTF will establish the criteria public authorities should comply with when procuring goods, services and assets. This change will incorporate a range of recommendations made by the South Australian Productivity Commission and the Statutory Authorities Review Committee of Parliament in 2019.

The new framework was not issued as at 30 June 2020 but its suggested completion is September 2020. Our 2020-21 audit program will address the transition to it for agencies included in our controls opinion program. It will be important for agencies respond to this change and update their control environments accordingly.

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.

For two significant panel procurements we identified missing conflict of interest declarations and confidentiality agreements. For one declared conflict of interest, we found that it was not dealt with in line with agency requirements that called for a management plan and a briefing for the Chief Executive, neither of which could be provided.

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, resulting 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 the planning is an acquisition plan. There is detailed guidance on this in the SPB's policies. If these plans are not comprehensive, the procurement may not achieve the objectives stated above.

We focused our attention on agency documentation of procurement planning. We found many instances where acquisition plans were not sufficiently comprehensive to support the decisions made. For example we identified instances where:

- procurement objectives were broad and not specific to the procurement
- sustainability impact assessments were broad and did not discuss key items considered
- for one large procurement, there was inadequate justification for not having a probity plan
- the justification and analysis of the benefits of undertaking a panel strategy over other approaches was missing
- there was not enough detail to support whole-of-life costs of a procurement
- details of secondary procurement processes for buying from the panel contract were missing entirely or were inadequate.

For one significant procurement we reviewed the agency did not define the procurement as a good, service or construction contract. There was no clear determination about what the procurement was and which framework applied. We found issues with the approvals obtained for this procurement as well as processes that did not comply with either SPB or PC028 requirements.

Our review also looked at evaluation planning and reporting. Sound evaluation planning and reporting are important in demonstrating 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 instances where documentation and approvals were inadequate. For example we identified instances where:

- there was no documented justification for shortlisting specific contractors
- the evaluation plan was not signed by all evaluation members or was signed after offers were opened
- the evaluation report was not completed as planned

- neither the evaluation report or the purchase recommendation were approved by all evaluation team members
- the purchase recommendation did not adequately address all information, such as key performance indicators.

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 significant areas where improvement is required including:

- 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
- an instance where condition assessments were not performed or recorded in the asset system
- opportunities to improve condition assessment scheduling and the updating of information in asset systems
- no monitoring of some asset risks or proposed controls
- an instance where an agency was still in the process of assessing the condition of its housing stock
- opportunities to improve information used when planning maintenance activities on some assets
- instances where oversight of asset management programs, including capital and sales programs, against their objectives could be improved
- opportunities to improve the oversight of assets under contractual arrangements (refer 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:

- the continuing absence of asset management policies
- instances where asset condition assessments were not always performed, were not always adequately performed or were performed but not always used for asset management planning purposes
- instances where asset data still did not meet the minimum data requirements of Premier and Cabinet Circular PC114 *Government Real Property Management* (PC114)

- an instance where a public authority did not have any asset management risk assessment documentation.

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. These 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 the assets 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. These 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 (this may require consultation with a facilities services provider). They should ensure this data is used to inform agency asset management plans
- continue to relate with DPTI to establish asset records in its asset management system, SAMIS (asset hierarchies), that support asset condition reporting.

4.3.2 Background

The agencies we audit are responsible for around \$60 billion in infrastructure, buildings and improvements.

Asset management was a key focus for our controls opinion audit in both 2018-19 and 2019-20. 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. Asset management 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 DPTI'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 asset maintenance and have extensive infrastructure portfolios such as SA Water, DPTI, the South Australian Housing Trust and the Urban Renewal Authority. The three South Australian universities were also included in this review 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 the Department for Correctional Services.

Our findings are discussed in the following sections. We also noted significant matters relating to assets maintained under contractual arrangements.

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

- the principles they intend to apply to asset management to achieve their organisational objectives (asset management policy)
- their asset management objectives, practices and action plans for asset management improvement (asset management strategy)
- their approach to implementing their asset management strategies (asset management plan).

4.3.3.1 Large infrastructure agencies

We identified opportunities for improvement for agencies that had documented asset management policies and plans. These included:

- finalising draft asset management policies and plans
- updating out-of-date planning documents
- defining time frames for achieving asset management objectives or key performance indicators to measure progress
- defining critical assets to ensure appropriate management of risk
- considering key internal and external factors impacting on asset management
- reporting asset management performance regularly to the board/management group.

We also identified an instance where the governing groups responsible for asset management did not meet their responsibilities, including not establishing key plans and evaluating asset management performance against key performance indicators.

4.3.3.2 Agencies who 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 2019-20 we found that most of the agencies we reviewed were working towards developing asset management policies and plans but, at the time of our audits, had not finalised them.

4.3.4 Identification, measurement and reporting of levels of service and performance measures needs to improve

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 of service 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, significant opportunities to improve. We found:

- instances where desired or targeted levels of service were not identified or measured
- performance measures or desired levels of service based on customer consultation and satisfaction were not established
- asset management plans were incomplete, with the absence of actual performance indexes for some levels of service in some plans and no reporting against established levels of service in others
- monitoring and reporting of actual performance did not occur for one significant asset class.

We are aware that there is a project in place to address some of these matters.

4.3.5 Property 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.

4.3.5.1 Large infrastructure agencies

Our review found significant opportunities to improve the asset condition monitoring of large infrastructure agency asset portfolios. These included improvements in:

- establishing processes to ensure formal assessments are scheduled and are regularly performed and that the scheduling is based on how critical the assets are
- ensuring condition ratings comply with agency policies and plans, are clear and consistent and are updated when assets are repaired or renewed
- ensuring condition assessments are performed and recorded in asset systems in line with asset management plans
- using its condition and how critical the asset is to plan maintenance activities.

Consistent with our 2018-19 findings, we identified an agency still in the process of assessing the condition of its housing stock – a process that is due for completion in 2021.

4.3.5.2 Agencies who participate in the AGFMA

We found, consistent with last year, opportunities to improve performance and reporting on condition assessments. In particular we found:

- some agencies who participate in the AGFMA did not have condition assessments for most of their assets
- other agencies received condition assessment reports from their facility service providers that they did not find useful, and were not using them for asset management planning
- in one instance an agency was performing its own assessments which it used for asset management purposes but not for informing maintenance planning under the AGFMA.

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 DPTI's SAMIS is the preferred location to store 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 Large infrastructure agencies

We identified examples where agency asset systems did not include all key data (eg an assessment of how critical the assets were) and were not updated for changes to asset condition.

4.3.6.2 Agencies who participate in the AGFMA

Similar to last year 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

In 2018-19 we comprehensively reviewed the AGFMA and concluded that it was not operating as intended. We found:

- governance arrangements to support the AGFMA needed to improve
- while guidance had been developed 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-up in 2019-20 found that both DPTI and the agencies participating in the AGFMA have taken some steps to address these findings. DPTI, through its AGFMA improvement program, has resolved or progressed a number of areas including:

- drafting memorandums of administrative arrangements with participating agencies in an effort to clarify AGFMA roles and responsibilities
- actively working with participating agencies to establish asset hierarchies in SAMIS so that adequate monitoring and data collection of assets occurs in line with agency expectations
- implementing an asset condition report pilot program to improve condition reporting and provide updates to key governance groups
- drafting a contract management plan to support the effective management of the contract with the facilities services providers
- endorsing an audit scope to develop a framework to monitor and audit subcontractors.

Participating agencies have engaged with DPTI to address issues in condition monitoring and reporting and data collection. They have also started drafting asset management policies and plans. The status of their progress is further documented in section 4.3.1.

The project to improve the effective management of the State's assets through the review of the AGFMA is a large project. It will take time to adequately address the findings. While our follow-up demonstrates positive action by stakeholders, the AGFMA still requires significant improvement and is still not operating as intended.

What public authorities should do

The AGFMA is complex.

Services are performed in at least 30 participating agencies at locations across the State. They are currently delivered by two facilities management (FM) service providers

(including an external provider) and most work is performed by subcontractors engaged by these providers.

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

DPTI 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 AGMFA improvement program it should continue to address our findings and take action to improve AGFMA controls so that the AGFMA achieves its objectives.

Agencies participating in the AGFMA should continue to:

- actively work with DPTI 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, manage risk and maintain public records of work performed. Over 30 agencies participate in the AGFMA.

In 2019-20 the value of services provided under the AGFMA was approximately \$300 million and they were provided by two FM service providers:

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

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

Both DPTI, which administers the AGFMA, and participating agencies have responsibilities under these arrangements. I outlined their responsibilities in my 2018-19 Report and they remain the same.

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 2019-20 audit of the AGFMA followed up findings we raised in 2018-19. In 2018-19 we focused on DPTI’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. The summary of findings is reported at 4.4.1.

Further detail on our review of the AGFMA is provided in Part C of this Report in the section titled ‘Department of Planning, Transport and Infrastructure’.

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:

- clarity over positions and employment screening requirements needs improvement in some agencies
- a continuing need for performance management processes to be consolidated and improved
- differing levels of workforce planning maturity continue to exist
- 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 continue to 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, as well as managing staff who need to improve their performance
- implement or monitor workforce plans appropriate to the complexity, scope and nature of agency operations and ensure they align with the agency’s objectives
- identify key risks in the payroll processing environment around validity, accuracy and completeness of payments and ensure they have implemented effectively designed controls to mitigate those risks.

4.5.2 Background

The largest type of expenditure incurred by the agencies we audit is salaries and wages. Collectively these agencies employ around 108 000 staff. They 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 needs to improve

This year we focused our attention on the identification and management of positions in organisations that require appropriate clearance checks such as working with children 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 more vulnerable members of the public.

We found that a number of agencies needed to improve their practices, including:

- documenting prescribed positions requiring screening checks and actively monitoring them to ensure all checks are current
- instances where working with children clearances had lapsed for employees who were directly working with children
- outdated or non-compliant registers for employees requiring clearance 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.

In 2019-20 we found that some agencies did not have current performance reviews for about half their staff. This is similar to our findings last year. We have, however, 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 Differing levels of workforce planning maturity

Workforce plans help to ensure that there is an appropriate workforce to deliver an agency's outcomes and to properly plan the agency's salaries and wages expenditure. Without the right workforce, an agency might need to hire temporary resources, at a premium cost, to deliver against objectives. It may compromise the effective delivery of outcomes if resources cannot be found in shorter time frames.

The effectiveness of an agency's future business planning also depends on having a clear understanding of its workforce needs and costs, given the significance of its workforce input in achieving its objectives.

In 2019-20 we continued to find differing levels of maturity across the agencies we reviewed. All had elements of workforce planning in place, however some had not brought these elements together into consolidated workforce plans. We noted that, of those without a consolidated workforce plan, a number were actively working to implement one.

4.5.6 Some key payroll processing controls need to improve

Typical payroll processing environments include input (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 2019-20 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 were not reviewed promptly
- medical rostering practices were inconsistent
- verification of certain allowances was not performed
- key steps in the payroll process did not happen in the right sequence, reducing the effectiveness of checks 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:
 - the financial authorisations register was not reviewed as required by Treasurer's Instruction 8 *Financial Authorisations*
 - intended annual reviews of user access levels within the governance and delegations system and other expenditure systems were not completed
 - there was no monitoring of changes made to the delegations register
 - access to the governance and delegations system was not adequately restricted
 - there was no systematic approach to managing temporary changes to the delegations register
 - transactions approved through super delegate capacity were not independently reviewed
- significant payments were automatically approved or inappropriately approved for some maintenance expenditure incurred at three agencies.

What public authorities should do

They should:

- ensure compliance with Treasurer's Instructions including the need to review delegations annually
- 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.

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 at 4.6.1 continue to demonstrate the need for public authorities to ensure that 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 other accounts payable controls found:

- opportunities to strengthen controls over changes to vendor master details
- instances where manual payment invoices were not created in the Basware payment processing system promptly
- purchase orders were not always used when required, demonstrating a continuing non-compliance with agency policies and procedures at one agency
- ongoing instances where regular services were provided but no contract was established.

What public authorities should do

They should:

- ensure controls are in place to check the accuracy and validity of all key changes to vendor master details
- ensure agency policies and procedures are complied with
- 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.

One area of focus in mitigating fraud is verifying key changes to vendor master details in the system. It is good practice to confirm any changes to vendor bank details by calling a number listed on a supplier's official website to ensure the change is genuine. If this verification process does not occur there is a risk that payments may be made into the incorrect bank account. The cost of recovering the money, if this is even possible, can be high.

Another key step in the accounts payable process is agreeing invoices back to purchase orders raised. If purchase orders are not raised when required it may be difficult for an agency to manage its commitments.

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 accordingly to ensure the goods and services are available.

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

The findings summarised at 4.7.1 are consistent with last year, indicating that agencies need to continue to work on strengthening controls over the accounts payable process.

4.8 Asset acquisition – project delivery and management of construction projects

4.8.1 Summary of findings

What we found

Our audits of agencies undertaking capital works programs found:

- opportunities at one agency to improve governance practices over project management
- policies for project management plans could be improved
- some project variations were not approved

- an instance where key project documents were either not approved or were incomplete.

We also conducted a performance audit, reported in Auditor-General's Report 9 of 2020 *Education capital works: planning and governance*, on the Education capital works program that covered issues in relation to the planning and governance of the capital works program.

In the report we raised issues relating to asset management, including our findings in section 4.3, and some in relation to the significant capital works program undertaken. Our key report findings included:

- governance frameworks, implementation plans and risk management plans were not established for the Education capital works program
- the agreement between DPTI and Education for performance measures and expectations in relation to the program was not finalised.

What public authorities should do

They should:

- revisit their policies to ensure key reviews and approvals in project management processes are documented, and that staff understand their roles and responsibilities by being given relevant training
- ensure governance and approval processes are clearly understood
- ensure they comply with legislative requirements.

4.8.2 Background

Each year the agencies we audit undertake significant construction projects. Most of these projects are undertaken by agencies with relevant expertise. The SA Government's infrastructure agency, DPTI, is responsible for managing construction projects in the civil and building (commercial) construction sectors. The South Australian Housing Trust 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, DPC circulars and Treasurer's Instructions. More recently, in 2020, Infrastructure SA released its independent assurance framework, which aims to improve the planning, prioritisation, operation and implantation of SA Government major infrastructure projects.

In 2019-20 we reviewed selected controls over aspects of infrastructure planning and investment, project delivery and management.

As well as our findings in section 4.8.1, we noted specific matters in individual procurements and contract management arrangements for the construction projects we sampled. For findings relating to procurements see section 4.2 and for contract management see section 4.1.

4.9 Investments

Agencies we audit invest billions of dollars, with the day-to-day management of investments in some cases outsourced to external organisations through contract arrangements.

The proper financial management of investments includes ensuring that they are aligned with investment objectives, associated risks are managed in line with established guidelines and there is regular reporting on investment performance.

The investment processes we reviewed were generally operating effectively. Our work did identify some isolated opportunities for improvement in conducting compliance checks, restricting access to key spreadsheets, ensuring appropriate approvals occur and performing regular reconciliations.

4.10 Revenue

The agencies we audit receive around \$25 billion of revenue annually. 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. 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.

4.11 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. We identified some isolated instances where agencies could improve their management of deposit accounts, including that:

- 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
DHW	Department for Health and Wellbeing
DPC	Department of the Premier and Cabinet
DPTI	Department of Planning, Transport and Infrastructure
DTF	Department of Treasury and Finance
FM	Facilities management
Funds SA	Superannuation Funds Management Corporation of South Australia
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>
RAH	Royal Adelaide Hospital
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
SALHN	Southern Adelaide Local Health Network Incorporated
SAMF	Strategic Asset Management Framework
SAMIS	Strategic Asset Management Information System
SP Act	<i>State Procurement Act 2004</i>
SPB	<i>State Procurement Board</i>
SSSA	Shared Services SA
TI 28	Treasurer's Instruction 28 <i>Financial Management Compliance Program</i>

