Report of the Auditor-General

Auditor-General's Department

Report 8 of 2023

Annual report

for the year ended 30 June 2023

Part C: Agency audit reports

Government of South Australia

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Annual report
for the year ended 30 June 2023
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Tabled in the House of Assembly and ordered to be published, 17 October 2023

First Session, Fifty-Fifth Parliament

By authority: M. Dowling, Government Printer, South Australia

2023

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.

Auditor-General's
Department

www.audit.sa.gov.au

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Agency audit reports

Introduction

Part C: Agency audit reports is a summary of the audit outcomes for each agency included in this report. It features a snapshot of key agency information covering financial statistics, significant events and transactions, and whether the financial report opinion is unmodified or modified (qualified). The key matters causing any modification are noted. The snapshot is followed by commentary on financial administration matters for each agency that, in my opinion, are important to the Parliament and the SA Government. It also provides selected financial ratios and information for assessing the agency's financial performance and position, and significant financial transactions.

The financial reports of the agencies included in this report are available on the Auditor-General's Department website (www.audit.sa.gov.au).

Agencies not included in this report

The Auditor-General exercises the discretion to exclude some agencies from this report. This decision is based on many factors, including:

- the materiality of an agency's financial operations
- its significance to the SA Government's operations and services
- the materiality of any impact it has on the public finances
- the timeliness of information
- the materiality of audit issues raised
- the public interest
- the timely completion of this report and meeting the statutory deadline to deliver it to the presiding members of Parliament.

A list of the public sector agencies not included in this report is provided in the annexure to this Part. I will report to Parliament on them later, with particular commentary on agencies where there:

- is a modified financial report opinion
- are significant matters raised by the audit
- are other matters that, in my opinion, need to be brought to the attention of the Parliament and the SA Government.

In addition their financial reports will be published on the Auditor-General's Department website as their audits are finalised.

Independent Auditor's Report

Expressing an opinion on an entity's financial report by an independent professional auditor adds credibility to it and ensures that appropriate financial disclosures were made.

For the agencies that I am required to audit, I issue an Independent Auditor's Report on the financial report in line with professional requirements and standards.

Audits are performed in line with the *Public Finance and Audit Act 1987* (PFAA) and Australian Auditing Standards. The PFAA establishes the independence of the Auditor-General. In conducting the audit, I ensure that the relevant ethical requirements of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* have been met.

I must also ensure that the audit evidence I obtain is sufficient and appropriate to provide a basis for the opinion I issue.

My audit objectives are to obtain reasonable assurance about whether a financial report as a whole is free from material misstatement and to issue an auditor's report that includes my opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or collectively, they could reasonably be expected to influence the economic decisions of users of the financial report. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

I exercise professional judgement and maintain professional scepticism throughout the audit in line with Australian Auditing Standards. I also:

- identify and assess the risks of material misstatements in a financial report, design and perform audit procedures in response to those risks, and obtain sufficient and appropriate audit evidence as a basis for my opinion
- obtain an understanding of an agency's internal controls to design audit procedures, but not for the purpose of expressing an opinion on the effectiveness of those controls
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and disclosures made by chief executives
- conclude on chief executives' use of the going concern basis of accounting and whether a material uncertainty exists for events or conditions that may cause significant doubt about the agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention to the related financial report disclosures in my auditor's report or modify the opinion. My conclusion is based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an agency to cease as a going concern
- evaluate whether the overall presentation, structure and content of the financial report gives a fair presentation of the underlying transactions and events.

Modified Independent Auditor's Reports

The opinion I give is usually unmodified, but if circumstances warrant it I will give a modified opinion. In extreme cases it may not be possible for me to express an opinion.

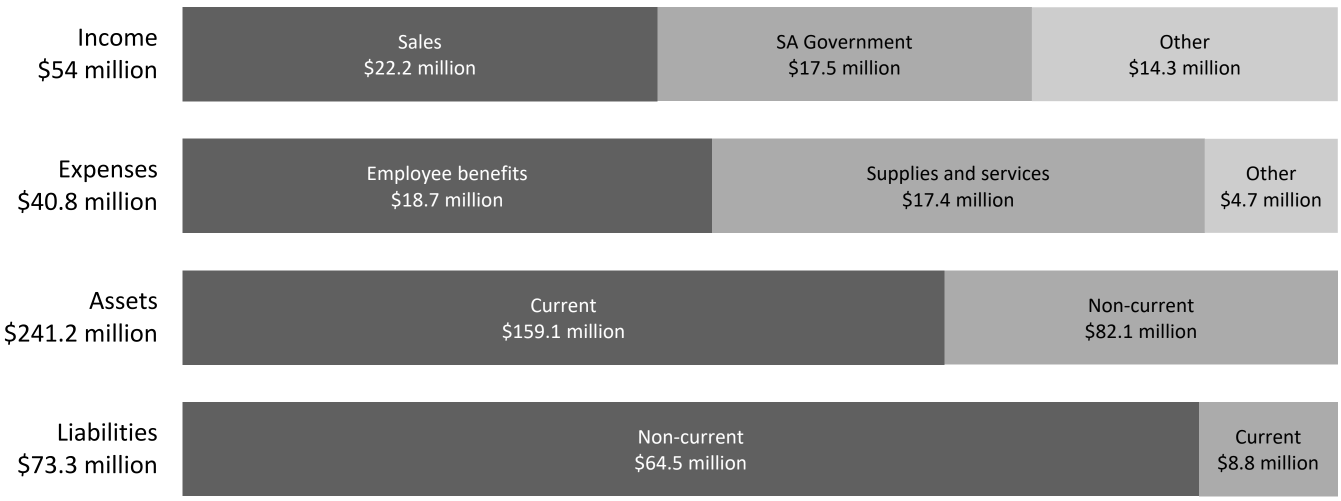
When a modified opinion is given, the Independent Auditor's Report explains the reasons for the modification. This is also explained in the commentary on those agencies in this report.

No modified opinions were expressed on the 2022-23 financial reports of the agencies included in this report.

Without modifying my opinions on the financial reports of the Lifetime Support Authority and the Return to Work Corporation of South Australia, I drew attention to the inherent uncertainty in certain liabilities reported for those entities at 30 June 2023.

Adelaide Festival Centre Trust (AFCT)

Financial statistics



138
FTEs

573,000
Ticketed attendances

573,000
Ticketed attendances

Significant events and transactions

- Lease arrangements for the Adelaide Festival Centre complex assets with the Department of the Premier and Cabinet (DPC) ceased from July 2022. Consequently, the AFCT has derecognised its related right-of-use assets and lease liabilities, resulting in a gain on derecognition of $7 million.
- The AFCT received an equity contribution of $27.6 million, adding to the $102 million it received in 2021-22, to fund the transfer of the Adelaide Festival Centre complex assets to the AFCT from DPC. The AFCT held these assets prior to 30 June 2008.
- Theatre and other activity grew in 2022-23 as COVID-19 restrictions eased.

Financial report opinion

Unmodified

Audit findings

No significant findings.

Functional responsibility

The AFCT is a body corporate established under the *Adelaide Festival Centre Trust Act 1971*. It is under the general control and direction of the Minister for Arts.

The AFCT is responsible for encouraging and facilitating artistic, cultural and performing arts activities throughout the State and managing and maintaining Her Majesty's Theatre and the Adelaide Festival Centre and its facilities. Further information on the AFCT's objectives is provided in note 1.2 of its financial report.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- revenues from theatre hire, ticketing, events and other sales
- salaries and wages
- supplies and services
- fixed assets
- general ledger
- procurement practices.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer. There were no significant findings.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Income		
Sales of goods and services	22	12
Revenues from SA Government	18	31
Gain on lease derecognition	7	-
Other income and interest	7	5
Total income	54	48
Expenses		
Employee benefits expenses	19	17
Supplies and services	17	17
Other expenses	5	11
Total expenses	41	45
Net result	13	3

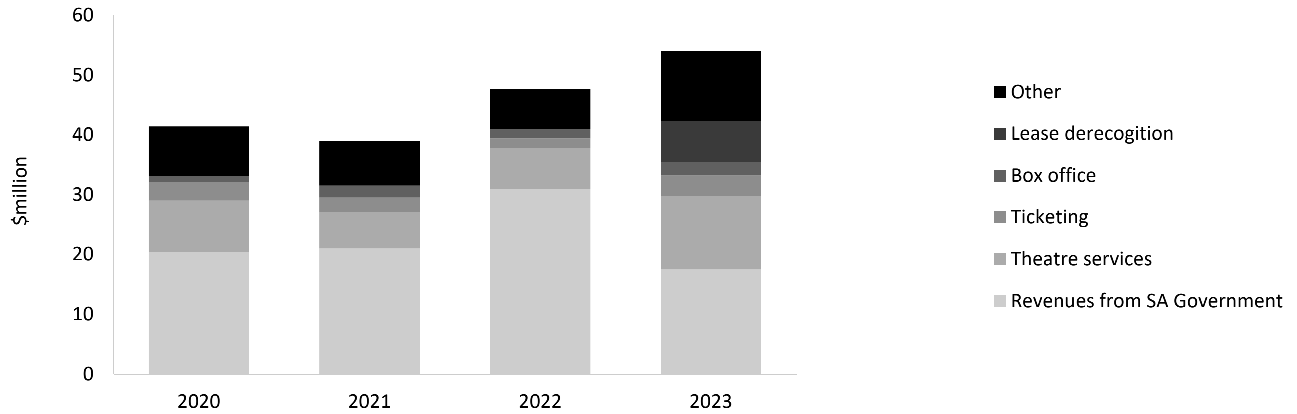
	2023 $million	2022 $million
Net cash provided by (used in) operating activities	6	13
Net cash provided by (used in) investing activities	(2)	(2)
Net cash provided by (used in) financing activities	28	96
Assets		
Current assets	159	128
Non-current assets	82	158
Total assets	241	286
Liabilities		
Current liabilities	9	14
Non-current liabilities	64	145
Total liabilities	73	159
Total equity	168	127

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

The AFCT's income for the four years to 2023 is presented in the following chart.



Revenues from SA Government

The AFCT relies on SA Government funding to support its operations, which accounts for 33% (65%) of its total income.

SA Government grants, subsidies and transfers totalled $17.5 million in 2023, a decrease of $13 million from 2022. The decrease largely reflects SA Government revenues specific to 2022 not received in 2023, including:

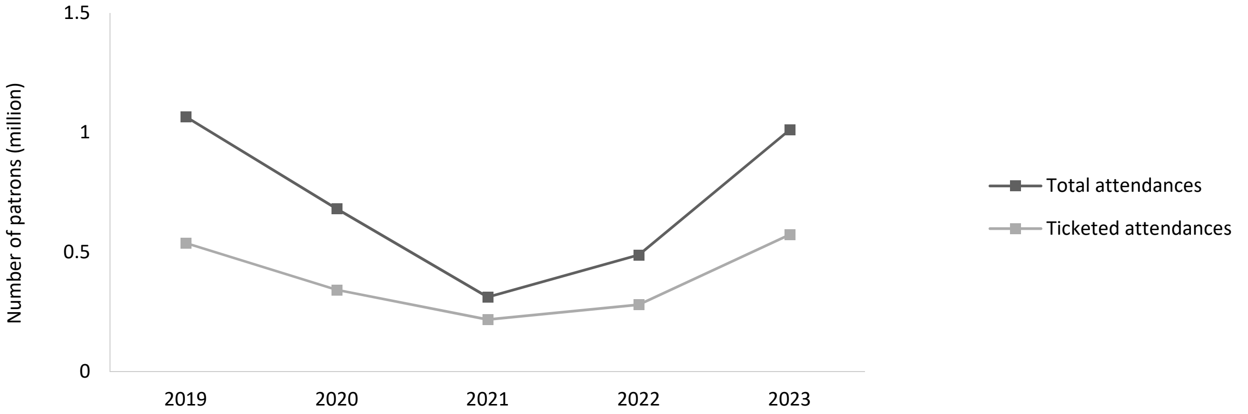
- supplementary funding of $7.7 million to replace lost revenue relating to the closure of the Adelaide Festival Theatre to allow for the redevelopment of the Festival Plaza
- $3 million for events and activations in the Festival Plaza public realm
- funding of $5.5 million to meet the cost of the lease for the Adelaide Festival Centre complex assets, which ceased from July 2022.

The AFCT also received a $27.6 million ($102 million) equity contribution from the Department of Treasury and Finance (DTF) in June 2022. These contributions are intended to fund the transfer of the Adelaide Festival Centre complex assets to the AFCT from DPC. The asset transfer had not occurred as at 30 June 2023.

Sales of goods and services

The AFCT's sales of goods and services increased by $10 million (87%) to $22 million in 2023.

The following chart shows the recovery in attendances this year after the impacts of COVID-19 over the preceding three years.



Gain on lease derecognition

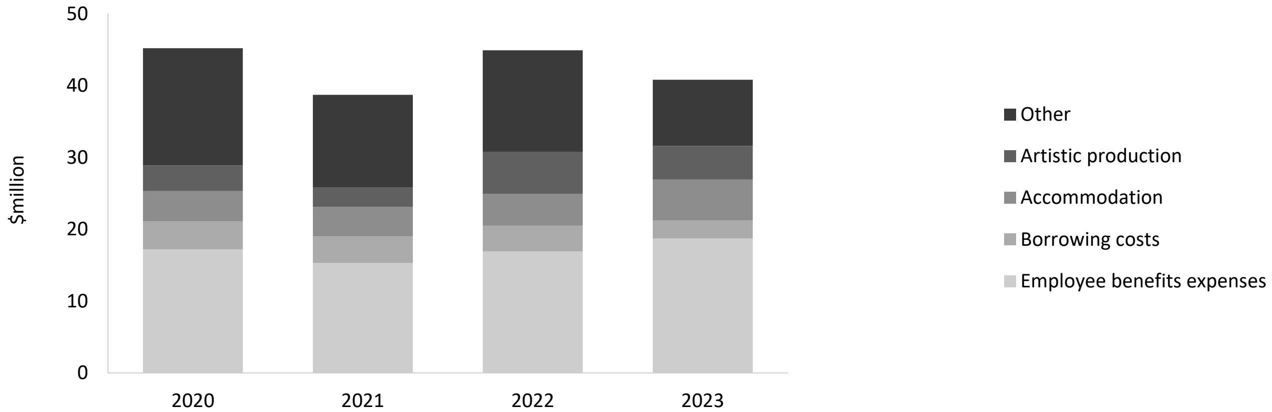
The AFCT recognised a $7 million gain from derecognising its lease of the Adelaide Festival Centre complex assets.

Other income

Other income increased by $2.4 million to $7.3 million, mainly due to a $3.8 million increase in interest earned on higher cash balances, partly offset by a $1.2 million reduction in insurance recoveries.

Expenses

The AFCT's expenses for the four years to 2023 are shown in the following chart.



The AFCT's expenses decreased by $4 million to $42 million in 2023, mainly due to:

- an $8 million decrease in expenditure resulting from the cessation of the AFCT's lease arrangements for the Adelaide Festival Centre complex assets, comprising:
  - a $5 million decrease in the amortisation of right-of-use assets
  - a $3 million decrease in the interest expense on the lease
- a $2 million increase in employee benefits expenses to $19 million, which represents 46% of total expenses. There were 138 FTEs as at 30 June 2023, a 17% increase from 30 June 2022
- a $2 million increase in interest paid on borrowings.

Statement of Financial Position

Current assets

The AFCT's current assets of $159.1 million ($127.6 million) include cash of $156.8 million ($126 million). Cash at 30 June 2023 includes the $129.6 million in equity contributions received from DTF in 2022 and 2023.

Non-current assets

The AFCT's non-current assets of $82.2 million largely comprise:

- Her Majesty's Theatre land and buildings of $65.3 million ($66.1 million)
- works of art of $9.6 million ($9.6 million).

Property, plant and equipment decreased by $78.1 million to $70.7 million due mainly to the derecognition of the Adelaide Festival Centre complex right-of-use assets, reflecting the cessation of the lease with DPC for these assets in July 2022.

In December 2021 the previous government approved the transfer of the Adelaide Festival Centre complex assets from DPC to the AFCT. The AFCT received equity contributions from DTF of $102 million in 2022 and $27.6 million in 2023 to fund the asset transfer. The transfer will reverse a similar transaction on 30 June 2008, when AFCT assets were transferred from the AFCT to the Minister for Arts.

The value of the Adelaide Festival Centre complex assets will be recognised in the AFCT's Statement of Financial Position after the transfer is complete. The asset transfer had not occurred as at 30 June 2023.

Liabilities

The AFCT's liabilities decreased by $85.6 million to $73.3 million, due mainly to the derecognition of the Adelaide Festival Centre complex lease liability, reflecting the cessation of the lease arrangements with DPC.

Further commentary on operations

Adelaide Festival Plaza

In May 2016 the SA Government signed a development agreement with Walker Corporation (Walker) for the integrated development of the Festival Plaza. The development includes:

- a mixed-used development by Walker, comprising a five-level car park, 29 storey office tower, three-storey retail building and surrounding public realm
- upgrades to the Adelaide Festival Centre and civic spaces
- an upgrade to the northern entrance of the Adelaide Railway Station
- State delivered elements of the public realm.

An agreement was also entered into with SkyCity Adelaide to facilitate the expansion of the SkyCity Casino.

Upgrades to the Festival Plaza public realm include both Walker and State delivered components.

The Department for Infrastructure and Transport completed the State delivered elements of the Festival Plaza public realm in 2021-22, with these assets recognised by DPC as at 30 June 2023.

Since its opening to the public in 2021-22, the following interim governance arrangements for the public realm have applied:

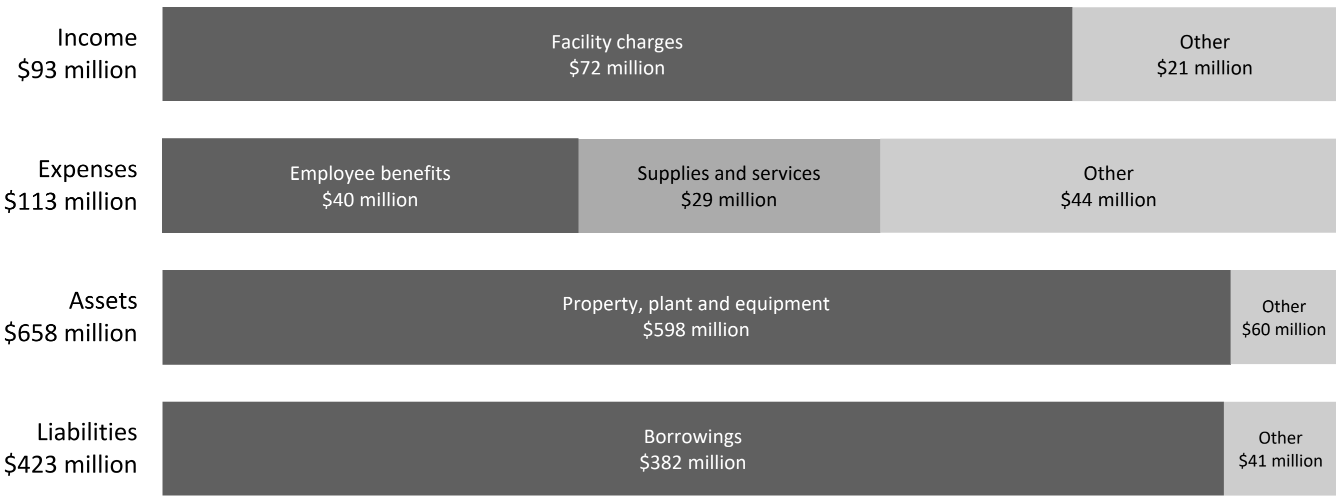
- responsibility for activation and marketing – the AFCT
- responsibility for operations and maintenance – the Urban Renewal Authority (URA).

A Festival Plaza Marketing and Curation Committee, comprising representatives from the AFCT, SkyCity, Walker, Adelaide Oval SMA Limited, the URA and the City of Adelaide and chaired by Andrew Daniels (Chair, Adelaide Venue Management Corporation), provides advice on the curation and activation of the Festival Plaza.

Further work is required to assign responsibility for the public realm assets and confirm the financial reporting and accounting treatment that will be applied to them.

Adelaide Venue Management Corporation (AVMC)

Financial statistics

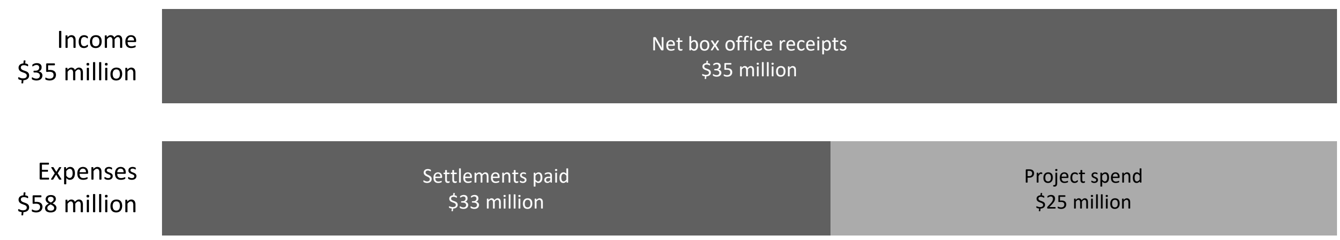


447
FTEs

747
Events and functions

778,026
Patrons

Administered items



Significant events and transactions

— Income and expenses rose as the number of events, functions and patrons increased significantly in 2023, largely in response to the relaxation of COVID-19 restrictions.

— Land and buildings were revalued upwards by $68.9 million, including a $64.9 million increase in the value of buildings.

— Expenditure on the Coopers Stadium Upgrade project for 2023 was $24.7 million, bringing total project expenditure to $42 million. The project is expected to be completed in 2024-25.

Financial report opinion	**Unmodified**
Audit findings	No audit findings.

Functional responsibility

The AVMC was established by Regulations under the *Public Corporations Act 1993*. It is responsible to the Minister for Tourism.

The AVMC's main function is to manage and operate the Adelaide Convention Centre, the Adelaide Entertainment Centre and Coopers Stadium (which is subject to a lease from the Minister for Recreation, Sport and Racing). For details of the AVMC's functions see note 1.2 of its financial report.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- revenue from events, functions, restaurant, bars and car parks
- salaries and wages
- expenditure on supplies and services
- cash management procedures and monthly bank reconciliations
- general ledger.

We gained an understanding of AVMC's control environment and key financial systems, and analysed transactions to assess the risk of material misstatement to the AVMC's financial statements.

Controls opinion

We reviewed controls over asset management and bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We did not identify any audit findings that needed to be communicated to the AVMC.

Interpretation and analysis of the financial report

Highlights of the financial report*

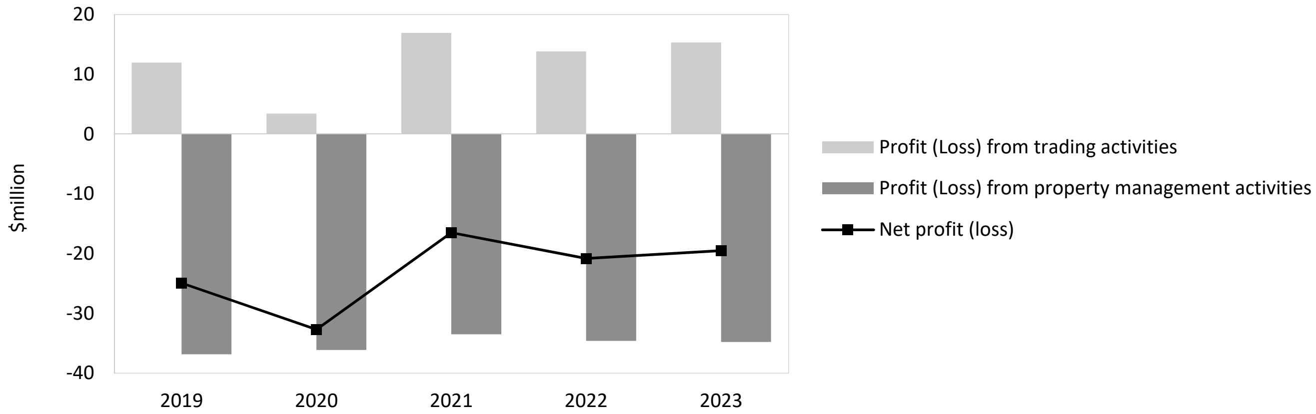
	2023 $million	2022 $million
Trading activities		
Expenses	61	41
Income	76	54
Profit (Loss) from trading activities	15	14
Property management activities		
Expenses	52	51
Income	17	17
Profit (Loss) from property management activities	(35)	(35)
Net profit (loss)	(20)	(21)
Other comprehensive income		
Change in asset revaluation surplus	69	8
Total comprehensive result	49	(13)
Net cash provided by (used in) operating activities	16	14
Net cash provided by (used in) investing activities	(14)	(4)
Net cash provided by (used in) financing activities	(2)	(2)
Assets		
Current assets	60	62
Non-current assets	598	545
Total assets	658	606
Liabilities		
Current liabilities	21	17
Non-current liabilities	402	401
Total liabilities	423	418
Total equity	236	188

* Table may not add due to rounding.

Statement of Comprehensive Income

The AVMC recorded a net loss of $19.5 million ($20.8 million).

The following chart shows the AVMC's profits (losses) from trading and property management activities and net profits (losses) for the five years to 2023.



The AVMC recognised a net loss of $32.7 million in 2020, driven largely by the minimal profit from trading activities in that year due to COVID-19. While profits from trading activities recovered markedly in 2022, this included proceeds from business interruption insurance claims of $20.7 million. Profits from trading activities in 2023 reflect a significant increase in events, functions and patrons in response to the relaxation of COVID-19 restrictions. As the chart shows, these profits are not sufficient to cover the AVMC's losses from property management activities.

Profit from trading activities

The AVMC's income from trading activities was $76 million, an increase of $21.5 million from 2022.

Income from trading activities mainly comprised catering revenue of $36 million, up by $20.7 million from 2022, and venue hire revenue of $13.4 million, up by $8.1 million from 2022. The AVMC held 179 (31.5%) more events and functions in 2023 attracting 256,932 (49%) more patrons.

Expenses from trading activities were $60.7 million, an increase of $20 million from 2022. They mainly comprised employee benefits expenses of $37 million, up by $12 million, and supplies and services expenses of $19.9 million, up by $8.7 million. The higher expenses reflect the increased number of events and functions held and improved patronage in 2023.

Loss on property management activities

The loss on property management activities was steady at $35 million. Expenses from property management activities were $52.1 million and mainly comprised depreciation ($28.5 million), borrowing costs ($11.1 million) and supplies and services ($9.2 million).

The AVMC is fully compensated for the borrowing costs by funding from the SA Government. The $16.4 million funding it received in 2022-23 also contributed to property management activities associated with the Adelaide Convention Centre site maintenance of the common areas and the Riverbank Precinct.

Statement of Financial Position

Property, plant and equipment of $597.8 million represents 91% of total assets and includes land and buildings of $563.7 million, right-of-use land valued at $12.1 million and plant and equipment of $20.4 million. The AVMC's main assets are the Adelaide Convention Centre and the Adelaide Entertainment Centre buildings. Coopers Stadium is leased from the Minister for Recreation, Sport and Racing for an annual payment of $1.

Land and buildings were revalued upwards by $68.9 million in 2023 and included a $64.9 million increase in the value of buildings. This increase largely reflects the higher cost of non-residential construction since the last building valuation in 2018.

Liabilities as at 30 June 2023 totalled $422.5 million ($418.4 million) and comprised mainly borrowings from the SA Government of $382.3 million, contract liabilities of $13.9 million, lease liabilities of $12.6 million and payables of $5.5 million.

The AVMC's borrowings from the South Australian Government Financing Authority, which are fully drawn down, will mature in 2029-30.

Cash and cash equivalents were $53.3 million ($52.9 million) as at 30 June 2023.

Administered items

Event funds

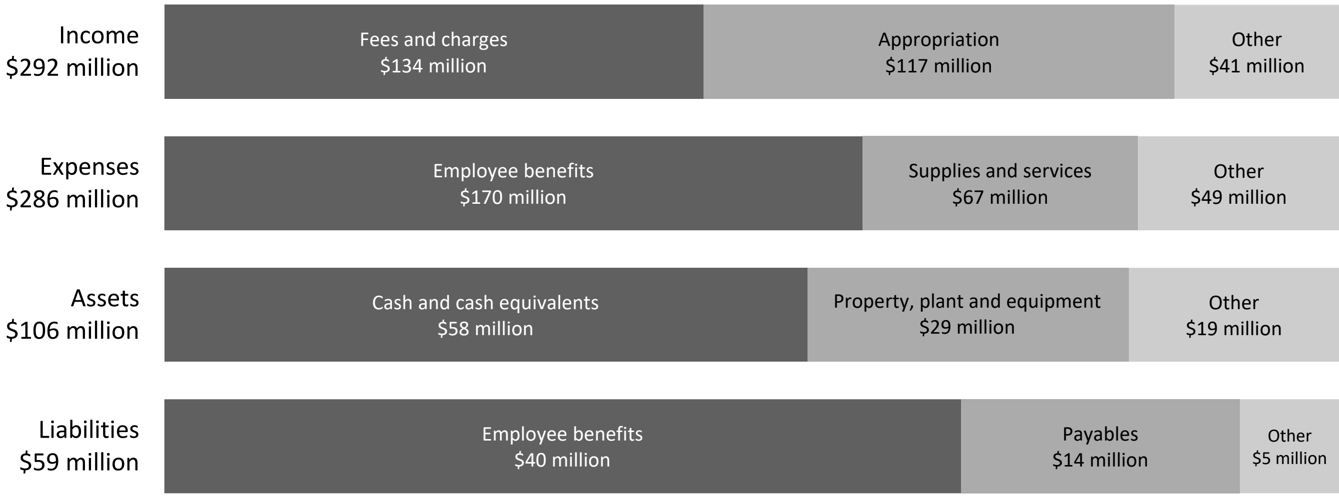
The AVMC administers, but does not control, gross box office receipts from its ticketing agency. These receipts are held in a separate event funds bank account. Settlement occurs after each event through the payment of funds held to promoters, the AVMC and other service providers. Total administered revenues for the year were $35.1 million ($17.2 million), and administered expenses were $33.2 million ($12 million). The balance of funds held in trust as at 30 June 2023 was $13.7 million ($11.8 million). These increases reflect increased event activity after the easing of COVID-19 restrictions.

Coopers Stadium Upgrade project funds

Through a memorandum of administrative arrangement (MoAA), in 2021 the Office for Recreation, Sport and Racing transferred funding of $45 million to the AVMC for the Coopers (Hindmarsh) Stadium Upgrade. Under the terms of the MoAA the AVMC is responsible for all aspects of project management and delivery of the upgrade. As at 30 June 2023 the AVMC had spent $42 million of the funding. It expects to complete the project in 2024-25 within the remaining $3 million budget.

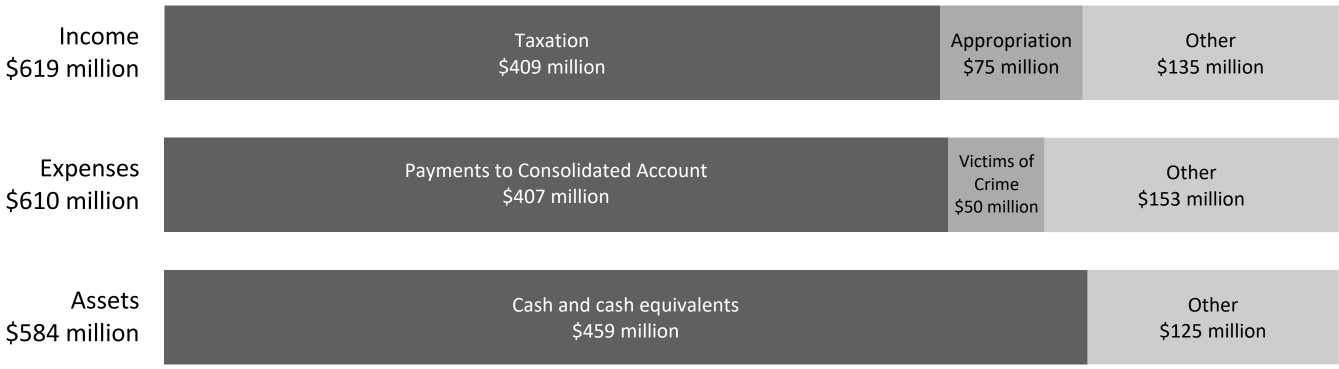
Attorney-General's Department (AGD)

Financial statistics



1,406
FTEs

Administered items



Significant events and transactions

- AGD made $407 million in payments to the Consolidated Account from taxation revenue and other income.
- The Aboriginal Affairs and Reconciliation Division transferred from the Department of the Premier and Cabinet (DPC) to AGD effective 1 July 2022.
- Industrial Relations, the South Australian Employment Tribunal and SafeWork SA transferred from the Department of Treasury and Finance (DTF) to AGD effective 1 July 2022.
- Planning and Land Use Services, the Office of the Valuer-General and the Office of the Registrar-General transferred from AGD to the Department for Trade and Investment (DTI) effective 1 July 2022.
- The Office of Local Government transferred from AGD to the Department for Infrastructure and Transport (DIT) effective 1 July 2022.

Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	Outstanding unclaimed residential tenancy bonds continue to rise.

Functional responsibility

AGD is an administrative unit established under the *Public Sector Act 2009*.

AGD's objectives are to help create an inclusive, safe and fair South Australia. It promotes justice by protecting rights and holding people to account according to the law, improving safety and contributing to an efficient and fair justice system.

Notes 1.2 and A1.1 of AGD's financial report provide further information on its functional responsibilities.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- payroll
- expenditure
- general ledger
- cash
- South Australian Government Radio Network (SAGRN) assets
- grant funding received from the Commonwealth Government
- fines revenue, including receipt of Victims of Crime levies
- LawMaster legal services revenue
- Crown Solicitor's Trust Account receipts and payments
- corporate governance
- information technology general controls
- gaming tax revenue
- births, deaths and marriages revenue
- licensing and registration revenue
- bond lodgements and refunds
- licencing compliance and investigation.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. The main findings and AGD's responses are discussed below.

Controls opinion findings

There were no significant findings for our controls opinion work on AGD.

Other audit findings

Consumer and Business Services (CBS) – Residential Tenancies Fund (RTF)

As at 30 June 2023 bonds lodged with the RTF totalled $284 million.

Unclaimed bonds

The *Residential Tenancies Act 1995* requires the Commissioner for Consumer Affairs to repay bonds lodged with CBS. If a bond refund is undisputed and applied for in a form approved by the Commissioner, it is paid to either the landlord or the tenant.

CBS implemented actions throughout the year to manage and reduce the balance of unclaimed bonds. Even with these actions, the unclaimed bonds liability for bonds greater than 12-months old increased by $1.5 million from the previous year.

CBS advised us that it has been working on continuous improvement strategies to reduce the unclaimed bonds liability, including:

- the launch of the 'Find My Bond' online portal, which has a bond search function
- improved data capture of tenant details
- automated SMS reminders at key points in time
- a marketing campaign to promote unclaimed bonds.

In addition, CBS will implement its new OneCBS digital solution by 30 June 2024, which aims to ensure improved controls are in place to manage any unclaimed bonds in the future.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2023 $million	2022 $million
Income		
Appropriation	117	179
Revenue from fees and charges	134	144
Intangible revaluation gain	-	31
Recoveries	17	17
Commonwealth-sourced grants and funding	19	18
Other	5	7
Total income	292	396
Expenses		
Employee benefits expenses	170	158
Supplies and services	67	169
Grants and subsidies	29	19
Other	20	14
Total expenses	286	360
Net result	7	36
Total comprehensive result	7	58
Net cash provided by (used in) operating activities	14	9
Assets		
Current assets	72	76
Non-current assets	34	386
Total assets	106	462
Liabilities		
Current liabilities	27	42
Non-current liabilities	32	33
Total liabilities	59	75
Total equity	47	387

Machinery of government changes

As a result of an administrative arrangement outlined in The South Australian Government Gazette on 30 June 2022, responsibility for the following functions transferred to AGD effective 1 July 2022:

- Aboriginal Affairs and Reconciliation from DPC
- SafeWork SA, the South Australian Employment Tribunal and Industrial Relations from DTF.

Net liabilities received were $2 million, mostly due to the transfer in of employee benefits liabilities.

Responsibility for the following functions were transferred from AGD effective 1 July 2022:

- Planning and Land Use Services, Office of the Valuer-General and Office of the Registrar-General to DTI
- Office of Local Government to DIT.

Net assets transferred were $345 million, mostly due to the South Australian Integrated Land Information Service (SAILIS) intangible assets within the Office of the Registrar-General.

The effect of these machinery of government changes were pervasive in the analysis of the controlled and administered financial statements below.

Statement of Comprehensive Income

Income

AGD collected $134 million ($144 million) in fees and charges and received $117 million ($179 million) in appropriation in 2022-23. This represents 86% (82%) of its total income. Fees and charges collected in 2022-23 mainly comprise $46 million of licence and regulatory fees, $24 million of legal services fees, $32 million for the SafeWork SA prescribed fee and $13 million of network services fees.

The decrease in total income of $104 million is due to the machinery of government changes that impacted AGD, which reduced:

- appropriation by $61.6 million
- fees and charges by $16 million for Planning and Land Use Services fees
- fees and charges by $37 million for land service fees for the Office of the Valuer-General and the Officer of the Registrar-General
- the gain on revaluation of intangibles, due to the $30.7 million gain in the previous year for the change in the value of the SAILIS intangible asset as at 30 June 2022.

These decreases were offset by increases in:

- fees and charges, up $31.7 million for the SafeWork SA prescribed fee
- recoveries of expenditure, up $8 million mainly for transactions associated with the SA Employment Tribunal, which was transferred as part of the administrative restructure.

Expenses

In 2022-23 total expenses decreased by $74 million to $286 million. AGD's expenses mainly relate to employee benefits, $170 million (59%), and supplies and services, $67 million (23%).

The decrease in total expenses of $74 million is mainly due to:

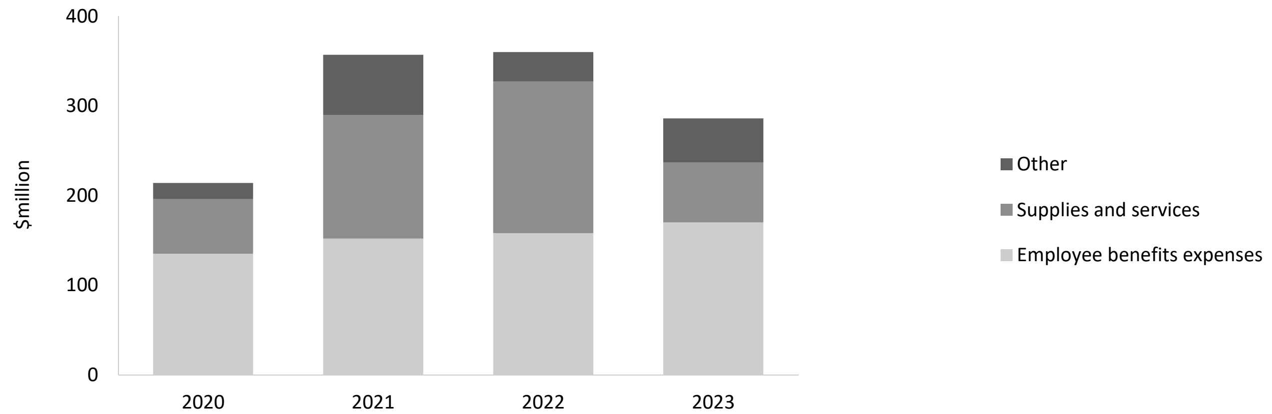
- supplies and services, down $102 million due to contract payments associated with Land Administration Services transferred from AGD as part of the administrative restructure
- depreciation and amortisation, down by $7 million due to the administrative restructure of Planning and Land Use Services assets from AGD.

These decreases were offset by:

- increased employee benefits expenses, up by $12 million due to the increase in salaries and wages of $3 million and targeted voluntary separation packages (TVSPs) of $7 million
- an $11.6 million transfer to the Consolidated Account due to the cash alignment policy

- increased grants and subsidies, up by $10 million due to increases of $5 million for the National Legal Assistance – Partnership and $5 million for Aboriginal Affairs and Reconciliation.

The following chart shows AGD's main expense items for the four years to 2023.



Employee benefits expenses totalled $169.8 million in 2022-23, representing 59% of total expenditure. They increased by $12.3 million, with the main movements due to:

- salaries and wages, up $3 million, and employment on-costs, up $1.6 million, mainly due to enterprise bargaining increases and the net transfer of employees to AGD from the administrative restructure
- TVSP payments, up $6 million due to 71 employees accepting TVSP payments.

Supplies and services expenses totalled $67 million ($168.7 million). The main components, representing 58% (81%) of total supplies and services, were:

- accommodation charges of $24.5 million ($22.1 million)
- ICT expenses of $14.6 million ($18.3 million).

The $102 million decrease in supplies and services is mainly due to the transfer of Land Services SA land administration contract payments to DTI.

Statement of Financial Position

Assets

Total assets decreased by $356 million to $106 million. The decrease was mainly due to:

- intangible assets of $355 million transferred to DTI due to the administrative restructure. The main intangible assets were the Office of the Register-General's SAILIS system at $327 million and the Planning and Land Use Services' ePlanning system at $28 million
- receivables, down $14.7 million mainly due to receivables recognised in the prior year for areas subject to administrative restructure changes of $5.1 million and a reduction in GST receivable of $2.3 million.

These decreases were offset by increases in:

- cash, up $11.4 million. See commentary under 'Statement of Cash Flows' below for a further explanation of the increase in cash

- property, plant and equipment, up $2.8 million mainly due to assets transferred in from the administrative restructure of $8.9 million, offset by depreciation of plant and equipment of $5.9 million.

Liabilities

Liabilities decreased by $15.4 million to $59.5 million. This was mainly due to:

- payables, down by $14.5 million as accrued expenses decreased by $8.2 million and creditors were down by $6.2 million due to the administrative restructure
- employee benefits liability, down by $3.6 million primarily due to a decrease to the long service liability of $2.5 million, due to the increase in the Commonwealth bond yield rate used to calculate the liability from 3.5% to 4%.

Statement of Cash Flows

Cash held at 30 June 2023 was $57.8 million, an increase of $11.4 million over the previous year. Net cash provided by operating activities was $13.7 million, an increase of $5 million from last year. This reflects a decrease in cash generated from operations of $81.2 million and a greater decrease in cash used in operations of $86.2 million due to the administrative restructures.

The major components of the decreases in cash generated from operations were:

- appropriations, $61.6 million
- GST recovered from the ATO, $11 million
- fees and charges, $6.9 million.

The major component of the decreases in cash used in operations was supplies and services of $110 million. This was offset by payments to the Consolidated Account for cash alignment, up by $11.6 million, employee benefits payments, up by $6.8 million, and payments of grants and subsidies, up by $5.8 million.

Highlights of the financial statements – administered items

AGD's administered items are identified in note A1.1 to its administered financial statements.

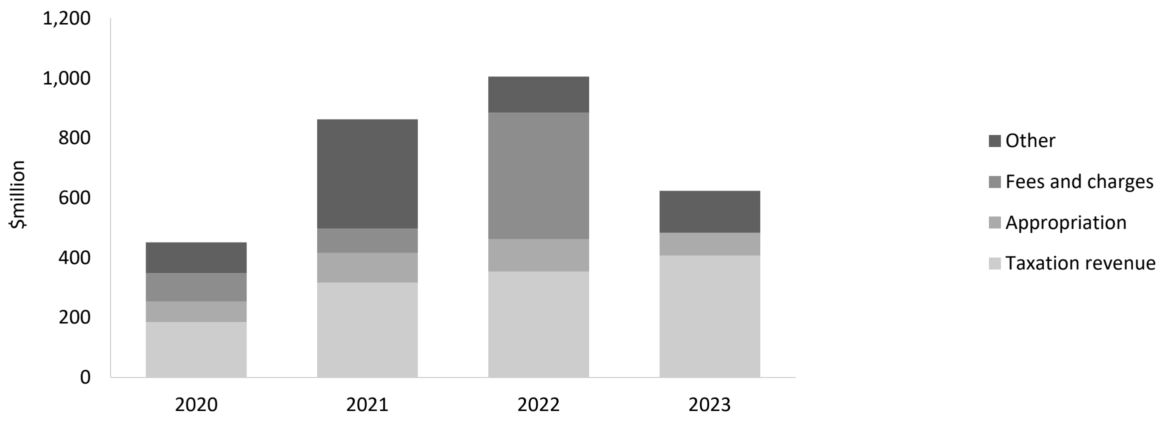
	2023 $million	2022 $million
Income		
Taxation revenue	409	360
Fees and charges	1	388
Commonwealth-sourced grants and funding	23	20
Appropriation	75	107
Recoveries and other income	21	56
SAGRN	36	36
Victims of Crime levies	40	37
Other	14	6
Total income	619	1,010

	2023 $million	2022 $million
Expenses		
Payments to Consolidated Account	407	721
Grants and subsidies	43	78
Victims of Crime payments	50	17
Intra-government transfers	22	18
SAGRN	23	21
Other	65	87
Total expenses	610	942
Net result	9	68
Total comprehensive result	13	68
Net cash provided by (used in) operating activities	43	80
Assets		
Current assets	501	482
Non-current assets	83	99
Total assets	584	581
Liabilities		
Current liabilities	65	138
Non-current liabilities	3	1,408
Total liabilities	68	1,546
Total equity	516	(965)

Statement of Administered Comprehensive Income

Income

The following chart shows the main sources of AGD's administered income for the four years to 2023.



Taxation revenue ($408.5 million) and appropriations ($74.6 million) represent 78% of AGD's total administered income, with Commonwealth-sourced grants and funding ($23.5 million), recoveries and other income ($20.8 million), SAGRN fees ($36.5 million) and Victims of Crime levies ($40.4 million) accounting for a further 20%.

Total administered income decreased by $390 million to $619 million ($1.01 billion). The main components of this decrease were fees and charges, down $387 million primarily due to the transfer to DTI of regulatory fees collected by Land Services SA under the *Real Property Act 1886*.

The decrease was offset by an increase in taxation revenue, up $48.5 million as gaming machine taxation revenue collected increased. AGD collects this tax on behalf of the SA Government under the *Gaming Machines Act 1992* (GM Act).

Expenses

Total administered expenses decreased by $332 million to $610 million. Payments to the Consolidated Account of $407 million (mainly for gaming machine taxation) and grants and subsidies of $43 million (principally paid to the Legal Services Commission) are AGD's largest administered expenses and represent 74% of total expenditure.

The decrease in total expenses is mainly due to:

- payments to the Consolidated Account of $407 million, down by $314 million due to regulatory fees previously collected for Land Services SA and Planning and Land Use Services transferring to DTI
- grants and subsidies payments, down by $35 million mainly due to a reduction of $44.7 million in grants and subsidies paid to the Legal Services Commission compared to the previous year.

Statement of Administered Financial Position

Assets

Total assets increased by $3 million to $584 million. This was mainly a result of increases in cash and cash equivalents of $24 million, offset by decreases in receivables of $5 million and property, plant and equipment of $16 million.

Property, plant and equipment decreased by $16 million due to depreciation of $24 million, offset by an increase in capital works in progress of $3 million and a revaluation increment of $4 million for the SAGRN.

Liabilities

Total liabilities decreased by $1.48 billion to $68 million. This was mainly the result of a liability for unearned revenue of $1.44 billion relating to the commercialisation of land services operations overseen by the Office of the Registrar-General. The Office of the Registrar-General transferred to DTI from 1 July 2022.

Statement of Administered Cash Flows

Cash and cash equivalents increased by $23.7 million to $459 million.

In 2022-23 net cash provided by operating activities was $42.7 million, a decrease of $37.3 million from the previous year. This reflects decreases in cash generated from operations of $381 million and cash used in operations of $344 million due to the administrative restructures.

The major components of these cash flow decreases were:

- fees and charges, $422 million
- appropriations, $32 million
- payments to Consolidated Account, $280 million
- grant and subsidies payments, $35 million
- other payments, $71 million.

They were offset by increases in:

- taxation receipts, $54 million
- interest receipts, $7 million
- Victims of Crime payments, $33 million.

The net cash used in investing activities was $2.8 million compared to $10 million last year, due to a reduction in purchases of property, plant and equipment.

Cash used in financial activities increased by $2 million to $16 million. This is the net effect of cash being transferred as part of administrative restructures compared to the previous year.

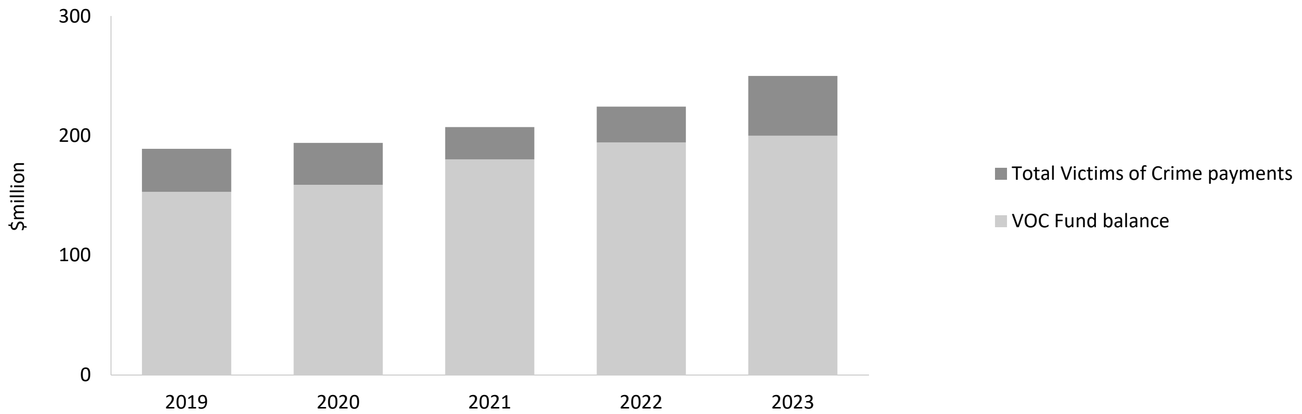
Further commentary on operations

Victims of Crime Fund (VOC Fund)

AGD is responsible for administering the *Victims of Crime Act 2001* (VOC Act). The VOC Fund is reported in AGD's administered financial statements.

The balance of the VOC Fund as at 30 June 2023 was $200.4 million ($194.3 million).

The following chart shows the balance of the VOC Fund and the value of total payments from the fund over the last five years.



* $25 million was paid from the VOC Fund to the South Australian Government Financing Authority in 2022-23 for the National Redress Scheme.

The maximum compensation that can be awarded under the VOC Act is $121,000, in addition to costs and disbursements. A claim can succeed without a known offender.

Compensation is paid where an offence has been admitted or proven beyond reasonable doubt. In cases where nobody is charged with an offence, the applicant's evidence must be corroborated. Where an offence has not been established, the Attorney-General has discretion to make an ex gratia payment to the claimant.

Recoveries from offenders

The VOC Act empowers the Attorney-General to recover the cost of compensation payments from offenders who were convicted of the related offence. Recovery is difficult, as most compensation claims are for unknown offenders. This is demonstrated by the following data:

- The amounts recovered directly from offenders during the year totalled $1.2 million ($442,000).
- Outstanding amounts subject to a judgement that are being actively managed increased by $2.4 million to $13.5 million.

A further $5.9 million ($4.6 million) was recovered from offenders under the *Criminal Assets Confiscation Act 2005*.

A levy is imposed by the VOC Act on all people convicted of offences and on expiation notices. Total Victims of Crime income for 2022-23 was $60.7 million ($50.3 million) and included Victims of Crime levies of $40.4 million ($37.4 million) and revenues from the SA Government of $9.8 million ($9.5 million).

Payments from Victims of Crime Fund

Victims of Crime expenses for 2022-23 totalled $61.4 million ($26.2 million) and included:

- victims compensation and legal payments of $50 million ($16.9 million)
- grants of $7.4 million ($5.4 million)
- legal and other costs incurred in administering the VOC Fund of $3.9 million ($3.9 million).

In 2022-23 there was an increase in the VOC Fund balance of $6.1 million.

Taxation

Taxation revenue for 2022-23 totalled $408.6 million ($360 million). It mainly comprises gaming machine tax totalling $405 million ($356 million).

Gaming machine administration

The GM Act provides that the Liquor and Gambling Commissioner is responsible for scrutinising the operations of all gaming machine licensees.

Under the GM Act, the operation of gaming machines in licensed premises must return winnings to players of not less than 85% in the case of machines installed before 31 May 2001, and 87.5% in the case of machines installed after that. A prescribed percentage of the net gambling revenue is then paid to the Treasurer (Consolidated Account).

In July 2011 a trading system was introduced to allow eligible people to purchase and sell gaming machine entitlements. Full details are prescribed in the Gaming Machines Regulations 2005.

Under this trading system, the purchase price of a gaming machine entitlement is not fixed. This means that when a trading round is announced an eligible person can submit a written offer to:

- purchase a gaming machine entitlement and specify the highest price they would be willing to pay for the entitlement if their offer was accepted
- sell a gaming machine entitlement and specify the lowest price they would be willing to accept as payment for the entitlement if their offer was accepted.

The following table summarises gaming machine activity for the four years to 2023.

	2020 Number	2021 Number	2022 Number	2023 Number
Machines installed as at 30 June	11,638	11,698	11,618	11,706
	$million	$million	$million	$million
Turnover	5,753	8,683	9,437	10,453
Amount won	5,241	7,914	8,606	9,536
Net gambling revenue	511	770	831	918
Tax	185	320	356	405

Independent Gaming Corporation Limited (IGC)

Under the GM Act, the Liquor and Gambling Commissioner granted the Gaming Machine Monitor licence to the IGC. Under this licence the IGC monitors the operations of gaming machine licensees.

The GM Act specifically provides for the accounts and operations of the IGC to be audited by the Auditor-General.

The 2022-23 audit of the IGC is complete and an unmodified Independent Auditor's Report was issued for its 2022-23 financial report.

Residential Tenancies Fund (RTF)

The *Residential Tenancies Act 1995* (RT Act) is administered by the Commissioner for Consumer Affairs. The RTF consists of amounts received by the Commissioner by way of security bonds and other amounts paid into the RTF under the RT Act. The Commissioner will refund security bonds from the RTF under the RT Act.

Income derived from investing the RTF is applied to the costs of administering and enforcing the RT Act, educating landlords and tenants about their statutory and contractual rights and obligations, and certain functions of the South Australian Civil and Administrative Tribunal.

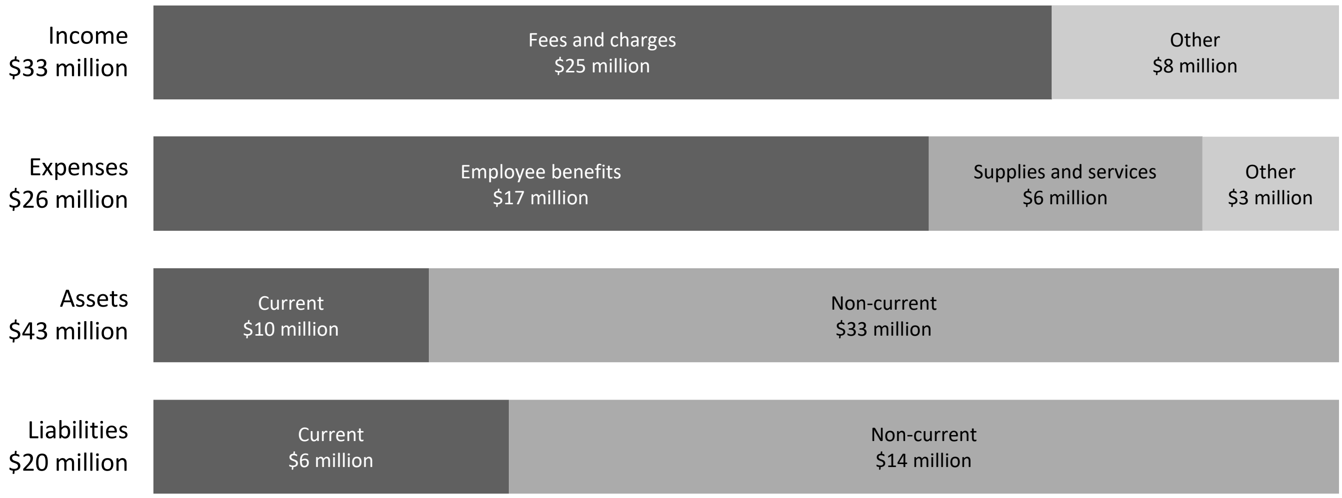
Security bonds received by the Commissioner in 2022-23 increased by $10 million to $124.4 million ($114.4 million). Security bonds refunded for 2022-23 increased by $7.3 million to $103.1 million ($95.8 million).

The value of bonds held as at 30 June 2023 was $284 million ($248 million) and the value of unclaimed bonds was $15.7 million ($14.2 million).

Investment funds totalling $319 million are held by the Public Trustee in common funds. They are exposed to movements in the value of the underlying common fund assets. Investments increased by $32 million in 2022-23, mainly due to $28 million in additional funds being deposited, $4 million in additional investment income earnings and a net gain on the revaluation of investments.

Public Trustee

Financial statistics



178
FTEs

$1.9 billion
Trust funds under management

7,698
Trusts under administration

Significant events and transactions

- The customer relations management system funded from the Digital Restart Fund became operational from September 2022 at a cost of $3.8 million.
- $6.1 million of community service obligations (non-commercial activities) were provided to the South Australian community.

Financial report opinion

Unmodified

Audit findings

No significant issues.

Functional responsibility

The Public Trustee is a body corporate established under the *Public Trustee Act 1995*.

The Public Trustee's powers and functions are established by the *Public Trustee Act 1995*. The Public Trustee administers the estates of deceased and protected people who need asset management assistance, prepares wills, provides investment services and arranges legal representation and advice.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

The 2022-23 audit covered the Public Trustee's corporate, trust and Common Fund operations. Specific areas of audit attention included:

- corporate governance
- expenditure
- payroll
- revenue
- cash and investments
- client assets
- information technology.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Controls opinion

We reviewed controls over investments and bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated a small number of low risk audit findings in a management letter to the Public Trustee and received a satisfactory response.

Interpretation and analysis of the financial report

Highlights of the corporate financial report

	2023 $million	2022 $million
Income		
Fees and charges	25	26
Community service obligations	6	6
Other revenues	2	1
Total income	33	33

	2023 $million	2022 $million
Expenses		
Employee benefits	17	17
Supplies and services	6	6
Other expenses	3	4
Total expenses	26	27
Net result before income tax equivalents	7	6
Income tax equivalent	2	2
Net result after income tax equivalents and total comprehensive result	5	4
Net cash provided by (used in) operating activities	7	7
Assets		
Current assets	10	9
Non-current assets	33	33
Total assets	43	42
Liabilities		
Current liabilities	6	5
Non-current liabilities	14	15
Total liabilities	20	20
Total equity	23	22

Statement of Comprehensive Income

Income

The Public Trustee's main source of income is fees and charges, which principally comprises commissions from managing estates and management fees for investing in Common Funds.

In 2022-23 fees and charges income decreased by $1.4 million to $24.8 million. This was due to the following movements:

- Common Fund management fees remained steady at $11 million, as the average funds under management decreased from $1.18 billion to $1.13 billion.
- Commissions and professional fees and charges were $1.2 million lower in 2023, as the collection of commissions is directly affected by the type and number of estates being administered and the nature of assets held. The decrease in commissions and fees and charges is primarily due to commission revenue decreasing by $1.4 million due to lower distributions from Common Funds.

These decreases were offset by an increase in unrealised gains on financial assets of $1.1 million. Community service obligation funding increased by $300,000 to $6.1 million due to growth in customer numbers in 2022-23. This funding is received by the Public Trustee to compensate it for providing non-commercial services to the South Australian community on behalf of the SA Government.

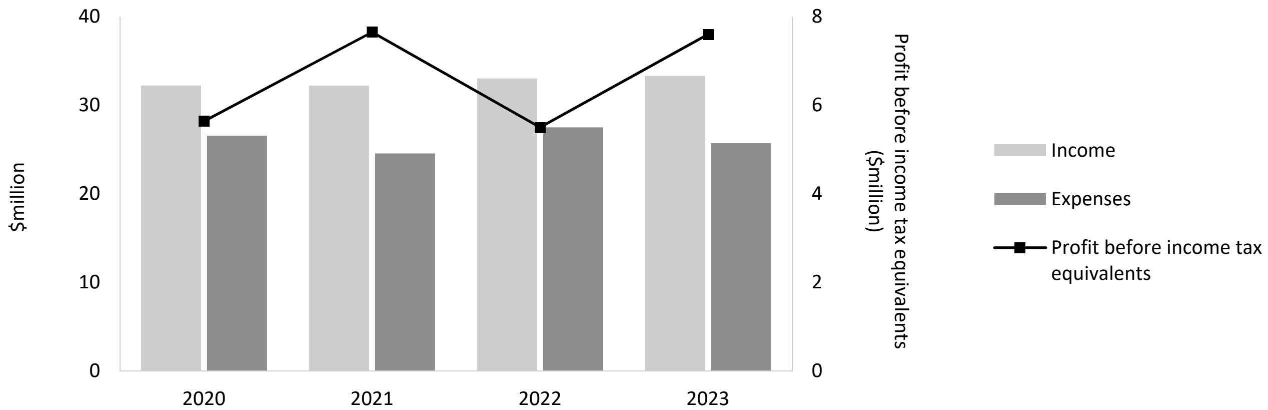
Expenses

Employee benefits account for 67% of total expenses and increased slightly to $17.1 million in 2022-23.

Supplies and services increased by $600,000 to $6.5 million, in part due to an increase in ICT expenditure of $380,000 related to an increase in Microsoft licensing fees expenditure on a new customer relationship management system.

Net result

The following chart shows the Public Trustee's income, expenses and profit before income tax equivalents for the four years to 2023.



Profit before income tax equivalents of $7.6 million ($5.5 million) increased mainly due to unrealised gains on financial assets of $1.1 million in 2022-23, compared to unrealised losses of $2.7 million in 2021-22. The increase was offset by the decreases in fees and charges of $1.4 million due to lower income and capital commissions from lower distributions from the Common Funds.

Statement of Financial Position

Assets

Financial assets of $19 million represent 44% of total assets. Financial assets increased by $1.1 million due to strong performance in equity markets, with unrealised gains in both international and Australian equity markets.

Property, plant and equipment decreased by $1.2 million, mainly due to depreciation on right-of-use assets of $1 million.

Receivables decreased by $300,000, primarily due to lower prepayments associated with the implementation of the customer relationship management project and the decommissioning of the PeopleSoft system.

Liabilities

Total liabilities primarily comprise financial liabilities of $12 million (60%) and employee benefits of $4.3 million (22%).

The financial liabilities are the lease liability for accommodation and motor vehicle leases, recognised under AASB 16 *Leases*.

The $100,000 decrease in the employee benefits liability is due to a decrease in the long service leave liability resulting from an increase in the bond yield rate used to calculate the liability from 3.5% to 4%.

Statement of Cash Flows

Cash and cash equivalents increased by $1 million to $8.9 million in 2023. The main factors contributing to this were:

- net cash used in financing activities increasing by $740,000 to $5.2 million, mainly because of a capital contribution from the SA Government of $2.8 million for the new customer relationship management system in the prior year
- net cash used by investing activities decreasing by $1.6 million, due to the expenditure on the customer relationship management system in the prior year.

Interpretation and analysis of Statement of Trusts being Administered

The value of trust funds administered by the Public Trustee as at 30 June 2023 was $1.9 billion ($1.78 billion).

The table below shows the number and value of trust funds under administration for the last two years.

	2022 Number	2023 Number	2022 $000	2023 $000
Deceased estates	960	1,170	184,064	203,746
Trusts	1,134	1,089	147,631	151,382
Administration matters	255	235	39,608	40,135
Court award orders	727	726	452,150	445,482
Protected estates	4,091	4,256	432,236	483,885
Workers compensation awards	5	4	13	0
Power of attorney	240	214	66,861	59,372
Investors	4	4	457,028	514,037
	7,416	7,698	1,779,591	1,898,039

Of the total funds being administered, 62% (62%) were invested in the Common Funds, with the remaining 38% (38%) represented by other estate assets.

The two largest categories of estate assets are real estate assets of $438 million ($406 million) and superannuation of $207 million ($189 million).

Further commentary on operations

Common Fund financial reports

The Public Trustee operates seven Common Funds through which client funds are invested. They are:

- Cash
- Short-term Fixed Interest

- Long-term Fixed Interest
- Overseas Fixed Interest
- Australian Shares
- Overseas Shares
- Property.

Analysis of Common Fund key figures

The Common Funds' assets totalled $1.168 billion in 2022-23, increasing by $65 million from $1.103 billion.

Movements in Common Fund assets reflect movements in investment markets and in total funds invested as a result of changes to the number and value of estates under administration each year.

The following table summarises the annual net operating result and value of assets held for each Common Fund at 30 June 2023 and 30 June 2022.

	Net operating result		Total assets	
	2022	2023	2022	2023
Common Fund	$000	$000	$000	$000
Cash	(3,094)	10,891	*482,274	*539,973
Short-term Fixed Interest	(1,286)	1,071	65,204	66,843
Long-term Fixed Interest	(2,639)	1,415	93,474	92,461
Overseas Fixed Interest	(5,132)	27	70,012	69,475
Australian Shares	(24,508)	18,917	178,964	175,776
Overseas Shares	(21,481)	21,347	137,453	148,615
Property	4,592	1,865	147,469	144,418

* Includes $51 million ($46 million) deposited by other Common Funds.

The Public Trustee invests client money in the Common Funds by purchasing units in one of five standard investment strategies (SIS). Each SIS involves investments in the various Common Funds, with the proportion invested in each fund depending on the underlying investment strategy. Allocations for each SIS are the result of strategic asset allocation decisions that aim to provide appropriate strategies to match client circumstances with the SIS risk profiles.

In 2022-23 an additional $28 million ($9 million) was invested by the Residential Tenancies Fund, $3 million ($3.6 million) by the Retail Shop Leases Fund and $8 million ($3 million) by the Agents Indemnity Fund. No additional investments were made by the Second-hand Vehicles Compensation Fund ($300 000). These funds were invested across the Common Funds at a percentage allocation in line with the defined SIS.

The table below details the performance of each SIS and its performance against the Public Trustee's established benchmarks as at 30 June 2023. The Public Trustee's investment returns ranged from 2% for Cash to 14.16% for Equities, net of fees. The increases in investment returns for the Capital Stable, Balanced, Growth and Equities SIS reflect the improved financial markets throughout 2022-23. All SIS products performed consistently with the benchmark, reflecting the improved environment in 2022-23. These figures were provided by the Public Trustee and are unaudited.

Standard investment strategy		1 year %	3 years %	5 years %	7 years %	10 years %
Cash	Performance	2.00	0.71	1.02	1.25	1.67
	Benchmark	1.87	0.01	0.17	0.35	0.69
Capital stable	Performance	3.76	1.76	1.67	2.44	3.29
	Benchmark	3.78	1.30	1.91	2.37	3.12
Balanced	Performance	5.56	3.72	2.75	3.97	5.04
	Benchmark	6.18	3.71	3.51	4.24	5.09
Growth	Performance	7.43	5.43	3.67	5.31	6.33
	Benchmark	8.38	6.09	4.83	5.84	6.47
Equities	Performance	14.16	8.31	5.29	7.92	8.52
	Benchmark	14.83	10.15	7.02	8.79	8.88

Net operating result

All Common Funds except Property recorded profits in 2022-23. The table below shows the net operating results for each fund for the past two years, together with the rate of return achieved by the fund.

	Net operating result		Return*	
	2022	2023	2022	2023
Common Fund	$000	$000	%	%
Cash	(3,094)	10,891	0.20	3.24
Short-term Fixed Interest	(1,286)	1,071	(0.89)	2.79
Long-term Fixed Interest	(2,639)	1,415	(1.85)	2.63
Overseas Fixed Interest	(5,132)	27	(5.89)	1.17
Australian Shares	(24,508)	18,917	(10.94)	12.88
Overseas Shares	(21,481)	21,347	(12.54)	18.12
Property	4,592	1,865	4.87	2.58

* The rates of return figures were provided by the Public Trustee and are unaudited.

Movements in Common Funds have been volatile for the past few years, initially as a result of the impact of COVID-19 on global markets and then the subsequent strong recovery. The Reserve Bank of Australia continued to increase the cash rate considerably from 0.85% in July 2022 to 4.1% in June 2023, with the expectation to return inflation to 2-3% over time.

All investments for the Common Funds are valued at market value, being market price at the reporting date.

The net operating results for the Cash, Short-term Fixed Interest and Long-term Fixed Interest Common Funds were impacted by:

- increases in interest revenue to $17.5 million ($6.1 million) due to higher interest rates paid on investments in 2022-23. This is consistent with the average balance of cash held during the year and increased returns available in the current market. The official cash rate by the Reserve Bank of Australia increased from 0.85% to 4.1% in 2022-23

- trust distributions of $2.2 million ($1.4 million) for the Long-term Fixed Interest Common Fund. Distribution amounts vary depending on individual fund manager investment and distribution strategies and market performance.

The net operating result of the Overseas Fixed Interest Common Fund was impacted by increases in trust distributions of $100,000 and a net loss on financial assets of $600,000 attributable to the reduction in the portfolio value in 2022-23.

The net operating result of the Australian Shares Common Fund was $18.9 million, due to the net gain on financial assets of $10.8 million in 2022-23 compared to a $38.7 million net loss on financial assets in 2021-22, reflecting the increase in the portfolio value.

The net operating result of the Overseas Shares Common Fund was $21.3 million, impacted by:

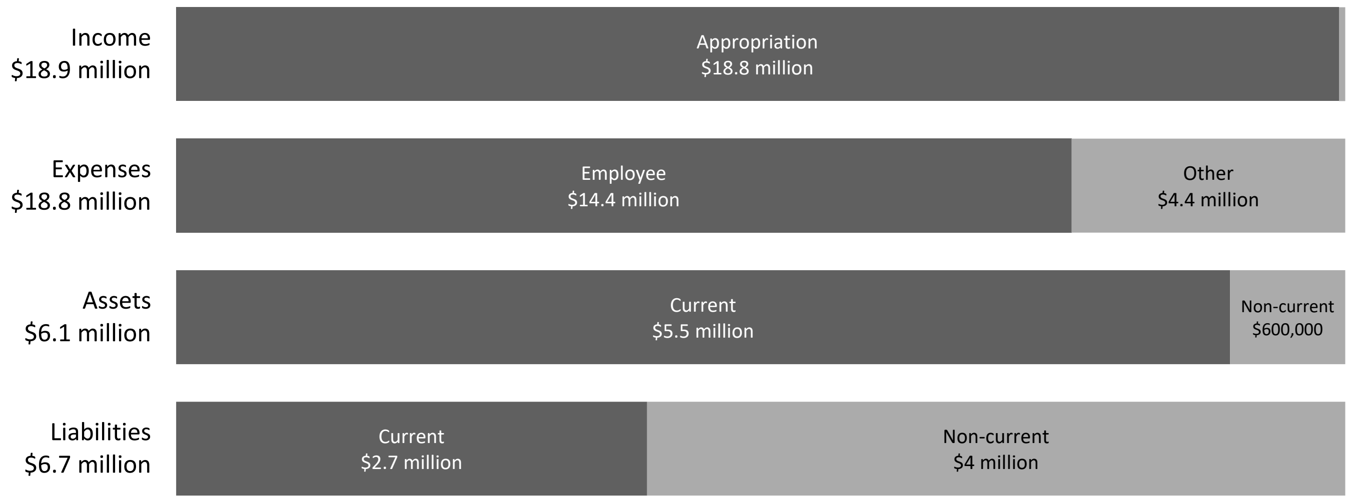
- trust distributions of $1.8 million
- the net gain on financial assets of $20.8 million in 2022-23 compared to a $24.4 million net loss on financial assets in 2021-22.

The net operating result of the Property Common Fund decreased by $2.7 million to $1.9 million, impacted by:

- the net loss on financial assets of $400,000 in 2022-23 compared to a $2.6 million net gain on financial assets in 2021-22
- trust distributions remaining steady at $3.9 million.

Auditor-General's Department

Financial statistics



121
FTEs

11
Reports to Parliament

159
Audits

Financial report opinion	**Unmodified**

Functional responsibility

The Auditor-General's Department operates to help the Auditor-General discharge their statutory audit mandate.

Audit findings and comments

Under section 35(1) of the *Public Finance and Audit Act 1987*, on the Treasurer's recommendation the Governor appointed BDO Audit (SA) Pty Ltd as the Department's auditor.

BDO Audit (SA) Pty Ltd advised in their audit completion letter that there were no matters to bring to the Department's attention.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Income		
Appropriation	18.8	18.7
Other	0.1	0.1
Total income	18.9	18.8
Expenses		
Employee expenses	14.4	13.7
Supplies and services	4.3	4.0
Return of cash to the Consolidated Account	-	3.0
Other expenses	0.1	0.3
Total expenses	18.8	21.0
Net result	0.1	(2.2)
Net cash provided by (used in) operating activities	0.3	(2.5)
Assets		
Current assets	5.5	5.7
Non-current assets	0.6	0.1
Total assets	6.1	5.8
Liabilities		
Current liabilities	2.7	2.6
Non-current liabilities	4.0	3.9
Total liabilities	6.7	6.5
Total equity	(0.6)	(0.7)

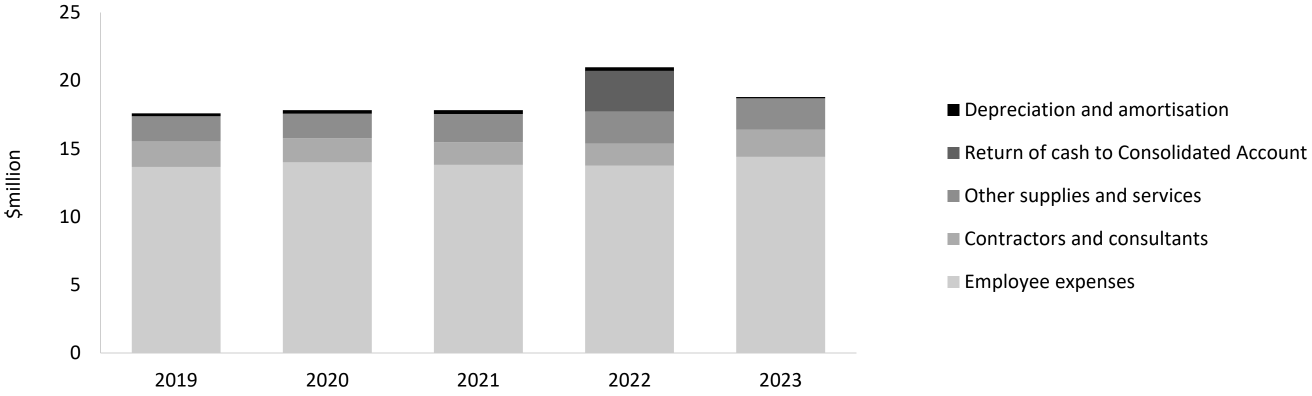
Statement of Comprehensive Income

The Department relies on SA Government appropriations as its major revenue source to fund its operations. It charges fees for audits, which is permitted by section 39 of the *Public Finance and Audit Act 1987*. The fees raised are not retained or controlled by the Department. They are paid into the SA Government's Consolidated Account as they are received. Audit fees raised in 2022-23 totalled $16.7 million.

Expenses

Total expenses for 2022-23 were $18.8 million, down from the previous year. The expenses for 2021-22 included $3 million in surplus cash returned to the Consolidated Account.

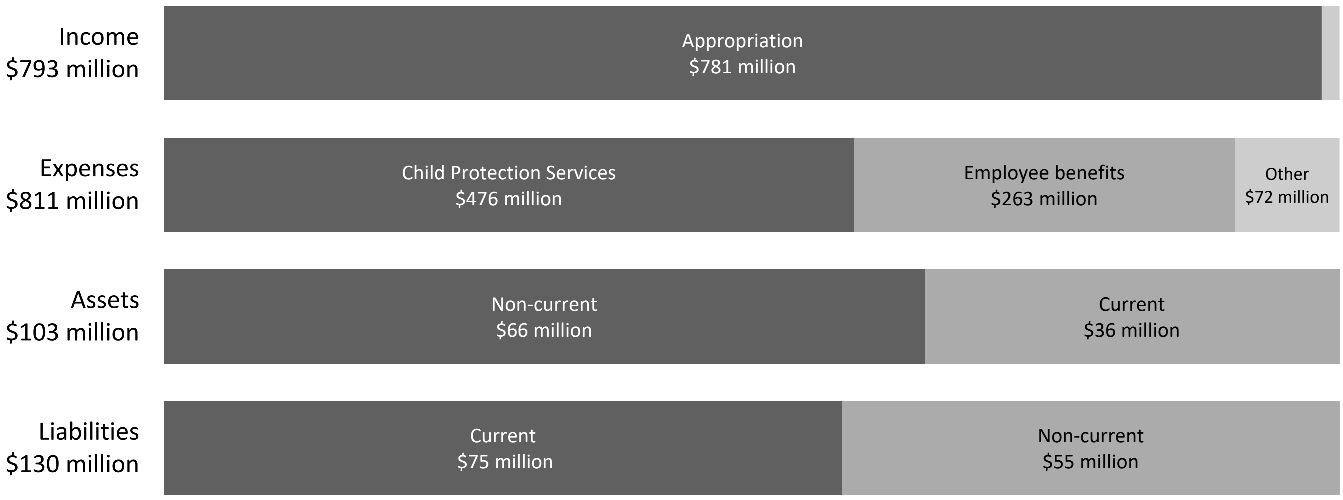
The following chart shows the Department's main expense items for the five years to 2023.



There was a $2.2 million decrease in total expenses in 2022-23. This was mainly due to the $3 million of surplus cash paid into the Consolidated Account in 2021-22. The Department manages and monitors its cash balances to identify any cash that is surplus to meeting approved cash expenditure requirements. Having reviewed our requirements and operating account cash balance, the Auditor-General obtained the Under Treasurer's approval to return cash to the Consolidated Account.

Department for Child Protection (DCP)

Financial statistics



2,302
FTEs

4,864
Children and young people in care

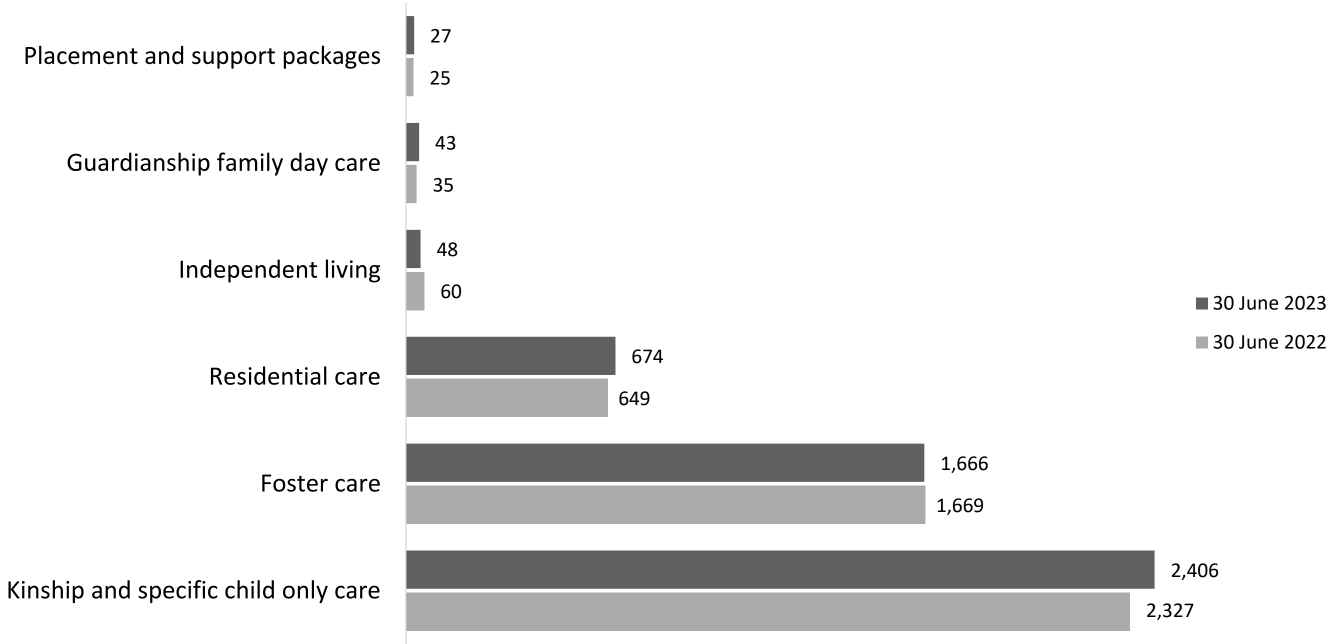
Significant events and transactions	— Child protection service costs exceeded the original 2022-23 State Budget figure by $81 million (20%). Additional appropriation funding was received to support this cost pressure. — There was continued growth in children and young people in out-of-home care, with the number of children aged under 18 years in care increasing by 2% to 4,864 as at 30 June 2023. — Land, residential properties and leasehold improvements were revalued upwards by $17.4 million. — DCP has net liabilities of $27.4 million, with current liabilities exceeding current assets by $39 million.
Financial report opinion	**Unmodified**
Audit findings	— Opportunities to improve procurement and contract management processes. — Improvements in information technology general controls are required. — Payroll-related controls require improvement. — Data security contract management could be strengthened.

Functional responsibility

DCP is an administrative unit established under the *Public Sector Act 2009*.

DCP's objective is to care for and protect children and young people who have been abused and/or are assessed as being at risk of harm within their families, or whose families do not have the capacity to protect them.

The number of children aged under 18 years in care increased by 99 (2%) to 4,864 as at 30 June 2023. The chart below shows the number of children and young people (0 to 17 years old) in out-of-home care by care type as at 30 June 2022 and 30 June 2023.



Source: Number of children in care at 30 June was sourced from DCP and is unaudited.

The Commonwealth Productivity Commission's *Report on Government Services 2023* reported that, on average, South Australia's out-of-home care cost was $329 per night placement, equating to approximately $120,000 per child per year in 2022. At the time of this report cost data was not available for 2023.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- expenditure, including child protection services
- payroll
- property, plant and equipment

- general ledger
- procurement and contract management
- carer reviews.

We reviewed internal audit activities in planning and conducting the audit.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. The main findings and DCP's responses are discussed below.

Audit findings

Opportunities to improve procurement processes

For a sample of recent procurements we reviewed DCP's compliance with the South Australian Government Procurement Framework. The Framework consists of Treasurer's Instructions 18 *Procurement* (TI 18) and supporting policies approved by the Treasurer and administered by Procurement Services SA (PSSA).

Urgency caused by unplanned procurement led to non-compliance

We noted that DCP did not follow all PSSA and TI 18 requirements for the procurement of a short-term emergency care due to the urgent need for the placement and the specialised medical support requirements of the child.

While we appreciated the immediate need for the placement, we believe the urgency was caused by the expiration of DCP's existing contract and the absence of proper procurement planning, rather than the specialised nature of the care required. The procurement need could have been reasonably foreseen and better planned. Our review of DCP's procurement processes noted that it:

- did not prepare an acquisition plan and therefore did not adequately demonstrate its planned procurement approach, including that it met TI 18 and PSSA requirements
- did not adequately justify its direct market approach, impacting its ability to demonstrate the probity, accountability and transparency of the procurement process
- did not adequately document evidence to support how it came to its conclusion to support the provider being directly approached, including assessments against an evaluation methodology and criteria
- did not ensure conflict of interest declarations and confidentiality agreements were completed by participants involved in assessing the provider
- provided services to the child without a valid executed service contract, increasing its exposure to legal risks arising from disputes about contractual obligations
- contracted services prior to appropriate procurement approvals.

DCP accepted our findings, noting that the acquisition related to highly specialised medical care support needs for a child in care and importance was placed on ensuring the child had both stability in their care arrangements and medically trained carers tailored for the child's medical needs. DCP advised us that it undertakes annual forward planning reviews and regularly reviews expired contract reports to identify any upcoming contracts that require action. DCP also said that it had reminded its procurement staff of the TI 18 and PSSA requirements and the need to ensure procurement documentation contains sufficient information to support decision making.

Insurance requirements not included in contract

The purchase recommendation for the short-term emergency care procurement discussed above required the supplier to obtain professional indemnity insurance of not less than $1 million. We noted that the signed agreement with the provider did not include this requirement. We recommended that DCP investigate and address the control breakdowns that allowed this important condition of the purchase recommendation to be missed in the contractual arrangement.

DCP accepted this finding and had reminded its procurement staff of the TI 18 and PSSA requirements.

Opportunities to improve contract management procurement processes

We reviewed DCP's compliance with the contract management requirements of TI 18 and PSSA's Contract Management Policy, which require effective contract management practices to achieve value for money. We noted that:

- DCP did not have an approved contract management plan for a residential care services contract. Delays in developing and implementing contract management plans can potentially impact the consistency and systematic nature of contract management processes. DCP responded that it would update its contract management framework to capture the required time frames for completing contract management plans. DCP's response indicated that contract management plans are completed in conjunction with non-government organisation (NGO) providers and that, consequently, it may not be possible for them to be finalised before the contract commences
- DCP did not always complete the contract complexity assessment required by PSSA policy. These assessments are important for ensuring that appropriate contract management practices are implemented for each contract. DCP responded that it had approved and implemented a new contract complexity assessment tool in February 2023. It also stated that it would aim to update the status of all active contracts using the new tool by 31 December 2023.

Improvements in information technology general controls are required

User access to important operational systems not always reviewed

We reviewed DCP's monitoring of user access to two key systems that contain confidential child and family information. We found delays and weaknesses in the review of user access impacting DCP's ability to ensure that only authorised staff had access to these systems and that they had the correct security roles.

DCP responded that it had revised its user access review processes for one system to include a review of user privileges and that its June 2023 review had verified all DCP users. While NGO access to the system is limited, DCP will include service provider access as a standing agenda item for quarterly contract management meetings.

DCP also responded that it would review user access review processes for the other system by 30 September 2023 and that the outcomes of the future quarterly reviews will be reported to senior governance groups.

Contract management system audit logs not regularly reviewed

We found that DCP did not regularly review contract management system audit logs, including privileged user activities, which impacts its ability to identify security breaches, suspicious or harmful activity or accidental data loss.

DCP responded that it had initiated conversations with the vendor to determine what audit log exports are available, particularly for privileged user activities. It intends to develop an audit logging policy and procedure by 31 July 2024.

Rostering system IT general controls require improvement

The rostering system is used to create rosters, check attendance data and make changes to employee shifts. We considered DCP's password management, user access management, privileged user access, audit logging, change management, patch management, backup management, disaster recovery management and job scheduling and monitoring for this system.

We identified some areas of weakness where DCP controls could improve, including:

- monitoring vendor performance
- application patch management
- disaster recovery and backup restoration testing.

These weaknesses increase the potential for unauthorised changes or malicious activity within the rostering system environment.

DCP responded positively to our findings and agreed to take appropriate remedial action, expected to be completed by July 2024.

Payroll-related controls require improvement

We reviewed roster time records and associated payroll transactions and found:

- incorrect payments for public holidays and the payment of overtime that was not entitled. DCP responded that it had identified the cause of the overpayment and had worked with the vendor to fix the issue. DCP also said that it would identify all overpayments caused by the error and seek to recover them
- instances where an employee was paid overtime instead of an approved time off in lieu arrangement. DCP responded that it would review the processing environment for opportunities to establish controls to mitigate the risk of human error.

Insufficient review of payroll information

Management's review of the validity of payments made to employees and leave reports was not sufficient to ensure that payments are only made for bona fide employees and for time worked. Many DCP employees are paid standard hours without direct reference to actual time records. In this environment it is important for management to regularly review individual employee payments and leave records.

DCP responded that reminders are escalated to executive members to reiterate the importance of approving bona fide certificates and monthly leave returns within the specified time frame of 21 days.

Data security contract management could be strengthened

We assessed the adequacy of DCP's data security contract management with external parties. We focused on non-family based care services provided by external contractors.

DCP engages many external NGOs to deliver non-family based care services. These NGOs regularly receive information from DCP and other government agencies from various sources so that they can fulfil their obligations and conduct their day-to-day operations. Each NGO service provider maintains its own information systems that contain child protection data received from DCP and other government sources. We noted that while NGOs have discretion over the kind of system and security arrangement they maintain, they are required to comply with DCP's data and information management, security, privacy and other requirements.

Our review of contract management noted areas where DCP could improve its internal controls, including the following:

- DCP needs to assess data security risks at a more detailed level. We recommended that DCP consider data security and other ICT risks associated with service arrangements with NGOs against the South Australian Cyber Security Framework (SACSF) and its security needs, and update its risk management tools where appropriate.
- As part of its vendor performance management process, DCP receives an annual self-assessment declaration from each NGO as evidence that the NGO has adequately secured government data. While appreciating the need for DCP to perform a risk assessment on this matter, we recommended that DCP consider implementing processes to assess contractor compliance with key data security requirements and the veracity of contractor assertions.

DCP responded with its commitment to:

- developing a detailed risk assessment framework with NGOs against the SACSF
- periodically assess the veracity of external contractor risk management practices.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Income		
Appropriation	781	693
Other	12	11
Total income	793	704
Expenses		
Employee benefits expenses	263	255
Child protection services	476	386
Supplies and services	65	56
Other	7	5
Total expenses	811	702
Net result	(18)	2
Changes in revaluation surplus	17	2
Total comprehensive result	-	3
Net cash provided by (used in) operating activities	(5)	17
Assets		
Current assets	36	48
Non-current assets	66	46
Total assets	103	94
Liabilities		
Current liabilities	75	71
Non-current liabilities	55	52
Total liabilities	130	123
Total equity	(27)	(30)

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Revenues from the SA Government

DCP is predominantly funded by appropriation, which accounts for 99% of total income.

Appropriation from the SA Government was $781 million in 2023, an increase of $89 million (13%) from 2022. It includes:

- $719 million original appropriation under the *Appropriation Act 2022*
- $5 million additional funding provided in the 2022-23 mid-year budget review, including funding for specialist services for children and young people in residential care placements and for additional carers in DCP's residential facilities

- $42 million additional resources provided for 2022-23 in the 2023-24 State Budget, including funding for increased costs associated with providing care services for children and young people
- additional working cash.

Expenses

Employee benefits expenses

Employee benefits increased by $8 million (3%) to $263 million and accounted for 32% of total expenses in 2023. Total FTEs increased marginally to 2,302.

Child protection services

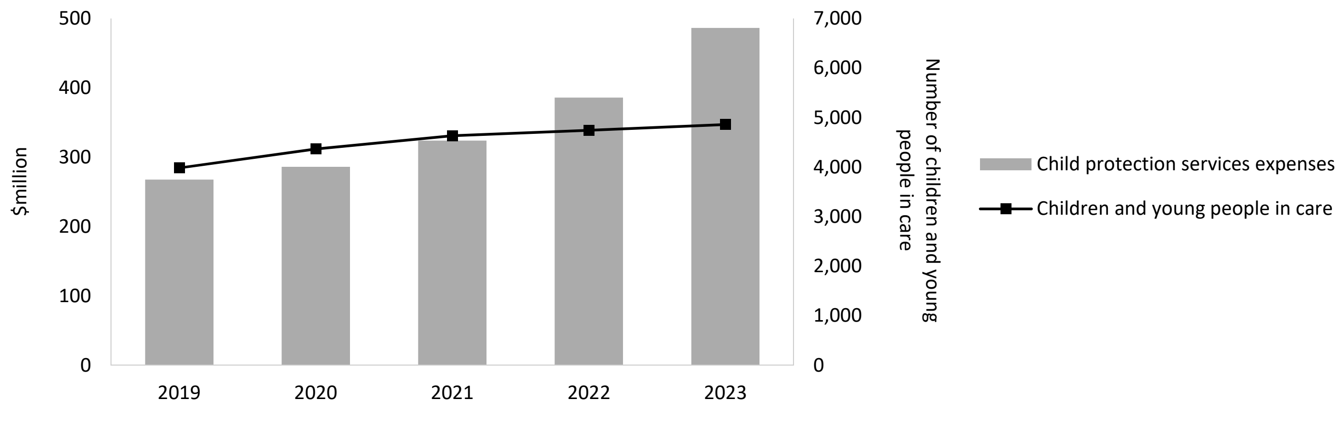
Child protection services are payments to carers and NGOs and other expenses for the provision of out-of-home care for children and young people. It does not include DCP's internal costs, such as employee benefits and accommodation expenses.

Child protection services expenses increased by $91 million (23%) to $476 million and comprised:

- out-of-home contracted care services, which increased by $72 million (27%) to $340 million. The more significant increases relate to the cost of non-family based care, which increased by $66 million
- carer payments and client-related costs, which increased by $14 million (13%) to $122 million
- a $3 million (38%) increase in family support services costs to $9 million
- advocacy and support services, which increased by $2 million to $6 million.

The growth in the cost of child protection services is driven by both increased numbers of children and young people in care and by the type of out-of-home care placement.

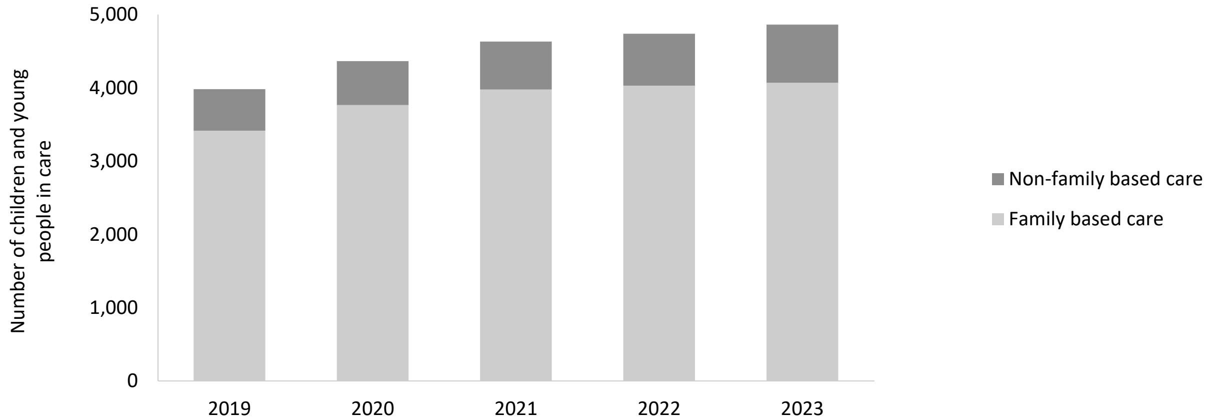
While the chart below shows a 78% increase in child protection services expenses over the past five years, it also demonstrates that these expenses have grown faster than the increase in the numbers of children and young people in care.



Source: Number of children and young people in care was sourced from DCP and is unaudited.

Out-of-home care is provided as either family based (foster, kinship and guardianship family day care) or non-family based (residential care and independent living). Family based care is DCP's preferred placement option as most children do best in family based settings. Non-family based care is used where family based care is not suitable or not available.

Family based care at 30 June 2023 increased by 1% or 41 children and young people since 30 June 2022, compared with a 12% (83 children and young people) increase in non-family based care over the same period. The chart below shows the number of children by placement type for the past five years.

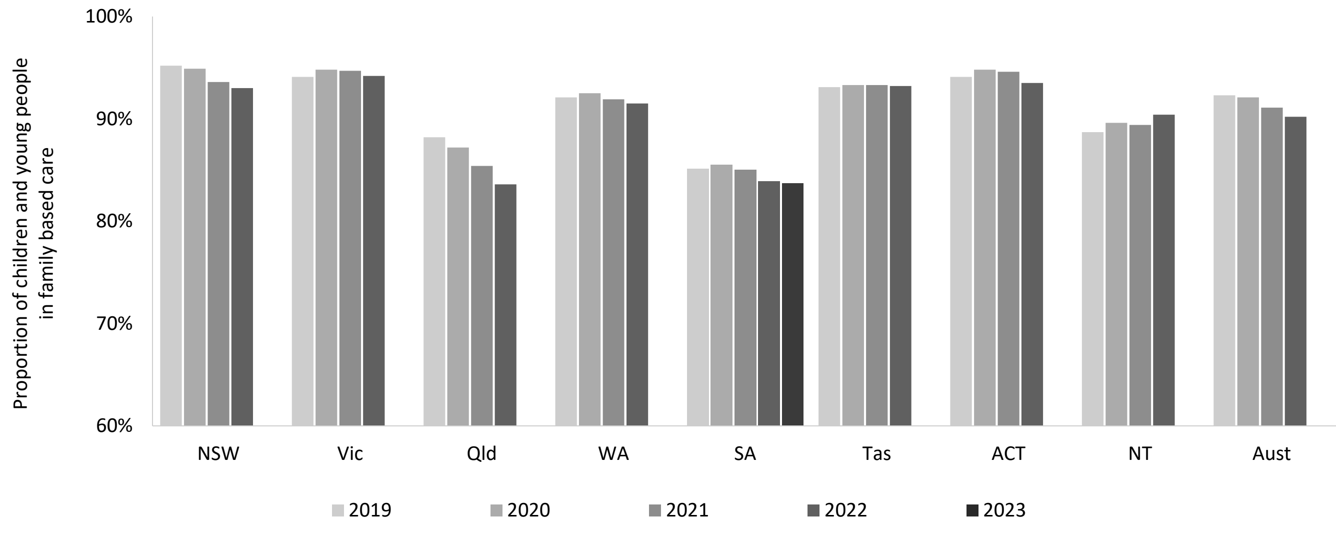


Source: Number of children in care at 30 June was sourced from DCP and is unaudited.

While non-family based care placements of 792 make up only 16% of children and young people in care, it is significantly more costly to provide than family based care and is the main driver of the significant growth in child protection services costs.

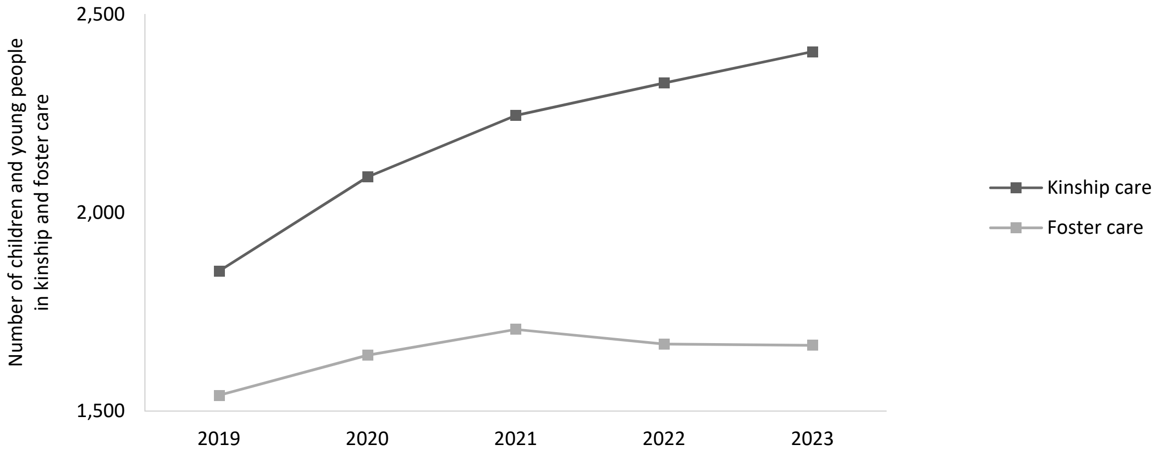
The Commonwealth Productivity Commission's *Report on Government Services 2023* reported that in jurisdictions where data was available, annual costs per child were considerably higher for residential care (ranging between $487,000 and $956,000 in 2022) compared to non-residential care (ranging between $44,000 and $59,000). At the time of this report cost data was not available for 2023.

The below chart shows that South Australia has a lower proportion (83.9% in 2022) of children and young people in family based care than the Australian average (90.2%) and most other jurisdictions.



Source: 2019–2022 data based on the Commonwealth Productivity Commission's *Report on Government Services 2023.* 2023 data provided by DCP and unaudited.

The following chart shows the number of children and young people in family based care, demonstrating the growth in kinship care numbers and the small but continued decline in foster care placements.

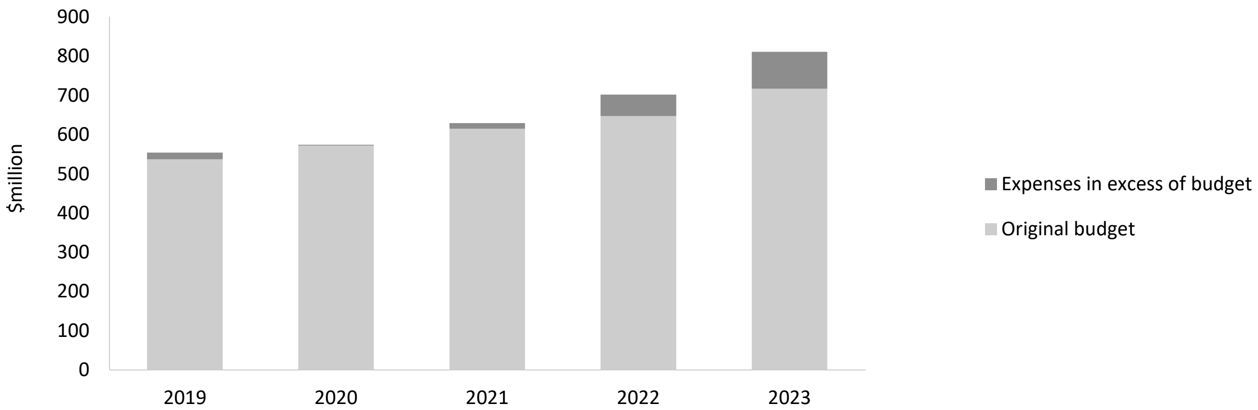


Source: Number of children in kinship and foster care was sourced from DCP and is unaudited.

Comparison of actual expenses to original budget

In 2023 total expenses exceeded the original budget by 94 million (13%), compared to $55 million (8%) in 2022. This includes child protection services exceeding the original budget by $81 million ($46 million). Note 1.3 of DCP's financial report provides budgetary reporting information.

The chart below shows that total expenses exceeded the original budgeted for each of the five years to 30 June 2023.



Additional expenditure from the original budget is impacted by the differences between actual and budgeted numbers of children and young people:

- entering care
- in higher cost non-family based care, including residential and specialist residential care.

Statement of Financial Position

Assets

Current assets decreased by $12 million to $36 million as at 30 June 2023. Cash of $30 million ($40 million) makes up 83% of current assets.

Property, plant and equipment increased by $21 million to $66 million due mainly to the upward revaluations of land ($8 million), residential accommodation housing ($7 million) and leasehold improvements ($2 million). Asset additions totalled $9 million, with depreciation of $5 million for 2023.

Liabilities

Liabilities principally comprise:

- employee benefits liabilities and related on-costs of $65 million ($63 million)
- the provision for workers compensation, which increased by $5 million (18%) to $34 million. Workers compensation was estimated by an independent actuary as at 30 June 2023
- trade payables and accrued expenses of $27 million ($28 million). Most payables relate to care-related services provided but not paid at 30 June.

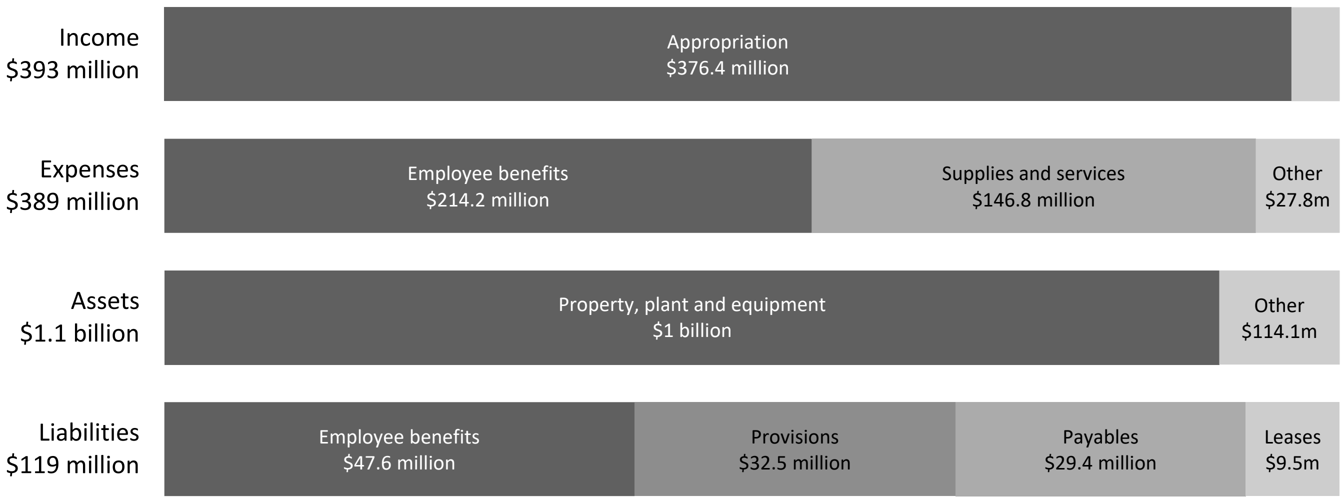
Equity

DCP had a negative net asset and total equity position at 30 June 2023 of $27 million. Similarly, current liabilities of $75 million exceeded current assets of $36 million. DCP is funded to meet expected cash flows for its current program delivery. Note 10.2 of its financial report provides information about liquidity risk.

In 2022-23, DCP received a capital contribution from the SA Government of $2.8 million.

Department for Correctional Services (DCS)

Financial statistics



2,004
FTEs

3,074
Average prisoner numbers

$1 billion
Value of land and buildings

Significant events and transactions

— The Yatala Labour Prison expansion project was completed, with 270 beds added to this facility. Total capital expenditure on this project was $149.7 million.

— Land and buildings were revalued upwards by $165 million.

Financial report opinion

Unmodified

Controls opinion findings

— Annual service delivery plans were not approved for 2022-23.

— Asset data used by DCS is outdated.

— Asset management risks were not included in the risk register.

Other audit findings

— Data security for major contractors could be better managed.

— Risk management procedures were overdue for review.

Functional responsibility

DCS is an administrative unit established by the *Public Sector Act 2009*. It is responsible to the Minister for Police, Emergency Services and Correctional Services.

DCS's objective is to provide rehabilitation and repatriation services, custodial services and community-based supervision services for offenders in SA. These services include:

- custodial services – secure containment and supervision for adults on remand and those sentenced to custodial sanction
- community based services – managing and supervising offenders in the community on probation, parole, home detention and supervised bail
- rehabilitation and reparation services – educational, vocational and rehabilitative activities to address offending behaviour.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- fixed assets, including major projects
- payroll and employee benefits
- supplies and services expenditure, including significant contracts
- cash
- revenue (appropriations)
- general ledger functions.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures. We did not rely on any internal audit work for our opinion.

Controls opinion

We reviewed controls over DCS's asset management (buildings and improvements) and deposit accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. The main findings and DCS's responses are discussed below.

Controls opinion findings

We reviewed DCS's asset management controls for its buildings and improvements, including the activities performed by DCS and Ventia (the SA Government's contract service provider) under the Across-Government Facilities Management Agreement (AGFMA).

Annual service delivery plans not approved for 2022-23

We found that the annual service delivery plans (ASDPs) for 2022-23 were not approved by DCS.

ASDPs outline the provision of services by Ventia to DCS for each financial year. They are developed in collaboration with DCS and include details of services to be provided, estimated costs and planning schedules. Without them, there is a risk that maintenance will be delayed, missed or not adequately resourced.

The 2023-24 ASDPs have since been approved by the Chief Executive of DCS.

DCS acknowledged our finding and advised us that it occurred because of its concerns about the accuracy of Ventia's data. DCS will continue to liaise with Ventia to ensure accurate data is provided.

Asset data used by DCS is outdated

DCS continued to use asset information from Department for Infrastructure and Transport (DIT) legacy systems to support its management activities in 2022-23. This asset information is out of date, as the new AGFMA provider Ventia records asset information in its own system.

Ventia performed a data validation process at the start of the new AGFMA agreement to ensure that data from DIT systems was accurately and completely transferred to its system. This involved confirming asset data through site inspections. While Ventia has provided information about this to DCS, DCS advised us of difficulty in using it in the format Ventia used. As a result, DCS continued to use information provided by DIT prior to the transition to Ventia, which may result in poor asset management decisions being made.

DCS responded that it is continuing to work with Ventia on the data collection process and will escalate areas of concern through AGFMA management groups and committees.

Asset management risks not included in risk register

DCS has not identified and recorded any risks relating to the AGFMA contractual arrangements and asset management in its risk register.

The AGFMA is an integral part of DCS's maintenance, management and improvement of its building assets. As a major contract, the AGFMA involves significant financial commitments and operational dependencies.

We recommended that DCS perform a risk assessment relating to the AGFMA and document any identified risks in its risk register. This will help ensure the effective management of the AGFMA.

DCS responded that it will include AGFMA performance as a risk in its register and continue to escalate areas of concern to the AGFMA management groups that monitor a sector-wide risk register.

Other audit findings

Data security for major contractors could be better managed

We reviewed DCS's data security management arrangements with two major external contractors that have access to government systems and found that the contract management controls could be improved.

Data security risks could be assessed at a more detailed level

DCS has not performed a detailed review of data security risks, particularly those related to major contractors.

DCS has assessed its cyber security risk appetite as low to very low, meaning that its ICT risk management practices and information security controls should be robust, clearly documented and their effectiveness continuously monitored.

We noted that while DCS's enterprise risk register considers the failure of ICT and security systems, data security risks are not specifically identified. Further, the contract management plans for its major contractors do not include details of data security risks or related compliance requirements.

We recommended that DCS consider data security and other ICT risks associated with its contractor arrangements and update its risk registers and contract management documentation where appropriate.

DCS responded that it accepted our finding and will implement our recommendation.

Contracts do not include clear data security expectations of external parties

The contracts we examined as part of our review did not contain specific clauses for data security management.

Including data security clauses in contracts provides clarity over contractor data security expectations and direction for DCS's contractor compliance activities.

We recommended that DCS consider what information it needs from its contractors about data security and compliance, and determine the most effective way to formally communicate data security expectations with contractors.

DCS accepted our finding and advised us that it will obtain legal advice to assist in formalising data security expectations into existing contracts.

Activities to demonstrate contractor compliance with key data security requirements need to improve

While external contractors have been engaged to provide services, DCS remains responsible for ensuring data security is adequate.

As part of our review we requested information to assess the assurance activities undertaken by DCS to manage contractor data security. We found that one contractor had provided DCS with a summary of its cyber security activities, while the other had not. DCS engaged its own consultant to review a specific cyber incident relating to this second contractor, to identify any potential exposure to DCS. This was not a complete accreditation or attestation review.

DCS's existing arrangements may not be adequate to prevent or contain, to the extent possible, potential cyber incidents. We recommended that DCS review its external contractor risk management practices and consider the compliance and assurance activities needed to comply with the South Australian Cyber Security Framework.

DCS accepted our finding and advised us that it has commenced action to test its contractors' compliance with the South Australian Cyber Security Framework requirements.

Risk management procedures overdue for review

We found that DCS's risk management policy and guidelines were overdue for review. Its risk management practices do not include assessing its risk appetite to guide decision making. Defining a risk appetite statement is a key element in better practice for risk management in the SA Government Risk Management Guide.

DCS responded that it would review its risk management policy and guidelines and develop a risk appetite statement for enterprise risks to help determine the level of treatment required for risks and monitoring of actions.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Income		
Appropriation	376	416
Sale of goods	7	7
Other income	9	9
Total income	393	432
Expenses		
Employee benefit expenses	214	200
Supplies and services	147	139
Other expenses	28	27
Total expenses	389	366
Net result	4	67
Other comprehensive income		
Changes in asset revaluation surplus	165	-
Total comprehensive result	169	67

	2023 $million	2022 $million
Net cash provided by (used in) operating activities	31	97
Net cash provided by (used in) investing activities	(47)	(134)
Net cash provided by (used in) financing activities	(2)	(1)
Assets		
Current assets	103	121
Non-current assets	1,034	849
Total assets	1,137	970
Liabilities		
Current liabilities	53	58
Non-current liabilities	66	64
Total liabilities	119	122
Total equity	1,018	848

* Table may not add due to rounding.

Statement of Comprehensive Income

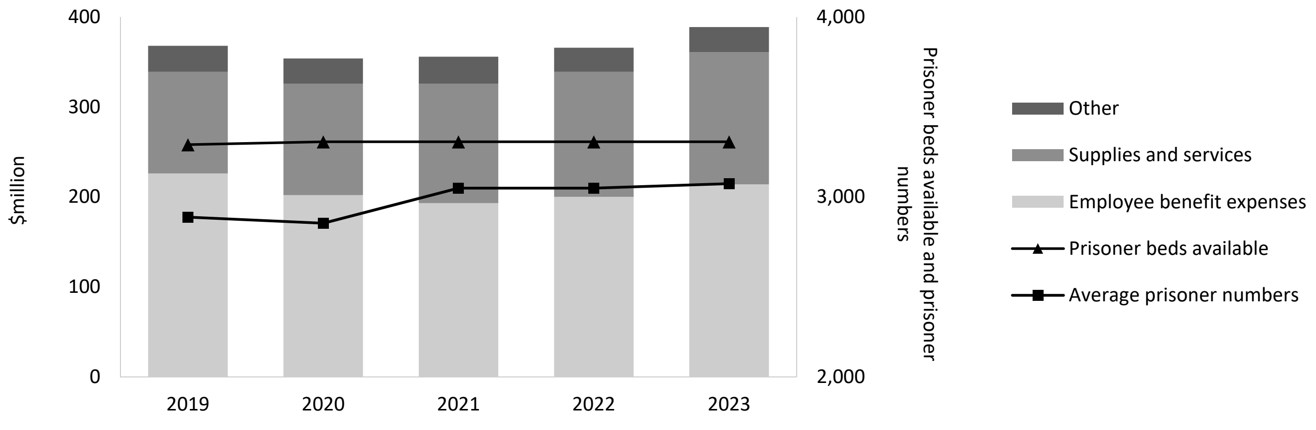
Income

Total income decreased by $39.6 million to $392.8 million.

DCS relies on SA Government appropriations to fund its operations and investing activities. Appropriations decreased by $39.5 million, reflecting a reduction in capital funding received. DCS received additional funding in prior years for major capital projects, including the expansion of the Yatala Labour Prison and Adelaide Women's Prison. See 'Assets' below for further information about capital projects.

Expenses

DCS's main expense items and average prisoner numbers for the five years to 2023 are shown in the chart below.

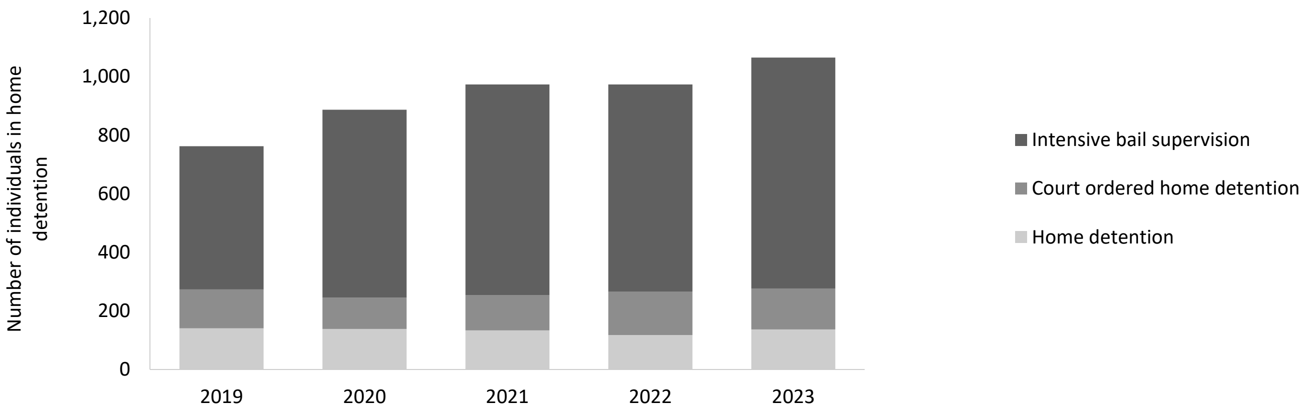


Source: Prisoner information was provided by DCS and is unaudited.

Total expenses have increased by $21 million (6%) since 2019. The shift of expenditure from employee benefit expenses to supplies and services in 2020 was driven by the outsourcing of the Adelaide Remand Centre management and operations in August 2019.

Average prisoner numbers increased slightly in 2023 to 3,074. At 30 June 2023 there were 892 prisoners held in contractor operated prisons (Mount Gambier Prison and the Adelaide Remand Centre).

Total individuals in home detention as at 30 June 2023 increased to 1,065 (up 9.5%). Total home detention numbers include home detention, intensive bail supervision and court ordered home detention. The increase is mainly in intensive bail supervision.



Employee benefit expenses

Employee benefit expenses increased by $14.6 million to $214.2 million, due mainly to:

- a $4.8 million increase in workers compensation expenses, resulting from an increase in the provision (see ‘Provision for workers compensation’ below)
- a $3.5 million increase in long service leave expenses. Movements in the long service leave expense are impacted by relative movements in the long service leave liability each year. While the long service leave liability for 2023 remained largely consistent with the prior year, in 2022 the long service leave liability decreased by $3.7 million, driven by an increase in the rate used by the actuary to discount future payments into present value
- a $2.6 million rise in salaries and wages, up 1.7%. This was primarily driven by Enterprise Agreement salary increases of 1.5%. While FTEs also increased during the year from 1,926 to 2,004 (4%), the associated higher costs were offset by vacancies as the employee attrition rate rose. Overall FTEs increased to staff additional bed capacity at the Yatala Labour Prison, with building works completed at the end of 2023.

Supplies and services expenses

Supplies and services expenses increased by $7.4 million to $146.8 million following:

- a $2.3 million growth in contract expenditure, due mainly to annual price escalations on the following contracts:
  - Mt Gambier Prison management contract

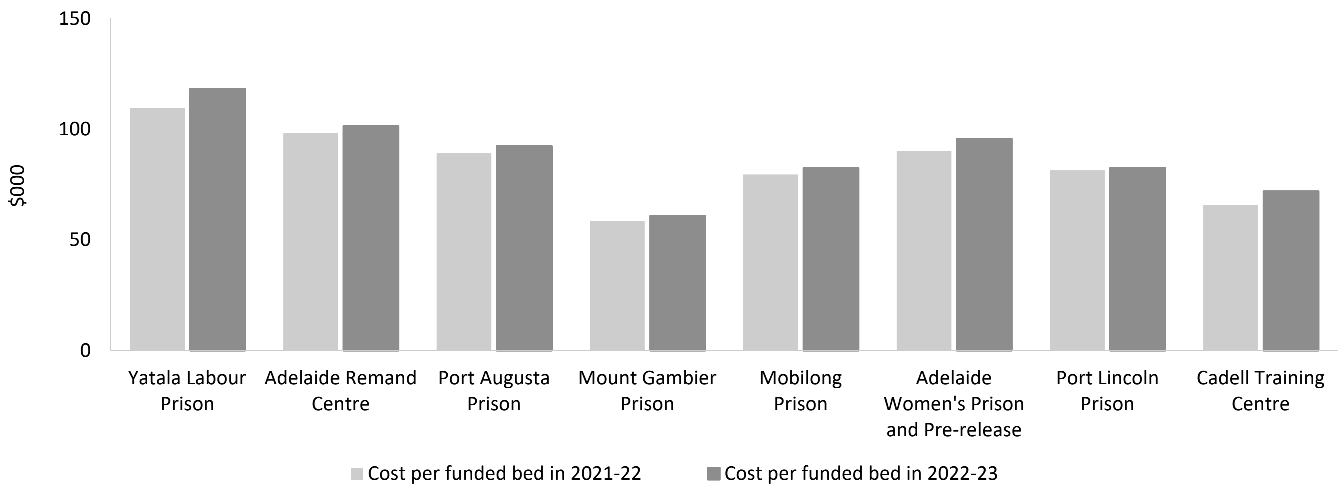
— Adelaide Remand Centre management contract
— Prisoner Movement and In-court Management contract
— Home Detention Integrated Support Services and Bail Support Program
— Home Detention Electronic Monitoring.

The annual cost escalation on these contracts ranged from 2.5% to 3.5%

- a $1 million increase in travel costs, due largely to additional programs being run across the State for offender rehabilitation and trainee correctional officers
- a $707,000 increase in minor works, maintenance and equipment mainly for costs under the head contract with Ventia for maintenance. In 2023 additional costs were incurred for works on windows at the Port Augusta Prison
- a $704,000 increase in accommodation expenses, mostly attributable to breakdown maintenance costs.

Annual cost per funded bed per facility

The following chart shows the cost per prisoner of managing each facility in 2023. The figures include all direct and indirect operating costs. Indirect costs are allocated to prisons based on either a percentage of total salaries, a percentage of total beds or a percentage of total direct costs.



Source: Data was supplied by DCS and is unaudited.

The chart illustrates the cost differences between facilities.

Across all facilities the cost per funded bed increased on average by 5% in 2023, ranging from a 1% increase at the Port Lincoln Prison to a 9% increase at the Cadell Training Centre. The variation in cost increases is largely affected by infrastructure charges at each site. For example, the Cadell Training Centre incurred additional depreciation in 2023 relating to improvement works, whereas depreciation charges for the Port Lincoln Prison reduced as infrastructure reached the end of its economic useful life. Other cost pressures across all facilities for 2023 relate to staffing, workers compensation and utilities.

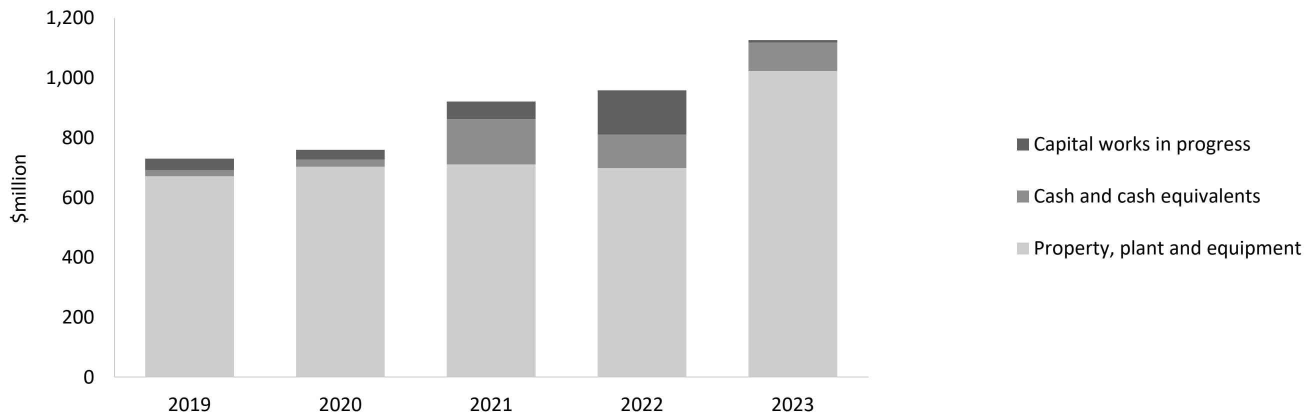
DCS advised us that there were several factors influencing the costs of running South Australian prisons:

- the security level of prisoners, which influences the cost of managing each facility. South Australian prisons have varied security requirements rated as high, medium and low security. Higher security requirements generally increase the cost of running a prison. The Adelaide Remand Centre, Port Augusta Prison and Yatala Labour Prison have mainly high and medium security prisoners. The Cadell Training Centre (low security prisoners), Mobilong Prison (medium and low security prisoners), Mount Gambier Prison (medium and low security prisoners) and Port Lincoln Prison (medium and low security prisoners) have the lowest cost per prisoner. The Adelaide Women's Prison accommodates all security profiles
- the built environment of the prison. For example, the design of prisoner accommodation, visitor centres and admissions areas can impact staffing levels, which then impact cost. Cell-based accommodation as opposed to residential-type accommodation also influences the cost per prisoner, as does ageing infrastructure at sites like the Yatala Labour Prison
- work practices and staffing levels, which vary at each site. For example, there are variations at prison sites in the number of correctional officers required to escort prisoners within the facility and the number of correctional staff required to monitor prisoners
- the role and function of the prison, which can vary based on factors including out-of-cell hours, the level of industry activity at each site, the level of prisoner employment and whether it is an open campus (eg the Mobilong Prison).

Statement of Financial Position

Assets

DCS's major asset balances for the five years to 2023 are shown in the following chart.



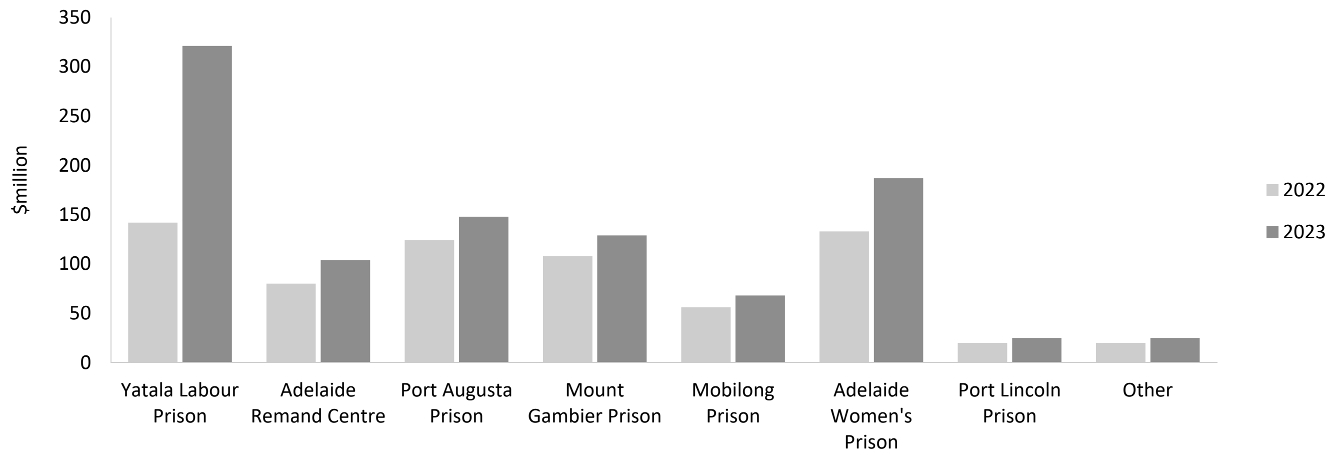
Total assets increased by $167 million to $1.1 billion, mainly associated with a $165 million upwards revaluation of land and buildings at fair value.

Capital works in progress from 2022 were capitalised and transferred to property, plant and equipment in 2023 as the Yatala Labour Prison expansion project was completed.

Property, plant and equipment

The main item of DCS's Statement of Financial Position is property, plant and equipment, representing 90% of total assets. Property, plant and equipment increased by $324.5 million (46%) to $1 billion in 2022-23. Almost all of DCS's property, plant and equipment balance relates to land and buildings.

The following chart shows asset values for DCS's land and buildings for the last two years.



Land and buildings increased due mainly to:

- transfers from capital works in progress for major projects completed during the year, totalling $178.4 million and including:
  - the completion of the Yatala Labour Prison expansion project. This project increased the capacity of the prison by 270 beds, as well as adding a new admissions area, commercial kitchen, car parking and secure walkways. $149.7 million of capital expenditure was recorded for this project, which was completed in June 2023
  - $22.5 million for the completion of Stage 2 works at the Adelaide Women's Prison, resulting in an additional 40 beds and a new reception and visits centre at the site
  - $4.1 million for audio-visual link upgrades at the Port Augusta Prison, Port Lincoln Prison, Cadell Training Centre and Mount Gambier Prison. These upgrades improve prisoner access to courts and legal services
- an independent valuation of land and buildings performed at 30 June 2023, resulting in an upwards revaluation of $165 million:
  - Land was revalued from $158.3 million to $207.9 million, an increase of $49.6 million (31%). Land is revalued using market values.
  - Buildings, mostly specialised (prisons), were revalued upwards by $115.4 million. Buildings are predominantly valued using the depreciated replacement cost method. This method considers the increased costs in constructing these type of assets.

These increases were partially offset by depreciation expenses of $19.1 million in 2023.

Capital works in progress

At 30 June 2023 capital works in progress totalled $8 million, a decrease of $139.8 million from the prior year. An additional $40 million of capital expenditure was progressed in 2023, before $179.8 million was transferred to property, plant and equipment.

Cash and cash equivalents

Cash and cash equivalents decreased by $16.8 million to $95.5 million. Deposits with the Treasurer decreased by $43.9 million primarily due to additional spending in 2022-23 for capital projects. This was partially offset by an increase in the Accrual Appropriation Excess Funds Account of $27.1 million. The use of funds held in this account must be approved by the Treasurer. No cash alignment transfers were made back to the Department of Treasury and Finance in 2022-23.

Liabilities

Total liabilities decreased by $3.1 million to $119 million. This is largely attributable to a $10.1 million decrease in creditors, $7.5 million of which relates to amounts owed for capital works incurred mainly for the Yatala Labour Prison expansion. This was partially offset by:

- total provisions increasing by $2.8 million to $32.5 million. DCS's provisions relate to workers compensation and additional compensation (discussed below)
- a $1.4 million increase in employment on-costs payable, largely reflecting the timing of the final superannuation pay run for the year.

Provision for workers compensation

South Australian public sector employees who have suffered work-related injuries are entitled to benefits under the *Return to Work Act 2014*.

The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2023 provided by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment. DCS's workers compensation liability increased by $2.5 million to $27.6 million, primarily due to increases in the projected future costs for injured workers.

Additional compensation provision

The additional compensation provision, introduced in 2018, provides continuing benefits to workers who have suffered eligible work-related injuries and whose entitlements have ceased under the *Return to Work Act 2014*. Eligible injuries are non-serious injuries suffered in circumstances that involve, or appear to involve, the commission of a criminal offence, or that arose from a dangerous situation.

The additional compensation provision as at 30 June 2023 was estimated by an actuary engaged by the Office of the Commissioner for Public Sector Employment on behalf of all affected agencies across the public sector. The liability comprises an estimate for known claims and an estimate of incurred but not reported applications.

As at 30 June 2023 the additional compensation provision was estimated at $4.8 million, up slightly from $4.6 million the previous year. This reflects increases in average claim sizes for DCS.

There is a significant degree of uncertainty associated with the estimate of the additional compensation provision. In addition to the general uncertainties associated with estimating future claim and expense payments, the provision is impacted by the absence of claims history and the evolving nature of the interpretation of, and evidence required to meet, eligibility criteria. Given these uncertainties, the actuary has noted that the actual cost of additional compensation claims may differ materially from the estimate.

Statement of Cash Flows

The following table summarises DCS's net cash flows for the five years to 2023.

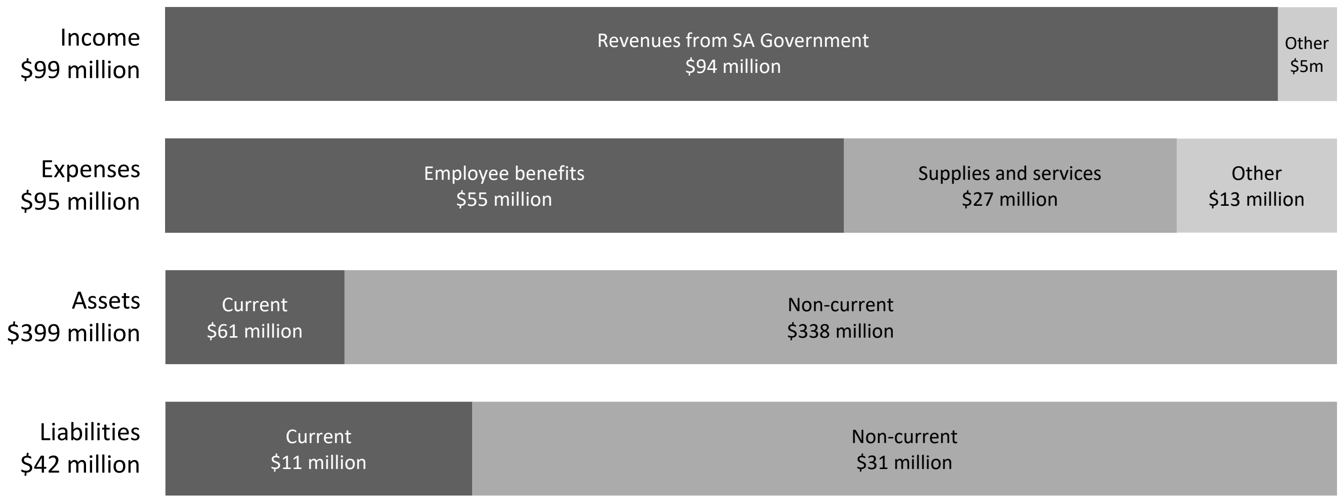
	2019 $million	2020 $million	2021 $million	2022 $million	2023 $million
Net cash flows					
Operating	41	42	155	97	31
Investing	(49)	(36)	(26)	(134)	(47)
Financing	-	(2)	(2)	(1)	(2)
Change in cash	(8)	4	127	(39)	(17)
Cash at 30 June	20	24	151	112	95

Note: Table may not add due to rounding.

In 2023 cash decreased by $16.8 million, driven by DCS's significant investment activities. Since 2019, capital expenditure has been funded through operating cash flows via appropriation.

Courts Administration Authority (CAA)

Financial statistics



614
Total FTEs

85
Administered FTEs

Administered items

Significant events and transactions	The CAA continued to implement processes to address court backlogs attributable to the restrictions of the COVID-19 pandemic.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— Independent payroll masterfile reviews could be strengthened. — The ICT divisional risk register was incomplete. — The critical application access management guideline needs improvement. — User access review of the courts management system could be strengthened.

Functional responsibility

The CAA was established under the *Courts Administration Act 1993*. It is constituted of the State Courts Administration Council, the State Courts Administrator and other staff of the State Courts Administration Council.

The function of the CAA, which is independent of the control of Executive Government, is to provide courts with the administrative facilities and services needed for the proper administration of justice.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- revenue
- expenditure
- payroll and workforce management
- cash and cash equivalents
- risk management
- property, plant and equipment
- financial accounting
- trust accounts
- IT general controls.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures. We did not rely on the work of internal audit.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report. No significant matters were identified.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the State Courts Administrator. The main findings and the CAA's responses are discussed below.

Payroll

Independent payroll masterfile reviews could be strengthened

The CAA's payroll control environment could be strengthened by the independent review of changes processed to the payroll masterfile. Such a check would enable independent checking officers to validate changes made to the payroll masterfile for a chosen period.

Undetected and unauthorised changes made to the payroll masterfile can result in avoidable errors or financial loss.

The CAA responded that it will develop a process to ensure payroll masterfile changes are checked.

IT general controls

ICT divisional risk register was incomplete

In 2022-23 the CAA engaged a service provider to develop a disaster recovery plan. The development process identified risks and mitigation strategies, however these risks were not incorporated into the CAA's local ICT divisional risk register.

The ability to effectively track and manage risks can be adversely impacted if the risks are not formally registered.

The CAA accepted the finding, but noted that its ICT section maintains a risk register that is reviewed and updated at least annually.

Critical application access management guideline needs improvement

The CAA has developed a critical application access management guideline as a framework for managing access to its ICT environment, including privileged user access to critical applications.

Last year we reported that the guideline required updating in key areas including better clarity of user access reviewer responsibility, removing non-critical applications and applying a risk-based approach to inform user access review frequency.

In 2022-23 the guideline was partially updated in these areas, however there were still gaps in effective user access management, such as tracking and following up user access management responses.

The CAA responded that it will review and improve the guideline in 2023-24, and that reviews of active directory user access against relevant records are occurring.

User access review of the courts management system could be strengthened

The CAA's critical application access management guideline requires managers to review a quarterly courts management system user access report and certify that their staff's user access remains appropriate. However, this review does not extend to ensuring the type of access granted is appropriate for the user.

We also noted that the December 2022 user access review flagged multiple user profiles for removal, but over half of these users still had access in April 2023.

It is important that system access reviews occur regularly to ensure users have an ongoing need for their access. Where these reviews are incomplete, or required changes are not actioned, there is an increased risk of inappropriate access to sensitive information.

The CAA responded that it will ensure improvements are made to its user access reviews. The CAA also considers that the risk of unauthorised access is low given other mitigating controls.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2023 $million	2022 $million
Income		
Revenues from SA Government	94	97
Fees and charges	3	3
Other revenues	2	3
Total income	99	103
Expenses		
Employee benefits expenses	55	56
Supplies and services	27	27
Other expenses	13	13
Total expenses	95	96
Net result	4	7
Net cash provided by (used in) operating activities	12	13
Assets		
Current assets	61	57
Non-current assets	338	344
Total assets	399	401
Liabilities		
Current liabilities	11	14
Non-current liabilities	31	34
Total liabilities	42	48
Total equity	357	353

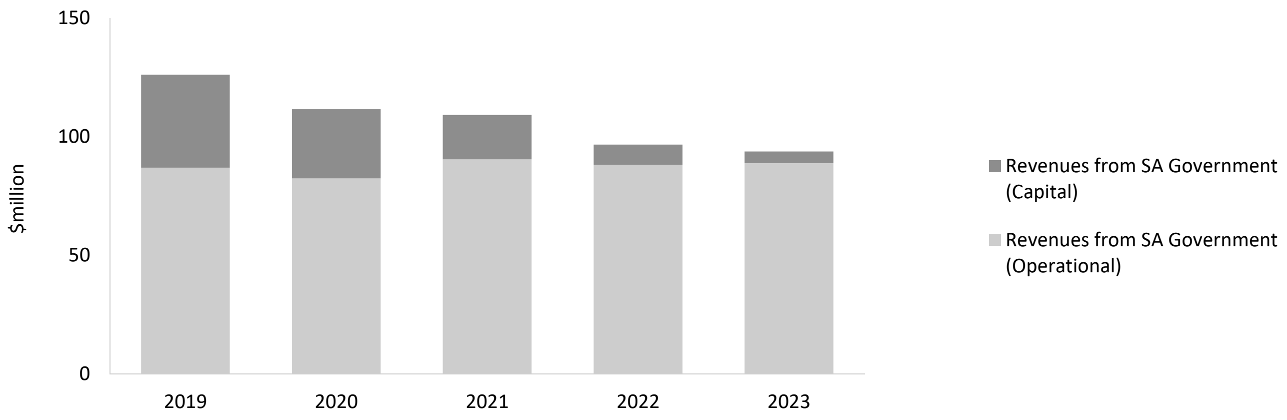
Statement of Comprehensive Income

The CAA's expenses reflect the cost of performing its statutory responsibilities, including collecting administered income such as fines and court fees on behalf of the SA Government. This income is directly credited to the Consolidated Account and is reported under administered income.

Income

Revenues from the SA Government are the major source of funding for the CAA, accounting for 95% (94%) of its total income.

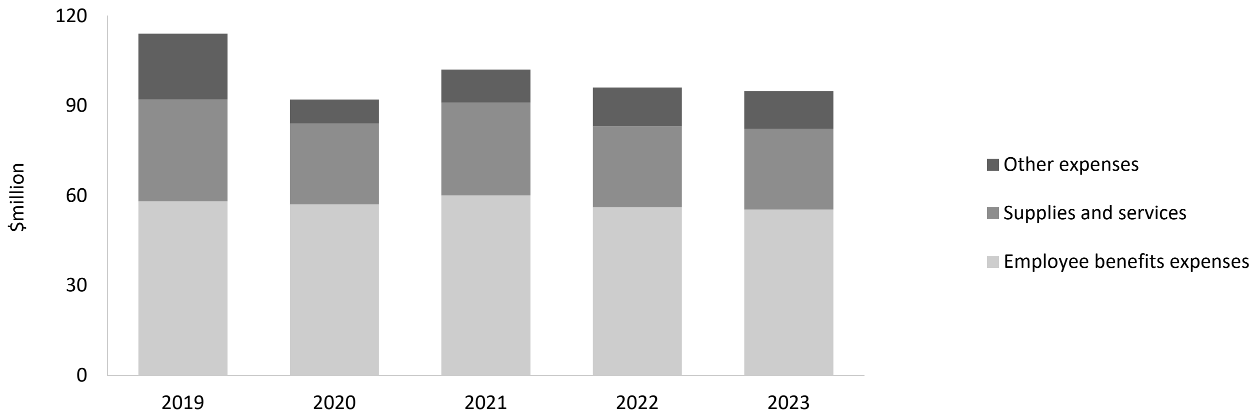
The following chart shows the amount of revenue the CAA received from the SA Government for the five years to 2023.



Revenue received from the SA Government decreased by $2.8 million (2.9%) to $93.8 million in 2022-23. This mainly reflects the CAA's reduced capital funding approvals after completing several court building accommodation upgrades.

Expenses

The following chart shows the CAA's main expense items for the five years to 2023.



The chart shows that both supplies and services and employee benefits expenditure marginally decreased in 2022-23.

Employee benefits expenses account for 58% (59%) of total expenditure and decreased slightly by $1 million in 2022-23. Supplies and services account for 28% (29%) of total expenses and also decreased slightly by $400,000.

Statement of Financial Position

Non-current assets mainly comprise land and buildings totalling $287 million ($294 million), which account for 85% (85%).

Current assets mainly comprise cash and cash equivalents totalling $57.3 million ($52.3 million), which account for 93% (92%). Cash comprises deposits with the Treasurer, including $23.4 million ($16.3 million) held in the Accrual Appropriation Excess Funds Account. The balance of these funds is not available for general use and can only be accessed with the Treasurer's approval.

Highlights of the financial report – administered items

	2023 $million	2022 $million
Income		
Revenues from SA Government	47	45
Court and transcript fees and other	25	23
Total income	72	68
Expenses		
Judicial benefits expenses	46	44
Payments to the Consolidated Account	25	22
Other expenses	1	2
Total expenses	72	68
Net and total comprehensive result	-	-
Net operating cash provided by (used in) administered activities	112	33
Assets		
Current assets	208	95
Non-current assets	1	1
Total assets	209	96
Liabilities		
Current liabilities	208	95
Non-current liabilities	9	9
Total liabilities	217	104
Total equity	(8)	(8)

Statement of Administered Comprehensive Income

Income

Court and transcript fees

Court and transcript fees are raised and collected by the CAA and then paid to the Consolidated Account. $24.7 million was raised, collected and transferred to the Consolidated Account in 2022-23. The $2.6 million (12%) increase from last year is mainly due to fee rises and fewer litigants delaying or not proceeding with civil matters post the COVID-19 pandemic.

Revenues from SA Government

In 2022-23 the CAA received revenues of $46.9 million ($45 million) from the SA Government to fund its judicial benefits expenses.

Expenses

Payments to the Consolidated Account of $24.7 million mainly comprise court and transcript fees as described above. Judicial benefits expenses were $46.3 million, which was a slight increase of $1.9 million (4%) from last year.

Statement of Financial Position

The CAA receives money into trust accounts on behalf of parties involved in court matters and also makes payments to parties as determined by the Courts. In 2022-23 total administered assets and liabilities both increased by $113.5 million.

The main driver of the increase was a rise in money held for land acquisition transactions by the Commissioner of Highways within the Supreme Court Suitors' Fund. The Fund recorded a net increase of over $90 million from the Commissioner of Highways, mainly for the Torrens to Darlington north-south corridor upgrade.

Further commentary on operations

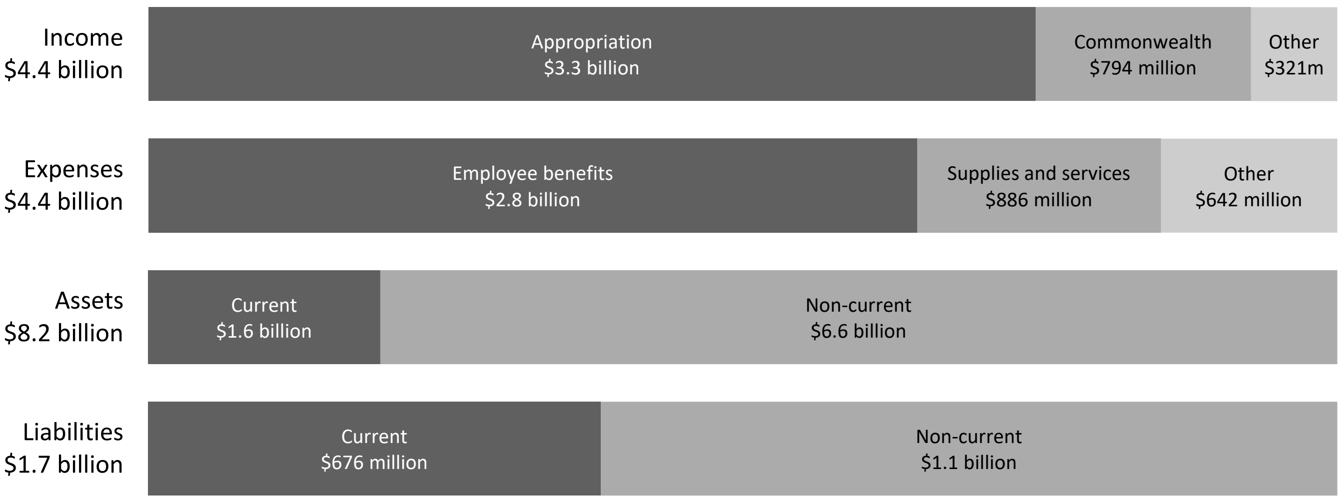
Total cost of services for the administration of justice through the courts system

The total service cost for the administration of justice through the courts system (CAA and Judicial Officer costs only) includes both the expenses and income in the controlled and administered financial reports.

For 2022-23 total expenses, excluding payments to the Consolidated Account, were $142 million ($141 million) and total income, excluding revenues from the SA Government, was $31 million ($29 million), with the SA Government providing $141 million ($142 million) towards the cost of the courts system.

Department for Education (Education)

Financial statistics

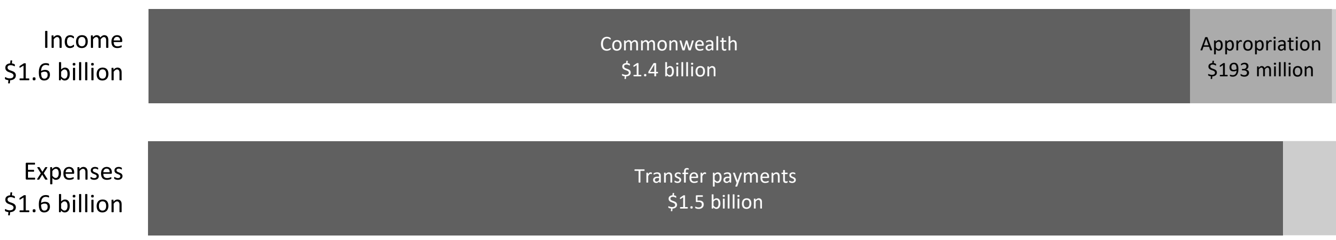


25,504
FTEs

171,489
FTE students in public schools in term 1, 2023

893
Public school and preschool sites

Administered items



Significant events and transactions

— A machinery of government change effective 1 July 2022 transferred Skills SA functions to Education from the former Department for Innovation and Skills. 115 FTEs and net assets of $98.5 million were transferred to Education.

— Education continued to roll out its new Education Management System.

— Land was revalued upwards by $429 million.

— Education received an equity contribution of $132 million and repaid equity of $80 million.

Financial report opinion

Unmodified

Controls opinion findings	— Procurement and contract management processes need to improve. — Asset management practices need strengthening. — Controls over facilities management arrangements need to improve. — There were opportunities to improve employee-related controls.
Other audit findings	Improvements required to the payroll system's information technology controls.

Functional responsibility

Education is an administrative unit established under the *Public Sector Act 2009* and responsible to the Minister for Education, Training and Skills.

Education's main functions

$2.5 billion	to operate public schools and preschools*	171,489 Student FTEs**	↓ 0.8%		
$1.5 billion	to support private schools	103,111 Student enrolments***	↑ 3.1%		
	employing	25,504 Staff FTEs		costing	$2.8 billion
	maintaining	893 Sites		worth	$6.3 billion

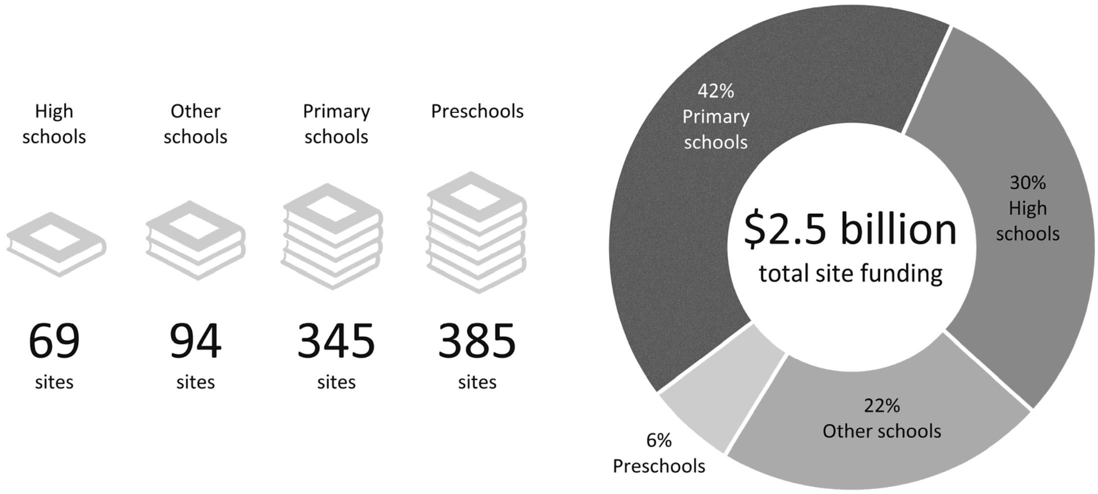
* Comprises an allocation of costs incurred by Education on behalf of schools and preschools (excludes salary and wage on-costs).
** Student FTEs as at February 2023 not including preschool student FTEs.
*** Student enrolments as at 5 August 2022 reported by the Australian Bureau of Statistics. 2023 numbers are not available.

Education funding arrangements

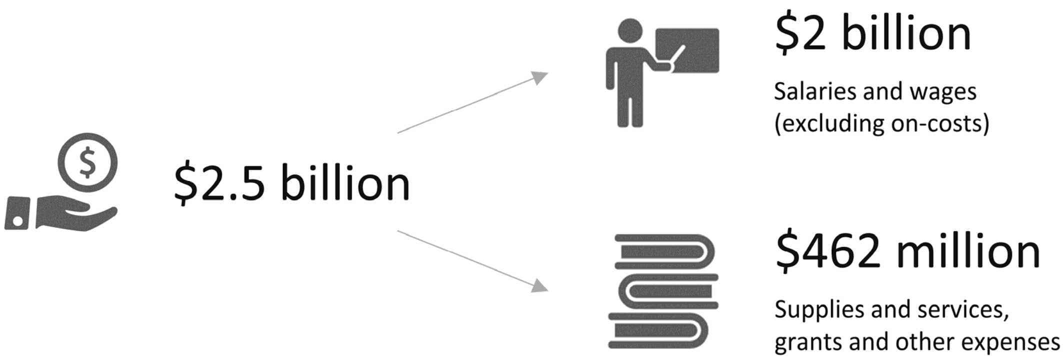
The National School Reform agreement between the Commonwealth and the States sets out the funding model for both public and private education. The State has also entered a bilateral agreement with the Commonwealth that sets out the State's specific actions to improve student outcomes and minimum state funding contribution requirements, as a condition of receiving Commonwealth school funding.

Government operational funding public schools and preschools

How are the public schools and preschools split?



Where is the public school and preschool funding spent?



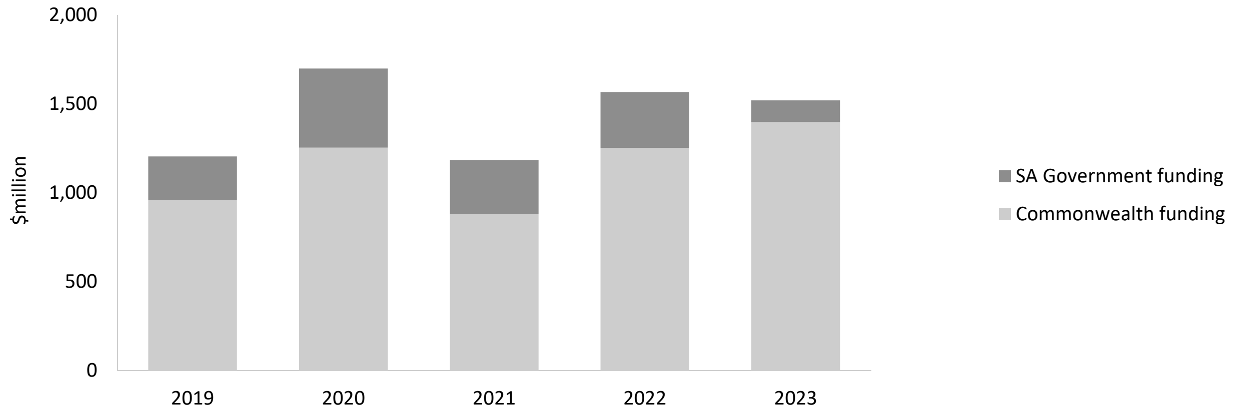
Salaries and wages make up 81% of public schools and preschools spending.

Operational payments to and on behalf of public schools and preschools are funded by SA Government appropriation and $794 million of Commonwealth Government grants.

Funding to support non-government schools

Education administers the State and Commonwealth Governments’ funding to non-government schools. The transfers (payments) are based on an enrolment census in term 3 and the needs of the school and its students. The funding entitlement of each non-government school is determined by the Commonwealth Government.

The following chart shows the composition of private school funding as reported in Education’s administered financial report.



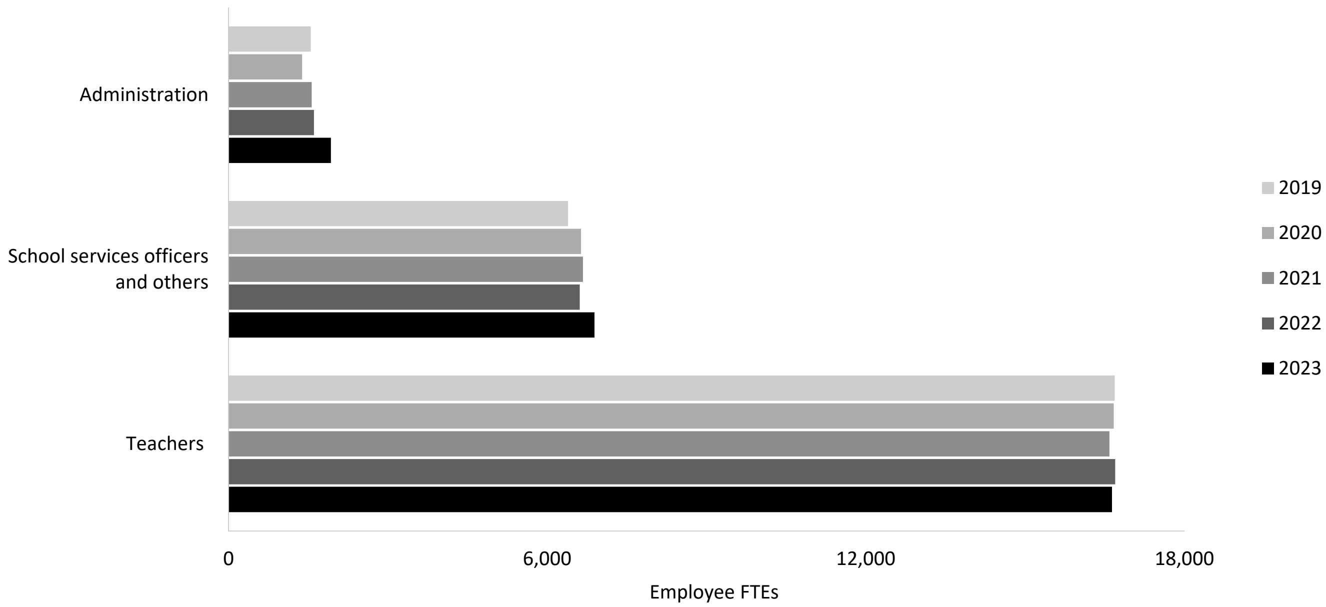
In 2023 private schools were funded by $121 million ($315 million) in SA Government appropriations and $1.39 billion ($1.25 billion) in Commonwealth Government grants. The lower SA Government funding in 2022-23 reflects the bringing forward of funding from 2022-23 into 2021-22 to assist non-government schools as part of the SA Government's COVID-19 response.

Similarly, funding for 2019-20 includes amounts brought forward from 2020-21 to help schools manage the impact of COVID-19.

Commonwealth and State funding to non-government schools has increased by 32% since 2019 at an average of 8% p.a.

Employees

Education's employee numbers are spread across the following employment categories.



In 2023 employee expenses were $2.8 billion and FTEs increased by 552 (2%) to 25,504.

Assets

Education owns $6.3 billion of property assets including $2.2 billion of land, $3.9 billion of buildings and improvements and $171 million of right-of-use building assets.

In 2023 Education continued its capital investment program, including construction works of $216 million. During the year $156 million of buildings and improvements were completed and transferred out of capital works in progress.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of attention in 2022-23 included:

- expenditure
- payroll
- procurement and contract management
- property, plant and equipment
- asset management
- grants
- general ledger
- governance.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures. We made use of internal audit work on government schools, which was performed by contractors appointed, managed and monitored by Education's internal audit.

Controls opinion

As part of our overall controls opinion, which is discussed in Part B of this report, we reviewed controls over:

- supplies and services (including procurement and contract management)
- minor works and maintenance expenditure
- employee benefit expenses and liabilities
- buildings and improvements
- bank accounts.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. The main findings and Education's responses are discussed below.

Controls opinion findings

Procurement and contract management processes need to improve

We reviewed Education's implementation of the South Australian Government Procurement Framework. This framework consists of Treasurer's Instruction 18 *Procurement* (TI 18) and supporting policies approved by the Treasurer and administered by Procurement Services SA (PSSA).

The framework requires public authorities to establish systems, processes and procedures to maximise compliance with the PSSA's Procurement Governance Policy, Procurement Planning Policy, Sourcing Policy and Contract Management Policy.

We reviewed Education's compliance with the framework by looking at elements of the following procurements:

- waste disposal services, resulting in a contract from February 2023 with a base contract term of five years and extension options of five years, with a total contract value of $49.4 million
- transport services for students with disability, resulting in panel deeds from January 2023 with 22 suppliers with a base term of three years and extension options of three years, with a total value of $46.3 million
- uniforms and accessories at a specific cohort of schools, resulting in a contract from July 2022 with a base contract term of three years with a total extension option of two years, with a total contract value of $3.4 million.

We also looked at elements of Education's management of the following contracts:

- the internet management services contract for all public schools, with an estimated contract value of $62.9 million. The December 2019 contract requires the supplier to deliver specified networking infrastructure and associated services to provide internet connectivity and management service to public schools
- the provision of uniform and accessories contract for a small cohort of schools, with an estimated value of $3.4 million.

Further, we considered Education's progress against our previously reported contract management concerns on its outside school hours care (OSHC) and transport services for students with disability panel deeds.

Our work identified the following more significant matters.

Approvals to extend tender open periods not evident

Tender open periods were extended for two of the procurements we reviewed. We found that Education could not provide evidence of the approval for these extensions.

PSSA's Sourcing Policy states that extensions to tender open periods can only occur where there is a late addendum or other exceptional circumstance that impacts the suppliers' ability to meet the initial closing time and that is outside of the suppliers' control. Education's procurement procedure requires all extensions to be approved by the Chief Procurement Officer.

Education responded that it would reinforce with its procurement staff the need to seek and retain documented approval of extensions to tender open periods.

Acquisition plan did not meet minimum requirements

We found that the acquisition plan for the uniforms and accessories procurement did not meet the minimum requirements of TI 18 and PSSA's Procurement Planning Policy because it did not adequately address:

- insurance requirements
- proposed performance measures
- departures from the PSSA policy.

Education responded that it would review its templates to meet the minimum requirements of the PSSA policy. It also told us that it is currently reviewing its uniform and accessories panel with the intention of creating a new panel arrangement.

Complexity assessments for procurements not followed

PSSA's Procurement Governance Policy requires public authorities to perform a complexity assessment before commencing a procurement process. Procurements assessed as complex or strategic require more detailed procurement processes.

Education could not provide a completed procurement complexity assessment for the uniforms and accessories procurement. We recommended that it ensure complexity assessments are performed for all future procurements as required by PSSA policy.

Education responded that it would remind its staff to complete procurement complexity assessments in line with its procurement framework.

Conflict of interest declarations not completed

Staff involved in procurement processes are required by PSSA's Sourcing Policy to complete conflict of interest declarations and confidentiality agreements prior to commencing tender evaluation. We found instances where these documents were not prepared by all participants in the procurement evaluation processes.

Formally declaring any interests is an important accountability for the members of a procurement team. Without it the integrity of the procurement process could be compromised.

We have previously reported similar concerns.

Education responded that it would reinforce with its procurement team the importance of ensuring that participating members always complete conflict of interest forms and confidentiality agreements.

Insurance limits lower than recommended

PSSA's Procurement Planning Policy requires a public authority's procurement planning documents to identify the type and minimum level of insurance coverage contractors must have, referring agencies to South Australian Government Financing Authority (SAFA) guidance on insurance coverage. We reviewed the planned insurance cover for our sample of procurements against the SAFA guidance, which suggests a public liability insurance limit of $50 million or higher if there is exposure involving children.

We found that the acquisition plans for the waste disposal services and transport services for students with disability procurements required contractors to have public liability insurance of $20 million. The plans did not document how the procurement team considered the SAFA guidance. We recommended that Education review the insurance cover on these contracts and ensure that future acquisition plans adequately document decisions about public liability insurance requirements.

Education responded that it will change its acquisition plan templates to include guidance on determining the appropriate level of public liability insurance. It also said that it would review the adequacy of the public liability insurance cover for the two contracts we identified.

Significant contracts not disclosed on SA Tenders and Contracts website

PSSA's Sourcing Policy requires public authorities to disclose contract information for significant contracts on the SA Tenders and Contracts website within 60 days of contract execution and in line with Premier and Cabinet Circular PC 027 *Disclosure of Government Contracts*. We found that these requirements were not met for the waste disposal services contract and transport services for students with disability panel deeds.

Education responded that it has now disclosed the waste disposal services contract and was seeking advice on the disclosure requirements for the transport services panel deeds.

Contract management improvements needed for internet management services contract

We found that Education had not established the following contract management processes for its internet management services contract:

- a contract management plan
- formal appointment of a contract manager
- evidence of contract and performance management
- annual contract reviews.

We also noted that Education had not held regular formal meetings with the supplier and had not received and monitored the performance reporting data required from them.

Education responded that it was developing a contract management plan and that an annual contract review process would start when the plan is approved. It also advised us that the supplier now provides monthly performance reports, and that key stakeholders from both parties are meeting monthly to discuss and address the supplier's performance.

Contract management improvements needed for uniforms and accessories contract

We found that Education had not documented the expected contract management processes for its uniforms and accessories contract, including that it had not:

- established a contract management plan
- documented the contract management roles and responsibilities of the school and Education
- performed a contract complexity assessment
- formally appointed a contract manager.

Education responded that it was reviewing the uniform and accessories contract with the intention to create a new panel arrangement. It advised us that it will review the contract management arrangements and responsibilities of the school and Education and document them in a contract management plan.

Contract management for the OSHC panel arrangement

OSHC services at public schools are delivered as either in-house services operated by school governing councils or external (third-party) services provided under a panel contract. Education uses a contract management plan for its OSHC third-party providers' panel.

— *OSHC contract management plan and performance management*

We noted that Education had worked to develop a revised OSHC contract management plan to address concerns we reported in 2022, however it was not finalised or implemented in 2022-23. Education advised us that an updated plan was approved on 30 June 2023.

— *Annual OSHC contract review not performed for 2022*

Last year we reported delays in preparing the annual contract review report required by the contract management plan. This report documents Education's annual assessment of contract management practices, overall OSHC provider performance and individual provider ratings.

This year we found that Education had not prepared the 2022 annual contract review report that was due in February 2023. These reports are important for demonstrating Education's engagement with, and assessment of, OSHC provider performance.

Education responded that its updated contract management plan had changed the due date for the reports to August each year, to provide enough time for data to be collected from providers, schools and families to inform the reports.

This change means that Education will not complete its annual formal contract performance review until eight months after the end of the preceding school year.

Complexity assessments for existing contracts not performed

We noted that Education had not performed the contract complexity assessments for existing contracts required by PSSA's Contract Management Policy. We recommended that Education ensures it completes complexity assessments for all existing contracts and introduces the additional contract management processes required by PSSA's Contract Management Policy.

Education advised us that it will review its active contracts and remind contract managers of their obligation to ensure all active contracts comply with PSSA policy.

Asset management practices need strengthening

Education owns $3.9 billion of buildings and improvements, across 898 sites. Sound asset management strategies, plans and information are important to ensure these assets are properly managed and maintained, and that future capital works are based on need and sound reasoning.

We have previously reported that Education had not finalised and implemented important elements of its asset management governance arrangements.

We followed up Education's progress in 2023 and noted the following.

Education had not finalised its 20-year infrastructure plan

We have previously reported concerns that Education's infrastructure planning documents do not capture and document how it intends to address school capacity needs through capital upgrades or new infrastructure. We found that its 20-year infrastructure plan remains in draft.

Education advised us that it was reviewing its draft 20-year infrastructure plan to consider:

- implications arising from the Royal Commission Report into Early Childhood Education and Care
- the role of education infrastructure to support capacity and enrolment pressures
- the sustainability of Education's existing asset base.

Education indicated that it would continue to engage with Infrastructure SA and Plan SA on its approach, including understanding updates to population projections and key locations for growth. It also advised us that it was developing a model to support planning for future asset investment and asset management including asset condition, future enrolment growth assumptions, and implications of strategic and economic directions for the SA Government.

Strategic asset management framework

In May 2023 the Chief Executive approved Education's strategic asset management framework, which includes an asset management policy and asset management strategy.

This important overarching framework is designed to guide Education's infrastructure strategy, infrastructure plan and any capital project submissions to Infrastructure SA. While Education is progressively implementing the framework, some elements are reliant on an approved 20-year infrastructure plan.

Education responded that it had finalised key elements of its framework, being the asset management policy and strategy, but acknowledged some other elements are reliant on the finalisation of its 20-year infrastructure plan.

Gaps in asset information

We have previously reported concerns about Education's asset information strategy, standards and asset condition assessments. Responding to these concerns in September 2022 Education indicated that, together with its facilities management service provider (FMSP) under the Across Government Facilities Management Arrangements (AGFMA), it would develop an asset information strategy supported by a suite of documents to reflect its needs and requirements.

Our follow-up of these matters found that the following gaps in asset information had not been addressed:

- Education had not developed an asset information strategy or asset information standards and guidelines. These would help ensure that asset information is accurate, complete and maintained to a standard that allows for sound asset maintenance and capital works decisions by management.

- Education had not identified specific performance measures or service levels for its assets. As a result, it could not determine the appropriate level of activities, resources, responsibilities and time frames for achieving its asset management objectives. This may also impact Education's ability to effectively prioritise asset maintenance and renewal, and can lead to deterioration of its assets.
- Education, through its facilities management service provider, had not completed its data verification and condition assessment processes for school buildings and facilities. As a result, Education is unclear on the condition of these assets, meaning that the probability and consequence of asset failure cannot be defined. This impacts Education's ability to appropriately plan and prioritise asset maintenance and renewal.

Education advised us that its FMSP was delayed in completing several asset management and asset information tasks, impacting its ability to produce a complete set of asset data, with accurate condition ratings and lifecycle forecasting. Education indicated that it would continue to work on developing a performance management plan to manage the arrangements by 30 June 2024. It also said that it had initiated formal monthly meetings to monitor the FMSP's overall performance.

Controls over facilities management arrangements need to improve

We reviewed Education's management of its asset repairs and maintenance, including its management of arrangements under the AGFMA. The AGFMA is a Cabinet-mandated framework for the provision of facilities services to SA Government funded agencies across the public sector, including Education. It is mainly for:

- planned services (preventative maintenance, replacement, refurbishment and minor works) delivered through annual service delivery plans
- unplanned services (breakdown maintenance, replacement and refurbishment).

An FMSP operates under the AGFMA. Our review focused on controls established by Education to ensure it managed the FMSP's performance against its service delivery plans and that Education met its responsibilities and obligations under the AGFMA.

No approved plan for preventative maintenance services

Education did not approve the 2022-23 annual service delivery plan (ASDP) outlining its agreed planned preventative maintenance services with its FMSP.

Education's review and approval of the ASDP is important to ensure:

- all applicable assets are captured on the plan
- mandated planned maintenance services are completely and accurately captured
- the timing and extent of services meet the minimum mandatory technical and legislative requirements
- services are consistent with Education's strategic asset management policy and priorities.

Education responded that it had worked with its FMSP to review and finalise site and asset information for the 2022-23 ASDP, but inconsistencies in the data impeded its ability to endorse and finalise the plan. Education advised us of its intention to approve the ASDP by 31 May each year. It said that it would continue to work with its FMSP to ensure future iterations of the ASDP are aimed at maximising the useful life of its assets and minimise whole-of-life operating costs.

No planned performance processes

Education did not have a performance management plan for its AGFMA arrangements. We reported this matter in 2022. The absence of a documented performance management plan may prevent Education from identifying and resolving problems with its facilities management and maintenance, which may impact the longevity, usability and safe use of its assets, including those at school sites.

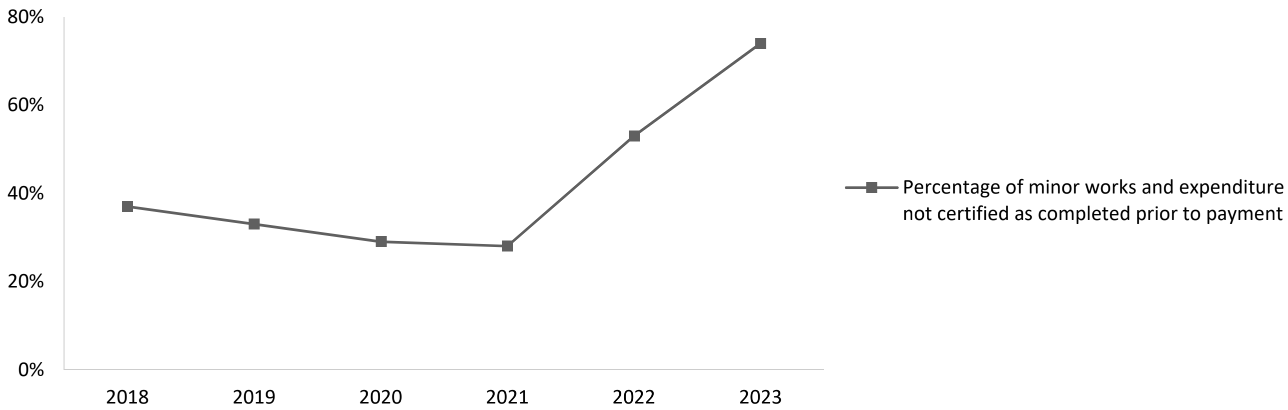
Education indicated that it would continue to work on developing a performance management plan to manage the AGFMA arrangements by 30 June 2024.

Approval of jobs for payments

We found that Education did not ensure that all minor works, maintenance and repair jobs performed under the AGFMA were completed by the FMSP before paying for them. We have reported similar concerns for many years.

Any job type logged in FMSP's system for less than $5,000 is automatically approved for payment within 10 business days of completing the services. This occurs regardless of whether it has been certified by site staff as completed and at the required standard.

Our review for the period from July 2022 to March 2023 found that 74% of jobs were paid without an authorised officer at the site confirming the job was completed as expected. It is important that Education ensures that jobs are only paid after they are complete. The following chart shows that payments for jobs not certified as completed have significantly increased under the new AGFMA arrangements.



Education advised us that it did not receive auto-approval data or statistics. It said that it would continue to work with its FMSP to produce system-generated monthly reminders to sites with high numbers of auto-approvals. Education also indicated that it had developed and published information on approving invoices and had recommended that its delegates approve invoices weekly in line with their financial responsibilities.

Unresolved system and performance issues

At the time of our audit, Education had raised 151 unresolved system and performance issues with its FMSP. We noted that Education had not allocated a risk or priority to these issues, did not regularly review the status of them and was not adequately monitoring how they were actioned.

Education indicated that it was implementing a new tracking system to more formally record issues and allow them to be regularly reviewed at meetings with its FMSP. It indicated that while it had monitored FMSP system issues since the beginning of the AGFMA contract, progress to resolution was slow and requires continual monitoring and re-raising. Education also raised concerns about its FMSP's corrective action processes.

Management of system access

Consistent with matters we reported in 2022, we found that:

- employees without delegated authority had access to the FMSP's system to create breakdown or reactive maintenance work orders
- Education had not formally considered the risks associated with access controls
- Education had not developed a policy or framework governing system access.

Education responded that work was continuing to align system access rights to approval delegations and that new requirements will be published on its intranet.

Opportunities to improve employee-related controls

Employee benefits expenses were $2.8 billion in 2022-23 for 25,504 FTEs, representing 65% of total expenses. We reviewed Education's controls to ensure payments were only made to valid employees and for time worked. We also considered its workforce planning, staff appointment processes and employee performance management.

Workforce planning being developed

Education has been delayed in introducing the following elements of its workforce strategy:

- documented workforce plans for its classroom and student support, and corporate and administrative support employee cohorts
- implementing monitoring and reporting of existing initiatives.

Education provided us with an update on its workforce planning processes, indicating that workforce plans for its classroom and student support were planned for implementation in early 2024, after a pause due to the pressure that sites were experiencing in managing COVID-19.

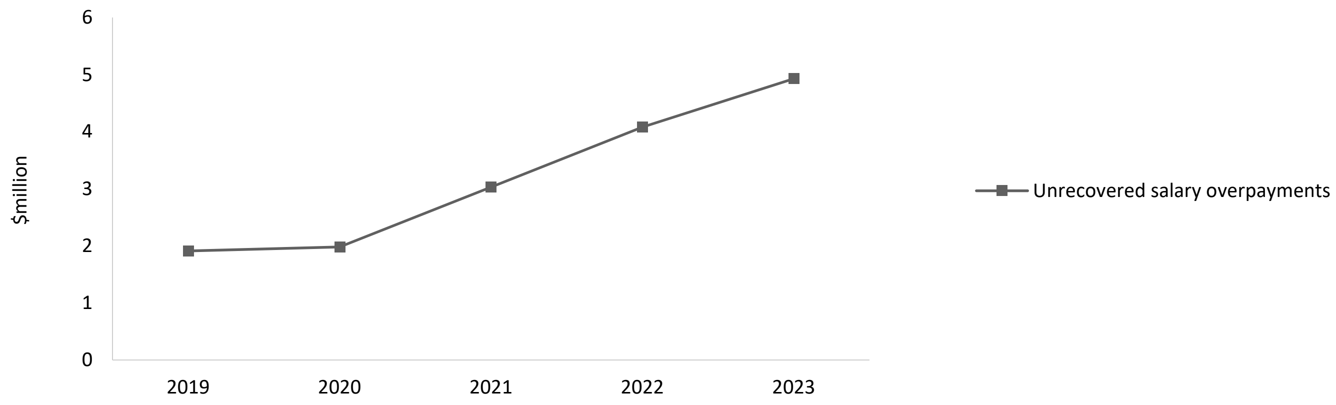
Missing employee contracts

Education was not able to provide signed contracts for 41% of a sample of new appointments we tested. Of the contracts it did provide, we found that 46% were signed after the employee commenced, with an average delay of 40 days and longest delay of 171 days. A signed employment contract outlines the terms and conditions applicable to the employee's engagement with Education. This provides clarity of the rights and obligations of both the employer and employee.

Education responded that it would develop a procedure to support hiring managers with their roles and responsibilities for establishing employment contracts.

Increase in unrecovered salary overpayments

The following chart shows a significant increase in the total value of unrecovered salary overpayments over the last three years.



Of the $4.9 million in unrecovered salary overpayments as at 30 June 2023, Education has impaired $1.6 million as unlikely to be collected (see note 10.2 of its financial report).

Salary overpayments were mainly caused by delays updating the payroll system for leave without pay, reduction in time worked and separations. Paying employees who are on leave without pay was the main factor and contributed $2 million (41%) of the unrecovered overpayments as at June 2023. We recommended that Education develop a strategic approach to identifying and addressing the root causes leading to overpayments.

Education responded with its actions to address our findings, including that it will:

- undertake further analysis to understand the extent of the issues and identify a strategic approach to targeting areas of concern
- improve its debt recovery processes by contacting employees within 15 days to negotiate debt repayments
- consider mandating a system that enables sites to better manage absences.

It also indicated that it had reviewed its employee separation form to streamline the workflow to payroll processing, reducing the risk of processing delays.

21% of employee performance development plans were overdue

In recent years we have reported that many of Education’s employee performance development plans were not reviewed as required by Commissioner for Public Sector Employment guidelines and Education policy. Our 2023 review found that 21% of Education’s employee performance development plans were overdue.

Education provided us with an update on its strategies to reduce the number of overdue performance development plans.

Other audit findings

Improvements required to the payroll system’s information technology controls

Valeo is Education’s major payroll system and is used to pay $2.8 billion to more than 32,000 employees. It is the largest IT system managed by Education.

We reviewed the IT controls operating within Valeo and identified some areas of weakness where controls could be improved, including:

- patch management
- disaster recovery and backup restoration testing
- user access reviews
- privileged user access
- audit logging
- change management.

These control weaknesses may increase the opportunity for inappropriate access and unauthorised changes to the Valeo application and its data.

Education responded positively to our findings and agreed to take appropriate remedial action, which they expected to complete by June 2023.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated*

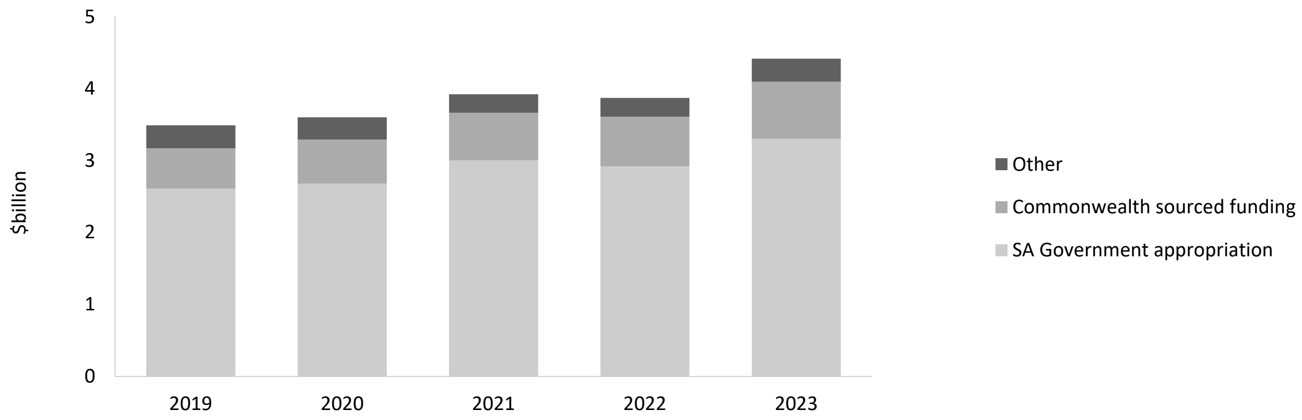
	2023 $million	2022 $million
Income		
Appropriation	3,300	2,917
Commonwealth sourced funding	794	691
Other	321	261
Total income	4,415	3,869
Expenses		
Employee benefits	2,830	2,629
Supplies and services	886	865
Other	642	356
Total expenses	4,358	3,850
Net result	57	19
Other comprehensive income		
Changes in revaluation surplus	428	175
Total comprehensive result	484	194
Net cash provided by (used in) operating activities	396	142
Net cash provided by (used in) investing activities	(203)	(382)
Net cash provided by (used in) financing activities	123	253
Assets		
Current assets	1,581	1,255
Non-current assets	6,616	6,116
Total assets	8,197	7,371
Liabilities		
Current liabilities	676	470
Non-current liabilities	1,063	1,078
Total liabilities	1,740	1,548
Total equity	6,457	5,823

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income increased by $546 million (14%) to $4.4 billion. The main income items for the five years to 2023 are shown in the following chart.



Revenues from the SA Government

Education is predominantly funded by appropriation, which accounts for 75% of its total income.

Appropriation from the SA Government was $3.3 billion in 2023, an increase of $383 million (13%) from 2022. Contributing to the increase was a $334 million appropriation for Skills SA functions transferred to Education from 1 July 2022.

Education also received $132 million ($264 million) from the SA Government as an equity contribution provided under the *Appropriation Act 2021*.

Commonwealth sourced grants and funding

Commonwealth sourced grants and funding increased by $103 million (15%) to $794 million and principally comprised:

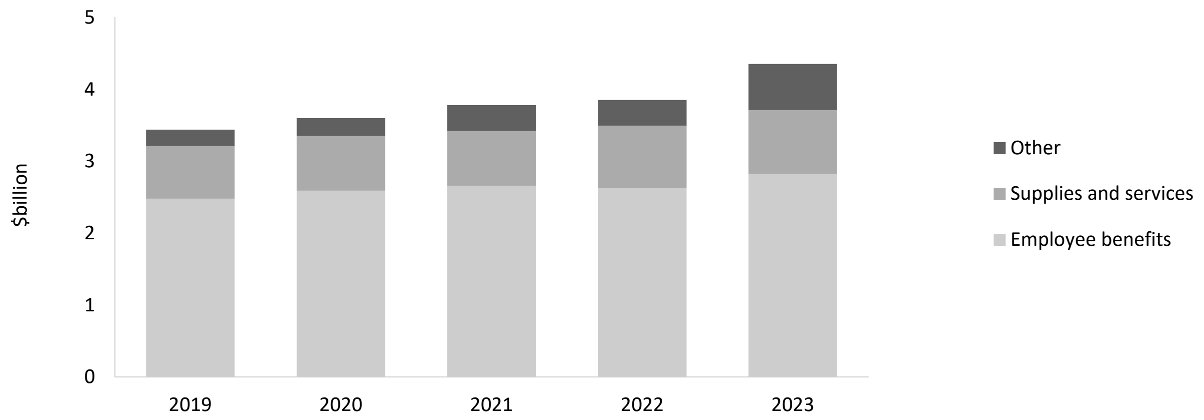
- National Schools Reform Agreement funding, which increased by $54 million to $701 million. This is a joint agreement between the Commonwealth, States and Territories to lift student outcomes across Australian schools
- an additional $39 million in Commonwealth funding programs for Skills SA functions transferred to Education from 1 July 2022
- an additional $10 million in one-off funding for the Student Engagement Project
- Preschool Reform Agreement funding, which decreased by $3 million to $29 million.

Sale of goods and services

The sale of goods and services increased by $24 million to $164 million. The largest component is student-related fees and charges of $120 million, which increased by $20 million in 2023 impacted by higher materials and services charges and a rise in fees for excursions and camps as COVID-19 restrictions eased.

Expenses

The main expense items for Education for the five years to 2023 are shown in the following chart.



Total expenses increased by $508 million (13%) to $4.4 billion in 2023.

Employee benefits expenses

Employee benefits expenses increased by $202 million to $2.8 billion and make up 65% of total expenses. The increase was due largely to:

- an increase of $143 million (6%) in salaries and wages (including annual leave and superannuation), due mainly to a 2% rise in FTEs (including the transfer in of Skills SA employees), enterprise bargaining salary rate inflation and an increase in the superannuation guarantee rate to 10.5%
- a $60 million increase in long service leave expense that partly reflects the impact of actuarial assumptions in 2022 and 2023, including discounting expected future long service leave payments and predicted salary growth rates (see note 3.4 of Education's financial report)
- a $16 million decrease in targeted voluntary separation packages, which for 2022 included payments to 212 employees who accepted an offer under the SA Public Sector Workforce Rejuvenation Scheme.

Supplies and services

Supplies and services increased by $21 million (2%) to $886 million, with the movement comprising:

- a $17 million increase in ICT expenses to $89 million, including increased software-as-a-service costs
- a $9 million increase in the cost of excursions and camps as COVID-19 restrictions eased
- a $5 million increase in contractor and other outsourced services to $66 million
- a $5 million increase in public private partnership service fees to $14 million
- a $20 million decrease in minor works, maintenance and equipment expense to $212 million. The higher costs in 2022 mainly related to minor works, furniture and equipment associated with the investment program and Education's transition of Year 7 to high school in 2022
- a $9 million decrease in cleaning expenses to $53 million, mainly reflecting the easing of COVID-19 cleaning requirements.

Grants and subsidies

Grants and subsidies increased by $363 million to $418 million, due mainly to $332 million in grant payments associated with the Skills SA functions transferring to Education from 1 July 2022.

Statement of Financial Position

Current assets

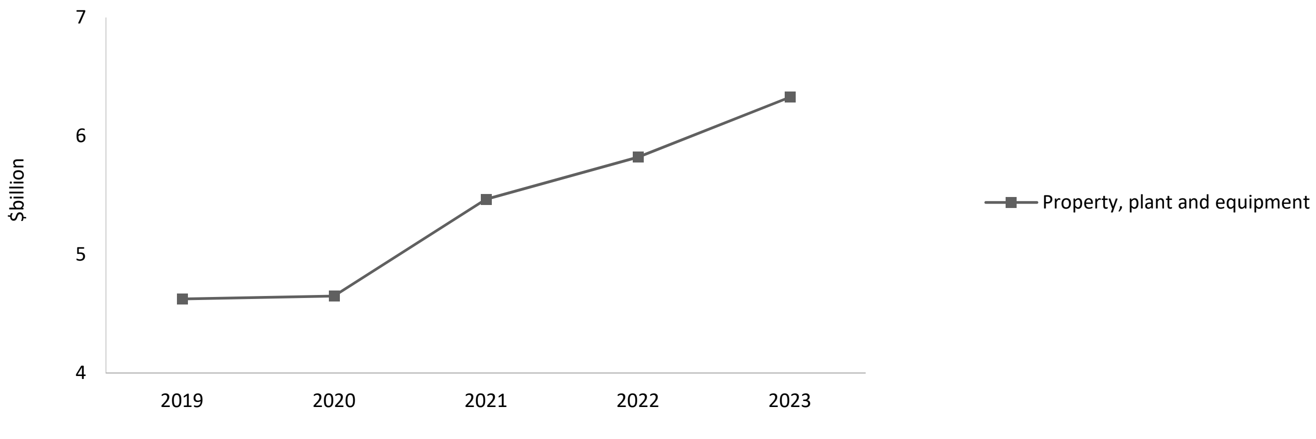
Cash and cash equivalents increased by $315 million (27%) to $1.5 billion and make up 95% of Education's total current assets of $1.6 billion.

Non-current assets

Property, plant and equipment increased by $506 million to $6.3 billion. Contributing to the increase were:

- a $427 million increase in the value of land and buildings due to revaluations
- $215 million of capital works in progress
- $8 million of Skills SA property assets transferred to Education
- $3 million of assets recognised for the first time
- all partially offset by depreciation of $163 million.

The following chart shows that Education's property, plant and equipment has grown significantly in the last three years. Growth in 2021 and 2022 was mainly due to the significant Sustainable Enrolment Growth and new schools capital works programs.



The rate of major capital works decreased in 2023, with the most significant projects being the new Morialta Secondary College, additional accommodation for the Adelaide Botanic High School and the Findon technical college. The growth in 2023 reflects asset revaluations and these continuing capital works.

Liabilities

Education's total liabilities were $1.7 billion at 30 June 2023 and mainly comprise:

- $802 million ($787 million) in employee benefits and related on-cost liabilities, making up 46% (51%) of total liabilities

- $388 million ($393 million) in financial liabilities relating to obligations under leases, mainly for facilities provided under public private partnership (PPP) agreements, and making up 22% (25%) of total liabilities
- $123 million ($118 million) in the provision for workers compensation, which accounts for 7% (8%) of total liabilities
- $135 million ($137 million) in other liabilities. These include a $118 million ($119 million) equipment service rights liability for the provision, maintenance and replacement of equipment under Education's PPP arrangements
- $263 million ($89 million) in creditors and accrued expenses. Payables at 30 June 2023 include $142.5 million payable to the Consolidated Account in 2023-24 (see note 7.1 of Education's financial report).

Administered items

Education administers certain funds on behalf of the Minister for Education, Training and Skills. Funds are received from the Commonwealth and SA Governments and used mainly to pay:

- $1.5 billion ($1.6 billion) in transfers and grants to private schools
- $15 million ($16 million) in Commonwealth child care subsidies for family day care
- $17 million ($17 million) for an operating grant to the SACE Board of South Australia
- $18 million ($15 million) for student travel concessions on transport services to the Department for Infrastructure and Transport.

The decrease in transfers and grants to non-government schools for 2023 reflects funding that was brought forward from July 2022 and paid to schools in June 2022 to help them manage the impact of the COVID-19 pandemic.

Further commentary on operations

Skills SA – machinery of government change

A machinery of government change effective 1 July 2022 transferred the Skills SA functions to Education from the former Department for Innovation and Skills. As of 1 July 2022 net assets of $98.5 million were transferred to Education, including $94 million in cash. For more detail see note 1.3 of Education's financial report.

Public private partnerships

Education has two PPP agreements for the financing, design, construction and maintenance of eight schools in the Adelaide metropolitan area. These PPPs are long-term arrangements that extend to 2040 (Educations Works New Schools PPP) and 2049 (SA Schools PPP).

Over the period of the agreements, Education pays the operators financing costs and payments for the ongoing operation and maintenance of the facilities.

Major PPP assets, liabilities and expenses included in Education's financial report are:

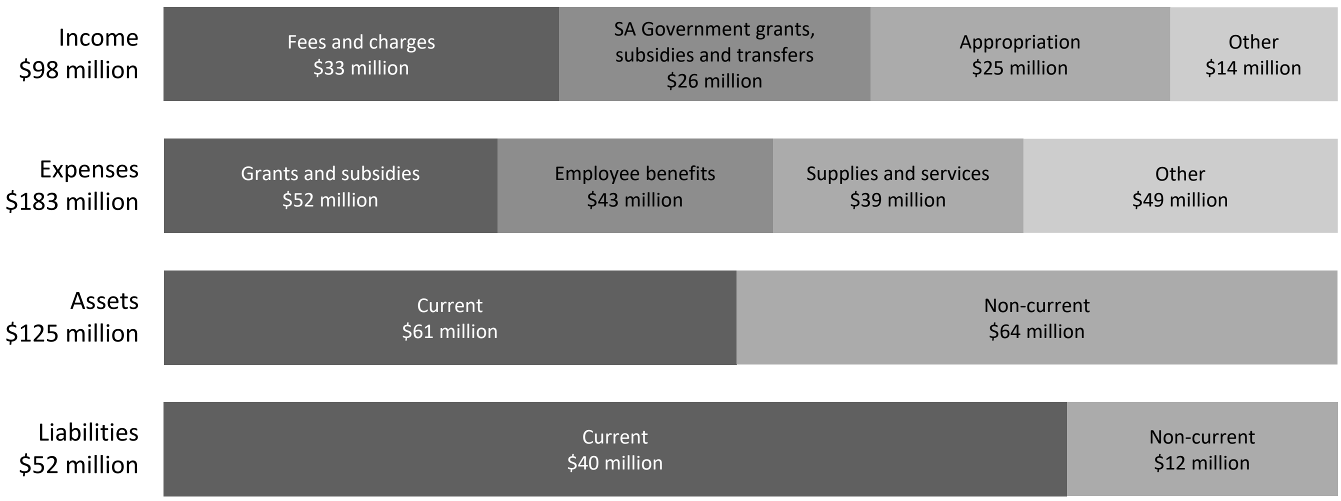
- $206 million in building and improvement assets

- $165 million in right-of-use building assets
- $110 million in equipment service right intangible assets
- $374 million in financial liabilities
- $118 million in equipment service right liabilities
- $24 million in payables
- $14 million in service fees
- $8 million in depreciation and amortisation expenses
- $34 million in borrowing costs.

Unrecognised future operational and maintenance contractual commitments of the PPPs are $299 million.

Department for Energy and Mining (DEM)

Financial statistics



325
FTEs

Administered items

Significant events and transactions

— DEM transferred $44 million to the Consolidated Account relating to surplus cash in line with the Department of Treasury and Finance's (DTF's) cash alignment policy.

— DEM transferred funding of $12 million to the Office of Hydrogen Power SA (OHPSA), an office attached to DEM.

— DEM collected administered royalty revenue of $379 million and paid it to the Consolidated Account.

Financial report opinion

Unmodified

Functional responsibility

DEM is an administrative unit established under the *Public Sector Act 2009*.

DEM's main functions include responsibility for the aim to deliver affordable, reliable and secure energy supplies and regulation of the mining and energy sectors.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of attention in 2022-23 included:

- expenditure, including grants and accounts payable
- revenue from fees and charges
- employee benefits and payroll processing
- administered royalty revenue
- property, plant and equipment
- cash management, including bank reconciliations
- general ledger.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Income		
Appropriation	25	53
SA Government grants, subsidies and transfers	26	55
Fees and charges	33	30
Sales of goods and services	5	5
Other income	9	9
Total income	98	152
Expenses		
Grants and subsidies	52	34
Supplies and services	39	37
Employee benefits	43	42
Cash alignment transfers to Consolidated Account	44	25
Other expenses	5	5
Total expenses	183	143
Net result	(85)	9

	2023 $million	2022 $million
Net cash provided by (used in) operating activities	(69)	56
Assets		
Current assets	61	142
Non-current assets	64	73
Total assets	125	215
Liabilities		
Current liabilities	40	45
Non-current liabilities	12	12
Total liabilities	52	57
Total equity	74	159

Note: Table may not add due to rounding.

Statement of Comprehensive Income

Income

In 2022-23 DEM was predominantly funded by SA Government grants, subsidies, transfers and appropriations, receiving $26 million ($55 million) and $25 million ($53 million), respectively. Collectively this made up 52% (71%) of DEM's total income.

Appropriations decreased by $29 million (54%) in 2022-23. DTF approved DEM using its surplus cash of $27 million in 2022-23 in lieu of providing further appropriation funding.

Revenue from SA Government grants, subsidies and transfers decreased by $29 million (53%). There were two main reasons for the reduction:

- funding previously provided through this method from the Jobs and Economic Growth Fund, $21 million in 2021-22, being received as part of overall appropriation in 2022-23
- a reduction in funding received from the Green Industry Fund, with $10 million received in 2022-23 compared to $21 million in 2021-22. This reduction reflects the Home Battery Scheme winding down.

DEM also received $33 million ($30 million) in fees and charges revenue, making up 34% of its total income. The main source of fees and charges income, accounting for $31 million ($29 million), is fees associated with mining and petroleum licences. The increase in 2022-23 is mainly associated with increased industry activity.

Expenses

Expenses increased by $40 million to $183 million.

The main reasons for the increase were as follows:

- DEM made an additional cash alignment policy payment to the Consolidated Account in 2022-23, with $44 million ($25 million) in surplus cash returned.

- Grants and subsidies expense increased by $18 million to $52 million ($34 million) mainly due to additional funding provided to OHPSA – $12 million in 2022-23 compared to $113,000 in 2021-22. An additional $6 million for Jobs and Economic Growth Fund Projects was also provided in 2022-23.
- Employee benefits expenses increased by $1 million to $43 million in 2022-23, with the increase including $1.5 million in costs associated with 15 voluntary separation payments.

Grants and subsidies

DEM manages a number of grant processes and other schemes designed to meet its objective of delivering affordable, reliable and secure energy supplies. The expenses for these schemes are mainly reported under grants and subsidies, with some amounts recorded in supplies and services.

Office of Hydrogen Power SA

OHPSA was established as an attached office of DEM in May 2022 by the *Public Sector (Establishment of Attached Office) Proclamation 2022.* OHPSA oversees the Hydrogen Jobs Plan to deliver significant hydrogen infrastructure near Whyalla by the end of 2025 and facilitate the Port Bonython Hydrogen Hub development to accelerate the growth of a hydrogen industry in South Australia.

As an attached office, DEM provided operational funding to OHPSA in the form of intra-government transfers totalling $12 million in 2022-23.

Jobs and Economic Growth Fund projects

The Jobs and Economic Growth Fund projects mainly relate to the statewide electric vehicle charging network and the Accelerated Discovery Initiative.

The SA Government awarded a grant of $12.4 million to the RAA to construct and operate an electric vehicle charging network. The grant is designed to support the transition to electric vehicles and secure private investment for the network.

Construction commenced in late 2022, with completion of the charging network expected to be finalised in early 2024. Total grant payments in 2022-23 were $5.4 million.

The Accelerated Discovery Initiative commenced in June 2019. It aims to boost South Australia's resources industry by supporting exploration activities for the potential discovery of new mineral and groundwater resources. A total of $10 million over three years was available for approved co-funded exploration activities.

Applicants applied for funding in three rounds:

- successful applicants for round one were announced in June 2020, with 14 proposals endorsed for co-funding of $3 million
- due to the high level of interest in round one, funding for round two increased and a total of $4.5 million was awarded to 22 companies in May 2021
- $3.36 million in co-funding was allocated to 17 project proposals for round three in June 2022.

Total grant payments in 2022-23 were $3.4 million ($3.8 million).

Remote Area Energy Supply Scheme

The Remote Area Energy Supply Scheme aims to provide a safe, reliable and cost-effective electricity supply to homes and businesses in remote South Australian towns. The scheme provides electricity to around 3,400 customers across 25 remote townships and Aboriginal communities. Total payments in 2022-23 were $7.4 million ($4.5 million).

Home Battery Scheme

The Home Battery Scheme commenced in October 2018 with the aim of providing 40,000 South Australian households with $100 million in SA Government subsidies, funded from the Green Industry Fund. Under the scheme, households can access the subsidies to put towards the cost of the battery component of solar and battery installations.

An additional $19 million in funding was approved by the SA Government in October 2020.

The subsidy was implemented in steps and since the introduction of the Home Battery Scheme:

- there were 1,302 installations with associated expenditure of $7 million in 2018-19
- following the transition to the step two subsidy there was a significant increase in subsidy applications, with 6,585 installations and expenditure of $38 million in 2019-20
- in 2020-21 there was a slight decrease in activity, with 6,108 installations and expenditure of $25 million
- in 2021-22 there was a continued decrease in activity reflecting reducing subsidy amounts, with 4,721 installations and expenditure of $10 million.

In 2021-22, the SA Government announced that the Home Battery Scheme would be phased out and the budget was reduced by $19 million. All subsidies have since been allocated and applications have closed.

In 2022-23, there were 2,407 installations and decreased expenditure of $5 million. As at 30 June 2023, there were 240 installations committed that were pending installation.

Renewable Technology Fund

The Renewable Technology Fund provides grants to private sector entities to support the integration of renewable and demand management technologies in South Australia.

Grant expenditure in 2022-23 was $517,000 ($1.3 million), consisting of grants to recipients to support renewable resources in the energy market.

There are commitments for future projects totalling $22 million, including $19 million for a grid-connected battery facility.

Virtual power plant

The SA Government is working with Tesla through the Renewable Technology Fund to develop a network of up to 50,000 home solar photovoltaic and battery systems across South Australia, working together to form a virtual power plant.

The aims of the virtual power plant are to:

- lower energy prices
- increase grid stability
- provide protection during a grid outage
- increase customers' visibility of their energy use
- support South Australia's transition to a renewables-based economy.

The virtual power plant commenced with two trial phases, involving 1,100 South Australian Housing Trust properties receiving a home energy system comprising a solar photovoltaic system, battery and smart meter.

Phase 1 involved the installation of 100 home energy systems in South Australian Housing Trust properties. The Renewable Technology Fund provided $2 million of funding in 2017-18 to complete Phase 1. In Phase 2 another 1,000 home energy systems were installed.

DEM provided a loan in 2018-19 to support the virtual power plant, with an initial drawdown of $11 million. It provided a further $9 million in 2019-20 for a total of $20 million towards the project.

In 2020-21 DEM executed an amendment to the loan contract that meant it became a concessional loan, resulting in a $2.2 million concessional lending discount that was amortised over the life of the loan.

Phase 3 commenced in 2020 and continued into 2023. 3,000 systems were installed and as at 30 June 2023 there were 4,100 homes in the virtual power plant.

In 2022-23, a deed of termination and release was executed and the concessional loan balance of $17.2 million was repaid to DEM.

Phase 4 of the virtual power plant commences in July 2023 and is expected to continue to January 2025. This will expand the virtual power plant to a further 3,000 systems, bringing the total number of homes involved to 7,100.

Grid Scale Storage Fund

The Grid Scale Storage Fund aims to accelerate the roll-out of grid-scale energy storage infrastructure and help address the intermittency of South Australia's electricity supplies. The fund is intended to provide up to $50 million in grants.

Grant applications closed in February 2019 and two grant deeds have been executed:

- the Hornsdale Power Reserve Expansion, with a commitment for $15 million to be paid over five years. Grant payments commenced in 2020-21 and a total of $6.5 million has been paid to date
- the Virtual Power Plant Expansion, with a commitment for $10 million to be paid over five years. Grant payments commenced in 2020-21 and a total of $5.3 million has been paid to date.

As part of the 2022-23 State Budget, the SA Government announced that the Grid Scale Storage Fund would be discontinued from 2025-26 and the budget was reduced by $20 million. DEM will continue to fund the existing commitments outlined above.

Supplies and services

Supplies and services increased by $2 million in 2022-23 to $39 million.

Emergency generation and storage expenses, which make up $4 million (10%) of supplies and services expenses, decreased by $1 million in 2022-23. These payments are associated with the Hornsdale Power Reserve.

A previous energy policy included the establishment of the world's then largest lithium ion battery, the Hornsdale Power Reserve. It is installed in South Australia under an agreement between French renewable energy company Neoen, US sustainable energy company Tesla and the SA Government.

The stated aim of the Hornsdale Power Reserve is to provide a battery storage facility to stabilise the South Australian electricity grid, facilitate integration of renewable energy in the State and help to prevent load-shedding events.

The Hornsdale Power Reserve was expanded by 50% from 100MW to 150MW in March 2020. In 2022-23 DEM provided $4 million towards the operation of the Reserve.

Statement of Financial Position

The most significant items in DEM's Statement of Financial Position are shown in the following table.

	2023 $million	2022 $million
Assets		
Cash	56	133
Property, plant and equipment	56	55
Receivables	5	21
Liabilities		
Payables	10	8
Employee benefits	12	13
Security deposits	24	28

Cash represents 45% (62%) of DEM's total assets and decreased by $77 million to $56 million as at 30 June 2023. The decrease is mainly due to the $44 million in surplus cash returned to the Consolidated Account and, following approval from DTF, the use of $27 million in surplus cash in lieu of appropriation income to fund DEM's operations.

Property, plant and equipment, which represents 45% (26%) of total assets, increased by $1 million to $56 million as at 30 June 2023. The main element of the increase was the $2 million in capital works in progress associated with the Renewable Integration Central Power House project and the Remote Area Energy Supply Scheme generator replacement program. There were also $1.5 million of acquisitions relating to Scheme distribution infrastructure replacements and upgrades, offset by depreciation expenses of $2 million.

Total receivables decreased by $16 million to $5 million as at 30 June 2023. The decrease mainly relates to the repayment to DEM of the concessional loan associated with the virtual power plant. At the time of repayment in 2022-23, the loan had a balance of $17.2 million.

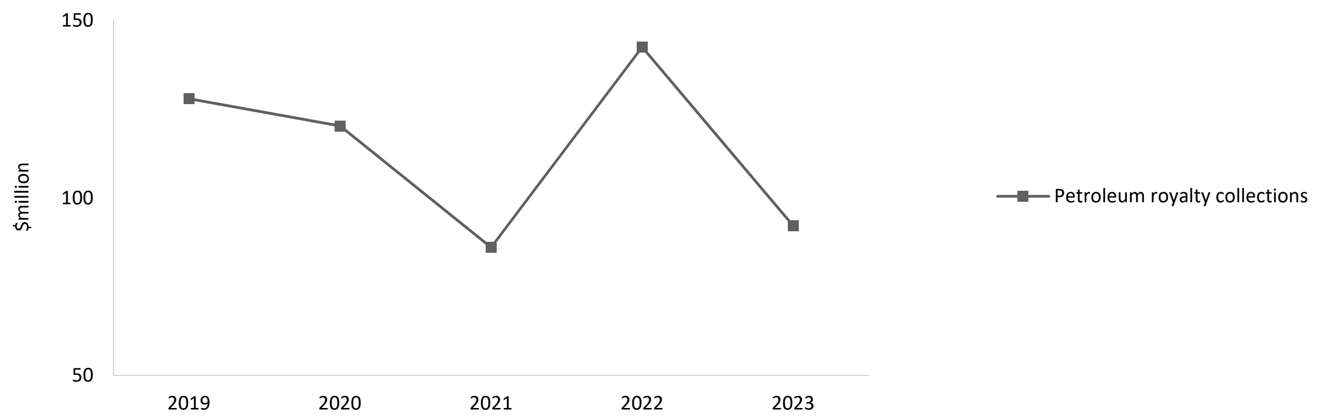
Payables mainly relate to creditors and accrued expenses of $9 million ($7 million). $3.7 million ($2.2 million) of this is accrued grants payable, where conditions for the payment to be made have been met, but amounts had not yet been paid.

Security deposits of $24 million ($28 million) are received by DEM to ensure that mining operators rehabilitate mine sites at the end of their operation. Further securities are held in the form of bank guarantees and are reported under contingent assets, amounting to around $283 million in 2022-23.

Administered items

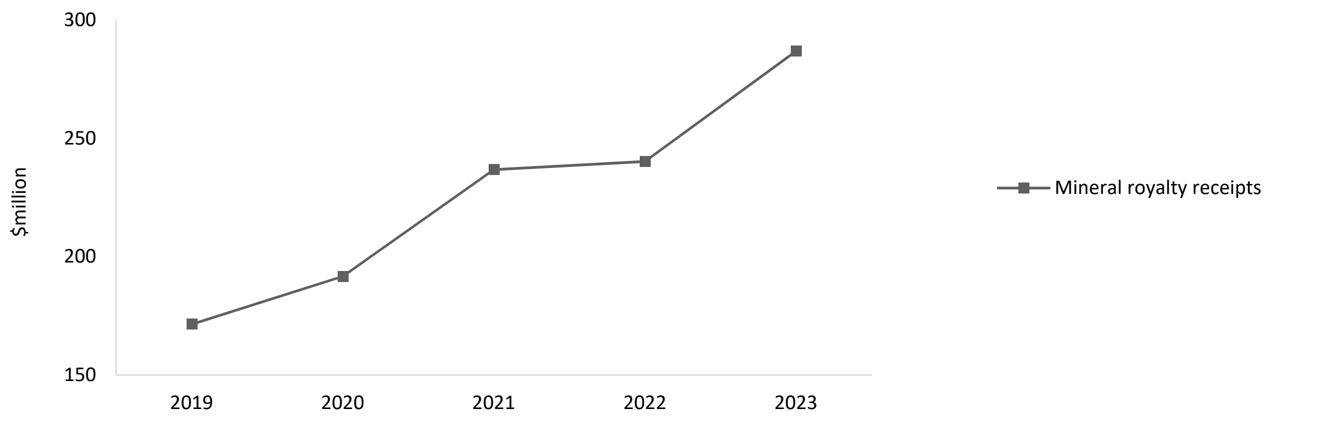
DEM is responsible for administering the collection of royalties levied on mineral and petroleum production on behalf of the SA Government. In 2022-23 it administered the collection of $380 million ($383 million) in royalties, which was paid to the Consolidated Account.

The charts below show royalty receipts over the last five years.



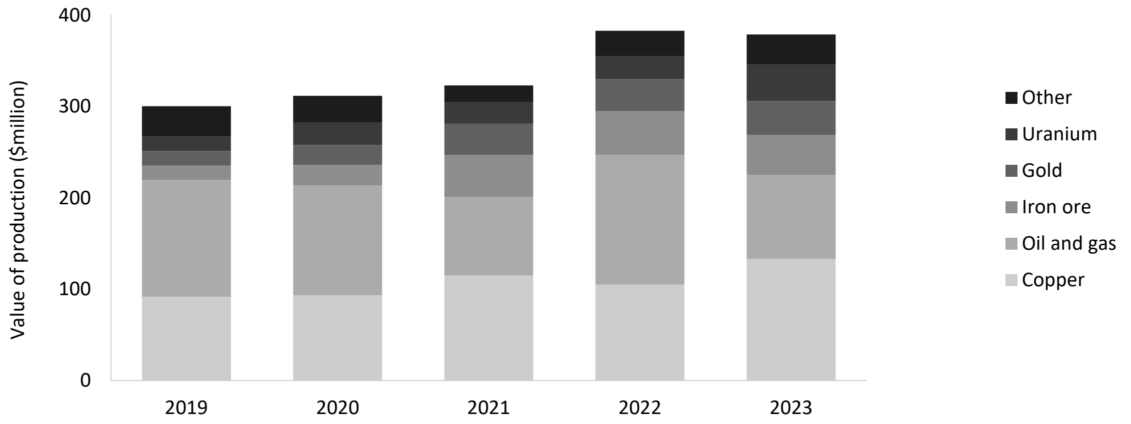
The chart shows that petroleum royalty collections decreased between 2019-20 and 2020-21, due to a fall in worldwide oil prices and the effects of the COVID-19 pandemic. In 2021-22, however, petroleum royalties rose significantly due to the increase in worldwide oil prices.

In 2022-23 petroleum royalties decreased significantly, largely due to lower production levels compared to 2021-22, which more than offset pricing improvements for crude oil and gas.



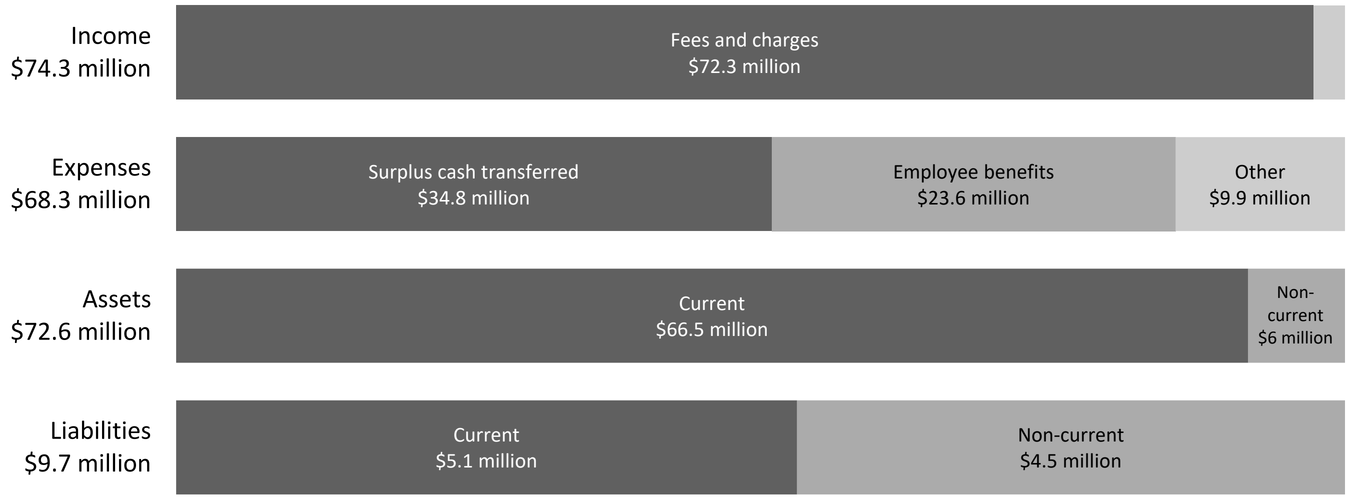
Mineral royalty receipts have increased over the last five years, with increases in 2018-19 and 2019-20 due to an improvement in commodity prices, particularly for copper and gold in 2018-19 and gold, iron ore and uranium in 2019-20. There was also increased production in both years at Prominent Hill and Olympic Dam. The price for iron ore and copper increased steadily in both 2020-21 and 2021-22, however the 2021-22 result reflected a decrease in copper production at Olympic Dam. In 2022-23, mineral royalties increased largely due to higher production levels for copper, iron ore and uranium.

The chart below shows royalty revenue from various commodities over the past five years. For 2022-23 oil and gas made up 24% of the total royalties, and copper provided a further 35%.



Environment Protection Authority (EPA)

Financial statistics



194
FTEs

Significant events and transactions

- The EPA collected $98.7 million in waste levies, of which $47.4 million was transferred to the Green Industry Fund (Green Industries SA).
- Surplus cash of $34.8 million was returned to the SA Government under the cash alignment policy, with the EPA having returned $114.2 million over the past four years.

Financial report opinion

Unmodified

Functional responsibility

The EPA is South Australia's primary environmental regulator for the control and minimisation of pollution and waste. It is responsible for protecting and enhancing air and water quality, and for controlling of pollution, waste and environmental noise.

The EPA financial reporting entity comprises:

- a statutory authority with an appointed board established by the *Environment Protection Act 199*3 (EP Act)
- an administrative unit, also named the EPA, established under the *Public Sector Act 2009*
- the Environment Protection Fund established under the EP Act.

The EP Act permits the statutory authority to make use of the services of the administrative unit's employees and facilities. The administrative unit is also responsible for radiation protection functions under the *Radiation Protection and Control Act 1982*.

Under the EP Act, the Chief Executive of the administrative unit is also taken to be the Chief Executive of the statutory authority. The Chief Executive is subject to the control and direction of the Minister in relation to the activities of the administrative unit, and is subject to the control and direction of the Board in giving effect to its policies and decisions under the EP Act.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- wastes levies revenue
- licence fee revenue
- accounts payable
- payroll
- fixed assets
- cash
- general ledger.

Audit findings

Communicating our audit findings

We did not identify any audit findings that needed to be communicated to the EPA.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Income		
Fees and charges	72	71
Other revenues	2	1
Total income	74	71
Expenses		
Surplus cash transferred to the Consolidated Account	35	37
Employee benefits expenses	24	23
Supplies and services	9	8
Other expenses	1	1
Total expenses	68	69
Net result	6	3
Net cash provided by (used in) operating activities	7	3
Assets		
Current assets	67	61
Non-current assets	6	6
Total assets	73	67
Liabilities		
Current liabilities	5	4
Non-current liabilities	5	5
Total liabilities	10	10
Total equity	63	57

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income increased by $3 million to $74.3 million, with solid waste levies comprising 70% of this amount.

Solid waste levies are discussed further under 'Administered items' and 'Further commentary on operations' below.

Expenses

Total expenses for 2023 were $68.3 million ($68.5 million), with $34.8 million in surplus cash paid to the Consolidated Account under the SA Government's cash alignment policy.

$114.2 million of surplus cash returned to the Consolidated Account over four years

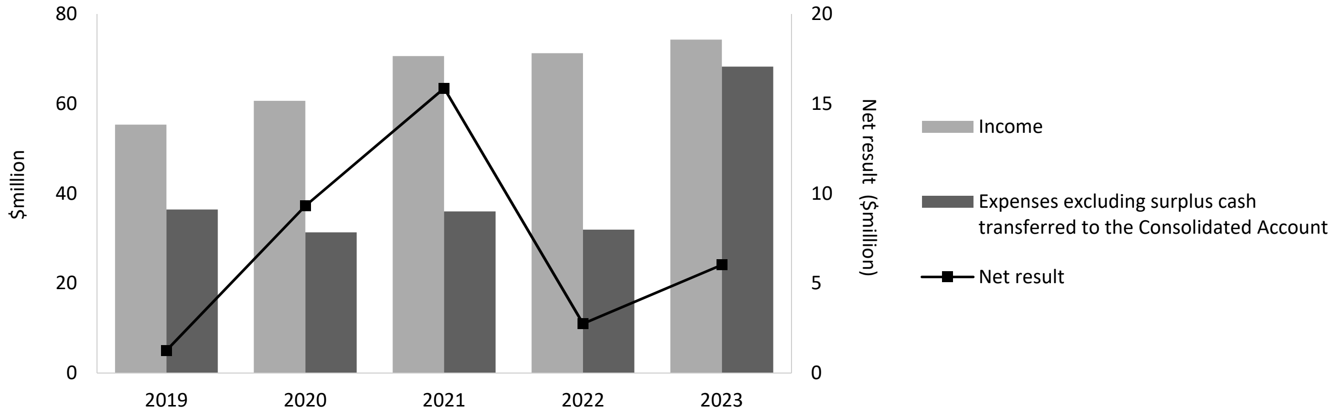
The EPA has achieved operating surpluses and generated surplus cash from operations for a number of years. It has returned $114.2 million to the Consolidated Account over the past four years under the cash alignment policy, as shown in the following table.

	2020 $million	2021 $million	2022 $million	2023 $million
Surplus cash transferred to the Consolidated Account	20.0	22.8	36.6	34.8

Net result

The chart below shows the net result for the five years to 2023.

Over this period the EPA funded its operations entirely by raising fees and charges and did not require any appropriation funding from the Consolidated Account, except in 2019 when it received $2 million from the Treasurer's Contingency Fund as reimbursement for 24 targeted voluntary separation packages.



Since 2019 the EPA's annual income has significantly exceeded its underlying expenses, excluding surplus cash transferred to the Consolidated Account.

For the last two years the return of surplus cash was the EPA's largest expense item. The chart indicates that without significant changes to its income and expenses, the EPA will either accumulate cash or continue to be able to make significant returns of cash to the Consolidated Account.

Statement of Financial Position

Current assets – cash and cash equivalents

Cash and cash equivalents of $57.2 million ($51.3 million) represent 79% (77%) of total assets. These balances include the Environment Protection Fund deposit account of $17.7 million ($14.7 million).

Use of the money held in the Environment Protection Fund requires the approval of the Minister and must be consistent with the requirements of the EP Act.

Current assets – receivables

Receivables remained consistent at $9.4 million ($9.8 million).

Non-current assets

Intangible assets make up 5% (4%) of total assets. The licencing administration management program, environment licensing forms and general environment information systems are the dominant items.

Property, plant and equipment make up 4% (5%) of total assets and largely comprise furniture and fittings, and plant and equipment.

Administered items

The EPA's administered activities comprise solid waste levies collected and transferred to the Green Industry Fund.

The EPA receives solid waste levies from waste depots under section 113 of the EP Act. There was a small increase in solid waste levy rates of 2% from July 2022, after an increase of 2% from July 2021. Since August 2016 the solid waste levy rate in the metropolitan area has increased by 140%.

From 1 July 2022 the solid waste levy in the metropolitan area was $149 per tonne.

Section 17 of the *Green Industries SA Act 2004* requires the EPA to transfer 50% of these levies to the Green Industry Fund. Of the 50% retained by the EPA, 45% is used to support its daily operations with the remaining 5% transferred to the Environment Protection Fund.

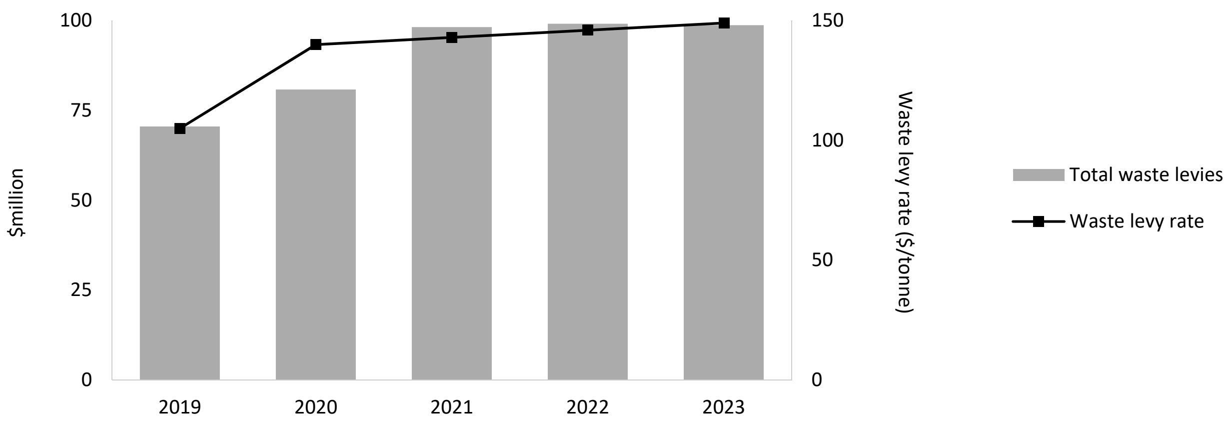
The EPA transferred $47.4 million ($49.5 million) to the Green Industry Fund during the year.

Further commentary on operations

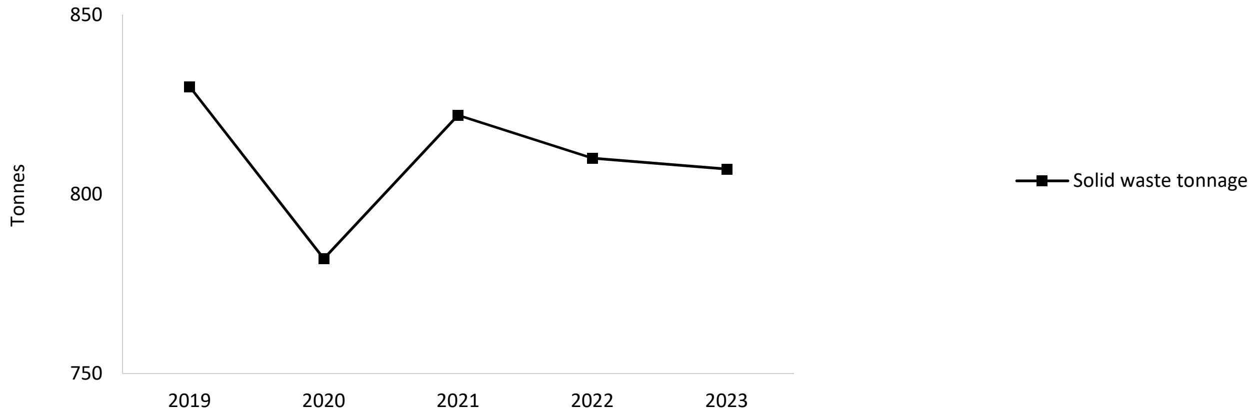
Waste levies

While the solid waste levy rate increased by 2% for 2022-23, total solid waste levies collected by the EPA (controlled and administered) decreased marginally. This reflected the decrease in solid waste tonnage reported for 2022-23. Waste levies collected by the EPA totalled $98.7 million (see notes 2.1 and 8.4 of the EPA's financial report).

The following chart shows the waste levies collected and the waste levy rate for the five years to 2023.

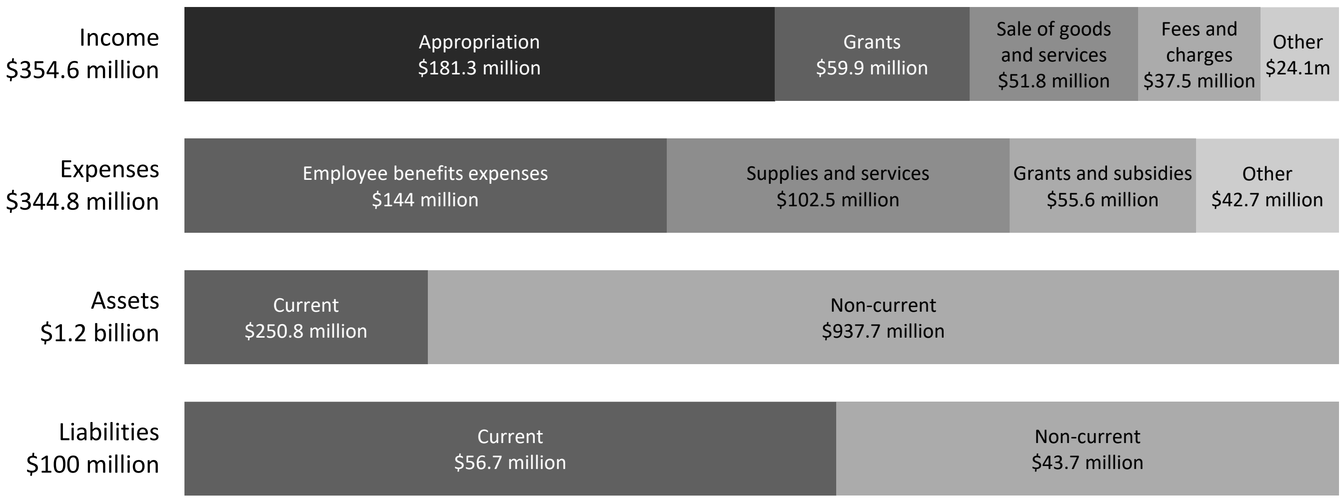


The chart below shows a slight decrease in solid waste tonnage reported by waste depots, with the amount reported for 2023 at 807 tonnes (810 tonnes). The EPA advised us that the increase in 2021 reflected the increase in infrastructure and development activity associated with the COVID-19 economic response. This data was provided to us by the EPA and is unaudited.



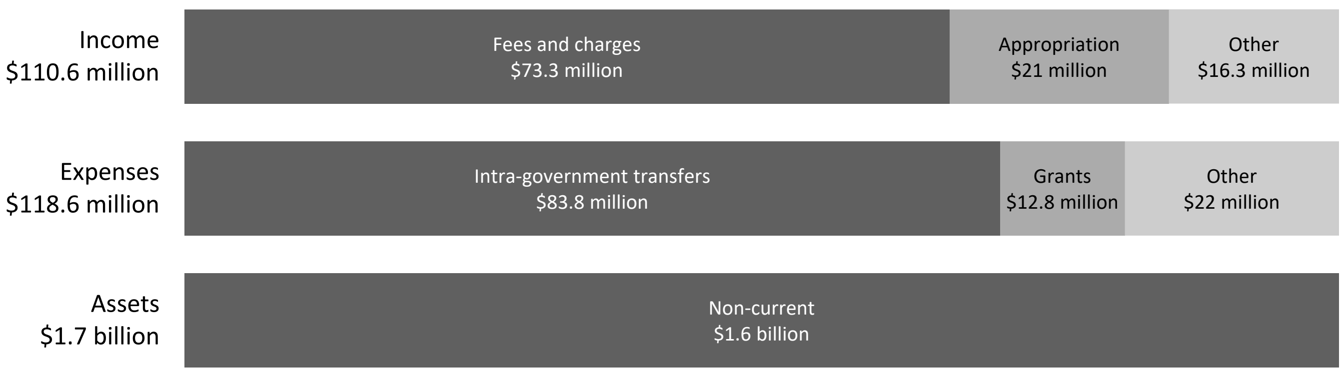
Department for Environment and Water (DEW)

Financial statistics



1,272
FTEs

Administered items



Significant events and transactions

— DEW coordinated $17.5 million in flood grants including relief for councils and businesses in response to the River Murray Flood Event.

— Floods in 2022-23 caused damage to assets owned by DEW along the River Murray, including regulators and embankments. DEW is currently progressing an insurance claim with the South Australian Government Financing Authority (SAFA) for damaged assets.

	— Responsibility for the Pastoral Board was transferred to DEW from the Department of Primary Industries and Regions effective 1 July 2022. At that date the Board's net assets of $69.3 million (largely pastoral land) were transferred to DEW's administered accounts and reflected in the financial statements. The net assets of the Pastoral Unit, a business unit to support the activities of the Board, were also transferred and are recognised as part of DEW's controlled activities. — Groundwater monitoring wells were revalued upwards by $52.2 million. — New capital expenditure totalled $49 million, largely relating to the Kangaroo Island Asset Reinstatement, Parks 2025, minor capital works and equipment and Glenthorne National Park. — The Murray-Darling Basin Authority (MDBA) joint operation revalued its infrastructure assets upwards, resulting in a $41.9 million revaluation increment recognised in DEW's administered financial statements.
Financial report opinion	**Unmodified**
Controls opinion findings	Problems with DEW's bank reconciliation process remain unresolved.
Other audit findings	Delays in completing employee leave reconciliations.

Functional responsibility

DEW is an administrative unit established under the *Public Sector Act 2009*, and is responsible to the Minister for Climate, Environment and Water.

DEW works to help South Australians conserve, sustain and prosper. Its management of natural resources and places, water and heritage assets is vital for the future social, environmental and economic prosperity and wellbeing of all South Australians. In partnership with a diverse cohort of boards, councils, stakeholders and volunteers, DEW delivers and implements fit-for-purpose policies and programs through three complementary goals:

- A healthy, resilient environment – South Australia's biodiversity, ecosystems and wildlife are conserved, restored and resilient to climate change. A world-class system of national parks and botanic gardens protect our iconic places and recognise the intrinsic value of nature.

- Improved liveability and wellbeing – natural resources and cultural heritage provide for the needs of our communities and are used to deliver enhanced lifestyle and cultural values for all peoples.
- A prosperous South Australia for current and future generations – sustainably managed natural resources underpin the growth of a climate-resilient economy through increased productivity, competitiveness, innovation and private investment.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- fees and charges revenue
- sale of goods and services
- water licence and services revenue
- grant revenue
- accounts payable
- grants and subsidies expenditure
- payroll
- cash
- fixed assets
- general ledger.

Controls opinion

We reviewed controls over the following as part of our overall controls opinion, which is discussed in Part B of this report:

- bank accounts – managing DEW's operating bank account and the SA Riverland Floodplains Integrated Infrastructure Program bank account
- land – the acquisition and disposal of Crown land
- water assets – managing the State's responsibilities with respect to MDBA assets.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. The main findings and DEW's responses are discussed below.

Controls opinion findings

Problems with DEW's bank reconciliation processes remain unresolved

The DEW bank account is used by 16 separate entities and 19 funds (bureau entities) established to support specific Commonwealth and SA Government programs.

The bank reconciliation is a fundamental control for both DEW and its bureau entities. Performed regularly, it helps to confirm the integrity of accounting records and identify errors or irregularities needing action.

For a number of years we have commented on the need for DEW to improve its control over the bank reconciliation process. Our review of its February 2023 reconciliation identified over 338,000 uncleared reconciling items, with a net variance of $4.8 million between the bank account and the general ledger. The reconciling items comprise:

- 10,266 transactions recorded in the bank statement but not recorded in DEW's general ledger
- 328,389 transactions recorded in DEW's general ledger but not matched to the bank statement.

Some unresolved reconciling items dated back to July 2020.

To ensure that the cash balances of DEW's bureau entities are not materially misstated, each month DEW reviews and classifies unmatched bank transactions by agency. The review performed for February 2023 identified that 73% of the reconciling items belong to DEW.

DEW is implementing a solution designed to fix the systematic errors causing the reconciling items and a work group is focused on improving the data quality for general ledger feeder systems.

Until all data quality issues are resolved, DEW continues to manually clear reconciling items from the bank reconciliation. As at 30 June 2023, uncleared reconciling items were reduced to 56,785, with a net variance of $1.65 million between the bank account and the general ledger.

Other audit findings

Delays in completing employee leave reconciliations

Employee benefits expenses were $144 million in 2022-23 and the liability for leave entitlements as at 30 June 2023 was $37 million.

DEW uses the TimeWise system to monitor employee attendance and approve leave taken.

Each month DEW branches are required to reconcile leave transactions recorded in TimeWise to CHRIS payroll system leave records, ensuring that all leave taken is completely and accurately recorded in CHRIS.

Our review of DEW's central leave reconciliation register as at May 2023 identified that no leave reconciliations were performed for 2022-23 and there was a backlog of leave reconciliations outstanding from 2021-22.

Delays in performing leave reconciliations increase the risk that leave taken by DEW employees is not recorded in the CHRIS payroll system, resulting in the overstatement of leave liabilities.

DEW responded in June 2023 that its human resources team had finalised all leave reconciliations from 2021-22 and the backlog would be cleared by 31 July 2023.

In late-August 2023 DEW advised us that it had completed 99.1% of the outstanding leave reconciliations and the remaining reconciliations were with the employee or manager for completion.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Income		
Appropriation	181	156
Sales of goods and services	52	49
Commonwealth grants and funding	23	41
SA Government grants, subsidies and transfers	37	55
Fees and charges	37	38
Resources received free of charge	7	6
Other income	18	51
Total income	355	396
Expenses		
Employee benefits expenses	144	139
Supplies and services	102	103
Grants and subsidies	56	47
Depreciation and amortisation expense	33	35
Assets transferred for consideration	7	8
Other expenses	2	3
Total expenses	345	336
Net result	10	60
Other comprehensive income		
Changes in property, plant and equipment asset revaluation surplus	54	6
Impairment loss on property, plant and equipment	(3)	-
Total other comprehensive income	51	6
Total comprehensive income	61	66
Net cash provided by (used in) operating activities	69	70
Net cash provided by (used in) investing activities	(50)	(50)
Assets		
Current assets	251	263
Non-current assets	938	876
Total assets	1,189	1,138
Liabilities		
Current liabilities	57	66
Non-current liabilities	44	48
Total liabilities	100	114
Total equity	1,088	1,025

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income decreased by $41 million to $354.6 million. The major items causing this change were:

- a $34.9 million decrease in other income, largely attributable to the receipt of insurance recoveries of $28.6 million in 2021-22 for the settlement from SAFA for the assets damaged and lost in the 2020 Kangaroo Island bushfires

- a $17.6 million decrease in SA Government grants, subsidies and transfers, due mainly to a decrease in transfers from the Green Industry Fund of $15.8 million for climate change initiatives. Funding received from the Green Industry Fund in 2021-22 was used largely for sand replenishment activities along metropolitan beaches
- an $18 million decrease in Commonwealth-sourced grants and funding mainly due to a decrease of $5.7 million in grants for COVID-19 relief and recovery in World and National Heritage places, and a $7.8 million decrease in grants for the Flows for the Future project
- partially offset by a $25.6 million increase in appropriation from the Consolidated Account, largely attributable to $24.9 million received in response to the 2022-23 River Murray flood event.

Expenses

Total expenses increased by $9 million to $344.8 million. The major items causing this change were:

- an $8.4 million increase in grants and subsidies, due mainly to a $17.5 million increase in River Murray flood grants, offset by a $4.4 million decrease in grants for the Healthy Coorong, Healthy Basin program and a $5.3 million decrease in heritage grants
- an increase of $4.6 million in employee benefits expenses, due mainly to targeted voluntary separation packages paid and an increase in the long service leave provision.

Statement of Financial Position

DEW’s assets mainly comprise: property, plant and equipment and cash.

Non-current assets – property, plant and equipment

Property, plant and equipment is $930.7 million and represents 78% of total assets.

DEW’s property, plant and equipment holdings are diverse. Land valued at $377 million comprises national, conservation and recreation parks, and wilderness protection areas and reserves. Related park infrastructure is valued at $25 million, while roads, tracks and trails total $22 million. DEW controls a range of other infrastructure assets valued at $252 million, which includes groundwater monitoring wells, regulators and embankments, sand pumping infrastructure, surface water monitoring assets and waste disposal stations. DEW is also responsible for the Patawalonga seawater circulation system, valued at $37 million.

Property, plant and equipment increased by $61.3 million due mainly to asset additions of $50.7 million and a $52.2 million revaluation upwards of groundwater monitoring wells, all partially offset by depreciation of $32.6 million, assets transferred for no consideration to other entities of $7.2 million and a $2.6 million impairment of River Murray embankments following the River Murray flood event.

Asset additions primarily relate to capital works associated with the Kangaroo Island fire recovery and Parks 2025.

Notes 5.1 and 5.2 of DEW’s financial report provide an analysis of the composition of and movements in this item.

Current assets – cash

Cash of $239.4 million ($221.3 million) represents 95% (84%) of total current assets, and 20% (19%) of total assets. DEW's cash as at 30 June 2023 comprised operating deposit accounts of $90.9 million ($83 million) and an Accrual Appropriation Excess Funds Account of $148.3 million ($138.1 million). Access to the latter account is subject to the Treasurer's/Under Treasurer's approval.

Current assets – receivables

Receivables of $9.3 million ($39.6 million) represent 4% (15%) of total current assets. The decrease in receivables is attributable to a $28.6 million receivable from SAFA for the final insurance settlement for the 2020 bushfires owing as at 30 June 2022.

Liabilities

Total liabilities decreased by $13.5 million to $100.4 million, and reflected the following movements:

- a $3.8 million decrease in contract liabilities, largely attributable to the recognition of Commonwealth revenue in relation to the South Australian Riverland Floodplains Integrated Infrastructure Program
- a $1.9 million decrease in other liabilities, due mainly to the annual reduction in DEW's accommodation incentive
- a decrease of $6.3 million in payables, reflecting the timing of payments.

Administered items

DEW's administered activities include:

- Crown lands
- Minister's other payments
- the Natural Resources Management Fund
- the Landscape Administration Fund
- the Landscape Priorities Fund
- the South Australian Drought Resilience Fund
- the Pastoral Board
- the State's joint interest in the MDBA.

Crown lands

DEW administers Crown land on behalf of the Minister. All transactions associated with Crown land are recorded in its administered financial statements.

Minister's other payments

DEW received $17.6 million ($18.9 million) in appropriation revenue from the SA Government, which is then distributed to other agencies through grants and subsidies and intra-government transfers approved by the Minister. DEW administers the receipt and distribution of this money.

Landscape Administration Fund

The Landscape Administration Fund was established under the *Landscape South Australia Act 2019* (Landscape Act) to receive and disburse fees, land levies, water levies and other money authorised by the Landscape Act.

In 2022-23, $73.3 million ($73 million) in fees and levies were raised on behalf of Landscape Boards. The Fund also received $2.9 million ($4.6 million) in appropriation revenues from government for transfer to the Landscape Boards.

Payments to Landscape Boards from the Landscape Administration Fund during the year were $74.6 million ($73.9 million). The Landscape Act requires the Minister to distribute funds collected to the Landscape Boards based on receipts.

Landscape Priorities Fund

The Landscape Priorities Fund was established under the Landscape Act and receives annual revenue from the Green Adelaide Board. The contribution from the Green Adelaide Board is determined under the Landscape Act and is a gazetted percentage of the total land and water levies received by the Green Adelaide Board in a financial year.

Under the Landscape Act, the Minister may apply any part of the Landscape Priorities Fund:

- in addressing any priority for managing, improving or enhancing the State's landscape or natural resources, whether the priority is of sub-regional, regional, cross-regional or statewide significance
- in making any other payment required or authorised by or under the Landscape Act or any other law.

In 2022-23, $4.5 million ($4.4 million) was paid into the Landscape Priorities Fund by the Green Adelaide Board, while $3.9 million ($2.4 million) was granted from the Fund to regional Landscape Boards following an application process approved by the Minister.

South Australian Drought Resilience Fund

The South Australian Drought Resilience Fund was established under the Commonwealth's Water for Fodder program. The Fund received revenue from Southern Murray-Darling Basin irrigators in exchange for the transfer of South Australian water allocations in line with the Water for Fodder program. The Fund will be applied by the Minister towards programs and measures to build the resilience of the River Murray water users and environment to withstand drought and longer-term climate change, or to improve the adequacy, security and quality of the State's water supply from the River Murray. The balance of the fund is $4.1 million.

Pastoral Board

The Pastoral Board is responsible for the administration of the *Pastoral Land Management and Conservation Act 1989*. It provides advice to the Minister for Climate, Environment and Water on the policies that should govern the administration of pastoral land. Due to an administrative arrangement, the Pastoral Board was transferred from the Department of Primary Industries and Regions effective 1 July 2022. The value of assets transferred was $69.3 million.

Murray-Darling Basin Authority

The MDBA is established under the *Water Act 2007* (Cth). It assumed all functions of the former Murray-Darling Basin Commission in December 2008.

DEW has recognised the State's joint interest in the MDBA infrastructure assets and water rights as an interest in a joint operation in its administered financial statements. The State's interest in the arrangement is 26.67%.

The recognition of MDBA infrastructure assets and water rights is in line with the following agreements signed by the Commonwealth, NSW, Vic, SA, ACT and the MDBA in June 2009:

- asset agreement for River Murray Operations assets
- agreement on addressing water over-allocation and achieving environmental objectives in the Murray-Darling Basin – control and management of Living Murray assets.

The State's interest in the arrangement was valued at $1 billion as at 30 June 2023.

The State's shared management of the Murray-Darling Basin is a continuation of arrangements first established many years ago. Funding arrangements for the now defunct Murray-Darling Basin Commission were established as far back as 1992.

The MDBA undertakes activities that support the sustainable and integrated management of the water resources in the Basin, as outlined in the Murray-Darling Basin Agreement.

The relevant assets are held by two separate reporting entities (joint operations) – the River Murray Operations for all physical assets and the Living Murray Initiative for intangibles and water licences. The participating jurisdictions each hold a proportional interest in the net assets of each joint operation.

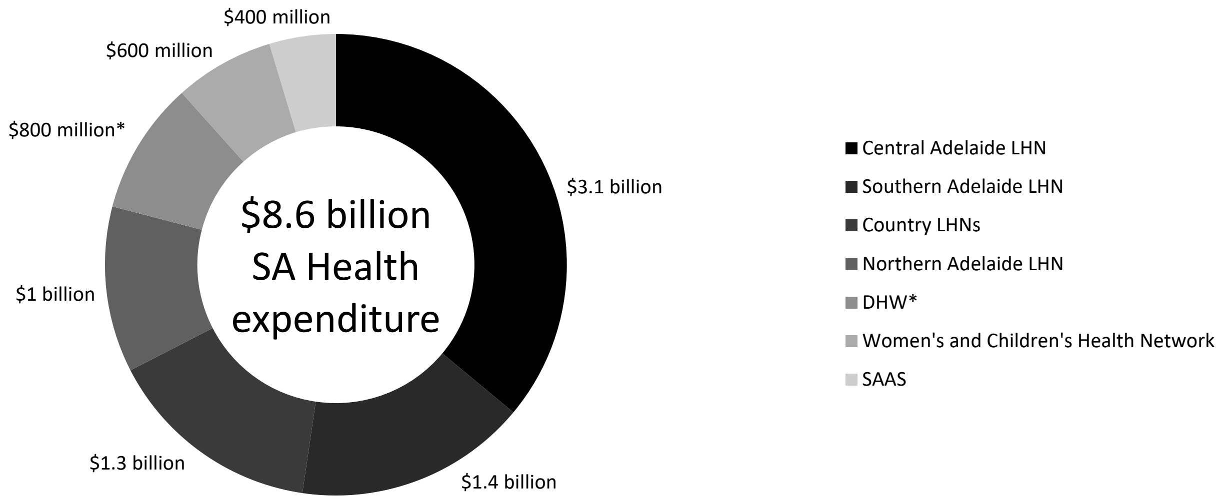
While the infrastructure assets used to support the MDBA's activities are jointly owned and controlled by the asset-controlling governments, responsibility for the ongoing operation and maintenance of the assets is with the MDBA.

Under the River Murray Operations and Living Murray Initiative asset agreements, each asset-controlling government is obliged to provide funding to the MDBA for the management of the assets. In 2022-23 DEW paid $24.4 million to the MDBA.

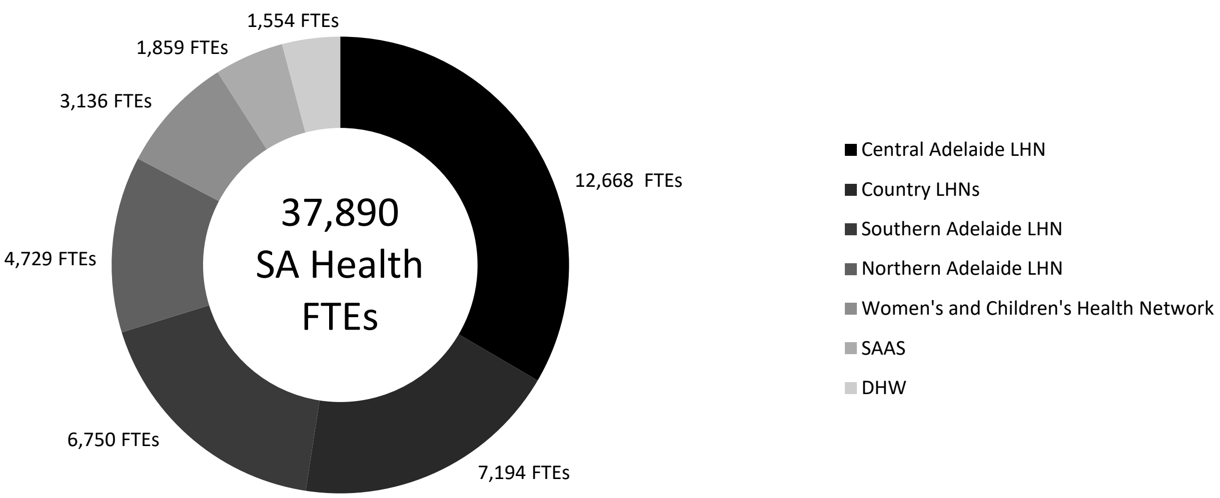
Health sector overview

Collectively the Department for Health and Wellbeing (DHW), the local health networks (LHNs) and the SA Ambulance Service Inc (SAAS) are known as SA Health or the Health sector. Wellbeing SA (WBSA) and the Commission for Excellence and Innovation in Health (CEIH) are attached offices to DHW and are not included as part of SA Health.

The charts below show the breakdown by entity of SA Health's total expenditure and FTEs.



* DHW expenditure excludes grants and the cost of goods sold to other SA Health entities.



Structure of this section

This Health sector overview discusses the following matters:

- overview of governance arrangements
- impact of the COVID-19 pandemic
- budget and performance management

- Independent Commissioner Against Corruption reports
- unaudited SA Health FTE, patient activity and key performance indicator data.

Overview of governance arrangements

Governance and accountability

The *Health Care Act 2008* (HC Act) provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive (CE) of DHW, the Chief Executive Officer (CEO) of SAAS and the LHNs governing boards and their CEOs. SAAS is a body corporate and has no governing board.

SA Health entities must comply with directions from the Minister for Health and Wellbeing and the CE of DHW.

Delivery of public health services

The governance and responsibility for delivering public health services is devolved to the LHN governing boards and the CEO of SAAS. They have full responsibility for providing health services in their area, which includes:

- ensuring effective, efficient and economical operations
- managing their budgets
- ensuring their performance targets are met
- providing strategic oversight.

Each LHN CEO is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Each year service agreements between LHNs/SAAS and DHW set out the relationship, performance targets and funding arrangements. They are available on the SA Health website.

Role of the Department for Health and Wellbeing

DHW's role is 'system leader' and it sets strategic direction and statewide policy. It monitors and drives the performance of the public health system through high-level direction and management.

A number of functions remain under the control of the CE of DHW, including being the employing authority under the HC Act for all SA Health staff (excluding SA Pathology).

The Minister for Health and Wellbeing

The Minister for Health and Wellbeing is responsible for setting reform agendas and priorities.

Attached offices

Wellbeing SA

WBSA supports and promotes improved physical, mental and social wellbeing for all South Australians to create a balanced health and wellbeing system in South Australia.

WBSA had expenditure of $92 million ($95 million) and 90 FTEs (142 FTEs) in 2022-23.

On 20 December 2022, WBSA transferred the Integrated Care Systems Directorate to DHW, which included the transfer of 67 employees and $9.7 million in net assets. The Directorate delivers outcomes targeted at hospital avoidance, such as the SA Community Care and My Home Hospital programs.

In September 2023 it was announced that in 2023-24, WBSA will be combined with a number of other areas within SA Health to create a new Preventive Health SA agency.

Commission on Excellence and Innovation in Health

The CEIH provides leadership and advice on maximising patient health outcomes, improving care and safety, monitoring performance, evidence-based practice and clinical innovation, and supporting collaboration.

The CEIH had, unaudited at the time of this report, expenditure of $9 million ($9.9 million) and 36 FTEs (39 FTEs) in 2022-23.

On 1 July 2022, DHW transferred the Health Performance Council to the CEIH, which included the transfer of two FTEs and $100,000 in liabilities. The Health Performance Council provides expert and independent advice on the performance of the SA Health system.

Impact of COVID-19

SA Health's role

On 23 November 2021 border restrictions were lifted and SA Health's focus shifted from suppressing to living with COVID-19. This impacted the SA Health system because as the number of COVID-19 cases rose, so did the number of hospitalisations and the number of SA Health staff unable to work due to being infected with COVID-19.

In May 2022 amendments were enacted under the *South Australian Public Health Act 2011* to allow the COVID-19 response to continue without being a major emergency. SA Health committed to integrating its COVID-19 activities into business-as-usual operations by 31 December 2022.

The figure below shows some of the impacts of COVID-19 between 2022 and 2023. All statistics decreased, except for an increase in the number of deaths of people who have COVID-19.

South Australian COVID-19 statistics as at 30 June 2023*

2022	2023
580,410 Total cases	**325,463** Total cases
643 Total deaths	**930** Total deaths
1,646,951 Total vaccine doses administered by SA Health	**49,333** Total vaccine doses administered by SA Health (to 18 December 2022)
3,505,975 Total PCR tests conducted	**1,024,085** Total PCR tests conducted

* Data was sourced from SA Health and is unaudited.

Commonwealth funding to support COVID-19 pandemic response

In March 2020, the States and Territories entered into the National Partnership on COVID-19 Response agreement with the Commonwealth Government. The objective was to provide financial assistance for the additional costs incurred by health services in responding to COVID-19.

In 2022-23, DHW received a total of $196.6 million ($255.8 million) from the Commonwealth Government to support the COVID-19 response, comprising:

- $89.6 million ($34.7 million) in hospital services funding – a 50% contribution of the national efficient price for costs incurred for the testing and treatment of COVID-19 patients and suspected cases
- $95.7 million ($222.3 million) in public health funding – a 50% contribution of costs incurred for COVID-19 activities undertaken by the public health system and a 100% contribution of costs incurred for COVID-19 activities undertaken in the residential aged care sector
- $11.3 million (-$1.2 million) in private hospital financial viability payments.

Funding for activity and costs incurred is reconciled six months in arrears, so the 2022-23 amounts above relate to COVID-19 activity and costs in the 2022 calendar year. All COVID-19 funding under this agreement has now been received and the agreement ended on 31 December 2022. National Partnership on COVID-19 Response revenue is shown in note 4 of DHW's financial report.

Cost incurred by SA Health in responding to COVID-19

The material costs directly associated with COVID-19 totalled $63 million ($689 million) for SA Health in 2022-23.

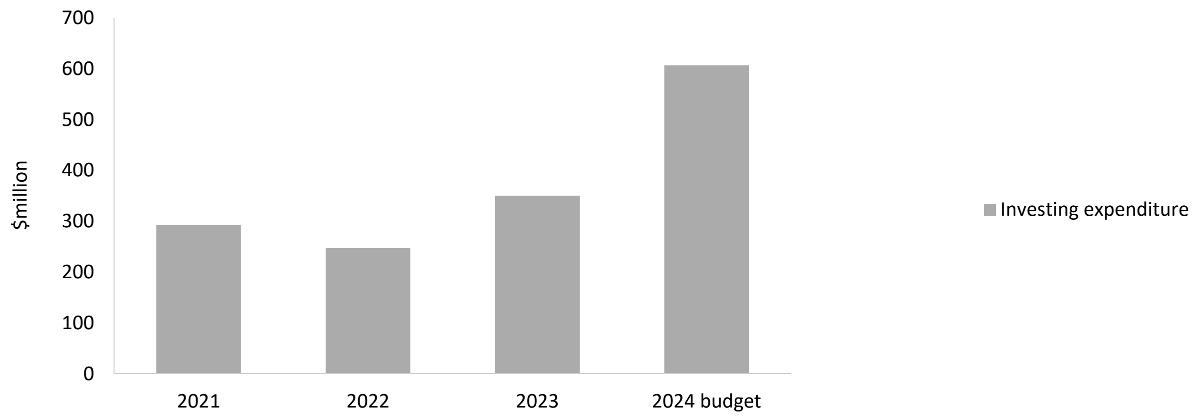
In addition, SA Health's inventory at the SA Health Distribution Centre and bulk warehouses decreased by $27 million as at 30 June 2023 compared to 2022, mainly due to the reduced stocks held of personal protective equipment, $30.6 million ($50 million), and rapid antigen tests, $5.9 million ($14.7 million), offset by a rise in the cost of inventory.

Budget and performance management

State Budget

The 2023-24 State Budget confirmed the SA Government's commitment to SA Health achieving the national efficient price for public hospital services, and included additional funding for capital works and salaries and wages to employ more FTEs to improve services.

Capital works in SA Health will grow over the next few years due to the increase in new capital projects outlined in the 2022-23 and 2023-24 State Budgets. This is shown in the graph below.



Budgeted increases in salaries and wages for more FTEs will not occur until after the new capital works are completed, therefore there is a slight increase in 2023-24 budgeted FTE numbers, but the biggest increases will be in the coming years.

Performance management

SA Health's Performance Framework sets out how DHW monitors, assesses and responds to the performance of the LHNs and SAAS. It provides for increasingly intensive levels of monitoring and, where necessary, intervention to ensure poor financial performance is addressed.

Performance is assessed against the key performance indicators set out in the service agreements between the LHNs/SAAS and DHW. Service agreements also set out the budget, expectations and financial performance deliverables for each financial year.

Budget to actual results for 2022-23

Since 2007, we have reported on expenditure pressures and budget supplementation in SA Health. In recent years, we have focused on continued expenditure growth and the failure to achieve the savings targets set out in State Budgets.

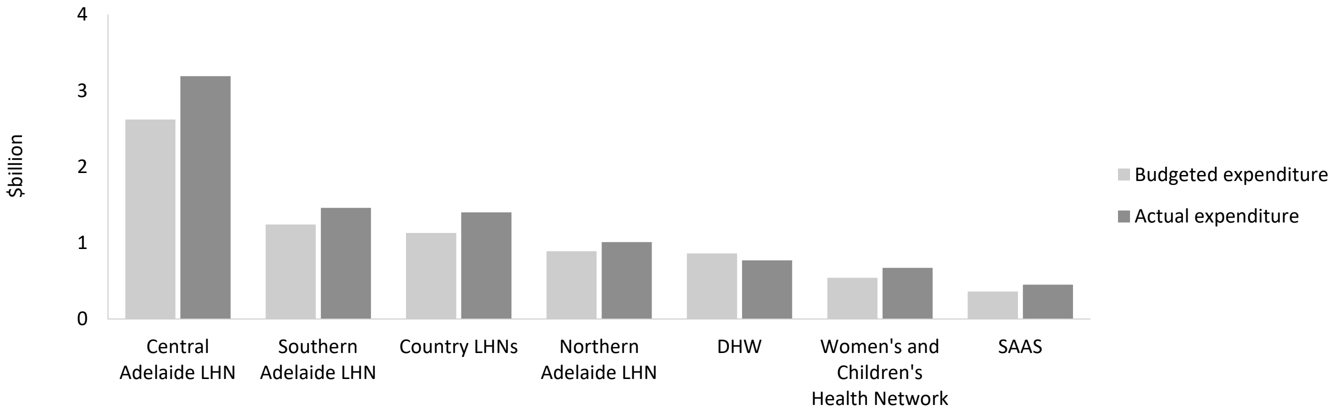
Each year DHW has changed elements of its commissioning and funding models, and COVID-19 significantly affected activities across the sector. As a result, it is not possible to compare results from year to year. It is also important to note the budget data is not subject to audit.

We looked at whether the SA Health budget set in the 2022-23 State Budget was achieved and what factors influenced the budget outcomes for the year.

SA Health's 2022-23 budget outcome was an unfavourable net result of $301 million.

Note 35 of DHW's financial report provides some budgetary reporting information, including explanations of major variances between SA Health's original budget in the 2022-23 State Budget and the actuals in its financial report.

The graph below shows budgeted expenditure from the 2022-23 State Budget compared to actual expenditure in the audited financial statements of SA Health entities.

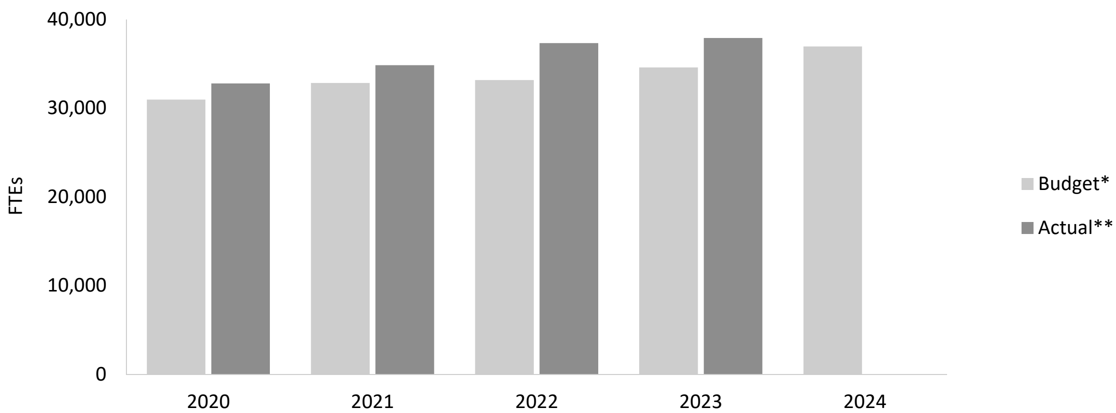


SA Health's total expenses exceeded the original 2022-23 State Budget by $874 million, an 11% overspend.

The two categories that contributed most to the unfavourable budget outcome were salaries and wages and supplies and services.

Salaries and wages

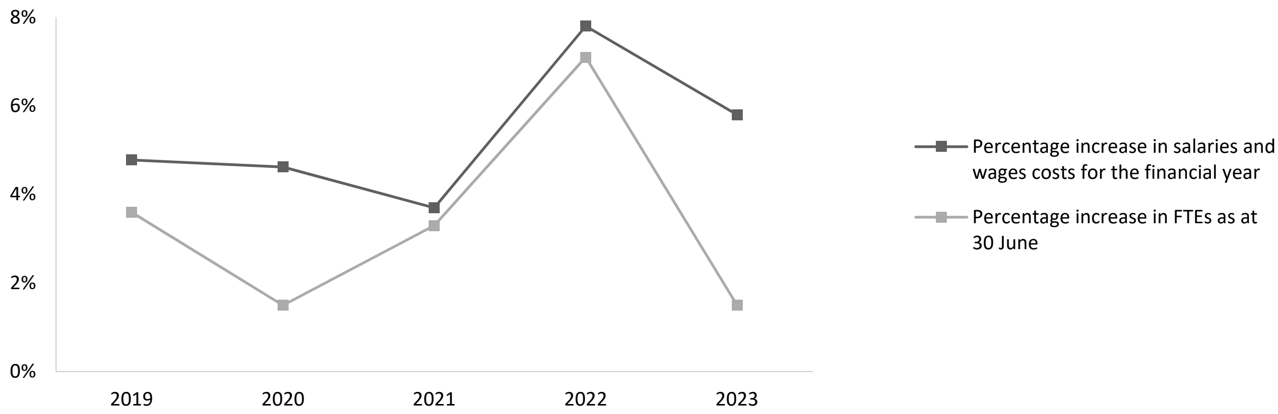
As can be seen in the chart below, actual FTEs have exceeded budgeted FTEs for the last four years. This is mainly due to the budget not accounting for the additional FTEs required for the COVID-19 response and increased FTEs being needed to care for increased acuity (patient complexity).



* Budget data was sourced from the State Budget papers and is unaudited.
** Actual data was sourced from the Commissioner for Public Sector Employment and is unaudited.

In 2023 SA Health was 3,323 FTEs over budget. The 2024 SA Health budget of 36,942 FTEs is below the 2023 actual of 37,890 FTEs. This means SA Health must reduce its workforce by 948 FTEs in 2024 if it is going to meet its budgeted FTEs.

The following chart shows the percentage increase in salaries and wages expenses compared to the percentage increase in FTEs for SA Health over the last five years. The figures exclude leave and workers compensation expense, as these expenses involve a degree of estimation.



In 2021 and 2022 the percentage increases in salaries and wages expenses and FTEs were similar, therefore the increase in salaries and wage expenses was mainly due to the increase in FTEs.

In 2023 the percentage increase in salaries and wages expenses is much higher than the percentage increase in FTEs, therefore most of the increase in salaries and wages expenses is due to higher amounts being paid to FTEs.

In 2023 two new enterprise agreements – the Nursing/Midwifery (SA Public Sector) Enterprise Agreement 2022 and the SA Ambulance Enterprise Agreement 2022 – were signed.

The Nursing/Midwifery (SA Public Sector) Enterprise Agreement 2022 included a one-off payment of $1,500 in October 2022 and an increase in salaries of 3% from 1 January 2023.

The SA Ambulance Enterprise Agreement 2022 included back pay of 2.5% on each of 31 December 2018, 2019, 2020 and 2021, and an increase in salaries of 2.5% on 31 December 2022. There were also increases in allowances.

The following table summarises employee remuneration for 2022-23, included in notes 8.3 and 8.4 of DHW's financial report.

	Executive Number	Medical Number	Non-medical Number	Nursing Number	Operational Number	Total Number
$160,000 – $260,000	87	1,481	115	539	669	2,891
$260,001 – $360,000	28	585	3	2	58	676
$360,001 – $460,000	8	420	-	-	5	433
$460,001 – $560,000	4	323	-	-	-	327
$560,001 – $660,000	1	169	-	-	-	170
$660,001 – $760,000	1	48	-	-	-	49
$760,001 – $860,000	-	11	-	-	-	11
$860,001 – $960,000	-	4	-	-	-	4
$960,001 – $1,060,000	-	2	-	-	-	2
$1,400,001 – $1,420,000	-	1	-	-	-	1
Total	129	3,044	118	541	732	4,564

Total remuneration for the SA Health employees in the table above was $1.3 billion ($1.2 billion). The number of these employees increased by 12.5% or 507 employees due to the enterprise agreements.

Supplies and services

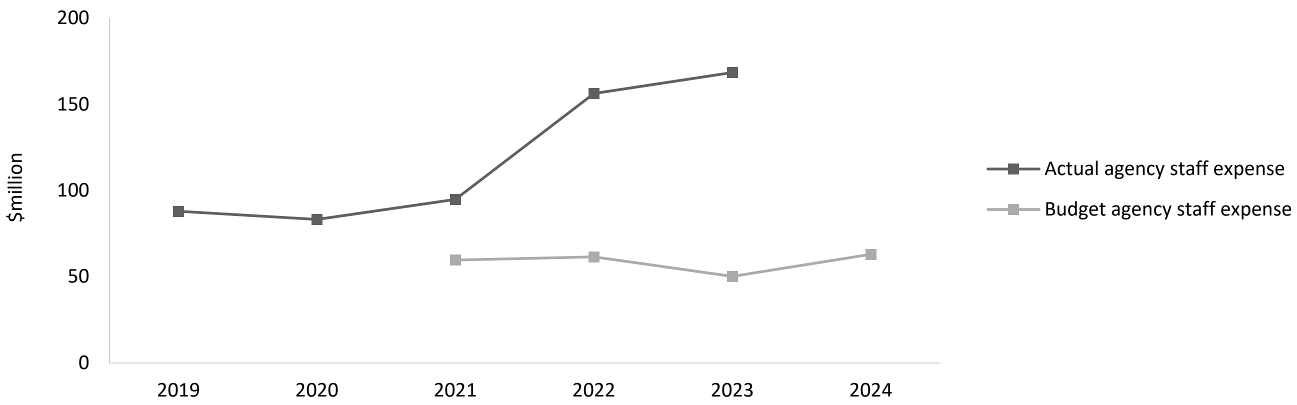
In 2023 there were two main budget pressures in supplies and services – agency staff and fee for service.

Agency staff

Agency staff are contracted to perform jobs normally performed by an employee.

The use of agency staff has increased in the past two years due to the LHNs being unable to fill vacancies and therefore relying on agency staff to continue to provide services.

In 2023 the reliance on agency staff was expected to reduce due to COVID-19 activities ceasing, and therefore the budget was set well below the actual costs for the last five years, as shown in the following chart.



The amount paid for agency staff did not decrease, mainly due to the LHNs having to increase their use of agency staff as expected to cover vacant positions they could not fill and an increase in National Weighted Activity Units (NWAUs) above the budgeted increase.

The NWAU is the national unit for measuring health service activity and takes into account the number and acuity of patients.

Fee for service

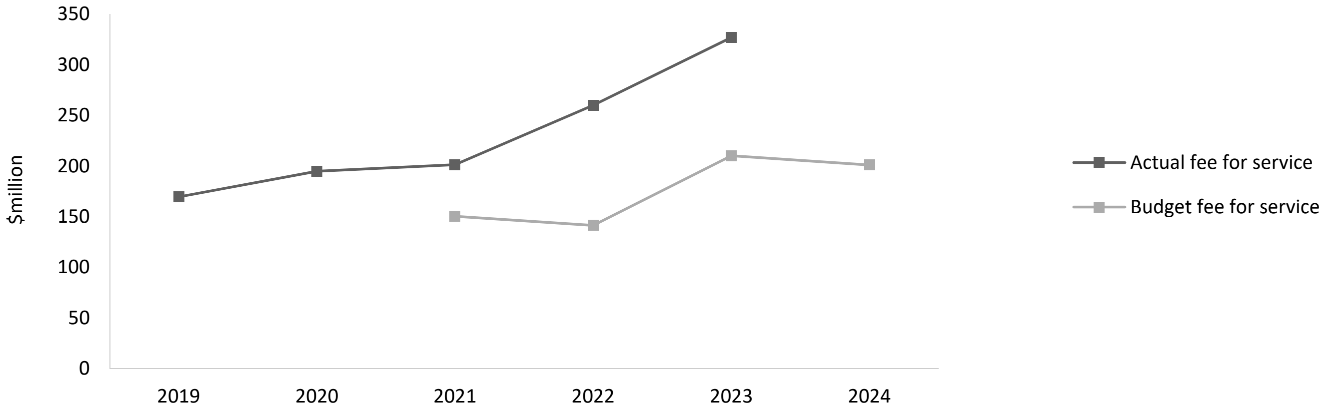
Fee for service are fees paid to doctors, specialists, anaesthetists, allied health, dentists and radiologists who are not employed by SA Health, where the patient has elected to be seen as a public patient. It also includes the locums (temporary medical staff) used when the LHN is unable to attract a suitable employee.

Fee for service has increased for a number of reasons:

- surgeries being delayed during the past two years to keep hospitals free for COVID-19 patients. Those surgeries can now be done, although many are being outsourced to private hospitals
- hospitals being unable to recruit medical officers and having to rely on fee-for-service arrangements given the rising NWAU

- the new country general practitioner's agreement signed in February 2022, which increased the amount paid to country general practitioners and saw locums charging more for their services.

In 2023 the fee-for-service budget was set just above the 2021 level, but this was not achieved for the reasons explained above. The following chart shows the actual and budgeted fee-for-service costs.



Independent Commissioner Against Corruption reports

In November 2019, the Independent Commissioner Against Corruption tabled the Troubling Ambiguity: Governance in SA Health Report. It highlighted concerns about governance arrangements in SA Health that contribute to the risk of corruption, misconduct and maladministration.

The then Premier established an inter-agency taskforce to independently review SA Health's response. DHW prepared a Program Implementation Plan to address the issue raised, arranged into work streams. At the beginning of 2021-22, SA Health reported the successful delivery of all work streams and the work streams were closed by the taskforce.

We followed up SA Health's progress and found that most of the actions proposed were complete, but some were still in progress:

- There are several areas in the industrial work stream that have not been completed, as the previous SA Health Job Planning Procedure led to an industrial dispute. DHW advised us that the current dispute has been resolved and a new SA Health Job Planning Procedure started on 1 June 2023. DHW indicated that the time, attendance and rights to private practice policies and procedures are under consideration.
- Training on ethics, code of conduct, fraud and corruption and records management is available, but is not mandatory and there is no framework for monitoring training attendance. DHW indicated that the mandatory training policy was in draft and a new learning management system will be piloted from September 2023. If successful it will be rolled out in early 2024.
- The cultural dashboard has not been finalised and there has been no assessment of the effectiveness of the cultural strategies implemented. DHW indicated that it would finalise the wellbeing cultural dashboard by 30 June 2024.

The Independent Commissioner Against Corruption released an update on this matter in July 2023, titled *Integrity trade-off*, which noted a lack of progress in the industrial work stream and made three recommendations:

- require all staff, including clinicians, to complete timesheets reflecting the hours they have worked
- implement a policy governing clinicians' rights to private practice
- prepare a strategy to address deficiencies in the clinicians' industrial arrangements.

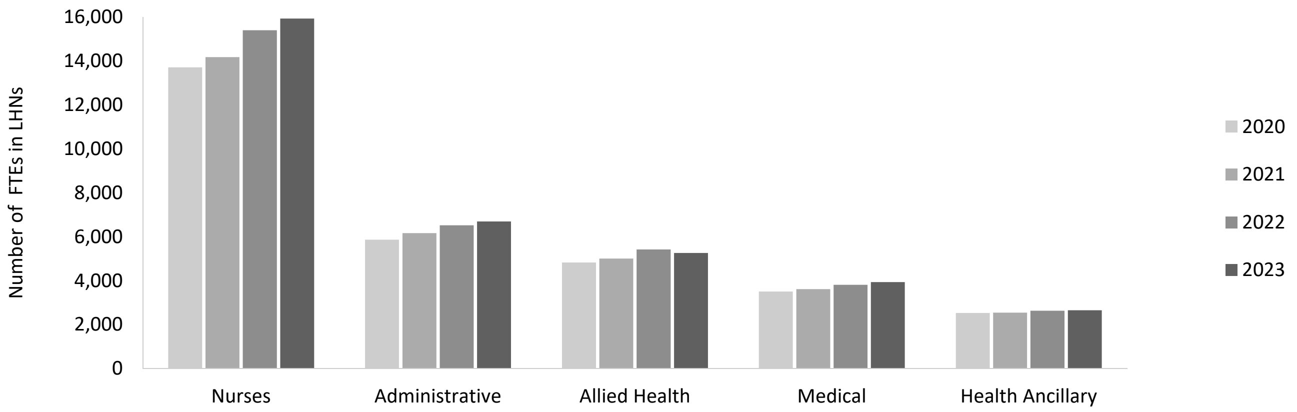
For many years we have reported on a number of controls related to clinicians that were not operating effectively in SA Health. In 2023 we again raised the following issues:

- inconsistent management of rosters
- timesheets not authorised, not submitted timely or not able to be located
- no job plans
- no rights of private practice audits
- professional development leave recording needing improvement
- recall claims not verified or not meeting policy requirements
- remote call allowance processes needing improvement
- employees commencing work before being provided a letter of offer
- country specialists working without contracts.

SA Health FTE, patient activity and key performance indicator data – unaudited

SA Health FTE data from the Commissioner for Public Sector Employment (unaudited)

The following chart shows LHN FTEs by employment category as at 30 June for the past four years.



The chart shows the rise in the number of FTEs in LHNs across all staffing areas, with the exception of Allied Health staff which is showing a slight decrease this year. The rise in the number of LHN FTEs in 2023 is due to the SA Government's election commitment to increase the number of frontline staff, in particular nurses and doctors, and the rise in the NWAU.

	2020 Number	2021 Number	2022 Number	2023 Number
Total LHN FTEs	30,505	31,510	33,788	34,478
Increase (Decrease)	447	1,005	2,278	690
Percentage increase (decrease)	1.5%	3.3%	7.2%	2%

The following table shows DHW's FTE levels as at 30 June for the past four years.

	2020 Number	2021 Number	2022 Number	2023 Number
Total DHW FTEs	1,323	1,657	1,775	1,554
Increase (Decrease)	(206)	334	118	(221)
Percentage increase (decrease)	(13.5%)	25.2%	7.1%	(12.5%)

DHW had a decrease of 221 FTEs in 2023 due to the scaling back of COVID-19 activities. Most of the increases in 2021 and 2022 were for the COVID-19 response. Since 2020 there has been an increase of 231 FTEs, meaning DHW has not returned to pre-COVID-19 numbers.

The following table shows SAAS's FTE levels as at 30 June for the past three years.

	2020 Number	2021 Number	2022 Number	2023 Number
Back office	375	371	396	408
Frontline	1,269	1,298	1,366	1,451
Total SAAS FTEs	1,644	1,669	1,762	1,859
Increase (Decrease)	55	25	93	97
Percentage increase (decrease)	3.5%	1.5%	5.6%	5.5%

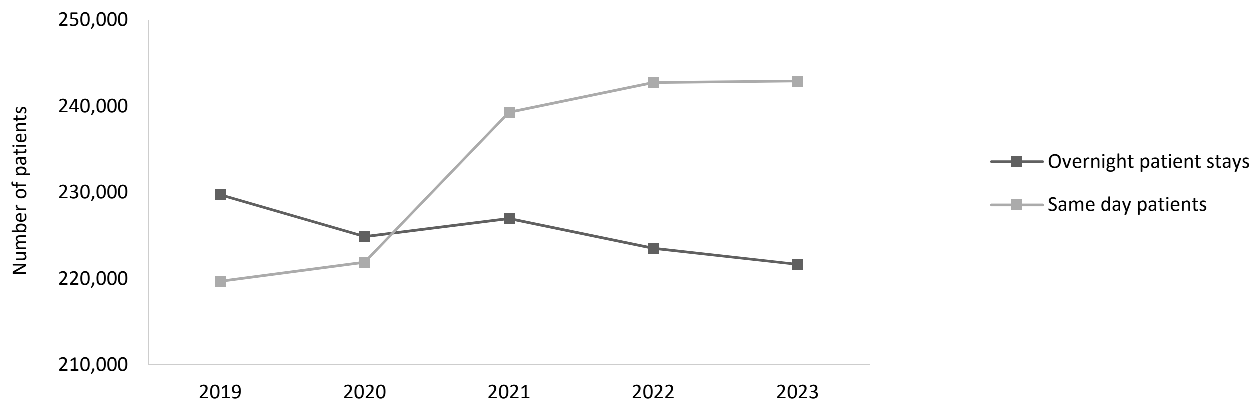
There was a 5.5% increase in FTEs between 2022 and 2023, which is above the percentage increase in the other SA Health entities. The main growth has been in emergency services staff due to the SA Government's election commitment to increase SAAS' frontline FTEs.

SA Health patient activity data from SA Health (unaudited)

DHW advised us that its activity data collation processes for 2022-23 were not complete at the time of this report, and that the figures provided are not final and are subject to change.

Inpatient activity (unaudited)

The chart below shows an overall decrease in inpatient unweighted activity of 0.4% or 1,689 patients from last year. Unweighted means the acuity or complexity of the patient has not been taken into consideration.

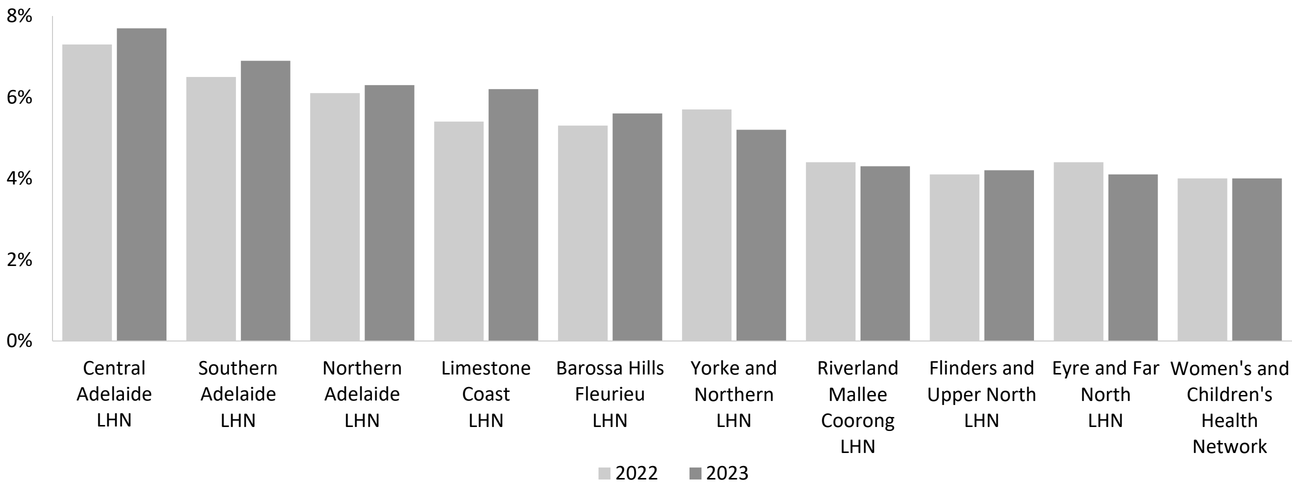


The decrease in the number of overnight stays and increase in the number of same day patients over the last four years reflect SA Health's efforts to reduce overnight stays to improve work flow and reduce ramping.

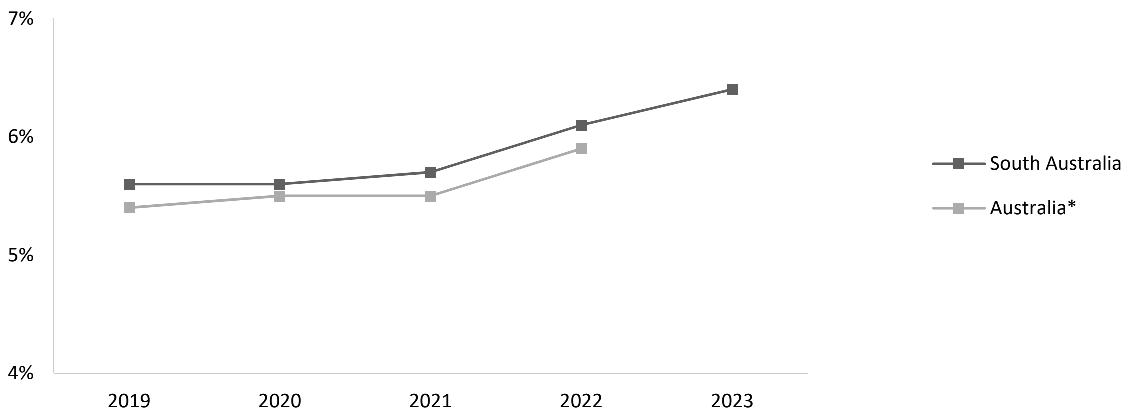
Average length of overnight hospital stays for public hospitals (unaudited)

The average length of an overnight hospital stay is one of the universal indicators for the efficiency of a hospital, with a lower percentage indicating a more efficient hospital.

The chart below shows that the average length of an overnight hospital stay in 2023 increased from the prior year for most of the LHNs, with the exception of three country LHNs and the Women's and Children's Health Network.



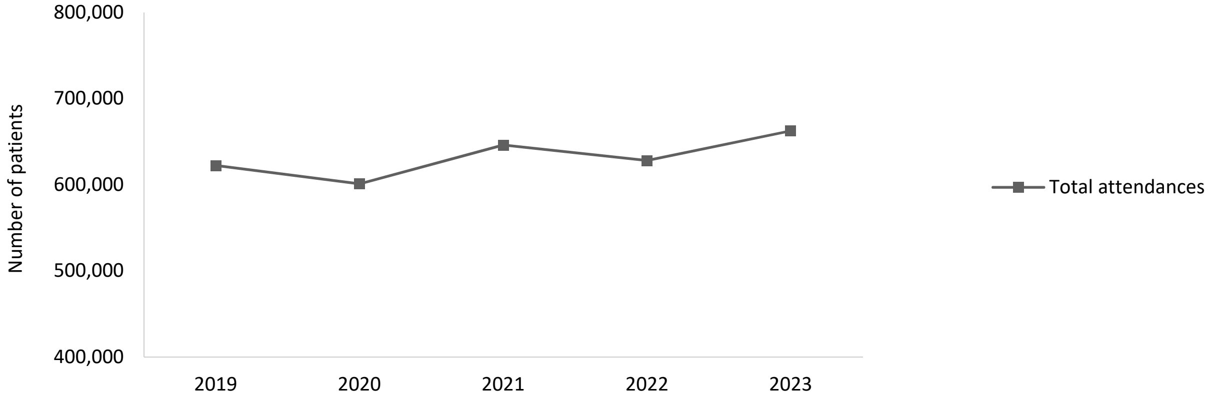
The chart below shows that, on average, patients admitted to hospital are staying longer than they did five years ago. This indicates an increase in the number of acute patients who require longer stays. It also shows that South Australia is sitting just above the Australian public hospitals percentage.



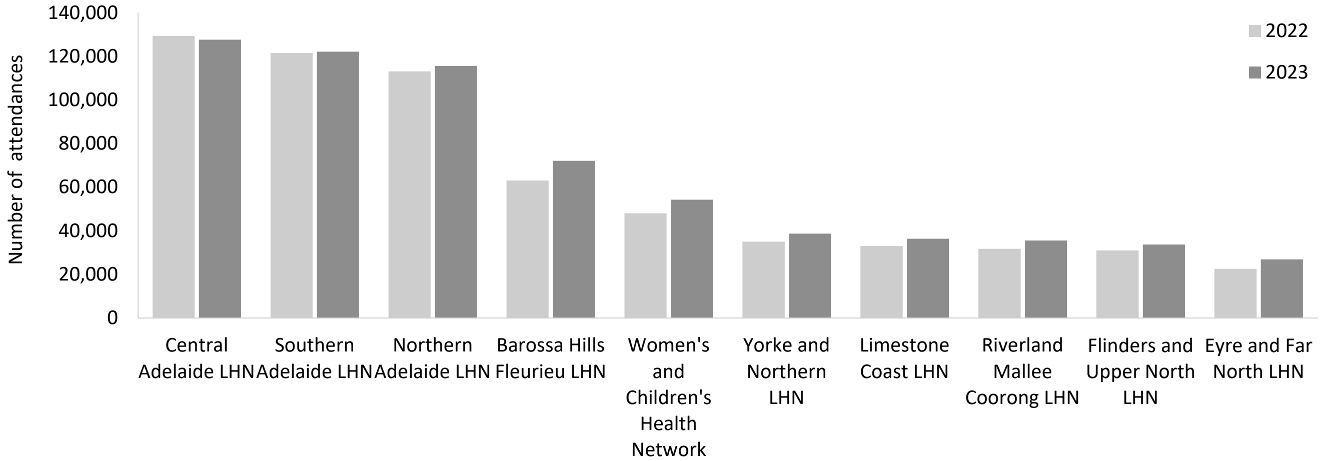
* Data was obtained from the Australian Institute of Health and Welfare website and is unaudited.

Emergency department attendances (unaudited)

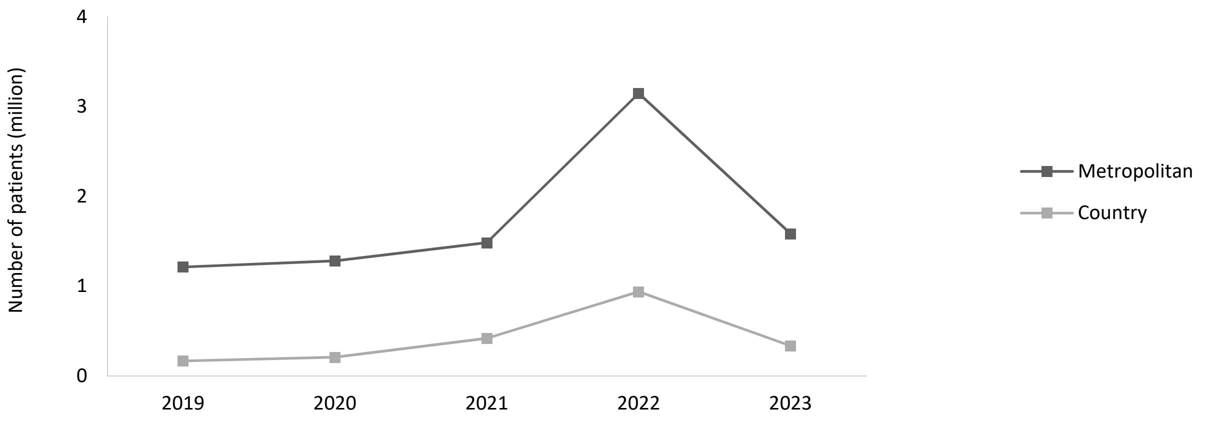
There was an increase in emergency department attendances of 5.5% or 34,437 attendances in 2023, even though SA Health implemented a number of emergency department avoidance strategies in 2022 and 2023.



The chart below shows that the Central Adelaide LHN was the only emergency department that saw a reduction in emergency department attendances.



Outpatient occasions of service (unweighted and unaudited)

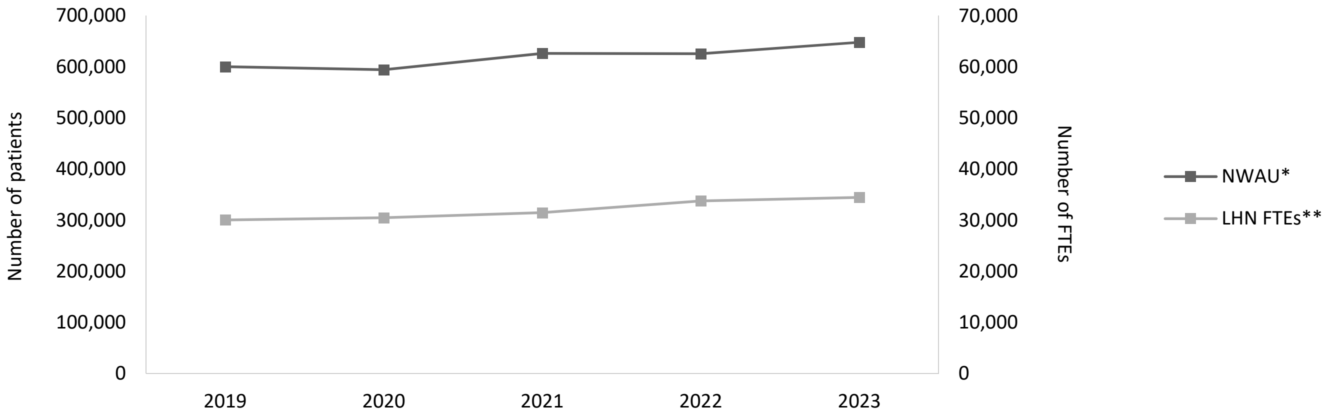


Outpatient occasions of service between 2021 and 2022 nearly doubled due to COVID-19 activity (vaccinations and PCR testing). The chart above shows that this returned to around pre-COVID-19 levels in 2023.

SA Health key performance indicators data from the Department of Treasury and Finance (DTF) budget papers (unaudited)

National Weighted Activity Units compared to LHN FTEs

We compared the LHN FTEs to the NWAU. The NWAU is the national unit for measuring health service activity and takes into account the number and acuity of patients.



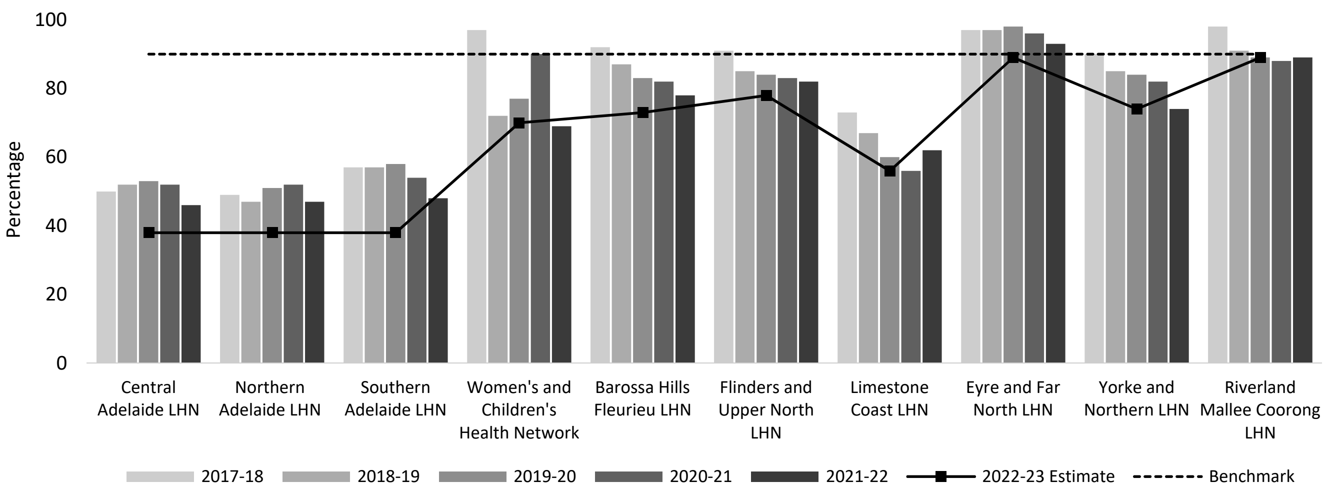
* NWAU has been obtained from the DTF budget papers, 2023 is an estimate and are unaudited.
** LHN FTEs have been obtained from the Commissioner for Public Sector Employment and are unaudited.

The chart shows the NWAU is rising slightly faster than the LHN FTEs. The rise in the NWAU between 2022 and 2023 was 3.6% while the rise in LHN FTEs was 2%. The 2024 State Budget for SA Health has been set based on a 2% rise in the NWAU, which is the average rise over previous years.

All of the data above indicates that the increase in the NWAU is related to higher acuity (complexity), as the number of inpatients activity (unweighted) had decreased but the average length of overnight stays has increased.

Percentage of patients seen, treated, discharged or admitted within four hours by LHN

One of the key performance indicators for the efficiency of an emergency department is the percentage of patients seen, treated, discharged or admitted within four hours. The benchmark percentage was set at 90% in the 2023-24 State Budget.

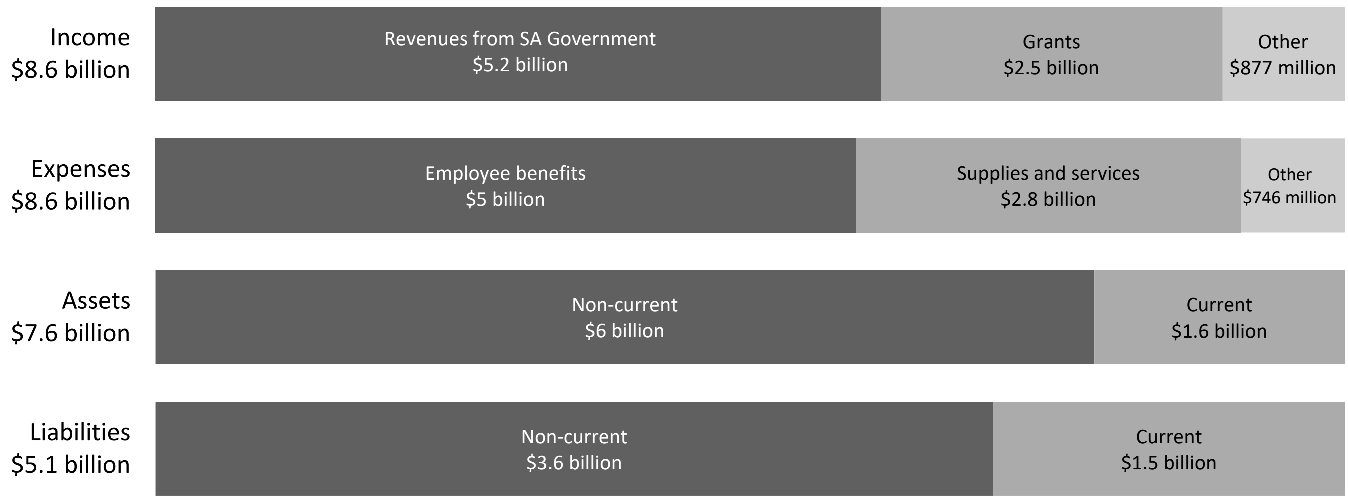


This chart shows that in 2017-18, six of the 10 LHNs were meeting the benchmark of 90% of patients seen, treated, discharged or admitted within four hours. In 2022-23 it is estimated that no LHNs will have met this target.

All LHNs have had an increase in the number of emergency department attendances, except for the Central Adelaide LHN. The Central Adelaide LHN had a decrease in emergency department attendances, but this has not improved its percentage of patients seen, treated, discharged or admitted within four hours.

SA Health

Financial statistics



37,890
SA Health FTEs

464,547
Total inpatient activity

$6 billion
Property, plant and equipment

Significant events and transactions

— Consolidated expenditure exceeded the original budgeted expenditure in the 2022-23 State Budget papers by $874 million.

— Total expenses (excluding cash returned in 2021-22) increased by $495 million (6%).

Financial report opinion

Unmodified

Controls opinion findings

— Procurement and contract management processes could be improved (all SA Health).

— Financial authorisations have not been reviewed for over 18 months (all SA Health).

— Financial authorisations in the payment systems have not been reconciled to the approved authorisations (all SA Health).

— Financial authorisations in the asset management system are not aligned to the approved authorisations (CALHN and SALHN).

— User access reviews of the asset management system could be improved (CALHN, SALHN and NALHN).

	— Annual service delivery plans for asset maintenance have not been signed (SALHN and NALHN). — Memorandums of Administrative Arrangements with the Department for Infrastructure and Transport for repairs and maintenance have not been signed (CALHN, SALHN and NALHN).
Revenue audit findings	— The unsupported patient administration system (CHIRON) is considered an extreme risk (all country LHNs). — Debt management is ineffective (SAAS and all country LHNs). — Segregation of duties for revenue officers is inadequate (SAAS, BHFLHN, FUNLHN, LCLHN and RMCLHN). — User access reviews for the revenue system (EMR) had not been performed (CALHN and NALHN).
Payroll audit findings	— Payroll processes over timesheets and rosters could be improved (CALHN, NALHN, SALHN, SAAS and WCHN). — Review of bona fides and leave returns could be improved (DHW, CALHN, SALHN, NALHN and WCHN). — Controls for ensuring clearances and checks are current could be improved (CALHN, SALHN and NALHN). — Documentation of professional development leave could be improved (all SA Health). — Rights of private practice audits have not been completed (CALHN and SALHN). — Specialists are working without contracts (all country LHNs). — Country general practitioners' back pay guidance was not comprehensive (all country LHNs).
Expense audit findings	— Invoices were paid without purchase orders (CALHN, NALHN, SAAS and all country LHNs). — User access reviews of payment systems have not been performed (CALHN, SALHN and NALHN). — Payment exception reports have not been reviewed consistently (CALHN, SALHN and NALHN).
Other audit findings	IT general controls for key systems could be improved (all SA Health).

Functional responsibility

The consolidated entity known as SA Health or the Health sector comprises:

- Department for Health and Wellbeing (DHW)
- Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)
- Central Adelaide Local Health Network Incorporated (CALHN)
- Eyre and Far North Local Health Network Incorporated (EFNLHN)
- Flinders and Upper North Local Health Network Incorporated (FUNLHN)
- Limestone Coast Local Health Network Incorporated (LCLHN)
- Northern Adelaide Local Health Network Incorporated (NALHN)
- Riverland Mallee Coorong Local Health Network Incorporated (RMCLHN)
- SA Ambulance Service Inc (SAAS)
- Southern Adelaide Local Health Network Incorporated (SALHN)
- Women's and Children's Health Network Incorporated (WCHN)
- Yorke and Northern Local Health Network Incorporated (YNLHN).

In line with AASB 10 *Consolidated Financial Statements*, consolidated financial statements comprising DHW (parent), the local health networks (LHNs) and SAAS were prepared.

Scope of the audit and audit findings

Refer to the individual SA Health agencies in this report for details of our audit scope and findings.

Interpretation and analysis of the financial report

Highlights of the financial report – SA Health (consolidated)

	2023 $million	2022 $million
Income		
Revenues from SA Government	5,249	4,845
Fees and charges and other revenue	877	854
Grants and contributions	2,452	2,448
Total income	8,578	8,147
Expenses		
Employee benefit expenses	5,048	4,677
Supplies, services and other expenses	2,892	2,830
Borrowing costs	191	130
Depreciation and amortisation	300	311
Grants and subsidies	131	119
Payments to SA Government	-	432
Total expenses	8,562	8,499
Net result	16	(352)
Total other comprehensive income	(11)	27
Total comprehensive result	5	(325)

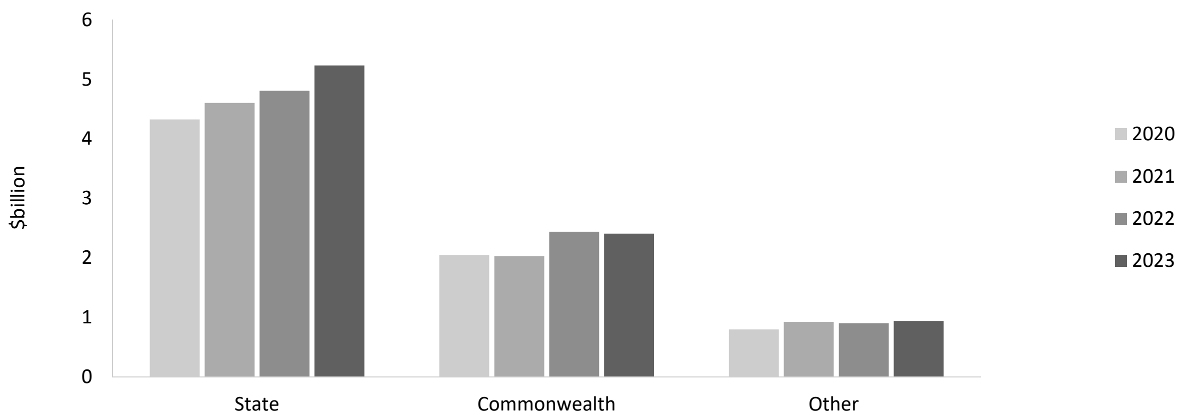
	2023 $million	2022 $million
Net cash provided by (used in) operating activities	489	(17)
Net cash provided by (used in) investing activities	(315)	(239)
Assets		
Current assets	1,579	1,510
Non-current assets	5,986	5,994
Total assets	7,565	7,504
Liabilities		
Current liabilities	1,514	1,417
Non-current liabilities	3,607	3,657
Total liabilities	5,121	5,074
Total equity	2,444	2,430

Statement of Comprehensive Income – consolidated entity

Income

The following chart shows that the main source of income for SA Health is the SA Government, and that this funding has increased by 21% over the last four years due to higher costs and rising National Weighted Activity Units (NWAUs).

Commonwealth funding is the next biggest income source, and increased in 2022 and 2023 due to the reimbursement of COVID-19 costs and rising NWAUs. Commonwealth funding is based on NWAUs and the national efficient price.



Expenses

Total expenses increased by $63 million to $8.6 billion, which comprised:

- a $371 million increase in employee benefit expenses (see ‘Employee benefit expenses’ below)
- a $13 million increase in supplies and services expenses (see ‘Supplies and services’ below)
- a $60 million increase in borrowing costs related to the rise in interest rates

- a $58 million increase in other expenses, mainly related to the write-off of project costs associated with the former site proposed for the location of new Women's and Children Hospital of $46 million, reflecting the announcement of a new location and design, and the write-off of inventory of $7 million
- offset by a $432 million decrease in payments to the SA Government, as SA Health was not required to make a cash alignment payment in 2022-23.

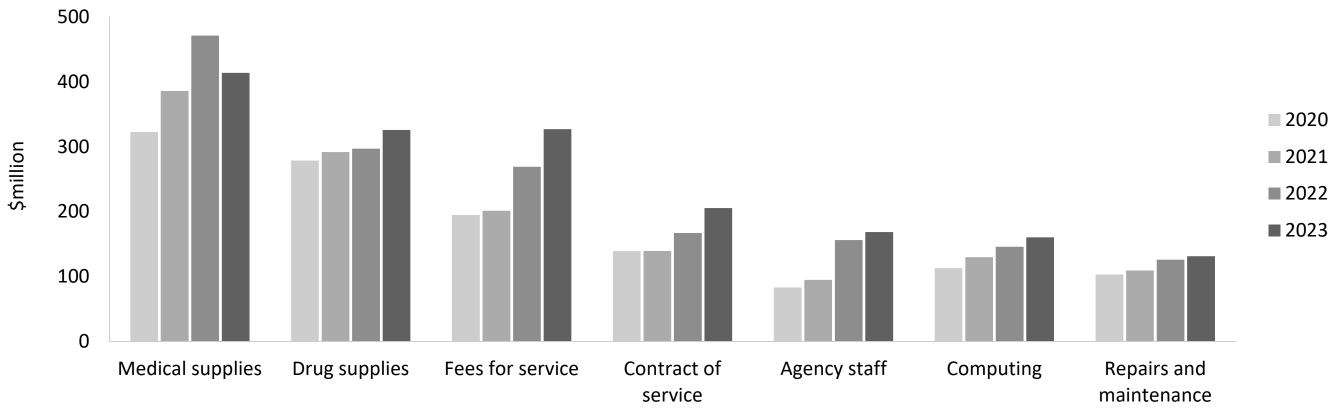
Employee benefit expenses

Employee benefits is the most significant expense and increased by $371 million (8%) in 2023, due to an increase of 565 FTEs (1.5%) and the higher cost of new pay rates in the Nursing/Midwifery (SA Public Service) Enterprise Agreement 2022 and the SA Ambulance Enterprise Agreement 2022.

For a detailed analysis of employee benefit expenses see the discussion under 'Health sector overview' in this report.

Supplies and services expenses

There are seven main categories of supplies and services that account for 63% of supplies and services expenditure, as shown in the chart below.



Supplies and services expenses increased by $13 million to $2.8 billion, mainly due to:

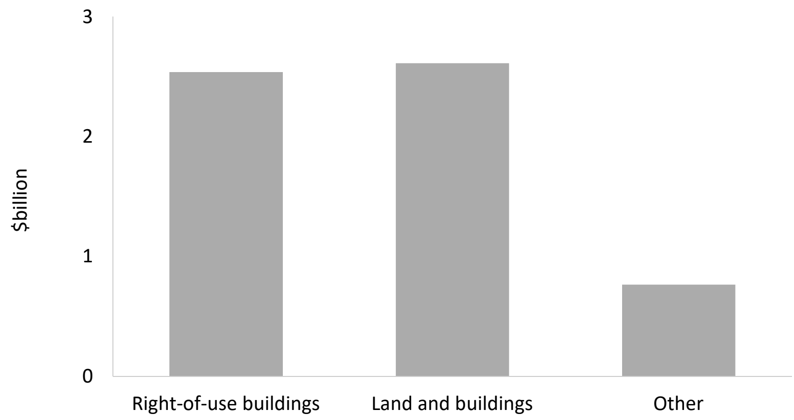
- a $67 million increase in fees for service resulting from the higher use of these services due to rising NWAUs and being unable to fill vacant positions, and the higher costs for country general practitioners and locums
- a $45 million increase in public private partnership costs due to a review of service costs paid to Spotless under the agreement
- a $39 million increase in contracts of services due to contracts transferring from Wellbeing SA, outside of SA Health, in December 2022 and the indexation of contracts
- a $29 million increase in drug supplies mainly due to the higher use and cost of cystic fibrosis drugs, offset by a $58 million decrease in medical, surgical and laboratory supplies mainly due to the easing of COVID-19 protocols
- a $70 million decrease in hotel quarantine accommodation costs due to the quarantine requirement ceasing on 23 November 2021

- a $39 million decrease in cost of goods sold due to the easing of COVID-19 protocols, which reduced inventory sales to entities outside SA Health.

Statement of Financial Position – consolidated entity

Assets

SA Health's assets are dominated by non-current property, plant and equipment assets, representing 78% of total assets. The chart below shows that right-of-use buildings and owned land and buildings are the predominant categories.



The carrying value of property, plant and equipment increased by $9 million. Key movements during the year were:

- $285 million of depreciation and amortisation expenses
- a $46 million transfer of work in progress to expenditure for the new Women's and Children's Hospital due to the SA Government changing the location of the new hospital, meaning most of the planning for the previous site could not be used at the new site
- offset by additions of $343 million, including $282 million in capital works in progress.

Liabilities

Employee benefits liabilities

Employment liabilities are 34% of total liabilities at 30 June 2023, comprising:

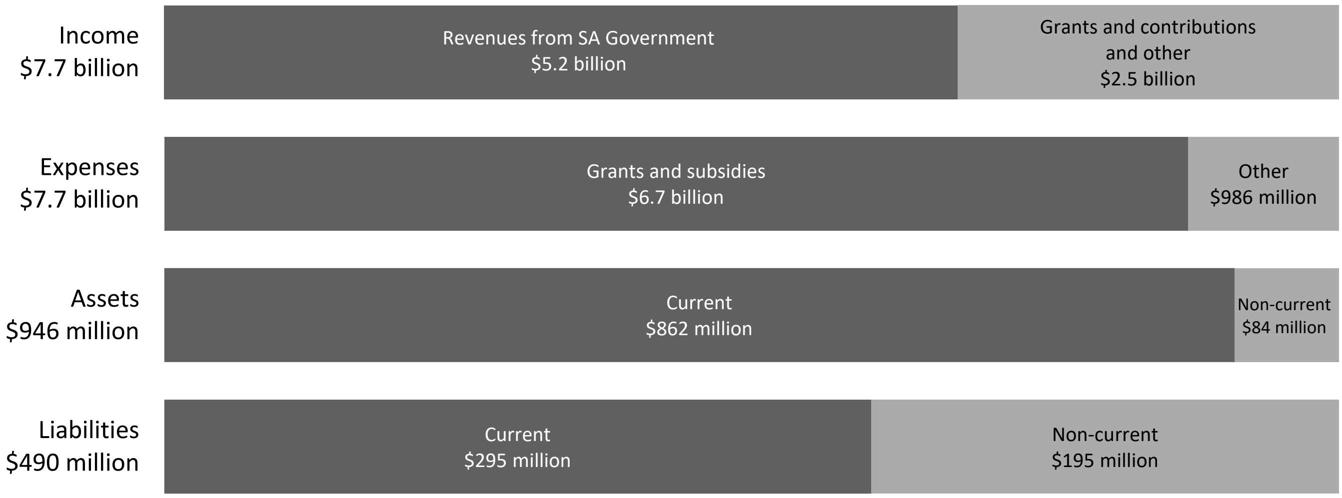
- $1.4 billion ($1.3 billion) of employee benefits liabilities
- $122 million ($100 million) of related on-costs (included in payables)
- $182 million ($177 million) for the provision for workers compensation. The workers compensation provision was estimated by an independent actuary as at 30 June 2023.

Financial liabilities

Financial liabilities are $2.7 billion or 53% of total liabilities at 30 June 2023 and are related to right-of-use assets of $2.8 million.

Department for Health and Wellbeing (DHW)

Financial statistics



1,554
FTEs – DHW

Significant events and transactions

The Integrated Care Systems Directorate, which manages programs aimed at hospital avoidance such as the 'My Home Hospital' and SA Community Care programs, transferred from Wellbeing SA to DHW in December 2022.

Financial report opinion

Unmodified

Controls opinion findings

- Procurement processes could be improved.
- SA Health's contract register did not include full details of all contracts and not all contracts were reported to Procurement Services SA as required.
- Financial authorisations have not been reviewed for over 18 months.
- System financial authorisation limits were not agreed to approved authorisations and we noted discrepancies.

Other audit findings	— 60% of SA Health's policies had not been reviewed by their identified review dates. — Professional development leave recording needs improvement. — Bona fide and leave taken reports were not reviewed promptly. — Deficiencies in termination controls were found. — IT general controls for several key systems need to improve.

Functional responsibility

DHW is an administrative unit established under the *Public Sector Act 2009*. It is a funder or purchaser of health services, policy setter, strategic planner and provider of services.

DHW's role is 'system leader' of SA Health and it sets strategic direction, statewide policy and manages the performance of the public health system.

The Chief Executive of DHW is charged with the management, administration and provision of health services to facilitate the efficient and effective operation of the public health system.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

Some financial services are provided to DHW by Shared Services SA (SSSA). We considered the work of DHW's internal auditors in designing and performing our audit procedures.

Controls opinion

We reviewed controls over procurement and contract management, approval of payments, buildings and improvements, grant revenue and bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive of DHW. The main findings and DHW's responses are discussed below.

Controls opinion findings

Procurement processes could be improved

We reviewed a sample of procurements that DHW finalised in 2022-23 to ensure they were performed in line with policies and procedures and appropriately approved.

We also assessed DHW's progress in implementing Treasurer's Instruction 18 *Procurement* (TI 18) and the general Procurement Services SA requirements for procurement.

We found the following areas needed improvement.

Procurement responsibilities were not clear

We found that SA Health's policies and procedures were not clear about who is responsible for procurements above $550,000, with its internal procurement framework referring to a responsibility matrix that was not available at the time of our review.

DHW responded that it would review and amend it policies and procedures to ensure roles and responsibilities are clear.

No contract management plan for an established contract

We found there was no contract management plan for a significant and established contract.

DHW stated that it would develop and implement a contract management plan by August 2023.

Conflict of interest forms could not be located

For one of the significant procurements we reviewed, there were a number of evaluation team member conflict of interest forms that could not be located.

DHW advised that it would remind staff of the requirements for conflict of interest forms.

Procurements not on the forward procurement plan

None of the procurements we reviewed were included on the forward procurement plans DHW provided to Procurement Services SA, despite all of them being over the threshold for inclusion.

DHW advised us that it was working through how it will comply with the forward procurement plan requirements, which it expected to complete in August 2023.

Not all contracts were reported to Procurement Services SA as required

We found 97 contracts on SA Health's contract register that should have been reported to Procurement Services SA but were not.

SA Health responded that it would implement a control to ensure procurement activities are reported to Procurement Services SA by 1 January 2024.

Contract register does not include all contract details

We found that the SA Health contract register was missing some key contract details, including some that need to be reported to Procurement Services SA.

SA Health responded that it was upgrading the contract register and would assess the contract details recommended by Procurement Services SA, with a completion date of 1 January 2024.

Approval of payments

SA Health relies on established system-based controls to help ensure only those employees with delegated authority can incur expenditure, enter into agreements and make payments. We reviewed these controls and identified the following areas needing improvement.

Financial authorisations have not been reviewed and approved for over 18 months

Treasurer's Instruction 8 *Financial Authorisations* (TI 8) requires all chief executives to maintain a register of positions authorised to exercise financial authorisations and review it at least annually.

The last review of the SA Health financial authorisations was in June 2021. DHW reported this breach of the TI 8 requirement to the Department of Treasury and Finance in August 2022 and committed to reviewing the financial authorisations by 31 October 2022. We found this had not occurred.

DHW advised us that the financial authorisations would be reviewed and approved by July 2023.

System authorisation limits are not agreed to approved authorisations and we noted discrepancies

There are frequent changes to SA Health financial delegations and employee positions as staff move or roles change. Incorrect financial authorisation limits in payment systems can allow payments to be made outside of the delegated authority. Payments made without adequate authorisation increase the potential for invalid or inappropriate transactions.

In 2023, we found that no review was performed to ensure the financial authorisation limits in key procurement, payment and financial systems aligned with the financial authorisations approved by the Chief Executive. We have been reporting this issue since 2018.

We again found instances where employees had system delegations that differed from their approved financial authorisation limit.

DHW responded that it would perform an annual review and that changes identified would be processed to systems. It also noted that some systems are now integrated so that changes can be made automatically to multiple systems once identified.

Other audit findings

60% of SA Health's policies were not reviewed by their identified review dates

DHW is responsible for setting statewide policies for SA Health and is therefore responsible for ensuring SA Health's policies are reviewed and up to date.

There are 190 SA Health policies and we found that 116 or 60% of them were past their review date.

We recognise that the COVID-19 pandemic has affected SA Health's ability to review policies, but 45 or 39% of them had a review date prior to the start of the pandemic.

We understand that DHW is migrating policies into a new policy governance structure, which includes updating and rescinding them. This was due to be completed by 30 June 2023.

DHW advised us that all policies would be reviewed and migrated to the new policy governance framework by December 2023.

Professional development leave recording needs improvement

We have previously raised concerns about the recording of medical officers' professional development (PD) leave in the SA Health Professional Development Reimbursement System.

In 2023 we found there were still inconsistencies between the reimbursement and payroll systems that had not been detected, investigated or corrected by DHW.

DHW's response indicated that it would address this issue by changing the process to ensure all PD leave is processed to the payroll system and a payroll system report then used to update the PD reimbursement system.

Payroll

Bona fide and leave taken reports not reviewed promptly

A significant number of DHW employees are paid automatically without reference to a timesheet. It is therefore important to ensure management regularly reviews bona fide and leave taken reports to ensure employees are being paid accurately and all leave has been recorded.

In previous years we have reported that these reports have not been reviewed and approved promptly.

In 2022-23 we again found that 39% of bona fide and 44% of leave taken reports were not reviewed and approved promptly.

DHW responded that it would regularly review compliance. It will also continue to educate staff and provide reporting to executive to help increase compliance.

Deficiencies in termination controls

We identified an instance where an employee terminated their employment, but remained on the payroll system on leave without pay for seven and a half weeks. The former employee was then paid for another eight weeks, totalling $17,000, before their termination was processed in the payroll system.

This demonstrates a breakdown in the controls that ensure employees who are on unpaid leave or have been terminated are not paid.

DHW responded that it had revised and improved its practices for employees who have terminated.

IT general controls for key systems need improvement

In 2022-23, we conducted reviews of IT general controls for key DHW systems. We reviewed:

- Oracle Corporate System (OCS), which is used for accounts payable, accounts receivable, general ledger and fixed assets
- Oracle Business Intelligence Enterprise Edition (Sharp), which is a data warehouse and report management system
- Electronic Medical Records (EMR) system, which is a statewide electronic health record system for patient medical records and patient revenue.

We identified weaknesses in the following controls:

- user access management in all systems
- patch management in OCS and EMR
- audit logging in OCS and EMR
- disaster recovery in Sharp and EMR
- change management in EMR.

We also identified that the OCS application and database needs to be updated to enable vendor support.

These findings increase the risk of unauthorised system access and inappropriate changes to data.

DHW responded positively to our findings and recommendations and expects to complete all remedial actions for EMR by December 2023 and OCS and Sharp by June 2025.

Interpretation and analysis of the financial report

Highlights of the financial report – Department for Health and Wellbeing (parent)

	2023 $million	2022 $million
Income		
Revenues from SA Government	5,249	4,845
Grants and contributions	1,961	2,004
Fees and charges and other revenue	492	480
Total income	7,702	7,329
Expenses		
Grants and subsidies	6,738	5,986
Supplies, services and other expenses	771	1,405
Staff benefit expenses	215	241
Total expenses	7,724	7,632
Net result	(22)	(303)
Net cash provided by (used in) operating activities	30	(269)
Assets		
Current assets	862	841
Non-current assets	84	90
Total assets	946	931
Liabilities		
Current liabilities	295	275
Non-current liabilities	195	187
Total liabilities	490	462
Total equity	456	469

Statement of Comprehensive Income – Department for Health and Wellbeing (parent)

Revenues

Revenues from the SA Government

Revenues from the SA Government increased by $404 million (8%) to $5.2 billion. The main balance is appropriation of $5.1 billion, which increased due to the rising National Weighted Activity Unit (NWAU) and costs of services.

Revenues from the SA Government also included:

- $36 million ($59 million) in Commonwealth grants received through the Department of Treasury and Finance. The decrease this year is mainly due to Commonwealth capital grants being lower by $17 million as the Strathalbyn aged care redevelopment and the Repat Health Precinct brain and spinal injury facility were completed in 2022

- $94 million ($4 million) in contingency funding to fund wage increases for the Nursing/Midwifery (SA Public Sector) Enterprise Agreement 2022 of $42 million and the SA Ambulance Enterprise Agreement 2022 of $52 million
- $1 million ($3 million) in funding for targeted voluntary separation packages.

Grants and contributions

Income from grants and contributions totalled $2 billion and mainly comprised:

- $1.7 billion ($1.6 billion) of Commonwealth National Health Reform Agreement funding. The increase this year was due to the rising NWAU and a higher national efficient price
- $197 million ($256 million) in funding under the National Partnership on COVID-19 Response, with the decrease due to this funding ceasing on 31 December 2022
- $41 million ($50 million) of Department of Veterans' Affairs funding, with the decrease reflecting a top-up payment received in 2022
- $26 million ($25 million) of Commonwealth Transition Care Program funding.

The section of this report titled 'Health sector overview' discusses Commonwealth funding to support the COVID-19 response further.

Fees and charges and other revenue

Fees and charges decreased by $47 million to $229 million, comprising:

- a $26 million decrease in the sale of medical supplies, which is due to less inventory being sold as COVID-19 protocols eased
- a $16 million decrease in hotel quarantine charges, as hotel quarantine ceased in November 2021
- a $4 million decrease for interstate patient transfer revenue due to treating less interstate patients in South Australian public hospitals.

Other revenue increased by $59 million to $262 million and mainly comprised:

- a $26 million increase in health and insurance recoveries
- a $16 million one-off recovery from Wellbeing SA in relation to the transfer of the Integrated Care Systems Directorate
- a $9 million gain from the disposal of non-current assets related to the sale of a surplus CBD property
- a $7 million increase in resources received free of charge, mainly in relation to the Central Adelaide Local Health Network Incorporated transferring surplus CBD property to DHW.

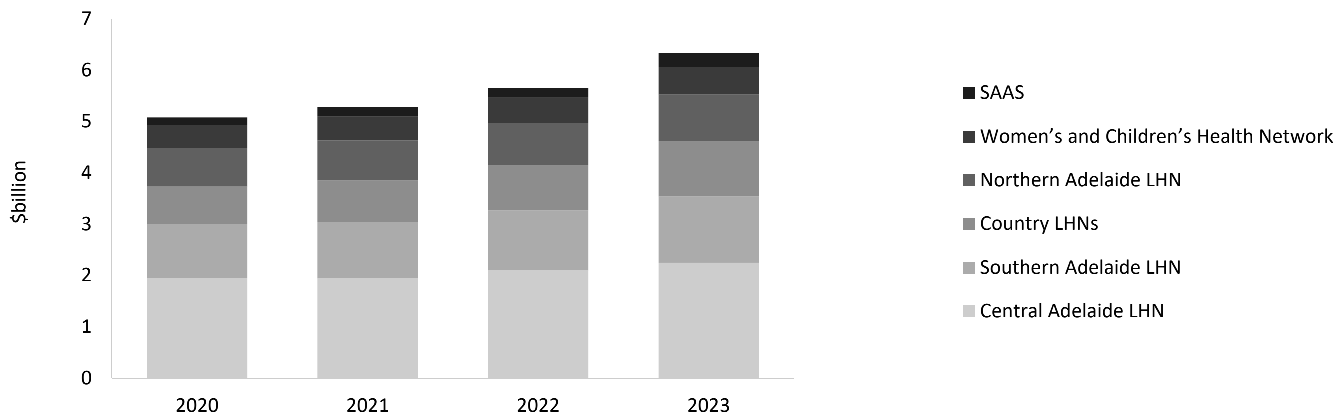
Expenses

Grants and subsidies

Grants and subsidies expense increased by $752 million to $6.7 billion and consists mainly of operating and capital grants to local health networks (LHNs) and the SA Ambulance Service Inc (SAAS).

Operating funding to health service entities has increased by $1.2 billion over four years

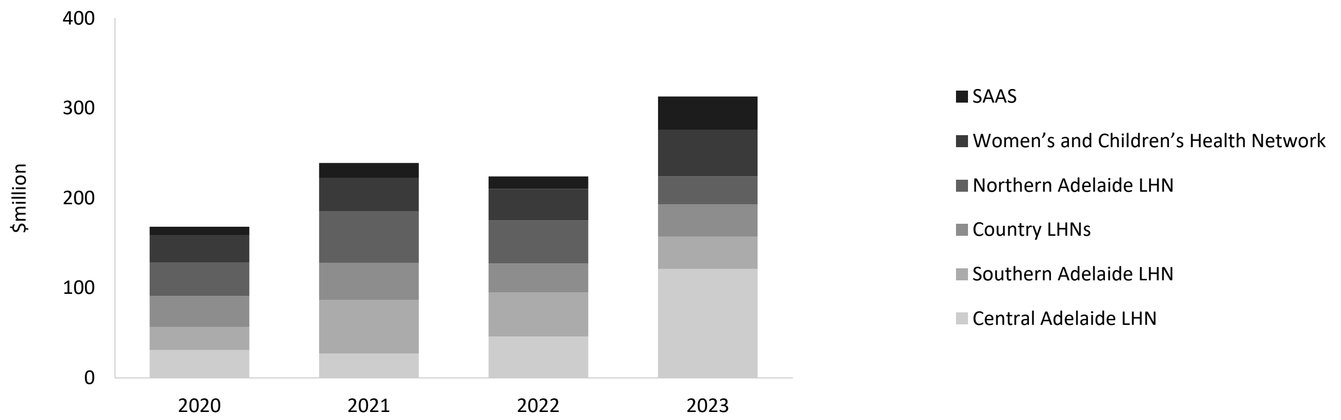
Operating funding to health service entities increased by $655 million (12%) to $6.3 billion to meet the rising NWAU and costs of providing services. The following chart shows operating funding provided to health service entities over the last four years.



Operating funding has increased by 24% over four years, from $5.1 billion in 2020 to $6.3 billion in 2023.

Capital funding to incorporated health services

Total capital funding increased by $87 million (39%) to $313 million due to capital projects commencing, including projects that were a result of election commitments. The following chart shows capital funding to health services for the four years to 2023.



Capital funding has increased by 86% over four years, from $168 million in 2020 to $313 million in 2023.

Supplies and services and other expenses

Supplies and services expenses decreased by $206 million (22%) to $719 million. The significant decreases in supplies and services were:

- a $109 million decrease in hotel quarantine accommodation, security and housekeeping due to hotel quarantine ceasing in November 2021
- a $67 million decrease in the cost of goods sold to incorporated health services due to the decline in the use of personal protective equipment and other medical supplies for COVID-19

- a $27 million decrease in medical, surgical and laboratory supplies due to the easing of COVID-19 protocols
- a $25 million decrease in other supplies and services due to one-off costs in 2021-22 in relation to opening the border in November 2021
- offset by a $25 million increase in contract of services related to the transfer of contracts from Wellbeing SA for the Integrated Care Systems Directorate.

There was also a cash alignment payment to the SA Government of $432 million in 2022 that was not made in 2023.

Staff benefit expenses

Staff benefit expenses decreased by $26 million (11%) due to a decrease of 221 FTEs (12.5%) to 1,554 as at 30 June 2023. This reflects a decrease in employees dedicated to SA Health's COVID-19 response.

Statement of Financial Position – Department for Health and Wellbeing (parent)

Assets

Current assets increased by $21 million to $862 million as at 30 June 2023 and comprised:

- $563 million ($515 million) of cash and cash equivalents
- $234 million ($239 million) of receivables, which includes:
  - $149 million ($168 million) in interstate patient debts owed by other jurisdictions for patients treated in South Australian public hospitals
  - $35 million ($24 million) in general debtors, including $16 million from Wellbeing SA related to the transfer of the Integrated Care Systems Directorate and $9 million for outstanding hotel quarantine fees
  - $33 million ($26 million) in GST input tax recoverable
- $64 million ($87 million) of inventories, a decrease of $23 million primarily related to the use of stockpiled inventory from the COVID-19 response and preparedness.

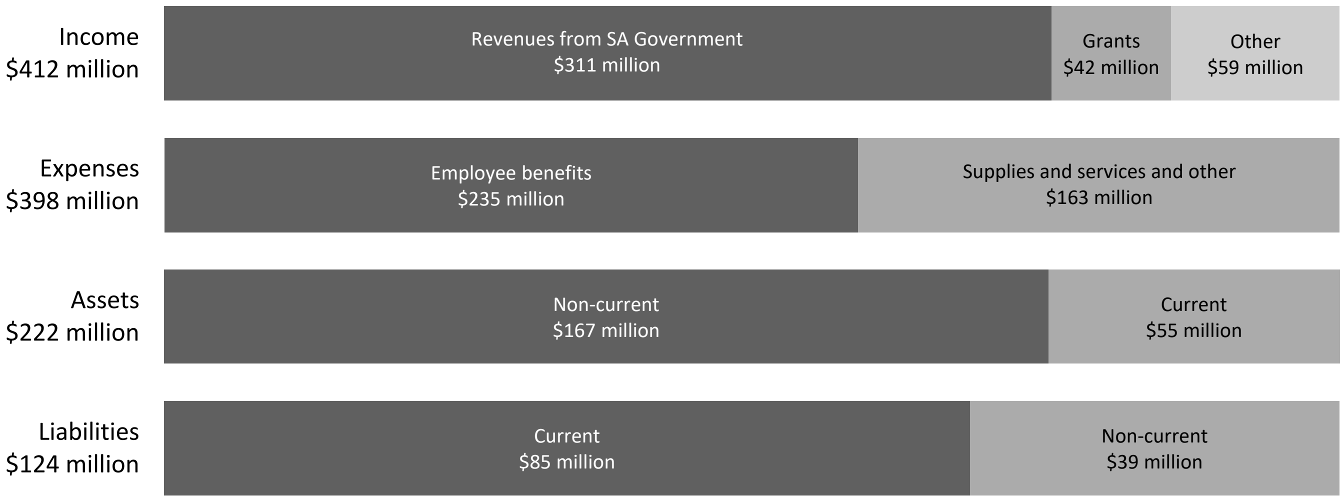
Liabilities

Total liabilities increased by $27 million to $490 million at 30 June 2023 due to:

- a $10 million increase of health services workers compensation due to SA Health entities. This increase reflects the actuarial assessment of these liabilities at 30 June 2023
- a $17 million increase in creditors and accrued expenses, mainly due to capital works completed but not paid for.

Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)

Financial statistics



2,061
FTEs

13
Hospitals and health service sites

32,060
Total inpatient activity

Significant events and transactions

The new Mt Barker Emergency Department opened in June 2023.

Financial report opinion

Unmodified

Audit findings – BHFLHN

— Invoices were paid without purchase orders.

— Sundry debt management needs improvement.

— There was inadequate segregation of duties for revenue officers.

Audit findings – RSS
(applies to all country LHNs)

— The unsupported patient administration system is an extreme risk.

— Domiciliary care debt management needs improvement.

— Specialists are working without a contract.

— Country general practitioners' backpay guidance was not comprehensive.

— Contracts were extended without a procurement process.

Functional responsibility

BHFLHN was established to provide health services in the Barossa, Hills and Fleurieu region of South Australia. The map of South Australia below shows the BHFLHN region.

Rural Support Service (RSS)

The RSS is within BHFLHN's governance and financial statements, however it is accountable to all six country local health networks (LHNs) through administrative arrangements.

The RSS provides a range of specialist clinical and corporate functions to the six country LHNs including business services, governance and risk assurance, workforce development and clinical services development and support. The country LHNs reimburse the RSS for the cost of these services.

Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for BHFLHN are provided by several agencies:

- BHFLHN, including the RSS
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit covered the major financial systems at DHW, BHFLHN, RSS and SSSA to obtain sufficient evidence to form an opinion on the financial report. A chartered accounting firm assisted the Auditor-General with the audit of BHFLHN.

Specific areas of audit attention in 2022-23 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings to the CEO of BHFLHN. The main findings and BHFLHN's responses are discussed below.

Audit findings

BHFLHN

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item is on the approved purchase order exemption list or the purchase is below $2,200.

In 2023 we found some improvement in BHFLHN's use of purchase orders, but there were still payments made without purchase orders for which the exemptions did not apply.

This increases the risk of payments being made for goods or services not received or not at the agreed price.

BHFLHN advised us that it would continue to review invoices without purchase orders and implement the recommendations of a recent internal audit.

Sundry debt management needs improvement

The follow-up and management of sundry debt is performed by SSSA. We reviewed a sample of long outstanding sundry debts and found instances where there had been insufficient debt follow-up.

BHFLHN responded that it would ensure there is monthly monitoring and regular follow-up with SSSA.

Inadequate segregation of duties for revenue officers

We found that admission and discharge dates and charge types could be modified by revenue officers in the CHIRON patient administration system, increasing the risk of inappropriate adjustments to invoiced fees.

BHFLHN advised us that a new patient administration system, EMR, will be implemented across BHFLHN by November 2023, therefore no changes will be made to CHIRON.

RSS

The findings below relate to controls performed by RSS staff and impact all country LHNs.

Unsupported patient administration system – CHIRON

CHIRON is used across all country LHNs as their main patient administration system, which includes private patient invoicing and managing fee-for-service charges for medical officers.

In August 2016, SA Health entered into a settlement for a licence to continue to use CHIRON, which has been extended several times and does not include vendor support.

Using software products past their end of life and without support increases the risk of security vulnerabilities, software incompatibilities and reliability issues.

In 2020-21 all six country LHNs identified their dependency on the unsupported CHIRON as an extreme risk and escalated this risk to Digital Health SA and DHW.

We understand that the rollout of EMR to replace CHIRON was approved for all country LHNs in 2022-23. This process will take a number of years and is expected to be completed in 2025-26.

BHFLHN advised us that BHFLHN, LCLHN and FUNLHN will begin rolling out EMR across their sites in 2023-24.

Domiciliary care debt management needs improvement

The follow-up and management of domiciliary care debt is performed by the RSS for all country LHNs. As at 28 February 2023 we found substantial debt older than 180 days for all country LHNs.

BHFLHN responded that it would continue discussions with the system support team and SSSA about getting access to manage debts. It will also discuss debt management resourcing options with the country LHNs.

Specialists working without contracts

Specialists provide public medical services at all country hospitals and charge a fee for this service.

Since 2018 we have been reporting that specialists are providing services in all country LHNs without contracts. We have also noted that there is:

- no overarching agreement defining terms and conditions for contracts with specialists
- no policies or procedures to provide guidance on entering into contracts with specialists
- no contract register for specialists with the information needed for effective contract management.

BHFLHN advised us that it would work with its Legal Services Unit to develop a contract template and that executed contracts will be put on its procurement and contract management system.

Country general practitioners' backpay guidance was not comprehensive

A memorandum of understanding (MOU) was signed in January 2022 between the country LHNs, the Australian Medical Association and the Rural Doctor's Association of South Australia, documenting the remuneration and conditions for rural South Australian general practitioners (GPs). Each GP was also required to sign an agreement.

The MOU included a new offsite sessional payment. A fact sheet was issued stating that retrospective payments back to February 2022 would be made to GPs once they signed their agreement. No guidance was provided on the retrospective payment of the new offsite sessional payments.

Consequently, backpay amounts were calculated based on no GPs being paid offsite sessional payments and this was recorded as a liability in the 2021-22 financial statements. After 30 June 2022 it was decided that GPs were able to opt to be back paid the offsite sessional payment. We understand that no legal advice was obtained to support this change. The change resulted in a significant increase in costs.

We recommended that future guidance be more detailed, cover all scenarios and be supported by legal advice.

BHFLHN agreed with our recommendation and stated that it would incorporate this into the required tasks and actions for the 2024 GP agreement negotiations.

Contracts extended without a procurement process

We noted a number of contracts were extended through contract variations after all contract extension options were exhausted. The contract variations extended the contracts from two to five years, and one contract had significant changes made when compared to the original contract.

It is not considered good practice to extend contracts once the contract extension options are exhausted, particularly when the extension is for more than a year and significant changes are made to the original contract conditions. We understand that some of these extensions were due to the COVID-19 pandemic.

BHFLHN responded that it will provide all country LHNs with a contract status report detailing contract expiry dates so that they can review, consider and plan to reduce the number of contract extensions.

Interpretation and analysis of the financial report

The consolidated accounts of BHFLHN include the incorporated Health Advisory Councils (HACs) within the BHFLHN region and unincorporated country HACs. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and strategic initiatives.

We are only showing the consolidated amounts below, as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2023 $million	2022 $million
Income		
Revenues from SA Government	311	256
Fees and charges	26	19
Grants and contributions	42	35
Other income	33	36
Total income	412	346
Expenses		
Staff benefit expenses	235	203
Supplies and services and other expenses	154	144
Depreciation and amortisation	9	9
Total expenses	398	356
Net result	14	(10)
Assets		
Current assets	55	44
Non-current assets	167	153
Total assets	222	197
Liabilities		
Current liabilities	85	76
Non-current liabilities	39	37
Total liabilities	124	113
Net assets	98	84

Statement of Comprehensive Income

Revenues

Revenues from SA Government

BHFLHN's revenues from the SA Government are received from DHW and were 75% of its total income. They comprised:

- $288 million ($237 million) in operating funding, with the increase reflecting the rise in the National Weighted Activity Unit (NWAU) and the costs of providing health services
- $23 million ($19 million) in capital funding related mainly to the new Mt Barker Emergency Department development.

Fees and charges

Fees and charges increased by $7 million due to:

- a $6 million increase in other user charges and fees due to revenue related to the SA Virtual Emergency Service being reclassified from other income after a change in the funding arrangements
- a $1 million increase in residential and aged care charges due to a rise in the number of residents in the Strathalbyn aged care facility. A redevelopment of this facility was completed in 2022.

Grants and contributions

Grants and contributions increased by $7 million due to:

- a $5 million increase in Commonwealth aged care subsidies due to the higher number of aged care residents at the Strathalbyn aged care facility
- a $1 million increase in Commonwealth grants related to increased home care packages
- a $1 million increase in private grants for cardiac services.

Other income

Other income decreased by $3 million, mainly due to the revenue related to the SA Virtual Emergency Service being reclassified to fees and charges.

Expenses

Staff benefit expenses

Staff benefit expenses represent 59% of total expenses and increased by $32 million (15%) due to:

- a $23 million rise in salaries and wages due to an increase of 114 FTEs. This reflects the new Mt Barker Emergency Department moving from an outsourced model to a staffed arrangement, and the higher number of aged care residents at the Strathalbyn aged care facility. There were also increased costs due to the new Nursing/Midwifery (SA Public Sector) Enterprise Agreement 2022
- a $4 million increase in superannuation due to the rise in the superannuation guarantee percentage
- $3 million in additional long service leave expenses.

Supplies and services expenses

Supplies and services expenses increased by $14 million due to:

- a $3 million increase in medical, surgical and laboratory supplies mainly due to the higher cost of outside imaging
- a $3 million increase in fee-for-service due to the NWAU and being unable to fill vacant positions, and the higher costs of the new GP agreements
- a $2 million increase in the costs of contract services
- a $2 million increase in patient transport due to the growth in both cost and use, which returned to pre-COVID-19 activity. Patient transport expenses are for all country LHNs.

Statement of Financial Position

Assets

Current assets increased by $11 million due to:

- a $5 million increase in cash and cash equivalents

- a $4 million increase in receivables due to debtors related to the Commonwealth home support programme and recharges
- a $2 million increase in other financial assets due to higher numbers of new residents in the Strathalbyn aged care facility. These amounts primarily relate to the investment of aged care refundable deposits.

Property, plant and equipment

As at 30 June 2023, property, plant and equipment represented 74% of total assets. The most significant components are $141 million ($131 million) of land and buildings and $17 million ($13 million) of capital works in progress.

Liabilities

Current liabilities of $85 million exceeded current assets of $55 million at 30 June 2023.

Cash and cash equivalents of $22 million were sufficient to meet current payables of $17 million. BHFLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses continuity of operations.

Staff-related liabilities

Staff-related liabilities are 62% of total liabilities at 30 June 2023, which rose due to the increase in FTEs. It comprises:

- $64 million ($59 million) of staff benefits liabilities
- $5 million ($4 million) in related on-costs
- $8 million ($6 million) of provisions for workers compensation.

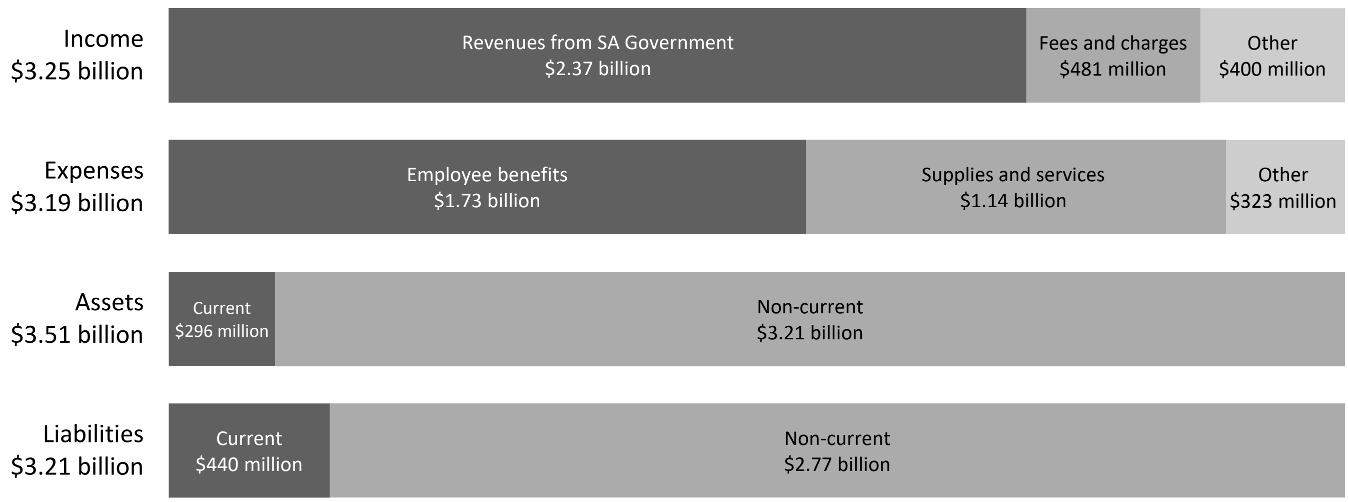
Note 22 of BHFLHN's financial report provides further information on the independent actuarial assessments of the provision for workers compensation.

Other liabilities

Other current liabilities are 26% of total liabilities and mainly comprise residential aged care bonds. These bonds increased by $7 million to $25 million ($18 million) due to the number of new residents at the Strathalbyn aged care facility. They are refundable accommodation contributions or deposits made by residents when they enter aged care facilities.

Central Adelaide Local Health Network Incorporated (CALHN)

Financial statistics



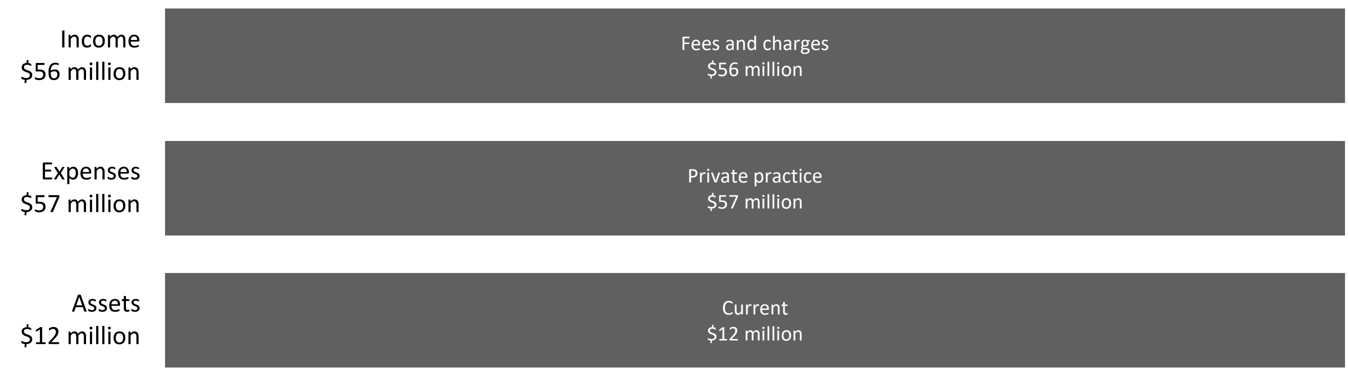
12,668
FTEs

$1.7 billion
Payments to staff

$187 million
Borrowing costs for RAH

141,162
Total inpatient activity

Administered items



Significant events and transactions

- Quarterly service payments rose by $87 million to $347 million for the Royal Adelaide Hospital (RAH) and were paid in line with the project agreement.
- COVID-19 testing sites were either closed or operating at reduced hours.
- CALHN received increased operational funding of $149.5 million.

Financial report opinion	**Unmodified**
Controls opinion findings	— There were inconsistencies and weaknesses in the approach to monitoring employee screening checks. — The rate of completed performance reviews could be improved, as it does not meet the benchmark of 80%. — Some medical officers started their employment without a letter of offer or pre-employment and screening checks in place. — Some senior medical practitioners and consultants did not have job plans. Those that did exist did not meet the requirements of the enterprise agreement. — Processes to ensure all medical officers' timesheets were approved and submitted promptly were not effective. — The memorandum of administrative arrangements for the Across Government Facilities Management Arrangements (AGFMA) was unsigned. — Statewide Clinical Support Services (SCSS) had not finalised its strategic asset management plan and asset management plan. — The financial delegations in Panorama, the maintenance contractor's system, did not align with CALHN's and SCSS' general financial delegations. — Some contract management register details were incorrect or missing, due to the decentralised nature of CALHN's procurement process.
Other audit findings	— User access to the Sunrise Electronic Medical Records system was not regularly reviewed. — No private practice audits were performed to ensure that right of private practice (RoPP) fees generated at offsite locations are completely and accurately transferred to CALHN.

Functional responsibility

CALHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019.

CALHN's powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area. The map below shows the CALHN region.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister for Health and Wellbeing (Minister), the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight of the local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN CEO is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

DHW has a role as the 'system leader' and focuses on setting strategic direction and statewide policy, as well as the performance of the public health system through high-level system direction and performance management.

A service agreement between CALHN and DHW outlines the requirements of the formal relationship between them, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2022-23 CALHN service agreement was executed in December 2022. The SCSS service agreement was executed in March 2023.

The Royal Adelaide Hospital

Legal action in progress

On 1 August 2017, the builder of the RAH (Hansen Yuncken Pty Ltd and CPB Contractors Pty Ltd (formerly Leighton Contractors Pty Ltd)) filed legal proceedings against Celsus, independent certifier Donald Cant Watts Corke Pty Ltd and the State of South Australia for alleged breaches of contract and other matters in relation to the construction of the RAH. At the time of this report the proceedings were stayed pending the outcomes of the arbitration process, which is still in progress.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for CALHN are provided through a combination of:

- central services provided by Shared Services SA (SSSA) through an integrated finance service model
- finance services located within CALHN
- central services provided by DHW.

We completed audit work at SSSA's central services, CALHN and DHW.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- DHW matters.

Specific areas of audit attention in 2022-23 included:

- property, plant and equipment
- payroll and workforce management
- cash and online banking
- general ledger and financial accounting
- patient billing and debtor management
- goods and services expenditure and accounts payable
- borrowings
- SA Pharmacy revenue, expenditure and inventory management
- SA Pathology revenue
- SA Medical Imaging revenue
- governance
- accounts receivable and debtor management.

We considered the work of CALHN's internal auditors in planning and conducting the audit.

Controls opinion

We reviewed controls over bank accounts, employee expenses, goods and services expenditure, borrowings, buildings and improvements and the AGFMA as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to CALHN's CEO. The main findings and CALHN's responses are discussed below.

Controls opinion findings

Payroll planning, monitoring and approval processes could be improved

CALHN employs 12,668 FTEs and its payroll-related costs are significant, with $1.7 billion in staff benefits expenses paid and $535.7 million in staff benefits liabilities and associated on-costs as at 30 June 2023. Given the significance of these costs, we review key payroll controls each year.

Inconsistencies and weaknesses in the approach to monitoring employee screening checks

As part of our review of controls associated with managing staff, we again chose to look at CALHN's management of employment clearances.

Different positions within an LHN can require different types of employment clearances. Working with vulnerable people, children and the aged requires specific clearances for some staff, while others may require more general clearances. SA Health's screening policy directive requires employees to have appropriate criminal and history screening before employment and to maintain them. These requirements apply to employees who are in prescribed positions under the *Child Safety (Prohibited Persons) Act 2016*, as well as those in approved provider positions under the *Aged Care Act 1997*.

In 2020-21, we found that it was not clear which CALHN employees were required to comply with the legislative requirements of the various Acts that apply. In March 2022, CALHN developed a fact sheet outlining the certificates required by employees.

In 2021-22 we also noted that:

- many screening checks were due for renewal
- many employees listed did not have any dates recorded for the various screening checks they needed. We identified most of these employees as medical officers, who are deemed to be in prescribed positions
- CALHN was still updating its records to identify prescribed positions.

In response to the ongoing findings, the CALHN Workforce team performed a compliance review of every CALHN position to identify those working in prescribed positions and approved provider positions. This review was performed for working with children checks (WWCC) and aged care sector employment checks (ACC), with the NDIS checks still in progress.

Our review this year found:

- employees in prescribed positions with no WWCC or ACC recorded in the CHRIS payroll system
- employees with expired WWCC and ACC checks
- SCSS was yet to perform a review of its positions to identify employees working in prescribed positions and approved provider positions
- SCSS was yet to implement monitoring processes for expired screenings.

CALHN responded that:

- it has commenced a detailed gap analysis and audit of individual employee records to ensure employee screening is in line with the requirements of their role, is recorded in CHRIS and remains current

- it will continue to work with business units to finalise the audit of the currency of screening checks for employees in prescribed positions and ensure checks are accurately recorded in CHRIS
- SCSS Workforce will undertake a program of work to identify and record the screening checks required for each position, and ensure screening checks for these employees are accurately recorded in CHRIS.

Non-compliance with SA Health's pre-employment screening and credentialling policy

The credentialling process verifies the qualifications, experience and professional standing of practitioners for the purpose of forming a view about their competence, performance and professional suitability to provide safe, high-quality health care services within specific organisation environments.

An SA Health policy requires all practitioners to undergo credentialling and have a defined scope of practice prior to undertaking clinical practice in a public health care facility. The credentialling process is to occur prior to their appointment.

A CALHN policy requires that any offer of a formal contract of employment to an applicant is subject to approved credentialling and scope of clinical practice.

We reviewed six medical officers who onboarded in 2022-23 and found two instances where:

- the credentialling application was approved after the letter of offer was issued
- the employee's WWCC was issued after the letter of offer and commencement date, although the credentialling application was approved before the letter of offer.

This may increase the risk of compromising employee and patient safety and result in reputational damage to CALHN.

CALHN responded that it will continue to revise its appointment practices to ensure all essential credentialling and screening requirements are satisfied before employment commences. It will also ensure that any offer letters issued before credentialling and screening requirements are met clearly stipulate that the offer is subject to completing these requirements before employment commences.

CALHN's records indicate that it is below the KPI set for current staff performance reviews

In 2022-23, we continued to review how current the employee performance reviews were at a number of agencies, including CALHN.

We noted that staff who had a current performance review remained steady at 47% in 2022-23, 49% at CALHN and 45% at SCSS. DHW has established a KPI in CALHN's and SCSS' service agreement that 80% of performance reviews should be current.

CALHN responded that it has established a framework for the regular monitoring and review of performance review rates. It also implemented updated templates, supporting resources and a communications strategy in April 2023, which has seen a steady improvement in the reported participation rates. 57.8% of performance reviews were current as at 31 July 2023.

SCSS responded that it has established regular monitoring and review of performance review completion. It will also identify best practices and opportunities for improvement in completing performance reviews, and develop and implement an improvement plan across SCSS.

Key payroll information for SCSS staff was not always reviewed

Key payroll reports for SCSS staff differ depending on the type of employee. The effective review of these reports helps to ensure payments to staff are accurate and valid.

For staff who are automatically paid each fortnight, key payroll information is captured on bona fide and leave return reports.

Consistent with prior years, in 2022-23 we found that monitoring of bona fide reports and leave return certificate reports at SCSS was ineffective.

The prompt review of bona fide and leave return certificate reports provides assurance that:

- payments to employees are valid and authorised
- leave taken by employees is complete and accurately recorded.

Where employee payroll information is not reviewed, there is an increased risk of inaccurate payments to staff, potentially resulting in financial loss for CALHN.

SCSS responded that it will be establishing a framework for the regular monitoring and review of bona fide and leave return certificate approval rates.

No processes to ensure all medical officers' timesheets are approved and submitted promptly

In prior years, we have found that there was no process to ensure all medical officers' timesheets were submitted and approved promptly.

This is particularly important where medical officers are paid significant allowances based on their timesheets in addition to their base pay, which is paid automatically.

Our testing of medical officers' timesheets in 2022-23 again identified several instances where medical officers had submitted multiple timesheets at once.

In 2021-22, CALHN advised us that it was working with SSSA and SA Health to source an online rostering tool for medical officers to provide better recording and reporting of time worked. A rostering tool would also help reduce the late submission of timesheets and include the ability to scan for fatigue and compliance with enterprise agreements.

Our follow-up in 2022-23 noted that:

- a trainee medical officer trial took place, in conjunction with SSSA, to test a process of only paying medical practitioners their base pay for fortnights where timesheets had been submitted but unapproved. The outcome of this trial is under review

- CALHN was working with SSSA and SA Health to source an online rostering tool for medical officers to provide better recording and reporting of time worked
- DHW was still in consultation with LHNs to develop a system for the whole of SA Health.

Further, CALHN advised us that:

- it issues regular reminders to all employees about the timely completion, authorisation and submission of timesheets to SSSA
- SSSA is considering the extension of cut-off time frames for the submission of timesheets to help improve the timely approval and submission of timesheets to SSSA for payment
- it continues to progressively implement a new rostering system for designated medical staff and is engaging with DHW about system-wide rostering considerations.

We will follow up progress made with these initiatives in 2023-24.

Medical practitioners commenced employment without a letter of offer

A letter of offer acts as a formal offer of a position and is signed by the successful applicant as evidence of their acceptance of it. This should occur before the applicant starts any work in the position.

Of the six medical practitioners who onboarded in 2022-23 that we sampled, two were given a letter of offer after their start date.

We were told that delays in providing the paperwork for a new starter or providing incomplete or incorrect paperwork results in CALHN being unable to generate a letter of offer prior to the employee's start date.

Not providing a letter of offer before commencement may result in CALHN and medical practitioners being unclear about their obligations in the event of a dispute. However, we note that no payroll payments were made prior to the contract acceptance date.

CALHN advised us that it will:

- continue to review its appointment practices to ensure that contracts are issued and accepted prior to their commencement date
- develop a plan to adopt and implement the offer functionality in its recruitment system to improve the timeliness of issuing and accepting employment offers.

No job plans for senior medical practitioners and consultants

Job planning is an annual process for senior medical practitioners and consultants and defines the agreed duties, responsibilities and objectives of a position for the coming year. It also provides clarity about the expectations, commitments and support required to achieve the required outcomes, and ensures that resources are aligned with service priorities and plans.

As in previous years, we were either unable to obtain copies of these job plans, or the details in the job plans we were provided with did not meet the requirements of the SA Health Salaried Medical Officer Enterprise Agreement 2022.

We note that at the time of our audit, the development of a job planning policy for medical officers was still being considered by DHW and the LHNs.

The lack of job plans may result in senior medical practitioners and consultants performing duties that are inconsistent with their role description. Where job plans are not established, a mechanism to provide formal feedback to the medical practitioner about their performance and development is effectively removed. This may adversely impact the competency and credentialling standards, resulting in weakened employee and employer quality review outcomes.

CALHN advised us that DHW wrote to the LHN CEOs and Executive Directors of Medical Services in June 2023 to advise them that a new SA Health job planning procedure had been finalised.

Non-compliance with SA Health's immunisation policy and completeness of the immunisation compliance database

SA Health's immunisation policy requires designated health care workers to receive a Diphtheria-Tetanus-Pertussis (dTpa) booster every 10 years.

In 2022-23 our analysis of CALHN's dTpa records identified 924 current employees who were overdue for a booster.

In 2022-23, CALHN established:

- a dashboard detailing the number of employees due for a booster or who will be due during the year. However the unreliability of the data persists as the immunisations database is incomplete
- a project group to focus on the bulk onboarding of immunisation data due to significant levels of new staff.

CALHN advised us that it will continue to improve data capturing processes to clearly identify staff who require booster vaccinations within specified time frames.

Asset management and the AGFMA

CALHN has property, plant and equipment worth $3.2 billion. Its main asset, apart from the RAH, is The Queen Elizabeth Hospital (TQEH). As part of our controls opinion work in 2022-23, we followed up CALHN's control processes for managing the maintenance of these assets, including considering the AGFMA. This did not include detailed work on maintenance at the RAH, as this is covered by separate public private partnership (PPP) arrangements.

SCSS has not finalised its strategic asset management plan and supporting asset management plan

In 2021-22, we found that the SCSS strategic asset management plan and supporting asset management plan were not finalised. Our follow-up in 2022-23 identified that:

- the asset management plan was finalised but was awaiting approval by the SCSS Committee
- the strategic asset management plan was out to business units for consultation prior to being finalised.

Until these documents are in place, there remains a risk that SCSS may not be fully informed of its asset management risks and may not be able to effectively plan for maintenance costs and asset refurbishment. This may impact its ability to deliver services effectively.

SCSS advised us that its asset management plan was submitted for endorsement and approval in August 2023. It will work with LHNs as asset owners to manage the assets within their portfolios in line with strategic asset management plan and policies.

Memorandum of administrative arrangements (MoAA) not signed

The MoAA for the AGFMA between CALHN and the Department for Infrastructure and Transport (DIT) describes the roles and responsibilities of the parties involved in delivering the AGFMA.

The MoAA was provided to CALHN for review prior to the commencement of the new arrangements on 1 December 2021. We were advised that CALHN did not accept the new terms in the MoAA and therefore had not signed it. As at 30 June 2022 the MoAA was unsigned.

CALHN responded then that it would work closely with DIT to ascertain the roles and responsibilities for implementing the new AGFMA and, having reached an agreement on the terms and conditions of the MoAA, would sign it by 31 December 2022.

In June 2023, we were advised that the MoAA remained unsigned as there were still outstanding issues that CALHN was waiting for Ventia (the facilities management service provider) to resolve. Of importance is the delayed provision of the annual asset services delivery plan, which outlines all assets and their infrastructure maintenance schedules, costs to maintain them and replacement life cycles.

CALHN responded that, due to considerable improvement in the outstanding issues and efforts made by Ventia to resolve them, it was in the process of preparing briefings for the CEO to sign the MoAA.

Maintenance system financial delegation limits are not aligned with CALHN's and SCSS' delegations

Our review of Ventia's maintenance system, Panorama, identified instances where:

- financial limits assigned to several employees did not align with CALHN's and SCSS' general financial authorisations
- several delegates in the system did not have the authorisation to approve expenditure in CALHN's and SCSS' general financial authorisations
- several delegates had multiple user group profiles in the system
- delegates within certain profile groups had an authorisation of $9,999,999. This is inconsistent with the maximum delegation limit for CALHN of $1.5 million and for SCSS of $550,000.

CALHN and SCSS responded that they will work with Ventia to review the financial limits assigned in Panorama and ensure consistency with CALHN's and SCSS' financial delegations.

Panorama user access reviews not performed by CALHN and SCSS on a regular basis

Panorama is managed by Ventia as a client portal and provides access to all property data, reports and analytics in real time. It is used to submit work orders, track jobs and record supporting documentation. CALHN and SCSS use Panorama to:

- view asset data
- approve work order requests raised by CALHN and SCSS officers, to be assigned to a contractor
- review completed work
- approve work orders that have been satisfactorily completed by contractors.

We found that there was no regular review of user access to Panorama. We also found that there were no policies and procedures to:

- require regular Panorama user access reviews
- specify who is responsible for approving requests for new user access to Panorama and ensuring that user access is removed from Panorama for terminated staff.

CALHN and SCSS advised us that they will perform a periodic review to ensure access to Panorama is appropriate and aligns with their financial delegations. The review will be documented.

Accounts payable and goods and services expenditure

CALHN's expenditure on supplies and services for 2022-23 was $1.1 billion.

Some contract management register details are incorrect or missing

The Procurement Governance Policy issued by Procurement Services SA requires public authorities to maintain a contract register to record details of all goods, services and construction contracts above $55,000, including secondary contracts under established panel contracts.

The Procurement and Contract Management System (PCMS) is used as a central record of all contract documentation and information.

We were advised that, due to the decentralised nature of procurement at CALHN, several procurements may not have complied with the PCMS procurement processes and, as a result, have either not been recorded correctly or not included in the contract register.

Our review of CALHN's contract register identified:

- contracts listed with no supplier name
- contracts marked as current even though they had expired
- SCSS contracts, despite SCSS maintaining its own contract register.

CALHN responded that:

- DHW's procurement and contract management policy mandates the use of PCMS as the central repository for SA Health contracts of all values (some exceptions apply), not just those above $55,000

- it will:
  - issue an email to remind staff of the above requirement
  - ensure each business area reviews and updates its contract information in PCMS.

Procurement responsibilities are not clear in policies and procedures

We identified that there were no service level agreements between DHW and CALHN outlining their roles and responsibilities for procurement. As a result it is unclear what each party's responsibilities are.

CALHN responded that it and other LHNs have made numerous attempts to establish a shared service level agreement with DHW for procurement and supply chain management activities, with no success.

Other audit findings

Hospital billing

CALHN received $406.9 million in patient and client fees and $38.4 million in private practice fees in 2022-23.

No private practice audits performed

Memorandums of agreement (MoA) for private practice allow medical officers to undertake rights of private practice (RoPP) outside of CALHN with written approval.

The terms of the MoAs require medical officers to transfer all offsite-generated RoPP fees collected to CALHN. They are then distributed in line with the MoA.

We found that CALHN does not perform independent private practice audits as allowed by the MoAs.

We were advised that CALHN's private practice team does not always perform completeness checks. This process is reliant on information provided by medical officers. CALHN does not have a method of independently ensuring the completeness and accuracy of the money it receives.

CALHN responded that a formal plan will be documented and implemented in 2023-24, focusing on the offsite private practice billing arrangements to establish a complete register of consultant details and the audit of offsite billing practices.

No regular review of user access to Sunrise electronic medical record system

The Sunrise electronic medical record system (EMR) is a state-based system used by South Australian public hospitals and healthcare facilities.

We found that no review was performed in 2022-23 to ensure that CALHN users of the financial and clinical modules of Sunrise EMR have appropriate access that is in line with their roles and responsibilities.

We were advised that since March 2023 CALHN staff have had to log on to the SA Health network before logging on to Sunrise EMR. This added layer of security will minimise the risk of unauthorised access, but not the risk of inappropriate access for an employee's role and responsibility.

Without regularly reviewing user access and user profiles, there is a risk of inappropriate access that could result in inaccurate or unauthorised changes being made to data and unauthorised access to patient information.

CALHN advised us that:

- Digital Health is responsible for giving staff access based on their role
- controls are in place to capture any unauthorised patient changes in the Sunrise EMR audit review
- private practice billing cannot occur in the clinical module if the consultant has not been flagged for RoPP billing
- it will implement a review of staff who have access to the finance module by requesting a list of users from Digital Health for a six-monthly review.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023		2022	
	Consolidated $million	Parent $million	Consolidated $million	Parent $million
Income				
Revenues from SA Government	2,368	2,368	2,143	2,143
Fees and charges	481	466	473	453
Grants and contributions	282	282	256	256
Resources received free of charge	14	14	15	15
Other revenue/income	104	101	95	95
Total income	3,249	3,231	2,982	2,962
Expenses				
Staff benefits expenses	1,735	1,724	1,659	1,648
Supplies and services	1,135	1,131	1,081	1,075
Borrowing costs	187	187	127	127
Depreciation and amortisation	117	116	137	136
Grants and subsidies	2	1	1	1
Other expenses	17	17	10	9
Total expenses	3,193	3,176	3,015	2,996
Net result and total comprehensive result	56	55	(33)	(34)
Assets				
Current assets	296	282	303	289
Non-current assets	3,211	3,201	3,185	3,179
Total assets	3,507	3,483	3,488	3,468
Liabilities				
Current liabilities	440	436	425	423
Non-current	2,773	2,772	2,825	2,825
Total liabilities	3,213	3,208	3,250	3,248
Net assets	294	275	238	220

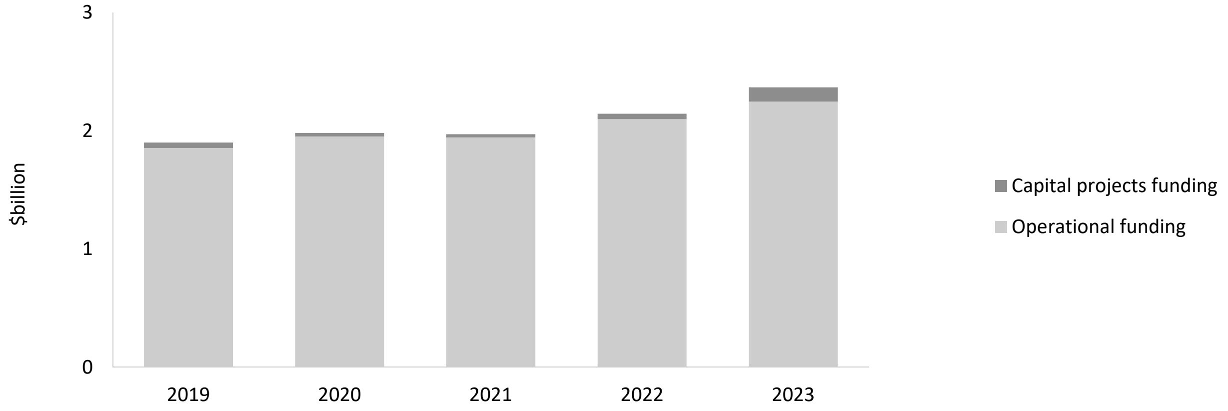
Statement of Comprehensive Income

Income

CALHN is mainly funded through operational and capital funding from DHW. In 2022-23, CALHN received recurrent funding of $2.2 billion and capital funding of $121 million, mainly for works at TQEH.

The increase in operational funding of $149.5 million in 2022-23 is primarily due to additional funding provided to SCSS for its COVID-19 response, increased patient activity and underlying indexations.

The chart below shows revenues from the SA Government over the last five years.



The chart shows that the overall level of funding to CALHN increased between 2018-19 and 2022-23.

2022-23 reflects higher operational funding due to the increased patient activity and higher capital funding as TQEH works progress.

Fees and charges increased by $8 million to $481 million, mainly due to:

- car parking revenue, up $1.8 million as car parking fees for staff were reintroduced
- patient and client fees, up $3.3 million, mainly due to the overall increase in patient activity. Medical imaging fees were also up by $4.6 million and public pathology fees were up $9.9 million. This reflects the increased recharging of central services, such as imaging and pathology, under revised arrangements implemented in 2020-21. These increases were offset by a decrease in private pathology fees of $19.9 million as the level of COVID-19 testing fell
- private practice fees, up $3.7 million, mainly due to the increased income from RoPP fees.

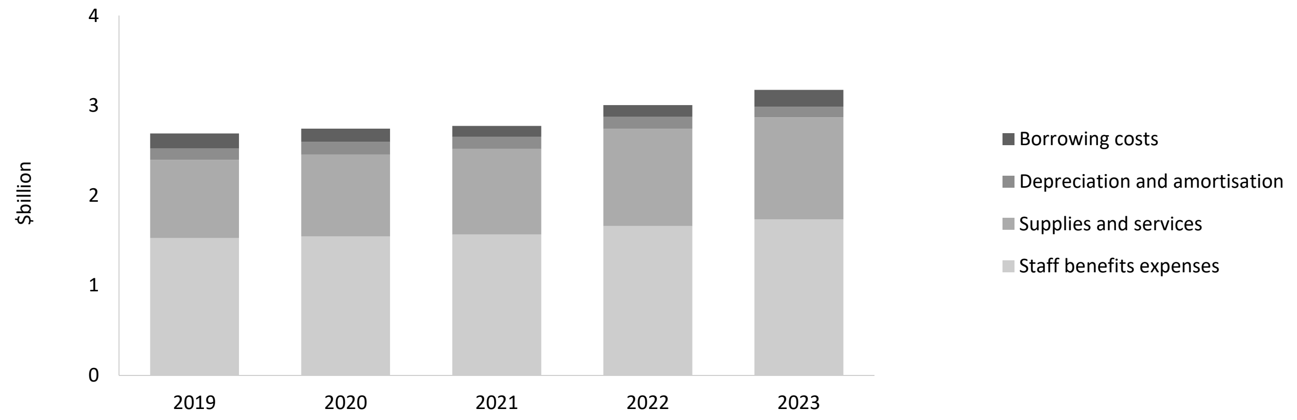
Grants and contributions increased by $25.7 million, mainly due to:

- the Pharmaceutical Benefits Scheme Commonwealth Subsidy, up $17.4 million, which is in line with the increase in drug supplies expenditure of $27.4 million
- private sector grants and contributions, up $8.6 million, as CALHN received $7.1 million of specific funding for clinical trials in 2022-23.

Expenses

In 2022-23 the consolidated entity’s total expenses increased by $178 million to $3.2 billion.

The chart below shows the composition of expenses for the last five years.



The chart shows an overall increase in expenditure between 2018-19 and 2022-23. Borrowing costs in 2022-23 were up by $60.4 million due to an increase in finance changes and indexation factors for PPP arrangements.

Staff benefits expenses

Staff benefits expenses of $1.735 billion represent 54% of CALHN's total expenses and increased by $76 million in 2022-23.

The increase in staff benefits expenses is due to:

- salaries and wages, up $39.7 million, reflecting an increase in FTEs, including additional nursing and medical officers due to the implementation of the SA Government's election commitments to hire more health sector employees. There were also wage rises associated with enterprise agreements, including those for nursing staff and visiting medical officers
- long service leave, up $40.9 million, mainly due to the increase in the salary inflation rate from 2.5% to 3.5%. These increases were offset by a decrease of $5.2 million from the impact of changes to actuarial assumptions used to estimate the associated liability. The Commonwealth bond yield rate used to calculate the liability increased to 4% from 3.75%, resulting in a decrease in the liability
- annual leave, up $7.5 million, due to an increase in FTEs and the increase in the salary inflation rate from 1.5% to 2%
- staff on-costs – superannuation, up $14 million, which aligns with the increases in salaries and wages, long service leave and annual leave expenses. The superannuation rate applied to the long service leave provision increased from 10.6% to 11.1% in 2022-23.

These increases were offset by decreases to:

- workers compensation expenses, down $22.3 million, reflecting the outcomes of the annual actuarial reassessment of this liability
- targeted voluntary separation packages (TVSPs), down $4.1 million, as only three TVSPs were paid in 2022-23 compared to 80 TVSPs paid in 2021-22.

The following table shows the breakdown of total staff numbers for CALHN between medical, nursing and non-medical staff, based on FTEs, since 2018-19. It shows an overall growth in FTEs over the four years to 2021-22, then a decrease in 2022-23.

	2018-19 FTEs	2019-20 FTEs	2020-21 FTEs	2021-22 FTEs	2022-23 FTEs
Medical officers	1,418	1,473	1,480	1,525	1,561
Nurses	4,672	4,544	4,582	4,994	5,088
Non-medical	5,507	5,560	5,829	6,251	6,019
Total FTEs	11,597	11,577	11,891	12,770	12,668

The decrease in 2022-23 reflects the decrease in non-medical staff of 232 FTEs due the reduced level of COVID-19 testing and the closure of COVID-19 testing sites. This was offset by increases in the number of medical officers and nurses.

The number of employees whose remuneration received/receivable exceeded the base executive level ($160,000) totalled 1,452 (1,445), comprising 1,204 (1,212) medical, 77 (84) non-medical, 145 (118) nursing and 26 (31) executive employees. Total remuneration for these employees was $435 million ($436 million).

Supplies and services expenses

Supplies and services expenses increased by $54.3 million to $1.135 billion, with the significant components being:

- computing, up $5.8 million, mainly due to increased software costs of $2.6 million resulting from buying additional Microsoft licences and higher device and support fees charged by DHW of $1.7 million
- contract of services, up $11.3 million, mainly due to the growth in outsourced beds and in SCSS services provided to country sites
- drug supplies, up $27.4 million, mainly due to growth in PBS for high-cost cystic fibrosis drugs. The use of these drugs increased when compared to previous financial years
- fee for service, up $6.6 million, mainly due to other fees for services, up $7.4 million, due to the growth in outsourced elective surgery and routine denture scheme fees, up $2.6 million. These increases were offset by a decrease in general dental scheme fees of $2.6 million
- insurance, up $2.3 million, reflecting increased South Australian Government Financing Authority insurance premiums
- PPP operating expense, up $44.7 million, due to the increase in the reviewable services charges for operating the RAH, as well as increased indexation rates. The new charges were applicable from March 2022 and a back payment of $7.4 million was included in the December 2022 quarterly service charge
- travel expenses, up $7.2 million, mainly due to the increase of travel costs associated with medical officers' professional development as COVID-19 travel restrictions were lifted. International travel costs were up by $5.5 million and domestic travel costs were up by $1.3 million.

These increases were offset by:

- contractors, down $9.6 million, as in 2021-22 COVID-19 costs incurred by SCSS were approximately $14 million, mainly for traffic control at COVID-19 testing sites, offset by the cessation of CALHN's Korda Mentha contract in 2021-22 of $4.5 million
- contractors – agency staff, down $11 million, mainly due to agency nursing staff expenses, down $6.2 million, and agency staff – administrative services, down $4.5 million
- medical, surgical and laboratory supplies, down $18.6 million, mainly due to decreases in medical and laboratory supplies of $8.4 million, chemical reagents of $7.8 million and test kits of $7.1 million. These decreases were offset by increases in the supply of prosthesis and implants of $5.5 million and imaging supplies of $1.6 million.

Statement of Financial Position

Assets

Cash and cash equivalents

Cash and cash equivalents increased by $13.7 million (see 'Statement of Cash Flows' below).

Receivables

Receivables were down by $19.6 million mainly due the decrease in accrued revenue of $18 million, as the accrual for the quarterly RAH interest rate service payment adjustment decreased by $18.6 million. The interest rate service payment adjustment adjusts the quarterly service payment for the movement in the floating base interest rate on the RAH debt relative to the assumed base interest rate over the life of the project.

Property, plant and equipment

Property, plant and equipment represents 90.7% of CALHN's total assets, with a carrying value that remained steady at $3.2 billion.

Significant movements in property, plant and equipment in 2022-23 were asset additions of $145.5 million, including an additional:

- $107.5 million of works associated mainly with the TQEH redevelopment
- $13.6 million of works associated with right-of-use buildings
- $12.9 million of works for plant and equipment
- $9.4 million of works for medical/surgical/dental/biomedical equipment.

These increases were offset by depreciation of $110.9 million.

Liabilities

Current liabilities increased by $15.6 million to $440.5 million during the year and exceeded current assets of $295.9 million at 30 June 2023. CALHN works with DHW to ensure sufficient funding is provided to meet CALHN's expected cash flows for its administration and program delivery. Cash and cash equivalents of $180.1 million are sufficient to meet current payables of $117.1 million.

Staff benefits are the largest element of current liabilities, totalling $239.6 million at 30 June 2023, and includes leave entitlements expected to be taken within 12 months.

Total liabilities reduced by $36.5 million to $3.213 billion, mainly as a result of payments associated with the RAH lease reducing the outstanding liability.

Staff liabilities and associated on-costs make up $584.3 million of CALHN's total liabilities at 30 June 2023, comprising:

- staff benefits liabilities and related on-costs – $535.7 million ($512.6 million)
- provision for workers compensation – $48.6 million ($49.2 million).

The increase in staff benefits liabilities primarily relates to increases in the annual leave liability of $11.1 million and accrued salaries and wages of $5.8 million. This is mainly due to an increase in nursing and medical staff numbers and the increase in the salary inflation rate applied from 1.5% to 2%.

Payables decreased by $3.9 million to $128.1 million mainly due to:

- creditors and accrued expenses, down $9.4 million
- offset by an increase in staff on-costs of $6.4 million that is directly related to the increase in staff benefits liability.

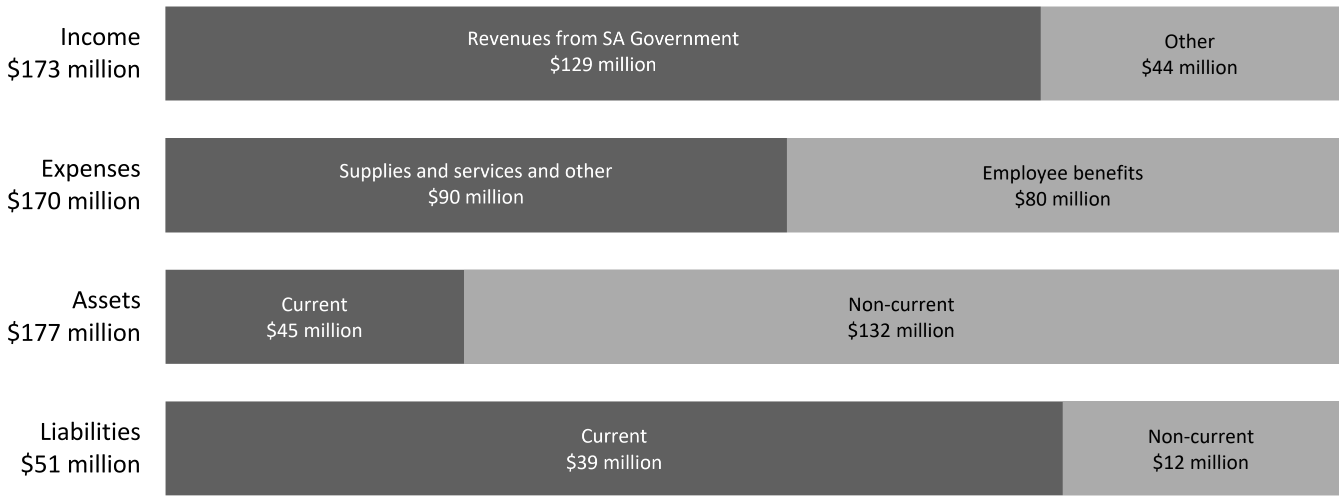
Statement of Cash Flows

Cash and cash equivalents increased by $13.7 million to $180.1 million in 2023. The main factors contributing to the decrease were:

- net cash provided by operating activities increasing by $46.7 million as a result of:
  - cash generated from operations, up $256.6 million, mainly due to cash inflows from receipts from the SA Government, up $202.1 million, fees and charges, up $20.2 million, grants and contributions, up $24.4 million, and GST recovered from the ATO, up $11.1 million
  - cash used in operations, up $209.9 million, mainly due to staff benefits payments, up $15.9 million, payments for supplies and services, up $116.8 million, interest paid, up $61.1 million, and other payments, up $15.6 million
- net cash used in investing activities, up $3 million due to proceeds from the sale/maturing of investments, down $4.7 million, and the purchase of property, plant and equipment, up $1.9 million, offset by purchases of investments, down $3.3 million
- net cash used in financing activities decreased by $808,000 due to a decrease in the repayment of lease liabilities.

Eyre and Far North Local Health Network Incorporated (EFNLHN)

Financial statistics



793 FTEs

14 Hospitals and health service sites

10,943 Total inpatient activity

Financial report opinion	**Unmodified**
Audit findings	— Invoices were paid without purchase orders. — Contracts were executed without appropriate authority. — Patient debtor management needs improvement.

Functional responsibility

EFNLHN was established to provide health services in the Eyre and Far North region of South Australia. The map of South Australia below shows the EFNLHN region.

Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for EFNLHN are provided by several agencies:

- EFNLHN
- the Rural Support Service (RSS) within the Barossa Hills Fleurieu LHN
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit covered the major financial systems at DHW, EFNLHN, RSS and SSSA to obtain sufficient evidence to form an opinion on the financial report. A chartered accounting firm assisted the Auditor-General with the audit of EFNLHN.

Specific areas of audit attention in 2022-23 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings to the CEO of EFNLHN. The main findings and EFNLHN's responses are discussed below.

Audit findings

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved purchase order exemption list or the purchase is below $2,200.

We found payments made without purchase orders for which the exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

EFNLHN advised us that it will continue to provide education across all sites and create standing purchase orders for recurrent goods and services.

Contracts executed without appropriate authority

Contracts with a value above $550,000 require the approval of the Chief Executive of DHW.

We identified two executed contracts over $550,000 that did not have the required authorisation.

EFNLHN responded that it would obtain the proper approval for contracts above its CEO's delegation.

Patient debtor management needs improvement

We reviewed the effectiveness of debtor follow-up activities performed at the Port Lincoln Hospital. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed. We have reported similar concerns previously.

The percentage of long-outstanding debt improved from 80% in 2021 to 40% in 2023, but more work is needed.

EFNLHN responded that it would continue to improve debt follow-up, with the aim of reducing the long-outstanding debt further.

We also identified several findings for control activities performed by the RSS that impact EFNLHN. They are reported under 'Barossa Hills Fleurieu Local Health Network Incorporated' in this report.

Interpretation and analysis of the financial report

The consolidated accounts of EFNLHN include the incorporated Health Advisory Councils (HACs) within the EFNLHN region. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2023 $million	2022 $million
Income		
Revenues from SA Government	129	99
Fees and charges and other income	15	14
Grants and contributions	29	28
Total income	173	141
Expenses		
Staff benefit expenses	80	76
Supplies and services and other expenses	83	65
Depreciation and amortisation	7	7
Total expenses	170	148
Net result	3	(7)
Assets		
Current assets	45	34
Non-current assets	132	137
Total assets	177	171
Liabilities		
Current liabilities	39	37
Non-current liabilities	12	12
Total liabilities	51	49
Net assets	126	122

Statement of Comprehensive Income

Revenues

Revenues from SA Government

EFNLHN's revenues from the SA Government are received from DHW and were 75% of its total income. They comprised:

- $126 million ($96 million) in operating funding, with the increase reflecting an increase in the National Weighted Activity Unit (NWAU) and the rising costs of providing health services
- $3 million ($2 million) for capital funding.

Fees and charges

Fees and charges remained stable and the significant components were:

- $4 million of residential and aged care charges, mainly long-stay nursing home fees
- $3 million of patient and client fees
- $3 million of other fees and charges.

Grants and contributions

Grants and contributions increased by $1 million to $29 million, with the increase reflecting an increase in Commonwealth grants and donations to a total of $24 million.

Expenses

Staff benefit expenses

Staff benefit expenses represent 47% of total expenses and increased by $4 million (5%) due to:

- a $2 million increase in salaries and wages reflecting the new Nursing/Midwifery (SA Public Sector) Enterprise Agreement 2022 pay rates, partially offset by a decrease of 15 FTEs
- a $1 million increase in superannuation due to the rise in the superannuation guarantee percentage
- a $1 million increase due to additional long service leave expenses.

Supplies and services expenses

Supplies and services increased by $18 million to a total of $80 million, which was mainly due to:

- a $9 million increase in fee for service due to higher costs in relation to the new general practitioners agreement and the increased use of the service as a result of the rising NWAU and being unable to fill vacant positions
- a $7 million increase in agency staff due to the increased use of the service as a result of the rising NWAU and being unable to fill vacant positions.

Statement of Financial Position

Assets

Current assets increased by $11 million following an increase of $3 million in cash and cash equivalents and $8 million in receivables due to increased outstanding invoices as a 30 June 2023, with the majority received in July 2023.

Property, plant and equipment

As at 30 June 2023, property, plant and equipment represented 75% of total assets and the most significant component was $127 million ($133 million) of land and buildings.

Liabilities

Staff-related liabilities

Staff-related liabilities are 51% of total liabilities and comprised:

- $21 million ($20 million) of staff benefits liabilities
- $2 million ($1 million) of related on-costs
- $3 million ($2 million) of provisions for workers compensation.

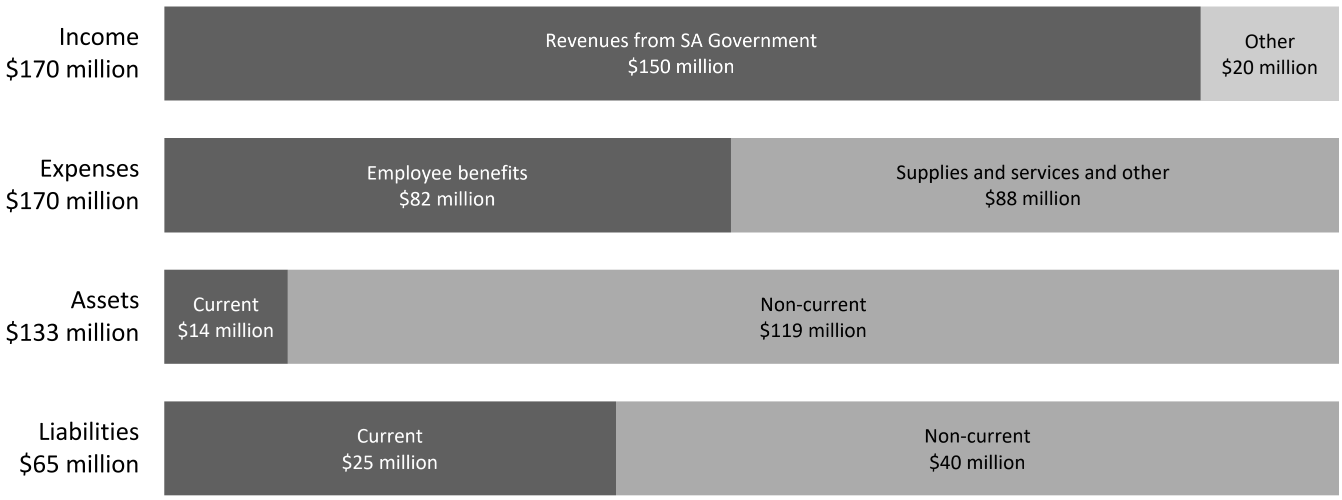
Note 21 of EFNLHN's financial report provides further information on the independent actuarial assessments of the provision for workers compensation.

Other liabilities

Other current liabilities are 35% of total liabilities and mainly comprise residential aged care bonds of $16 million ($16 million). These bonds are refundable accommodation contributions or deposits made by residents when they enter aged care facilities.

Flinders and Upper North Local Health Network Incorporated (FUNLHN)

Financial statistics



778
FTEs

7
Hospitals and health service sites

17,992
Total inpatient activity

Financial report opinion	**Unmodified**
Audit findings	— Invoices were paid without purchase orders. — Patient and sundry debt management needs improvement. — There was inadequate segregation of duties for revenue officers.

Functional responsibility

FUNLHN was established to provide health services in the Flinders and Upper North region of South Australia. The map of South Australia below shows the FUNLHN region.

Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for FUNLHN are provided by several agencies:

- FUNLHN
- the Rural Support Service (RSS) within the Barossa Hills Fleurieu LHN
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit covered the major financial systems at DHW, FUNLHN, RSS and SSSA to obtain sufficient evidence to form an opinion on the financial report. A chartered accounting firm assisted the Auditor-General with the audit of FUNLHN.

Specific areas of audit attention in 2022-23 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings to the CEO of FUNLHN. The main findings and FUNLHN's responses are discussed below.

Audit findings

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved purchase order exemption list or the purchase is below $2,200.

We found payments made without purchase orders for which the exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

FUNLHN advised us that it would review payments made without purchase orders to provide targeted education to staff to ensure compliance with the SA Health policy.

Patient and sundry debtor management needs improvement

We reviewed the effectiveness of debtor follow-up activities performed at Whyalla Hospital for patient debtors and SSSA for sundry debtors.

We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed.

FUNLHN advised us that it would continue to educate the staff responsible for following up patient debts and implement a monthly review to identify areas of concern. For sundry debtors, FUNLHN will request regular meetings with SSSA to monitor progress.

Inadequate segregation of duties for revenue officers

We reviewed patient billing in both of FUNLHN's patient billing systems (CHIRON and EMR) and found opportunities to improve the segregation of duties by restricting user access for receipting officers or reviewing repricing reports. We have raised these matters for many years.

The current arrangements increase the risk of inappropriate adjustments being made to invoiced fees.

FUNLHN advised us that it would complete the transfer to EMR in 2023-24. It also advised us that it will review two reports that show all changes to patient billing in EMR.

We also identified several findings for control activities performed by the RSS that impact FUNLHN. They are reported under 'Barossa Hills Fleurieu Local Health Network Incorporated' in this report.

Interpretation and analysis of the financial report

The consolidated accounts of FUNLHN include the incorporated Health Advisory Councils (HACs) within the FUNLHN region. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2023 $million	2022 $million
Income		
Revenues from SA Government	150	133
Fees and charges and other income	10	11
Grants and contributions	10	9
Total income	170	153
Expenses		
Staff benefit expenses	82	82
Supplies and services and other expenses	79	68
Depreciation and amortisation	9	9
Total expenses	170	159
Net result	-	(6)
Assets		
Current assets	14	13
Non-current assets	119	123
Total assets	133	136
Liabilities		
Current liabilities	25	27
Non-current liabilities	40	41
Total liabilities	65	68
Net assets	68	68

Statement of Comprehensive Income

Revenues

Revenues from SA Government

FUNLHN's revenues from the SA Government are received from DHW and were 88% of its total income. They comprised:

- $147 million ($132 million) in operating funding, with the increase reflecting a rise in the National Weighted Activity Unit (NWAU) and the costs of providing health services
- $3 million ($1 million) in capital funding.

Fees and charges

Fees and charges increased by $1 million to $7 million. The significant components are:

- $4 million of patient and client fees
- $1 million of fees for health services
- $1 million of residential and aged care charges, mainly long-stay nursing home fees.

Grants and contributions

Grants and contributions increased by $1 million to $10 million. The most significant component is Commonwealth grants of $9 million.

Expenses

Staff benefit expenses

Staff benefit expenses represent 48% of total expenses and remained stable at $82 million due to:

- a $1 million increase in superannuation due to the rise in the superannuation guarantee percentage
- a $1 million increase as a result of additional long service leave and workers compensation expenses
- offset by a $2 million decrease in salaries and wages due to a reduction of 28 FTEs, which was also offset by higher costs under the new Nursing/Midwifery (SA Public Sector) Enterprise Agreement 2022.

Supplies and services expenses

Supplies and services increased by $11 million (16%) due to:

- a $3 million increase in fee-for-service costs due to higher costs associated with the new general practitioners agreement and more use of these services as FUNLHN was unable to fill vacant positions
- a $3 million increase in agency staff due to a rise in the use of these services to cover vacant positions
- a $2 million increase in repairs and maintenance costs due to more works being performed.

Statement of Financial Position

Assets

Current assets increased slightly and mainly comprise cash and cash equivalents of $10 million ($7 million), receivables of $2 million ($2 million), other financial assets of $1 million ($2 million), which primarily relate to the investment of aged care refundable deposits, and inventories of $1 million ($1 million).

Property, plant and equipment

As at 30 June 2023, property, plant and equipment of $118 million represented 89% of total assets. The most significant components are $29 million ($30 million) of right-of-use leased buildings and $82 million ($87 million) of land and buildings.

Liabilities

Current liabilities of $25 million exceeded current assets of $14 million at balance date.

Cash and cash equivalents of $10 million were sufficient to meet current payables of $8 million. FUNLHN is funded to meet expected cash flows for its current program. Note 1.4 of its financial report discusses continuity of operations.

Staff-related liabilities

Staff-related liabilities are 40% of total liabilities at 30 June 2023, comprising:

- $22 million ($23 million) of staff benefits liabilities
- $2 million ($2 million) of related on-costs
- $2 million ($1 million) of provisions for workers compensation.

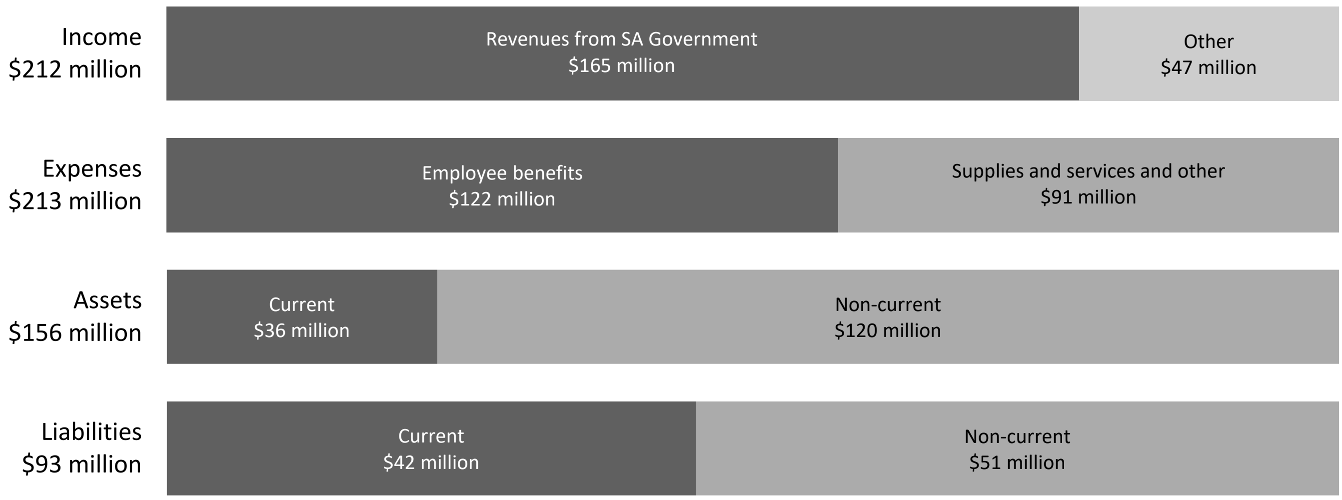
Note 22 of FUNLHN's financial report provides further information on the independent actuarial assessments of the provision for workers compensation.

Financial liabilities

Financial liabilities are $30 million or 46% of total liabilities at 30 June 2023 and relate to the right-of-use assets of $29 million.

Limestone Coast Local Health Network Incorporated (LCLHN)

Financial statistics



1,099
FTEs

15
Hospitals and health service sites

18,350
Total inpatient activity

Significant events and transactions

The Commonwealth Aged Care Quality and Safety Commission sanction on Moreton Bay House (a Naracoorte aged care facility) ended on 23 March 2023, which allowed them to take new residents again.

Financial report opinion

Unmodified

Audit findings

- Invoices were paid without purchase orders.
- Contract management needs improvement.
- Sundry debtor management needs improvement.
- There was inadequate segregation of duties for revenue officers.

Functional responsibility

LCLHN was established to provide health services in the Limestone Coast region of South Australia. The map of South Australia below shows the LCLHN region.

Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for LCLHN are provided by several agencies:

- LCLHN
- the Rural Support Service (RSS) within the Barossa Hills Fleurieu LHN
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit covered the major financial systems at DHW, LCLHN, RSS and SSSA to obtain sufficient evidence to form an opinion on the financial report. A chartered accounting firm assisted the Auditor-General with the audit of LCLHN.

Specific areas of audit attention in 2022-23 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings to the CEO of LCLHN. The main findings and LCLHN's responses are discussed below.

Audit findings

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved purchase order exemption list or the purchase is below $2,200.

We found payments made without purchase orders for which the exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

LCLHN advised us that it has appointed a procurement and contracts coordinator to assist with reviewing its procurement and contract practices and to streamline processes to ensure policy compliance.

Contract management needs improvement

Contracts with a value above $550,000 require the approval of the Chief Executive of DHW.

We found a contract valued over $550,000 that was not approved by the Chief Executive of DHW and a consultancy valued over $550,000 for which no contract could be provided.

LCLHN responded that the new procurements and contracts coordinator will assist with improving procurement and contract management processes, including appropriate approvals.

Sundry debtor management needs improvement

The follow-up and management of sundry debt is performed by SSSA. We tested a sample of long outstanding debts and found instances where there was insufficient debt follow-up.

Effective debt recovery through the prompt follow-up of amounts owed increases the likelihood of collection and reduces the level of billing queries.

LCLHN advised us that it has recruited a financial analyst who will implement the recommendations from a recent internal audit and improve reporting and performance measures.

Inadequate segregation of duties for revenue officers

We reviewed patient billing in both of LCLHN's patient billing systems (CHIRON and EMR) and found opportunities to improve the segregation of duties by restricting user access for receipting officers or reviewing repricing reports. We have raised these matters for many years.

The current access arrangements increase the risk of inappropriate adjustments being made to invoiced fees.

LCLHN advised us that CHIRON would not be used from 7 August 2023, and that it would segregate duties in EMR and implement a regular review of the EMR repricing report.

We also identified several findings for control activities performed by the RSS which impact LCLHN. They are reported under 'Barossa Hills Fleurieu Local Health Network Incorporated' in this report.

Interpretation and analysis of the financial report

The consolidated accounts of LCLHN include the incorporated Health Advisory Councils (HACs) within the LCLHN region. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2023 $million	2022 $million
Income		
Revenues from SA Government	165	147
Fees and charges and other income	21	20
Grants and contributions	26	24
Total income	212	191
Expenses		
Staff benefit expenses	122	111
Supplies and services and other expenses	84	75
Depreciation and amortisation	7	7
Total expenses	213	193
Net result	(1)	(2)
Assets		
Current assets	36	34
Non-current assets	120	124
Total assets	156	158
Liabilities		
Current liabilities	42	40
Non-current liabilities	51	54
Total liabilities	93	94
Net assets	63	64

Statement of Comprehensive Income

Revenues

Revenues from SA Government

LCLHN's revenues from the SA Government are received from DHW and were 78% of its total income. They comprised:

- $163 million ($144 million) in operating funding, with the increase reflecting the increase in the National Weighted Activity Unit (NWAU) and the rising costs of providing health services
- $2 million ($3 million) in capital funding.

Fees and charges

Fees and charges remained stable and the significant components are:

- $9 million ($8 million) in patient and client fees, with the increase reflecting an increase in patients due to the closure of the Mt Gambier private hospital
- $4 million ($4 million) in residential and aged care charges, mainly long-stay nursing home fees
- $1 million ($2 million) in fees for health services, with the decrease reflecting the closure of the Mt Gambier private hospital.

Grants and contributions

Grants and contributions increased by $2 million to $26 million and include $9 million ($8 million) of Commonwealth aged care subsidies and $16 million ($15 million) of Commonwealth grants.

Expenses

Staff benefit expenses

Staff benefit expenses represent 57% of total expenses and increased by $11 million (10%) to $122 million due to:

- a $6 million increase salaries and wages due to an increase of 26 FTEs and higher costs under the new Nursing/Midwifery (SA Public Sector) Enterprise Agreement 2022
- a $3 million increase due to additional long service leave expenses
- a $1 million increase in superannuation due to the rise in the superannuation guarantee percentage.

Supplies and services expenses

Supplies and services increased by $11 million (15%) to $83 million, mainly due to:

- a $6 million increase in fee for service due to higher use of the service because of the rising NWAU and being unable to fill vacant positions

- a $1 million increase in medical, surgical and laboratory supplies due to the rising NWAU and the cost of supplies
- a $1 million increase in agency staff due to higher use of the service because of the rising NWAU and being unable to fill vacant positions.

Statement of Financial Position

Assets

Current assets increased by $2 million and essentially comprise cash and cash equivalents of $12 million ($10 million), receivables of $5 million ($4 million) and other financial assets of $18 million ($19 million) that primarily relate to the investment of aged care refundable deposits.

Property, plant and equipment

As at 30 June 2023, property, plant and equipment represented 77% of total assets and includes the following significant components:

- $60 million of land and buildings
- $41 million of right-of-use lease assets
- $17 million of accommodation and leasehold improvements.

Liabilities

Current liabilities of $42 million exceeded current assets of $36 million at 30 June 2023.

Cash and cash equivalents of $12 million were sufficient to meet current payables of $6 million. LCLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses continuity of operations.

Staff-related liabilities

Staff-related liabilities remained stable and are 39% of total liabilities at 30 June 2023, comprising:

- $30 million ($29 million) of staff benefits liabilities
- $2 million ($2 million) in related on-costs
- $4 million ($3 million) of provisions for workers compensation.

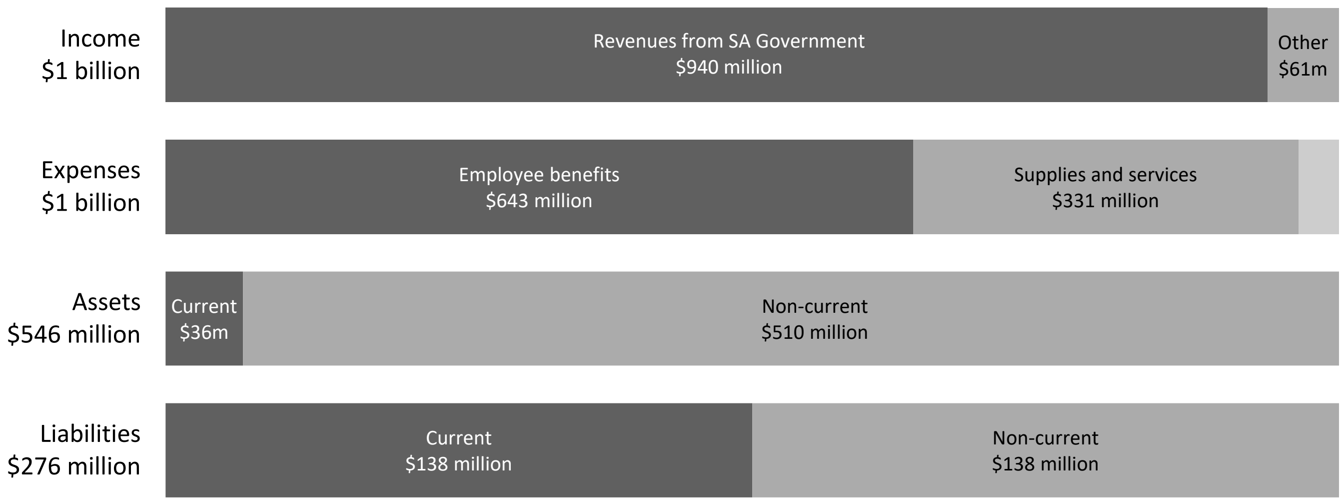
Note 24 of LCLHN's financial report provides further information on the independent actuarial assessments of the provision for workers compensation.

Financial liabilities

Financial liabilities are $37 million or 40% of total liabilities at 30 June 2023 and relate to the right-of-use assets of $41 million.

Northern Adelaide Local Health Network Incorporated (NALHN)

Financial statistics



4,729
FTEs

$512 million
Salaries and wages

$437 million
Value of buildings

72,675*
Total inpatient activity

* Data provided by SA Health and unaudited.

Significant events and transactions

Stage 1 of the Sunrise Electronic Medical Records (EMR) system was implemented at the Lyell McEwin Hospital in August 2022 and at the Modbury Hospital in September 2022, replacing the former revenue systems.

Financial report opinion

Unmodified

Controls opinion findings

- Processes for required employment screening checks need improvement.
- Payroll planning, monitoring and approval processes could be improved.
- The status of compliance with SA Health's immunisation policy is unknown.
- The memorandum of administrative arrangements (MoAA) formalising the Across Government Facilities Management Arrangements (AGFMA) was not signed.
- The strategic asset management plan and associated asset management plan were not finalised.

	— The AGFMA service delivery plan for 2022-23 was not approved by NALHN. — Improvements are required to user access reviews for key systems. — Some expenditure was processed without a purchase order. — The Chief Executive Officer did not review the register of financial authorisations in 2022-23. — Basware reports were not reviewed.
Other audit findings	The user access review for Sunrise EMR has not yet occurred.

Functional responsibility

NALHN was established under the *Health Care Act 2008* (HC Act) and its powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight of local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of board functions and responsibilities.

Each LHN CEO is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

A service agreement between NALHN and DHW outlines the requirements of the formal relationship between them, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2022-23 NALHN service agreement was executed in December 2022.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for NALHN are provided through a mix of:

- central services provided by Shared Services SA (SSSA) through an integrated finance service model
- finance services located within NALHN
- central services provided by DHW.

NALHN continues to operate some DHW legacy systems, so our audit included the review of new and legacy systems. We completed audit work at SSSA's central services, NALHN and DHW.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- DHW matters.

Specific areas of audit attention in 2022-23 included:

- governance
- payroll and workforce management
- expenditure and accounts payable
- AGFMA
- revenue and accounts receivable
- fixed assets
- cash
- general ledger.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures.

Controls opinion

We reviewed controls over payroll, AGFMA and expenditure as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the CEO of NALHN. The main findings and NALHN's responses are discussed below.

Controls opinion findings

Payroll

NALHN employed 4,729 FTEs as at 30 June 2023 and its payroll-related costs are significant, with $643 million in staff benefits expenses paid and $188 million in staff benefits liabilities and associated on-costs. Because of the significance of these costs, we review key payroll controls each year.

A large number of the payroll issues we identified in 2022-23 were also raised by us in prior years.

Processes for required employment screening checks need improvement

In 2022-23 we again considered the way NALHN manages employment screening checks for its staff as part of our overall review of controls associated with staff expenses.

We acknowledge the efforts NALHN has made to review its staff position requirements to determine which positions require employment screening checks, and to centralise the management and monitoring of those checks. These efforts have improved overall compliance and the monitoring of screening checks. Further effort is needed, however, to ensure the screening check information maintained in the payroll system is up to date, and reflects all positions requiring a screening check and the type of check required.

— *Staff potentially working in aged care roles without a current aged care check*

SA Health policy requires that employees working in certain aged care roles have a current national police check (NPC). NALHN may also request a staff member to obtain an aged care check (ACC) in addition to the NPC.

We sampled 10 employees working in positions requiring an ACC according to NALHN's payroll system, and found that the ACCs for four of them had expired. We were advised that two of these employees do not require a clearance for their positions and therefore the information in NALHN's payroll system was not up to date.

NALHN did not provide us with information on whether the other two staff members whose ACCs had expired were working in aged care roles or were working in roles that do not require an ACC.

NALHN responded that it is conducting an employment screening project. Phases 1 and 2 of this project covered working with children checks (WWCCs) and is complete. The next phase will be a review of the ACC process, which has a target completion date of March 2024.

— *Insufficient information in payroll system reports to monitor expiry for some employment screening checks*

NALHN's main record of employment screening information is the payroll system. Four different types of screening checks are used to verify employee suitability or continued suitability for work:

- NPC
- ACC
- WWCC
- vulnerable person check (VPC).

The type of screening check required depends on the employee's position and legislative and policy requirements, and they need to be renewed at specified intervals for many positions.

We found that the payroll system reports that are sent to divisions for checking only record the expiry date of the screening check for WWCCs and ACCs. There are no expiry dates shown for NPCs and VPCs and therefore no effective way for divisions to monitor these dates.

Without reliable information on the expiry date of staff clearances that need to be renewed on a periodic basis, divisions cannot effectively monitor and correct instances of non-compliance. This may result in non-compliance with legislation and internal policy requirements, and may put patient safety at risk.

NALHN responded that an expiry date can be added to the report for NPCs and VPCs but that these checks do not require reassessment, so they do not expire. NALHN advised us that it will reinforce the importance of correctly recording screening check information in the payroll system with staff and management.

WWCCs and ACCs are managed by the People and Culture division, and they will liaise with other divisions to ensure that information for these checks, including expiry dates, is kept up to date.

Payroll planning, monitoring and approval processes could be improved

— *Improvements required to staff performance review compliance rates*

NALHN's performance review records as at April 2023 found that only 60% (58%) of its staff had a current performance review. Of the 2,313 reviews that were not current, 30% (25%) had been expired for over a year, including 4% (5%) that were more than two years overdue. SA Health's benchmark is that 80% of performance reviews should be current.

Without actively managed performance reviews in place, staff may not be aware of the expected performance standards for their position, if they are achieving them and how their performance could improve. It may also impact NALHN's ability to achieve its strategic objectives.

NALHN responded that it will reinforce the requirements for performance reviews with staff.

— *Key payroll information not always reviewed for NALHN staff*

Key payroll reports for NALHN's staff differ depending on the type of employee. The effective review of these reports helps to ensure staff payments are accurate and valid.

For staff who are automatically paid each fortnight, key payroll information is captured on bona fide reports and leave return certificates.

For nursing and midwifery staff, key payroll information is contained in the ProAct rostering system, as this interfaces with the payroll system used to pay these staff.

There are other NALHN staff who are paid based on manually submitted timesheets, with many of them paid significant allowances in addition to their automatically paid base pay.

In 2022-23 we found that:

- while there was improvement from last year, the review of bona fide reports and leave return certificates is not uniformly performed across all divisions. 82% (81%) of bona fide reports and 77% (77%) of leave return certificates were reviewed and approved as at March 2023
- unlike automatically paid staff who are reported on bona fide certificates, there is no regular review to ensure payments made to staff who submit manual timesheets are correct once payment has been processed into the payroll system
- for some manual timesheets for medical officers we were not able to determine whether the timesheet authoriser was appropriate as their name and/or position title was either missing or unclear
- as at June 2023, the ProAct timesheets for 17% of nursing and midwifery staff and 18% of non-medical staff were not approved prior to payment.

In response NALHN advised us that it will:

- reinforce with staff the requirement to review bona fide reports and leave return certificates and will work with areas where compliance is poor
- remind staff and managers of the requirement to appropriately approve timesheets
- review the auditing and reporting schedule for unauthorised ProAct timesheets to identify opportunities to strengthen compliance.

— *Inconsistent medical rostering practices across divisions*

Consistent with our findings over the last few years, rostering practices for medical officers continue to vary across divisions. As there is no rostering system for medical officers, and no central training for staff preparing rosters, varying local practices have developed. The inconsistencies in rostering approaches increase the risk of different interpretations of complex enterprise agreements being made across divisions.

We understand that the SA Health electronic timesheet project, which aimed to transition medical officer manual timesheets onto ProAct, should help to set consistent rules and practices for rostering and approving timesheets for medical officers. This project was due to be finalised by September 2021, but was postponed and remains incomplete as at 30 June 2023. We were advised that the project stalled over concerns about the adequacy of the ProAct system for medical officers and a new system is being investigated.

The use of a rostering system would introduce system controls over rostering and timesheet approvals, areas which are more difficult to manage in an environment that uses local spreadsheets and manual processes.

NALHN responded that it will continue to work with DHW to implement a rostering system for medical officers that will improve the consistency of rostering and review processes.

— *Ineffective management of excessive annual leave*

NALHN policy requires staff with an annual leave balance in excess of two years entitlement (300 hours) to establish a leave reduction plan, approved by a divisional director, outlining how they will reduce their leave balance.

As at April 2023, NALHN had 578 staff with annual leave balances greater than 300 hours, including two staff with balances in excess of 800 hours.

We sampled five employees with leave balances in excess of 600 hours and found that:

- one staff member had submitted a formal leave reduction plan in February 2023
- one staff member had just met with their divisional director to discuss their leave arrangements, although no formal leave reduction plan was in place
- one staff member had submitted leave forms and a leave reduction plan, but this was only done after we queried it
- one staff member was on long-term sick leave and therefore did not have a leave reduction plan
- there was no response for one staff member.

Excessive annual leave balances that are not actively managed may impact staff wellbeing and productivity.

NALHN responded that it will reinforce with staff the requirement to have a leave reduction plan in place if their annual leave balance is more than 300 hours. It will also review the procedure for this.

NALHN also advised us that it will identify areas where compliance is poor so that work can be done with them to improve compliance.

— *Staff contracts issued late and with outdated details*

We found that 34% of the staff contracts we sampled were issued after the staff member started their employment. The delay between the employee starting and then receiving their contract ranged from a few days up to more than six months. We also noted that some of the contracts were prepared using outdated pay rates.

Staff commencing employment before the terms of their contract are formally agreed to increases the risk of industrial disputes, as the contract may not reflect the actual terms of employment.

NALHN responded that it will work with divisions to ensure that contracts are signed prior to staff commencing employment.

Status of compliance with SA Health's immunisation policy unknown

In 2018-19 we raised an issue regarding NALHN's compliance with SA Health's immunisation policy for health care workers. In its response, NALHN stated that full compliance with the policy was expected within four years, and was due in October 2021.

In 2021-22 we were advised that implementation of the policy requirements had stalled due to COVID-19, and priority was given to ensuring all staff had received their COVID-19 immunisation.

In 2022-23 we attempted to contact the responsible officer to determine the status of NALHN's compliance with the policy, however at the time of our audit we had not received a response.

Non-compliance with policy may result in unvaccinated staff working at NALHN, increasing the health risks to other staff, patients and visitors.

NALHN subsequently responded on 23 August 2023, outlining its progress and compliance with the updated SA Health immunisation policy that was released in November 2022.

NALHN has commenced a new, phased rollout of the updated policy. Phase one of the rollout commenced on 10 July 2023. From this date, a new pre-employment screening process captures all new NALHN employees. NALHN also implemented a new internal process to capture all staff movements, with no new contracts issued or changes to positions made without meeting compliance. It expects phase one of the project to be completed within 12 months.

Phases two and three of the project are scheduled, with a target date for full compliance with the immunisation policy by September 2025.

Across Government Facilities Management Arrangements

NALHN has property, plant and equipment totalling $507 million as at 30 June 2023. As part of our 2022-23 controls opinion work, we considered NALHN's processes to manage the maintenance of these assets, including the implementation of the AGFMA.

The AGFMA is a Cabinet-approved framework for the provision of facilities services to agencies across the SA Government. Services include breakdown maintenance, preventative maintenance, replacement and refurbishment, handyperson services and small construction.

In July 2021 the Department for Infrastructure and Transport (DIT) entered into a contract with Ventia Australia Pty Ltd (Ventia) for the delivery of the AGFMA from 1 December 2021. Although the new AGFMA has been in place for over a year, we understand that significant issues from the transition of the AGFMA to Ventia are still being resolved between Ventia, DIT and agencies.

Our review of the AGFMA focused on the controls exercised by NALHN.

The MoAA formalising the AGFMA was not signed

We noted that a draft MoAA between NALHN and DIT was developed in 2021-22, with the aim of formalising the roles and responsibilities of the parties involved in delivering the AGFMA.

DIT provided the draft MoAA to NALHN before the arrangements with Ventia came into effect. We understand that NALHN did not want to sign the draft MoAA due to what it considers are significant gaps in the responsibilities of the parties, and in particular what is required from Ventia.

We found that the MoAA was still unsigned as at 30 June 2023.

As a result, the roles and responsibilities of the parties involved in delivering the AGFMA are unclear, which could lead to inefficient and ineffective delivery of the services and disputes among the parties.

NALHN responded that there is risk for NALHN associated with signing the MoAA if Ventia does not meet its deliverables. It proposed that the governing board be objectively appraised of Ventia's progress in achieving its deliverables in the first year of the AGFMA, so it can decide whether to sign the MoAA. Information on this will be forwarded to the November 2023 governing board meeting for consideration.

Strategic asset management plan and associated asset management plan not finalised

Various SA Health policy directives outline the importance of SA Health agencies developing effective asset management strategies. They require an agency to have a strategic asset management plan and an accompanying asset management plan outlining how its assets, and the risks associated with them, will be managed.

Our 2022-23 review identified that NALHN is yet to finalise these plans. Without them, NALHN may not be fully informed about its asset management risks, and may not be able to appropriately plan for how assets will be managed in line with legislative, technical and service requirements, and the costs for maintenance and replacement.

NALHN advised us that a strategic asset management plan has been developed and is awaiting approval by the governing board.

Ventia annual service delivery plan for 2022-23 not approved by NALHN

Ventia is responsible for developing an annual service delivery plan (ASDP) in conjunction with NALHN, which outlines all of the planned services to be performed by Ventia in a given financial year. The ASDP should include details of all planned works to be performed, the timing of those works and the estimated costs. The ASDP ensures that all maintenance required by legislation, regulations and standards is performed for all relevant assets.

Once satisfied that the ASDP is a complete and accurate record of all planned services needed during the year, NALHN is required to approve the plan by 31 May for the coming financial year.

We found that NALHN had not approved the 2022-23 ASDP. We were advised that this was because NALHN was not satisfied with what was included in the plan by Ventia, and that Ventia kept changing the estimated cost of the works. We also understand that the ASDP was only provided to NALHN by Ventia in August 2022, after the 31 May 2022 deadline for approval had passed.

If an ASDP is not agreed between NALHN and Ventia, the planned maintenance required by legislation, regulations or standards may not be performed, resulting in safety risks to staff and patients.

NALHN responded that it will finalise the 2023-24 ASDP in conjunction with Ventia.

Improvements required to Panorama user access review processes

Panorama is the system Ventia manages and uses to record asset data, and agencies use to request, approve and track jobs to be performed by Ventia.

We understand that Ventia is responsible for sending a list of all Panorama users to NALHN annually, which is then reviewed by NALHN with any changes sent back to Ventia for action. We believe the formal user review process should be performed more frequently than once a year.

We also found that NALHN has no policies or procedures for the Panorama user access review.

NALHN responded that it will develop a procedure for Panorama user access reviews and perform reviews in line with the procedure.

Goods and services expenditure

NALHN spent $331 million on supplies and services in 2022-23. As part of our controls opinion work we considered its controls to ensure the effective procurement, contracting and purchasing of goods and services.

Improvements required to Basware and Oracle user access review processes

Basware and Oracle are systems used by NALHN to raise and approve purchase orders and payments. These systems have in-built user access and expenditure authorisation tables that allow this to occur. Under NALHN policy, user access to these systems should be reviewed quarterly to ensure users are up to date and have appropriate access and authorisation levels in the system.

We found that the last time formal Basware and Oracle user access reviews were performed was in May 2022. We were advised that no reviews have been performed since Basware was upgraded. Although SSSA is sending the required reports to DHW, DHW is unable to forward them to the respective areas for review given the information needed to do this is missing from the new reports. As a result, a user may have inappropriate access to the system, increasing the risk of fraudulent or inappropriate expenditure.

NALHN responded that regular Basware and Oracle user access reports have not been provided by DHW since Basware was upgraded. In the absence of a formal quarterly review, NALHN has been reviewing monthly reports from both systems to confirm that any changes to user access have been made in line with approved changes to NALHN’s register of financial authorisations.

Some expenditure was processed without a purchase order

SA Health policy requires a purchase order to be used for all purchases unless the item is on the approved purchase order exemption list or is below a certain value.

We analysed supplies and services expenditure processed between 1 July 2022 and 11 April 2023 and identified around $9.4 million of expenditure that should have been supported by purchase orders, but was not.

NALHN has implemented system controls requiring the invoice reviewer to select a reason why an invoice was not matched to a purchase order. A report can be generated from the system showing the invoice reviewer, approver and the reason why the purchase order was unmatched to a purchase order. We understand that this report is reviewed by NALHN at its Corporate Governance Committee meetings and discussed at monthly divisional performance meetings. We found, however, that information about this report and how it should be used is not documented in a procedure.

Where purchase orders are not used when required, there is an increased risk of unnecessary or unauthorised expenditure occurring due to the lack of prior approval.

NALHN responded that a procedure has now been developed and is awaiting final consultation.

The Chief Executive Officer did not review the register of financial authorisations in 2022-23

Treasurer's Instruction 8 *Financial Authorisations* requires CEOs to ensure that a register of financial authorisations is established and maintained, and reviewed at least annually.

Our review found that the last time the CEO reviewed the register of financial authorisations as a whole was in June 2021 for the 2021-22 financial year. The register of financial authorisations was not formally reviewed by the CEO for the 2022-23 financial year.

If the full register of financial authorisations is not reviewed annually, financial authorisations may be out of date or incorrect, which may lead to inappropriate expenditure approvals and financial loss to NALHN.

NALHN responded that its register of financial authorisations is regularly reviewed and updated to ensure the version published on its intranet is up to date. The annual review of the full register of financial authorisations is currently underway and scheduled to be submitted to the CEO for review and authorisation in September 2023.

Basware authorisation reports were not reviewed

SSSA produces a suite of monthly reports from Basware that are sent to agencies for review. The reports list transactions that were authorised using a super or special authorisation, or were manually approved before processing. The review of these reports provides comfort over the validity of expenditure for large or unusual payments, or manual payments that were approved outside of Basware's in-built authorisation rules.

At the time of our audit we found that these reports had not been reviewed by NALHN since Basware was upgraded in March 2022. Although SSSA is sending the required reports to DHW, DHW is unable to forward them to the respective areas for review given the information needed to do this is missing from the new reports.

As a result, throughout 2022-23 NALHN had no overview of the transactions that were authorised using super or special delegations, or manual payments that were approved outside of Basware's in-built authorisation rules. This exposes NALHN to the risk of inappropriate expenditure being authorised or manual payments not being appropriately authorised.

NALHN responded that in June 2023, the Basware reports from August 2022 to May 2023 were provided to NALHN by DHW and were reviewed. NALHN has been advised that the issue is ongoing and DHW is unsure when the next suite of Basware reports will be provided to NALHN for review.

Other audit findings

Patient and client fee revenue

NALHN received $30 million in patient and client fees in 2022-23. Patient fees include compensable revenue amounts recovered through compulsory third party arrangements for motor vehicle accidents or through the Return to Work Corporation of South Australia for workplace-related injuries and revenue from non-Medicare eligible patients and patients electing to be admitted as private patients. NALHN was also responsible for managing over $10.5 million in patient and client fee debts as at 30 June 2023.

Patient and client fee revenue is now processed in the Sunrise EMR system. Stage one of the system was implemented at the Lyell McEwin Hospital on 11 August 2022 and at the Modbury Hospital on 28 September 2022, replacing the systems previously used.

User access review for Sunrise EMR has not yet occurred

We were advised that when Sunrise EMR was implemented at NALHN, users from the legacy revenue systems were rolled over to the new system.

At the time of our audit, we were told that a user access review for Sunrise EMR was yet to occur and is scheduled for 2023-24. We also identified that NALHN has no policies and procedures on the Sunrise EMR user access review.

NALHN responded that it has now developed a procedure for the review of user access to Sunrise EMR. To date the third-party provider has been unable to supply a list of current users for NALHN to review. This has been logged with the DHW's EMR Digital Health division.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Income		
Revenues from SA Government	940	874
Fees and charges	41	35
Grants and contributions	4	3
Other income	16	12
Total income	1,001	924

	2023 $million	2022 $million
Expenses		
Staff benefits expenses	643	587
Supplies and services	331	303
Depreciation and amortisation	32	31
Other expenses	3	3
Total expenses	1,009	924
Net result and total comprehensive result	(8)	-
Assets		
Current assets	36	31
Non-current assets	510	508
Total assets	546	539
Liabilities		
Current liabilities	138	124
Non-current liabilities	138	137
Total liabilities	276	261
Net assets	270	278

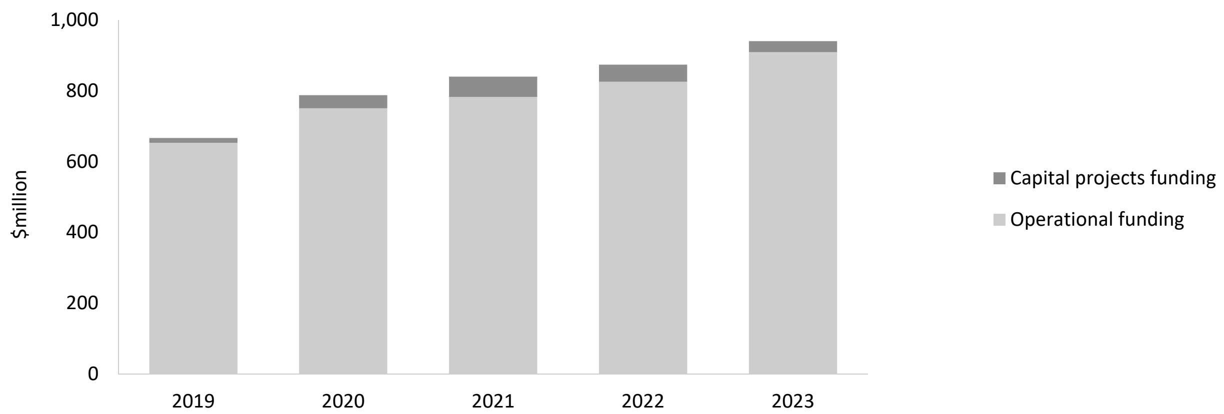
Statement of Comprehensive Income

Income

Revenues from SA Government

NALHN is mainly funded through recurrent and capital funding from DHW. In 2022-23, NALHN received recurrent funding of $909 million and capital funding of $31 million. The capital funding mainly relates to continued works at the Modbury Hospital for upgrades and additional services, and the expansion of the emergency department and additional sub-acute beds at the Lyell McEwin Hospital.

The chart below shows NALHN's revenues from the SA Government over the last five years.

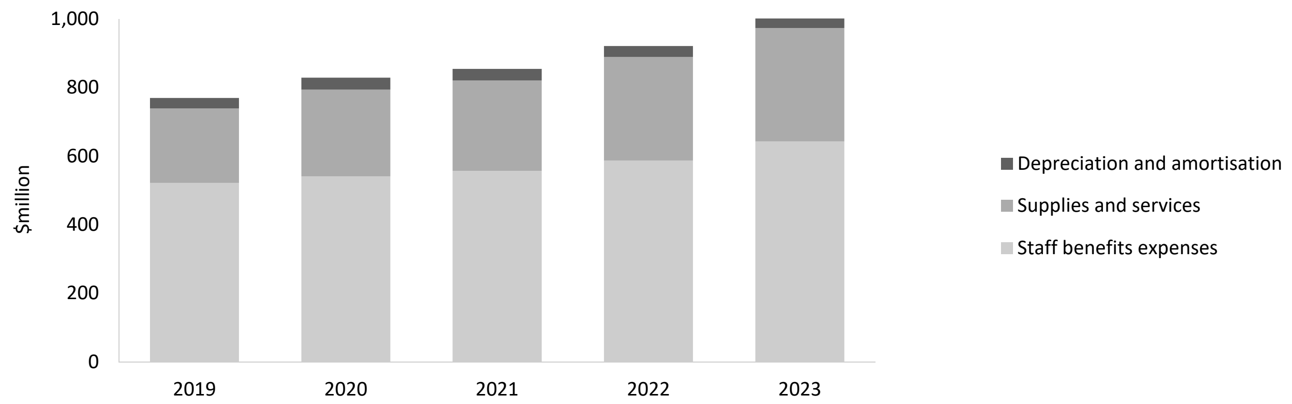


The chart shows the overall increase in funding over the last five years, with more significant amounts provided for capital projects in the three years from 2020 to 2022.

Expenses

Total expenses increased by $85 million (9%) to $1.009 billion in 2022-23.

The chart below shows the composition of expenses for the last five years.



The chart shows that all major categories of expense have increased over the last five years.

Staff benefits expenses

Staff benefits expenses of $643 million represent 64% (64%) of NALHN's total expenses, and increased by $56 million in 2022-23. This movement is attributable to the following components:

- a $31.5 million increase in salaries and wages, which mainly reflects increased staff numbers
- a $15.6 million increase in long service leave expense
- a $6.6 million increase in superannuation expense, linked to the rise in salaries and wages expense and impacted by the superannuation guarantee rate increasing from 10% to 10.5% from 1 July 2022
- a $3.3 million increase in annual leave expense resulting from increased staff numbers
- offset by a $1.7 million decrease in workers compensation expense.

Long service leave and workers compensation expenses are impacted by the actuarial assessment of the associated long service leave liability and workers compensation provision as at 30 June 2023.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical staff since 2018-19. It shows an overall growth in FTEs over the five years, including in 2022-23.

	2018-19 FTEs	2019-20 FTEs	2020-21 FTEs	2021-22 FTEs	2022-23 FTEs
Medical officers	633	670	687	749	750
Nurses	2,144	2,199	2,264	2,442	2,600
Non-medical	1,165	1,227	1,246	1,278	1,379
Total FTEs	3,942	4,096	4,197	4,469	4,729

The number of staff whose remuneration received/receivable exceeded base executive level ($160,000) totalled 521 (512), comprising 427 (436) medical officers, 82 (62) nursing staff, nine (nine) executives and three (five) non-medical staff. Total remuneration of these staff was $154 million ($153 million).

Supplies and services expenses

Supplies and services expenditure increased by $28 million (9%) in 2022-23 to $331 million. Significant changes in supplies and services were:

- agency staff costs, which increased by $9.1 million to $28.9 million due to the increased use of agency staff to cover vacant positions that could not be filled
- fee for service cost increases of $4.9 million, which relate to more elective surgery being outsourced to private hospitals to make ward space available
- security cost increases of $4.1 million, which includes back pay required under the MSS Security contract
- travel expense increases of $2.4 million, largely due to relaxed travel restrictions and the resuming of events
- offset by minor equipment cost decreases of $4.4 million, due to equipment purchased for redeveloped and expanded facilities in the prior year.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment assets represent 93% of NALHN’s total assets.

The carrying value of property, plant and equipment increased by $1 million to $507 million. Additions totalled $31.2 million and included $7.8 million of land purchased at Elizabeth South and Gilles Plains, and additions to building capital works in progress of $19.7 million, mainly related to the emergency department expansion and 48 additional sub-acute beds at the Lyell McEwin Hospital.

This increase was offset by $32.1 million in depreciation and amortisation expenses.

Liabilities

Current liabilities increased by $14 million to $138 million and exceeded current assets of $36 million as at 30 June 2023. Cash and cash equivalents of $18 million are insufficient to meet current payables of $40 million.

NALHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses its continuity of operations.

Staff liabilities make up $200 million (72%) of NALHN's total liabilities at 30 June 2023, and comprise:

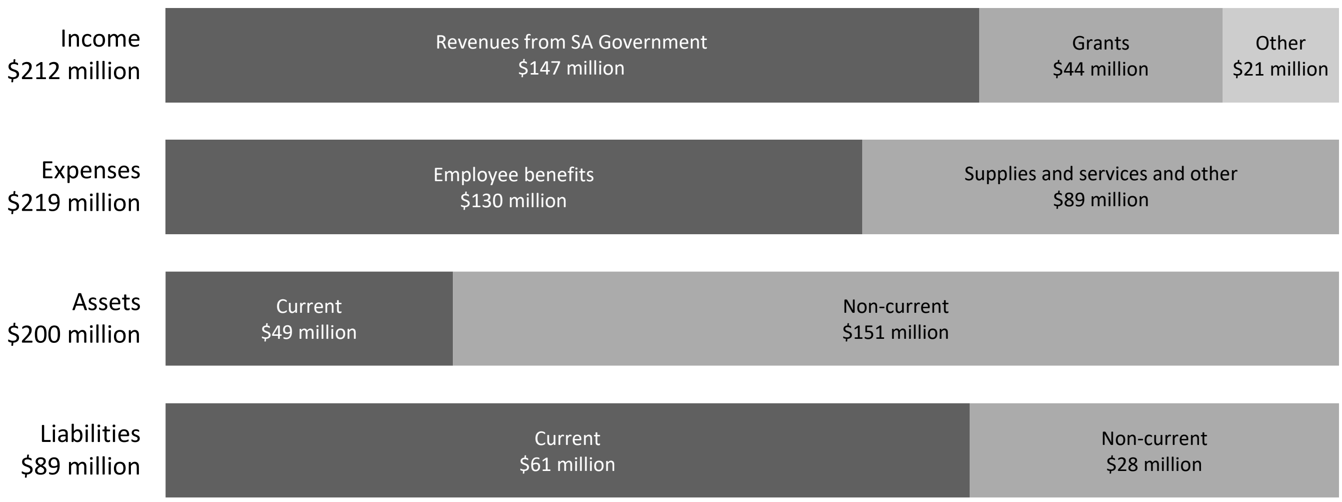
- staff benefits liabilities and related on-costs of $188 million ($175 million)
- workers compensation provisions of $12 million ($11 million).

Staff benefits liabilities and related on-costs increased by $13 million to $188 million. This was mainly due to a $5 million increase in annual leave liabilities, a $4.4 million increase in on-cost liabilities, a $2.5 million increase in accrued salaries and wages, and a $1.8 million increase in long service leave liabilities. These increases reflect higher staff numbers compared to 30 June 2022, and are impacted by the superannuation guarantee rate increasing from 10% to 10.5% from 1 July 2022.

The provision for workers compensation increased by $1 million to $12 million. Workers compensation provisions are based on an independent actuarial assessment. As outlined in note 20.1 of NALHN's financial report, which provides information on the actuarial assessment, there is a high level of uncertainty about the ultimate value of claims.

Riverland Mallee Coorong Local Health Network Incorporated (RMCLHN)

Financial statistics



1,212
FTEs

14
Hospitals and health service sites

18,850
Total inpatient activity

Financial report opinion	**Unmodified**
Audit findings	— Invoices were paid without purchase orders. — Patient and sundry debt management needs improvement. — There was inadequate segregation of duties for revenue officers.

Functional responsibility

RMCLHN was established to provide health services in the Riverland Mallee Coorong region of South Australia. The map of South Australia below shows the RMCLHN region.

Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for RMCLHN are provided by several agencies:

- RMCLHN
- the Rural Support Service (RSS) within the Barossa Hills Fleurieu LHN
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit covered the major financial systems at DHW, RMCLHN, RSS and SSSA to obtain sufficient evidence to form an opinion on the financial report. A chartered accounting firm assisted the Auditor-General with the audit of RMCLHN.

Specific areas of audit attention in 2022-23 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings to the CEO of RMCLHN. The main findings and RMCLHN's responses are discussed below.

Audit findings

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved purchase order exemption list or the purchase is below $2,200.

We found payments made without purchase orders for which the exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

RMCLHN advised us that it had appointed a procurement and contract manager in April 2023 whose initial focus will be to ensure these requirements are met.

Patient and sundry debtor management needs improvement

We reviewed the effectiveness of patient and sundry debtor follow-up activities. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed.

Effective debt recovery through prompt follow-up of amounts owed increases the likelihood of collection and reduces the level of billing queries.

RMCLHN responded that it would implement new control processes and increase its oversight of debt recovery actions.

Inadequate segregation of duties for revenue, receipting and medical records

We reviewed invoicing in the CHIRON patient billing system and found opportunities to improve the segregation of duties for revenue officers by restricting user access. We have raised these matters for a number of years.

The current arrangements increase the risk of inappropriate adjustments being made to invoiced fees.

RMCLHN advised us that user access was restricted in June 2023.

We also identified several findings for control activities performed by the RSS that impact RMCLHN. They are reported under 'Barossa Hills Fleurieu Local Health Network Incorporated' in this report.

Interpretation and analysis of the financial report

The consolidated accounts of RMCLHN include incorporated Health Advisory Councils (HACs) within the RMCLHN region. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2023 $million	2022 $million
Income		
Revenues from SA Government	147	129
Fees and charges and other income	21	19
Grants and contributions	44	40
Total income	212	188
Expenses		
Staff benefit expenses	130	117
Supplies and services and other expenses	79	73
Depreciation and amortisation	10	10
Total expenses	219	200
Net result	(7)	(12)
Assets		
Current assets	49	40
Non-current assets	151	157
Total assets	200	197
Liabilities		
Current liabilities	61	55
Non-current liabilities	28	25
Total liabilities	89	80
Net assets	111	117

Statement of Comprehensive Income

Revenues

Revenues from SA Government

RMCLHN's revenues from the SA Government are received from DHW and were 69% of its total income. They comprised:

- $145 million ($126 million) in operating funding, with the increase reflecting the rise in the National Weighted Activity Unit (NWAU) and the costs of providing health services
- $2 million ($3 million) in capital funding.

Fees and charges

Fees and charges remained stable and included the following significant components:

- $8 million of residential and aged care charges, mainly long-stay nursing home fees
- $3 million of patient and client fees.

Grants and contributions

Grants and contributions increased by $4 million. The significant components were $17 million ($14 million) of Commonwealth aged care subsidies and $27 million ($26 million) of Commonwealth grants.

Expenses

Staff benefit expenses

Staff benefit expenses represent 59% of total expenses and increased by $13 million (11%) due to:

- a $7 million increase in salaries and wages due to an increase of 45 FTEs and a rise in costs under the new Nursing/Midwifery (SA Public Sector) Enterprise Agreement 2022
- a $2 million increase in superannuation due to the rise in the superannuation guarantee percentage
- a $3 million increase as a result of additional long service leave expenses.

Supplies and services expenses

Supplies and services expenses increased by $6 million (8%), mainly due to:

- a $4 million increase in fee for service due to a rise in costs associated with the new general practitioners agreement and higher use of the services due to the rising NWAU
- a $1 million increase in medical, surgical and laboratory supplies due to the rising NWAU and the cost of supplies.

Statement of Financial Position

Assets

Current assets increased by $9 million due to:

- a $5 million increase in cash and cash equivalents
- a $3 million increase in receivables due to outstanding bonds related to new aged care residents and a rise in amounts due from medical practices
- a $1 million increase in other financial assets due to additional new aged care residents. Other financial assets primarily relate to the investment of aged care refundable deposits.

Property, plant and equipment

As at 30 June 2023, property, plant and equipment represented 74% of total assets and the most significant component was $140 million ($148 million) of land and buildings.

Liabilities

Current liabilities of $61 million exceeded current assets of $49 million at balance date.

Cash and cash equivalents of $18 million were sufficient to meet current payables of $8 million. RMCLHN is funded to meet expected cash flows for its current program delivery. Note 1.5 of its financial report discusses continuity of operations.

Staff-related liabilities

Staff-related liabilities make up 55% of total liabilities at 30 June 2023, comprising:

- $33 million ($30 million) of staff benefits liabilities
- $3 million ($2 million) in related on-costs
- $13 million ($10 million) of provisions for workers compensation.

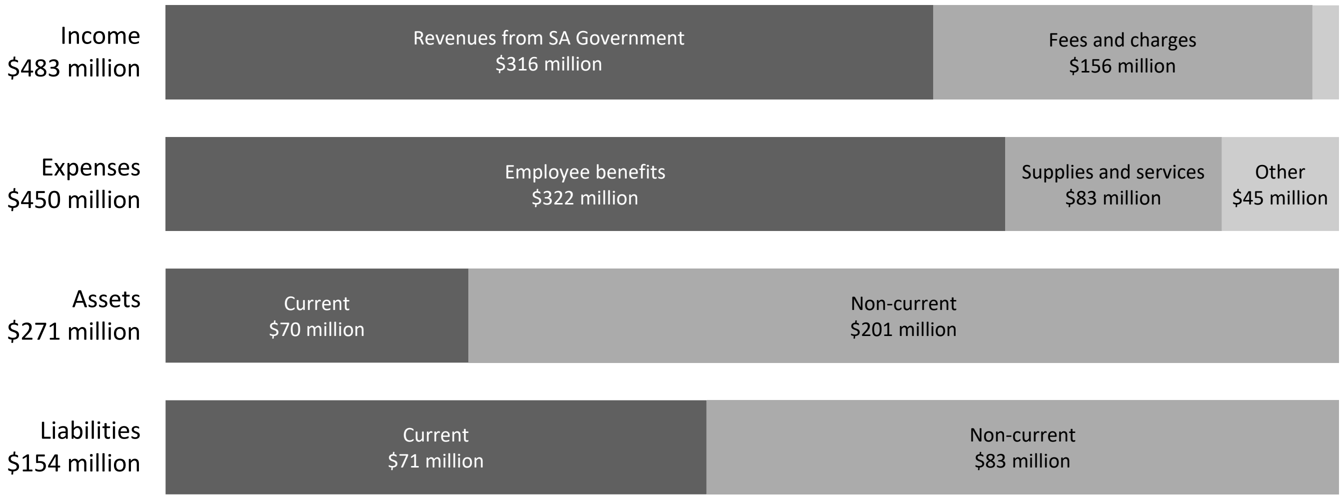
Note 22 of RMCLHN's financial report provides further information on the independent actuarial assessments of the provision for workers compensation.

Other liabilities

Other current liabilities make up 37% of total liabilities and mainly comprise residential aged care bonds. These bonds increased by $6 million in 2022-23 to $31 million ($25 million) due to the number of new aged care residents. They are refundable accommodation contributions or deposits made by residents when they enter aged care facilities.

SA Ambulance Service Inc (SAAS)

Financial statistics



1,859
FTEs

854*
Triple Zero calls – daily average

879*
Incidents responded to – daily average

* Data provided by SAAS and unaudited.

Significant events and transactions

— In August 2022 the South Australian Employment Tribunal approved the SA Ambulance Service Enterprise Agreement 2022. Under this agreement, eligible staff were entitled to receive a salary increase of 2.5% p.a., applicable from the first full pay period after 31 December 2018. Most of this back pay, including superannuation, was paid in September 2022 and totalled $40.3 million.

— In March 2023 it was announced that the new ambulance headquarters committed to as part of the 2022-23 State Budget would be built in Mile End. It will include a new emergency operations centre and city ambulance station, with construction expected to be completed in 2025.

— The 2023-24 State Budget committed $20 million in additional funding over three years to support the delivery of four new ambulance stations and to rebuild four existing stations.

Financial report opinion

Unmodified

Audit findings	
	— Work is still required to correct historical errors in staff leave balances. — Improvements are needed to manual timesheet processes. — Delays in generating patient transport invoices continue. — Password complexity rules are not enforced in the invoicing system. — Inappropriate segregation of duties in the ambulance transport and ambulance cover team. — Out-of-date bank signatories.

Functional responsibility

SAAS is a body corporate constituted under the *Health Care Act 2008* (HC Act) and is the principal provider of ambulance services in South Australia. It delivers:

- out-of-hospital emergency care and transport
- non-emergency patient care and transport
- emergency and major event management
- medical retrieval services.

Governance

Under the HC Act the Chief Executive, Department for Health and Wellbeing (DHW) is responsible for the administration of SAAS. This includes appointing SAAS's Chief Executive Officer. The Chief Executive, DHW cannot give a direction about a person's clinical treatment.

SAAS enters into a service agreement with the Chief Executive, DHW that sets out expectations and deliverables for the financial year, with the intent that it binds both parties.

The 2022-23 SAAS service agreement was executed in November 2022.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Financial services for SAAS are provided through a mix of:

- central services provided by DHW
- finance services located within SAAS
- services provided by Shared Services SA (SSSA).

Our audit included the review of new and legacy systems and completing audit work at DHW's central services, SAAS and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A chartered accounting firm assisted the Auditor-General with the SAAS audit.

Specific areas of audit attention in 2022-23 included:

- cash
- payroll, including back pay under the new enterprise agreement
- supplies and services and accounts payable
- procurement and contract management
- revenue and accounts receivable
- fixed assets
- general ledger.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of SAAS. The main findings and SAAS's responses are discussed below.

Payroll

Work is still required to correct historical errors in staff leave records

In 2019-20, SAAS advised us that an internal review had identified errors in its staff leave balances, resulting in an overstatement of staff leave benefits and associated staff on-costs of $6 million. SAAS identified these errors by reconciling operational staff records from its rostering system against staff leave records in its CHRIS payroll system. Adjustments processed mainly related to staff leave taken but not deducted from CHRIS leave balances.

The internal review considered records dating back to 2013 and resulted in a reduction in staff leave liabilities processed as at 30 June 2019. This adjustment was made to SAAS's general ledger and financial report, but not to individual leave entitlement balances in CHRIS. Further adjustments of $3.9 million were identified in 2020-21.

We were advised that the Minister for Health and Wellbeing and the Chief Executive, DHW had been briefed on the matter. Additional briefings were required when, as a result of the State election in March 2022, a new Minister and Chief Executive, DHW were appointed.

SAAS advised us that the Minister and Chief Executive, DHW requested a further briefing in 2022-23, and this is currently being finalised.

Improvements required to manual timesheet processes

Since 2017 we have raised concerns about weaknesses in SAAS's process for reviewing manual timesheets, including the completeness of manual timesheets submitted. SAAS previously advised us of its intention to interface its rostering system with CHRIS to eliminate some of these weaknesses.

SAAS has implemented a number of controls to address some of the identified weaknesses, including:

- electronic timesheets and leave forms being trialled by a pilot team of approximately 300 staff, with managers provided with a register to record timesheets received and follow up missing timesheets
- a dedicated section on leave and attendance management being added to the intranet, including guidelines for staff and managers to follow when completing and approving timesheets
- a timesheet submission register being developed and implemented for managers to track timesheets for the staff continuing to submit manual timesheets.

SAAS has also previously advised us that reviewing bona fide and leave return reports also ensures that leave taken by staff is accurately captured in CHRIS.

Our follow-up in 2022-23 identified that SAAS's project to interface the rostering system with CHRIS was delayed due to the project being unfunded beyond September 2023. SAAS advised us that, to date, approximately $1.7 million has been invested in trying to complete this project. Bona fide and leave return reports continue to be provided and reviewed by managers monthly to ensure that leave balances are accurately captured in CHRIS.

Revenue

Delays in generating patient transport invoices

At the time of our 2022-23 audit, there was a backlog of 44 days in generating patient transport invoices. As at 30 June 2023 SAAS had approximately $17 million in invoices to be raised for services provided earlier in the year (see note 14 of its financial report). Delays in raising invoices increase the risk of debt recovery not being successful.

SAAS responded that it brought in additional resources in April 2023 to reduce the backlog of patient transport invoices prior to transitioning the invoicing function from the current system to DHW's Oracle corporate system in October 2023.

Information technology

Password complexity rules not enforced in invoicing system

We found that the recommended rules for password complexity in SAAS's invoicing system are not enforced. Currently users determine the level of password complexity in the invoicing system, although as a compensating control, access to the invoicing system requires login through the Health Active Directory, which does have password complexity rules enforced. Non-complex passwords may result in inappropriate access or data breaches.

SAAS advised us that it is transitioning the invoicing function from the current system to DHW's Oracle corporate system, and this is scheduled to be complete by October 2023. SAAS is therefore satisfied to accept what it regards as the minimal risk associated with this issue until the transition occurs later in the year.

Inappropriate segregation of duties in the ambulance transport and ambulance cover team

We noted that managers in the ambulance transport and ambulance cover team have access to process and approve transactions in SAAS's invoicing system. As a result, a member of this team is able to process and approve the same transaction. This may result in the inappropriate processing of transactions in the system.

During our 2022-23 audit SAAS advised us that it has implemented an oversight control by sending daily reports to departments for review. These daily reports include banking reports, banking lists, cheque processed reports and cash transaction reports. However, we found no evidence that they are being reviewed.

SAAS advised us that, with the transition of the invoicing system to DHW's Oracle corporate system in October 2023, there will be a clear segregation of duties for approving transactions.

Cash

Out-of-date bank signatories

In prior years we have identified instances of former employees being listed as authorised signatories on SAAS's bank accounts. We noted that no regular review of bank signatories is performed, although we do acknowledge the system control in place that requires two signatories to authorise payments from the bank account.

SAAS advised us that it is currently changing to another bank as part of the whole-of-government banking contract. This change will take place in 2023-24 and authorised signatories to bank accounts will be formally reviewed as part of the change-over process.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Income		
Revenues from SA Government	316	199
Fees and charges	156	156
Other income	11	11
Total income	483	366
Expenses		
Staff benefit expenses	322	252
Supplies and services	83	72
Depreciation and amortisation	16	15
Impairment loss on receivables and contract assets	4	7
Other expenses	25	21
Total expenses	450	367
Net result	33	(1)
Other comprehensive income	(11)	27
Total comprehensive result for the year	22	26

	2023 $million	2022 $million
Assets		
Current assets	70	65
Non-current assets	201	188
Total assets	271	253
Liabilities		
Current liabilities	71	68
Non-current liabilities	83	90
Total liabilities	154	158
Net assets	117	95

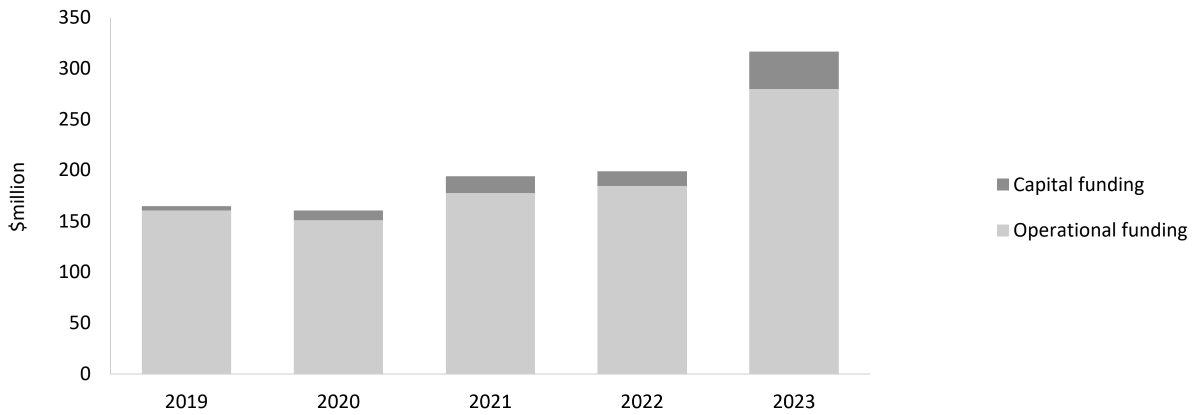
Statement of Comprehensive Income

Revenues

Revenues from SA Government

SAAS is dependent on revenue from the SA Government, which comprises 65% of its total revenue. In 2022-23 total revenues from the SA Government increased by $117 million to $316 million, and comprised recurrent funding of $279 million ($184 million) and capital funding of $37 million ($15 million). This increase is largely due to additional funding received in 2022-23 to cover the cost of back pay and associated on-costs to eligible staff under the SA Ambulance Service Enterprise Agreement 2022, and amounts received to fund election commitments, including the purchase of land and new ambulance vehicles.

The chart below shows SA Government funding to SAAS over the last five years, separated between capital and operational. While there have been changes in the composition of SA Government funding over this period, there has been an overall rise in funding between 2019 and 2023, with a significant increase between 2022 and 2023.



Revenues from fees and charges

Revenues from fees and charges remained consistent at $156 million between 2022 and 2023. Significant components were:

- ambulance cover – $32 million ($31 million)
- ambulance transport – $118 million ($118 million).

Ambulance cover revenue is from member subscriptions to the SAAS ambulance cover scheme. Ambulance cover provides members with cover for the cost of all ambulance transport in South Australia, while Ambulance Cover Plus covers the costs of ambulance transport Australia-wide.

Ambulance transport revenue is earned from patient transport services to the general public, $89 million, and SA Government customers, $29 million. To manage the ongoing ramping crisis at South Australian hospitals, the SA Government has been implementing ways for patients to access more appropriate clinical care than ambulance transport to an emergency department. Ambulance transport revenue has remained consistent, despite the cost of ambulance transport fees increasing by 2% in 2022-23.

Expenses

In 2022-23 total expenses increased by $83 million to $450 million.

Staff benefit expenses

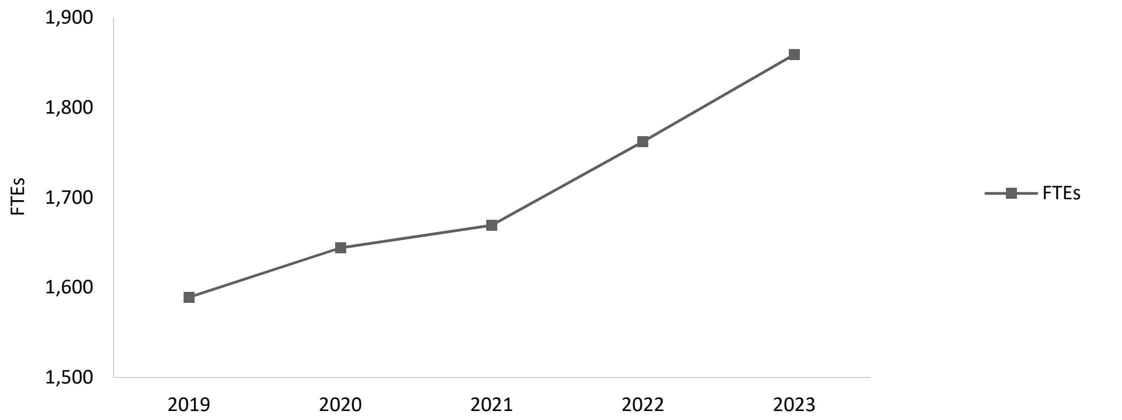
Staff benefit expenses of $322 million represented 72% of SAAS's total expenses and increased by $70 million from $252 million. This was due to:

- a $68.3 million (36%) increase in salaries and wages. This was largely due to back pay paid in 2022-23 under the SA Ambulance Service Enterprise Agreement 2022, which was approved by the South Australian Employment Tribunal in August 2022. Under this agreement, eligible staff were entitled to receive a salary increase of 2.5% p.a., applicable from the first full pay period after 31 December 2018. Most of this back pay, including superannuation, was paid in September 2022 and totalled $40.3 million
- a $12.5 million increase in the long service leave expense, offset by a $16.9 million decrease in the workers compensation expense. These amounts were impacted by the actuarial assessment of the long service liability and the workers compensation provision as at 30 June 2023
- a $4.5 million increase in superannuation expense, linked to the rise in salaries and wages expense and impacted by the superannuation guarantee rate increasing from 10% to 10.5% from 1 July 2022.

The number of staff whose remuneration received/receivable exceeded the base executive level of $160,000 in 2022-23 totalled 785 (330) and comprised 730 (275) operational, 29 (29) medical, 21 (21) nursing and five (five) executive staff. Total remuneration for staff across these categories was $164 million ($65 million). This significant increase in operational staff receiving greater than the base executive remuneration level is due to the once-off back pay paid to eligible staff in September 2022 under the enterprise agreement discussed above.

Total FTEs employed by SAAS have increased over the five years to 30 June 2023. There were 1,859 FTEs at 30 June 2023 compared to 1,589 FTEs at 30 June 2019, based on Office of the Commissioner for Public Sector Employment data. They comprised 1,358 (1,272) emergency services, 25 (25) medical, 41 (39) nursing and 435 (427) non-medical staff. The number of emergency services staff is likely to continue to increase in the coming years with the SA Government committing in the 2022-23 State Budget to increase the number of paramedics and ambulance officers by 350 over the four years from 2022-23.

The chart below shows the overall growth in FTE numbers over five years.



Supplies and services expenses

Supplies and services expenses increased by $11 million to $83 million. This movement is largely due to a $7.7 million increase to patient transport expenses, resulting from an increased demand for services and higher running costs throughout the year.

Other expenses

Other expenses increased by $4 million to $25 million. This was largely due to a $3.7 million increase in debts written off, made up of:

- $2.6 million in COVID-19-related patient invoices raised to the SA Health Control Centre. As a result of SAAS's backlog in processing patient transport invoices (discussed under 'Audit findings' above), these invoices were not provided to the SA Health Control Centre prior to it closing and therefore had to be written off
- approximately $600,000 in debt written off for ambulance services provided to prisoners in the custody of South Australia Police. These costs were previously invoiced to South Australia Police, but are now invoiced directly to the prisoner.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represent 65% of SAAS's total assets. Their carrying value increased by $24 million to $176 million as at 30 June 2023. This was primarily due to:

- $39.4 million in additions, mainly related to land, building works in progress, and plant and equipment works in progress. This included land purchased at Norwood, Golden Grove and Woodville where new ambulance stations will be built
- offset by depreciation and amortisation of $15.7 million.

Other assets

Receivables make up 22% of total assets and fell by $7 million to $60 million. This decrease was due to:

- a $10.3 million decrease in the defined benefit superannuation scheme receivable as a result of an actuarial review. More detail on this movement is provided in note 20.3 of SAAS's financial report

- a $5.3 million increase in debtors, offset by a $3.7 million increase in SAAS's allowance for impairment loss on debtors
- a $980,000 increase to sundry receivables.

Contract assets of $17 million relate to work completed but not yet invoiced due to a backlog in processing patient transport invoices. The allowance for impairment loss on contract assets increased by $437,000 to $4.3 million. Note 14 of SAAS's financial report provides more information on this.

Liabilities

Staff liabilities comprise $131 million (85%) of SAAS's total liabilities at 30 June 2023, comprising:

- staff benefits liabilities and related on-costs – $100 million ($86 million)
- provisions for workers compensation – $32 million ($42 million).

Staff benefits liabilities increased by $12 million to $93 million, due mainly to a $6.4 million increase in the annual leave liability and a $4.6 million increase in the long service leave liability. These increases were largely due to the approval of the SA Ambulance Service Enterprise Agreement 2022 in August 2022, with eligible staff entitled to receive a salary increase of 2.5% p.a., applicable from the first full pay period after 31 December 2018. This resulted in the liabilities being calculated using an hourly rate 12.5% higher than the hourly rates used in the liability calculations as at 30 June 2022.

The provision for workers compensation decreased by $10 million to $32 million. Workers compensation provisions are based on an independent actuarial assessment. As explained in note 21.1 of SAAS's financial report, which provides information on the actuarial assessment, there is a high level of uncertainty about the ultimate value of claims.

SAAS is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report provides information about its continuity of operations.

State Budget commitments and SAAS

The SA Government has committed to funding the following over the four years from 2022-23:

- 350 more paramedics and ambulance officers
- a new ambulance headquarters
- four new ambulance stations at Norwood, Woodville, Golden Grove and Edwardstown, and the rebuild of four existing stations at Campbelltown, Mount Barker, Gawler and Victor Harbor
- ambulance station upgrades and expansion at 10 locations
- 36 additional fully equipped ambulance vehicles.

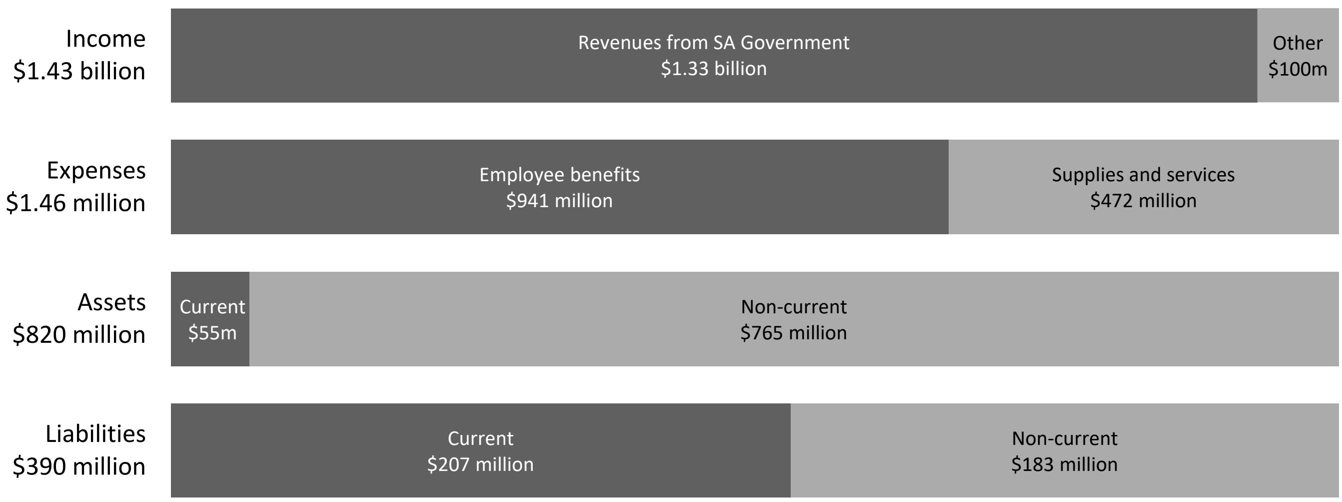
SAAS is working closely with the SA Government on delivering these commitments. Significant milestones in 2022-23 included:

- in March 2023 it was announced that the new ambulance headquarters committed to in the 2022-23 State Budget would be built at Mile End. It will include a new emergency operations centre and city ambulance station, with construction expected to be completed in 2025

- the purchase of land at Norwood, Golden Grove and Woodville where new ambulance stations will be built
- the recruitment and training of additional paramedics and ambulance officers to meet the target of an additional 350 operational staff by 2026-27.

Southern Adelaide Local Health Network Incorporated (SALHN)

Financial statistics



6,750 FTEs

$668 million Value of buildings

100,238 Total inpatient activity

Significant events and transactions

Work continued to support the expansion and upgrade of facilities across SALHN at Noarlunga Hospital (NH) and the Flinders Medical Centre (FMC), and to open new facilities at the Repat Health Precinct (RHP).

Financial report opinion

Unmodified

Controls opinion findings

- Payroll planning, monitoring and approval processes could improve.
- Asset management and maintenance processes under the Across Government Facilities Management Arrangements (AGFMA) could be better defined.
- Some reviews over key expenditure controls could be improved.
- Some contract management processes could be improved.

Other audit findings

No private practice audits were conducted.

Functional responsibility

SALHN was established under the *Health Care Act 2008* (HC Act) and its powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight of local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN CEO is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

A service agreement between SALHN and DHW outlines the requirements of the formal relationship between them, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2022-23 SALHN service agreement was executed in November 2022.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for SALHN are provided through a mix of:

- central services provided by Shared Services SA (SSSA) through an integrated finance service model
- finance services located within SALHN
- central services provided by DHW.

We completed audit work at SSSA's central services, SALHN and DHW.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and systems
- matters for individual health services
- DHW matters
- governance.

Specific areas of audit attention in 2022-23 included:

- governance
- accounts payable and goods and services expenditure
- payroll and workforce management
- patient billing and debtor management
- medical officer professional development
- cash and online banking
- general ledger and financial accounting
- property, plant and equipment.

We considered the work of SALHN's internal auditors in planning and conducting the audit.

Controls opinion

We reviewed controls over employee expenses, goods and services expenditure, buildings and improvements and the AGFMA as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive Officer of SALHN. The main findings and SALHN's responses are discussed below.

Controls opinion findings

Payroll planning, monitoring and approval processes could be improved

SALHN employs around 6,750 (6,456) FTEs and its payroll-related costs are significant, with $941 million in staff benefit expenses paid and $343 million in staff benefit liabilities at 30 June 2023. Given the significance of these costs, we review key payroll controls each year.

Employees working in aged care roles without a current aged care check

Under the *Aged Care Act 1997*, screening checks must be obtained for employees working in Commonwealth Government subsidised aged care roles.

In previous years, we have identified multiple instances of SALHN staff working in aged care roles without valid aged care checks. SALHN developed procedures to monitor aged care compliance, comprising of a weekly reporting dashboard, drawn from SALHN's workforce reporting data, that incorporates data on aged care employment checks.

As at June 2023, we identified 67 staff members from a population of 379 employees (17.6%), who did not possess the valid aged care employment checks required by their roles and the Act.

SALHN advised us that it had implemented divisional reporting to highlight checks due for renewal and follow-up, and established processes to maintain ongoing compliance.

Employees working in positions SALHN identifies as prescribed without a working with children check

SA Health's criminal history screening policy requires a current working with children clearance (WWCC) for all SA Health employees before they start in a prescribed position. This reflects the requirements of the *Child Safety (Prohibited Persons) Act 2016*.

In 2021-22, SALHN completed their identification of staff working in prescribed positions requiring WWCCs and subsequently started a compliance review, looking at whether those staff had current WWCCs. We reported that 1,008 employees in prescribed positions did not have a current WWCC. In response SALHN developed procedures to monitor WWCC compliance, comprising of a weekly reporting dashboard, drawn from SALHN's workforce reporting data, that incorporates data on WWCCs.

As at June 2023, we identified 83 employees from a population of 5,041 (1.6%), drawn from SALHN's workforce reporting data, who did not have the required WWCC. This is a significant improvement from 2021-22 when SALHN identified 1,315 out of 5,508 staff (24%) working in prescribed positions who did not have current WWCCs.

SALHN advised us that it had implemented divisional reporting to highlight checks due for renewal and follow-up, and established processes to maintain ongoing compliance.

SALHN did not have a consolidated workforce plan

For a number of years we have considered workforce planning across a number of agencies with significant workforce numbers. Since then, SALHN has addressed aspects of its workforce planning, including:

- identifying the development of a workforce strategic plan as a strategic priority
- consulting with divisions to provide scope for workforce operational and strategic planning initiatives
- implementing a talent identification and management framework, and identifying critical leadership positions and potential successors
- identifying the need for a SALHN-wide nursing workforce plan
- completing the Clinical Services Workforce Plan in 2021
- developing a workforce sub-plan as part of SALHN's COVID-19 response
- finalising a draft consolidated workforce plan, with the intent to distribute it across all divisions for consultation.

We note that SALHN's strategic and operational workforce needs have changed rapidly in the past few years, and is still changing in response to ongoing and increasing demands for clinical services.

In 2022-23 we found that, while SALHN has yet to develop a consolidated workforce plan, it has developed and is implementing other workforce strategies, such as a draft Workforce Growth and Sustainability Strategy that supports its strategic objectives and would complement a workforce plan once developed.

SALHN advised us that it did not support creating an overarching workforce plan. Instead it will:

- continue to develop its workforce planning strategies and divisional workforce plans to meet its service needs
- consider local workforce planning, aligning where possible with the broader SA workforce strategy/plan, once released.

Around 30% of SALHN staff did not have a current performance review in June 2023

Effective performance review processes support an organisation by creating a culture of accountability and continuous improvement for its employees.

SALHN requires performance reviews to be completed annually for every staff member, with performance discussions held every six months.

SALHN has developed a reporting dashboard, drawn from its workforce reporting data, that incorporates data on performance reviews. We used this to review performance review compliance rates.

As at June 2023, we identified 2,313 employees from a population of 8,026 who did not have a current performance review. This means that approximately 71% of performance reviews were current and 29% had expired. This is a minor decrease from 2021-22, when 23% were expired at the time of our audit, and is still below the 80% target benchmark set by SALHN.

SALHN agreed to:

- reinforce the requirements to conduct performance reviews with all staff
- monitor performance review rates weekly and through divisional meetings.

No central monitoring process to ensure regular review of payroll information occurs

In previous years we have found internal control gaps in SALHN's payroll processing environment, including:

- no certification of the validity of payments to employees
- no regular review of employee classification levels
- no review of the validity of long-term allowances.

SALHN's previous responses and actions to validate data for payroll processing included:

- for a small number of automatically paid employees, bona fide and leave return certificates reporting and review processes are used
- for nurses, the fortnightly reconciliation of employees rostered and paid to timesheets is used

- for employees who are not automatically paid, staff establishment reports are distributed monthly to divisional managers for their review to ensure employee information is correct and accurate.

Our review of the staff establishment reporting process in prior years identified that there were no specified time frames for reviews to be completed, and no requirements for divisional managers to submit reviewed staff establishment reports to a central point for monitoring.

Our follow-up in 2022-23 found that SALHN still has not implemented a central monitoring process, and there has been no clarification provided to divisional managers on time frames for reviewing staff establishment reports.

We are still unable to obtain sufficient assurance that the staff establishment reports are being reviewed appropriately and that any errors detected in employee payroll information are promptly followed up and rectified.

SALHN noted our findings and advised us that it would assess where it would place resources to address the issue.

Inconsistent medical rostering practices

Rostering accuracy is important for ensuring that appropriate resources are available to support high quality and efficient patient care, as well as for ensuring the completeness and accuracy of the allowances paid to medical staff.

For the past four years, we have identified inconsistent rostering practices across SALHN divisions, with different processes, tools and approaches being used. To address this, SALHN established a Medical Workforce project team to review rostering practices for medical staff, which resulted in the development of guidelines in 2020-21. We understood that SALHN was working towards developing standard rostering systems and guidelines for other categories of medical staff.

Our follow-up in 2022-23 confirmed that this is still a work in progress and no standard practice has been implemented.

Until SALHN implements consistent rostering practices across all divisions and all types of medical officers, the risks associated with inconsistent rostering practices will remain.

SALHN advised us that it is exploring IT options to improve rostering and the generation of time and attendance information. It will consider the outcome of this work.

Leave management

In prior years, we noted that SALHN had staff with negative leave balances and staff with excessive annual leave balances. In response, it implemented enhanced reviews and management practices.

In 2022-23, our review of SALHN's leave report as at April 2023 found:

- 51 employees with negative leave balances
- 1,065 employees with annual leave balances of more than 40 days
- 881 employees with accrued annual leave balances between 25 and 40 days.

SALHN advised us that it would:

- continue to perform regular leave audits and investigate significant negative leave balances
- continue providing excess leave reports to divisions and target management plans to reduce leave for the highest balances
- monitor and/or discuss excess leave through divisional meetings.

Asset management processes could improve

SALHN has property, plant and equipment worth $754 million. As part of our controls opinion work in 2022-23, we considered SALHN's control processes to manage the maintenance of these assets, including considering the AGFMA.

In 2022-23, consistent with our prior year findings, we found that:

- SALHN did not have a signed memorandum of administrative arrangements (MoAA) with the Department for Infrastructure and Transport (DIT) for the AGFMA
- financial delegations in the system used to order maintenance work were not consistent with SALHN's financial delegations.

We also found that:

- SALHN did not approve the annual service delivery plan because it did not include budgeted costs per item/job
- SALHN did not regularly review user access to the system to ensure that only authorised SALHN officers have access
- SALHN did not have policies/procedures to direct the management of user access to the system
- a significant number of contractor invoices were not approved for payment due to insufficient supporting documentation and/or lack of explanation for costs. There was no timely follow-up from the contractor to resolve these disputed invoices
- invoices from SALHN's facilities management service provider (FMSP) were not approved for payment in a timely manner, as supporting data files contained inadequate and/or corrupted coding information.

SALHN responded that it would work with the FMSP to ensure that:

- SALHN aligns the financial limits in the FMSP's system with SALHN's general financial delegations
- the FMSP promptly actions user access change requests to the system
- the FMSP provides the appropriate supporting documentation to facilitate approval of contractor invoices
- the FMSP provides the correct coding of data to assist in the timely processing of invoices.

SALHN also advised us that the 2023-24 service delivery plan has now been signed and it was working with DIT to formalise the MoAA.

Reviews over some key expenditure controls could be improved

SALHN paid over $472 million for supplies and services in 2022-23. We found instances where reviews over expenditure controls and transactions had either not been performed or were not timely. They included:

- SALHN's financial authorisations not being reviewed in a timely manner
- the quarterly review of Oracle/Basware payment system users not being completed
- the review of Basware monthly transaction reports not being completed
- the review for duplicate invoices not being performed monthly.

SALHN responded that it was:

- finalising an updated version of its financial authorisations, incorporating amendments from revised Treasurer's Instruction 8 *Financial Authorisations*
- in contact with SSSA and waiting on the reports needed to recommence Oracle/Basware reviews
- recommencing monthly reviews of duplicate invoices.

Some contract management processes could be improved

In 2022-23, we continued to identify deficiencies in SALHN's contract management activities. We found that:

- formal contracts were not established for some regular services. This year we identified one instance where significant expenditure of about $3 million was not supported by a contract
- contract management plans were not established for some high-value and high-risk contracts. This year we found seven strategic contracts that did not have contract management plans
- some contract register details were incorrect or missing
- procurement and contract management information on SALHN's intranet was inconsistent with Treasurer's Instruction 18 *Procurement.*

SALHN responded that:

- it was continuing to progress procurement documentation to finalise contracts
- its Contracts Team would centrally manage its procurement and contract management system to ensure all contracts and procurements were correctly uploaded into the system.

Other audit findings

No private practice audits conducted

The various memorandums of arrangements (MoAs) for private practice allow medical officers to undertake rights of private practice (RoPP) outside of SALHN if they have written approval from the Chief Executive of DHW. The terms of these RoPP MoAs require medical officers to transfer all offsite-generated fees collected to SALHN. SALHN then distributes them in line with the MoA.

We understand that SALHN performs the following processes to monitor offsite RoPP agreements:

- monitoring monthly receipts of RoPP doctors listed on its offsite register
- monitoring responses received for the annual statutory declarations and RoPP offsite questionnaires by 31 July each year.

In 2022-23, we again found that SALHN had not conducted any independent audits. Without these audits, which are allowed by the MoAs, the risk that not all offsite fees are completely and accurately transferred to SALHN remains.

SALHN responded that the random private practice audit process has commenced. SALHN will also be reviewing each doctor on the master listing to ensure that all information is correct.

Interpretation and analysis of the financial report

Highlights of the financial report

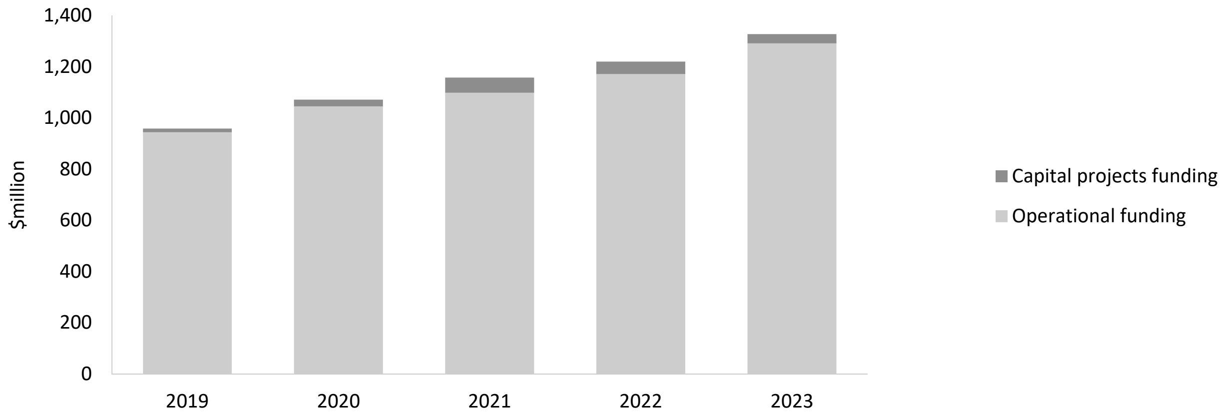
	2023 $million	2022 $million
Income		
Revenues from SA Government	1,327	1,220
Revenue from fees and charges	69	57
Grants and contributions	6	5
Other income	31	34
Total income	1,433	1,316
Expenses		
Staff benefit expenses	941	846
Supplies and services	472	410
Depreciation and amortisation	45	43
Other expenses	2	3
Total expenses	1,460	1,302
Net result and total comprehensive result	(27)	14
Assets		
Current assets	55	49
Non-current assets	765	770
Total assets	820	819
Liabilities		
Current liabilities	207	185
Non-current liabilities	183	177
Total liabilities	390	362
Total equity	430	457

Statement of Comprehensive Income

Income

Revenues from SA Government

SALHN is mainly funded through recurrent and capital funding from DHW. In 2022-23, its revenues from the SA Government increased by $107 million (9%) to $1.327 billion due to increased operational funding of $121 million, offset by decreased capital funding of $14 million. The chart below shows revenues from the SA Government over the last five years.



The $121 million (10%) increase in recurrent funding to $1.291 billion in 2022-23 reflects additional funding for the costs associated with increased service provision at FMC and the RHP.

Revenues from fees and charges

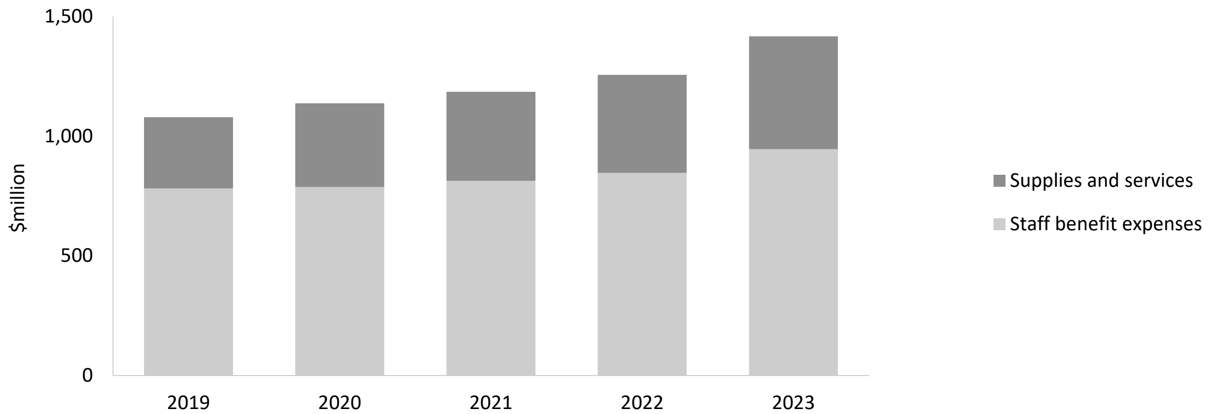
In 2022-23 revenues from fees and charges increased by $11 million (19%) to $68 million, mainly due to:

- an $8.6 million (24%) increase in patient and client fees received, mainly as a result of increased compulsory third-party claims for motor vehicle accident-related treatments
- a $1.5 million increase in car parking revenue
- a $753,000 increase in fee for health services.

Expenses

In 2022-23 total expenses increased by $158 million (12%) to $1.46 billion.

The chart below shows the composition of expenses for the last five years.



Staff benefit expenses

Staff benefit expenses of $941 million represent 64% of SALHN's total expenses. These costs increased by $95 million in 2022-23, mainly due to:

- a $44 million increase in salaries and wages expense to $743 million
- a $26 million increase in long service leave expense to $19 million
- a $10 million increase in staff superannuation on-costs to $85 million
- a $6 million increase in annual leave expense to $77 million
- a $9 million increase in workers compensation to $12 million.

These increases are mainly driven by an increase of 294 FTEs in 2022-23.

The following table shows the breakdown of FTEs between medical, nursing and non-medical staff, since 2018-19. The table shows an overall growth in FTE numbers over the five years, including in 2022-23.

	2018-19 FTEs	2019-20 FTEs	2020-21 FTEs	2021-22 FTEs	2022-23 FTEs
Medical officers	891	923	963	981	1,040
Nurses	2,918	2,989	3,084	3,335	3,463
Non-medical	1,901	2,003	2,056	2,140	2,247
Total FTEs	5,710	5,915	6,103	6,456	6,750

The number of staff whose remuneration received or receivable exceeded the base executive level ($160,001) totalled 771 (787), comprising 686 (709) medical officers, 71 (63) nursing staff, 11 (eight) executives and three (seven) non-medical staff. Total remuneration for these staff was $226 million ($228 million).

Supplies and services expenses

Supplies and services expenses of $472 million represent 32% of SALHN’s total expenses. They increased by $62 million (15%) in 2022-23, mainly due to:

- computing, which increased by $3 million (21%) to $14 million
- contractors – agency staff, which increased by $8 million (44%) to $27 million
- fee for service, which increased by $26 million (55%) to $74 million
- medical, surgical and laboratory supplies, which increased by $7 million (5%) to $149 million. This increase mainly reflects the impact of changes to charging for central services, such as pathology tests, with the full cost now charged to LHNs (and funded through revenues from the SA Government).

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 91% of SALHN’s total assets. Its carrying value decreased by $8 million (1%) to $756 million in 2022-23, due mainly to:

- additions of $34 million for capital works in progress, mainly for works at RHP and FMC
- additions of $2 million for new medical and surgical equipment
- offset by depreciation charges of $45 million.

Liabilities

Current liabilities increased by $22 million (12%) to $207 million during the year and exceeded current assets by $151 million at balance date. Cash and cash equivalents of $25 million were insufficient to meet current payables of $57 million at 30 June 2023. SALHN works with DHW to ensure sufficient funding is provided to meet the expected cash flows for its administration and program delivery.

Total liabilities increased by $28 million (8%) to $390 million.

Staff liabilities make up $343 million (88%) of SALHN's total liabilities at 30 June 2023, comprising:

- staff benefits liabilities and related on-costs of $298 million ($278 million)
- workers compensation provisions of $45 million ($41 million).

The movement in staff liabilities is mainly due to:

- an $8 million increase in annual leave liabilities
- a $4 million increase in long service leave liabilities
- a $4 million increase in staff on-costs payable
- a $4 million increase in workers compensation.

Further commentary on operations

SALHN infrastructure changes

As at 30 June 2023, SALHN recorded completed capital works of approximately $49 million.

Repat Health Precinct capital works

Work at the RHP continued in 2022-23, with building works associated with previously announced initiatives being undertaken. As at 30 June 2023, SALHN recorded completed capital works of approximately $37 million at the RHP, mainly comprising:

- $30 million for phase 2 works
- $3.4 million for the Geriatric Evaluation and Management care service
- $1.3 million for the Brain and Spinal Cord Injury service
- $1.1 million for the refurbishment of wards for dementia and transit care.

Flinders Medical Centre capital works

As at 30 June 2023, SALHN recorded completed capital works of $3.3 million at FMC, mainly for general upgrades and improvements.

SALHN also recorded capital works in progress of $14 million at FMC, including:

- $5 million for the emergency department expansion
- $5 million for the FMC upgrade and expansion, including major works under the Southern Redevelopment
- $3 million for the FMC imaging upgrade.

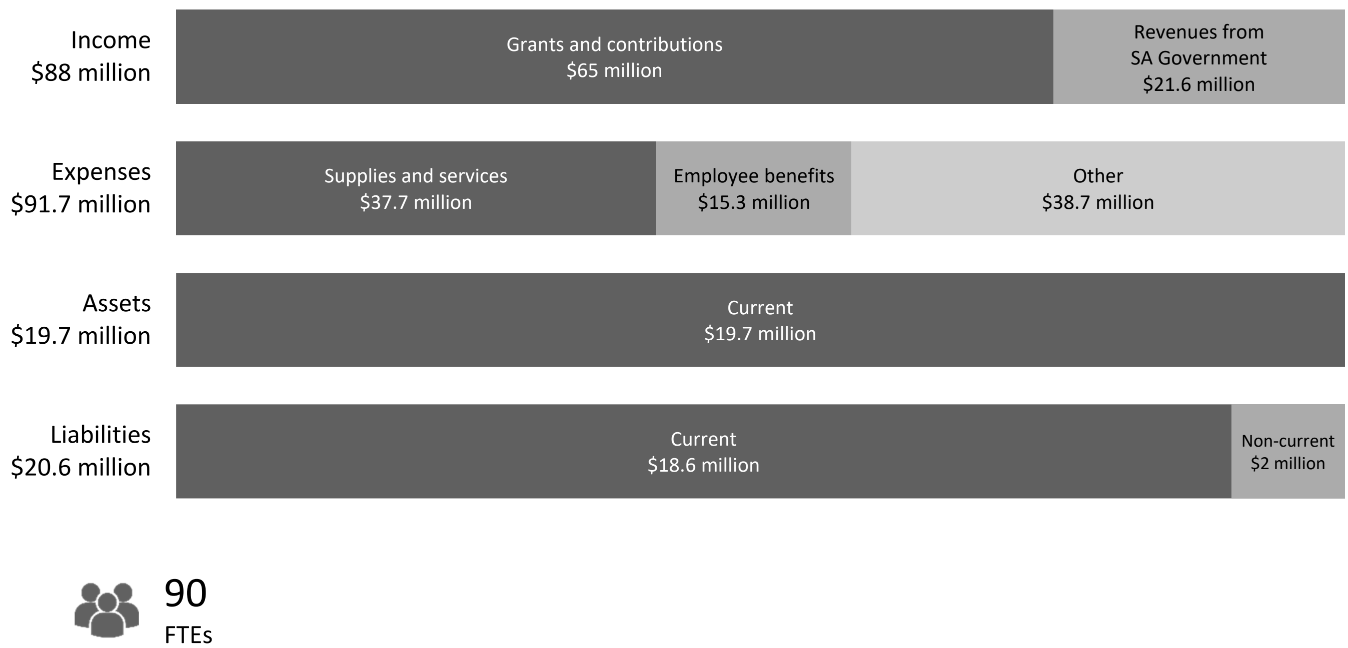
Noarlunga Hospital capital works

As at 30 June 2023, SALHN recorded capital works in progress of $4 million at NH, including:

- $1.8 million for the NH dialysis program
- $1.6 million for the NH renal expansion
- $737,000 for mental health beds.

Wellbeing SA (WBSA)

Financial statistics



Significant events and transactions	— The Integrated Care Systems Directorate, which delivers the Community Care program and My Home Hospital, transferred from WBSA to the Department for Health and Wellbeing (DHW) as a result of machinery of government changes effective 20 December 2022. — In September 2023 it was announced that WBSA and parts of Drug and Alcohol Services SA (DASSA) would be combined to establish a new Preventive Health SA agency.
Financial report opinion	**Unmodified**
Audit findings	Procurement processes could be improved.

Functional responsibility

WBSA was established on 6 January 2020 as an attached office to DHW by proclamation under the *Public Sector Act 2009*.

WBSA has a long-term vision to create a balanced health and wellbeing system that supports improved physical, mental and social wellbeing for all South Australians. WBSA's strategic plan states that it will employ the following approaches to its work:

- Lead – provide system leadership in prevention, the collection and use of data and evidence to inform practice and out-of-hospital strategies and services.
- Commission – fund approaches and services for prevention, health promotion, early intervention and hospital avoidance.
- Partner – work collaboratively with community and stakeholders to impact health and wellbeing and coordination of care.
- Deliver – support the implementation of evidence-based approaches for health promotion and integrated community-based health care.
- Prioritise – focus on priority settings and priority population groups who experience poorer health outcomes and are at higher risk of preventable hospital admissions.

The Minister for Health and Wellbeing is responsible for WBSA.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Financial services for WBSA are provided through a mix of:

- finance services located within WBSA
- services provided by DHW
- services provided by Shared Services SA.

Specific areas of audit attention in 2022-23 included:

- payroll
- expenditure
- grants and subsidies
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive of WBSA. The main finding and WBSA's response are discussed below.

Audit findings

Procurement processes could be improved

In 2022-23 we reviewed a procurement for services worth $6 million. WBSA did not complete a post-sourcing review for the particular pilot program we reviewed.

SA Health requires post-sourcing reviews to be completed within 60 days of purchase recommendation approval for all complex and strategic procurements to inform and improve future procurement processes and strengthen procurement capability.

WBSA advised us that it would:

- review work plans to ensure that post-sourcing reviews are embedded for future procurements
- remind staff of the requirement to perform a post-sourcing review using SA Health's post-sourcing lessons learned checklist.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Income		
Revenues from SA Government	22	17
Grants and contributions and other	66	84
Total income	88	101
Expenses		
Payments to SA Government	16	11
Employee benefits expenses	15	16
Supplies and services and other	55	59
Grants and subsidies	6	9
Total expenses	92	95
Net result	(4)	6
Assets		
Current assets	20	24
Total assets	20	24
Liabilities		
Current liabilities	19	8
Non-current liabilities	2	4
Total liabilities	21	12
Total equity	(1)	12

Statement of Comprehensive Income

Revenue

Revenues from SA Government

WBSA's revenues from the SA Government mainly related to appropriation from the Consolidated Account under the *Appropriation Act 2021*. Appropriation revenue was $20.9 million ($16.8 million) in 2022-23.

Grants and contributions

WBSA received grant funding from DHW for specific projects in 2022-23. This funding decreased by $16.1 million to $64.2 million and principally comprised:

- $17.4 million ($28.4 million) for the My Home Hospital program. The decrease reflects the transfer of the program to DHW in December 2022
- $29.3 million ($28.3 million) for the SA Community Care program, which also transferred to DHW in December 2022
- $17.4 million ($14.7 million) for Hospital Capacity Creating initiatives.

Expenses

Employee benefits expenses

Employee benefits expenses of $15 million represent 17% of WBSA's total expenses. They decreased by $1 million due to FTEs falling by 52 to 90 (142) as at 30 June 2023. This was mainly due to the transfer out of 50.8 FTEs to DHW with the Integrated Care Systems Directorate, offset by the transfer in of 20.75 FTEs to WBSA from the Metropolitan Referral Unit within the Southern Adelaide Local Health Network Incorporated in March 2022.

Supplies and services expenses

Supplies and services decreased by $21 million to $38 million, with the decrease mainly reflected in contract of services costs of $29.6 million ($48.3 million). This reflects the Integrated Care System Directorate transferring to DHW in December 2022 and included:

- the SA Community Care Program of $16.7 million ($31.9 million) for a range of hospital avoidance and early supported discharge services
- the My Home Hospital program of $7.7 million ($9.4 million) for delivering hospital services in patients' homes.

Payments to SA Government

Payments to the SA Government related to the return of $16 million ($11 million) in surplus cash under the cash alignment policy.

Statement of Financial Position

Assets

Current assets decreased by $4 million to $20 million as at 30 June 2023 and essentially comprise cash and cash equivalents of $19 million ($23 million) and receivables of $1 million ($1 million).

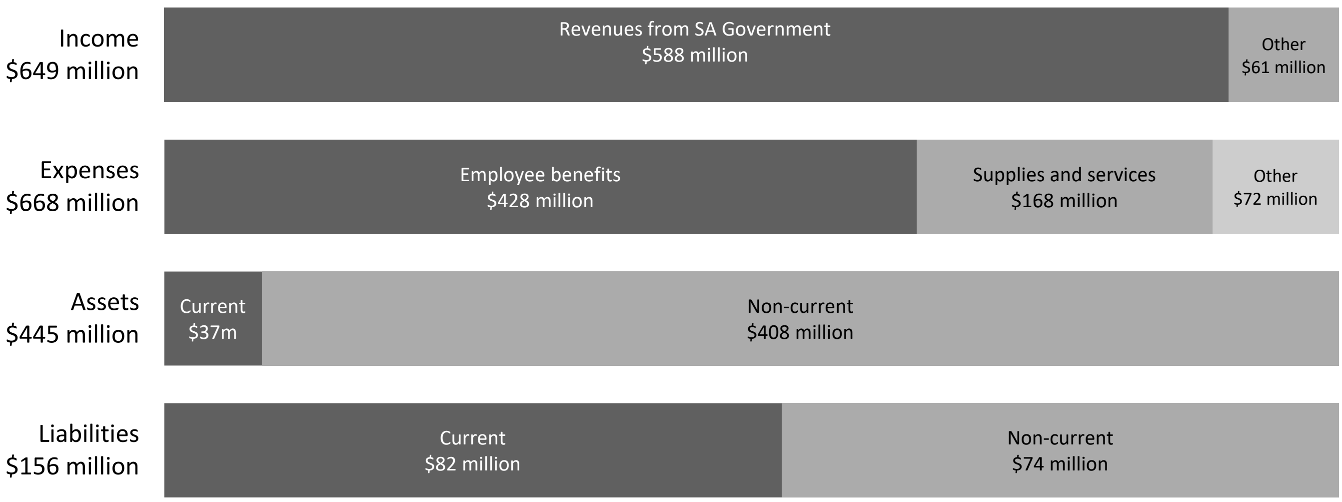
Liabilities

Employee-related liabilities

Employee-related liabilities of $3.3 million ($5.6 million) make up 16% of WBSA's total liabilities at 30 June 2023 and mainly relate to employee benefits liabilities and related on-costs. It decreased by $2.3 million due to FTEs decreasing by 52 to 90 (142) as at 30 June 2023, mainly because of the transfer out of the Integrated Care System Directorate.

Women's and Children's Health Network Incorporated (WCHN)

Financial statistics



3,136
FTEs

33,983*
Total inpatient activity

* Data provided by SA Health and unaudited.

Significant events and transactions

— In September 2022 the SA Government announced that the new Women's and Children's Hospital (nWCH) would be built at the Thebarton Police Barracks site rather than at the Royal Adelaide Hospital West site initially identified by the former government. As a result, $46.1 million of previously capitalised costs associated with the former site needed to be written off in 2022-23. The nWCH has a budgeted cost of $3.2 billion and is expected to open in 2031.

— The SA Government continues to provide sustainment funding for the existing hospital while the nWCH is completed. This includes an additional $20.1 million over two years in the 2023-24 State Budget to upgrade the paediatric intensive care unit.

Financial report opinion

Unmodified

Audit findings	— There are inconsistent rostering practices for medical officers. — Improvements are needed to bona fide report review processes. — Timesheets in the rostering system are not always approved before staff are paid.

Functional responsibility

WCHN is an incorporated hospital established under the *Health Care Act 2008* (HC Act).

WCHN's functions include the provision of health services to women and children, with its principal unit being the Women's and Children's Hospital.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister for Health and Wellbeing (Minister), the Chief Executive of the Department for Health and Wellbeing (DHW), and the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality, risk management and the achievement of the board functions and responsibilities.

Each LHN CEO is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

A service agreement between WCHN and DHW outlines the requirements of the formal relationship between them, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2022-23 WCHN service agreement was executed in December 2022.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Financial services for WCHN are provided through a mix of:

- central services provided by DHW
- finance services located within WCHN
- services provided by Shared Services SA (SSSA).

Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, WCHN and SSSA. A chartered accounting firm assisted the Auditor-General with the audit of WCHN.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

Specific areas of audit attention in 2022-23 included:

- cash
- payroll
- expenditure
- accounts payable
- procurement and contract management
- revenue
- accounts receivable
- fixed assets
- general ledger.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the CEO of WCHN. The main findings and WCHN's responses are discussed below.

Payroll

WCHN employed 3,136 FTEs as at 30 June 2023 and its payroll-related costs are significant, with $428 million in staff benefits expenses paid and $131 million in staff benefits liabilities and associated on-costs. As a result, payroll is a focus of our audit each year.

Inconsistent rostering practices for medical officers

We have previously reported that WCHN had inconsistent practices across its divisions for managing the rosters of medical officers, including manual processing involving spreadsheets. In 2022-23 we found that while this is still the case, a new electronic rostering system for medical officers is being investigated for use across SA Health.

We also note that WCHN has introduced a user guide for staff to establish best practice for managing rosters and to allocate responsibility for them. While we acknowledge that implementing this user guide is a positive step and addresses some of the concerns we have previously raised, the current process remains manual and is not a substitute for an electronic rostering system with system controls.

Inconsistent rostering practices impact WCHN's ability to manage award conditions and service capacity, resulting in the potentially inefficient delivery of services.

WCHN responded that it is working with DHW to procure an electronic rostering system that is suitable for all medical staff.

Improvements needed to bona fide report review processes

For a number of years we have reported that WCHN managers and team leaders did not always review bona fide reports after each pay period to ensure the completeness and accuracy of payments to staff who receive automatic pays. In 2022-23 we found that this was still an issue and the number of outstanding bona fide reports remains excessive. As at May 2023, 3,549 (3,024) reports were outstanding for more than 12 months, while 508 (687) reports were outstanding for more than six months but less than 12 months.

We understand that a significant number of these outstanding reports relate to previous financial years, however the growing number of reports outstanding for more than 12 months indicates an ongoing trend of non-compliance.

Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments being made and going undetected.

WCHN responded that even though it issued a fact sheet to its staff in 2022 outlining the importance of the timely review of bona fide reports, the number of outstanding reports continues to increase. It advised us that it is considering placing automatically paid staff on another system that does not require bona fide reports. This will require collaboration with SSSA.

Timesheets in the rostering system not always approved before staff are paid

Timesheets for nurses and other ancillary staff are created in the ProAct rostering and timesheet system. Managers are required to electronically authorise timesheets before they are forwarded to SSSA for payment processing.

Consistent with prior years, the interface between ProAct and the payroll system does not prevent unauthorised timesheets from being uploaded and paid. Our review of ProAct timesheets processed between July 2022 and May 2023 found that 6% were unauthorised – an improvement from 7% last year and 10% in 2020-21.

WCHN responded that in the short term it will remind managers of the requirement to authorise timesheets in ProAct prior to payment. A new timesheet authorisation procedure that will reinforce the need for managers to approve all timesheets is scheduled for 2023-24.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Income		
Revenues from SA Government	588	524
Fees and charges	31	29
Grants and contributions	13	10
Other income	17	20
Total income	649	583

	2023 $million	2022 $million
Expenses		
Staff benefits expenses	428	392
Supplies and services	168	154
Depreciation and amortisation	24	19
Other expenses	48	1
Total expenses	668	566
Net result	(19)	17
Assets		
Current assets	37	33
Non-current assets	408	425
Total assets	445	458
Liabilities		
Current liabilities	82	77
Non-current liabilities	74	74
Total liabilities	156	151
Net assets	289	307

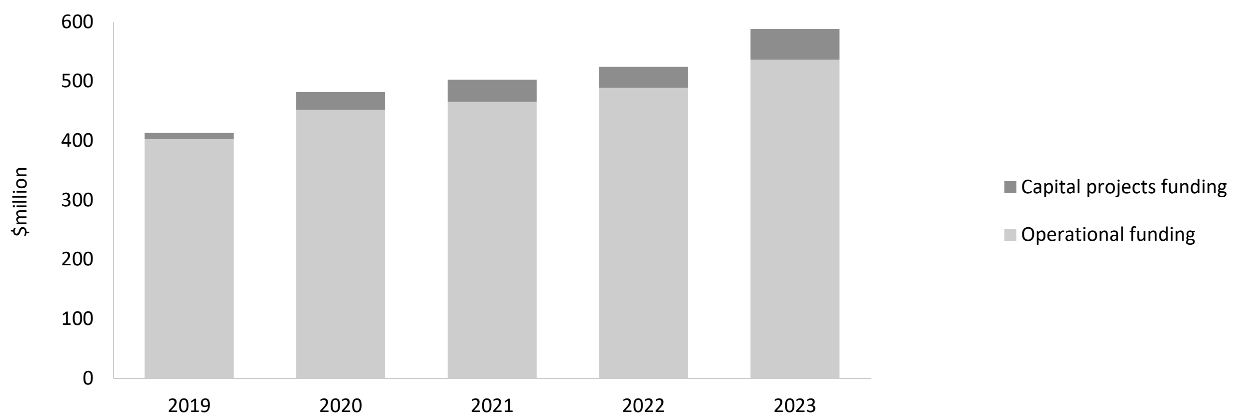
Statement of Comprehensive Income

Revenues

Revenues from SA Government

WCHN is principally funded by DHW. In 2022-23, DHW funding of $588 million ($524 million) comprised recurrent funding of $536 million ($489 million) and capital funding of $52 million ($35 million). Capital funding mainly related to the nWCH and sustainment upgrades at the current hospital to address high priority clinical and infrastructure requirements while the nWCH is completed.

The chart below shows revenues from the SA Government over the last five years.

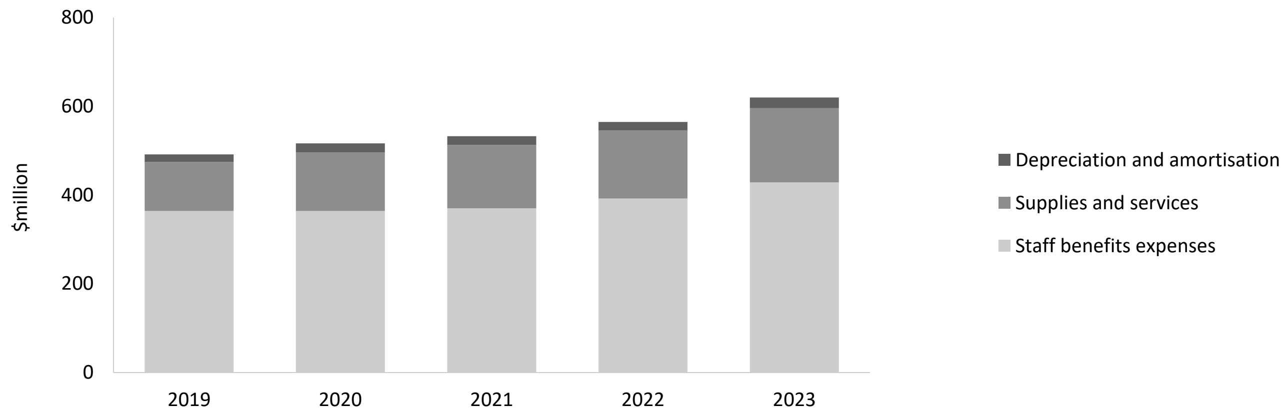


The chart shows that there has been overall growth in revenue over the five years and, in the last three years, additional spending on capital projects, which was mostly associated with the nWCH and sustainment works at the current hospital.

Expenses

In 2022-23 total expenses increased by $102 million to $668 million.

The chart below shows the significant components of expenses for the last five years.



The chart shows that there has been overall growth in expenditure over the last five years in all three areas.

Staff benefits expenses

Staff benefits expenses of $428 million represent 64% of WCHN's total expenses and increased from $392 million in 2021-22. This movement is attributable to:

- salaries and wages – $18 million increase, which mainly reflects increased staff numbers
- long service leave – $9.3 million increase
- superannuation on-costs – $4.4 million increase, which was impacted by the superannuation guarantee rate rising from 10% to 10.5% from 1 July 2022
- workers compensation – $4.1 million increase.

The long service leave and workers compensation expenses are impacted by the actuarial assessment of the associated long service leave liability and workers compensation provision as at 30 June 2023.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical staff since 2018-19. The table shows an overall growth in FTE numbers over the five years.

	2018-19 FTEs	2019-20 FTEs	2020-21 FTEs	2021-22 FTEs	2022-23 FTEs
Medical officers	344	338	347	378	383
Nurses	1,321	1,329	1,393	1,501	1,557
Non-medical	1,097	1,099	1,151	1,184	1,196
Total FTEs	2,762	2,766	2,891	3,063	3,136

The number of staff whose remuneration received/receivable exceeded the base executive level ($160,000) totalled 348 (334), comprising 295 (284) medical, 39 (31) nursing, seven (11) administration and seven (eight) executive staff. Total remuneration for these staff was $101.4 million ($98.4 million).

Supplies and services expenses

Supplies and services expenses increased by $14 million to $168 million. Significant movements in supplies and services were:

- medical, surgical and laboratory supplies – $3.6 million increase, mainly related to increased pathology and imaging costs due to higher activity levels. Prosthetic costs also increased from 2021-22, when surgery was cancelled or delayed due to COVID-19
- agency staff – $2.6 million increase, largely due to the hiring of additional medical agency staff in 2022-23. WCHN advised us that this was because it was unable to fill vacant medical positions resulting from increased activity
- travel expenses – $2.3 million increase due to the easing of COVID-19 restrictions, which allowed medical staff to once again travel interstate and overseas to attend conferences
- drug supplies – $1.8 million increase, mainly due to increased activity and the use of expensive new cancer treatment drugs.

Other expenses

In 2022-23 other expenses increased from $577,000 to $47.9 million. $46.1 million of this related to costs previously capitalised that had to be written off when the SA Government announced in September 2022 that the nWCH would be built at the Thebarton Police Barracks site rather than at the Royal Adelaide Hospital West site initially identified by the former government. As the costs previously incurred no longer related to the design and location of the nWCH, they could no longer be recognised as part of the initial costs of constructing the hospital.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represent 86% of WCHN's total assets. Their carrying value decreased from $403 million to $384 million in 2022-23. The $19 million decrease was mainly due to:

- $46.1 million in previously capitalised costs associated with the nWCH written off due to a change in location and design (see 'Other expenses' above for more information)
- $23.8 million in depreciation and amortisation expenses
- offset by $51.7 million in additions to property, plant and equipment. $47.5 million of this related to additions to land and building works in progress, mostly relating to the nWCH and sustainment upgrades to the existing hospital while the nWCH is completed.

The SA Government has committed in excess of $3.2 billion to build the nWCH at the Thebarton Police Barracks site, and it is expected to be completed in 2031.

Liabilities

Current liabilities increased by $5 million to $82 million and exceeded current assets of $37 million as at 30 June 2023. Cash and cash equivalents of $24 million are sufficient to meet current payables of $20 million.

WCHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of WCHN's financial report discusses its continuity of operations.

Staff liabilities are the largest component of liabilities, totalling $139 million or 89% of total liabilities as at 30 June 2023 and comprising:

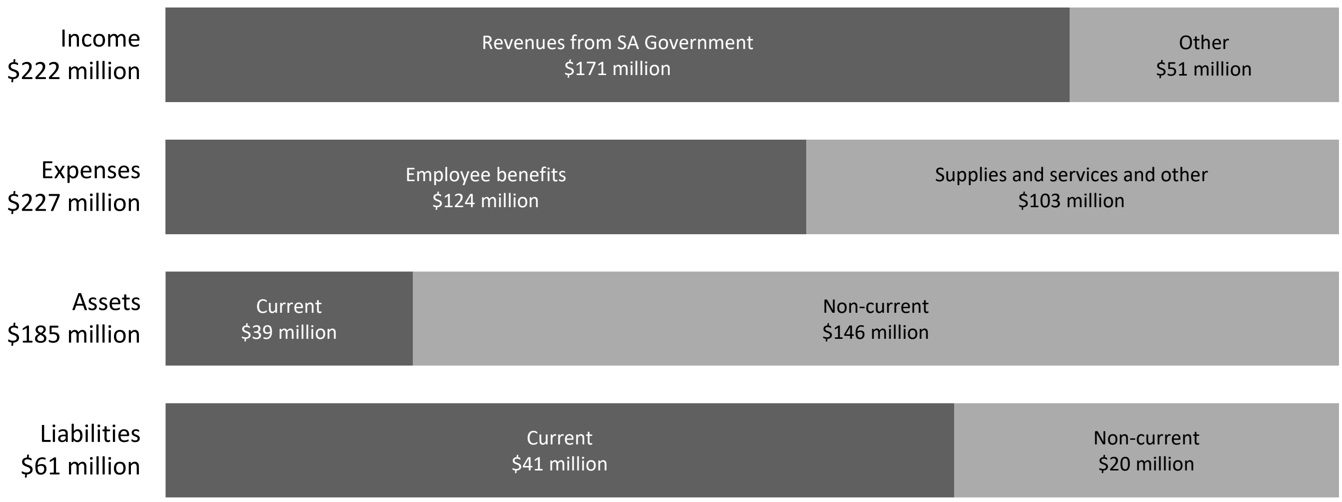
- staff benefits liabilities and related on-costs – $131 million ($125 million)
- provision for workers compensation – $8 million ($6 million).

The $6 million increase in staff benefits liabilities and related on-costs was due mainly to a $3.5 million increase in annual leave, a $1.1 million increase in accrued salaries and wages and a $2.2 million increase to staff on-costs, offset by a $675,000 decrease in long service leave.

The provision for workers compensation increased by $2 million. It is based on an independent actuarial assessment, and the actuarial model applied takes into account current claims as well as historical claims data. As explained in note 21.1 of WCHN's financial report, which provides information on the actuarial assessment, there is a high level of uncertainty about the ultimate value of claims.

Yorke and Northern Local Health Network Incorporated (YNLHN)

Financial statistics



1,251
FTEs

23
Hospitals and health service sites

18,294
Total inpatient activity

Financial report opinion	**Unmodified**
Audit findings	— Invoices were paid without purchase orders. — Sundry debtor management needs improvement. — Payments were made to doctors without evidence of services being provided.

Functional responsibility

YNLHN was established to provide health services in the Yorke and Northern region of South Australia. The map of South Australia below shows the YNLHN region.

Governance

LHN governing boards are responsible for the governance and oversight of local health service delivery, including governance of performance, budget achievement, clinical safety and quality and risk.

Each LHN chief executive officer (CEO) is accountable to, and subject to the direction of, the governing board for managing the operations and affairs of the LHN.

Scope of the audit

Financial services for YNLHN are provided by several agencies:

- YNLHN
- the Rural Support Service (RSS) within the Barossa Hills Fleurieu LHN
- the Department for Health and Wellbeing (DHW)
- Shared Services SA (SSSA).

Our audit covered the major financial systems at DHW, YNLHN, RSS and SSSA to obtain sufficient evidence to form an opinion on the financial report. A chartered accounting firm assisted the Auditor-General with the audit of YNLHN.

Specific areas of audit attention in 2022-23 included:

- payroll
- accounts payable, including procurement
- revenue, including debt management
- property, plant and equipment
- cash
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings to the CEO of YNLHN. The main findings and YNLHN's responses are discussed below.

Audit findings

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is on the approved purchase order exemption list or the purchase is below $2,200.

We found a decline in YNLHN's use of purchase orders this year, with payments made without purchase orders for which the exemptions did not apply. This increases the risk of payments being made for goods or services not received or not at the agreed price.

YNLHN advised us that the decrease was due to a change in the way locum invoices were processed and that it would investigate the reason for the change. YNLHN stated that it would request regular reports to allow for monitoring and ensure compliance with the policy.

Sundry debtor management needs improvement

We reviewed the effectiveness of sundry debtor follow-up activities performed by SSSA. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed.

YNLHN advised us that its sundry debtor management is now being conducted centrally by YNLHN to improve consistency, increase revenue and reduce risk.

Payments to doctors without evidence of service provided

We noted $404,000 of back pay payments for the new general practitioners agreement where YNLHN could not provide us with evidence that the services had been provided, such as rosters, schedules of services provided etc.

The payments did not include details such as claim date, start or end time and codes needed to determine the payment amount, therefore we were unable to determine if the correct amount was paid or if the services were provided.

YNLHN advised us that the payments were the result of a difference in interpretation of back pay entitlements under the new agreement and were supported by invoices from the doctors concerned.

We also identified several findings for control activities performed by the RSS that impact YNLHN. They are reported under 'Barossa Hills Fleurieu Local Health Network Incorporated' in this report.

Interpretation and analysis of the financial report

The consolidated accounts of YNLHN include the incorporated Health Advisory Councils (HACs) within the YNLHN region. These HACs undertake an advocacy role on behalf of the community, to provide advice about health services, health issues, goals, priorities, plans and other strategic initiatives.

We are only showing the consolidated amounts below, as the differences between the consolidated and parent amounts are immaterial.

Highlights of the financial report – consolidated

	2023 $million	2022 $million
Income		
Revenues from SA Government	171	148
Fees and charges and other income	19	18
Grants and contributions	32	30
Total income	222	196
Expenses		
Staff benefit expenses	124	117
Supplies and services and other expenses	91	77
Depreciation and amortisation	12	11
Total expenses	227	205
Net result	(5)	(9)
Assets		
Current assets	39	36
Non-current assets	146	153
Total assets	185	189
Liabilities		
Current liabilities	41	40
Non-current liabilities	20	20
Total liabilities	61	60
Net assets	124	129

Statement of Comprehensive Income

Revenues

Revenues from SA Government

YNLHN's revenues from the SA Government are received from DHW and were 77% of total its income. They comprised:

- $167 million ($144 million) in operating funding, with the increase reflecting a rise in the National Weighted Activity Unit (NWAU) and the rising costs of providing health services
- $4 million ($4 million) in capital funding.

Fees and charges

Fees and charges increased by $2 million largely due to an increase in patient and client fees due to increased private patient revenue.

Grants and contributions

Grants and contributions increased by $2 million to $32 million and the most significant components are $12 million ($11 million) of Commonwealth aged care subsidies and $18 million ($17 million) of Commonwealth grants.

Expenses

Staff benefit expenses

Staff benefit expenses represent 55% of total expenses and increased by $7 million (6%) due to:

- a $4 million increase in salaries and wages due to an increase of 21 FTEs, more hours worked and a rise in costs under the new Nursing/Midwifery (SA Public Sector) Enterprise Agreement 2022
- a $1 million increase in superannuation due to the rise in the superannuation guarantee percentage
- a $2 million increase due to additional long service leave expenses.

Supplies and services expenses

Supplies and services expenses increased by $15 million (20%), which was mainly due to:

- a $6 million increase in agency staff as a result of higher use due to the rising NWAU and being unable to fill vacant positions
- a $5 million increase in fee for service due to rising costs as a result of the new general practitioners agreement and higher use because of the rising NWAU and being unable to fill vacant positions
- a $1 million increase in medical, surgical and laboratory supplies due to the rising NWAU, higher costs of supplies and increased surgery being performed at Port Pirie by the Northern Adelaide Local Health Network Incorporated.

Statement of Financial Position

Assets

Current assets increased by $3 million and essentially comprise cash and cash equivalents of $13 million ($11 million), receivables of $5 million ($5 million) and other financial assets of $19 million ($19 million), which primarily relate to the investment of aged care refundable deposits.

Property, plant and equipment

As at 30 June 2023, property, plant and equipment represented 79% of total assets and the most significant component was $136 million ($145 million) of land and buildings.

Liabilities

Current liabilities of $41 million exceeded current assets of $39 million at balance date.

Cash and cash equivalents of $13 million were sufficient to meet current payables of $8 million. YNLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses continuity of operations.

Staff-related liabilities

Staff-related liabilities are 66% of total liabilities at 30 June 2023, comprising:

- $34 million ($32 million) of staff benefits liabilities
- $3 million ($2 million) of related on-costs
- $3 million ($3 million) of provisions for workers compensation.

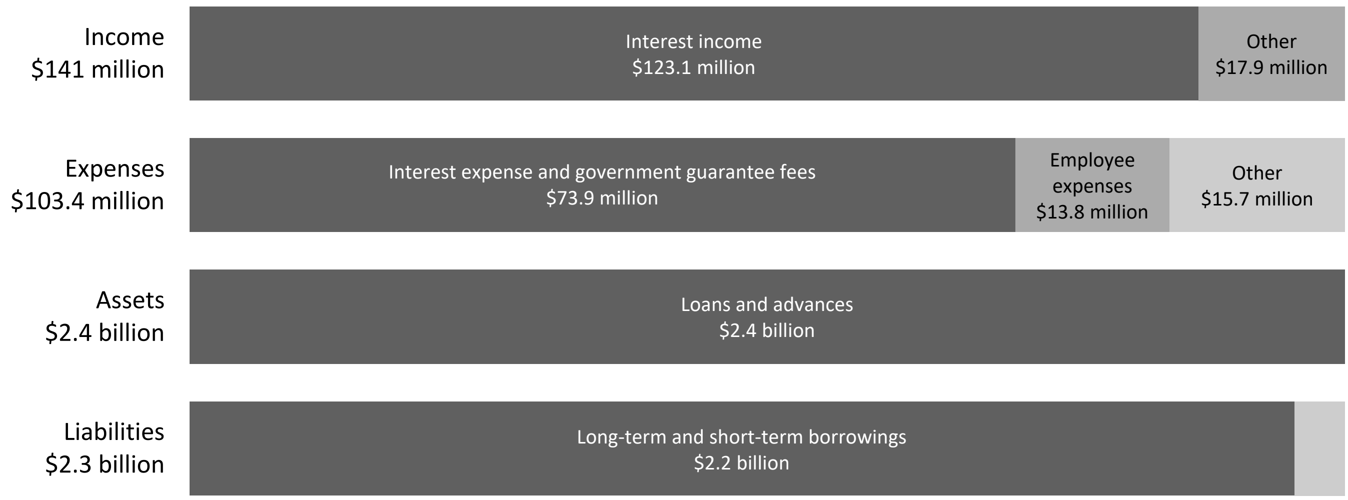
Note 21 of YNLHN's financial report provides further information on the independent actuarial assessment of the provision for workers compensation.

Other liabilities

Other current liabilities are 23% of total liabilities and mainly comprise of residential aged care bonds, which remained stable in 2022-23 at $13 million. These bonds are refundable accommodation contributions or deposits made by residents when they enter aged care facilities.

HomeStart Finance (HomeStart)

Financial statistics



135
FTEs

12,088
Number of outstanding loans at 30 June

$42.9 million
Dividends and tax equivalents paid

Significant events and transactions	— HomeStart is required to pay the Treasurer an annual dividend of 100% of its after tax profit. For 2022-23 this is $26.4 million. This comprises $23.8 million paid by HomeStart prior to the end of the financial year and a provision of $2.6 million to be paid in June 2024. — Loans and advances increased by $298.2 million, reflecting the demand for new lending and a decrease in discharges. — Borrowings increased by $292.1 million to support the increase in loans and advances. — Net interest income decreased by $6.7 million, reflecting the decrease in HomeStart's interest rate margin.
Financial report opinion	**Unmodified**
Audit findings	No significant findings.

Functional responsibility

HomeStart is a statutory corporation established by the Urban Renewal (HomeStart Finance) Regulations 2020 under the *Urban Renewal Act 1995*. It has a Board of Management that is subject to the control and direction of the Treasurer.

HomeStart's functions include:

- lending money or providing other financial assistance to facilitate home ownership in the State, including the provision of finance on concessional or special terms to people of low to moderate income
- providing, marketing and managing home finance products
- providing, managing or facilitating finance for housing schemes and housing associations, and for mortgage relief schemes within South Australia
- providing, managing or facilitating finance for the development, ownership or operation of aged care residential accommodation or facilities
- to acquire and hold land for rental accommodation in regional areas or to provide, manage or facilitate finance for the development of rental accommodation in regional areas.

Scope of the audit

Audit of the financial report

The audit covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

The key areas of audit attention in 2022-23 included:

- expected credit loss provision
- shared equity loans
- loans and interest income
- derivatives and hedge accounting
- intangible assets
- employee expenses and provisions
- borrowings from South Australian Government Financing Authority (SAFA) and interest expense
- purchases and payables
- government guarantee fee, dividend payment and community service obligation subsidy.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to HomeStart. There were no significant findings.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Interest income	123	88
Interest expense	(56)	(14)
Net interest income	67	74

	2023 $million	2022 $million
Other income	18	28
Other expenses	(29)	(27)
Government guarantee fee	(18)	(20)
Profit (Loss) before income tax equivalent	38	56
Income tax equivalent expense	(11)	(17)
Profit (Loss) after income tax equivalent expense	26	39
Other comprehensive income	(4)	24
Total comprehensive result	23	63
Assets		
Loans and advances	2,394	2,096
Other assets	51	48
Total assets	2,445	2,143
Liabilities		
Borrowings	2,224	1,932
Other liabilities	39	26
Total liabilities	2,263	1,958
Total equity	182	185

* Table may not add due to rounding.

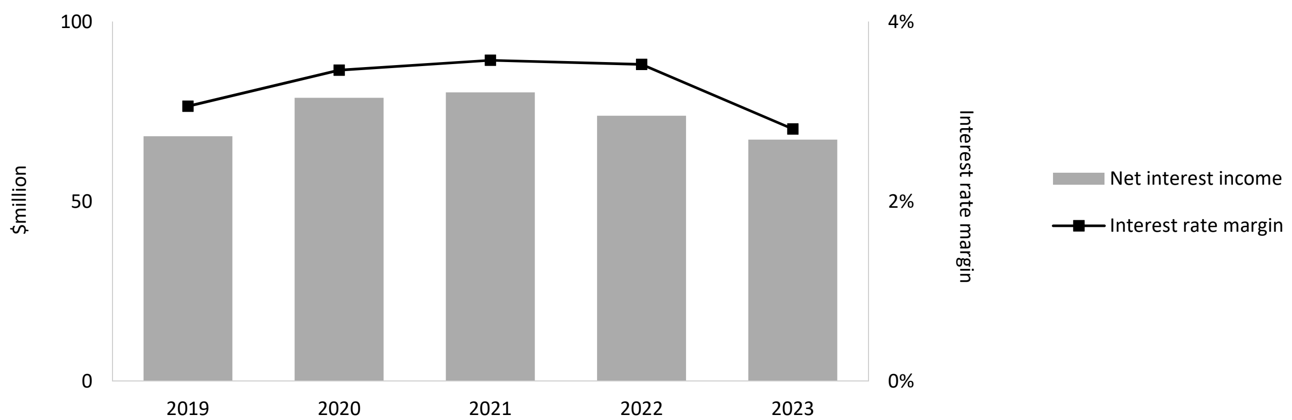
Statement of Comprehensive Income

Profit for the year

Profit before income tax equivalent payments decreased by $18 million to $37.7 million. The analysis below outlines the main factors contributing to this result.

Net interest income

The following chart compares the net interest income to the interest rate margin between loans and cost of funds, excluding the cost of the government guarantee fee.



The chart shows that the interest rate margin between loans and cost of funds decreased by 0.7% to 2.8% in 2022-23, with net interest income reducing by $6.7 million (8.9%) to $67.2 million.

These decreases reflect:

- a higher proportion of customers on fixed interest rate loans, which have a lower margin than variable rate loans
- timing differences between increases in borrowing costs and lending rates as market interest rates rose during the year.

HomeStart's variable interest rates rose from 5.14% in June 2022 to 8.14% in June 2023. Fixed interest rates for a term between one and three years rose from between 5.09% to 5.89% at 1 July 2022, to between 5.09% and 6.99% by 30 June 2023. The number of fixed rate loans increased to represent 25% of the total number of loans in the portfolio. The $34.9 million (40%) rise in interest income for 2022-23 reflects the $298 million (14%) increase in loans and advances.

Borrowings from SAFA increased by $293 million (15%), in line with the increase in loans and advances. Interest expense saw a significant increase of $41.6 million (290%) due largely to rising interest rates charged by SAFA over the year. The weighted average interest rate charged by SAFA increased from 0.51% in 2022 to 3.26% in 2023 in response to the Reserve Bank of Australia raising the cash rate from 0.85% to 4.10% in 2022-23.

HomeStart's standard variable rate is set to be generally in line with the standard variable rate of major lenders. Rates are generally adjusted when the Reserve Bank of Australia changes the official cash rate.

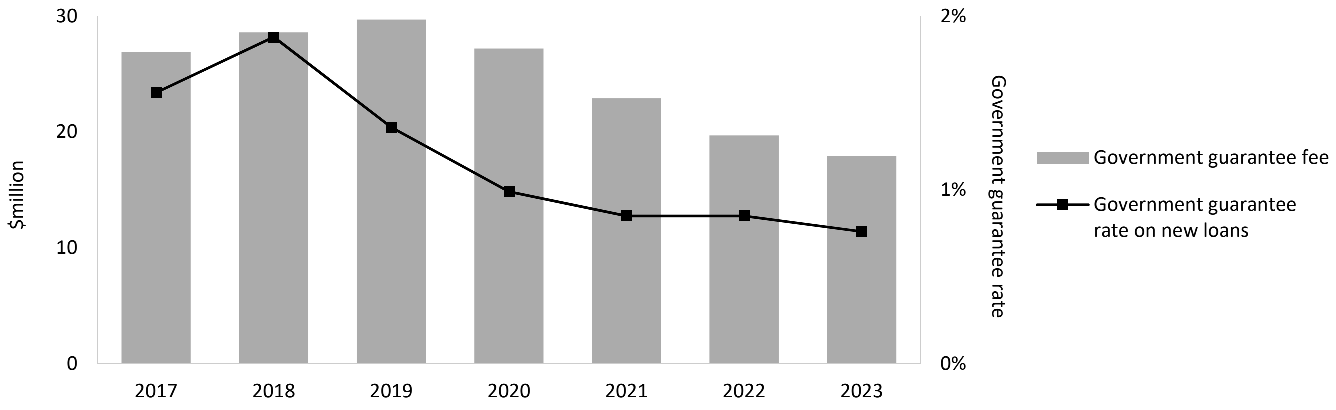
Other income

Other income fell by $9.9 million to $17.9 million. This was due mainly to lower gains in the fair value of HomeStart's Breakthrough and Shared Equity Option loans, reflecting a more moderate price growth in the Adelaide property market in 2022-23 compared to the prior year. See 'Breakthrough and Shared Equity Option loans' below for further information.

Expenses other than interest and income tax equivalent

Expenses other than interest and income tax equivalent payments increased by $727,000 to $47.4 million in 2022-23. This was due mainly to a $1.1 million expense for bad and doubtful debts, an $866,000 increase in other expenses and a $590,000 increase in employee benefits expenses. These increases were partially offset by a $1.7 million decrease in government guarantee fees. See 'Bad and impaired loans income/expense' and 'Provision for credit impairment' below for more information.

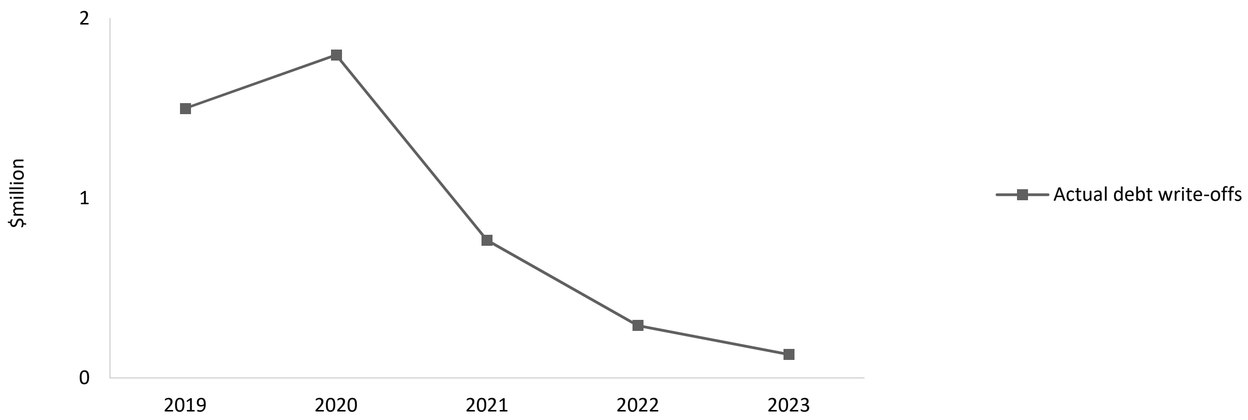
The movement in government guarantee fees and rates are shown in the chart below. Government guarantee fees are impacted by the total value of borrowings with SAFA and the government guarantee fee at the time of borrowing. The decrease in these fees reflects the maturity of five floating rate notes, valued at $500 million, with guarantee fees of 1.36%, 0.99% and 0.85% being replaced by new floating rate notes with a 0.76% guarantee fee. The lower guarantee fees on new floating rate notes result in lower government guarantee fees each year.



Bad and impaired loans income/expense

HomeStart recognised a bad and impaired loans expense of $1.1 million for 2022-23, compared to income of $707,000 for 2021-22. This year's expense largely reflects the $1 million increase in HomeStart's total provision for loan impairment to $20.6 million at 30 June 2023. See 'Provision for credit impairment' below for more information.

The chart below illustrates a downward trend in debt write-offs over the past five years, reflecting the impact of the economic circumstances of borrowers. HomeStart has also tightened its lending policy and monitoring of loan repayment performance, with write-offs primarily relating to existing loans rather than new loans written in recent years. Government assistance payments during the COVID-19 pandemic provided households with increased cash holdings, resulting in more repayments into loans and reduced arrears.

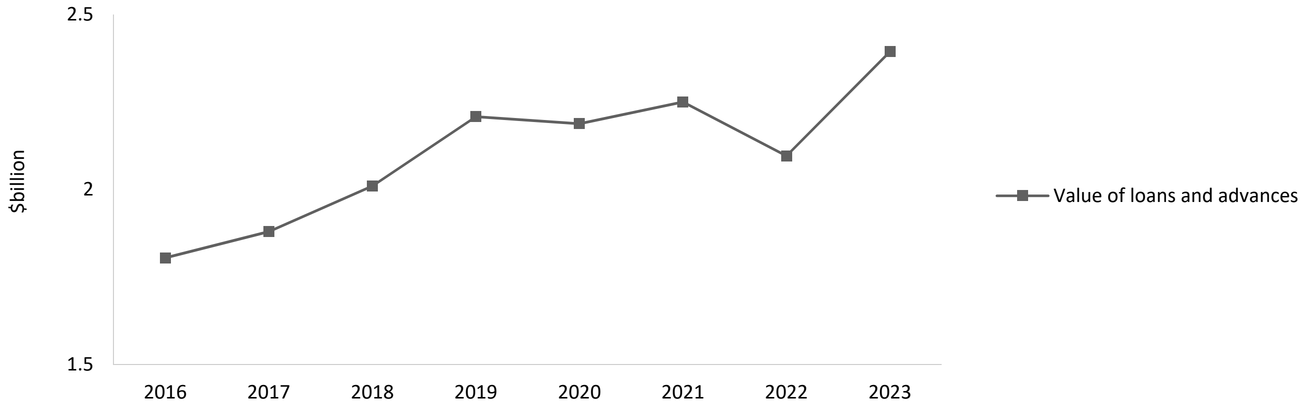


Statement of Financial Position

Loans and advances

At 30 June 2023 total loans and advances were valued at $2.4 billion, an increase of $298.2 million from the previous year.

The following chart shows the value of loans and advances over the past eight years.



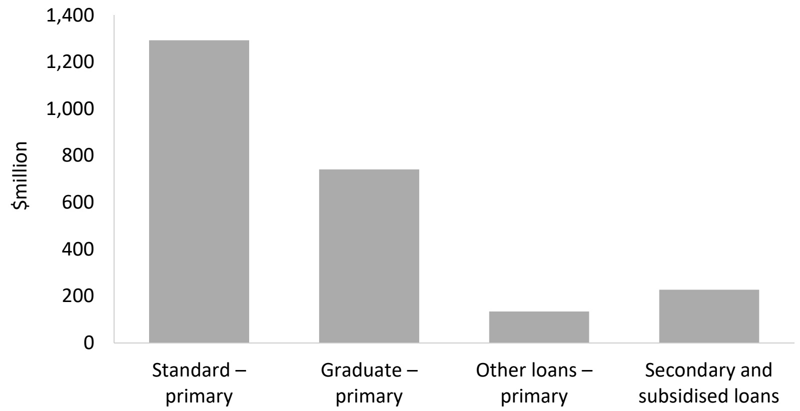
The increase in the value of loans and advances for 2023 reflects an increase in both the demand for new lending from 1,473 loans ($483.4 million) in 2021-22 to 2,046 loans ($803.4 million) in 2022-23, and an increase in the average amount of individual lending. There was also a decrease in discharges from 2,434 loans ($548.8 million) discharged in 2021-22 to 2,052 loans ($401.2 million) in 2022-23. Rising interest rates and tighter lending conditions reduced the number of customers refinancing with other lenders.

HomeStart interest rates are generally higher than mainstream lenders, as HomeStart's core business is to provide loans to low to moderate income earners who may not be able to borrow through mainstream lenders. HomeStart also provides loans with a high loan-to-value ratio without charging lenders mortgage insurance and provides products that assist with upfront costs.

The increase in loans and advances between 2016 and 2019 primarily reflected the growth in graduate loans. HomeStart changed the lending criteria for these loans in 2015, allowing students with a Certificate III qualification (or higher) to be eligible for a graduate loan.

HomeStart's loan portfolio includes both primary and secondary/subsidised loans. Primary loans are loans at market interest rates, whereas secondary/subsidised loans are loans at rates lower than market interest rates, such as Advantage and EquityStart loans.

The following chart shows the value of HomeStart's loan portfolio by loan type at 30 June 2023.



The primary loan portfolio increased by $244 million in 2023. This increase in lending reflects higher demand for HomeStart's products in response to higher interest rates, increasing house prices and tighter lending conditions making it difficult for home owners to obtain finance elsewhere.

The secondary and subsided loan portfolio increased by $49 million in 2023. This portfolio includes Shared Equity Option loans, which increased by $41.7 million due to increased demand driven by rising house prices and lower housing affordability. See 'Breakthrough and Shared Equity Option loans' below for more information. The level of other secondary and subsidised loan products offered by HomeStart remained relatively consistent in 2023.

Breakthrough and Shared Equity Option loans

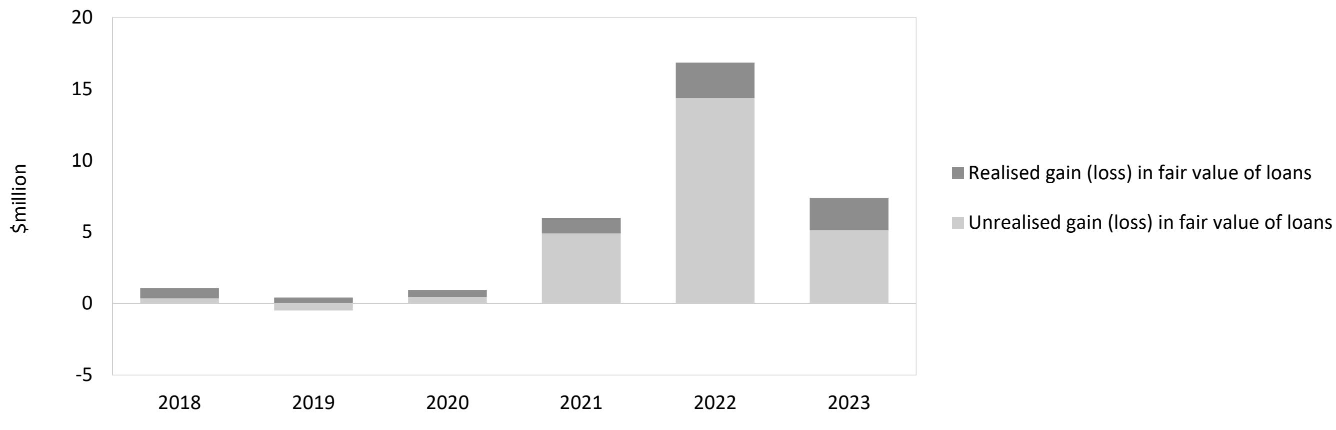
Breakthrough and Shared Equity Option loans have a standard loan component with standard interest rates and repayments paired with a shared appreciation component, where the loan is repaid along with a percentage of the change in property value when the property is sold.

The shared appreciation component of these loans is recognised at fair value through profit and loss, while the standard loan component is recognised at amortised cost.

These loans (including the shared appreciation component) represent 5% of the total loans and advances value. The impact that the shared appreciation component has on HomeStart's operating result, however, has meant that it has implemented specific risk management strategies for these loans. One of those strategies is placing a cap on the total value of these loans outstanding at any given time.

In 2022-23 a net gain of $7.4 million ($16.8 million gain) was recognised for these loans, comprising a $5.1 million gain ($14.3 million gain) recognised from revaluation and a $2.3 million gain ($2.5 million gain) realised on discharge of loans. The movement in the value of the shared appreciation component, and the impact of these loans on the operating result, follows the more moderate growth in the Adelaide property market in 2022-23 compared to the significant property price growth in the previous year.

The chart below shows the impact of these loans on HomeStart's operating result and the total value of the shared appreciation component since 2018.



The Breakthrough loan product was withdrawn from December 2017 and the Shared Equity Option loan product was released in April 2018.

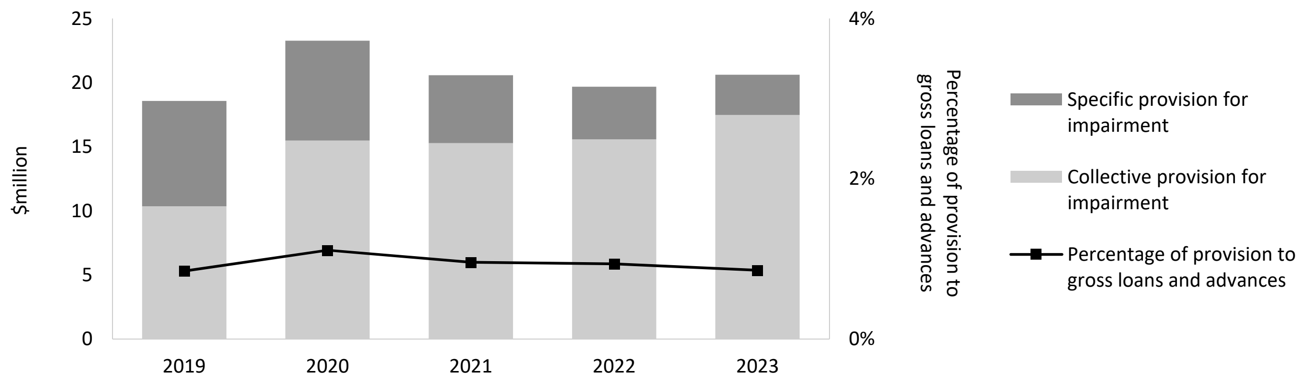
Provision for credit impairment

HomeStart assesses whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired at each balance date.

The total provision for credit impairment increased by $965,000 to $20.6 million in 2022-23. It has two components based on expected credit losses:

- specific provision – representing loans and advances that are individually assessed as impaired. As at 30 June 2023 this was $3.1 million ($4.1 million). The reduction in the specific provision for 2022-23 reflects improved arrears performance, a lower number of loans meeting HomeStart's threshold for specific provisioning and a reduction in the provision required for each loan due to the increase in property prices. The increase in property prices reduces HomeStart's deficit should the mortgage be repossessed
- collective provision – an expected credit loss model is used to calculate this provision. The collective provision increased by $1.9 million to $17.5 million as at 30 June 2023, largely driven by the increase in loans and advances. The calculation of the collective provision includes assumptions about future economic scenarios and weightings given to each scenario. There is significant uncertainty over near-term economic conditions due to increasing interest rates, high inflation, rising unemployment levels and cost-of-living increases. These are risks that HomeStart's customer base is generally more exposed to. HomeStart expects that arrears will continue to rise in the future and overall credit performance will decline.

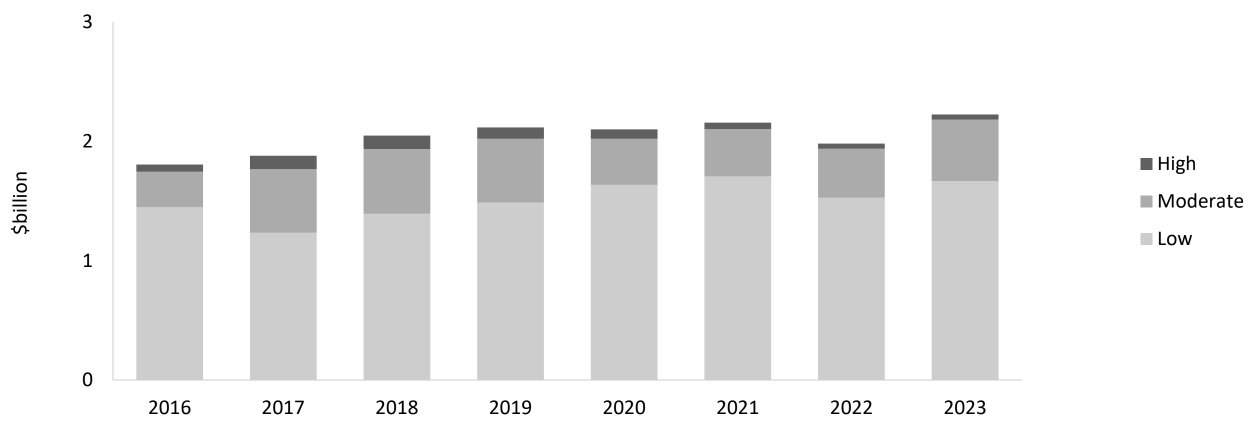
The following chart shows the level of the total provisions and their composition over the past five years.



The chart shows that the overall level of provisioning has remained fairly consistent since 2019, relative to total gross loans and advances, with the increase in 2020 recognising the anticipated impacts of COVID-19 on HomeStart's customers.

Loan quality

HomeStart assesses the gross value of its loans and advances to customers by credit risk grading. The following chart summarises that assessment.



The chart shows the proportion of high and moderate credit risk category loans, with most loans assessed as low credit risk.

HomeStart advised us that although COVID-19 has impacted its provision for credit impairment, it had minimal impact on the credit risk grading. Credit risk scores are applied when loans are approved and regularly reviewed based on an assessment of the probability of default over the life of the loan. Loan arrears have generally been decreasing since 2019, resulting in overall improvement in risk ratings. Loan arrears improved because of HomeStart's COVID-19 payment assistance (deferred payments), customers receiving JobKeeper payments from Centrelink and using these funds to repay their loans, and customers obtaining early release of superannuation through the Commonwealth Government's earlier COVID-19 response initiatives. The slight increase in low and moderate risk ratings in 2022-23 reflects HomeStart's expectation that arrears will continue to rise in the future and overall credit performance will decline in response to increasing interest rates, high inflation, rising unemployment levels and cost-of-living increases.

Risk management for loans

HomeStart has a higher inherent risk for its loans than a mainstream lender's loan portfolio. The key differences are that:

- generally HomeStart customers have lower incomes and borrow a greater percentage of their home value
- there is a significant concentration of lending in regional South Australia and outer metropolitan suburbs
- customers are not required to take out lender's mortgage insurance.

There are geographic areas with a greater concentration of HomeStart loans, with 33% of loans by value secured against properties in the City of Playford and the City of Salisbury. A further 17% of loans by value are secured against properties outside of the Adelaide metropolitan area.

HomeStart manages the risks associated with these concentrations of lending through its general lending policies, including loan to valuation ratios and limits on lending in some instances. As HomeStart lends only to individual owner-occupiers, it holds collateral against the value of the loans outstanding through mortgages on the associated properties.

HomeStart's principal exposure is to the risk of a borrower not being able to repay the loan. Where this occurs, the property may be subject to sale as a mortgagee in possession, with HomeStart seeking to recover outstanding amounts by selling the property. In this situation HomeStart is exposed to market risk that the price achieved for the property's sale does not cover the outstanding balance. HomeStart manages this risk by monitoring property valuations annually and complying with loan-to-value ratios for new loans.

As discussed above, HomeStart seeks to manage the risks associated with loan quality by maintaining both specific and collective provisions.

Liabilities

Borrowings at 30 June 2023 were $2.2 billion ($1.9 billion) and represent 98% (99%) of HomeStart's liabilities. HomeStart is required to use SAFA as its sole counterparty for all funding transactions. At

30 June 2023, HomeStart had an approved borrowing limit of $2.79 billion ($2.46 billion). Most of its borrowings from SAFA mature within five years, with $27.9 million of SAFA debt maturing over the next 12 months.

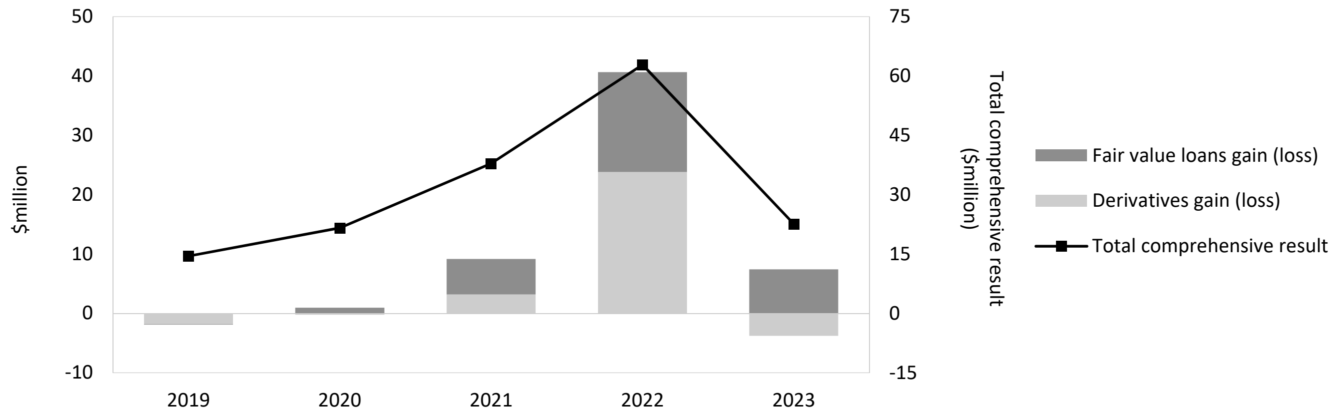
Fair value and comprehensive result

HomeStart recognises derivatives and certain investments, including Breakthrough and Shared Equity Option loan (shared appreciation component) products, at fair value. The changes in market value of these items can impact its Statement of Financial Position and Statement of Comprehensive Income.

Derivatives are used to hedge (protect against) changes in interest rates. While these hedges remain effective (as defined by the accounting standards), changes in the fair value of hedges do not affect profit as they are recognised in the derivatives valuation reserve within equity, as the offsetting hedged loans are not fair valued. However, the realised and unrealised changes in the shared appreciation component of Breakthrough and Shared Equity Option loans at fair value are recorded in other income or other expenses in the Statement of Comprehensive Income.

The impact of all these changes is included in the total comprehensive result reported in the Statement of Comprehensive Income. HomeStart's total comprehensive result decreased by $40.3 million to $22.6 million for 2022-23.

The chart below shows the impact of the changes in the fair value of derivatives and loans classified as fair value through profit and loss on HomeStart's total comprehensive result for the last five years. At 30 June 2023 net derivatives were valued at $18.8 million, a decrease of $3.8 million from the prior year. The contraction in the value of derivatives reflects the increase in market interest rates and explains the reduction in derivative values for 2022-23. The fair value gain of $7.4 million reflects the more moderate price growth in the Adelaide property market in 2022-23 compared to the prior year.



Distributions to and revenue from SA Government

HomeStart's distributions to the SA Government include dividends, guarantee fees and income tax equivalent payments. HomeStart also receives community service obligation (CSO) funding from the Department of Treasury and Finance in recognition of the cost of performing the following non-commercial activities:

- acceptance of non-commercial credit risk
- Nunga loan program

- advantage loan program subsidies
- domestic violence housing loans (none claimed or received in 2021-22 or 2022-23).

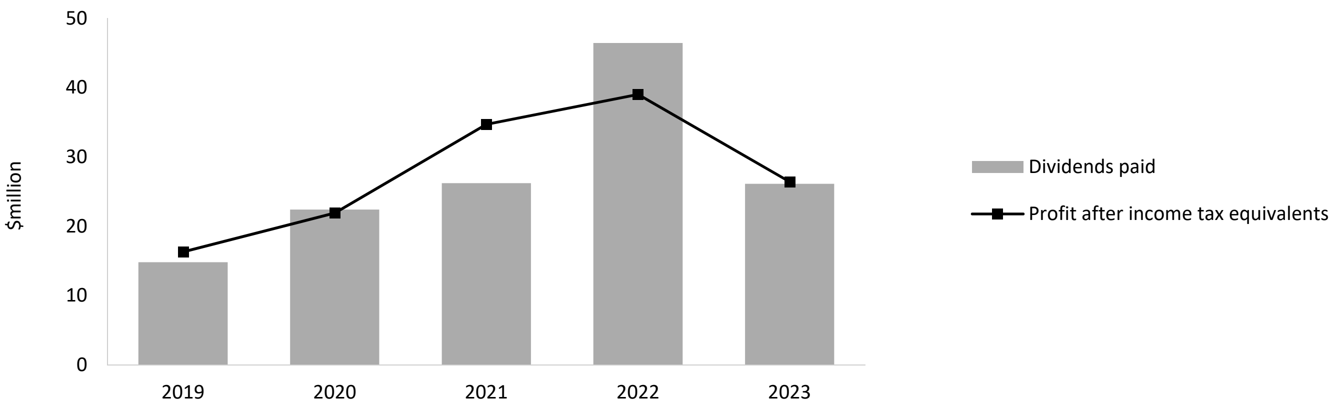
HomeStart's requirement to undertake non-commercial activities is set out in its regulations.

The following table summarises these cash transactions with the SA Government for the four years to 2023.

	2020 $million	2021 $million	2022 $million	2023 $million
SA Government distributions:				
Dividend	22	26	46	26
Income tax equivalent	9	11	16	17
Government guarantee fee	27	23	20	18
Total distributions to SA Government	59	60	82	61
CSO income	(7)	(8)	(8)	(8)
Net amount provided to SA Government	52	52	74	53

Note: Table may not add due to rounding.

The following chart shows profit after income tax equivalent payments and dividends paid for the past five years, highlighting HomeStart's sustained profit performance over that period.



For the financial year ended 30 June 2023, the Treasurer approved the payment of a dividend of 100% of after tax profit. In June 2023 HomeStart paid a dividend of $26.4 million, comprising an estimate of the expected profit for 2022-23 of $23.8 million and the dividend payable for the 2021-22 financial year. Based on its actual after tax profit for 2022-23, HomeStart has recognised a dividend payable for the year of $2.6 million.

HomeStart aims to return dividends to the SA Government regularly, in line with its established performance statement. Dividends are recommended by the Board and then approved by the Treasurer.

HomeStart pays an income tax equivalent to the SA Government in line with Treasurer's Instruction 22 *Tax Equivalent Payments*. The income tax liability is based on the State Taxation Equivalent Regime, which applies the accounting profit method. This requires that the corporate income tax rate be applied to net profit.

Statement of Cash Flows

Net cash flows

The following table summarises the net cash flows for the four years to 2023.

	2020 $million	2021 $million	2022 $million	2023 $million
Net cash flows				
Operating	24	31	27	19
Investing	18	(52)	169	(285)
Financing	(41)	22	(194)	266
Change in cash	1	1	2	(1)
Cash at 30 June	4	6	7	7

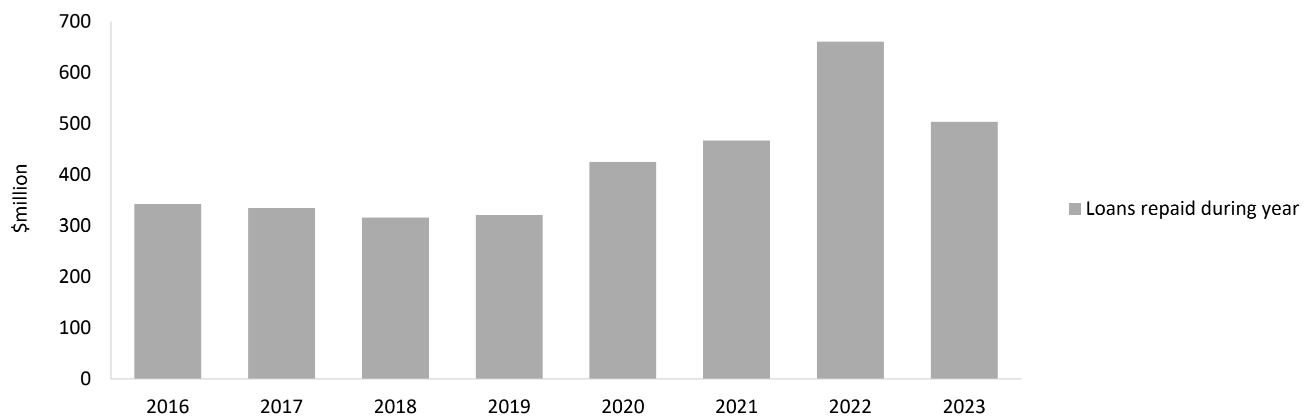
Note: Table may not add due to rounding.

Investing activities relate primarily to the provision of loans to customers. For 2023 new lending of $788.9 million exceeded customer loan repayments and discharges of $503.7 million.

The net financing cash inflow of $266 million largely reflects the net increase in borrowings of $292.1 million to support new customer lending, partially offset by dividends paid of $26.1 million.

Customer loans repaid

The following chart shows loan repayments, including discharges, since 2016.



Customer repayments increased annually between 2018 and 2022, reflecting the low interest rate levels over that period resulting in:

- customers choosing to repay more debt or refinance with other institutions to take advantage of more suitable loan arrangements
- an increase in fixed repayment loan products repaying proportionately more principal.

The significant drop in customer repayments in 2023 echoes the deteriorating economic conditions, with higher interest and inflation rates limiting customers from making additional loan repayments or refinancing elsewhere.

HomeStart operating parameters

HomeStart is required to operate within financial parameters set down in its charter and performance statement approved annually by the Treasurer and the Minister for Infrastructure and Transport.

HomeStart's performance targets compared to actual results are shown in the following table.

	Cabinet approved operating parameters	Performance statement target for 2023	2022 result	2023 result
Operating profit before tax	n/a	n/a	$56 million	$38 million
Return on equity	>9%	>9%	30%	20.53%
Cost to income (CTI) ratio	<53%	<53%	39.95%	40.79%
Capital adequacy ratio (Common Equity Tier 1)	9-11%	>9%	9.52%	11.2%

The CTI ratio is an indicator of operating efficiency, expressed as operating costs as a percentage of income. CTI is commonly used in the banking sector. The ratio is influenced by changes to the guarantee fee, property prices (via Breakthrough and Shared Equity Option loans), revenue from fees and HomeStart's control of its administration expenses.

The capital adequacy ratio is an indicator of the extent to which HomeStart's capital can shield the State from unanticipated credit losses. HomeStart measures the ratio of high quality 'tier 1' capital to risk-weighted assets using guidelines established by the Australian Prudential Regulation Authority for the Australian banking sector.

The most significant factor contributing to HomeStart's above-parameter returns on equity in 2023 and 2022 was the gains recognised on shared equity loans as a result of property price increases.

Other comments

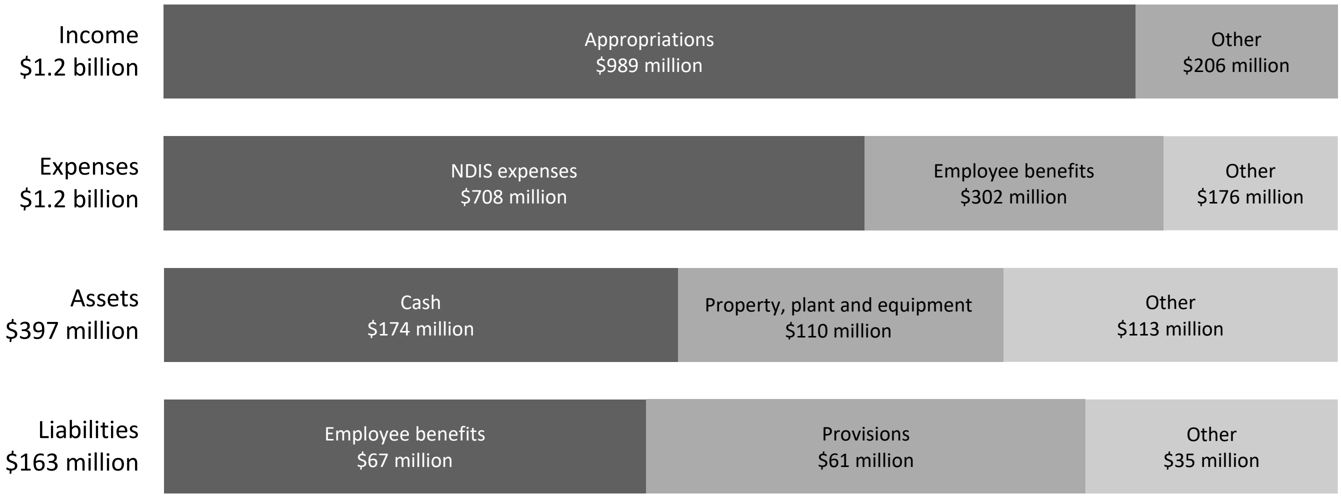
The Shared Equity Fund for New Housing Construction was established as part of the Housing Construction Stimulus Package in response to COVID-19 in June 2020. The package included expanding HomeStart's existing Shared Equity Option loan to be available for the construction of new homes to an approved limit of $21 million. This initiative was formed to target 20,000 affordable houses within 10 years, with the South Australian Housing Trust taking the equity interest in these shared equity loans.

Funds received or receivable from the South Australian Housing Trust in advance of being drawn by customers are offset in other liabilities. At 30 June 2023 HomeStart had $13.7 million ($561,000) in approved shared equity loans for construction that had not yet been drawn down by customers.

HomeStart has concluded that it does not hold the equity interest in shared equity loans funded through these arrangements and therefore does not recognise a loan asset for them.

Department of Human Services (DHS)

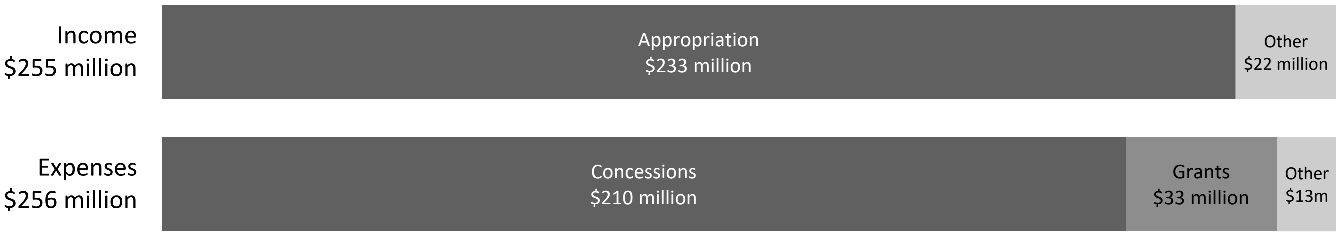
Financial statistics



2,726
FTEs

229,000
Households receiving a concession

Administered items



Significant events and transactions

- The State's National Disability Insurance Scheme (NDIS) contribution in 2022-23 was $874 million under the full scheme, reduced by $166 million for State provided services.
- The cost of living concession for eligible home owners and tenants increased by $42.3 million to $79.4 million due to the SA Government doubling the concession.
- Work continued on the youth custodial services capital project. Total estimated costs are $22 million, with $16 million of capital works in progress recorded at 30 June 2023. The project is expected to be completed in 2023-24.
- Assets of the former Julia Farr Services totalling $24.7 million were in the process of being sold at 30 June 2023.

Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— Rostering system procedures require improvement. — Penalty rates paid to staff are not included in the award.

Functional responsibility

DHS is an administrative unit established under the *Public Sector Act 2009*. It reports to the Minister for Human Services.

DHS's objective is to deliver strategies, programs and services that improve the wellbeing and safety of South Australians. It does this across its programs for communities, status of women, youth justice and disability.

DHS is also responsible for administering a number of funds and trusts on behalf of the Minister, including concession payments.

For more information about DHS's objectives and functions see note 1.2 of its financial report.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of attention in 2022-23 included:

- compliance with governance frameworks
- expenditure, including grant payments, concessions and supplies and services
- fixed assets
- revenue
- cash and general ledger
- client trust accounts.

The audit considered control processes performed by both DHS and Shared Services SA.

We reviewed internal audit activities when designing and performing our audit procedures.

Controls opinion

We reviewed controls over the following areas as part of our overall controls opinion, which is discussed in Part B of this report:

- NDIS expenditure
- deposit accounts and special deposit accounts held with the Treasurer.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive. The main findings and DHS's responses are discussed below.

Controls opinion findings

There were no significant findings for our controls opinion work on DHS.

Other audit findings

Payroll

In 2022-23 DHS's salaries and wages expense totalled $207.1 million ($202.7 million).

Rostering system procedures require improvement

In September 2022, DHS upgraded its rostering and workforce system. The new system is used to plan, roster and record time worked for approximately 1,300 employees at over 200 sites. In recognition of the significant change, DHS internal audit reviewed the upgrade governance arrangement before implementation and completed a post-implementation review in April 2023. Internal audit concluded that generally controls were adequate, but identified weaknesses such as filling shifts, site support requirements, reconciliation and reporting, system support and business continuity arrangements.

Our audit found that policies and procedures for maintaining and reviewing user access in the new system had not been developed. We also noted that several other procedures were still in draft.

DHS responded that it is in the process of establishing policies and procedures for the new system

Penalty rates paid to staff are not included in the award

Last year we found that some disability services officers were paid an afternoon penalty rate of 15%, which is not specified in the Intellectual Disability Services Award. This year we noted that DHS was still working with the Industrial Relations Policy Branch of the Attorney-General's Department to include the payment of the penalty in its documented approved arrangements.

DHS responded that it is consulting with the Industrial Relations and Policy branch, on a work flexibility agreement for disability support officers, which includes addressing the penalty rates and several other workforce matters.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2023 $million	2022 $million
Income		
Appropriations	989	941
Commonwealth-sourced grants and funding	116	111
SA Government grants, subsidies and transfers	38	48
Sales of goods and services	34	37
Fees and charges	7	8
Other revenues	11	14
Total income	1,195	1,159
Expenses		
NDIS expenses	708	684
Employee benefits expenses	302	285
Supplies and services	86	90
Grants and subsidies	82	76
Other expenses	8	7
Total expenses	1,186	1,142
Net result	9	17
Other comprehensive income	-	-
Total comprehensive result	9	17
Net cash provided by (used in) operating activities	19	15
Assets		
Current assets	268	253
Non-current assets	129	121
Total assets	397	374
Liabilities		
Current liabilities	76	69
Non-current liabilities	87	80
Total liabilities	163	149
Total equity	234	225

Statement of Comprehensive Income

Income

DHS’s main sources of income in 2022-23 were appropriations of $989 million and Commonwealth grants of $116 million.

Total income increased by $36 million to $1.2 billion, mainly due to increases in appropriation (up $48 million) and Commonwealth grants (up $5 million), offset by decreases in SA Government grants subsidies and transfers (down $10 million) and sales of goods and services (down $4 million).

Commonwealth-sourced grants and funding

Commonwealth-sourced grants and funding increased from $111.2 million to $116.1 million in 2022-23. Commonwealth funding remained relatively consistent, including DisabilityCare Australia Fund income of $80.1 million ($77.9 million), Continuity of Support Program income of $19.8 million ($21.1 million) and Family, Domestic and Sexual Violence Response program income of $10.9 million ($9.6 million).

SA Government grants, subsidies and transfers

SA Government grants, subsidies and transfers decreased by $10.2 million, from $48.1 million to $37.9 million, mainly due to:

- a $9.3 million decrease in income from the National Education Reform Agreement, due to timing differences in receipts from the Department for Education (funding allocated to each year remains consistent)
- funding from the COVID-19 (Community and Jobs) Support Fund through the Department of Treasury and Finance (DTF) ceased early in 2022-23. This funding was $1.1 million in 2021-22.

While DTF contingency funding recorded a slight increase of $413,000 to $8.8 million, funding for targeted voluntary separation package (TVSP) reimbursements increased by $7.4 million to $8.7 million. This was offset by a $3.3 million reduction in funding for the Consolidation of Youth Custodial Services capital project and a $3 million reduction in funding for the expansion of services under the child and family support system for the child and family assessment and referral network.

Sales of goods and services

Sales of goods and services decreased by $3.6 million to $33.9 million, mainly due to a reduction in screening check fees of $4.3 million (29%), reflecting an increase in the validity period of working with children checks from three to five years.

Expenses

In 2022-23 total expenses increased by $43.1 million to $1.2 billion. Movements in expenses included increases in NDIS contributions (up $24.4 million), employee benefits expenses (up $16.7 million) and grants and subsidies (up $6.3 million), partially offset by a decrease in supplies and services (down $3.8 million).

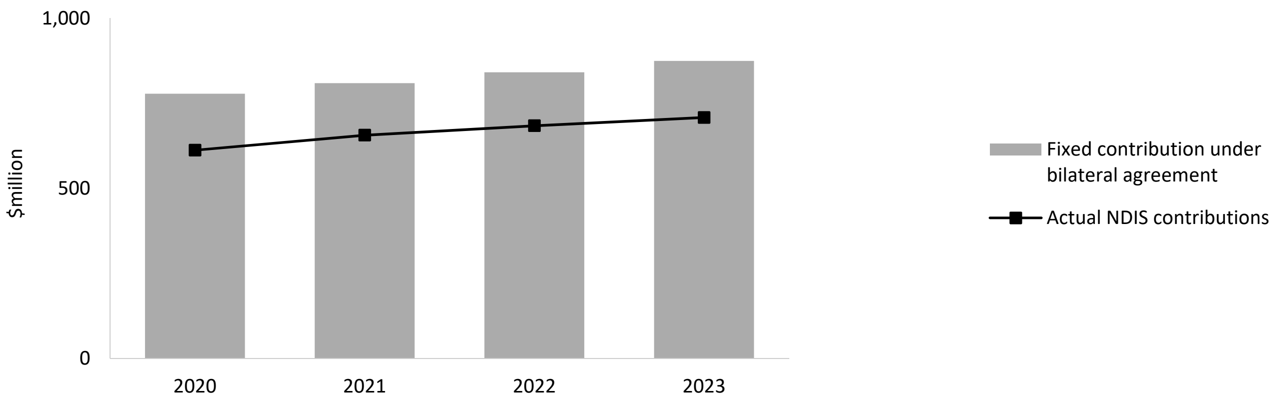
NDIS expenses

NDIS expenses increased from $683.8 million to $708.2 million in 2022-23.

South Australia started making contributions to the NDIS in 2013-14. Funding is paid to the National Disability Insurance Agency under the full scheme bilateral agreement with the Commonwealth. The objective of the agreement is to improve the outcomes of people with a disability by supporting them through the NDIS, with the shared goal of increasing their social and economic participation. The agreement involves agreed payments between the Commonwealth and SA Governments to fund the NDIS.

NDIS expenditure comprises the fixed State contribution under the bilateral agreement, offset by adjustments including the in-kind provision of services (such as the supported independent living services DHS continues to provide to disability clients).

The State's contribution to the NDIS under the bilateral agreement was $874.4 million in 2022-23. The adjustments to this fixed contribution included in-kind service provision by the State of $166.2 million and resulted in the total net expense of $708.2 million.



We assessed whether DHS's internal controls for NDIS expenditure were suitably designed and operating effectively throughout the year. There were no significant findings from our review.

DHS's NDIS contributions, and the arrangements to calculate the adjustments for in-kind service, are set out in the bilateral agreement between the State and Commonwealth. Under the agreement the in-kind portion adjustment was scheduled to end on 30 June 2023, with DHS transitioning to claiming reimbursement under the NDIS scheme for services provided.

DHS advised us that:

- some aspects of transitioning to claiming for services provided under the NDIS were still being resolved and the in-kind arrangements have been extended into 2023-24
- the State's future contribution to the NDIS was being reassessed in line with the State's population share.

The upcoming changes will have a major financial impact, with DHS claiming for individual services provided to clients under the NDIS rather than calculating an adjustment to the State's contribution. This will result in both revenue and expenditure increasing significantly. DHS has been preparing for the change for several years. This has included helping clients to develop customised NDIS plans and acquiring and updating systems to facilitate recording and charging for services.

Employee benefits expenses

Employee benefits expenses increased by $16.7 million to $301.7 million in 2022-23, due mainly due to increases of:

- $6.9 million for TVSP expenses, with 114 employees (28 employees) receiving $8.8 million ($1.9 million) in TVSPs. During the year the SA Government expanded the eligibility for the TVSP scheme to achieve targeted savings

- $5 million in long service leave expenses, which arose from changes in the actuarial forecasts for discount rates and salary inflation
- $4.4 million (2%) in salaries and wages, due mainly to enterprise bargaining agreement increases.

Supplies and services

In 2022-23 supplies and services expenses decreased by $3.5 million to $86.3 million, due mainly to a combination of:

- a $3.5 million reduction in drugs and medical supplies, due to 2021-22 expenditure including $2.9 million for rapid antigen tests purchased for use in disability services and to provide to non-government organisations in response to the COVID-19 pandemic
- a $1 million decrease in criminal history check fees, reflecting the change in the validity period of working with children checks from three to five years
- a $1.1 million increase in other expenditure, due mainly to contributions to support the Pavely Smartphone application (used by people living with a disability), additional legal fees for the Screening Unit and a contribution to the Australian National Research Organisation for Women's Safety evaluation.

Grants and subsidies

Grants and subsidies increased by $6.3 million to $82.3 million in 2022-23. Notable movements in grant and subsidies programs include:

- a $3.4 million increase for Family, Domestic and Sexual Violence Response program new grants for regional safety hubs, early intervention and recovery and collaborative intervention
- a $1.2 million increase in family and community development grants for additional programs funded in 2022-23
- a $944,000 increase in Aboriginal community benefits grants.

Statement of Financial Position

Assets

DHS's major assets include cash and cash equivalents of $173.7 million ($166.4 million), property, plant and equipment of $110.1 million ($114.9 million) and receivables of $94.1 million ($87.1 million).

Total assets increased by $23.5 million to $397 million as at 30 June 2023, largely due to a combination of:

- an increase in capital works expenditure of $12.9 million, largely for the Consolidation of Youth Custodial Services project. The project budget is $22.1 million, with $16 million spent to 30 June 2023. The project is expected to be completed in 2023-24
- an increase in cash of $7.2 million and receivables of $7.1 million, largely due to the timing of funding received and expenditure payments
- a decrease in property, plant and equipment of $4.8 million, mainly as a result of depreciation.

Liabilities

Total liabilities increased by $14 million to $162.7 million. This was largely due to:

- the workers compensation provision increasing by $11.7 million to $60.6 million, due mainly to the higher number of claims and estimated claim value for injured workers
- payables increasing by $2.9 million, due mainly to capital works expenditure recognised but not yet paid.

Highlights of the financial report – administered items

	2023 $million	2022 $million
Income		
Appropriation	233	191
SA Government grants, subsidies and transfers	11	11
Client trust receipts	8	9
Other income	3	1
Total income	255	212
Expenses		
Grants and subsidies	243	211
Client trust payments	8	9
Other expenses	5	5
Total expenses	256	225
Net result	(1)	(13)
Other comprehensive income	-	-
Total comprehensive result	(1)	(13)
Assets		
Current assets	88	51
Non-current assets	-	26
Total assets	88	77
Liabilities		
Current liabilities	39	27
Total liabilities	39	27
Total equity	49	50

Statement of Administered Comprehensive Income

Administered expenses

Grants and subsidies of $242.7 million, $209.6 million of which are concession payments, represent 95% of total administered expenses.

Concessions

The following chart shows concession payments by number and value in 2022-23.

Concessions statistics

229,000

Approximate number of households receiving a concession

13 million

$25.3 million

Initial boardings recorded by transport concession customers

(excluding students and seniors)

Estimated number of households receiving payments*

218,000
$48.2 million
Energy

212,000
$79.4 million
Cost of living

202,000
$38.9 million
Water

132,000
$15.6 million
Sewerage

5,000
$2.2 million
Other**

* The number of households receiving each concession type is provided by DHS and is unaudited.

** Includes emergency electricity payments, medical heating and cooling, and residential parks.

Most households received more than one concession type during the year and therefore one household may show up in more than one concession type in the above chart.

Concession payments increased by $28 million to $209.6 million. This is largely due to a combination of:

- the cost of living concession payments for eligible home owners and tenants increasing by $43.3 million to $79.4 million, due to the SA Government doubling the concession in 2022-23 and the number of households claiming the concession increasing by about 11,000 households (6%)
- the pandemic leave scheme ceasing in late 2021-22. Last year $14.1 million was paid
- a $3.8 million decrease in energy concessions. While there was a 3% increase in the number of households receiving energy concessions in 2022-23, the decrease was due to 2021-22 including payments that related to concessions applied by retailers in prior financial years
- a $2.6 million increase in water and sewerage concessions due to more households receiving these concessions in 2022-23.

The number of households receiving a concession increased from 221,000 in 2021-22 to 229,000 in 2022-23. The rise was mainly in households receiving cost of living concessions, however the number of households receiving benefits increased across all concessions. The doubling of the cost of living concession drove more applications to be submitted and assessed across all concessions types.

Statement of Administered Financial Position

Assets amounted to $88.5 million and mainly comprise cash of $63.7 million ($51 million) and property assets held by the Home for Incurables Trust (the Trust) of $24.7 million ($26.1 million).

Liabilities amounted to $39.2 million ($26.8 million) and was comprised of payables.

Former Julia Farr Services property, plant and equipment for sale

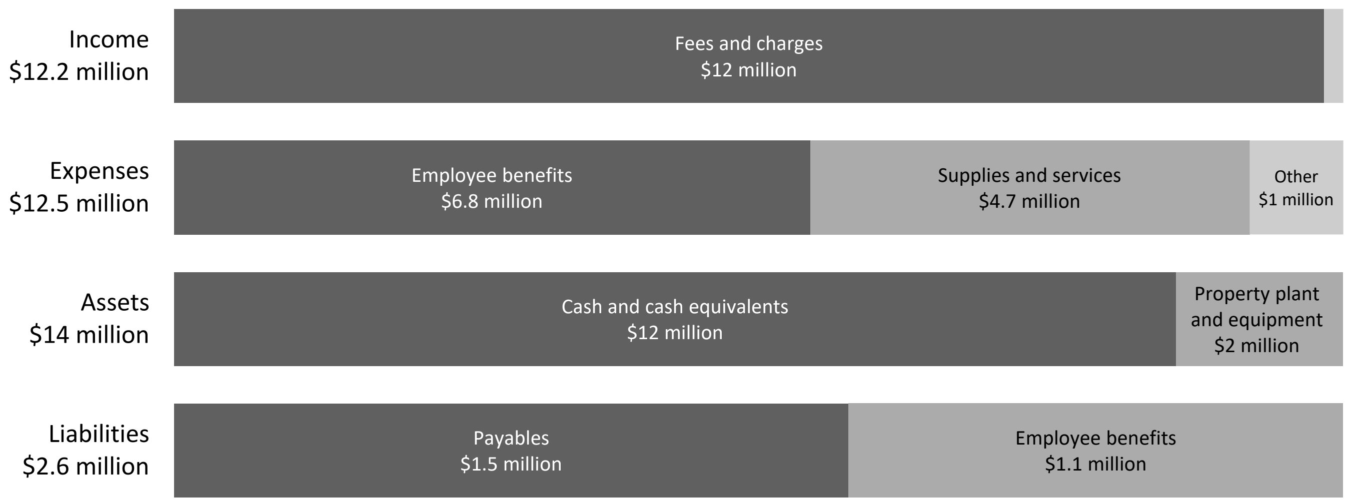
DHS administered items include the Trust, which was vested with the Minister for Human Services on 1 July 2007 when Julia Farr Services was dissolved. The Trust's operational activity comprised income of $373,000 ($246,000) and expenditure of $2 million ($2.5 million), of which $1.5 million ($2.2 million) was depreciation. Further information on the Trust is provided in note A9 of DHS's administered financial report.

The Trust's assets mainly comprise property, plant and equipment located at Fullarton that was previously used to support people with a disability who were unable to live independently. No new residents moved into the facility after it was earmarked for closure in 2014, with the last resident moving out in 2020.

During the year the Trust's non-current assets, comprising property, plant, equipment and investment property and totalling $24.7 million, were transferred to 'held for sale'. The sale is being managed by Renewal SA on behalf of the Trust, and expressions of interest closed in May 2023. At the time of this report the sale was under negotiation.

Independent Commission Against Corruption

Financial statistics



38
FTEs

Significant events and transactions	Accommodation and leasehold improvements works to the value of $1.1 million were completed.
Financial report opinion	**Unmodified**
Audit findings	No significant findings.

Functional responsibility

The Independent Commission Against Corruption (the Commission) is a body corporate established under the *Independent Commission Against Corruption Act 2012*.

The Commission's primary functions are to identify and investigate corruption in public administration and prevent or minimise corruption, misconduct and maladministration in public administration through referral of potential issues, education and evaluating practices, policies and procedures.

Note 1.2 of the Commission's financial report further explains its objectives and functions.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- corporate governance
- payroll
- revenue
- cash
- information technology.

Audit findings

Communicating our audit findings

We communicated a small number of low risk findings in a management letter to the Independent Commissioner Against Corruption and received a satisfactory response.

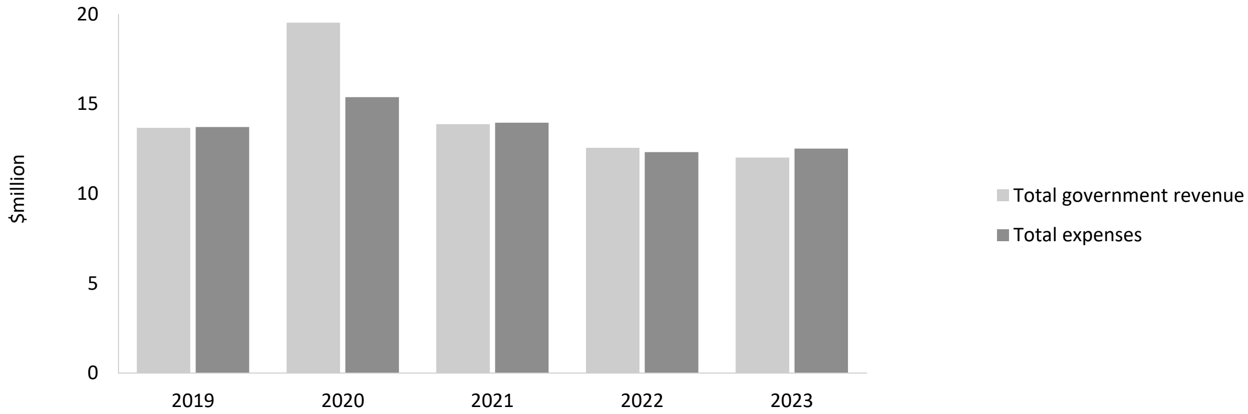
Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Income		
Revenues from SA Government	12	12
Total income	12	12
Expenses		
Employee benefits	7	7
Supplies and services	4	4
Other	1	1
Total expenses	12	12
Net result	-	-
Net cash provided by (used in) operating activities	1	1
Net cash provided by (used in) investing activities	(1)	-
Assets		
Current assets	12	12
Non-current assets	2	2
Total assets	14	14
Liabilities		
Current liabilities	2	1
Non-current liabilities	1	1
Total liabilities	3	2
Total equity	11	12

Statement of Comprehensive Income

The following chart shows the Commission's total expenses and government revenue over the past five years.



Income

The Commission relies on revenues from the SA Government, which decreased by $500,000 to $12 million in 2022-23. The reduction was mainly due to the transfers of funding to the Office for Public Integrity.

Expenses

The Commission's expenses increased slightly to $12.5 million.

Supplies and services increased by $800,000 mainly as a result of increase in:

- ICT charges of $500,000 due to increases in network, software and hardware maintenance costs
- accommodation expenses of $400,000 due to increases in charges associated with lease holdings
- offset by decreases in employee benefits expenses of $600,000 due to the full-year impact of employees transferring to the Office for Public Integrity.

Statement of Financial Position

Assets

The Commission's assets increased marginally to $14.1 million.

Liabilities

The Commission's liabilities increased by $600,000 to $2.6 million mainly as a result of:

- payables increasing by $900,000 due to outstanding invoices for the accommodation fitout of $1.1 million
- employee benefit liabilities decreasing by $200,000 to $1.1 million mainly due to employees transferring to other agencies.

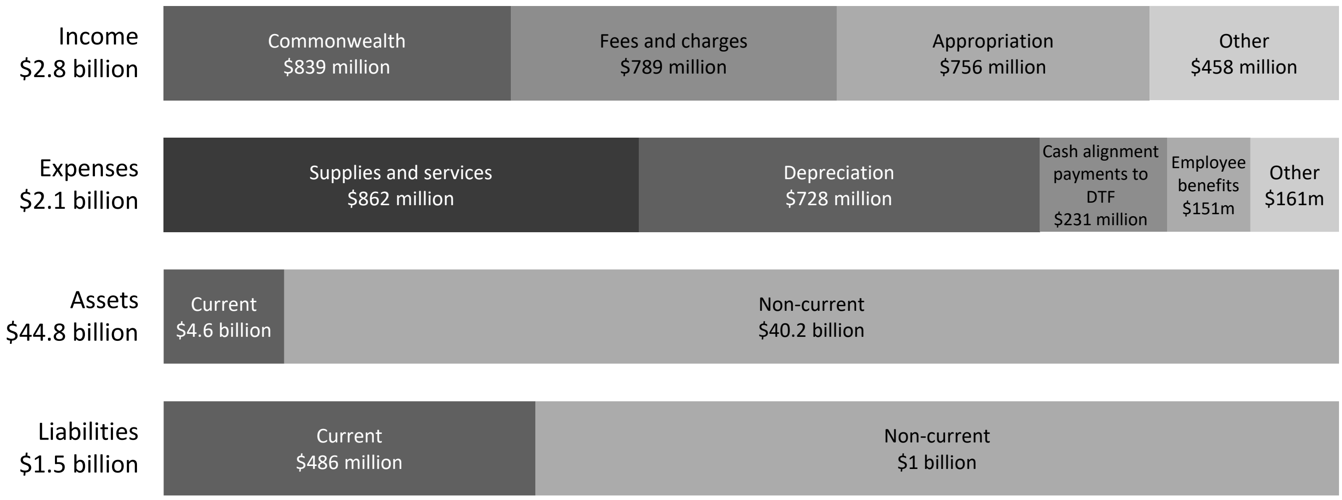
Statement of Cash Flows

Cash and cash equivalents at 30 June 2023 were $11.9 million ($11.7 million). Net cash provided by operating activities was $1.4 million, an increase of $500,000 from 2022.

Net cash used in investing activities was $1.1 million for the purchase of property, plant and equipment (leasehold improvements).

Department for Infrastructure and Transport (DIT)

Financial statistics

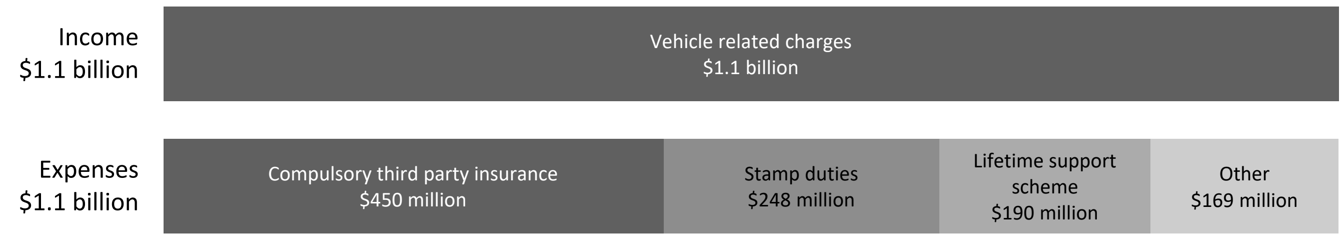


1,953
FTEs (excluding Rail Commissioner)

$1.9 billion
Capital expenditure

23,000 km
Roads managed

Administered items



Significant events and transactions

- This was the first full year that Ventia provided across government facilities management services after its contract commenced in December 2021.
- The SA Government signed an agreement to transition the operation of trains and trams back to State control by January 2025 and July 2025, respectively.
- The revaluation of network assets resulted in an increase in value of $2.3 billion, largely reflecting increased costs.
- Land purchases for the North-South Corridor Darlington to Torrens project totalled $368 million.
- Costs of completed projects for metropolitan intersection upgrades of $281 million and National Highway upgrades of $187 million were recognised in assets.

Financial report opinion	**Unmodified**
Controls opinion findings	— The Across Government Facilities Management Arrangements (AGFMA) were not operating in line with the contract. — Improvements in performance and contract management controls are needed. — Risk management processes need to improve in some areas. — Asset management needs to improve.
Other audit findings	— Employee attendance controls need improvement. — Documentation to support DIT's allocation of overhead costs for asset capitalisation can be improved. — Conflict of interest declarations could not be provided for a single-source procurement.

Functional responsibility

DIT is an administrative unit established under the *Public Sector Act 2009* and is responsible for transport systems and services and infrastructure planning and provision.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- accounts payable
- payroll
- public transport contracts
- fees and charges, including motor vehicles, driver's licences and public transport
- income and expenditure for maintenance, property and building construction services
- accounts receivable
- bank reconciliations
- general ledger
- governance
- fixed assets, including capital works, road and rail network assets and plant and equipment
- finance leases
- IT controls.

We considered the work of DIT's internal auditors in designing and performing our audit procedures.

Controls opinion

As part of our overall controls opinion, which is discussed in Part B of this report, we reviewed controls over:

- facilities maintenance services managed by DIT for other SA Government agencies
- contract management for road maintenance and metropolitan public transport contracts
- asset management for selected road, marine and rail assets
- purchasing non-current assets, including procurement, contract management and project delivery
- construction on behalf of other SA Government agencies, including procurement, contract management and project management
- acquisition and disposal of land and buildings
- operating expenditure, including contract management for key operational contracts
- motor registration revenue
- expenditure of Commonwealth money
- bank accounts.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. The main findings and DIT's responses are discussed below.

Controls opinion findings

DIT currently manages a number of significant service contracts. They include the AGFMA, road maintenance, transport and asset management. We found that DIT could improve its contract, performance and risk management in these areas. This is further discussed in our various control opinion findings below.

The Across Government Facilities Management Arrangements were not operating in line with the contract

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.

AGFMA background

In July 2021 the SA Government entered into a contract with Ventia Australia Pty Ltd (Ventia) for the provision of AGFMA services. The contract commenced on 1 December 2021.

The contract with all options (including GST) has an estimated total value of $4.2 billion over 11 years and seven months, with an initial term of five years and seven months and three optional extensions of two years each.

The AGFMA is a complex arrangement.

Under the contract with Ventia, DIT remains the central policy and contract management agency. Both DIT and participating agencies have responsibilities under the AGFMA, along with Ventia as the service provider. These roles and responsibilities are documented in the AGFMA Services Agreement (the contract), the memorandums of administrative arrangements with agencies and DIT's AGFMA contract management plan.

DIT, as the contract manager of the AGFMA contract, is responsible for having processes and controls in place to monitor and manage Ventia's compliance or non-compliance with its contractual obligations. DIT is also responsible for managing the risks to the SA Government of outsourcing the AGFMA to an external contractor.

It is evident from the complexity of the AGFMA that DIT requires sufficient resources to manage its responsibilities.

Services provided under the AGFMA include preventative maintenance, replacement/refurbishment maintenance, works less than $150,000, breakdown maintenance and planned small construction works.

In 2022-23 SA Government agencies paid about $358 million (GST inclusive) to Ventia for services provided.

DIT's role as administrator is to:

- administer the AGFMA by managing the contract
- establish appropriate mechanisms to support participating agencies and agency representatives in their roles under the AGFMA
- provide advice to participating agencies to meet compliance and to support the maintenance of government assets
- manage the performance of the facilities management service provider (FMSP) in line with their contract and other obligations
- conduct audits and assurance activities, in line with the contractual obligations on FMSP operations and/or processes and to monitor KPI requirements and the accuracy and timeliness of the invoices issued by the FMSP.

Agencies are responsible for managing their designated locations, which includes:

- developing, maintaining and administering of strategic asset management plans or procuring the services of the FMSP to do this
- verifying that work has been carried out in line with requirements
- paying fees for services procured in respect of their assets
- collaborating with the FMSP to finalise the annual works program and budget
- issuing work requests
- participating in relevant governance groups
- ensuring work, health and safety standards are met.

The AGFMA represents an important component of each participating agency's asset management system.

2021-22 was a transitional year for the AGFMA, with the new arrangements commencing from 1 December 2021. In our 2021-22 review we noted that there were issues with the new contract, including:

- general systems and process issues
- issues with the inaccurate allocation of work orders, including multiple subcontractors arriving on site, or in some instances non-local contractors being engaged
- increased administrative workloads for subcontractors
- technical issues with system access to receive and complete work orders, including long delays in processing invoices and payments
- difficulty accessing the help desk and delays in resolving issues
- technical issues with the visibility of preventative maintenance in the system and allocation of work orders.

AGFMA current status

In 2022-23, DIT worked with Ventia to improve the issues we identified in 2021-22. However, we noted that there were still many issues being experienced by those involved with the AGFMA. These include, but are not limited to:

- IT system performance issues, including lack of functionality
- breakdown priorities not being met
- overcharging and the quality of documentation submitted for claims
- preventative maintenance not being completed within time frames, including statutory maintenance
- poor response times
- lack of contractor availability
- data validation and data integrity processes in place to try to improve data quality
- warranties and registrations not recorded
- projects making slow progress, delays in invoicing and poor management
- stakeholder expectations not being met
- poor communication and poor quality of service.

DIT has issued contract breach notices to Ventia for a number of issues and mechanisms have been requested to ensure improvements, including developing improvement plans and a core services stabilisation plan. Workgroups were established, such as the KPI business as usual work group.

While improvements were noted, many critical issues remain. Considerable work is required to provide an optimised AGFMA for all users.

We understand that DIT is continuing to work closely with Ventia to assist where it can, while also managing the contractual arrangements.

Summary of AGFMA audit findings for 2022-23

Our 2022-23 audit program focused on following up our previous audit findings and understanding how DIT is managing the contract. We identified areas where DIT could improve its internal controls over AGFMA governance, risk management and contract management. We found that:

- DIT had not performed a risk assessment of the draft findings from a cyber security review it commissioned in relation to AGFMA ICT systems. The draft findings identified a range of potential weaknesses and compliance matters. We understand that at the time of this report, the review, for which draft findings were provided in December 2022, was yet to be finalised due to ongoing discussions with Ventia
- the draft cyber security findings had not been escalated to the AGFMA governance committee, the Facilities Management Governance Group (FMGG)
- DIT had not identified, monitored and managed its cyber security risks
- Ventia software does not contain the minimum data sets required by Premier and Cabinet Circular PC 114 *Government Real Property Management*
- no reviews of user access to Ventia's systems were performed
- Ventia's and DIT's risk registers were not complete
- KPIs reported in 2022-23 have not been verified by DIT.

We also identified several areas where Ventia was not operating in line with the contract. This included:

- evidence that Ventia was charging for work at rates higher than the maximum trade rates set through the arrangements
- no evidence that Ventia had completed the data validation process, designed to ensure accurate data is recorded for the assets being managed
- KPI credits were incorrectly calculated and applied to agency invoices
- preventative maintenance and legislative preventative maintenance were not being completed within the agreed time frames
- breakdown maintenance response and resolution times set out in the contract were not being met
- difficulties in viewing and accessing evidence of subcontractor compliance with specific requirements
- KPI targets were not being met and KPI data presented to the FMGG was not complete.

DIT responded that:

- its cyber security officers and others continue to be involved in assessing risks from the initial cyber security audit. It continues to work with Ventia to address the issues identified and facilitate finalisation of the review.

  DIT has also scheduled a second cyber security audit in the second half of 2023-24 to allow Ventia to address the areas identified in the initial audit. DIT will also update cyber security risk details in the AGFMA risk registers
- it will review the reporting of risks to appropriate levels outside of the AGFMA directorate, including at the divisional level
- data validation was a process for Ventia to confirm the accuracy of the data it was provided on transition. DIT will continue to verify the accuracy, completeness and currency of Ventia's data and report issues to Ventia for rectification, with contract notices issued if contractual requirements are breached

- Ventia conducted a system user access and delegations review in July 2023, for agency user access and delegation levels. This will form the basis for DIT's quarterly audits of system users, scheduled for 2023-24. As agencies request access direct from Ventia, they need to review their access with Ventia. DIT's role is to ensure that Ventia conducts system access checks and to verify that audit results and outcomes are actioned
- it continues to work with Ventia to present a complete and up-to-date minimum data set that meets PC 114 requirements
- maximum trade rates are part of Ventia's procurement corrective action plan and amounts charged will be tracked against ceiling rates. DIT will continue to monitor this area, and will review its existing processes and update them where required to include monitoring and enforcement of the rates
- it will review the findings associated with fees and rates and where applicable will update existing risks or incorporate new risks to its contract risk register
- it will continue to monitor KPIs and ensure that information on preventative maintenance and unsafe assets is provided to participating agencies through the FMGG or agency meetings. DIT is progressing a critical asset audit to conduct spot checks on critical asset identification, scheduling and maintenance completion. Results of the audit will be provided to the FMGG in line with current process
- it will make an assessment of KPI results and, if it finds that discrepancies exist with reported results, will take appropriate action under the contract regarding potential breaches. DIT continues to engage with Ventia to work on addressing performance where services provided do not meet the minimum contractual requirements
- the importance of providing complete and accurate KPI reporting to the FMGG has been stressed to Ventia, including ensuring all KPIs are included. DIT will continue to work with Ventia to improve FMGG reporting, including reviewing all reportable KPIs and verifying their assessment of results
- it reviews and assesses KPI results reported in Ventia's monthly KPI reports. DIT will review the KPI data provided for current monthly reporting to verify its accuracy. Results of the review will determine if DIT retrospectively requests past KPI data results to test the accuracy of reported KPIs.

Additional audit comment

For several years we have concluded that the AGFMA was not operating as intended. DIT expected the new AGFMA model to address the concerns we identified in our previous audits and other internal and external reviews. Our overall assessment for 2022-23 is that the AGFMA is not operating in line with the contract and contract objectives are not being achieved, increasing the risks around quality, value for money and ensuring asset risks are appropriately managed.

It is important that strong contract, performance and risk management processes are implemented and maintained by both DIT and participating agencies to ensure the SA Government achieves value for money from the AGFMA. This will require DIT and participating agencies to have reliable processes to monitor Ventia's performance.

Improvement required in road maintenance contract and performance management controls

In July 2020 the Commissioner of Highways executed four road maintenance contracts for a total of up to $5.1 billion (GST inclusive) over a potential contract period of 13 years. Routine services under these contracts commenced in November 2020.

The Commissioner of Highways retains oversight of the strategic asset management of the road network.

In 2021-22, we noted that while DIT had established a framework and structure for managing the road maintenance contracts, its contract management controls were still being implemented.

This year, DIT has had an internal restructure to form a Commercial and Contract Management Division. We noted that DIT made progress to improve its controls but there were still significant areas where controls were not operating to ensure the contracts were effectively managed. These include:

- the controls in place to track and monitor compliance with contractual obligations were not effective
- methods to monitor ordered services were not effective
- KPI documentation, measurement, enforcement and verification needed improvement
- processes to prioritise maintenance works for the safety of road users need to be documented
- careful assessment of proposed new operating models for the road maintenance contracts is needed
- the accuracy of internal reporting requires improvement
- the accuracy of monthly reporting from contractors needs to improve.

DIT responded that:

- the recent organisational changes to align the administration of the road maintenance contracts to its Commercial and Contract Management Division has resulted in the implementation of additional controls and improvements
- it will seek approval from the Chief Executive to confirm the adoption of the Civil Construction Contract Management Framework
- it recently revised its internal reporting template and will use this for internal reporting
- it has considered appropriate changes to KPIs
- it will develop guidelines to summarise the methodology and process to be adopted for prioritising of road maintenance defects
- it is reviewing contractor reporting and implementing improvements.

Metropolitan transport contract and performance management practices could be improved

In 2020-21, new contracts commenced that:

- replaced existing bus passenger service contracts
- contracted private operators to provide tram and train passenger services, asset management and maintenance services.

DIT established a new division, the South Australian Public Transport Authority, to manage the public transport contracts, with separate sections for contract management, asset management, safety, network planning, and operations and customer transformation.

Bus and tram contracts

Since 2000, bus passenger transport services in metropolitan Adelaide have been entirely provided by private companies.

In March 2020 the Minister awarded seven service contracts for the operation of metropolitan Adelaide buses, with one of those contracts also including the operation and maintenance of tram services for the first time. While the SA Government outsourced the operation of bus and light rail services, it has retained ownership of the bus and light rail assets.

The current contractors commenced providing the services from July 2020. The total estimated value of the bus and tram service contracts is $3 billion (inclusive of GST) over a potential 10-year term to 30 June 2030.

The service contracts include incentives for reducing the cost per passenger, increasing customer satisfaction and/or increasing patronage growth. The SA Government remains responsible for setting pricing, service levels and service location.

Heavy rail contract

An outsourced rail operations contract with Keolis Downer Adelaide Pty Ltd (KDA) was executed in September 2020. KDA commenced providing heavy rail services from 31 January 2021. The estimated value of the contract at commencement was $2.1 billion over a potential 12-year term to 4 February 2033.

The SA Government has retained ownership of the rail system infrastructure and assets, is responsible for setting pricing and receiving fares and determines the minimum level of service of the network.

KDA is required to maintain the rail assets to the SA Government's specified standards, operate trains and deliver services to the schedule and performance standards determined by the SA Government.

We note that the SA Government has now signed an agreement to transition the State's trains and trams back to State ownership by January 2025 and July 2025, respectively.

Summary of audit findings

In previous years we considered the governance, performance management and payment processes implemented by DIT for the passenger transport contracts. This year we observed that DIT has addressed or is addressing most of the matters we raised last year. We appreciate that several matters will take time to address.

In 2022-23 we found that DIT:

- has not enforced a KPI for the bus contracts relating to services not provided
- is not ensuring that its bus depots are maintained in line with statutory and contractual requirements
- has not adequately documented the verification processes for KPI data on the bus, light rail and heavy rail service contracts.

DIT responded that:

- given current inaccuracies with source data, it has been monitoring the KPI on services not provided since the commencement of the contracts but cannot report the results or validate the data in a systemic manner. To understand the cause of these data inaccuracies, DIT has performed detailed analysis and introduced initiatives aimed at improving data quality. DIT also advised us that it has enforced contractual performance management mechanisms for bus services not provided
- it obtains annual depot maintenance plans in line with the bus and tram contracts. DIT also commenced formal measurement of the related KPI in the April to June 2023 period. It has also implemented measures to ensure bus depots are appropriately maintained
- it acknowledges that documentation has not been finalised for two bus and tram KPIs, but advised us that all train KPI verification documentation has been completed. DIT considers the absence of verification documentation for these KPIs as low risk.

Opportunities to improve asset management practices were noted

Road asset management

DIT's road and structures network assets are valued at $30 billion as at 30 June 2023 and comprise the following assets:

- sealed roads
- the road corridor, which includes signs and safety barriers
- unsealed roads
- bridges and structures
- electrical assets, which include lighting and traffic signals
- data and systems, which include asset and traffic information.

For 2022-23 our review focused on DIT's management of sealed roads, bridges and structures for the following aspects of road asset management:

- asset information is maintained
- asset condition is assessed
- risks relating to asset management are identified, treated and monitored
- maintenance and renewal programs are in place.

As we have observed in prior years, DIT has established a framework for managing its road network assets, which includes asset management policies, objectives, plans and information systems. DIT was also working to improve its department-wide documents for its asset management strategy, levels of service and asset performance measures and indicators.

In 2021-22 we made some recommendations to improve DIT's approach to asset management. In 2022-23 we noted that DIT had made progress by ensuring that all bridges and culverts had criticality ratings assigned in the asset management system. This indicates the importance of these structures to the overall road network.

We noted, however, the following matters where improvement was still required:

- DIT's road asset risk registers had not been reviewed or updated, with some treatments not updated since 2018-19
- further improvements are required for measuring and reporting some levels of service
- the harmonisation of criticality measures across DIT could be improved
- detailed condition inspections of bridges were overdue.

DIT responded that:

- it is developing an updated risk management plan and risk register for its road corridor assets. The risk management plan covers sealed roads, unsealed roads, bridges and electrical
- it has commenced an update of its asset management strategy for road and bridge assets, including an initial review of domestic and international best practice, to ensure alignment with the international standard on asset management, ISO 55001. This strategy is expected to be completed in early 2024, and will include the development of customer levels of service
- it expects to perform the overdue bridge inspections we identified in 2023-24.

Marine asset management

DIT is responsible for managing marine assets with a written down value of $532 million as at 30 June 2023.

As noted in prior years, DIT has established a framework for managing its assets. This framework includes:

- an asset management policy that provides a high-level statement of DIT's organisational commitment to asset management
- documented asset management objectives that describe what asset management is to achieve
- a comprehensive strategic asset management plan for road and marine assets
- asset management plans that aim to describe the asset management practices applied to specified groups of assets
- software/systems to collect data on assets
- an approach to determining asset conditions.

In 2022-23, the strategic asset management plan for roads and marine assets still provides the strategic direction for managing both asset types until it is further considered and revised.

This year we noted that DIT was developing various supporting documents and processes for managing marine assets during the year. This has included adopting a specification for inspecting marine structures, creating a jetty condition worksheet and preparing a draft management plan for the maintenance of Port Bonython jetty.

While we note that DIT is improving its management of marine assets, its asset management practices were still being refined, developed and implemented.

We noted the following areas where improvement was still required:

- the Port Bonython jetty maintenance agreement with Santos Limited was no longer fit for purpose
- DIT did not record asset condition indicators in its marine data system
- DIT could improve the monitoring of marine asset risk controls
- DIT is not monitoring or reporting asset performance measures.

DIT responded that:

- it would obtain formal legal advice on the steps required to terminate or bypass the existing outdated jetty maintenance agreement
- it has fully implemented an online and mobile inspection system that enables staff to instantly log site condition assessments for marine assets. While this system is designed to pick up immediate defects for remediation, it does not give an overall marine asset condition assessment to enable the prioritisation of future works
- while its risk register is continually updated as new risks emerge, a formal review is conducted twice each year. The next formal review is scheduled for October 2023, when the documentation of controls to address risks will be reviewed to ensure they are up to date and complete
- its marine asset management plan has a suite of levels of service (or performance levels). DIT will review these performance levels and evaluate effective methods to measure actual performance
- it is constantly reviewing existing marine assets levels of service and how they are measured as KPIs. Most of these customer service levels have been derived internally and now need to be re-assessed against public and other user (eg commercial fishing industry) expectations.

Metropolitan transport asset management

DIT is responsible for managing rail and bus track assets with a written down value of $3.4 billion and trains, trams and buses with a written down value of $659 million as at 30 June 2023.

We found that DIT:

- had not ensured that its bus depots were maintained in a safe, fit-for-purpose condition
- does not ensure that KDA's condition recording is complete
- could not provide evidence that all audits, aimed at providing assurance that contractual asset management requirements are undertaken, were completed and corrective actions recorded and implemented
- was unable to provide documentation supporting the complete review of monthly asset performance reporting.

DIT responded that:

- bus contractors are now required to report monthly on maintenance and project activities proposed at bus depots to reduce or mitigate all urgent and high rated concerns, noted in independent site assessment reports

  DIT is now undertaking assurance on the bus contractors performing maintenance tasks in line with depot maintenance plans by active assessment of the KPI. In addition, it is preparing an annual bus depot inspection schedule

- a range of measures and actions were undertaken or planned to address the findings
- it had updated its asset management audit workflow.

Highways Fund

At the time of our audit, DIT could not provide us with a schedule setting out the program of works for 2022-23 and authorised by the Minister for Infrastructure and Transport, as required by the *Highways Act 1926*. In addition, it could not provide a program of works authorised by the Minister for 2021-22.

After our audit, DIT advised us that it had received a copy of the signed original and revised 2022-23 program of works. The original schedule was inadvertently not returned from the Minister's office and subsequent approval of the original program of work was requested when providing the Minister with a revised schedule for 2022-23.

Approval of future programs of work will be submitted to the Minister as required by the *Highways Act 1926*.

Other audit findings

Employee attendance controls need improvement

In 2022-23 DIT's employee benefits expenses totalled $151 million, with related liabilities of $72 million. This included employee benefits expenses totalling $20 million for excess staff and other employees assigned to the Project Hub and Assessment Centre (PHAC).

We found that DIT could improve its controls to monitor and certify employee attendance, including employees in the PHAC. Weaknesses in this control increase the risk that employees are paid for work not actually performed and leave records in the payroll system are inaccurate.

DIT responded that, while it has implemented some new processes, it will consider additional improvement opportunities. This will include investigating system enhancements to ensure that appropriate compliance and approvals are achieved.

Allocation of overhead costs to capital projects could be better documented

We found that, for a sample of responsibility centres, DIT's overhead allocation model contained insufficient evidence to support the percentages applied to in-scope works to be capitalised.

We also found that there was not enough guidance in policies and procedures to support the overall overhead allocation process.

DIT responded that it has introduced a template for the business support charges to be signed off by each business unit at the start of a financial year.

In addition, DIT has drafted a procedure manual for its business support charges model, to be implemented for the preparation of the model for the next financial year.

Metroticket revenue

Metroticket revenue totalled $78 million in 2022-23. We found that both the annual user access review and quarterly privileged user access review over key Metroticket systems had not been completed since March 2022.

DIT advised us that a quarterly privileged user access review and annual user access review had now been completed. Process improvements are being investigated to ensure these reviews are completed within the specified time frames.

Single-source procurement documentation was not available

DIT was unable to provide conflict of interest declarations for any of the people involved in a single supplier procurement that we reviewed.

In addition DIT was not able to provide acquisition plans for a number of procurement approvals relating to this procurement.

DIT responded that it was reviewing its procedures and additional controls are being implemented.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Income		
Appropriation	756	748
Fees and charges	789	738
Commonwealth-sourced grants and funding	839	695
SA Government grants, subsidies and transfers	99	52
Sale of goods and services	39	141
Rental income	198	193
Grants and subsidies	54	56
Other income	68	64
Total income	2,842	2,687
Expenses		
Employee benefits expenses	151	149
Supplies and services	862	938
Depreciation and amortisation	728	649
Grants and subsidies	103	105
Surplus cash paid to the Department of Treasury and Finance (DTF)	231	-
Other expenses	58	194
Total expenses	2,133	2,035
Net result	709	652

	2023 $million	2022 $million
Other comprehensive income		
Changes in revaluation surplus	2,401	13
Total comprehensive result	3,110	665
Net cash provided by (used in) operating activities	1,666	1,474
Net cash provided by (used in) investing activities	(1,930)	(1,756)
Net cash provided by (used in) financing activities	178	177
Assets		
Current assets	4,636	4,671
Non-current assets	40,150	36,640
Total assets	44,786	41,311
Liabilities		
Current liabilities	486	487
Non-current liabilities	1,050	960
Total liabilities	1,536	1,447
Total equity	43,250	39,864

The following information shows the breadth and scale of DIT's activities, identifying 2022-23 operating expenses by activity and the value of fixed assets held to support these activities.

Roads and marine	$758 million in operating expenses	$31.3 billion in fixed assets
SA Public Transport Authority	$696 million in operating expenses	$4.2 billion in fixed assets
Across-government services	$296 million in operating expenses	$2.6 billion in fixed assets
Delivery of transport projects	$15 million in operating expenses	$1.2 billion in fixed assets
Infrastructure planning and policy	$62 million in operating expenses	$632 million in fixed assets
Road safety	$67 million in operating expenses	$4 million in fixed assets

Note: The net loss or gain on the disposal of non-current assets is recognised by activity in the information above.

Statement of Comprehensive Income

Income

Income totalled $2.8 billion. It includes appropriations of $756 million ($748 million) and SA Government grants, subsidies and transfers of $99 million ($52 million). DIT's revenue sources (excluding appropriation and intra-government transfers) are shown in the following information, which demonstrates the importance of Commonwealth revenues (used largely for capital projects) and the significance of fees charged for motor registrations.

$2 billion in revenue
(excluding appropriation and other State Government transfers)

Fees and charges		Commonwealth revenues		Other revenues	
	$789 million		$839 million		$359 million
$570 million	Motor registrations	$236 million	North-South Corridor – Torrens River to Darlington	$156 million	Office accommodation
$87 million	Drivers licence fees	$108 million	Fleurieu Connections Improvement Package	$31 million	Government employee housing
$78 million	Metrotickets	$74 million	Augusta Highway Duplication – Stage 2	$53 million	Concessional passenger income
		$35 million	SA Regional Roads – Safety Package		

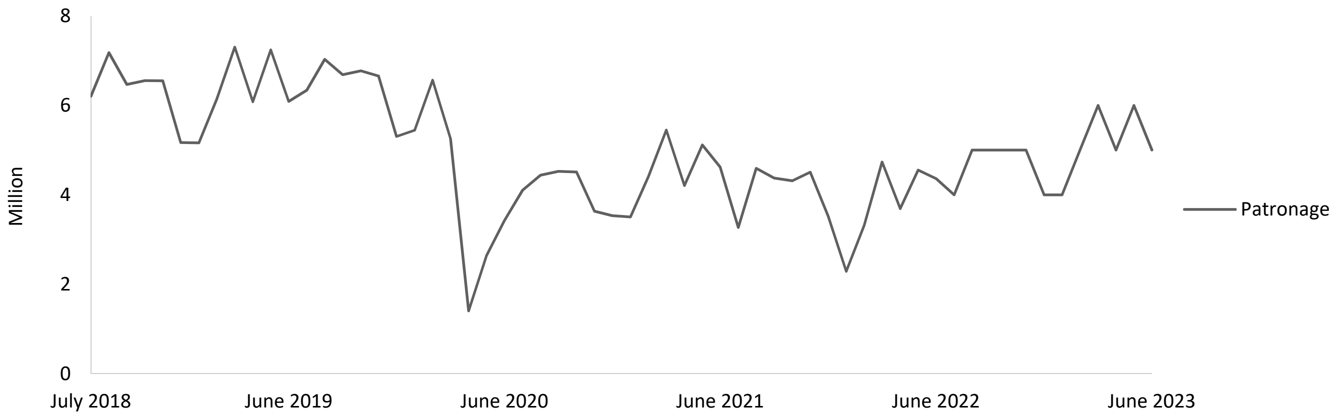
Total income increased by $155 million (6%) to $2.8 billion, due mainly to:

- Commonwealth-sourced funding increasing by $144 million. This funding is largely received to support major road and public transport capital projects. The scope and timing of capital projects varies from year to year
- sales of goods and services decreasing by $103 million to $39 million, due mainly to the facilities management services that DIT provided to other government agencies being replaced by a new provider who charges individual agencies directly from December 2021
- fees and charges increasing by $51 million to $789 million. This increase was due to variations in individual revenue lines, including:
  - motor registration charges increasing by $27 million (5%) due mainly to fee increases and growth in vehicle registrations
  - Metroticket revenue increasing by $21 million (37%) mainly due to increased patronage
- SA Government grants, subsidies and transfers increasing by $47 million (91%) to $99 million. In 2022-23 this included $59 million in transfers from contingency provisions for the reimbursement of road repairs caused by ex-Cyclone Tiffany in early 2022, offset by a decrease in funding of $12.5 million that was received in 2021-22 for the Strzelecki Track.

The impact of COVID-19 on patronage and Metroticket income

For the three years to 30 June 2022 Metroticket income decreased by $37 million (36%), reflecting reduced patronage due to COVID-19. Income increased by $21 million (37%) in 2022-23.

The chart below shows the monthly total patronage trends.

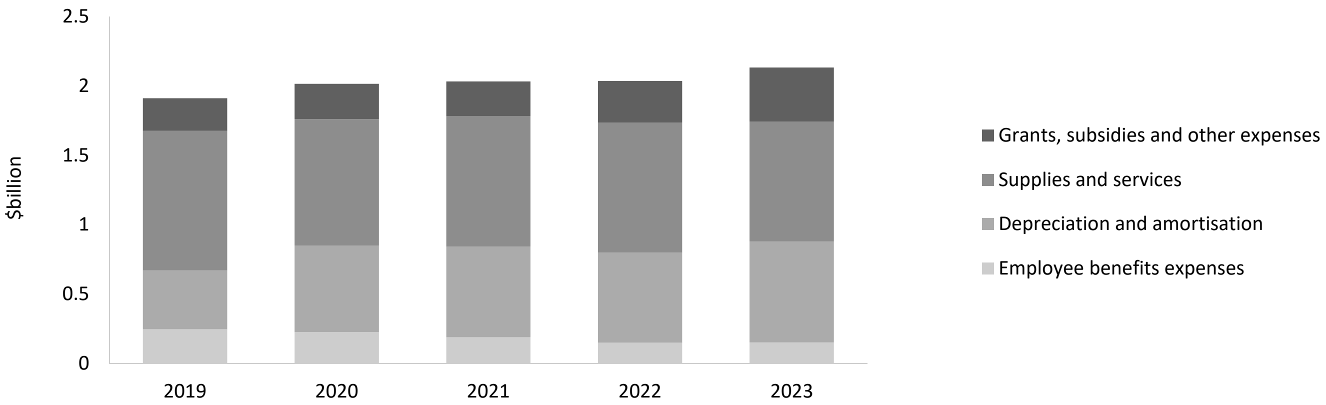


Patronage declined sharply in March and April 2020 (down about 77% in April), and while it has increased since then, 2022-23 patronage levels remain about 21% below 2018-19 levels.

The number of public transport initial boardings in 2018-19 was 62.2 million compared to 49.6 million in 2022-23.

Expenses

DIT's major expense items for the five years to 2022-23 are shown in the following chart.



Expenses for the year totalled $2.1 billion ($2 billion) and are mainly attributable to:

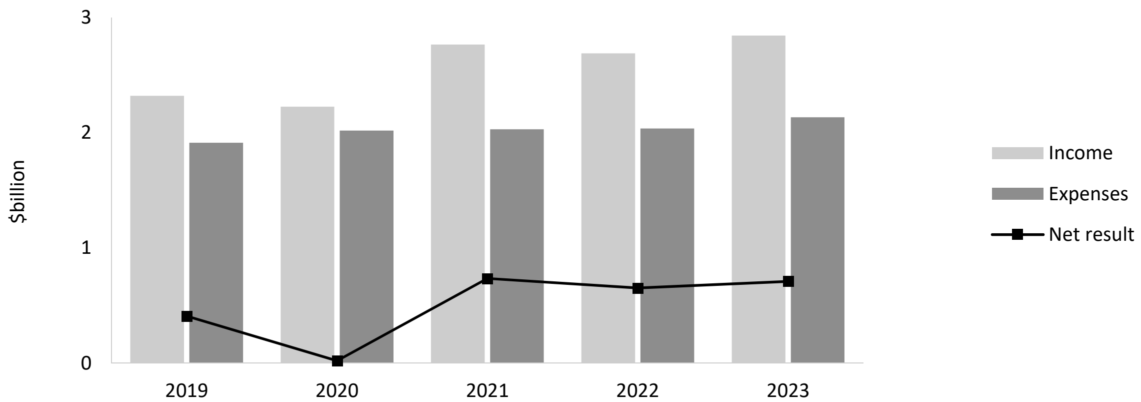
- supplies and services expenses of $862 million (40%), of which $441 million was for public transport service contract payments, $232 million was for operating costs of major infrastructure maintenance and other service contracts and $63 million was for property expenses
- depreciation and amortisation expense of $728 million (34%), of which $497 million was for network assets, $101 million was for right-of-use assets, $64 million was for buildings and facilities and $62 million was for plant and equipment
- cash alignment payments to DTF of $231 million (11%)
- employee benefits expenses of $151 million (7%)
- other expenses of $57 million (3%), of which $26 million relates to borrowing costs
- grants and subsidies of $103 million (5%).

Total expenses increased by $98 million (5%). The more notable movements in expenditure were as follows:

- Cash alignment payments to DTF of $231 million were made in 2022-23 whereas there were no payments in 2021-22.
- Depreciation and amortisation expenses increased by $79 million (12%) to $728 million. This is mainly due to an increase in the depreciation expense for network assets of $68 million due to the revaluation of road network, rail and bus tracks from 1 July 2022.
- Other expenses decreased by $136 million, due mainly to:
  - Adelaide Festival Plaza public realm costs of $97 million and car park-related costs of $30 million being recognised as complete in 2021-22 and expensed. The majority, $121 million, was transferred to the Department of the Premier and Cabinet at 30 June 2022. Another $6 million, mainly associated with works on Adelaide City Council land, was written off. These costs were initially recorded in DIT's accounts because DIT was provided with the appropriation funding to construct these assets, in line with the arrangements for the Adelaide Festival Plaza precinct. For most building projects, the responsible or controlling agency is provided the funds for construction
  - an increase to the site remediation provision of $13 million in 2021-22 due primarily to including increased costs for waste management requirements.
- Supplies and services expenses decreased by $76 million (8%) to $862 million due mainly to:
  - a decrease in property expenses of $79 million as the facilities management services that DIT provided, and recorded, to other government agencies were delivered by a new provider from December 2021, with agencies being billed directly
  - offset by an overall increase in service and maintenance contracts of $7 million. This included increases in public transport service contract expenses of $15 million, including increases due to indexation and rising diesel fuel and electricity costs. Major infrastructure maintenance contract expenses also increased by $10 million, partly as a result of $11.4 million for flood repair expenses. This was offset by a decrease in other services contracts of $17 million.

Net result

The following chart shows DIT's income, expenses and net result for the five years to 2023.



In 2022-23 DIT recorded a net result of $709 million ($652 million). Significant factors in the movement of the net result over the past five years have been:

- the value of Commonwealth and SA Government funding for major infrastructure projects being recognised as income, which varies each year depending on the size, nature and timing of approved major capital works
- DIT receiving $143 million in 2019 following the wind-up of the Motor Accident Commission. No money has been received since 2019
- cash alignment payments to DTF varying from year to year, with $231 million paid in 2022-23, no payment in 2021-22 and varied amounts in other years.

Statement of Financial Position

DIT's total assets as at 30 June 2023 were $44.8 billion ($41.3 billion) and are discussed below.

DIT's liabilities totalled $1.5 billion ($1.4 billion) and mainly comprised lease liabilities of $1.1 billion ($1 billion), payables of $325 million ($311 million) and employee benefits of $72 million ($73 million). The movement in liabilities largely reflects the increase in lease liabilities of $87 million, due mainly to a combination of:

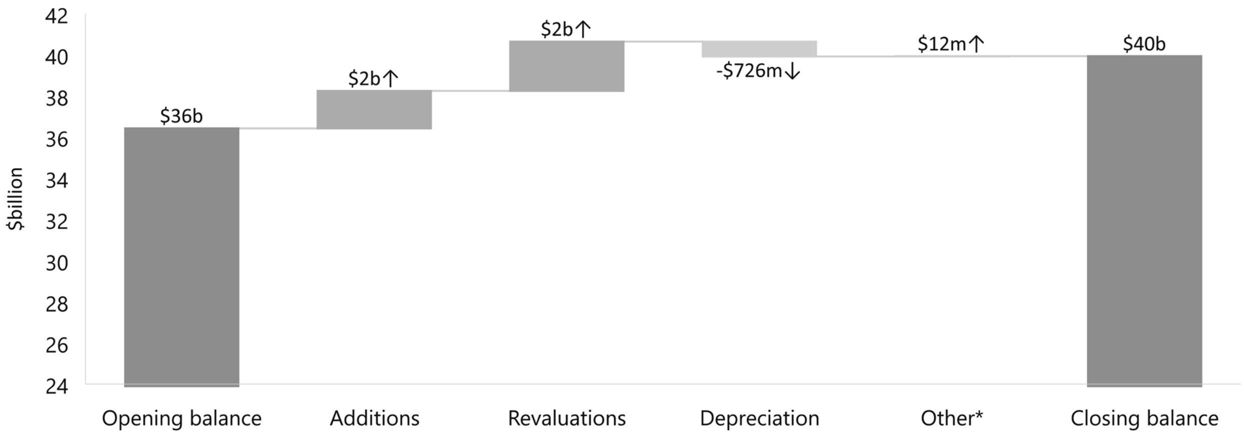
- additions of $160 million from entering into new office accommodation leases. A major new lease was entered into for $144 million for DIT's relocation to Pirie Street
- lease repayments of $116 million
- lease re-measurements of $44 million from changes in lease terms and other modifications.

Cash

DIT's cash amounted to $4.3 billion ($4.4 billion) and includes $3.8 billion ($3.8 billion) held in the Highways Fund established under the *Highways Act 1926*.

Fixed assets

DIT's fixed assets totalled $40 billion ($36 billion) and include network assets of $33.4 billion ($30.3 billion), land, buildings and facilities of $4 billion ($3.5 billion), capital works in progress of $1.7 billion ($1.9 billion) and plant and equipment of $741 million ($693 million). The following chart shows the movement in fixed assets during the year.



* Includes disposals, donated assets, right-of-use asset re-measurements and assets transferred to held for sale.

Network assets

Network assets amounted to $33.4 billion ($30.3 billion) and represent 83% of total non-current assets. They comprise roads with a written down value of $26.3 billion (79%), structures with a written down value of $3.7 billion (11%) and rail and bus track assets with a written down value of $3.4 billion (10%).

The written down value of network assets increased by $3 billion to $33.4 billion. The main movements were:

- a revaluation increment of $2.3 billion. The increment arose mainly due to an increase in the costs of factors used as inputs to the revaluation methodology such as labour, plant, material and subcontractor costs
- the capitalisation of network projects totalling $1.3 billion, comprising $970 million for roads, $225 million for structures and $76 million for rail and bus track assets
- depreciation expense of $497 million, comprising $335 million for roads, $70 million for structures and $92 million for rail and bus track assets.

For many years DIT has had the Treasurer's approval to value its roads and structure assets using an internally developed revaluation methodology. The revaluation methodology and rates were last updated in 2019-20 and this was discussed in my annual report for that year. DIT's accounting policy is to review the revaluation methodology every five years, with intervening annual revaluations based on road component and structures unit rates provided by an independent external estimator each year.

Capital works in progress

The value of capital works in progress decreased by $138 million to $1.7 billion. The major movements in capital works are shown in the following table.

Projects	Carrying amount 01.07.22 $million	Additions $million	Transfer to assets $million	Closing balance 30.06.23 $million
Gawler Line Electrification and Modernisation*	76	72	119	29
Road maintenance stimulus packages	343	59	212	190
North-South Corridor Torrens to Darlington	188	454	368	274
Metropolitan intersection upgrade program**	224	91	281	34
Augusta highway duplication	45	128	-	173
Roads of strategic importance initiative***	185	129	187	127
Joy Baluch AM Bridge	121	26	146	1
Port Wakefield Road overpass	115	3	116	2
Resealing and rehabilitation program	74	46	76	44
Rural roads package	52	35	57	30
Main South Road duplication	49	151	1	199

* Includes rail cars.

** Includes seven intersection upgrades: Cross and Fullarton Roads; Glen Osmond and Fullarton Roads, Goodwood, Springbank and Daws Roads; Grand Junction and Hampstead Roads; Main North, McIntyre and Kings Roads; Main North Road and Nottage Terrace; Portrush and Magill Roads; and Torrens Road Ovingham level crossing.

*** Includes work for the Eyre Highway, Barrier Highway and Sturt Highway.

Land, buildings and facilities

Land, buildings and facilities increased by $500 million to $4 billion, with the main movements due to:

- additions and transfers from capital works of $576 million, which include:
  - land purchased for construction projects of $378 million, including $368 million for the North-South Corridor Torrens to Darlington project
  - buildings and facilities of $79 million, which includes $32 million for DIT fitouts in new accommodation in Pirie Street and $23 million for improvements to marine facilities
  - $119 million for right-of-use assets associated with new office accommodation lease agreements, which included $107 million for DIT's accommodation in Pirie Street
- depreciation expense of $165 million, of which $101 million was for right-of-use assets and $64 million for buildings.

Plant and equipment

Plant and equipment totalled $741 million, an increase of $48 million from last year. The main movements for the year were:

- asset additions and transfers from capital works in progress of $113 million, which included $69 million for trains purchased as a part of the Gawler line electrification, $16 million for new buses and $13 million for a new Metrocard payment system
- depreciation expense of $63 million.

Statement of Cash Flows

Cash decreased by $86 million to $4.3 billion.

Cash flows provided by operating activities increased by $192 million to $1.7 billion, due mainly to changes in the level of funding received from the Commonwealth and SA Governments and increased fees and charges, offset by a cash alignment payment to DTF in 2022-23 of $231 million ($0). The level of government funding is impacted by the timing and scope of capital projects.

The net cash used in investing activities increased by $174 million to $1.9 billion, reflecting capital projects approved by government.

The net cash flows provided by financing activities remained consistent with 2021-22 at $178 million. This included an equity contribution from the SA Government under the *Appropriation Act 2022* of $277 million ($277 million). These contributions are recognised in the Statement of Changes in Equity rather than in income. In addition, DIT received $17 million from the repayment of finance lease receivables. This was offset by the repayment of lease liabilities of $116 million, primarily for office accommodation leases.

Administered items

DIT is responsible for managing a range of activities on behalf of the SA Government. These activities are identified as administered items and reported separately where, for example, DIT does not control them but is responsible for transferring amounts to other eligible beneficiaries. In 2022-23 DIT was responsible for administering the following activities.

Administered items 2022-23

$190 million

Lifetime Support Scheme levy collected with motor vehicle registrations and paid to Lifetime Support Authority

Compulsory third party insurance and related amounts collected with motor vehicle registrations paid to

$112 million
CTP Regulator

$338 million
Private insurers

Main administered items are collections associated with:

Motor vehicle transactions $1.1 billion

- Motor vehicle registrations
- Stamp duties
- Lifetime Support Scheme levy
- Emergency services levy

$80 million

Collected with motor vehicle registrations and paid to DTF for the Hospital Fund

$49 million

Emergency services levy collected with motor vehicle registrations and paid to South Australian Fire and Emergency Services Commission

$248 million

Stamp duties on motor vehicle purchases paid to DTF

Administered income increased by $63 million to $1.1 billion. There was an increase in charges collected associated with vehicle registrations of $60 million, mainly for compulsory third party insurance of $21 million, stamp duties on vehicle purchases of $24 million and Lifetime Support Scheme levies of $10 million.

Further commentary on operations

Road maintenance backlog

DIT's strategic asset management plan for road and marine assets identifies its responsibilities for planning, building, maintaining and operating roads safely and efficiently, and meeting the needs of stakeholders, customers and users in an affordable manner. To help achieve these responsibilities, DIT aims to align its asset management practices with the international standard on asset management.

Our controls audits over the last five years have included high-level reviews of various aspects of DIT's road asset management practices. Our observations are included above and in previous reports. As part of DIT's asset management processes it periodically obtains, collates and estimates the extent of the road network assets that are overdue for maintenance and rehabilitation work – its maintenance backlog. Estimation is based on available asset information and condition data relative to the expected level of service from the assets.

South Australia's road network includes approximately:

- 13,500 km of sealed roads

- 9,400 km of unsealed roads
- 742 bridges
- 844 major culverts
- 36,000 road lights
- 898 traffic signals
- 99,000 electrical assets
- 12 River Murray ferries.

The 2022-23 total road maintenance budget, including routine maintenance and road renewals, was approximately $160 million. In contrast, the replacement value of DIT's road assets as at 30 June 2023 was $42 billion, with a written down value of $30 billion and annual depreciation of $405 million.

Ideally, asset renewal depreciation is matched yearly with maintenance expenditure (an asset sustainability ratio of 1) to ensure that optimal asset life and service levels are achieved.

As part of our asset management review of road network assets, DIT provided us with unaudited information summarising the estimated backlog of work required. That information estimated that:

- the average asset sustainability ratio over the last five years was 0.15
- maintenance defects totalling an estimated $440 million were open at the end of February 2023, an increase of $267 million compared to November 2021. These defects include surface defects, edge break and shoulder repairs, overhanging vegetation, blocked drains and damaged infrastructure
- the current rate of deterioration of the sealed road network is outpacing the rate of renewal.

  The road renewal backlog, calculated as the value of pavement renewal works on the sealed road network that are required to address road sections with a condition rating of very poor, was estimated to be 2,090 km as at December 2022. The rough order of magnitude (ROM) cost estimated for this backlog was $1.9 billion.

  Last year, DIT advised us that there were 1,520 km in backlog in 2020, with the amount forecast to increase to 2,700 km if only minimum safety work was performed. In 2020, the ROM cost of eliminating the backlog was estimated by DIT as $1.5 billion
- for unsealed roads approximately 1,230 km of 9,400 km of roads was in backlog, This backlog is increasing faster than sealed roads due to increased use, wet weather and minor flood events. The ROM cost in 2023 was estimated by DIT as $190 million. In comparison, last year DIT advised us that the unsealed road backlog was estimated at 500 km with an estimated ROM cost of $50 million.

In addition, DIT identified the following road network assets with a backlog:

- electrical assets such as lights, light poles and traffic signals, with a ROM cost of $150 million
- bridges and structures such as culverts, with a ROM cost estimated at $220 million as at February 2023.

DIT advised us that the Australian Road Research Board had performed an independent review of the methodology DIT used to determine the pavement backlog forecast, which included aligning levels of service between technical and community requirements.

It will be important for DIT to continue to refine and understand its asset condition and management data in line with recommendations from the Australian Road Research Board to properly inform its future asset management planning.

Insourcing of rail

The SA Government has signed an agreement with the train operator, KDA, and tram operator, Torrens Connect, to transition the State’s trains and trams back to State ownership by 31 January 2025 and July 2025, respectively.

Under the agreement, KDA will continue to handle customer service and security management until June 2027. KDA will also manage the maintenance of the trains and infrastructure until 2035.

Regional bus contracts

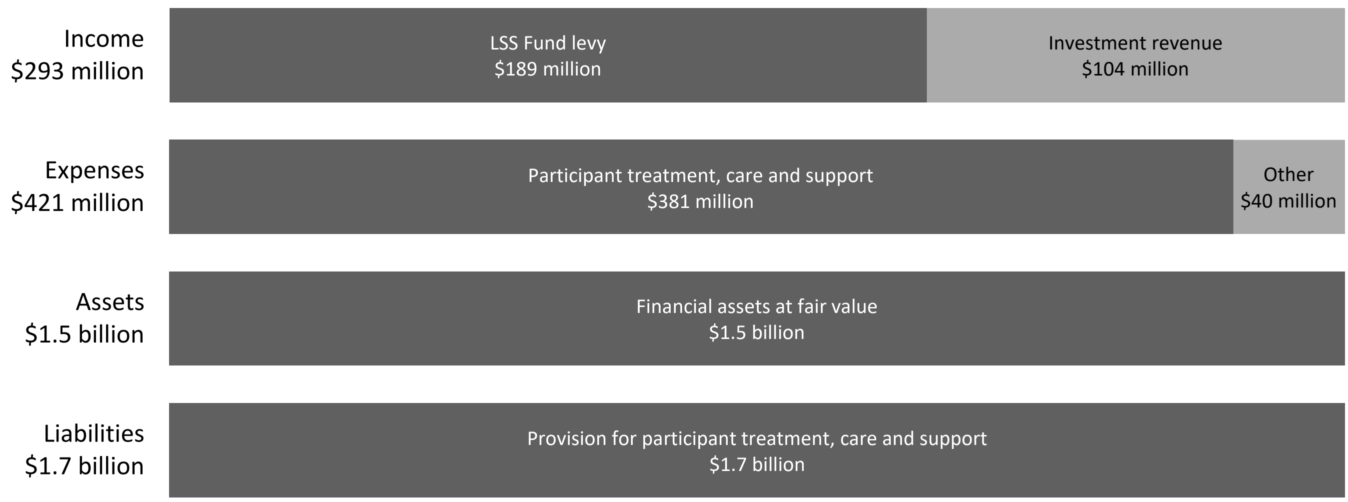
DIT administers service contracts with regional-based operators to provide public transport services in and around regional centres and connect regional communities with Adelaide. These services are operated under service contracts held with the Minister for Infrastructure and Transport.

On 6 July 2023, the Minister approved new contracts for regional bus services for a term of eight years with two extension options of two years each, commencing on 1 October 2023.

The procurement process will be subject to audit by the Auditor-General under the *Passenger Transport Act 1994*.

Lifetime Support Authority of South Australia (LSA)

Financial statistics



100	346	87.4%
FTEs	Participants as at 30 June	Funding ratio

Significant events and transactions

- The provision for the future cost of caring for current participants increased by $340.8 million to $1.69 billion.
- The fair value of investments increased by $210.1 million to $1.5 billion.
- At 30 June 2023 the Lifetime Support Scheme was partly unfunded, with net liabilities of $214.2 million. It has a funding ratio of 87.4%, exceeding its minimum target of 75%.
- Fund assets adequacy was estimated at 66%, which is below LSA's historically targeted 75%.
- The total number of participants increased from 300 to 346.
- The Treasurer determined a slightly lower fund contribution of $206.4 million for 2023-24 than LSA's recommended $208.3 million.

Financial report opinion

Unmodified

An emphasis of matter was included in the financial report opinion relating to significant inherent uncertainty surrounding the estimate of the provision for participant treatment, care and support, because of the long-term nature of the provision and limited participant experience to date.

Audit findings

No significant findings.

Functional responsibility

The LSA is established under the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013* (the LSS Act).

The LSA administers the Lifetime Support Scheme (LSS or the Scheme) and the LSS Fund established by the LSS Act to support people who suffer very serious injuries in motor vehicle accidents in South Australia, regardless of fault. A person can be accepted as an interim or lifetime Scheme participant depending on their eligibility under the LSS rules.

Lifetime Support Scheme Fund

Levies on motor vehicle registrations to pay for the Scheme expenses are collected by the Registrar of Motor Vehicles and paid into the LSS Fund. The LSA invests the levies with the Superannuation Funds Management Corporation of South Australia (Funds SA) until the funds are needed to pay for participant treatment, care and support and other costs of operating the Scheme.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- expenditure related to participant treatment, care and support
- the provision for treatment, care and support
- investment revenue
- payroll and other administrative expenses
- financial assets
- general ledger.

We considered internal audit activities in planning and conducting the audit.

Controls opinion

We reviewed controls over bank accounts and the provision for participant treatment, care and support as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report issued for the LSA's 2022-23 financial report, which is unmodified but notes a significant inherent uncertainty relating to the provision for participant treatment, care and support.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Lifetime Support Authority of South Australia as at 30 June 2023, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the Public Finance and Audit Act 1987 *and Australian Accounting Standards.*

Emphasis of matter

Without qualification to the opinion expressed above, attention is drawn to note 7.3 of the financial report. There is a significant uncertainty surrounding the estimate of the provision for participant treatment, care and support because of the long-term nature of the provision and limited participant experience to date.

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive. There were no significant findings.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Income		
LSS Fund levy	189	180
Investment revenue	104	-
Total income	293	180
Expenses		
Participant treatment, care and support expenses	381	188
Duty on LSS Fund levy	19	18
Investment losses	-	18
Other	21	20
Total expenses	421	243
Net result from operating activities	(128)	(64)
Total comprehensive result	(128)	(64)
Net cash provided by (used in) operating activities	111	111
Net cash provided by (used in) investing activities	(109)	(111)
Assets		
Current assets	6	5
Non-current assets	1,486	1,271
Total assets	1,492	1,276

	2023 $million	2022 $million
Liabilities		
Current liabilities	68	53
Non-current liabilities	1,638	1,309
Total liabilities	1,706	1,362
Total equity	(214)	(86)

* Table may not add due to rounding.

Statement of Comprehensive Income

Net result

The LSA made a loss of $128.5 million ($63.7 million loss), largely reflecting:

- revenues from the LSS Fund levy of $188.7 million
- an investment profit of $104.1 million
- expenses for participant treatment, care and support of $381.3 million
- duty on the LSS Fund levy of $18.7 million payable to RevenueSA.

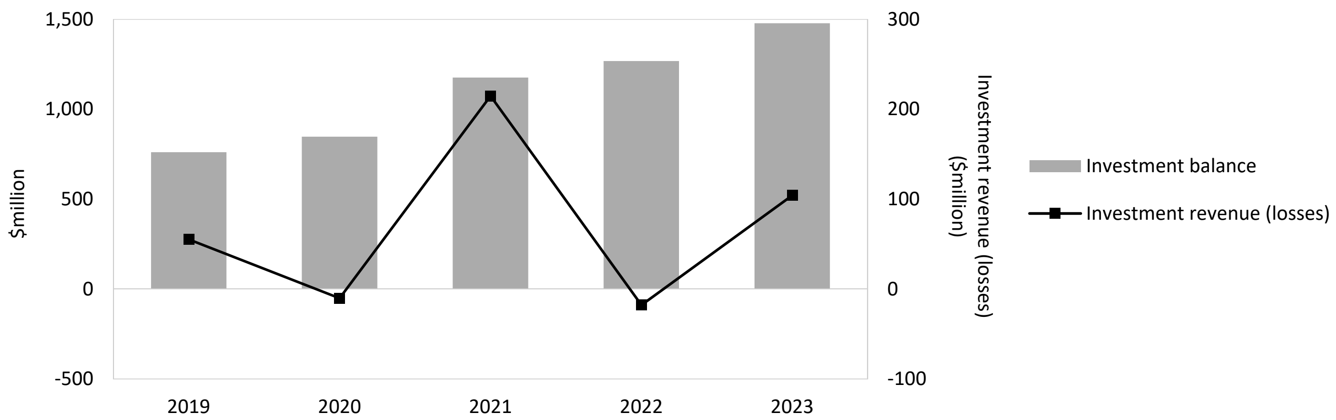
The LSA's net result depends significantly on the interdependence between the LSS Fund levy set before the start of the year and the movement in the provision for the cost of participant treatment, care and support determined at the end of the year. For more information see 'Liabilities' and 'Required fund contribution' below.

Income

The LSA's income of $293 million ($179.8 million) mainly comprised:

- the LSS Fund levy on South Australian motor vehicle registrations of $188.7 million ($179.7 million) – no GST is payable on the levy
- investment revenue of $104.1 million ($17.7 million loss) – this reflected strong investment returns for both domestic and international equity markets.

The following chart shows the LSA's revenues and losses from investments and investment balance over the five years to 2023. It highlights the significant growth (94%) in the investment balance and the volatility in investment returns over the period.

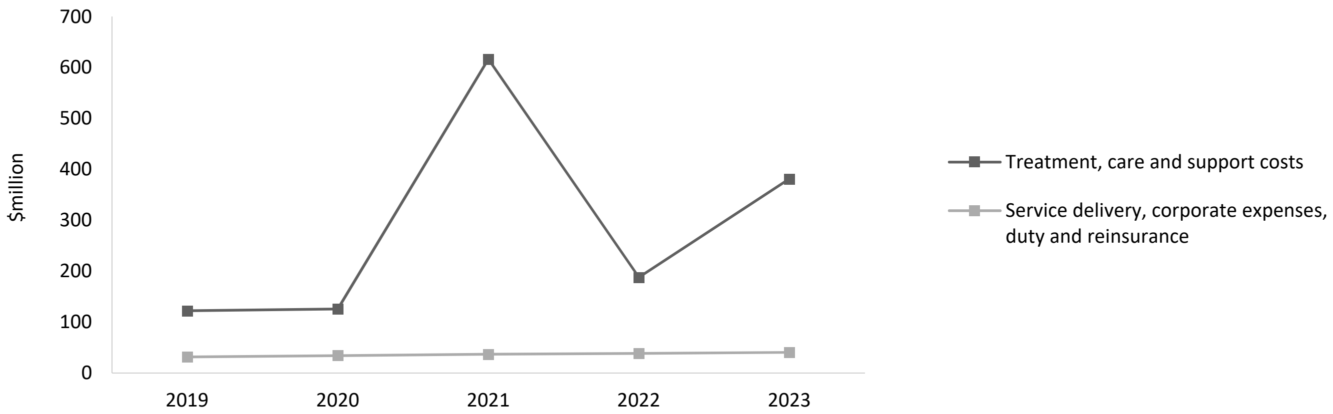


Expenses

The LSA's expenses of $421.5 million ($243.5 million) comprised:

- $381.3 million ($187.7 million) for participant treatment, care and support expenses, of which $340.8 million was the increase in the estimate of future expenses for participants injured in motor vehicle accidents up to 30 June 2023 (see 'Provision for participant treatment, care and support' below)
- $18.7 million ($17.8 million) paid to the SA Government for the 11% duty on the LSS Fund levy payable under the *Stamp Duties Act 1923*
- $18.5 million ($17.3 million) for general operating expenses, including $11.9 million ($11.8 million) for employee benefits, $3.6 million ($3.5 million) for service delivery and corporate expenses and $1.8 million ($876,000) for research, education and programs
- $3 million ($3 million) for premiums paid to reinsurers who provide cover for significantly larger than expected liabilities for estimated future participant care costs.

The following chart shows the costs of participant treatment, care and support and the operational expenses that the LSA incurs in the ongoing administration of the Scheme. Note that participant treatment, care and support expenses include the expense recognised each year for the movement in the provision. The significant increase in costs for 2021 was driven by the $590.8 million increase in the provision for that year, resulting from the move to risk-free discount rates (see 'Provision for participant treatment, care and support' below).



Statement of Financial Position

The LSA's financial position depends significantly on the value of its investments and the provision for participant treatment, care and support. In 2023 total liabilities of $1.7 billion exceeded the LSA's total assets of $1.49 billion, a net deficiency of $214 million.

Investments

At 30 June 2023 the LSA had $1.5 billion invested with Funds SA in line with the LSS Fund investment strategy approved by the LSA Board.

The LSA must maintain investments to fund its present and likely liabilities for participant treatment, care and support. Its investment strategy takes into account its current risk appetite and the need to match investment returns to the long-term nature and timing of payments associated with the needs of Scheme participants.

The LSA's investments with Funds SA earned a nominal return of 7.9% in 2022-23 compared to its average 10-year rolling target of 6.25%. Investment returns reflect financial markets conditions. In 2022-23 investment returns were mixed across financial markets, with strong returns in equity markets over the year. The following table shows the return from investments over the last five years.

	2019	2020	2021	2022	2023
Target investment return	6.25%	6.25%	6.25%	6.25%	6.25%
Actual investment return	8.2%	-1.0%	23.7%	-1.2%	7.9%
Average investment return*	7.6%	6.1%	8.5%	7.2%	7.3%

* Since inception.

Liabilities

The LSA's liabilities of $1.7 billion consist mainly of the provision for participant treatment, care and support.

Provision for participant treatment, care and support

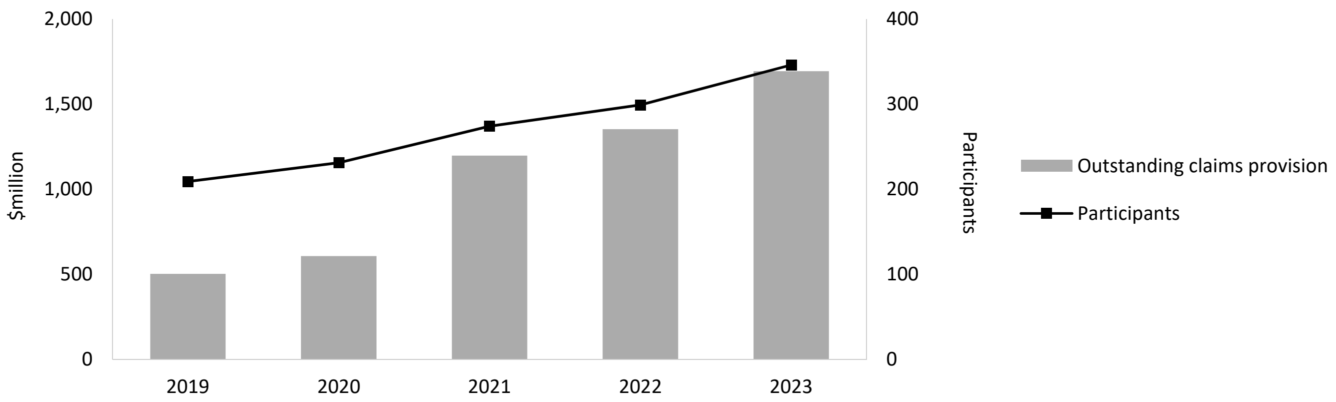
The LSA appointed an independent actuary to estimate the liabilities of the Scheme, measured as the present value of the expected future payments for claims incurred up to 30 June 2023, including claims incurred but not yet reported. The LSA Board approved the valuation prepared by the actuary after also considering the report from a peer review actuary.

The provision was estimated to be $1.7 billion at 30 June 2023, an increase of $340.8 million. The main reasons for the increase are:

- an additional year of participants entering the Scheme, which increased the provision by $220.6 million
- movements in actuarial assumptions, including higher average hourly rates for attendant care and increases in carer wages, which increased the provision by $132.4 million
- the impact of Scheme experience, which increased the provision by $56.2 million
- changes in economic assumptions, notably the risk-free discount rate and inflation expectations, which decreased the provision by $54.9 million.

Note 7.3 of the LSA's financial report provides further details about the provision, including the key economic assumptions used when estimating it.

The significant increase in the provision in 2021 reflects the LSA's adoption of risk-free discount rates. This decision aligned the LSA's valuation basis to other lifetime care schemes, such as the NSW Lifetime Care and Support Scheme and Queensland's National Injury Insurance Scheme, which have all now moved to risk-free discount rates. It also prepares the LSA for the change to AASB 17 *Insurance Contracts* in July 2026, which mandates the use of risk-free discount rates. The chart below shows the increasing value of the provision and the consistent growth in the total number of participants over the last five years.



Significant inherent uncertainty in the provision

The LSA's actuary report refers to the considerable uncertainty in future claim costs, particularly for long-term claims and the provision of attendant care benefits.

The main areas of uncertainty identified in the current estimate were:

- the adequacy of benchmark packages for defining the lifetime care and support needs of participants
- future inflation levels for the provision of services, especially increases in attendant care hourly rates
- future levels of returns on Commonwealth bonds, which inform the discount rates applied
- future reports and acceptances of participants
- the future severity of traumatic brain injury participants
- future life expectancy and changes to the types of support required leading up to end of life.

The LSA's actuary report identified the following material financial risks to the Scheme:

- Attendant care cost pressures – maximum rates offered by the National Disability Insurance Scheme (NDIS) are currently higher than those gazetted by the LSA. If the LSA is forced to match NDIS rates, it will result in an increase in the provision. There is also significant upwards pressure on carer wages.
- Supported accommodation – participants moving into supported accommodation generally results in much higher costs. If there is a shift towards more participants moving into supported accommodation, it will result in an increase in the provision.
- Inherent uncertainty of long-term estimates – seriously injured participants may require care for several decades or longer. The estimates for this will be uncertain and subject to change in line with emerging experience.
- Economic conditions – while the Scheme can operate through periods of temporary volatility, there is no guarantee that investments will deliver the anticipated long-term returns, or that those returns will keep pace with claims inflation.
- Number of participants – any erosion of the eligibility criteria, including that arising from disputes, may put financial pressure on the Scheme.

In estimating the liability at 30 June 2023 the actuary noted that, even with nine years of history, the very long-term nature of providing care and support for those seriously injured in motor vehicle accidents means there remains material uncertainty in the provision estimate.

The sensitivity analysis in note 7.3 of the LSA's financial report illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of many millions of dollars. For example, an increase in attendant care rates to match the NDIS can increase the provision by $86.7 million and a 1% decrease in the discount rate can increase the provision by $375.1 million.

Note 7.3 of the LSA's financial report also indicates the time frame over which it must manage claims. The uninflated, undiscounted weighted mean term is 21.6 years.

Independent reviewing actuary

The LSA had the actuarial estimate reviewed by an independent reviewing actuary, who noted that nothing had come to their attention that would lead them to believe that the valuation of outstanding claims liability is unreasonable.

Having an independent reviewing actuary is prudent given the long-term purpose of the Scheme and the critical role actuarial expertise has in setting the levy annually and estimating the outcome at the end of each year.

The Scheme is not an insurance scheme

The LSA determined the provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and not AASB 1023 *General Insurance Contracts*. The latter is more prescriptive in the permitted choice of the discount rate (rate of investment return) to be adopted in deriving the present value of liabilities. The LSA is using a discount rate consistent with AASB 1023. The discount rate used in 2023 was 4.42% compared to 3.92% in 2022.

AASB 17 Insurance Contracts

The AASB has released AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector*. This standard amends AASB 17 *Insurance Contracts* to include modifications that apply to public sector entities. It is expected that the modifications will capture schemes like the LSS and they will need to comply with AASB 17 from 1 July 2026. The LSA has estimated that adopting AASB 17 could increase the provision for participant treatment, care and support as at 30 June 2023 by up to $346 million. Note 9.3 of the LSA's financial report provides further information.

Fund assets adequacy

As at 30 June 2023 the fund assets adequacy for the LSS was estimated at 66% (77%). This is the probability that the Scheme will be able to meet its future payment obligations in a run-off situation, assuming a long-term investment return of 6.25%. The LSA Board has historically targeted Scheme assets to be in excess of Scheme liabilities by a margin that results in fund assets adequacy of at least 75%.

Current liabilities

At 30 June 2023 current liabilities exceeded current assets by $61.9 million. Most of the balance of current liabilities is the $58.5 million provision for participant treatment, care and support. The LSA can access funds from its Funds SA investments if required.

Required fund contribution – LSS levy

The LSA must determine, before the beginning of each financial year, an amount it considers is required to be contributed to the LSS Fund to meet expenses for the period. This amount is to:

- fund the present and likely future liabilities for participants who enter the Scheme in the period
- meet payments from the LSS Fund that exceed previously provided amounts estimated
- pay stamp duties
- provide for other matters in connection with any LSA liability under the LSS Act, including paying for any past liability that would otherwise be unfunded.

That determination is made in line with a report from an independent actuary engaged by the LSA. The LSA must report its determination to the Minister before the beginning of each financial year.

The Minister must, after receiving the report, taking into account such matters as the Minister thinks fit (including matters not covered by the report) and consulting the Treasurer, determine an amount to be paid to the LSA for contribution to the LSS Fund for the relevant period (the required fund contribution).

If the Minister makes a determination that is inconsistent with the LSA's determination, the LSA must report that in its annual report.

Setting levies at an appropriate level is critical to the LSS. If break-even levies are charged each year, and if all underlying assumptions used to set the levy eventuate, the LSS will always be fully funded. If the levy is set too low each year, liabilities will exceed assets, causing the LSS to be underfunded.

Annual contribution and levy

The estimated levy of $208.3 million including duty was required to cover the costs of operating the Scheme in 2023-24 and the probable liability increase at 30 June 2024. The estimated 2023-24 levy was based on an actuarial estimate as at 31 December 2022.

The table below sets out the required fund contribution and levy for the past two years and for next year.

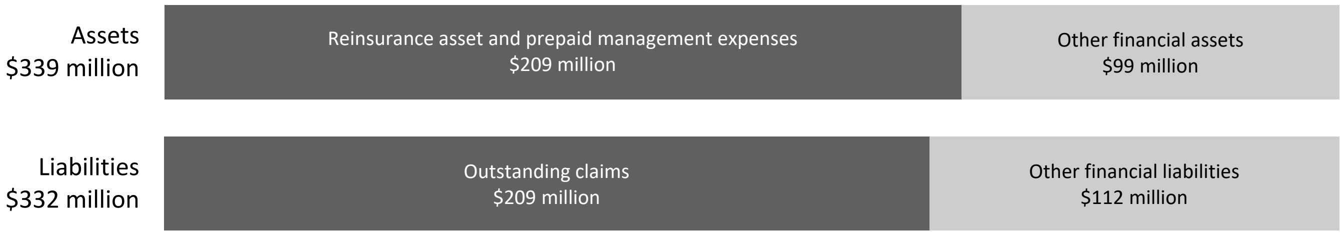
	2022	2023	2024
Required fund contribution:			
LSA recommended ($million)	174.9	188.8	208.3
Minister approved	Yes	184.1	206.4
Average levy ($)	113.32	116.51	127.72
Average increase per vehicle over previous year ($)	4.82	3.19	11.21

As the table highlights for both the 2022-23 and 2023-24 financial years, the Treasurer determined an amount to be paid to the LSA that was different to the amount that the LSA recommended. As required by the LSS Act, the LSA must report this in its annual report.

The actuary's estimates used to set the levy are, as with the estimated provision, sensitive to the number of LSS participants and the severity of their injuries. Small changes in these numbers can impact the estimate significantly.

Motor Accident Commission (MAC)

Financial statistics (Consolidated)



MAC Fund assets were above the targeted solvency level by $7.56 million (102.3% of the targeted level)

Significant events and transactions	— 2022-23 saw an $84 million decrease in the outstanding claims liability, mainly reflecting claim payments and that no new policies have been issued since 1 July 2016. — In 2022-23 the Road Safety Fund was closed and the fund balance of $1.5 million transferred to the Department for Infrastructure and Transport (DIT) to put towards its road safety programs.
Financial report opinion	**Unmodified**
Audit findings	No audit findings.

Functional responsibility

MAC is established under the *Motor Accident Commission Act 1992* (MAC Act).

MAC's main function is to manage the run-off of claims against compulsory third party (CTP) insurance policies issued to motor vehicle users in South Australia before 1 July 2016.

MAC's administration is performed by the South Australian Government Financing Authority (SAFA).

Reinsurance of MAC's remaining outstanding claims liability

In December 2018 MAC entered into a reinsurance arrangement with NICO, a subsidiary of Berkshire Hathaway. Under the contract, NICO assumed responsibility for the settlement and management of MAC's remaining outstanding claims liability at 1 January 2019, which had a value of $756 million.

MAC agreed to pay NICO $718 million through a combination of an initial payment and subsequent arrangements for assuming this responsibility.

The only remaining amount to be paid to NICO under the reinsurance arrangement is a $113 million payment due in January 2024. This comprises $100 million retained by the State for five years to support local fund managers and $13 million in related interest that will be due to NICO.

This reinsurance arrangement reduces the State's risk as the cost of settling claims now lies with NICO. The arrangement is designed to provide certainty to the State, subject only to satisfactory contract performance by NICO. If claims settle for more than the amount estimated at 1 January 2019, the additional cost will be borne by NICO. In the same way, should NICO be able to settle claims more favourably than expected in the January 2019 valuation, it will benefit from the reduced cost.

As the contract with NICO is a reinsurance arrangement, meaning that claims are still in MAC's name, the outstanding claims will remain on MAC's statement of financial position until they are extinguished, with an offsetting reinsurance receivable. Therefore MAC will need to maintain oversight of the outstanding claims liability to ensure claims are being managed and settled appropriately by NICO.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- investment assets
- outstanding claims liability
- reinsurance asset.

Controls opinion

We reviewed controls over the following areas as part of our overall controls opinion, which is discussed in Part B of this report:

- management of MAC's deposit account with the Treasurer
- management of the NICO reinsurance contract.

Audit findings

Communicating our audit findings

We did not identify any matters in our audit that required communication to MAC.

Interpretation and analysis of the financial report

Highlights of MAC's consolidated financial report*

	2023 $million	2022 $million
Net investment returns and fees	7	7
Road safety expenses	(1)	-
Net result before market value movements	5	6

	2023 $million	2022 $million
Investment market value movements	-	(7)
Total comprehensive result	5	-
Assets		
Current assets	180	205
Non-current assets	160	214
Total assets	339	419
Liabilities		
Current liabilities	165	84
Non-current liabilities	167	333
Total liabilities	332	416
Equity	8	3

* Table may not add due to rounding.

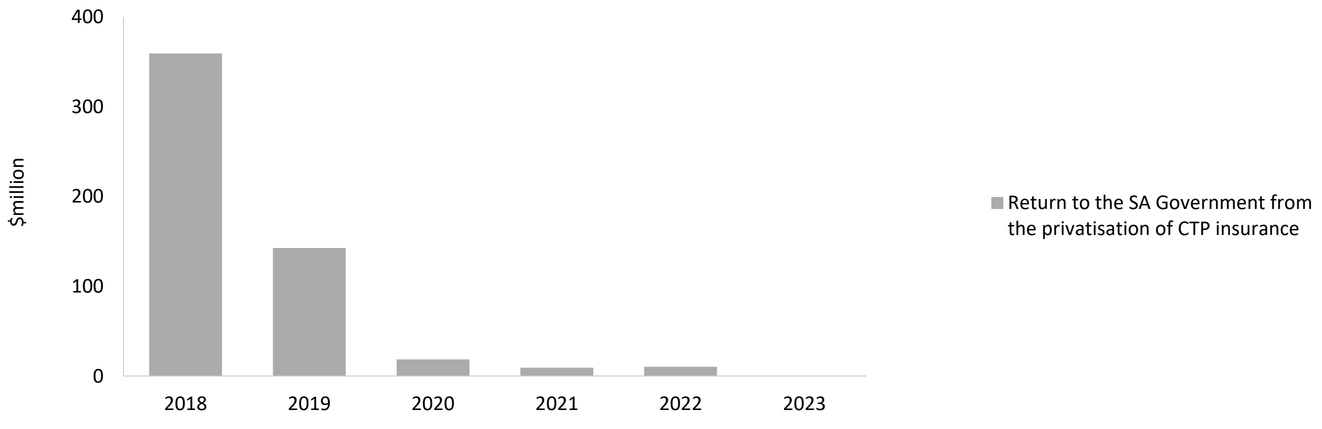
Return of capital

The MAC Act provides that the Treasurer can direct MAC to make payments out of the surplus net assets of the MAC Fund. After ceasing to be the sole CTP insurance provider for South Australia, MAC returned surplus amounts to the SA Government each year until 2023. Payments were initially made to the Highways Fund, administered by DIT, but since 2019-20 they have been made to the Consolidated Account.

MAC made no payment in 2022-23 from the MAC Fund to the Consolidated Account, after paying $10.3 million in June 2022. Prior year payments were made out of net assets in excess of the level required for sufficient solvency of the MAC Fund at the time of approval, and approved in line with the MAC Act.

As payments since 2019-20 were made from MAC's surplus net assets, they were treated as a return of capital in the financial report and recorded as a reduction in MAC's assets and total equity. As such, these payments are not reflected in MAC's total comprehensive results since 2019-20.

The following chart shows that a total of $540 million has been returned to the SA Government by MAC in the last six years, on top of amounts returned in previous years. The reinsurance arrangement with NICO discussed above means that no more significant returns are expected.

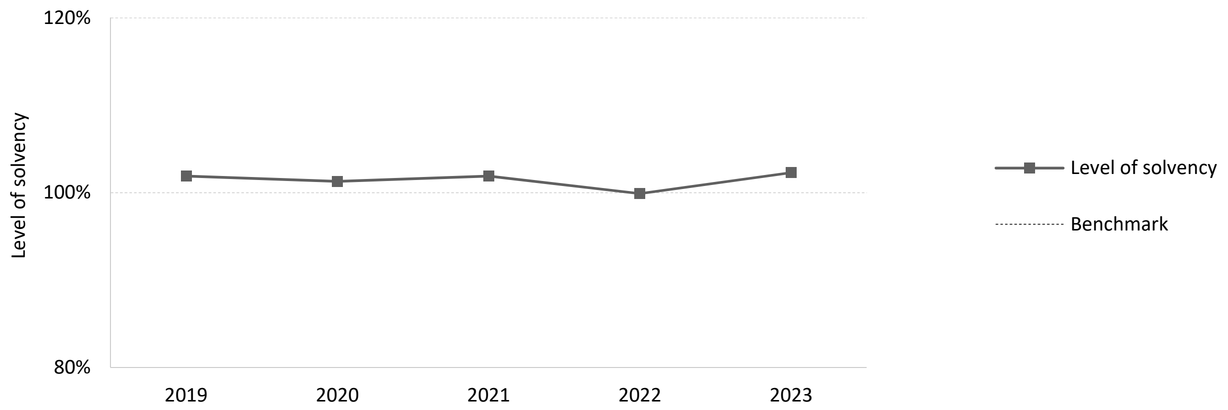


MAC's assets are above the target solvency level

The MAC Act requires MAC to seek to achieve and maintain a sufficient level of solvency for the MAC Fund using a formula determined by the Treasurer. The formula issued by the Treasurer in December 2016 specifies that the MAC Fund will have a sufficient level of solvency if its assets exceed its liabilities.

As at 30 June 2023 the target level of solvency was $331.7 million and total assets were $339.2 million, $7.5 million above the target level. This equates to 102.3% (99.9%) of the targeted solvency level.

The following chart shows the level of solvency achieved over the past five years.



The reinsurance arrangement now means that most of the risk associated with settling claims rests with NICO.

Outstanding claims liability

MAC's liability for outstanding claims is from the period before 1 July 2016, totalling $209 million at 30 June 2023. The liability covers claims reported but not yet paid, claims incurred but not yet reported, the anticipated costs of settling those claims and other insurance costs.

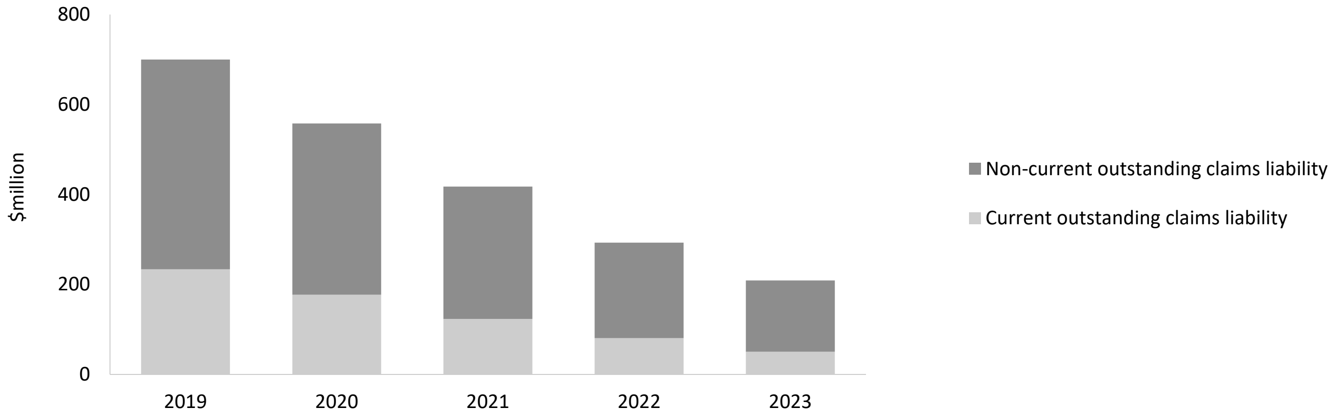
As noted above, while MAC entered into a full reinsurance arrangement with NICO from 1 January 2019, it still remains legally liable for outstanding claims and the liability. This liability and the offsetting reinsurance asset will continue to be valued and recognised in MAC's financial statements until they are extinguished.

The annual 30 June MAC valuation does not affect the risks and benefits set out in the contract with NICO.

Calculating the liability is an estimation process and a range of factors, including economic assumptions, affect it. As a result, professional actuaries need to perform the calculation and, for reporting purposes, detailed disclosure of the assumptions needs to be included in the notes of the financial report.

In 2022-23 MAC's independent actuary was Finity Consulting Pty Ltd (Finity), consistent with the previous year. Full details of the actuary's calculations and assumptions are provided in note 11 of MAC's financial report.

The following chart shows the outstanding claims liability for the five years to 2023, with the continuing decrease a reflection of the run-off process since 1 July 2016.



Factors considered by the actuary that impact the estimate of outstanding claims include:

- the number of claims incurred
- the length of time taken to settle the claim
- the average amount of claim payments
- the inflation and discount rates used.

The outstanding claims liability consists of the 'old scheme' for claims prior to 1 July 2013, and the 'new scheme' for claims from that date to 30 June 2016. Legislative reform from 1 July 2013 changed scheme entitlements and, as a result, the two schemes are considered separately by Finity.

The new scheme introduced thresholds for economic and non-economic loss and placed caps on legal fees. Compensation for non-economic loss under the new scheme is based on a severity of injury scale, with an indexed maximum cap on damages.

Examples of the potential impact of changes to these assumptions are included in MAC's financial report. Some are shown in the table below.

	Impact on provision %	Financial impact $million
Average size of case estimates increases by 15% (new scheme)	7.8	16
Above case estimates deteriorates by 5% per half year over the next two year (new scheme)	4.5	9
Cost of attritional claims deteriorates by 5% per half year over the next two years (new scheme)	4.2	9

The risk margin achieves 80% probability the provision is adequate

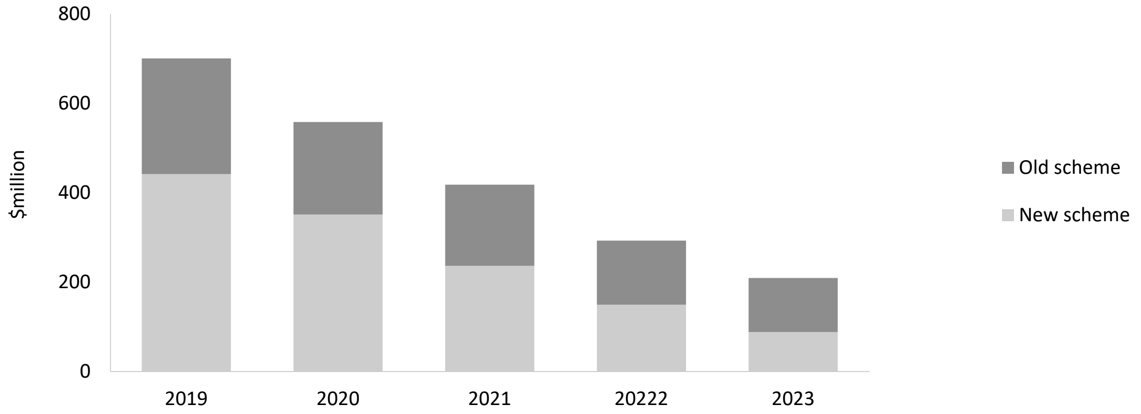
Also impacting the outstanding claims liability calculation are the solvency requirements determined by the Treasurer under the MAC Act, which require a risk margin to be included in the provision to achieve an 80% probability the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority's nominated target of 75% probability, as set out in Prudential Standard CPS 320 *Actuarial and Related Matters*.

$84 million reduction in the outstanding claims liability

The $84 million decrease in the outstanding claims liability at 30 June 2023 was mainly due to:

- a $79 million decrease due to a reduced number of expected future claim payments. This reflects payments made to settle claims and changes to estimates of future payments based on claims experience
- a $12 million reduction in the risk margins, following claim payments and decreases in expected future claims
- offset by a $7 million reduction in the discount to present value due to claims being a year closer to expected settlement.

The chart below shows the proportion of outstanding claims for the old and new schemes for the last five years.



As at 30 June 2023, CTP claims under the new scheme represented 42% (51%) of the outstanding claims liability. Claim numbers and values have so far been lower than expected under the new scheme and the outstanding claims liability calculation has therefore been adjusted to reflect this.

While the proportion of new scheme claims has a role in reducing the outstanding claims liability, as expected after introducing scheme reform, there is a higher level of uncertainty about these claims due to the limited claims experience to date. Accordingly, MAC has included a higher risk margin for the new scheme compared to the risk margin applied to the older claims, increasing the estimated liability when calculating the outstanding claims liability.

Estimated timing of the settlement of claims

The estimated timing of payments to settle claims is shown in the following table.

Up to 1 year $million	2-4 years $million	5-9 years $million	10-14 years $million	15-19 years $million	20-24 years $million	Total $million
50	72	58	20	5	2	207

Reinsurance assets and prepaid claims handling expenses

As a result of the reinsurance arrangement entered into with NICO, MAC now also recognises reinsurance assets and prepaid claims handling expenses for an amount that offsets the balance of outstanding claims.

Given the nature of the arrangement with NICO, the reinsurance assets and prepaid claims handling expenses are revalued each year in the same way as the outstanding claims liability, as they fully offset it.

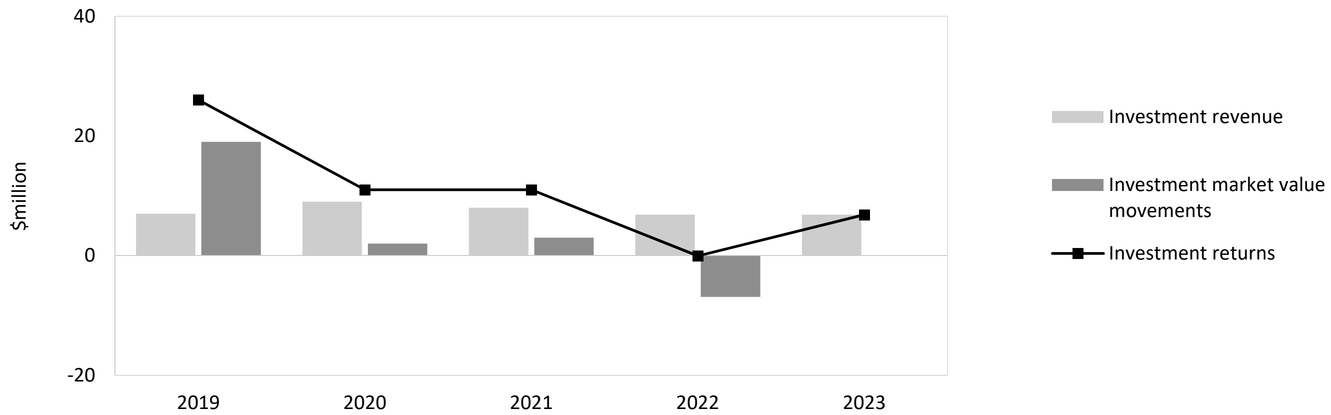
Statement of Comprehensive Income

Investment result

MAC uses the Superannuation Funds Management Corporation of South Australia, the SA Government's investment body, and two local fund managers to manage its investment portfolio. MAC holds investments in unit trusts with these fund managers. Its remaining investments mainly relate to the $100 million withheld from the NICO reinsurance arrangement that is scheduled to be paid to NICO in 2024.

MAC's investment returns this financial year resulted in a profit of $7 million (loss of $49,000). The investment result is a combination of investment revenue and investment market value movements, offset by fund management fees and direct operating costs.

MAC's investment result for the five years to 2023 is shown in the following chart.



In considering the impact of market movements on investments, it should be noted that the amount invested has reduced significantly as a result of the reinsurance arrangement with NICO and associated payments.

Road safety expenses

From 1 July 2019 MAC no longer performed the road safety function.

In December 2022 the Treasurer approved the closure of the Road Safety Fund and the transfer of money held in the fund to the Department for Infrastructure and Transport to put towards its road safety programs. In February 2023 MAC transferred the $1.5 million balance of the fund to DIT.

Total comprehensive result

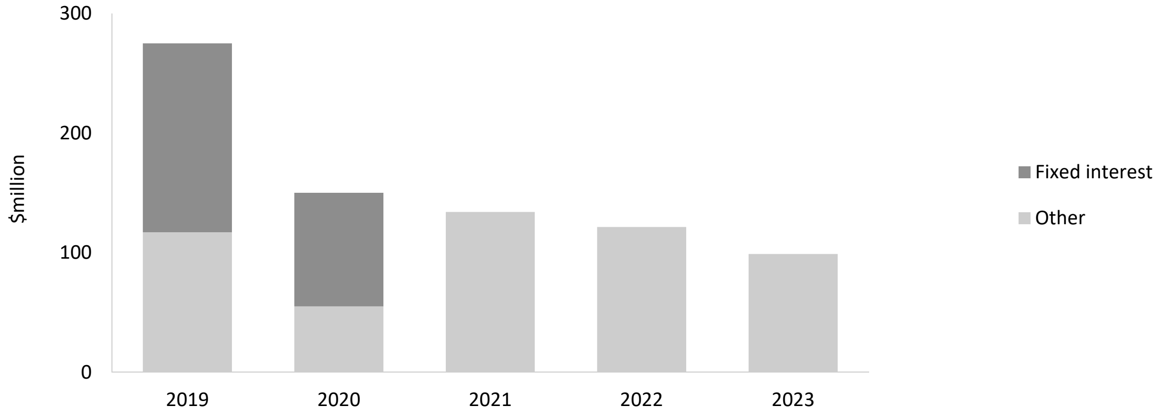
MAC's total comprehensive result for 2023 was a profit of $5 million, compared to a $409,000 loss in the previous year.

Statement of Financial Position

Investments

MAC does not directly hold investments in equities or term deposits but rather holds units in pooled investment portfolios.

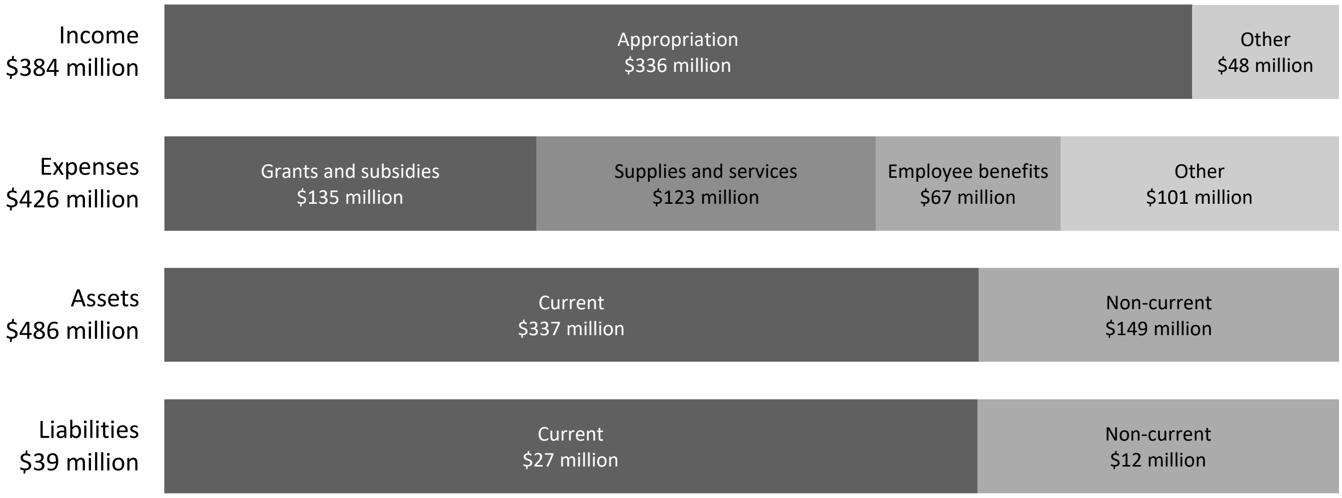
MAC's investment assets (excluding cash) for the five years to 2023 are shown in the following chart.



The chart shows a continued decrease in total investment assets, excluding cash, from $121.5 million in 2022 to $98.8 million in 2023. The $22.7 million decrease was principally due to a $29.1 million redemption of investments, offset by the reinvestment of $4.2 million of fund distributions.

Department of the Premier and Cabinet (DPC)

Financial statistics

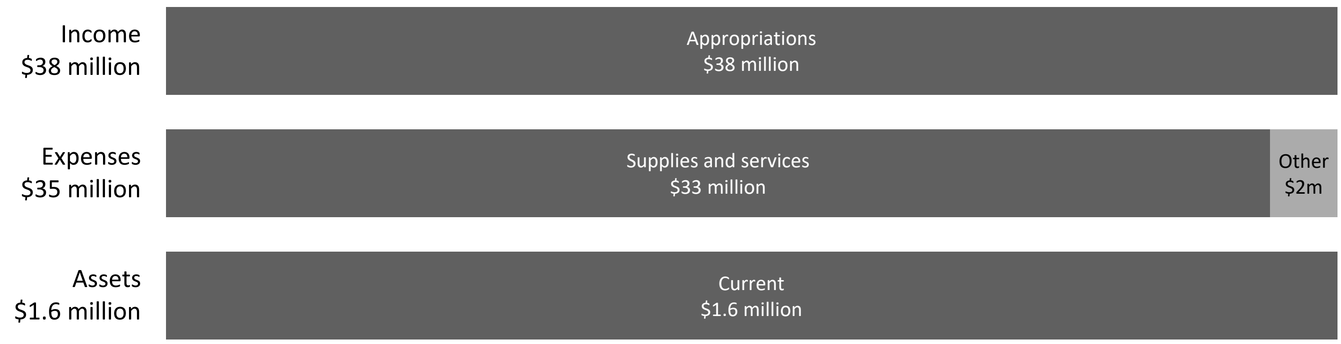


480
FTEs

$39 million
Works in progress

$199 million
Non-current assets held for sale or transfer

Administered items



Significant events and transactions

— The Aboriginal Affairs and Reconciliation Unit transferred to the Attorney-General's Department (AGD) from 1 July 2022. Net assets controlled of -$865,000 and net assets administered of $40.8 million were transferred.

— The *South Australian Motor Sports (Miscellaneous) Act 2022* was proclaimed in September 2022. Net assets of $1.53 million relating to motor sport were transferred to the Board.

— $71.3 million of cash was returned to the Consolidated Account as part of the cash alignment policy.

— $38.4 million was spent from the Major Events Fund.

	— DPC recognised a finance lease arrangement with Walker Corporation as part of the Adelaide Festival precinct redevelopment. The associated land and asset revaluation reserve were derecognised as at 30 June 2020.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— Bona fide and leave return reports were not reviewed promptly in some business units. — The annual State Active Directory (AD) security assessment identified that: • The AD environment contained a dormant administrative and user account • DPC applies an inadequate account lockout threshold.

Functional responsibility

DPC is an administrative unit established under the *Public Sector Act 2009*.

DPC's responsibilities include providing specialist policy advice, supporting the Cabinet process, leading the implementation of the SA Government's strategic priorities and policy commitments, and providing a range of other government services. Further details are contained in note 1.2 of DPC's financial report.

DPC receives and passes on appropriation funding for a range of arts and cultural-related government entities, through grant agreements.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- general ledger
- cash
- expenditure
- payroll
- grant expenditure
- corporate governance
- IT general controls – State AD.

We also reviewed DPC's governance structures for the:

- Lot Fourteen project
- Major Events Fund.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures. We also considered the work of DPC's internal auditors in planning and conducting the audit.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. The main findings and DPC's responses are outlined below.

Controls opinion findings

There were no significant findings from our controls opinion work at DPC.

Other audit findings

Payroll

Employee benefits expenses for both controlled and administered activities totalled $68 million for 2022-23, while employee benefits liabilities totalled $15.6 million as at 30 June 2023.

Key payroll reports not reviewed promptly

We found that bona fide and leave return reports were not always reviewed promptly.

We noted that the Cabinet Office, Communities and Corporate and the Office of the Chief Information Officer business units had the highest number of reports outstanding.

DPC advised us that:

- it would issue a communication to all bona fide and leave return delegates outlining their obligations in actioning reports
- a frequently asked questions document was developed to help delegates understand the bona fide and leave return reports process
- it is developing an online induction program for managers that will provide an overview of the bona fide and leave return report process and delegate responsibilities.

IT general controls review

State Active Directory

DPC governs the State AD and State Resource Directory environments. It runs an annual AD security assessment across these two environments.

DPC's 2023 security assessment identified the following weaknesses:

- the AD environment contained one dormant administrative and user account managed by DPC
- some Arts South Australia (Arts SA) user accounts within DPC's Govnet domain do not require a password
- a computer at Arts SA was configured with the account to never expire
- DPC applies an inadequate account lockout threshold.

DPC responded that:

- it maintains a few dormant administrator accounts as an essential business/service continuity measure and some will only become active when the primary administrators are not available
- it is working with Arts SA on those user and service accounts that are not adopting domain policy settings. The Office of the Chief Information Officer has commenced a program of work to ensure the environment has no blank passwords or passwords that never expire
- it will maintain the account lockout threshold as this balances the needs of the business with what is recommended by the security guidelines.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2023 $million	2022 $million
Income		
Appropriation	336	367
Sale of goods and services	25	29
SA Government grants, subsidies and transfers	9	26
Commonwealth and other grants	11	16
Resources received free of charge	1	98
Other income	2	8
Total income	384	544

	2023 $million	2022 $million
Expenses		
Employee benefits expense	67	71
Grants and subsidies	135	154
Supplies and services	123	107
Cash transfer to the Consolidated Account	71	6
Depreciation and amortisation	10	16
Resources provided free of charge	6	3
Other	14	1
Total expense	426	358
Net result	(42)	186
Total comprehensive result	(42)	186
Net cash provided by (used in) operating activities	(16)	106
Net cash provided by (used in) investing activities	(25)	(40)
Assets		
Current assets	337	384
Non-current assets	149	144
Total assets	486	528
Liabilities		
Current liabilities	27	28
Non-current liabilities	12	12
Total liabilities	39	40
Total equity	447	487

Statement of Comprehensive Income

Income

Total income for the year was $384 million, a decrease of $160 million (29.5%) from the previous year.

The main decreases in income in 2022-23 were:

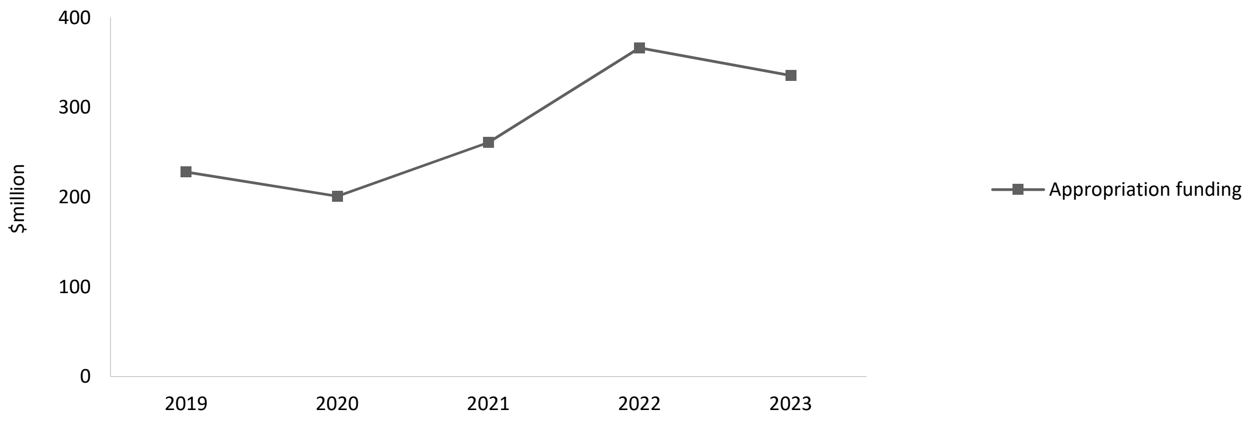
- appropriation income, down $31 million (8.5%) due to a decrease in operational funding of $2.3 million and capital funding of $28.6 million
- resources received free of charge, down $97.5 million. In 2021-22 the following assets transferred from the Department for Infrastructure and Transport (DIT):
  - $91.5 million for the Adelaide Festival Plaza public realm improvement
  - $6 million for the Adelaide Festival Centre car park transferred on completion of its construction. The car park was subsequently transferred to the Urban Renewal Authority
- Commonwealth-sourced grants and funding, down $4.7 million (30%) as $12.2 million of funding was received in 2021-22 for the development of the COVID-19 home quarantine application. This was offset by an increase in funding of $7.3 million for the Adelaide City Deal, which supports growth in South Australia’s innovation and tourism including Lot Fourteen, the Tarrkarri – Centre for First Nation Cultures and Smart City

- SA Government grants, subsidies and transfers, down \$16.8 million (65%) mainly due to a decrease in:
  - grants, subsidies and transfers provided by SA Government entities, down \$15.9 million (80%). In 2021-22 grant revenue was received:
    - for COVID-19 support funding of \$7 million
    - from the Jobs and Economic Growth Fund for the population growth strategy of \$4.6 million
    - from the Business Case Fund for the digital government services strategic business case of \$1 million
    - from the Jobs and Economic Growth Fund for the small business growth strategy of \$2.5 million
    - from the Urban Renewal Authority of \$1 million for the Lot Fourteen marketing and communications strategy
  - offset by an increase of \$1 million in contingency funding provided by the Department of Treasury and Finance for targeted voluntary separation packages of \$3.2 million and funding for the promotion of the State Budget of \$744,000, offset by a decrease in funding for improving digital government services of \$3.5 million
- sale of goods and services, down \$4.4 million (15%). In 2021-22:
  - \$1.9 million of costs were recovered from SA Health and the Victorian and New South Wales Governments for COVID-19-related applications
  - an additional \$2.4 million was recovered for the provision of government communications
- other income, down \$5.9 million (73%) mainly due to DPC no longer receiving rental income from the Adelaide Festival Centre as these arrangements ceased from 1 July 2022.

Appropriation funding

DPC's appropriation funding has varied markedly over the last five years, reflecting the different direct responsibilities it has had over that time.

The following chart shows DPC's appropriation funding for the five years to 2023.



Appropriation funding in 2018-19 was reduced, reflecting responsibility for several areas transferring to other agencies from 1 July 2018, with DPC then taking on responsibility for Aboriginal Affairs and Reconciliation and Arts SA.

The increase in 2020-21 reflects the impact of the decision to directly fund DPC for the provision of ICT services to other government agencies.

The increase in 2021-22 reflects additional funding received for capital projects and additional appropriation received from the Governor's Appropriation Fund.

The decrease in 2022-23 reflects a decrease in operational and capital funding, as well as no additional funding being received from the Governor's Appropriation Fund.

Expenses

Total expenses for the year increased by $68 million (19%) to $426 million.

Employee benefits expense decreased by $4 million (5%) and supplies and services increased by $16 million (15%).

The decrease in employee benefits expense is due to:

- salaries and wages, down $2.9 million (5.8%) mainly due to the transfer of employees of the Aboriginal Affairs and Reconciliation unit to the AGD as a result of the machinery of government change
- annual leave, down $1.4 million (25%) due to the revaluation downwards of annual leave as at 30 June 20223 and the transfer of employees leave for the machinery of government change
- other employee-related expenses, down $2.1 million (64%) due to higher terminations payments for executive and ministerial staff in 2021-22.

These decreases were offset by an increase in workers compensation of $2.8 million, mainly due to an additional provision of $2.5 million recognised as a result of the actuarial assessment as at 30 June 2023.

The increase in supplies and services is due to:

- intra-government transfers, up $34.8 million mainly due to an increase in payments for new events and to grow existing events in South Australia of $38.4 million, offset by payments to DIT in 2021-22 of $3.5 million for the Adelaide Festival Centre redevelopment
- general administration and consumables, up $1.7 million (42%) due the hire of facilities and equipment for a number of public events held in 2022-23 and an increase in media monitoring expenditure, which is performed by DPC on behalf of government agencies
- staff development and recruitment costs, up $1.2 million (91%) due to increased advertising costs for recruitment across DPC.

These increases were offset by:

- ICT charges, down $11.4 million (30%) due to the development of COVID-19-related applications and systems in 2021-22, and costs incurred in 2021-22 to improve digital government services, cyber security resilience and electronic messaging, fixed transmission and cloud platform services across government
- contractors, down $10.7 million (64%) as in 2021-22 contractors were engaged for the development of COVID-19-related applications and systems, as well as improving digital government services and cyber resilience projects

- temporary staff, down $2 million (33.5%) as in 2021-22 temporary staff were engaged to develop various digital government services projects and to deliver procurement and ICT services.

Grants and subsidies decreased by $18.5 million (12%) to $135 million. The significant grant programs included:

- $9.1 million to non-government major arts organisations to fund their operations
- $6.7 million in multicultural grants
- $6.6 million to the Convention Bid Fund
- $6.2 million to minor arts organisations
- $3.8 million for other arts and cultural grants
- $3.3 million for arts grants for individuals, groups and organisations.

The funding to major arts organisations mainly reflects annual funding to SA Government agencies. Of the $135 million in total grant funding, $91.9 million (68%) was provided to the Libraries Board of South Australia, Adelaide Festival Centre Trust, Art Gallery Board, Museum Board, Adelaide Festival Corporation, South Australian Country Arts Trust, State Theatre Company of South Australia, State Opera of South Australia and Carrick Hill Trust.

In 2022-23 there was an increase in funding:

- from the Convention Bid Fund of $2.4 million (57%), as additional events were held in 2022-23 due to there being no travel restrictions
- for the Adelaide Fringe operating grant of $2.1 million (88%) to allow the Adelaide Fringe to host a headline anchor event each year, to effectively market the event interstate and overseas, and to provide grants to support new and emerging artists coming to the event
- for minor arts organisation of $1.2 million (24%) to support artists and arts organisations to develop new work
- for multicultural grants of $1.1 million (20%) to support multicultural events and initiatives in linguistically diverse communities.

There were offsetting decreases in grant funding:

- to the Adelaide Festival Centre Trust operating and capital funding of $16 million (51%), as grants paid in 2021-22 were for income supplementation due to the closure of the Adelaide Festival Centre during redevelopment works and for the Festival Plaza activation
- for Aboriginal Affairs and Reconciliation of $5.2 million (100%) as this unit transferred to AGD from 1 July 2022
- from the Arts Recovery Fund of $3.9 million (100%) due to the closure of this initiative in 2021-22
- for Local Economic Recovery of $2.5 million (65%) due to the majority of payments to communities and businesses most affected by the 2019-20 bushfires being provided in 2021-22
- for other grants and subsidies of $1.4 million (30%) as funding was provided in 2021-22 to the City of Adelaide for revitalisation events post-COVID-19.

The cash transfer to the Consolidated Account increased by $65.3 million, as $71.3 million of surplus cash was returned to the Consolidated Account in 2022-23 in line with the cash alignment policy. In 2021-22, a $6 million payment was made to the Consolidated Account representing payment DPC received from the Urban Renewal Authority for the transfer of the Adelaide Festival Centre car park asset.

Depreciation and amortisation decreased by $5.7 million (36%) mainly due to the depreciation of building and improvements, down $4.5 million as Adelaide Festival Centre Trust assets were transferred to non-current assets classified as held for sale or transfer and are no longer depreciated.

Other expenses increased by $10.6 million due to:

- impairment losses on non-financial assets, up $2.1 million mainly due to the impairment of the SA Government Services Portal – Phase 1 project
- derecognition of assets, up $8 million mainly due to the derecognition in 2022-23 of the SA Government Services Portal – Phase 2 of $5 million, digital transformation of $1.3 million and Office 365 Mailbox migration of $1.9 million.

Statement of Financial Position

Net assets decreased by $41 million (8%) to $447 million.

Assets

Total assets decreased by $42 million (8%) to $486 million, mainly due to:

- cash, down $41.5 million (see 'Statement of Cash Flows' below for a further explanation)
- non-current assets classified as held for sale or transfer, down $2.9 million mainly due to:
  - $3 million of land transferred to the Urban Renewal Authority
  - $635,000 of land adjacent to the Queens Theatre that was sold in 2022-23
- property, plant and equipment, up $12.1 million (10%) mainly due to additions to work in progress of $20.6 million, including the Tarrkarri – Centre for First Nations Culture at Lot Fourteen of $12.3 million and the Cultural Institutions Collection Storage Facility of $2.7 million. These increases were offset by depreciation of $7.2 million
- intangible assets, down $9.2 million (55%) due to:
  - other intangible assets decreasing by $4.6 million (76%) due to the derecognition of the SA Government Portal – Phase 1 asset of $2.6 million and amortisation of $2.3 million
  - work in progress decreasing by $4 million (42%) due to the derecognition of $8.3 million for discontinued projects and incorrectly capitalised expenditure for a number of projects. These decreases were offset by acquisitions of $5.2 million.

Liabilities

Total liabilities remained stable at $39 million. The employee benefits liability was down by $1.4 million (8.4%) mainly due to the transfer of employees of the Aboriginal Affairs and Reconciliation Unit to AGD.

Statement of Cash Flows

Cash held at 30 June 2023 was $87.3 million, a decrease of $41.5 million over the previous year. The decrease was due to:

- net cash used in operating activities of $16 million in 2022-23, compared to $105.7 million net cash provided by operating activities in 2021-22, a decrease of $121.75 million. The main components of the decrease were:

- a decrease in cash generated from operations of $68.1 million, mainly due to appropriations, down $30.9 million, receipts from Commonwealth-sourced grants, down $5.9 million, SA Government grants, subsidies and transfers, down $16.5 million, GST recovered from the ATO, down $6.7 million, and other receipts, down $7.1 million
- offset by an increase in cash used in operations of $53.7 million, mainly due to payments to supplies and services, up $17.2 million and cash transferred to the Consolidated Account of $65.3 million. These were offset by decreases in employee benefit payments, down $6.1 million, and payments of grants and subsidies, down $23.2 million

- net cash used in investing activities, down $14.7 million due to purchases of property, plant and equipment being down by $20.6 million, offset by a decrease in cash generated from investing activities of $5.4 million, as $6 million was received in 2021-22 from the Urban Renewal Authority for the transfer of the Adelaide Festival Centre car park asset.

Highlights of the financial report – administered items

	2023 $million	2022 $million
Administered income		
Appropriations	38	10
Other	-	-
Total administered income	38	10
Administered expenses		
Grants and subsidies	1	2
Supplies and services	33	7
Other	1	1
Total administered expenses	35	10
Net result	3	-
Net cash provided by (used in) operating activities	4	2
Assets		
Current assets	2	42
Total assets	2	42
Liabilities		
Current liabilities	-	2
Non-current liabilities	-	-
Total liabilities	-	2
Net administered assets	2	40

Statement of Administered Comprehensive Income

Administered income increased by $28 million to $38 million, mainly because appropriation was up by $27.9 million, primarily due to additional funding of $34.9 million received in 2022-23 for motor sport activities. This was offset by funding of $7.5 million for the Aboriginal Affairs and Reconciliation Unit. This is now received by AGD as this function was transferred there on 1 July 2022.

Administered expenses increased by $25.2 million, mainly due to increases in supplies and services, up $25.9 million resulting from:

- intra-government transfers, up $24.1 million as $30.5 million was paid to the SA Motor Sport Board, partially offset by payments in 2021-22 to the APY Taskforce of $5.2 million

- other supplies and services, up $1.7 million due to motor sport activities up to the date of their transfer in September 2022.

These increases were offset by a decrease in grants and subsidies of $1 million (62%), mainly due to grant funding to the APY Taskforce of $1.5 million in 2021-22 and payments of $500,000 for the Adelaide Motorsport Festival in 2022-23.

Statement of Administered Financial Position

Administered current assets decreased by $40.3 million to $1.6 million in 2022-23, mainly as a result of the transfer of $42.9 million due to restructuring activities that transferred the Aboriginal Affairs and Reconciliation Unit to AGD ($41 million) and the establishment of the SA Motor Sport Board in September 2022 ($3.5 million).

Administered liabilities decreased by $2.2 million to $136,000, mainly due to payables reducing by $2.1 million as in 2021-22 this amount included accrued expenses for South Australian motor sport activities and funding to be paid from Aboriginal Affairs and Reconciliation Unit for the construction and renovation of various projects across the State. These activities were transferred to other government agencies in 2021-22.

Statement of Administered Cash Flows

Cash held at 30 June 2023 was $1.6 million, a decrease of $40.3 million over the previous year. The decrease was due to:

- net cash used in financing activities of $42.9 million in 2022-23 due to the cash transferred as a result of restructuring activities
- net cash used in investing activities of $1.5 million for the purchase of property, plant and equipment
- net cash provided by operating activities, up $2.5 million as:
  - net cash generated from operations rose by $29.5 million, mainly due to the increase in appropriations of $27.9 million due to additional funding received for the SA Motor Sport Board, offset by appropriation received for the Aboriginal Affairs and Reconciliation Unit in 2021-22 of $7.5 million
  - net cash used in operations rose by $27 million, mainly due to:
    - payments for supplies and services, up $25.6 million for payments made for motor sport activity, offset by a decrease in payments made to the APY Taskforce
    - payments for grants and subsidies, up $1 million.

Further commentary on operations

Adelaide Festival Plaza

In May 2016 the SA Government signed a development agreement with Walker Corporation (Walker) for the integrated development of the Festival Plaza. The development includes:

- a mixed-use development by Walker, comprising a five-level car park, 29-storey office tower, three-storey retail building and surrounding public realm

- upgrades to the Adelaide Festival Centre and civic spaces
- an upgrade to the northern entrance of the Adelaide Railway Station
- State delivered elements of the public realm.

An agreement was also entered into with SkyCity Adelaide to facilitate the expansion of the SkyCity Casino.

Upgrades to the Festival Plaza public realm include both Walker and State delivered components.

The Department for Infrastructure and Transport (DIT) completed the State delivered elements of the Festival Plaza public realm in 2021-22, with these assets recognised by DPC as at 30 June 2023.

Since its opening to the public in 2021-22, the following interim governance arrangements for the public realm have applied:

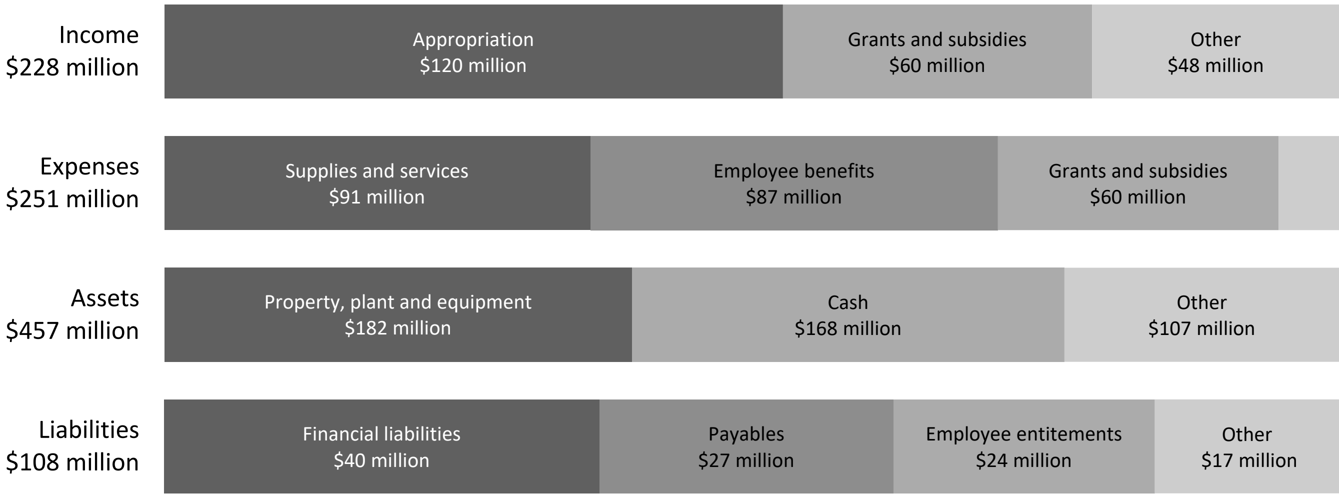
- responsibility for activation and marketing – Adelaide Festival Centre Trust (AFCT)
- responsibility for operations and maintenance – the Urban Renewal Authority.

A Festival Plaza Marketing and Curation Committee, comprising representatives from the AFCT, SkyCity, Walker, Adelaide Oval SMA Limited, the Urban Renewal Authority and the City of Adelaide and chaired by Andrew Daniels (Chair, Adelaide Venue Management Corporation), provides advice on the curation and activation of the Festival Plaza.

In note 5 of its financial report, DPC has recorded amounts relating to these assets which transferred from DIT last year. Further work is required to assign responsibility for the public realm assets and confirm the financial reporting and accounting treatment that will be applied to them.

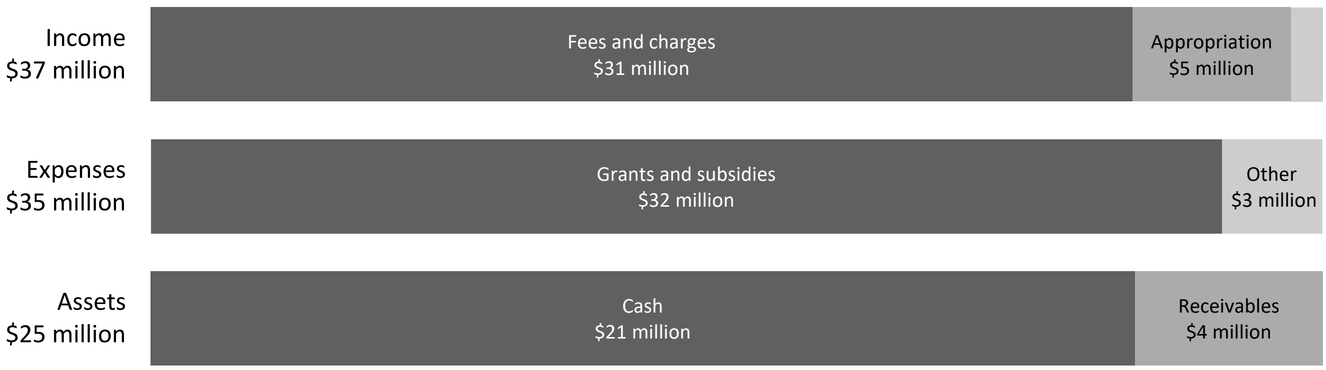
Department of Primary Industries and Regions (PIRSA)

Financial statistics



751
FTEs

Administered items



Significant events and transactions

- Commonwealth grants decreased by $22.6 million, mainly due to funding ending for some grant programs.
- Grants and subsidies expenses decreased by $27.4 million, mainly due to fewer Thriving Regions Fund and adverse events grants being paid.
- Land and buildings were revalued by $55.7 million to $144.4 million, after last being revalued in 2018.
- Administered pastoral land of $69.2 million was transferred to the Minister for Climate, Environment and Water on 1 July 2022.

Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	Leave return reports were not monitored or reviewed promptly.

Functional responsibility

PIRSA is an administrative unit established under the *Public Sector Act 2009.* It reports to the Minister for Primary Industries and Regional Development.

PIRSA's objective is to grow primary industries and drive regional development in South Australia.

For more information about PIRSA's objectives and activities see note 1.2 of its financial report.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- governance frameworks
- revenue, including research grant revenue and consultancies and services revenue
- grants and subsidies expenditure
- supplies and services expenditure
- employee benefits expenses and liabilities
- cash and general ledger
- loans receivable and borrowings
- fixed assets
- other financial assets, including investments in shares.

The audit considered control processes performed by both PIRSA and Shared Services SA.

We considered internal audit when planning and conducting the audit.

Controls opinion

We reviewed controls over deposit accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive. The main finding and PIRSA's response are discussed below.

Controls opinion findings

There were no significant findings for our controls opinion work on PIRSA.

Other audit findings

Leave return reports were not monitored or reviewed promptly

Over the past few years, we have reported that leave return reports have not been reviewed and returned in a timely manner in line with PIRSA's leave returns procedure. This year we found that, while the reports were still being distributed to managers, no reliable record was maintained to monitor the completion of returns. Consequently leave return reports may be either not reviewed or reviewed late. This increases the risk of inaccurate employee leave balances resulting in employees accessing leave they are not entitled to, salary overpayments and misstated employee benefit liabilities in the financial report.

PIRSA responded that it has implemented monthly reporting of leave return compliance to the divisions, with escalation to executive directors. In addition, PIRSA will review its procedures and remind managers of their responsibility for the review.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2023 $million	2022 $million
Income		
Appropriation	120	157
Grants, subsidies and transfers	60	65
Commonwealth revenues (National Partnership payments)	6	28
Sale of goods and services	15	17
Other income	27	21
Total income	228	288
Expenses		
Employee benefits	87	95
Supplies and services	91	89
Grant and subsidies	60	87
Other expenses	13	12
Total expenses	251	283
Net result	(23)	5
Other comprehensive income	56	5
Total comprehensive income	33	10

	2023 $million	2022 $million
Net cash provided by (used in) operating activities	(29)	18
Assets		
Current assets	214	254
Non-current assets	243	181
Total assets	457	435
Liabilities		
Current liabilities	65	70
Non-current liabilities	43	48
Total liabilities	108	118
Total equity	349	317

Statement of Comprehensive Income

Income

Appropriations

Appropriations from the SA Government decreased by $37.2 million to $119.8 million. In 2021-22 PIRSA received one-off funding for fruit fly eradication ($25.4 million), the Local Economic Recovery Program ($13.5 million), state-wide storm support ($9.7 million), upgrading the South Australian Aquatic Sciences Centre ($8 million) and Bushfire Recovery Measures ($4.7 million). These decreases were partially offset by funding received for the River Murray Flood package of $24 million.

Grants, subsidies and transfers

Grants, subsidies and transfers revenue totalled $59.7 million ($65.1 million) and is mainly comprised of:

- $38.6 million ($35.1 million) from industry, mainly for research and to deliver projects for industry development. The level of funding is dependent on the respective contract
- $11.1 million ($12.6 million) from the Fisheries Research and Development Fund and the Aquaculture Fund administered by PIRSA to deliver projects in compliance, research and fishing industry development
- $6.7 million ($14.3 million) from SA Government agencies. The decrease of $7.6 million was due mainly to PIRSA receiving additional funding in 2021-22 from the Department of Treasury and Finance (DTF), which included $3.8 million from DTF’s contingency fund, $2 million for the plant-based food laboratory project and $2 million for no and low alcohol wine sector projects. In 2022-23 PIRSA received a $2.3 million contribution towards the rebuild of fire towers.

Commonwealth grants (National Partnership payments)

Commonwealth revenues decreased by $22.6 million to $5.7 million due mainly to:

- funding ending in 2021-22 for the Regional Recovery Partnership program ($10 million in 2021-22), on-farm Emergency Water Infrastructure Rebate Scheme ($4.3 million in 2021-22) and Future Drought Fund ($3.4 million in 2021-22)

- funding for the National Water Grid Fund program decreasing by $5.4 million to $3 million. The program aims to deliver water infrastructure investments to improve the reliability and security of water for regional communities, agriculture and primary industry sectors.

Other income

Other income increased by $6 million, due mainly to a combination of:

- insurance proceeds of $5.7 million received for the Struan fire damages
- an increase in recovery for the dog fence rebuild project of $1.3 million
- PIRSA no longer receiving pastoral lease revenue of about $1.7 million due to this activity transferring to the Department for Environment and Water on 1 July 2022 (see 'Machinery of government changes' below for further information).

Expenses

Employee benefits expenses

Employee benefits expenses decreased by $7.5 million to $87.5 million due largely to:

- a decrease in salaries and wages of $5.3 million, primarily resulting from long delays in filling vacant positions due to the tight labour market
- a decrease in targeted voluntary separation package (TVSP) expenses of $2.9 million. In 2022-23 16 people received TVSPs totalling $1.6 million (60 people received $4.5 million in 2021-22)
- a decrease in workers compensation expenses of $687,000 due to the finalisation of an expensive claim in 2022-23.

These decreases were partly offset by an increase in long service leave expense of $2.6 million, due primarily to actuarial estimates of discount rates causing a large negative adjustment to entitlements in 2021-22.

Grants and subsidies expense

Total grants and subsidies decreased by $27.4 million to $59.5 million. PIRSA operates many grant programs, and expenses fluctuate each year depending on what grant programs are being delivered and funded. Notable movements in 2022-23 included:

- Thriving Regions Fund grant expenses, down $17.3 million to $11.9 million. Grant funding is paid in arrears as milestones are met. The payments in 2022-23 reflect grants entered into in previous funding rounds (see 'Thriving Regions Fund' below)
- $8 million spent on the new River Murray Recovery Program (see 'River Murray Grants' below)
- the National Water Infrastructure Development Fund initiative, up $4 million to $4.6 million for water treatment, storage and distribution projects
- the State-wide Storm Recovery program, down $7.3 million to $361,000. This program was established in response to the hailstorm events in October 2021, with applications closing in March 2022
- the Drought Support Package, down $2.4 million to $71,000. This program was established in December 2019 to provide support to eligible primary producers experiencing hardship due to ongoing dry conditions.

Thriving Regions Fund (previously the Regional Growth Fund)

The Regional Growth Fund (RGF) was established in 2018-19, as a $160 million fund available over 10 years to support regional South Australia. Its purpose is to unlock new economic activity in regional South Australia, deliver critical economic infrastructure to create direct benefit across regional industries and strengthen regional communities. In 2022-23 the SA Government revisited the priorities of the RGF, resulting in it becoming the Thriving Regions Fund with a $15 million annual commitment to support projects that enable regional industries to grow jobs and strengthen regional communities.

Funding is allocated each year for competitive grants, where applications are open for a set period and assessed against criteria, and strategic projects that are open all year for consideration by the Minister.

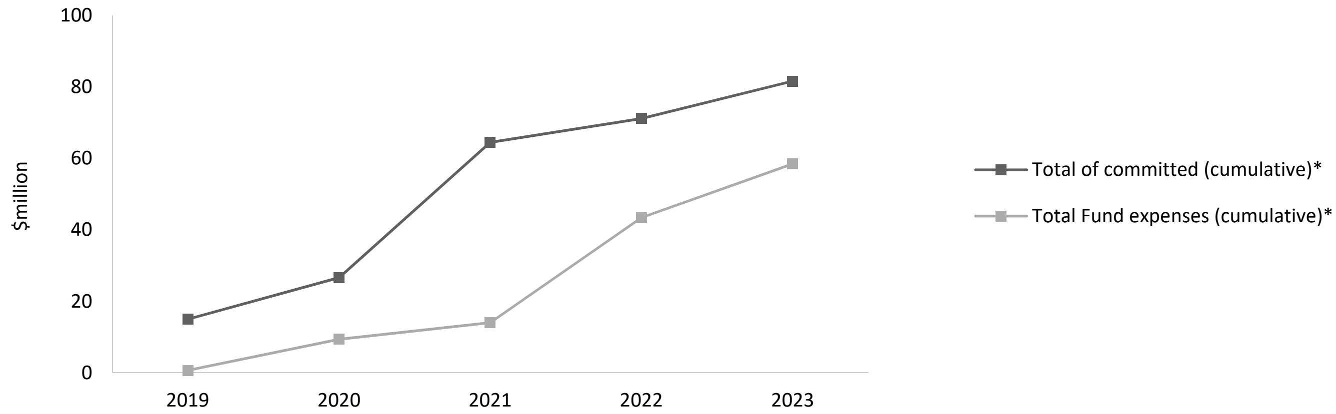
Since the commencement of the RGF, PIRSA has conducted several grant rounds and programs. The funding arrangements committed to in prior years were discussed in my previous annual reports.

Activity in 2022-23 included:

- the Opening our Great Outdoors round, which opened in January 2022 and was intended to provide $10 million of funding available over two years. Funding was available to projects that met the key principles of the RGF and supported economic activity generating regional tourism. While five projects totalling $4.8 million were initially approved, they have not progressed to an agreement due to the SA Government revisiting the program
- the Livestock Underpass Grant Scheme, which opened in July 2022 and will be open until 30 June 2024 or until allocated funding of $1.5 million is exhausted. This Scheme provides a 50% reimbursement (up to $100,000) to primary producers, abattoirs or sale yards as a contribution towards the cost of constructing underpasses beneath public roads to allow livestock to move safely between paddocks. As at 30 June 2023, six applications were approved totalling $572,000
- an allocation of $4 million for strategic projects, including:
  - $2.3 million for the Limestone Coast Mesonet project, which aims to provide accurate data on the development and presence of adverse weather conditions for agricultural spraying
  - $1.5 million for re-establishing a Strathalbyn abattoir.

Contract management for the grant agreements is administered by the South Australian Government Financing Authority (SAFA). PIRSA reimburses SAFA for grant payments made after project milestones are achieved by grantees. Not all approved projects proceed to receive funding.

The following chart shows the amounts committed and expenses up to 30 June 2023.



* Data was provided by PIRSA and is unaudited.

Total expenses were $15.2 million in 2023, which includes grants of $11.9 million and $3.2 million provided through internal PIRSA service level agreements. Funds are paid over time as project milestones are achieved, rather than on approval.

River Murray flood grants

In 2022-23 the SA Government made grants available to assist primary producers who suffered direct loss or damage because of the River Murray floods, comprising:

- primary producer grants of up to $75,000 to assist with costs for clean-up and recovery
- primary production irrigation grants of up to $25,000 to assist with costs for relocating and re-establishing irrigation pumps and purchasing alternative power sources such as generators.

Program costs totalled $8 million at 30 June 2023.

Horticultural netting program

In 2020-21 the Commonwealth Government provided $14.6 million of funding for PIRSA to provide grants under the horticultural netting program. The purpose of the program was to provide funding to primary producers to purchase and install new netting or replace damaged netting over land used to grow horticulture crops. The program started in June 2020 and closes on 30 June 2025, or when funding is exhausted.

Grant expenses were $2.7 million in 2022-23, taking total expenditure under this program to $8.6 million.

Supplies and services

Supplies and services expenses increased by $2.1 million (2%) to $91.3 million in 2022-23. Notable movements included:

- a $1.1 million (17%) increase in ICT charges, mainly for the purchase of minor equipment for new CBD accommodation and ICT infrastructure upgrade
- a $939,000 (72%) increase in travel costs, mainly for airfares and accommodation across PIRSA's activities
- a $946,000 (17%) decrease in other vehicle and equipment operating and management costs, mainly because 2021-22 included additional car hire expenses for the Adelaide fruit fly outbreak response.

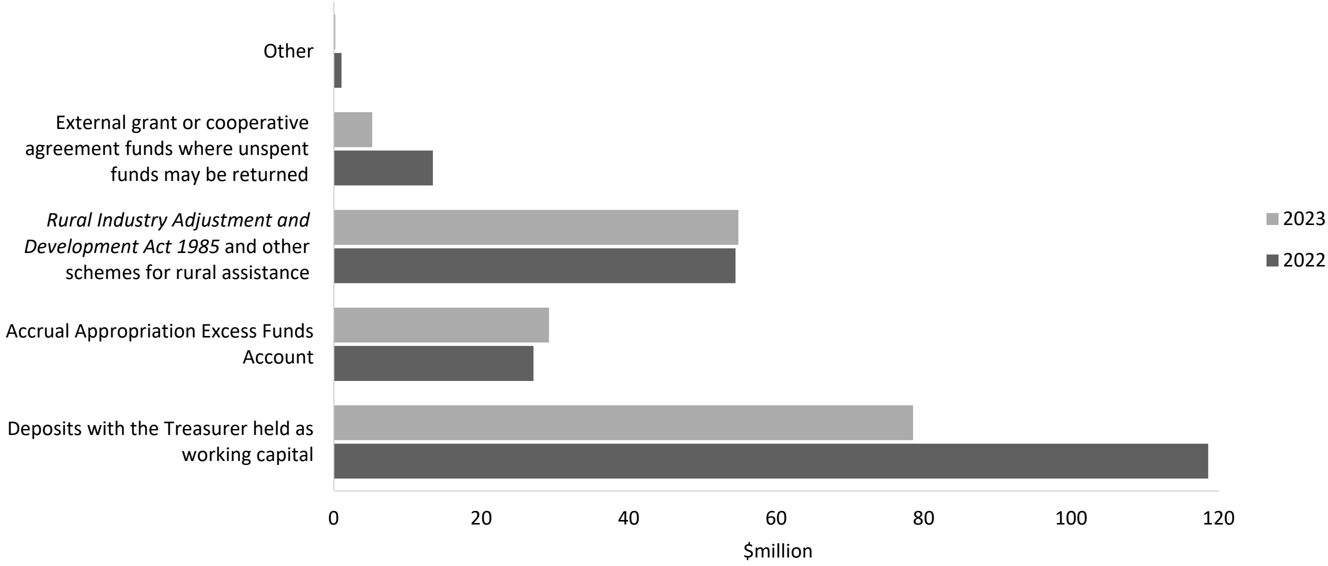
Statement of Financial Position

Assets

Total assets increased by $21.9 million to $457.4 million. This was primarily due to an increase in property, plant and equipment of $64.6 million, offset by a reduction in cash of $46.9 million.

Cash and cash equivalents

PIRSA held cash of $168.2 million ($215.1 million) at 30 June 2023. The main components of cash held are shown in the chart below.



The main decrease in PIRSA's cash is amounts held as working capital, largely due to appropriation funded capital and grant expenditure received in 2021-22 and carried forward into 2022-23.

PIRSA's commitments, disclosed in note 9.1 of its financial report, show a decrease of $30.4 million to $77 million in 2022-23.

Other financial assets

PIRSA's other financial assets comprise investments in shares for unlisted entities of $30.7 million ($30.3 million). The largest share holdings are for Australian Grain Technologies Pty Ltd. These shares are revalued annually, with changes in fair value treated as other comprehensive income. As these shares are unlisted there is no direct active market to determine their fair value. The valuation is performed by an independent valuer on a discounted cash flow basis and is subject to significant estimates and assumptions in this process. Note 6.4 of PIRSA's financial report explains these investments.

Liabilities

Total liabilities decreased by $10.4 million to $108.3 million. The decrease was largely due to:

- an $8 million decrease in payables, mainly due to fewer accruals for supplies and services
- a $2.4 million decrease in employee benefit liabilities, mainly due to a reduction of:
  - $1.2 million in long service leave liability due mainly to leave taken and the actuarial assessment of discount rates in the valuation of entitlements
  - $1.2 million in accrued salaries and wages, as the final pay run paid most employees to 30 June 2023
- a $1.1 million decrease in contract liabilities, resulting from a decrease in funding received from customers for which PIRSA has outstanding performance obligations to fulfil.

These decreases were partially offset by a $1 million increase in financial liabilities, essentially due to a net decrease in indebtedness to the Treasurer (see 'Financial liabilities' below).

Financial liabilities

Financial liabilities of $40.4 million mainly consist of indebtedness to the Treasurer of $38.8 million ($37.7 million). Borrowings from the Treasurer relate to loans to cooperatives of $30.8 million ($28.2 million) and Commonwealth concessional loan schemes of $8 million ($9.5 million).

Loans to cooperatives

PIRSA administers loans to cooperatives provided by the SA Government. These are agreements between the Treasurer, PIRSA and approved loan applicants where the principal borrowed by PIRSA is on-lent to the approved loan applicant. Principal repayments made by an approved loan applicant are returned to the Treasurer to reduce PIRSA's borrowings. Note 6.2 of PIRSA's financial report provides information about the loan structure.

The loans to cooperatives scheme supports cooperatives engaged in processing and storing primary products. Eligible projects include the acquisition of assets associated with processing and storing primary products.

In 2019-20 one loan was approved under the loans to cooperatives scheme for a total of $28.6 million, with an additional loan granted in 2021-22 for $8.1 million. In 2022-23 an additional $5.6 million was drawn down against loan facilities approved in prior years. Repayments were $3 million ($1.7 million) in 2022-23.

Commonwealth concessional loans schemes

Commonwealth concessional loans schemes decreased overall by $1.5 million to $8 million in 2022-23 as repayments were made.

The concessional loan schemes closed in 2018. Since July 2018, farm business concessional loan applications have been made to the Commonwealth Government's single national administrator, the Regional Investment Corporation. PIRSA will continue to administer the existing loan agreements until the loan term ends or the loan is repaid/refinanced. As a result, no new drawdowns occurred for Commonwealth concessional loan schemes. PIRSA only receives repayments for existing loans that are then passed on to the Commonwealth Government. As at 30 June 2023 there were no impaired loans.

Administered items

PIRSA administers 18 funds that are reported in its administered financial report. The main administered revenues are industry contributions and aquaculture and fishing licence fees. These are then paid out as grants and subsidies to support promotion, research and development, and other activities to benefit the different groups that have paid the contributions.

Total fees and charges revenue, including industry contributions and aquaculture and fishing licences, was $31 million ($30.7 million) and grants and subsidies paid out during the year totalled $32 million ($32.6 million). The Fisheries Research and Development Fund received $12.3 million ($13.9 million) in fees and charges and paid $9.8 million ($11.7 million) to carry out research, exploration and experiments for the conservation and management of living resources found in waters.

PIRSA also received $4.8 million ($4.7 million) in appropriation from the SA Government for the administered activities, of which $4.4 million ($4.3 million) was used for payments to the South Australian Forestry Corporation for community service obligations, including native forest management and fire protection.

PIRSA's administered assets comprised cash of $20.9 million and receivables of $4.2 million. On 1 July 2023, administered Pastoral Land Management Fund property assets of $69.2 million were transferred to another agency (see 'Machinery of government changes' below).

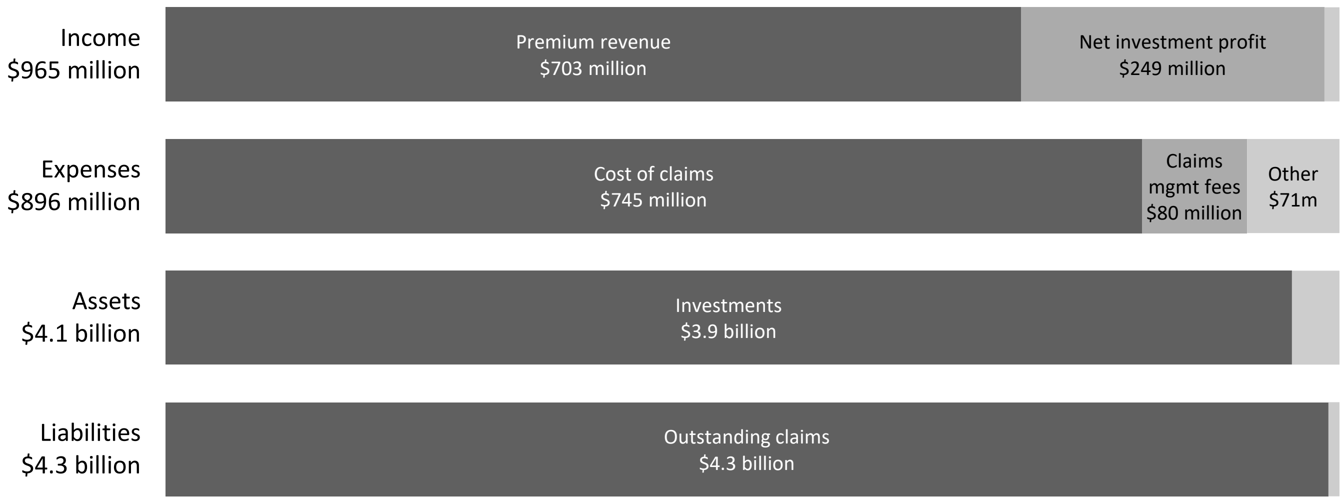
Machinery of government changes

Machinery of government changes, effective from 1 July 2022, transferred the assets, rights and liabilities of the Minister for Primary Industries and Regional Development relating to the administration of the *Pastoral Land Management and Conservation Act 1989* to the Minister for Climate, Environment and Water. This change transferred six employees and:

- administered assets comprising $69.2 million in pastoral land and $170,000 in cash
- net controlled assets of $875,000, comprising $1.1 million in receivables offset by $223,000 of employee benefits, payables and prepayments.

Return to Work Corporation of South Australia (RTWSA)

Financial statistics



261
FTEs

1.8%
Average premium rate

94.7%
Funding ratio

Significant events and transactions

- The provision for outstanding claims increased by $194.4 million.
- Due to the legislative changes there are higher than normal levels of uncertainty in the estimated provision for outstanding claims.
- The Return to Work Scheme is not fully funded, with a consolidated funding ratio of 94.7%.
- The Compensation Fund had net liabilities of $433.6 million as at 30 June 2023. RTWSA's net investment profit was $248.9 million.

Financial report opinion

Unmodified

An emphasis of matter was included in the financial report opinion relating to inherent uncertainty in the estimate of the outstanding claims liability and the funding ratio.

Audit findings

No significant findings.

Functional responsibility

RTWSA was established under the *Return to Work Corporation of South Australia Act 1994* (RTWSA Act).

RTWSA administers the Return to Work Scheme (the Scheme) under the *Return to Work Act 2014* (RTW Act). The Scheme compensates injured workers and helps them return to work using premium and investment income from the Compensation Fund.

Legislative changes

Legislative changes through the RTW Act have significantly impacted the Scheme. The changes aimed to get injured workers back to work more promptly and reduce the cost of the Scheme, leading to reductions in the Scheme's net claims and premium rates.

Return to Work Act 2014

In December 2014 the RTW Act was proclaimed, with most provisions commencing on 1 July 2015 and some commencing earlier. It replaced the *Workers Rehabilitation and Compensation Act 1986*.

The legislative changes separated claims into two categories:

- short-term claims for injured workers with less than 30% whole person impairment (WPI) – receive income support for up to two years and treatment costs for up to three years. The legislation also introduced a new lump sum benefit for economic loss available to workers with a WPI of at least 5%
- serious injury claims for injured workers with 30% or higher WPI – receive income support until retirement age, and treatment and other care costs for life.

The Scheme's focus is on getting short-term claimants back to work and, in the case of serious injury claimants, providing lifetime care.

Under previous legislation, a worker's income support was reduced by 10% at 13 weeks and a further 10% at 26 weeks, equating to 80% of their pre-injury earnings. Under the RTW Act, a worker's income support is not reduced until 52 weeks, at which point it will be reduced to 80% of their pre-injury earnings. This means workers receive more income support in their first year under the RTW Act.

The following table shows the percentage of claimants back at work at key intervals from the claim received date.

Year	4 weeks	13 weeks	26 weeks	52 weeks
2018-19	75%	84%	88%	92%
2019-20	73%	82%	86%	91%
2020-21	71%	83%	87%	91%
2021-22	72%	83%	89%	93%
2022-23	72%	86%	91%	93%

Source: The data in this table was provided by RTWSA and is unaudited.

Return to Work (Scheme Sustainability) Amendment Act 2022 (Amendment Act)

Reforms were introduced to the RTW Act following the Summerfield legal decision, which allowed for the combining of injuries for WPI assessment purposes. The Amendment Act was proclaimed in July 2022. The key changes resulting from the reforms were as follows:

- The combining of injuries was codified as a feature of the Scheme, aligning with the Summerfield decision.
- The threshold for accessing serious injury benefits increased from 30% to 35% WPI for physical injury claims.
- Serious injury claimants can elect to receive an economic loss lump sum payment instead of ongoing income support, and the restriction on medical redemptions being available to serious injury claims was removed.
- The impairment assessment guidelines will change when the third edition of the guidelines is approved, although it is not clear what impact this will have as the guidelines are not expected to be finalised by the SA Government until 2024.

Overview of Return to Work Scheme

Employers must pay a premium to RTWSA based on remuneration provided to their workers. RTWSA invests the premium revenue until it is needed to pay compensation and other costs of operating the Scheme, including the claim management fees of two claims agents for managing workers compensation claims. Very small employers are not required to pay a premium, while self-insured employers must pay a fee instead of a premium.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- the claims agent assurance framework
- premium income
- investments
- claims expenses
- actuarial estimates of outstanding claims liabilities
- the determination of claims for workers compensation
- workers compensation payments, including income support, lump sums and medical costs
- claims management fees

- general operating expenditure
- payroll expenditure
- IT general controls.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures. We also made use of the IT general controls work performed by internal audit.

Controls opinion

We reviewed controls over premium income, investments, claims expenses and outstanding claims liability as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report on RTWSA's 2022-23 financial report, which is unmodified but notes a significant inherent uncertainty relating to the outstanding claims provisions and funding ratio implications.

> ***Opinion***
>
> *In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Return to Work Corporation of South Australia as at 30 June 2023, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*
>
> ***Emphasis of Matter***
>
> *I draw attention to notes 4, 9 and 10 of the financial report. There is a significant uncertainty surrounding the financial impact of legislative reforms which will only become clearer as outstanding claims experience emerges in future financial periods. If in future years the actual cost of claims described in notes 9 and 10 are greater than the balances recorded in the financial statements, this will adversely impact the funding ratio described in note 6.*

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer. No significant matters were identified.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Underwriting result		
Premium revenue from registered employers	703	617
Net claims paid	(531)	(487)
Decrease (Increase) in net outstanding claims liability	(202)	243
Claims management fees	(80)	(71)
Other underwriting expenses	(21)	(12)
Underwriting result	(131)	290
Net investment and other income		
Net investment profit (loss)	249	(191)
Other income	12	13
Net investment profit (loss) and other income	261	(178)
Operating expenses		
Employee benefits expenses	(37)	(33)
Other expenses	(24)	(25)
Total operating expenses	(61)	(58)
Result from operating activities before tax equivalents	69	54
Total comprehensive result	69	54
Net cash provided by (used in) operating activities	120	82
Net cash provided by (used in) investing activities	(131)	(74)
Net cash provided by (used in) financing activities	(1)	(2)
Assets		
Investments	3,906	3,618
Other assets	165	183
Total assets	4,071	3,801
Liabilities		
Outstanding claims	4,256	4,061
Other liabilities	41	35
Total liabilities	4,297	4,096
Total equity	(226)	(295)

Statement of Comprehensive Income

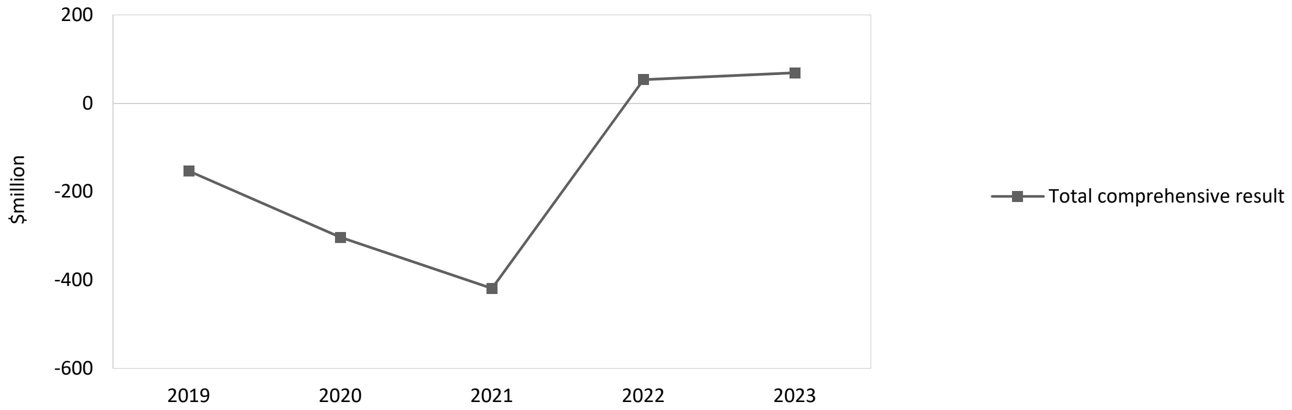
Total comprehensive result

RTWSA's total comprehensive result depends significantly on:

- premium rates being set before the start of the financial year, with the aim of ensuring that premium revenue and investment income will at least cover the cost of new claims incurred during the financial year and administrative costs. The premium-setting process depends significantly on the actuarial estimate of the cost of new claims likely to be received in the coming year and other factors determined by RTWSA's Board of Management

- the actuarial estimate of the outstanding claims provision
- movements in the market value of its investments.

The following chart shows RTWSA's total comprehensive result for the five years to 2023.



The chart shows the fluctuations in total comprehensive result over the past five years, with the annual results significantly impacted by legislative reform and market volatility. The $69 million profit for 2023 represents an improvement of $15.3 million from the 2022 profit of $53.7 million. The key factors driving this were:

- an $86 million increase in premium revenue, due mainly to a 6.1% increase in the amount of remuneration employers paid to workers. The average premium rate also rose from 1.7% in 2022 to 1.8% in 2023
- a deterioration in the cost of claims of $496.5 million, due mainly to the $202.1 million increase in the outstanding claims liability. In 2022 the outstanding claims liability decreased by $242.7 million. There is further commentary on the movements in the outstanding claims liability under 'Statement of Financial Position' below
- a $439.8 million improvement in net investment profit, discussed under 'Investment profits' below
- a $9.2 million increase in claims management fees, discussed under 'Claims management fees' below.

RTWSA is required to pay tax equivalents under Treasurer's Instruction 22 *Tax Equivalent Payments*. Under the tax equivalents regime the corporate tax rate (30%) is applied to any operating profit. The RTWSA Act, however, restricts the application of tax equivalents to financial years in which RTWSA makes a profit and achieves both a funding level of at least 100% (with its outstanding claims liabilities at a 75% probability of sufficiency) and a profit from its insurance operations. RTWSA has not achieved a funding level of at least 100% in either of the past two years, and therefore was not required to pay any tax equivalents.

Underwriting result

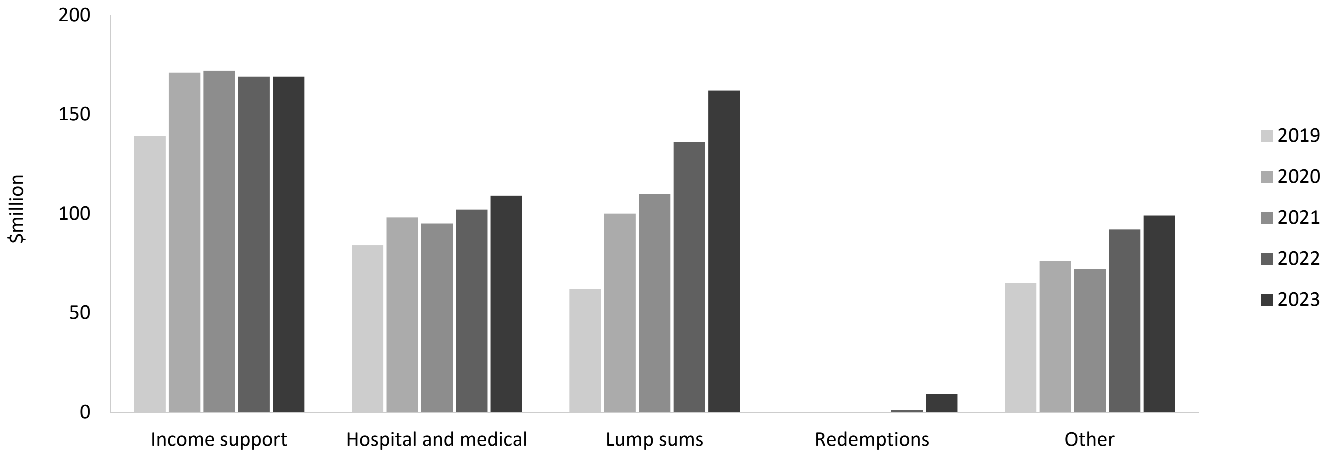
The underwriting result comprises registered employer premium revenue less claims expense. Investment income does not form part of the underwriting result. AASB 1023 *General Insurance Contracts* requires the underwriting result to be shown separately in the Statement of Comprehensive Income, to show the extent to which underwriting activities rely on investment income for the payment of claims.

The underwriting result for 2023 was a loss of $131.2 million, compared to a profit of $289.8 million in the prior year. The $421 million downturn reflects the $496.5 million increase in the cost of claims, which was driven by:

- a $202.1 million increase in the net outstanding claims liability compared to a $242.6 million decrease for 2022
- a $43.3 million increase in net claims payments compared to a $38.3 million increase for 2022.

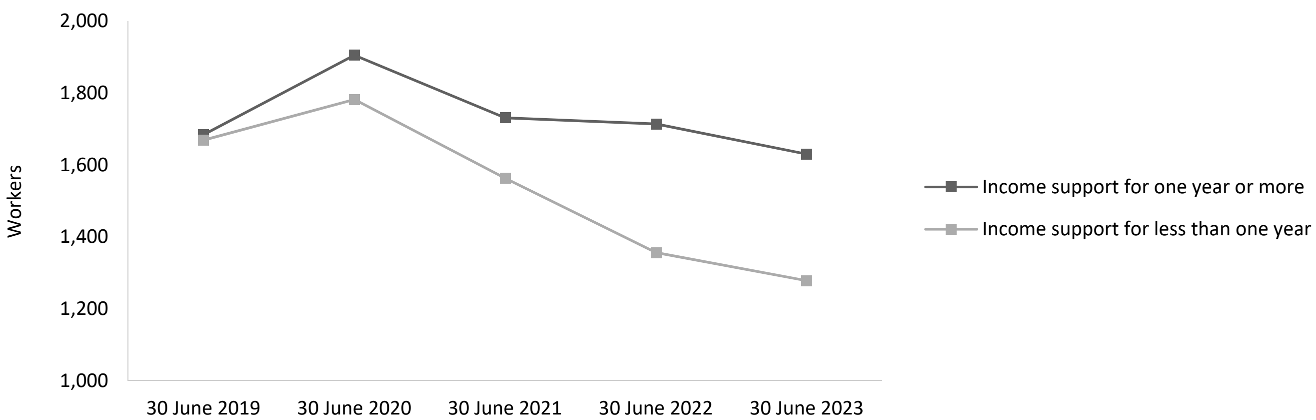
Claim payments

The following chart shows claim payments for the five years to 2023.



The chart shows that income support payments in 2023 of $168.8 million remained steady, mainly due to continuing favourable return-to-work experience. Lump sums and redemption payments increased by $25.8 million and $8.1 million, respectively, in 2023, influenced by legislative reforms. Other payments increased by $6.8 million, due mainly to increased legal costs of $1.6 million following a high number of dispute settlements.

The change in the number of workers receiving income support for the five years to 2023 is shown in the following chart.

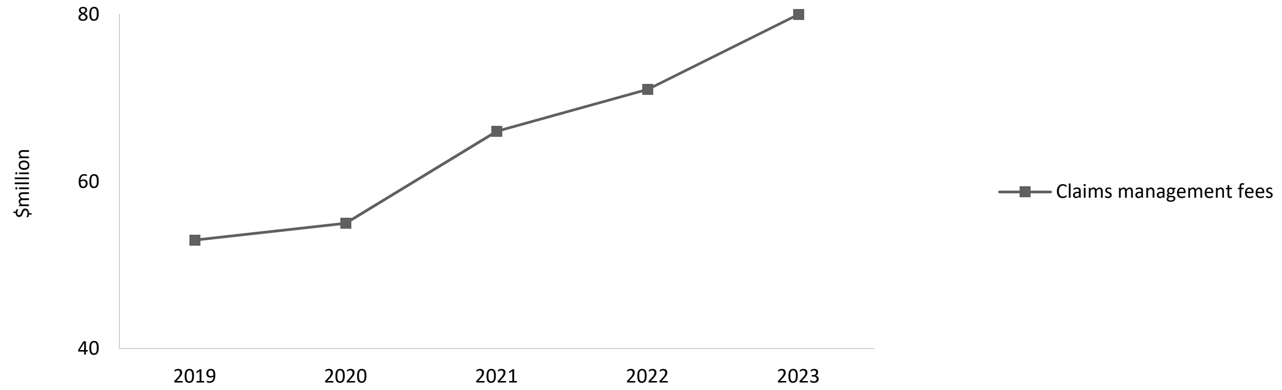


Source: The data in this chart was provided by RTWSA and is unaudited.

The chart shows a steady decrease in the number of workers receiving income support since 2021, reflecting improvements in return-to-work outcomes over the period.

Claims management fees

The following chart shows claims management fees for the five years to 2023.

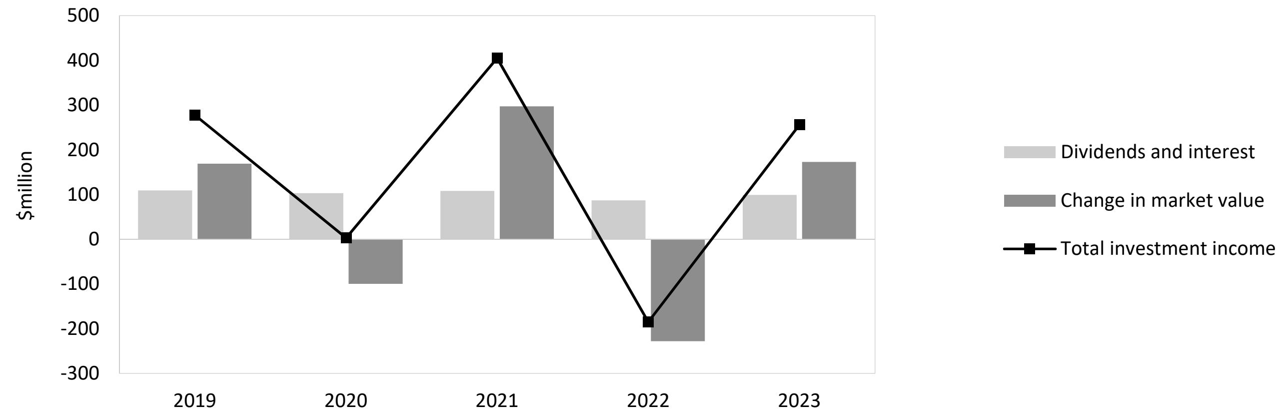


Claims management fees are paid to RTWSA's two claims agents for managing workers compensation claims. They increased by $9.2 million to $80.1 million in 2023, mainly as a result of an increase in base fee payments and funding to manage the legislative reform.

Investment profits

RTWSA's investment profits have fluctuated significantly over recent years as a result of changes in the market values of its investments, which depend on financial market conditions and macroeconomic influences. In 2023 the strong performance of equity markets had a significant impact on its investment returns.

The following chart shows RTWSA's investment income for the five years to 2023.

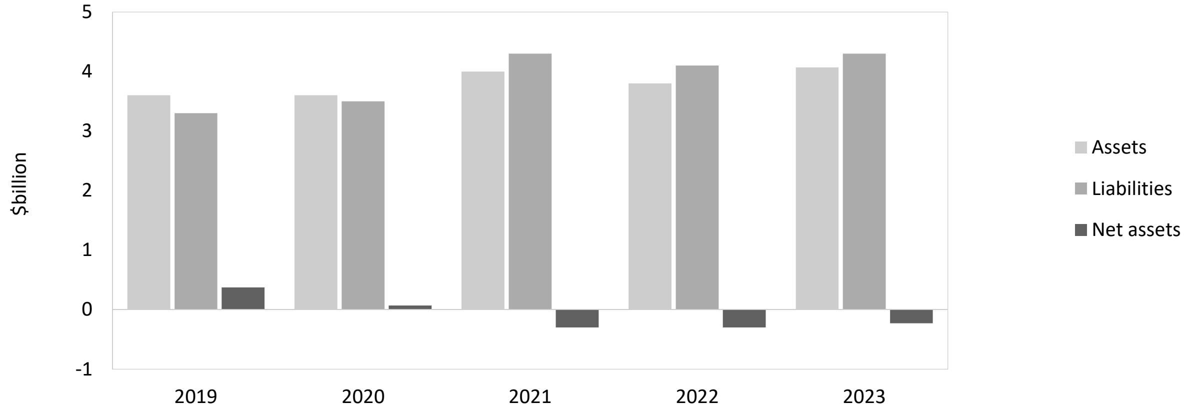


The chart illustrates the volatility in RTWSA's investment returns over the past five years, with the market value of its investments held at 30 June increasing by $287.5 million in 2023 to $3.9 billion. Dividend and interest income increased by $12.3 million to $98.8 million, an improvement of 14.2%.

Statement of Financial Position

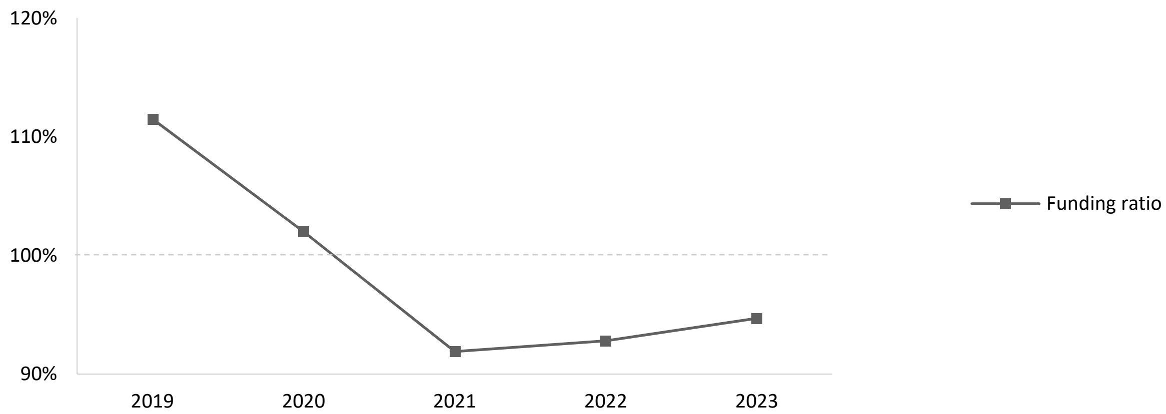
RTWSA's total equity improved by $69.1 million to net liabilities of $225.9 million. This was driven mainly by a $287.5 million increase in the market values of investments, partially offset by the $194.4 million increase in the provision for outstanding claims to $4.3 billion, following an actuarial valuation.

The following chart shows RTWSA's assets and liabilities for the five years to 2023.



The chart shows that RTWSA's net asset position has deteriorated since 2019 and currently the Scheme is not fully funded. The funding ratio (assets divided by liabilities) was 94.7% at 30 June 2023, an improvement on the 92.8% at 30 June 2022.

The following chart shows the funding ratio decreasing over the period to 2021, with a moderate improvement in 2022 and 2023.



The Compensation Fund, which makes up the largest portion of the Scheme, has net liabilities of $433.6 million (see note 5 of RTWSA's financial report).

Under the RTW Act, a Scheme funding/review event occurs if RTWSA operates at a funding level below 90% at a probability of sufficiency of 75% for two consecutive years. If the Minister is satisfied that a Scheme funding/review event has occurred, the Minister must initiate a review of the Scheme that considers, among other things, the sustainability of the Compensation Fund over the short to medium term.

Liabilities

Outstanding claims – Compensation Fund

Outstanding claims for the Compensation Fund comprised 98% (98%) of RTWSA's liabilities at 30 June 2023. The outstanding claims liability covers expected future payments including those related to claims reported but not yet paid, incurred but not yet reported and incurred but under-reported.

The liability is determined by RTWSA's management and Board of Management considering and assessing a comprehensive actuarial review of claims exposures by an independent actuary. Information about the actuarial estimation of outstanding claims liabilities is provided in notes 4 and 9 of RTWSA's financial report.

RTWSA v Summerfield

On 11 March 2021 a decision was handed down by the Full Court of the Supreme Court of South Australia in the case of *Return to Work Corporation of South Australia v Summerfield* (Summerfield). This decision substantially differed from RTWSA's previous position on how key aspects of its WPI assessments should be undertaken.

The Summerfield legal decision allows for the combining of injuries for WPI assessment purposes.

Following the Summerfield decision, the Amendment Act was proclaimed in July 2022. It introduced reforms to codify the combining of injuries under the law, but also to mitigate the financial impact of the Summerfield decision.

RTWSA's actuary considered the impacts of codifying the combining of injuries and the introduction of the other reforms in estimating the outstanding claims liability as at 30 June 2023.

Audit approach to the estimate of outstanding claims liability

Due to the nature and significance of the Scheme estimate of outstanding claims liability, our audit approach included focused review of the Scheme actuary's projections by an independent professional actuary engaged by the Auditor-General. The nature and impact of the 2014 legislative changes, the outcome of the Summerfield decision and the introduction of the reforms continued to warrant a high level of audit scrutiny.

Our audit did not identify any issues or variations from expected practice that would suggest the estimate of outstanding claims liability is unreasonable or that the estimate for 30 June 2023 should be adjusted in any material way. The inherent uncertainty associated with the Scheme arrangements and the reforms, however, prevents the degree of certainty over the estimate that would warrant no comment or clarification to the audit opinion.

The key valuation uncertainties in this valuation are:

- the impacts of the Amendment Act, including behavioural responses in combining injuries, the application of a higher WPI threshold and claimant selection of entitlement options under the amended RTW Act
- serious injury claim costs, including the ultimate number of serious injury claims, life expectancy and cost escalation
- legal precedent risk
- high levels of disputes and delays in the dispute process
- the increasing number of hearing loss claims
- economic uncertainty.

The uncertainty in the Scheme remains in the current valuation, especially for the reform impact. The Scheme's actuary has identified that there are higher than normal levels of uncertainty in this valuation.

Central estimate of outstanding claims liabilities

The central estimate of outstanding claims liabilities (Compensation Fund) was $3.6 billion at 30 June 2023. The net outstanding claims provision was $4.1 billion, including a risk margin of $596.5 million intended to achieve a 75% probability of sufficiency.

The net liability for outstanding claims increased from $3.923 billion at 30 June 2022. The $209.5 million increase is mainly due to:

- a $232 million increase from the inclusion of another year of claims
- a $194 million increase in short-term claims, reflecting:
  - increases in the provision for lump sum payments ($118 million increase)
  - the continuing high volume of hearing loss claims ($50 million increase)
  - higher observed medical and treatment costs ($21 million increase)
  - improved return-to-work performance ($14 million decrease)
- a $38 million increase due to changes in economic assumptions, principally led by higher inflation assumptions offset by an increase in discount rates
- a $148 million decrease for serious injury claims, reflecting:
  - fewer claims reaching the serious injury threshold, with less claims combining than expected, offset by a higher average size for claimants who did reach the threshold ($207 million decrease)
  - lower expenses through the flow-on impact of fewer claims ($7 million decrease)
  - additional experience for EnABLE claims ($26 million increase). These are serious injury claims that are managed by RTWSA's internal claims management team
  - recognition of lump sum and medical redemption experience ($38 million increase)
  - an increase in income support for non-EnABLE claimants ($18 million increase)
- a decrease of $101 million following the fall in the risk margin from 19.3% to 16.5%. The risk margin incorporates allowances for added uncertainty in the valuation of the impact of the Amendment Act and supports the net liability being adequately provided to a 75% probability of sufficiency. This is discussed under 'Probability of sufficiency' below
- a change in claims handling expense assumptions ($6 million decrease).

The liability for long-term claims may extend for many years beyond the current year, causing the liability to grow. Long-term claims make up a greater proportion of total claims. This is reflected in the weighted average expected term to settlement of claims being at 11.5 years in 2023 (see note 9(a) of RTWSA's financial report).

Sensitivity to changes in key assumptions

The sensitivity analysis in note 9(f) of RTWSA's financial report illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars.

For example, a 2% gap between inflation and the discount rate (with inflation exceeding the discount rate) would lead to a decrease in the net outstanding claims provision of $392 million. There is also significant uncertainty regarding the serious injury claims cost arising from factors such as life expectancy, superimposed inflation and the ultimate impact of the reforms. The actuary's sensitivity analysis suggests that changes to each of these assumptions could change the net outstanding claims provision in the order of $125 million to $439 million.

Legislative reform and other developments affecting the uncertainty of the outstanding claims liability

The actuarial estimation is primarily based on the anticipated impact of the RTW Act and the introduction of the Amendment Act. The impact will only become clearer as actual claims experience emerges under the legislation. Further, note 9 of RTWSA's financial report specifies the nature of a number of key uncertainties associated with the actuarial estimation and the sensitivities of the estimation to changes in key assumptions. The independent actuary noted the following:

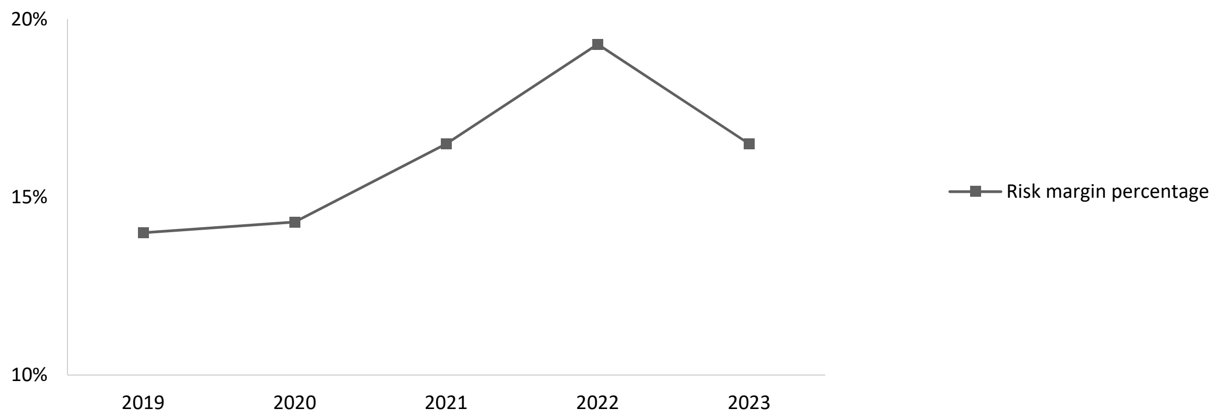
- The reform impacts have introduced changes to the RTW Act that attempt to manage the financial consequences of claimants getting higher WPI scores through combining injuries. The uncertainty relating to the impact of combining injuries is now compounded by the uncertainty in how successfully the reforms remove costs from other areas. A significant portion of the valuation is largely based on assumed outcomes, rather than being based on a reliable history. The uncertainty is elevated compared to normal valuations.
- There is a high risk of adverse behavioural change related to the reform impacts. The ultimate outcomes that emerge will directly depend on how claimants and their advisors seek to achieve higher WPI scores than in the past. Given the high level of legal involvement in the Scheme, the risk of adverse behavioural change is high.
- There is a legal precedent risk related to the possibility of decisions that are unfavourable to the Scheme or the culture and behaviour of its participants. There are still a high volume of open disputes despite a number of key cases having been resolved over recent years. This risk will remain until a clear and decisive legal position is established as to how the Scheme should operate in practice. Compounding this are that:
  - with the introduction of new legislative provisions there will inevitably be new areas of challenge to their operation
  - boundaries on how and when injuries can be combined are still to be established.
- Under the RTW Act, there are significant differences between the compensation available to claims above the serious injury WPI threshold and those below. The Scheme will face significant financial consequences if this leads to more claims achieving the WPI threshold. The inclusion of higher lump sum amounts, in conjunction with the ability to combine injuries over time, creates an environment that encourages claimants to delay their WPI assessments in pursuit of higher WPI scores.
- Serious injury claimants are entitled to benefits for life and key uncertainties include:
  - claim numbers – these include the impact of late-emerging claimants, as well as the large number of outstanding serious injury application disputes and other WPI related disputes
  - life expectancy – the future life expectancy of serious injury claimants has a significant impact on future cost projections
  - cost escalation – the potential for future cost escalation in a number of medical, care and treatment related items.

- Risks related to the outcomes for claims with current disputes include the possibility of decisions that are unfavourable to the Scheme, as well as the behavioural consequences of having high dispute volumes.
- There has been unprecedented growth in hearing loss claim numbers in the last few years. If the upward pressure continues, further increases will eventuate.
- There is considerable uncertainty in financial markets, and this has impacted the discount rates used to determine the valuation results. With inflation increasing quickly over the last year, this may flow into higher than anticipated wage inflation, which will impact the Scheme's liabilities.

Probability of sufficiency

As disclosed in note 9 of RTWSA's financial report, the estimate of outstanding claims liability is determined by reference to a 75% probability that the provision for outstanding claims will be adequate. With the uncertainty of the impact of combining injuries, the reforms and a large number of open disputes, there is still considerable uncertainty in the Scheme. RTWSA has adopted the actuary's risk margin of 16.5% as at 30 June 2023 (19.3% in 2022), so that the net liability is adequately provided to a 75% probability of sufficiency. RTWSA's performance statement, authorised by the Treasurer, requires it to estimate its claims liabilities using a risk margin with at least 65% probability of sufficiency for the net liability. The Australian Prudential Regulation Authority sets a minimum of 75% in Prudential Standard GPS 320 *Actuarial and Related Matters*. Public sector entities are not bound by this requirement, but the parameters adopted by RTWSA are consistent with it.

The following chart shows the risk margin that has been applied to the outstanding claims liability over the past five years.



The increases in the risk margins in 2021 and 2022 highlight the increased level of uncertainty in the outstanding claims liability due to the impacts of the legislative reforms. The decrease in the risk margin for 2023 maintains the probability of sufficiency while being driven by reduced uncertainty about:

- average size selections for lump sums
- serious injury claims, due to reduced uncertainty about combining injuries and reform impacts.

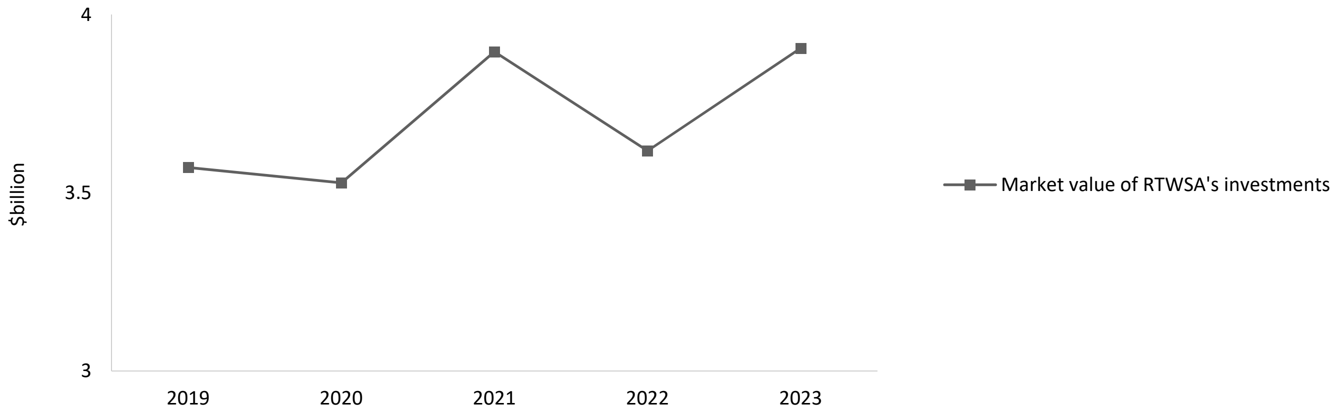
Investments

RTWSA's investment portfolio of $3.9 billion ($3.6 billion) mainly comprises investments in pooled funds, discrete mandate funds and fixed-term deposits. The National Australia Bank is RTWSA's custodian of the pooled funds and discrete mandate funds, although in 2023-24 it will switch custodian to Northern Trust Australia due to the National Australia Bank ceasing to provide these services.

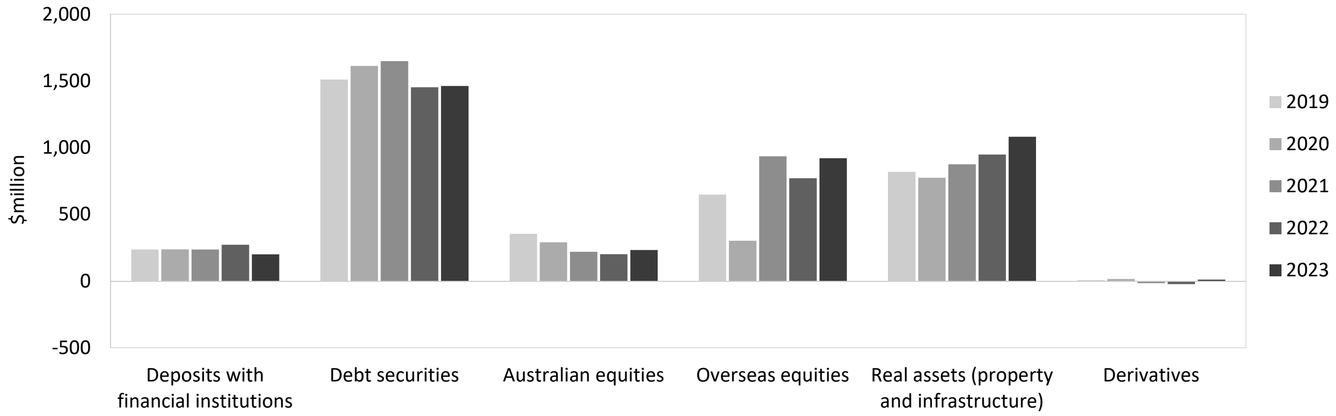
Investment decisions

RTWSA investment officers implement its investment strategy, which involves rebalancing the investment portfolio held in pooled funds, discrete mandate funds and fixed-term deposits to minimise risk and achieve target returns. The investment officers also receive expert advice on investment matters from an external consultant.

The following chart shows the market value of RTWSA's investments for the five years to 2023.



The following chart shows RTWSA's investments by asset class for the five years to 2023.



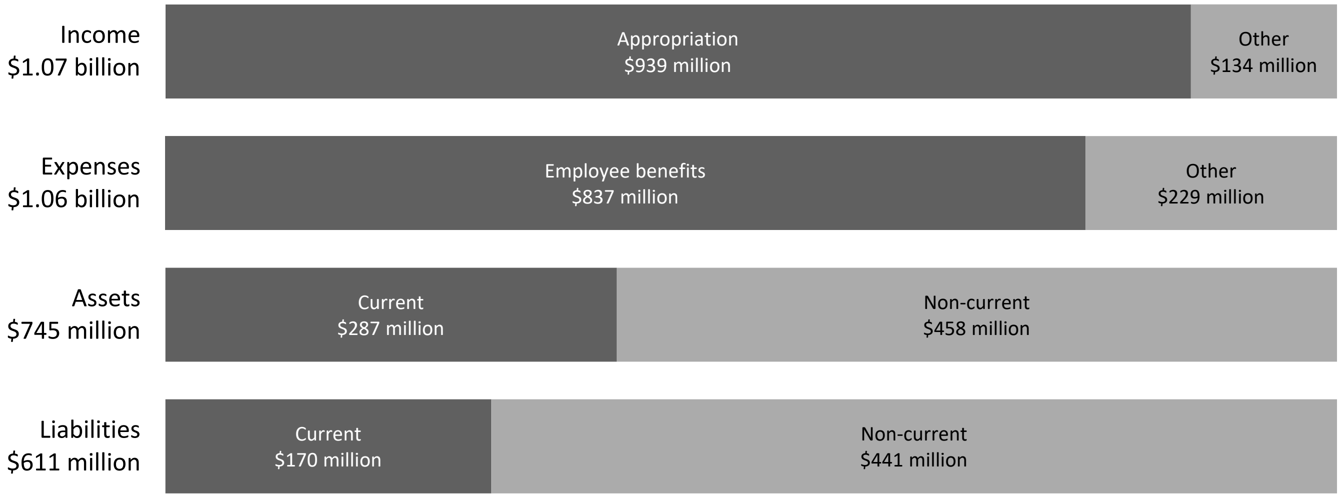
According to RTWSA, the return on investments measured in line with Australian Investment Performance Standards for the five years to 2023 was as shown in the following table.

	2019	2020	2021	2022	2023
Return on investments	8.4%	0.0%	11.8%	-5.0%	6.7%
RTWSA Board of Management approved targeted return	4.2%	2.2%	6.3%	8.6%	8.5%

The current long-term objective for the investment program is a return of CPI plus 2.5%, as approved by RTWSA's Board of Management. RTWSA achieved this target in 2019 and 2021.

South Australia Police (SAPOL)

Financial statistics

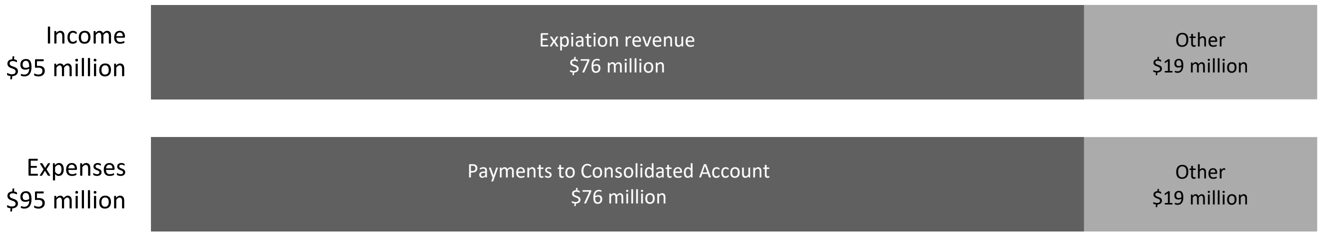


4,594
Sworn police officers

1,330
Unsworn staff including police security officers

$837 million
Total employee benefits expenses

Administered items



Significant events and transactions

— In September 2022, the SA Government announced the Thebarton Police Barracks site would be vacated to make way for the new Women's and Children's Hospital. SAPOL continues to explore available options to relocate its operations and is required to vacate the site by mid-March 2024. SAPOL incurred costs of $1.6 million for relocation planning in 2022-23.

— The *Police Act 1998* was amended on 10 October 2022 to provide for the appointment, powers and duties of police security officers (PSOs). This provides PSOs with more policing powers to perform some of the additional duties performed by sworn police officers. SAPOL had 264 PSO FTEs at 30 June 2023.

Financial report opinion

Unmodified

Controls opinion findings	There are opportunities to strengthen workforce planning controls.
Other audit findings	— The Shield Business Transformation Program has been significantly delayed. — IT controls over user access management of the CHRIS payroll system could be improved.

Functional responsibility

SAPOL is an administrative unit established under the *Public Sector Act 2009* and operates under a legislative framework prescribed by the *Police Act 1998*.

SAPOL's functions are to:

- uphold the law
- preserve the peace
- prevent crime
- assist the public in emergency situations
- coordinate and manage responses to emergencies
- regulate road use and prevent vehicle collisions.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- payroll expenditure
- employee benefits liabilities
- workers compensation and additional compensation provisions
- expenditure
- revenue from fees and charges
- expiation revenue
- cash
- seized exhibits
- property, plant and equipment, including capital works in progress.

Controls opinion

We reviewed controls over employee expenses and bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Commissioner of Police. The main findings and SAPOL's responses are discussed below.

Controls opinion findings

Improvements required in workforce planning controls

Our scope of work

Employee benefits expense is material for both SAPOL and the whole of government. For this reason, we reviewed SAPOL's controls over salaries and wages and how it manages its human resources. Our scope of work included:

- workforce planning:
  - whether SAPOL has reasonable processes to identify its current and future workforce needs to deliver its organisational and strategic objectives
  - whether SAPOL has processes to capture, report and monitor vacancies and staffing levels
  - the integration of PSOs into some roles previously performed by police officers to address resourcing requirements
- reviewing whether staff appointments are in line with legislation
- employee performance management
- reviewing the processes to ensure sworn staff have undertaken mandatory training within the required time frame.

We considered guidance issued by the Office of the Commissioner for Public Sector Employment when reviewing controls over workforce planning.

A comment on SAPOL sworn establishment levels

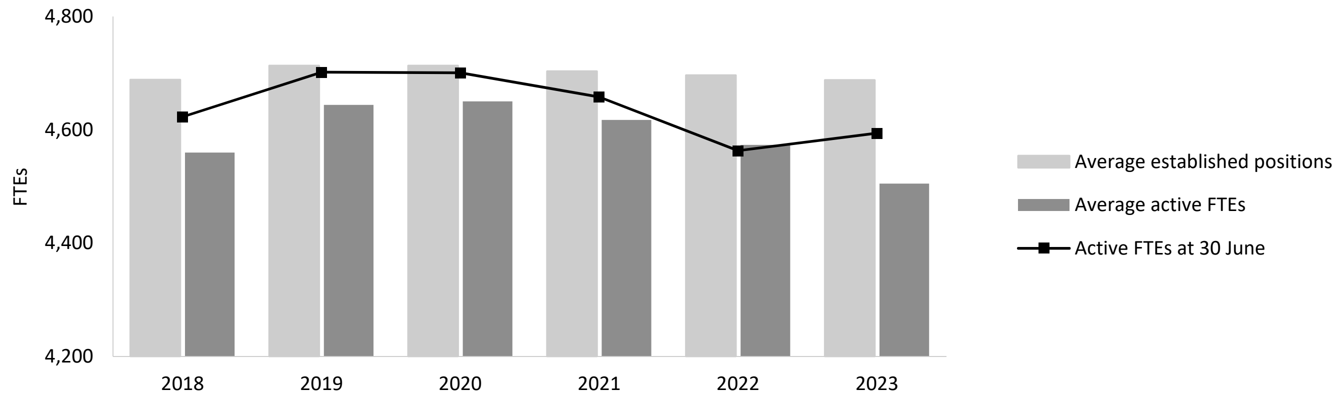
SAPOL's workforce is made up of both sworn and unsworn officers, with sworn police officers forming the majority of the workforce (78%) with 4,594 FTEs at 30 June 2023.

SAPOL has processes to identify the minimum baseline sworn police officers required to meet its service requirements. This is known as the 'sworn established profile'. The profile identifies both the number of FTEs and positions required in each service area to deliver on its objectives.

SAPOL's ability to deliver services depends on the sufficiency and effective management of its resourcing.

The chart below shows SAPOL's average sworn established profile and average active FTEs for the past six years. It illustrates that SAPOL has not met the average established profile for sworn officers over this period. Recruitment through 2019 and 2020 enabled it to largely achieve its sworn establishment profile by 30 June in those years. However since 30 June 2020, staff attrition has exceeded recruitment, with SAPOL operating 183 FTEs (on average) below its establishment in 2022-23.

SAPOL's inability to meet its sworn FTE establishment is reflective of the challenges being faced by law enforcement agencies nationally.



Note: Data was supplied by SAPOL and is unaudited.

The average active FTE figures include employees who are on extended leave without pay, meaning that the number of sworn positions filled may be lower than depicted in the chart. There were 164 FTEs on extended leave at 30 June 2023.

The Establishment Management Committee (EMC) has not met since February 2021

The EMC is responsible for overseeing the planning for the sworn and unsworn workforce to ensure it meets SAPOL's strategic objectives. It has not met since February 2021 and has not finalised its terms of reference.

This strategic oversight is important, as SAPOL has a significant workforce made up of 4,594 sworn, 1,066 unsworn and 264 PSO FTEs at 30 June 2023. Due to ongoing resourcing challenges, SAPOL continues to operate below established profiles for sworn officers and was 90 FTEs below establishment at 30 June 2023. SAPOL needs a coordinated and structured approach to its workforce planning to ensure staff resourcing is managed effectively to meet its strategic objectives.

SAPOL advised us that the process to re-establish the EMC and corporate framework is expected to be finalised by December 2023.

We acknowledge that SAPOL has established a Strategic Transfer Committee to manage vacancies due to COVID-19 and address front-line resourcing challenges. This committee met regularly throughout 2022-23 and will continue to manage front-line resourcing.

A comment on the district policing model post-implementation review

SAPOL has not commenced its planned post-implementation review of Stage 2 of the district policing model it introduced in 2018. SAPOL advised us that it expects this review to commence later in 2023. A post-implementation review is an important part of ensuring that SAPOL is realising the intended objectives of the model and will identify any required adjustments.

Other audit findings

The Shield Business Transformation Program has been significantly delayed

In September 2009, Cabinet approved a submission for the acquisition of a police records management system, now referred to as the Shield Business Transformation Program (Shield Program). Stages 2 to 4 of the program were approved by Cabinet in November 2013. SAPOL expected to complete these stages over a seven-year period (2013-14 to 2019-20). When fully implemented, Shield is expected to provide a fully integrated operational policing system. It aims to increase efficiencies, improve resource deployment and provide a more comprehensive information/intelligence picture.

Last year we noted that the Shield Program delivery schedule had been significantly delayed, and that additional capital expenditure of $20.98 million was provided over 2021-22 and 2022-23 to complete it. The total Shield Program budget is now $89.57 million.

SAPOL advised us that stage 4A of the Shield Program is still being implemented and is expected to go live in October 2023. The final stage of implementation will be stage 4B, which is expected to go live by May 2024.

We noted the following areas where improvement is required:

- no formal benefits realisation plan
- weaknesses in disaster recovery processes
- gaps in change management procedures
- the post-implementation review process could be enhanced.

SAPOL responded positively to our findings and recommendations, and provided details of its remedial actions.

IT controls over user access to the CHRIS payroll system could be improved

We reviewed IT controls supporting the CHRIS payroll system.

CHRIS is maintained by Shared Services SA, with certain user access management controls managed directly by SAPOL.

In 2022-23, we reviewed SAPOL's CHRIS user access management controls, including privileged user access, user onboarding, user offboarding, user access reviews and audit logging of application users.

We identified some areas of weakness where user access management controls could be further improved.

SAPOL responded positively to our findings and recommendations, and provided details of its remedial actions.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Income		
Appropriation	939	972
Intra-government transfers	87	85
Fees and charges	31	30
Other revenues	16	20
Total income	1,073	1,106
Expenses		
Employee benefits	837	784
Supplies and services	181	193
Payments to the Consolidated Account	-	14
Other expenses	48	47
Total expenses	1,066	1,038
Net result	7	68
Total comprehensive result	7	68
Net cash provided by (used in) operating activities	52	52
Assets		
Current assets	287	262
Non-current assets	458	413
Total assets	745	675
Liabilities		
Current liabilities	170	151
Non-current liabilities	440	396
Total liabilities	611	547
Total equity	134	128

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income decreased by $33.4 million in 2023, which is mostly due to a $33.1 million decrease in appropriation funding and a $5.6 million decrease in net gains from the disposal of non-current assets. These movements were partially offset by a $2.1 million increase in SA Government grants, subsidies and transfers, a $2 million increase in Commonwealth-sourced grants and funding and a $1.4 million increase in fees and charges.

SAPOL receives appropriation funding based on its annual budgeted expenditure, less estimated revenues from fees and charges and other sources. The decrease in appropriation funding for 2023 largely reflects budgeted decreases in operating expenditure associated with SAPOL's COVID-19 responsibilities. There is further commentary on this under 'COVID-19 impacts' below.

The decrease in the net gain from the disposal of non-current assets mainly reflects the 2021-22 disposals of the former Police Academy at Largs Bay and the former Stirling Police Station.

SA Government grants, transfers and subsidies increased by $2.1 million to $86.7 million due to:

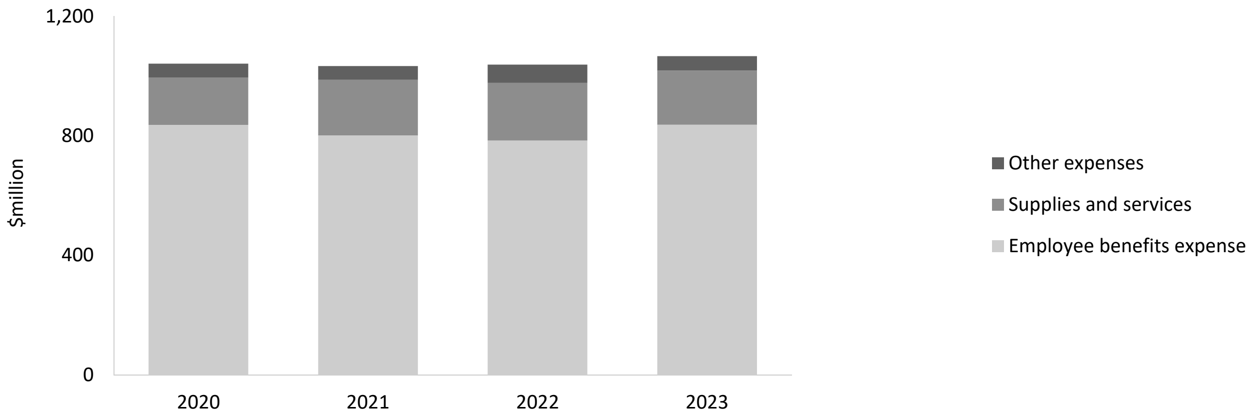
- $1.6 million in costs incurred by SAPOL in planning for the Thebarton Police Barracks relocation, to be reimbursed by the Department for Infrastructure and Transport (DIT)
- a $1.1 million (2.5% CPI) increase for the Community Road Safety Fund. SAPOL is reimbursed by DIT for costs incurred in providing road safety services, including the development of analytic capabilities, implementing road safety programs and heavy vehicle enforcement activities.

Commonwealth-sourced grants and funding increased by $2 million to $4.9 million, mostly because of increased funding recognised for the construction of SAPOL infrastructure in the APY lands.

Fees and charges increased by $1.4 million to $31.4 million, due mainly to increased demand for police security services and an increased number of vehicles being charged clamping and impound fees.

Expenses

The following chart shows SAPOL's main expense items for the four years to 2023.



Total expenses increased by $27.2 million to $1.1 billion in 2023, driven by a $53.1 million increase in employee benefits expense, and offset by a $12.2 million decrease to supplies and services expense and a $13.9 million decrease to payments to the Consolidated Account.

The employee benefits expense increase of $53.1 million is due primarily to:

- the $31.3 million increase in the long service leave expense – this expense is impacted by relative movements in the long service leave liability each year, offset by other factors including salary increases and growth in employee entitlements (see 'Employee benefits liabilities and related on-costs in payables' below)
- a $9.5 million increase in workers compensation expense, driven by a $6.2 million increase in the workers compensation provision (see 'Workers compensation provision' below)
- a $7.5 million increase in additional compensation expense, driven by a $10.7 million increase in the additional compensation provision (see 'Additional compensation provision' below)
- a $6 million increase in employment on-costs, which predominately relates to the superannuation guarantee rate increasing by 0.5% to 10.5% from 1 July 2022.

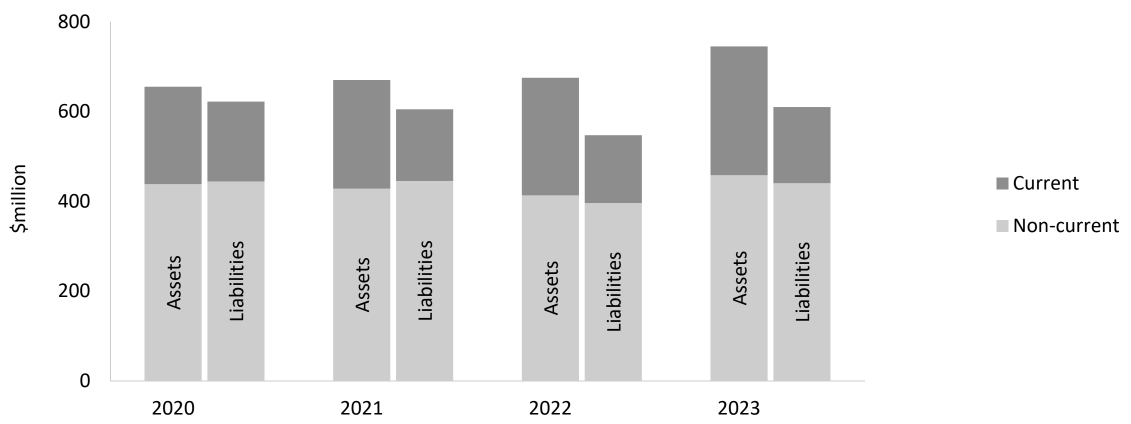
Supplies and services decreased by $12.2 million due mainly to:

- a $4.9 million decrease in administration expenses, reflecting less accommodation and travel spending when SAPOL ceased its COVID-19 functions in December 2022
- a $4.7 million decrease in temporary agency staff in response to reduced COVID-19 functions
- a $4.1 million decrease for uniforms due to the purchase of multi-purpose load-bearing vests for officers in 2022
- offset by a $2.2 million increase in motor vehicle expenses due primarily to increased towing, transportation, fleet stripping and commission costs.

The $13.9 million decrease in payments to the Consolidated Account relates to the 2021-22 sale of the former Police Academy at Largs Bay and sale settlement of the former Stirling police station.

Statement of Financial Position

SAPOL's assets and liabilities for the four years to 2023 are shown in the following chart.



Assets

Current assets

Current assets increased by $25.4 million to $287 million, largely driven by a $13.1 million increase in cash and cash equivalents, which included a $17.2 million increase in the Accrual Appropriation Excess Funds Account. Funds held in this account can be accessed with the Treasurer's approval in a financial year when cash requirements exceed the appropriation provided for the cost of items, including employee-related liabilities.

Current receivables increased by $12.3 million, due mainly to a lease incentive for the new leased premises at Blackburn House and higher prepayments for software subscriptions and licence fees.

Non-current assets

Non-current assets increased by $44.4 million to $457.8 million, due mainly to a $41.7 million increase in property, plant and equipment and a $2.6 million increase in intangible assets.

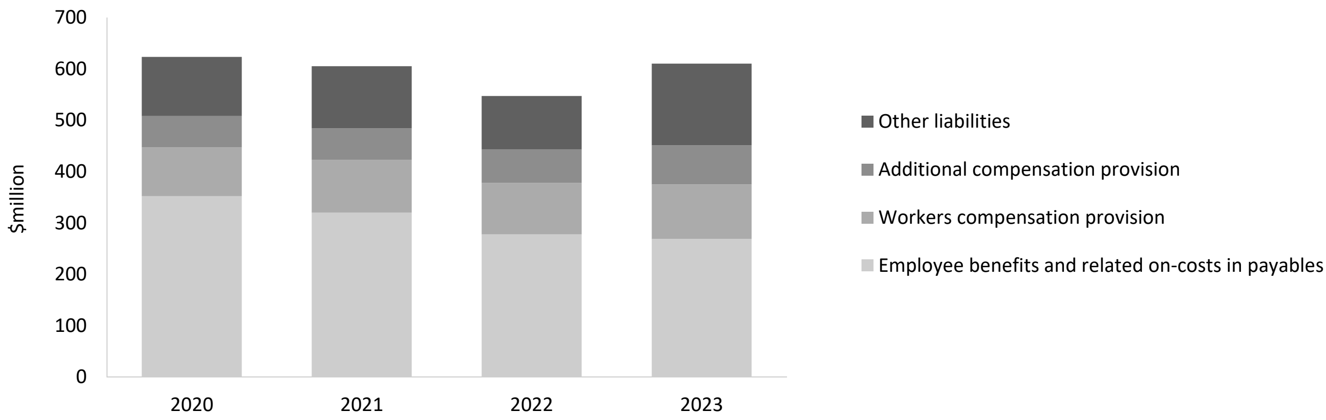
The increase in property, plant and equipment largely reflects additions of $77.6 million, offset by depreciation of $37.1 million. Asset additions include:

- $50.4 million for the acquisition of right-of-use buildings at Blackburn House, Leigh Street/ Hindley Street Police Station, Normanville Police Station and a northern suburbs impound yard
- $15.3 million for capital works in progress for various projects, including a facility upgrade project across various buildings, the construction of SAPOL infrastructure in the APY lands, a CCTV surveillance project for server and workstation replacements, and Leigh Street/Hindley Street Police Station refurbishment works
- $8.4 million for additional right-of-use vehicles.

The $2.6 million increase in intangibles largely reflects additions of $11 million for capital works in progress associated with the Shield Project (stages 3 to 4) and K2 Enterprise system (software and associated digital forms), offset by $8.3 million in amortisation expense.

Liabilities

The significance of employee-related liabilities to total liabilities for the four years to 2023 is shown in the following chart.



Total liabilities increased by $63.8 million (12%) to $610.8 million, which is largely attributable to:

- a $45.2 million increase in lease liabilities
- a $10.7 million increase in the additional compensation provision
- a $7.5 million increase in creditors
- a $6.2 million increase in the workers compensation provision
- a $2.9 million increase in other liabilities
- offset by an $8.6 million decrease in employee benefits liabilities and related on-costs in payables.

Lease liabilities

The $45.2 million increase in lease liabilities is due primarily to four new building leases at Blackburn House, the Leigh Street/Hindley Street Police Station, Normanville Police Station and a northern suburbs impound yard and 58 new vehicle leases.

Additional compensation provision

The additional compensation provision rose to $75.8 million, reflecting a $10.7 million increase as a result of re-measurement by the consulting actuary. This increase is due to the average claim size for SAPOL increasing by 10% and changes in assumptions, such as the inflation and discount rates, adopted by the actuary in bringing the future estimated cash flows to present value.

The additional compensation provision provides continuing benefits to workers who have suffered eligible work-related injuries and whose entitlements have ceased under the statutory workers compensation scheme. The movement in the additional provision is impacted by the limited claim history and the evolving interpretation of eligibility criteria and evidence required.

Workers compensation provision

The workers compensation provision increased to $106.4 million, reflecting a $6.2 million increase as a result of re-measurement by the consulting actuary. This increase is due to the average claim size for SAPOL increasing by 6.6% and changes in assumptions, such as the inflation and discount rates, adopted by the actuary in bringing the future estimated cash flows to present value.

Significant reforms to the *Return to Work Act 2014* passed in July 2022 in the *Return to Work (Scheme Sustainability) Amendment Act 2022*. The actuary has considered and made allowances for these reform changes in calculating the workers compensation provision as at 30 June 2023.

The workers compensation provision is the estimated cost of ongoing payments to employees as required under current workers compensation legislation. There is a significant degree of uncertainty associated with estimating future claim and expense payments. The liability is impacted by agency claim experience relative to other agencies, average claim sizes and other economic and actuarial assumptions.

Payables

Creditors increased by $7.5 million, due primarily to:

- higher accruals for capital projects of $3.3 million for buildings and improvement works in progress
- higher operating accruals for goods and services of $2.6 million, mainly relating to the road safety campaign
- increased creditors of $1.5 million, mostly relating to IT-related expenditure and maintenance costs.

Other liabilities

The $2.9 million increase in other liabilities mostly relates to the recognition of a lease incentive of $5.9 million for the new leased premises at Blackburn House. This was offset by a $2.4 million reduction in unearned revenue for funding received from the Commonwealth Government for the construction of SAPOL infrastructure in the APY lands. This decrease reflects capital works performed in 2022-23 for which a corresponding portion of revenue has now been recognised.

Employee benefits liabilities and related on-costs in payables

The $8.6 million decrease in employee benefits liabilities is predominately driven by a $6.3 million decrease in the long service leave liability due to a change in actuarial assumptions used in the re-measurement. The key change was an increase in the rate used to discount future cash flows to present value increased to 4% (3.75%). The salary inflation rate also increased to 3.5% (2.5%).

The $1 million decrease in on-costs payable is consistent with the decrease in employee benefits liabilities, particularly the long service leave liability.

Administered items

Expiation fees – $75.5 million collected

Expiation fees are collected by SAPOL on behalf of the SA Government. SAPOL treats the collection of expiation revenue under the *Expiation of Offences Act 1996* as an administered item and pays the revenue to the Consolidated Account.

Expiation fees collected increased by $3.6 million to $75.5 million, which is attributable to a 1.9% annual indexation rate increase and the impact of having more cameras online and increased traffic following the relaxation of COVID-19 restrictions.

Victims of Crime Levy (VOCL) – $15.8 million collected

The VOCL provides compensation to people who suffer injury as a result of criminal acts under the *Victims of Crime Act 2001.* SAPOL collects the VOCL from offenders through the expiation of offences included on expiation notices issued by police and other authorised officers. SAPOL collects this money and remits it to a special interest-bearing deposit account managed by the Attorney-General’s Department.

VOCL income received and paid to the Attorney-General’s Department totalled $15.8 million in 2022-23. This increase of $736,000 was reflective of the increase in expiation fees noted above.

Further commentary on operations

COVID-19 impacts

On 22 March 2020, the Commissioner of Police declared a major emergency under the *Emergency Management Act 2004* (the EM Act) to reduce the spread of COVID-19 in South Australia. Under the EM Act, the person holding or acting in the position of Commissioner is appointed as the State Coordinator for declared emergencies. A major emergency declaration under the EM Act gave the Commissioner, as State Coordinator, and any authorised officers broad powers to manage and coordinate the response to, and recovery from, the outbreak of COVID-19 in South Australia.

On 24 May 2022, the Commissioner revoked his declaration of the COVID-19 outbreak as a major emergency, meaning that the Commissioner no longer had responsibility for setting COVID-19 directions.

SAPOL incurred $7.3 million in COVID-19-related expenditure for employee entitlements and supplies and services in 2023. This is a significant decrease from the $27.8 million spent in 2022 and reflects the cessation of SAPOL's COVID-19 responsibilities from December 2022.

No material costs associated with COVID-19 are anticipated in 2023-24.

Thebarton Police Barracks relocation

In September 2022, the SA Government announced that the Thebarton Police Barracks site would be vacated to make way for the new Women's and Children's Hospital. This is Crown land that was dedicated to the Minister for Police in 1917 and has a carrying value of $350,000 at 30 June 2023. SAPOL constructed buildings on this land that have a depreciated value of $248,000 at 30 June 2023.

SAPOL has been exploring available options to relocate its operations and is required to vacate the barracks site by mid-March 2024.

The SA Government provided $2 million in funding to DIT for relocation planning work, with SAPOL incurring costs to be reimbursed of $1.6 million in 2022-23.

Amendment to the *Police Act 1998*

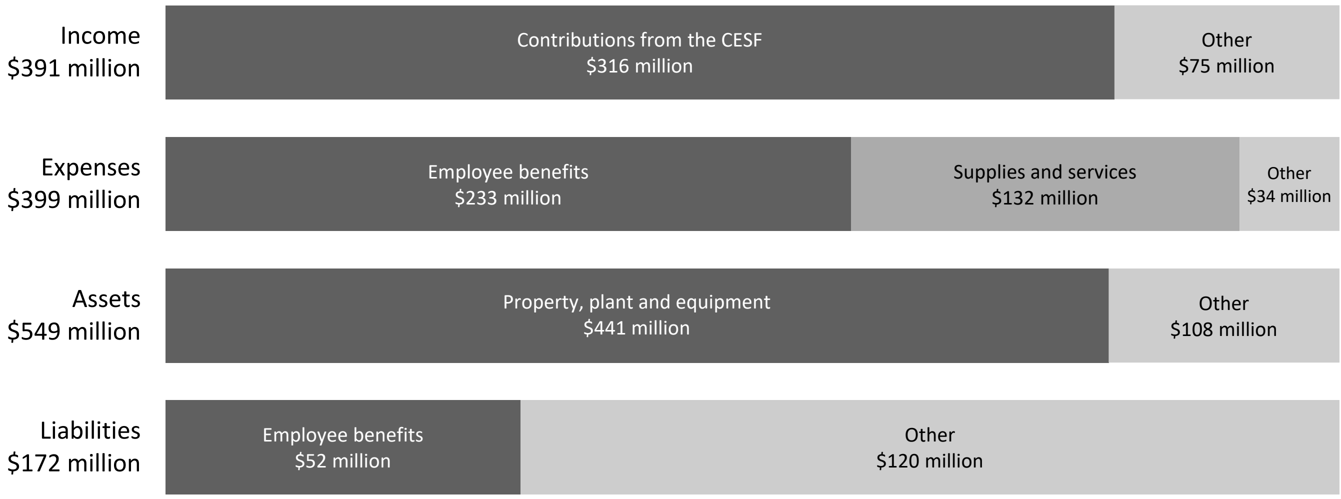
The *Police Act 1998* was amended in October 2022 to include the appointment, powers and duties of PSOs. PSOs were formally known as Protective Security Officers under the *Protective Security Act 2007*, which has been repealed. The role of PSOs is the security and protection of people, property and place. The amendment provides PSOs with more policing powers to perform additional duties that were previously performed by sworn police officers, including the following additional roles:

- guard services for cells, hospitals and crime scenes
- security services for events and property
- conveyance services for detainees, child guardianship and exhibit property
- operation Nomad patrols
- major incident traffic cordons
- stolen vehicle recovery
- welfare checks.

SAPOL had 264 PSO FTEs at 30 June 2023.

South Australian Fire and Emergency Services Commission (SAFECOM)

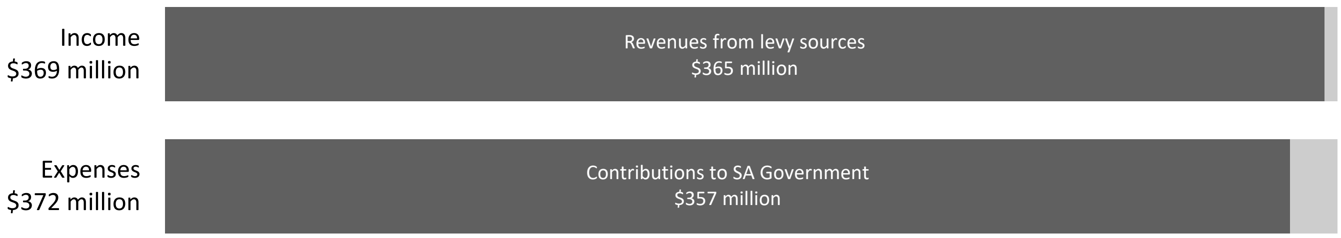
Financial statistics



1,398
FTEs

15,198
Volunteers

Administered items



Significant events and transactions

— Between December 2022 and February 2023 the SASES responded to a severe River Murray flooding event that triggered a major emergency declaration and led to the widespread loss and damage of public and private dwellings, and transport and business infrastructure.

— The emergency services sector (ESS) continued to respond to the outcomes of the *Independent Review into South Australia's 2019-20 Bushfire Season*, including the implementation of its recommendations.

Financial report opinion **Unmodified**

Controls opinion findings	No significant findings.
Other audit findings	— The presentation of personal protective clothing and uniforms for industrial cleaning was low. — There were contractual non-compliance and management weaknesses for the industrial laundry and maintenance services contract. — The ESS network management contractual relationship could be strengthened. — The ESS's protective and cyber security strategies could be strengthened. — Asset management practices could be improved.

Functional responsibility

SAFECOM is established by the *Fire and Emergency Services Act 2005*, which also defines the ESS as:

- SAFECOM
- South Australian Country Fire Service (SACFS)
- South Australian Metropolitan Fire Service (SAMFS)
- South Australian State Emergency Service (SASES).

SAFECOM's legislative functions include the development of strategic and policy frameworks, review and consultation roles, and corporate governance across the ESS. SAFECOM also provides for the effective allocation of ESS resources and has a strategic leadership role in statewide emergency management.

SAFECOM administers the Community Emergency Services Fund (CESF), which is the main source of funding for the ESS.

Scope of the audit

Audit of the financial report

The audit program covered the major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Areas of audit attention in 2022-23 included:

- revenue
- risk management and legal compliance
- information technology general controls
- supplies and services expenditure
- payroll and workforce management
- cash and cash equivalents
- asset management

- governance
- the status of the responses to the *Independent Review into South Australia's 2019-20 Bushfire Season* (Keelty report) outcomes.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures. We did not place any reliance on the work performed by internal audit.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the SAFECOM Chief Executive and the SACFS, SAMFS and SASES Chief Officers. The main findings and responses are discussed below.

Controls opinion findings

There were no significant findings from our controls opinion work.

Other audit findings

Low presentation of personal protective clothing for industrial cleaning

In April 2021, on behalf of the SAMFS and SACFS, SAFECOM signed a contract for the provision of industrial laundry and maintenance services for personal protective clothing (PPC) and uniforms. These cleaning services are critical to firefighter safety as they involve the decontamination of carcinogens and other contaminants from PPC and uniforms.

Effective decontamination relies on the consistent presentation of PPC and uniforms to the supplier for industrial cleaning. We reviewed the cleaning presentation levels for the 18 months from November 2021 to April 2023.

While the SAMFS recorded reasonably high presentation rates, SACFS presentation rates were low, which may impact the safety and wellbeing of SACFS staff and volunteers.

The SACFS responded that it is continuing to work with the service provider to improve presentation rates.

Contractual non-compliance and management weaknesses for the industrial laundry and maintenance services contract

We considered the effectiveness of contract management processes for a sample of industrial laundry and maintenance services contract clauses.

We found instances of contractual non-compliance involving the failure to:

- provide industry participation reports
- confirm National Fire Protection Association certification
- confirm police clearances for pick-up and delivery drivers
- confirm various supplier quality management practices.

SAFECOM responded that a new deed of agreement has been established with revised contractual obligations and key performance indicators. It establishes new conditions for the monitoring of contractual compliance standards.

The ESS network management contractual relationship could be strengthened

SAFECOM is subject to a whole-of-government purchasing agreement for local and central data network management services.

The purchasing agreement provides for supplier meetings to occur where, among other matters, the review of service reports, assessments of service level compliance and management of operational and technical issues can be tabled.

We confirmed that no formal supplier meetings have occurred since contractual inception in October 2014.

Where no formal contractual monitoring occurs, the ability to reduce contract risk, improve performance efficiency and identify and penalise contractual failures can be adversely impacted.

SAFECOM responded that it will conduct a review of all ICT contracts in 2023-24 and establish regular and formal contract management meetings to ensure supplier performance is discussed and evaluated.

The ESS's protective and cyber security strategies could be strengthened

We sought to understand the ESS's alignment to, and compliance with:

- the South Australian Protective Security Framework (SAPSF) and South Australian Cyber Security Framework (SACSF)
- the Australian Cyber Security Centre's 'Essential Eight' cyber threat mitigation strategies.

We reviewed the 2022 annual SAPSF and SACSF security attestation that the ESS submitted to the Department of the Premier and Cabinet (DPC). We found that self-assessed SAPSF maturity levels for ICT-related categories, such as security governance and monitoring, had declined since the ESS's 2021 attestation.

The SACSF's attestation results highlighted issues such as a lack of formal policies, ad hoc processes and ICT staffing shortages.

With the 2023 attestation underway, we assessed the ESS's progress in addressing the 2022 deficiencies. Around half had been partially or completely implemented.

For the Essential Eight, we reviewed the 2022 maturity self-assessment that the ESS submitted to DPC. Seven of eight categories were assessed at a maturity level of zero, indicating no appropriate maturity standards for the category. These categories included regular back-ups and privileged/administrative user restrictions.

Misalignment between cyber security processes and best practice standards impairs the ESS's ability to identify and manage cyber security threats and risks.

SAFECOM responded that a 2023-24 work program is being developed to improve its cyber security and meet the attestation requirements of the SACSF. Its ICT governance model will also be improved to ensure regular ICT security progress reporting occurs across the ESS.

Asset management findings

Asset management practices could be improved

Emergency services organisations (ESOs) are responsible for developing strategic asset management plans and asset management plans. Last year we reviewed these documents and identified improvement areas.

In 2022-23 we found that some progress had been made in finalising the plans. However, there were still multiple ESO plans that were either in draft or not yet scoped.

The ESOs responded that they expected the ESS strategic asset management framework to be reviewed in 2023-24, with strategic asset management plans remaining the responsibility of the individual ESOs to progress.

Maintenance scheduling matrices not used

SAMFS procedures require Site Commanders to develop testing and servicing schedules for their site's operational plant and equipment. Maintenance scheduling matrices have been developed to support sites, and are designed to ensure all required testing is carried out and recorded.

We sampled six SAMFS sites to understand if these matrices were established and operating as intended. However, as in prior years, no matrices had been established. Last year the SAMFS stated that its maintenance policy would be reviewed and updated to meet legislative standards. However, this review remains outstanding.

The SAMFS responded that procedures will be updated to ensure that plant, equipment and appliances meet legislative compliance standards. This will include defining roles and responsibilities and reinforcing key procedure requirements to SAMFS sites. An SAMFS asset management working group will then determine an approach to achieving improved review and compliance.

Appliance and equipment inspection reporting anomalies

SAMFS procedures state that all appliance and equipment inspection outcomes must be documented. To assess the SAMFS's compliance with these reporting requirements, we sampled the December 2022 quarter for five SAMFS sites.

Across the sites we found instances where either:

- no evidence of any inspection reporting could be provided because of missing or unreturned documentation
- inspection reports were only partially completed, unauthorised or lacked evidence of any review.

The SAMFS responded that all Operational Commanders are being consulted on the need for full staff compliance with key appliance and equipment inspection report requirements.

Some appliances are not serviced as required

SACFS asset servicing guidelines require appliances (fire trucks and vehicles) of differing ages, types and service requirements to be subject to varying service levels.

We sampled appliances across three regions to understand whether servicing was undertaken in line with SACFS guidelines. We found instances of:

- service schedules being misinterpreted, resulting in incorrect service levels being performed on multiple appliances
- absent service records
- an appliance that was not serviced
- mismatches in recorded service dates between service records.

Appliances not being serviced in line with the required frequency, quality or service level are at a higher risk of breakdowns and failures, which could endanger SACFS volunteers and staff.

The SACFS responded that it will explore developing servicing manuals across the regions. It has also recently completed a tender process and established contracts for servicing vehicles across two of its regions. A tender process is now underway to roll these services out across all regions.

Inconsistent validation of service provider qualifications

SACFS asset servicing guidelines require maintenance service providers to provide evidence of their National Heavy Vehicle Regulations (NHVR) qualification requirements.

We found that while some regions followed processes to validate maintenance service provider NHVR qualifications, other regions could not demonstrate that they had established processes to consider or confirm the qualification requirements.

Not validating NHVR qualifications increases the risk of maintenance not being performed to a satisfactory standard. This may endanger volunteer and staff safety, and increase the cost of corrective maintenance services.

The SACFS responded that it is progressing appliance servicing through a procurement process across all regions. This process includes a requirement for service providers to confirm their NHVR qualifications.

Vehicles and vessels not serviced

SASES asset servicing guidelines require servicing and maintenance of vehicles to be undertaken in line with manufacturer requirements, or at least annually.

We reviewed asset servicing data for 2021-22 and found that 64% of vehicles and vessels had not been serviced. For 2022-23 we found that 78% of vehicles and vessels had not been serviced as at April 2023.

Where vehicles and vessels are not serviced in line with established guidelines the risk of asset failure increases.

The SASES responded that it will review its maintenance and servicing guidelines. It will also investigate the possibility of implementing a central monitoring system to improve service compliance.

Interpretation and analysis of the financial report

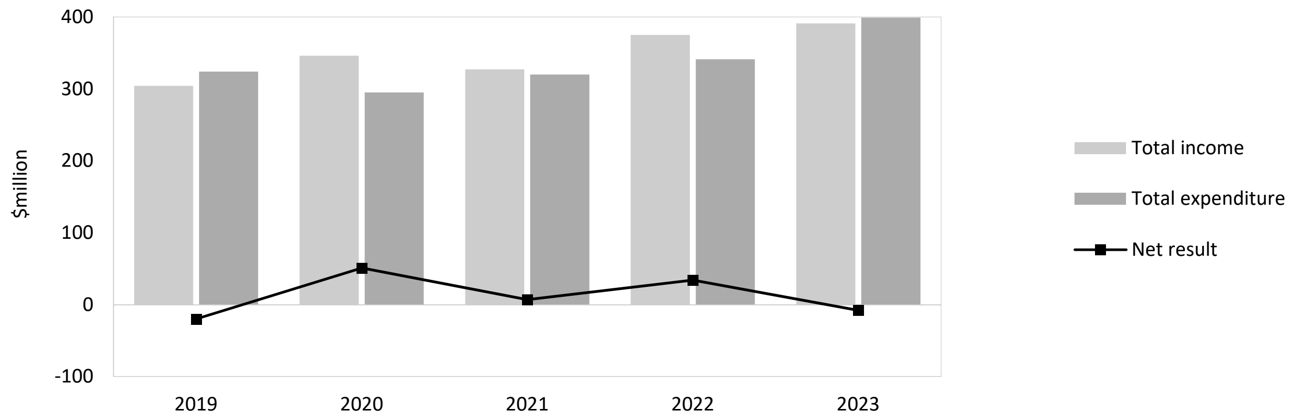
Highlights of the financial report – consolidated emergency services sector

	2023 $million	2022 $million
Income		
Contributions from the CESF	316	299
Other income	75	76
Total income	391	375
Expenses		
Employee benefits	233	194
Supplies and services	132	115
Depreciation and amortisation	29	28
Other expenses	5	4
Total expenses	399	341
Net result	(8)	34
Other comprehensive income	-	-
Total comprehensive result	(8)	34
Net cash provided by (used in) operating activities	38	42
Net cash provided by (used in) investing activities	(33)	(45)
Assets		
Current assets	52	53
Non-current assets	497	494
Total assets	549	547
Liabilities		
Current liabilities	54	51
Non-current liabilities	118	111
Total liabilities	172	162
Total equity	377	385

Statement of Comprehensive Income

Net result

The following chart shows the ESS's total income, total expenses and consolidated net result for the past five years. It illustrates that contributions from the CESF and other income, mainly SA Government grants, subsidies and transfers, have generally been sufficient to meet total expenses.



The $42 million decrease in the net result for 2022-23 was driven by significant rises in employee benefits expenses of $39 million (20%) and supplies and services of $17 million (15%). They were partially offset by increases in CESF contributions ($17 million) and appropriations ($29 million), which included Governor's appropriation funding.

ESS net results are impacted by emergency situation activity levels. This was the case in 2022-23, with the SASES receiving increased funding to combat the River Murray high flow event.

Income

The main source of revenue for the ESS is CESF contributions of $316 million ($299 million), which account for 81% (80%) of total income.

Total income increased by $16 million (4%) to $391 million due mainly to the rise in CESF contributions and appropriations explained above.

Expenses

Total expenses increased by $58 million to $399 million. The main drivers of this increase are discussed below.

Employee benefits expenses

Employee benefits expenses of $233 million represent 58% (57%) of total expenses. Key movements included the following:

- In December 2022 the new SAMFS enterprise agreement came into force. This resulted in significant back pay being processed. The Acting Treasurer approved $11 million in contingency provision funding to meet the estimated value of the back pay.

- Long service leave expenditure increased by $7 million, largely due to changes in actuarial assumptions and the bond rate used to calculate the liability.
- Workers compensation increased for both the SAMFS ($5.9 million) and SACFS ($3.2 million), mainly due to rises in seriously injured worker claims.

Supplies and services expenses

ESS supplies and services increased by $17 million to $132 million. While all ESOs saw rises in these costs, the SASES in particular experienced a $12 million (94%) increase due to its response to the River Murray flood event. The SASES received additional CESF funding of $9.4 million as well as a Governor's appropriation funding injection of $4.8 million to meet these costs.

Statement of Financial Position

Assets

Property, plant and equipment (including capital work in progress) marginally increased by $3 million (1%) to $495 million and represent 90% of total assets. The main asset classes held are land ($83 million), buildings ($141 million) and vehicles ($174 million), accounting for 90% of property, plant and equipment.

The marginal movement in 2022-23 was due to:

- property, plant and equipment transfers of $41 million, mainly buildings ($15 million) and vehicles ($24 million), from capital works in progress. Material asset transfers included:
  - SACFS – vehicles (appliances) of $15.2 million – mainly urban pumpers and rural appliances
  - SAMFS – land and buildings of $10.4 million, mainly related to the completion of the Noarlunga Command Fire Station
  - SASES – land and buildings of $3.3 million, mainly related to the completion of the Strathalbyn Station.

  These increases were offset by depreciation and amortisation charges of $28 million
- capital works in progress decreasing by $10 million (23%). The decline is attributable to the practical completion of major construction projects such as the Strathalbyn Station and Noarlunga Command Fire Station.

Liabilities

Total liabilities increased marginally by $10 million (6%) to $172 million. Current liabilities of $54 million exceeded current assets of $52 million at balance date.

Cash and cash equivalents of $39 million were sufficient to meet current payables of $17 million.

Statement of Cash Flows

Net cash provided by operating activities remained stable at $38 million.

The following table summarises the consolidated sector's net cash flows for the five years to 2023.

	2019 $million	2020 $million	2021 $million	2022 $million	2023 $million
Net cash flows					
Operating	38	35	35	42	38
Investing	(27)	(30)	(30)	(45)	(33)
Financing	-	(2)	(2)	(2)	(2)
Change in cash	11	3	3	(5)	3
Cash at 30 June	34	37	40	35	39

Highlights of the financial report – SAFECOM

	2023 $million	2022 $million
Income		
Contributions from the CESF	20	20
Other income	18	17
Total income	38	37
Expenses		
Employee benefits	11	9
Supplies and services	20	19
Other expenses	4	3
Total expenses	35	31
Net result	3	6
Total comprehensive result	3	6
Net cash provided by (used in) operating activities	11	(1)
Assets		
Current assets	22	18
Non-current assets	13	15
Total assets	35	33
Liabilities		
Current liabilities	5	5
Non-current liabilities	13	14
Total liabilities	18	19
Total equity	17	14

Statement of Comprehensive Income

Income

SAFECOM's main funding source was CESF contributions of $20.1 million ($19.6 million), which accounted for 52% of its revenues.

SA Government grants, subsidies and transfers decreased by $4.7 million to $8.3 million, due to a reduction in funds recovered from SA Health for administering the rapid antigen test close contact program.

Expenses

Supplies and services expenses increased marginally from $19.4 million last year to $19.6 million in 2022-23.

Employee benefits totalled $10.7 million ($8.8 million) or 30% of total expenses.

Highlights of the financial report – administered items

	2023 $million	2022 $million
Income		
Revenues from levy sources	365	356
Other revenues	4	1
Total income	369	357
Expenses		
Contributions to SA Government administrative units	357	339
Grants and subsidies	6	3
Other expenses	9	9
Total expenses	372	351
Net result and total comprehensive result	(3)	6
Net cash provided by (used in) operating activities	(2)	7
Assets		
Current assets	19	21
Total assets	19	21
Liabilities		
Current liabilities	2	1
Total liabilities	2	1
Total equity	17	20

Community Emergency Services Fund

Levy contributions are provided by land owners (including State and local governments) for fixed and mobile property to fund the provision of emergency services. Levies are collected in line with the *Emergency Services Funding Act 1998*, and are set to cover the budgeted emergency services expenditure for the coming financial year.

The fixed property levy is collected by RevenueSA and applies to capital values, adjusted for location and land use. The mobile property levy is collected by the Department for Infrastructure and Transport (DIT) using the vehicle registration system. Once collected, these levies are paid into the CESF.

The SA Government provides CESF contributions through levy remissions (fixed and mobile property) and concession subsidy payments through the Department of Human Services.

Levy collection administration costs are met from the CESF.

Statement of Administered Comprehensive Income

For the year ended 30 June 2023 the CESF's net result was a deficit of $3 million.

Administered income

Emergency services levies increased by $9 million to $365 million (2%). The increases in levy revenue and changes in remissions over the past five years are shown in the table below.

	2019 $million	2020 $million	2021 $million	2022 $million	2023 $million
Fixed property collections	146	155	164	171	179
Fixed property remissions*	119	119	119	129	128
Mobile collections	44	45	47	48	49
Mobile remissions*	4	4	3	3	3
Government concessions	6	6	6	6	6
Total	320	329	339	357	365

* Remissions are provided by the SA Government.

Administered expenses

The following table shows the contributions made by the CESF to SA Government entities over the past five years.

	2019 $million	2020 $million	2021 $million	2022 $million	2023 $million
SAMFS	148	152	164	163	168
SACFS	93	113	88	93	93
South Australia Police	22	23	23	24	24
SASES	21	23	23	23	34
SAFECOM	18	14	18	20	20
Other SA Government entities	7	10	9	16	18
Total	309	335	325	339	357

Contributions paid increased by $48 million or 16% over the five years.

Other expenses included $7 million paid to RevenueSA under the *Emergency Services Funding Act 1998* for administering the collection of fixed property levies. DIT was paid $1 million for collecting the mobile property levies.

Statement of Administered Financial Position

CESF net assets at 30 June 2023 decreased by $3 million to $17 million ($20 million). This is explained by the movements in income and expense items described above.

CESF current assets at 30 June 2023 totalled $19 million ($21 million), and mainly comprised cash and cash equivalents of $17 million.

Further commentary on operations

Staffing

SAFECOM and the ESOs employed the following FTEs as at 30 June for the past two years.

	*2022 FTEs	*2023 FTEs
SAFECOM	76	81
SAMFS	1,028	1,036
SACFS	193	196
SASES	98	85
Total	1,395	1,398

* Staffing data is provided by the Office of the Commissioner for Public Sector Employment and is unaudited.

Volunteers

The SACFS and SASES had the following active volunteers as at 30 June for the past two years.

	*2022 FTEs	*2023 FTEs
SACFS	13,497	13,450
SASES	1,710	1,745
Total	15,207	15,198

* Volunteer data was supplied by SAFECOM and is unaudited.

Impact of the River Murray flood event

Between December 2022 and February 2023 the SASES responded to a severe River Murray flooding event that triggered a major emergency declaration and led to the widespread loss and damage of public and private dwellings and transport and business infrastructure.

The SASES received budget and supplementation funding in the mid-year budget process to address the cost pressures associated with responding to the event.

Status update – ongoing response to the 2019-20 bushfires

Independent bushfire review (Keelty report)

In the summer of 2019-20, bushfires devastated many parts of South Australia and resulted in the loss of three lives. The SA Government commissioned an independent review, with support from various experts, to investigate the State's preparedness for dealing with significant bushfire activity and what could be done to mitigate the impact of future bushfires.

Status update

For the last two years we have considered the ESS's progress in addressing the Keelty report recommendations.

In 2022-23 we noted that of the 69 actions established to address the original 15 report recommendations, 48 are exclusively the ESS's responsibility.

Of these 48 actions, we found that as of May 2023:

- 29 were completed
- three were on track and funded for completion
- 16 could only be completed, as advised to us by the SACFS and SASES, subject to further funding.

Action item funding status

In 2020 the former SA Government announced $97.5 million in funding to address fire danger. $43.8 million of this was earmarked for the ESS, as shown in the table below (figures are unaudited).

	Funding $million	Expenditure to March 2023 $million
SAFECOM	9.6	14.5
SACFS	22.3	4.7
SAMFS	11.5	6.3
SASES	0.4	0.3
Total sector	43.8	25.8

SAFECOM also manages $16.7 million in Commonwealth and State funding designed to be invested over five years as part of the South Australian Disaster Risk Reduction Grants program. Since 2019-20 SAFECOM has received annual instalments of $3.4 million, with the final instalment due in 2023-24. SAFECOM had spent approximately $3 million of this funding up to 2022-23.

South Australian Government Financing Authority (SAFA)

Financial statistics

$41.5 million
Profit before income tax equivalents

7,271
Number of fleet vehicles (including held for sale)

Significant events and transactions	— SAFA received $6.6 million in June 2023 for overpaid income tax equivalents relating to 2021-22. — SAFA paid a $1.8 million dividend in June 2023, the final dividend for 2021-22.
Financial report opinion	**Unmodified**
Controls opinion findings	The 2022-23 financing strategy was not specifically approved by the Treasurer before it was implemented.
Other audit findings	Some monthly reconciliations were not always prepared and reviewed promptly.

Functional responsibility

SAFA, a body corporate, was established under the *Government Financing Authority Act 1982* (SAFA Act).

SAFA is the central borrowing authority for the State, and 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.

Under the SAFA Act, SAFA's liabilities are guaranteed by the Treasurer.

SAFA also administers the SA Government's:

- insurance and risk management arrangements through its insurance division
- passenger and light commercial vehicle fleet operations through Fleet SA.

Scope of the audit

Audit of the financial report

The audit program covered the major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- cash
- financing
- treasury
- insurance
- general ledger.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures. We considered the work of SAFA's internal auditors in planning and conducting the audit.

We specifically considered the work performed by SAFA's compliance unit and internal auditors for elements of our program, in particular:

- quarterly reporting by SAFA's compliance unit
- internal audit's reviews of treasury models and spreadsheets, insurance and underwriting processes and SAFA's risk management framework.

Controls opinion

We reviewed controls over SAFA's borrowings, investments, outstanding claims liability, interest expense, guarantees and indemnities, reinsurance process and bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to SAFA's Chief Executive Officer. The main findings and SAFA's responses are discussed below.

Controls opinion findings

The 2022-23 financing strategy was not specifically approved by the Treasurer before it was implemented

SAFA's policy manual documents the way SAFA carries out its functions as a central financing authority. The manual also requires SAFA's annual financing strategy to be approved by the Treasurer.

Following the release of the 2022-23 State Budget in June 2022, SAFA advised markets of its 2022-23 funding program, which included its proposed 2022-23 funding strategy. The release to the markets was pre-approved by the Treasurer prior to the release of the State Budget.

We noted that the 2022-23 financing strategy was not approved by the Treasurer until December 2022.

We recommended that SAFA ensure the annual financing strategy is submitted to the Treasurer for approval before it is implemented in future.

SAFA responded that its approval to borrow is provided in the debt ceiling approved by the Treasurer in the annual review of its policy manual, and noted that it regularly updates the Treasurer on the progress of its funding targets.

SAFA will seek the Treasurer's approval for an amendment to its policy manual to only require the annual financing strategy to be noted by the Treasurer in future.

Other audit findings

Some monthly reconciliations were not always prepared and reviewed promptly

We noted instances where some of SAFA's monthly reconciliations were not prepared and/or reviewed promptly, including:

- monthly bank reconciliations for SAFA's vehicle leasing and disposal contractors
- corporate asset register to general ledger monthly reconciliations
- claims payment monthly reconciliations
- fleet receivables monthly reconciliations
- SAFA leasing database information to LeasePlan data monthly reconciliations.

SAFA responded that a review of its current processes was underway to ensure reconciliations are prepared promptly. This includes:

- reviewing the number and frequency of reconciliations to ensure all reconciliations are required
- ensuring policies and procedures are updated to reflect the agreed position
- ensuring staff are aware of requirements through training
- cross-skilling staff to ensure sufficient coverage in the event of staff shortages.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Interest revenue	1,638	742
Interest expense	(1,592)	(723)
Net interest revenue	46	19
Net gain (loss) on financial instruments and derivatives	62	(16)
Leasing and hire revenue	53	51
Insurance premium revenue	85	73
Recoveries	5	(5)
Other income (including net gain on sale of property, plant and equipment)	29	71
Vehicle operating costs (including depreciation and impairment)	(30)	(31)
Insurance claims	(181)	(50)
Other expenses	(27)	(39)
Profit (Loss) before income tax equivalents	41	74
Income tax equivalent expense	(13)	(6)
Profit (Loss) after income tax equivalents	29	68
Total comprehensive income	29	68

	2023 $million	2022 $million
Assets		
Cash, short-term assets and investments	8,166	8,914
Loans	33,165	31,428
Derivatives receivable	143	35
Property, plant and equipment (including held for sale)	223	204
Other assets	119	76
Total assets	41,816	40,657
Liabilities		
Deposits and short-term borrowings	12,526	12,716
Bonds, notes and debentures	27,570	26,508
Outstanding claims	764	605
Derivatives payable	470	370
Payables and other liabilities	59	58
Total liabilities	41,389	40,258
Total equity	427	399

* Table may not add due to rounding.

Statement of Comprehensive Income

Interest revenue and expense

Interest revenue and expense are recognised on a market value accounting basis and accrued in line with the terms and conditions of the underlying financial instruments. Interest revenue increased by $896 million or 121%, while interest expense increased by $869 million or 120%.

The increases in interest revenue and expense are mainly due to higher interest rates in 2022-23. They were also impacted by the timing of maturities and settlements for financial instruments, including derivatives.

Net gain on financial instruments and derivatives

SAFA's 2022-23 operating result includes a net gain of $62 million on financial instruments and derivatives. This represents the upward movements in the prices of the financial instruments and derivatives SAFA held, mostly as a result of changes in market rates.

SAFA's risk management approach is discussed further under 'Business risk management' below.

Leasing and hire revenue

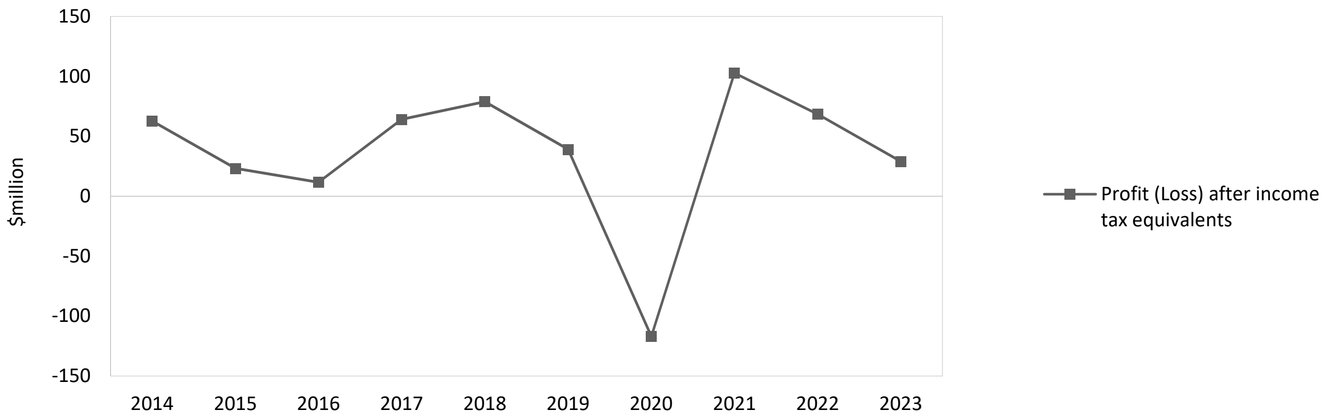
Leasing and hire revenue reflects the fees charged to other government agencies for leasing fleet vehicles. It increased marginally to $53 million in 2022-23.

Profit (Loss)

SAFA's profit before income tax equivalents was $41.5 million. It is required to pay the Treasurer an income tax equivalent on its profit, calculated by applying a tax rate of 30% to profit before tax.

In performing this calculation, some items are excluded. Notably, the Treasurer has exempted all financial assistance program transactions from the application of the tax equivalent regime. There was no financial assistance program activity in 2022-23.

The 10-year trend in SAFA's profit or loss after income tax equivalent expense is shown in the following chart.



The chart highlights the volatility in SAFA's results, which mainly comes from the financial performance of its insurance activities.

SAFA's 2023 profit after income tax equivalents of $29 million is primarily attributable to a profit on its treasury activities of $43 million. The profit from its fleet activities of $20 million was offset by a loss on insurance activities of $33 million.

Insurance activity impact on profit (loss)

SAFA's insurance activities are separated into four funds. Its result after income tax equivalents is, in net terms, only affected by Fund 1 and Fund 4 results, as SAFA is indemnified by the Treasurer against any operating profit or loss arising from the activities of Funds 2 and 3.

Fund 2 is used to fund liabilities arising from insurable incidents that:

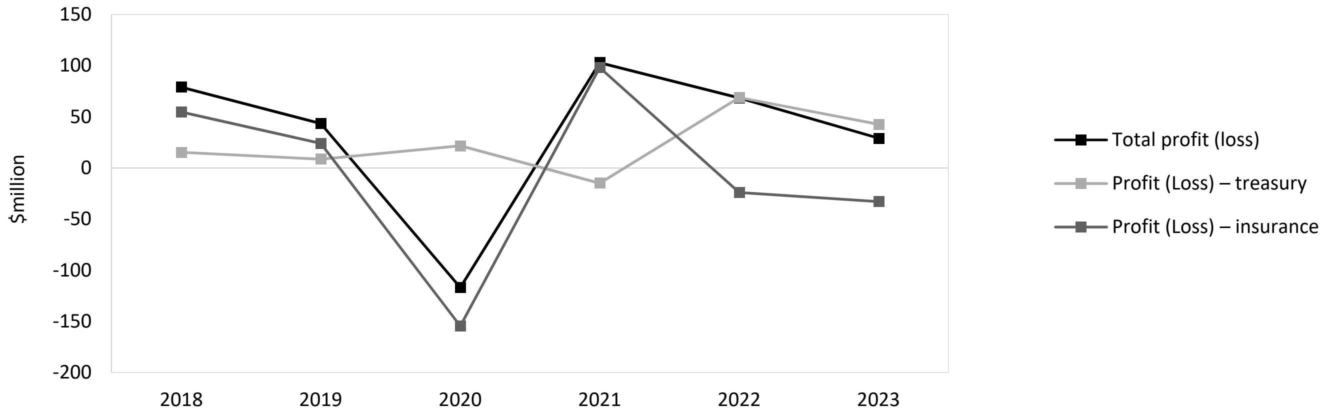
- occurred before 1 July 1994
- involve claims under the building warranty indemnity reinsurance arrangements up to 30 June 2013
- involve the former State Government Insurance Commission residual claims and workers compensation claims previously managed by the former South Australian Asset Management Corporation
- are historical workers compensation and asbestos claims previously managed by other SA Government entities.

Fund 3 is used to fund liabilities arising from claims under the building indemnity insurance scheme effective from 1 July 2013.

Fund 4 is used to manage liabilities for the SA Government's participation in the National Redress Scheme for Institutional Child Sexual Abuse. It is discussed further under 'National Redress Scheme for Institutional Child Sexual Abuse' below.

All of SAFA's remaining insurance activities are funded through Fund 1.

The impact of SAFA's insurance activities on its profit or loss after income tax equivalent expense is shown in the following chart.



SAFA's insurance activities reported a 2022-23 loss after tax of $33 million (loss after tax of $24 million). The decrease in its insurance profit reflects:

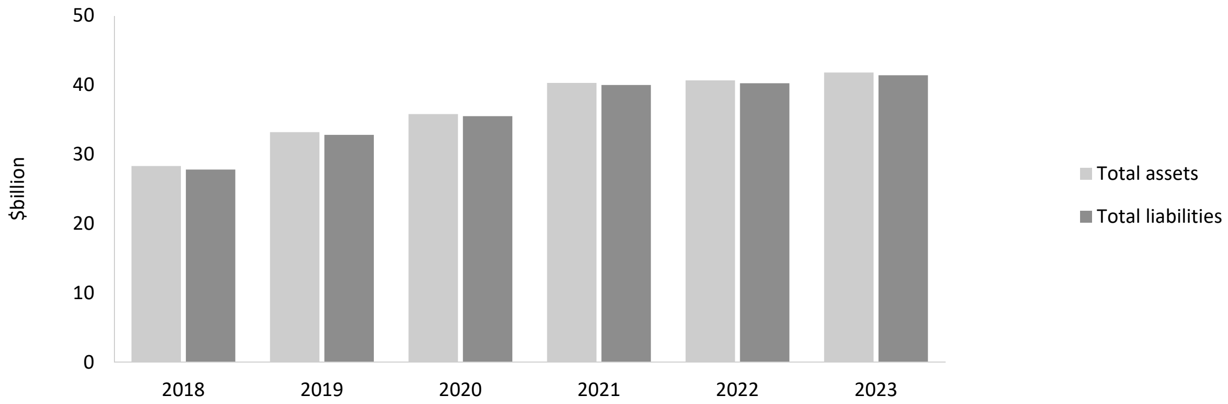
- a $106 million increase in income, due mainly to an $84.1 million increase in net gains on insurance investments with the Superannuation Funds Management Corporation of South Australia, an $11.6 million increase in premium revenue and a $9.7 million increase in recoveries
- a $119 million increase in expenses, due mainly to a $131.3 million increase in insurance claim expenses, offset by a $19.6 million decrease in indemnity to the Treasurer.

These changes highlight the inherent volatility of insurance activities and the impact on SAFA's financial performance.

Statement of Financial Position

Assets and liabilities

A comparison of total assets and liabilities for the six years to 2023 is shown in the following chart.



Between 2019 and 2021 there were significant increases in SAFA's liabilities of $4.9 billion, $2.7 billion and $4.4 billion, respectively, with total assets rising by corresponding amounts. This was mainly the result of increases in loans to the Treasurer to meet funding requirements and to fund the Consolidated Account deficits for those years.

In 2022 there was a gradual increase in SAFA's total liabilities of $449 million, with total assets increasing by $516 million.

In 2023 there was a further $1.13 billion increase in SAFA's total liabilities, with total assets increasing by $1.16 billion.

The main increases in assets were in loans ($1.74 billion), mainly in loans to the Treasurer at cost of funds, and investments ($811 million), mainly in semi-government securities. They were offset by a $1.56 billion decrease in cash and short-term assets, mainly negotiable certificates of deposit.

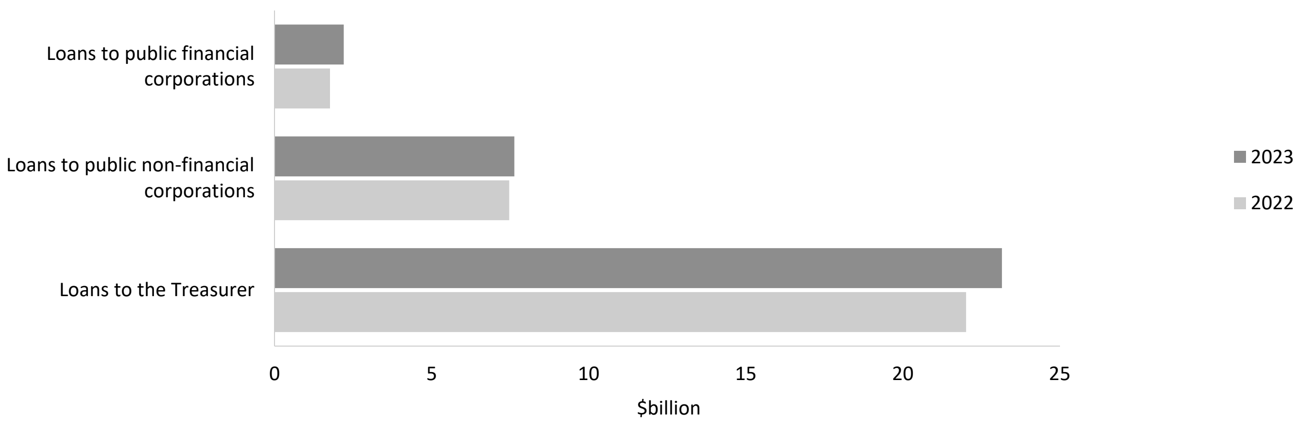
The main increases in liabilities were in bonds, notes and debentures ($1.1 billion), outstanding claims ($158 million) and derivatives payable ($100 million). They were offset by a $190 million decrease in deposits and short-term borrowings.

Loans to government agencies

Total assets include loans of $33 billion, comprising SAFA's loans to the Treasurer to fund accumulated Consolidated Account deficits and loans to other public authorities.

At 30 June 2023 SAFA's loans to the Treasurer totalled $23.2 billion, an increase of $1.14 billion since 30 June 2022. The Treasurer also had funds on deposit with SAFA totalling $9.3 billion ($9.8 billion) as at 30 June 2023.

The chart below shows SAFA's current and prior year government sector loan composition.



There was a current year increase in loans to the Treasurer of $1.14 billion, while loans to public non-financial corporations increased by $162 million and loans to public financial corporations increased by $439 million. The increase in loans to the Treasurer is the result of funding for the $1.33 billion deficit in the Consolidated Account for 2022-23, offset by market value movements.

The main loans to public non-financial corporations were to the South Australian Water Corporation (SA Water), the Urban Renewal Authority and the Adelaide Venue Management Corporation.

Capital and distributions

At 30 June 2023 SAFA's capital reserves were represented by its retained earnings, which stood at $427 million ($399 million). A $1.8 million ($51 million) dividend distribution was made to the Treasurer in 2022-23.

The dividend payment was made under the SAFA Act, which states that any surplus of funds remaining after SAFA's costs have been met in any financial year must be paid into the general revenue of the State or otherwise dealt with as the Treasurer determines.

The $1.8 million payment in 2022-23 was the final payment of dividends in respect of 2021-22. In June 2023 the Treasurer approved that no dividend would be paid for 2022-23 because SAFA had forecast a loss.

Further commentary on operations

SAFA Advisory Board

The SAFA Act provides that SAFA is constituted of the Under Treasurer and establishes the South Australian Government Financing Authority Advisory Board (Advisory Board). The Advisory Board comprises up to seven members, one of whom is the Under Treasurer who is also the Presiding Member.

The SAFA Act allows the Under Treasurer to request advice from the Advisory Board and consider any advice given. The Advisory Board can provide advice, as it sees fit, to the Treasurer or SAFA. SAFA's annual report must include details of any advice from the Advisory Board that the Treasurer or SAFA has decided not to follow and the reason for that decision. There were no occasions in 2022-23 when the advice of the Advisory Board was not followed.

Business risk management

Operational risk management

SAFA has a number of mechanisms to manage operational risks, including:

- an annual risk assessment facilitated by the contracted internal auditors addressing changes to SAFA's operating environment and the financial markets it transacts with. This assessment is used to determine the scope of the internal audit program
- a policy manual that details parameters within which SAFA pursues its core objectives, including dealings with financial markets, reporting requirements and managing assets and liabilities. This manual is reviewed annually and subject to the Treasurer's approval

- a central procedures manual that provides a high-level summary of the actions that SAFA expects to be maintained within its treasury, insurance, fleet, commercial advisory and risk and operational support units. This manual is also subject to annual review
- the compliance unit performing daily, weekly, monthly and quarterly reviews to ensure compliance with policy requirements. The compliance unit's work is reviewed and tested by SAFA's contracted internal auditor
- a Risk and Performance Committee comprising three independent members appointed by the Under Treasurer.

SAFA's treasury portfolio structure

To help manage SAFA's treasury function and its associated risks, the assets and liabilities on its balance sheet are separated into distinct portfolios. The portfolio structure and related procedures contribute to transparency of operations, risk identification and management, and performance measurement and reporting.

SAFA's portfolio structure consists of:

- SAFA's principal portfolios
- the Treasurer's cost of funds portfolio
- client asset/liability management portfolios.

SAFA's principal portfolios

SAFA maintains the following principal portfolios:

- funding
- liquidity
- foreign exchange hedging service.

The funding portfolio contains all of SAFA's term loans to clients, around $10.3 billion in assets. Its major function is to provide funding to clients on a defined maturity and rate basis.

The liquidity portfolio contains:

- all of SAFA's liquid assets and the funding that supports them
- deposits of excess cash from clients
- transactions relating to the cash loan to the Treasurer
- the Treasurer's deposit with SAFA.

The liquidity portfolio holds liabilities, assets and hedging instruments (including derivatives). It is run on the basis that mismatches between assets and liabilities are managed within risk parameters, with assets of $16.6 billion at 30 June 2023. These parameters are managed on a daily basis within the guidelines stipulated in the policy manual.

The foreign exchange hedging service portfolio covers all transactions for the service SAFA provides to public sector clients relating to the hedging of foreign currency exposures, mainly associated with purchases and sales of goods and services. The portfolio had a net asset position of -$46,800 at 30 June 2023.

Any profits or losses from the operations of the principal portfolios are recorded in SAFA's Statement of Comprehensive Income.

Treasurer's cost of funds portfolio

The Treasurer's cost of funds portfolio is the primary portfolio for the Treasurer. It contains liabilities and assets managed against a benchmark range. The main management task for this portfolio is to minimise interest rate risk within the portfolio relative to the policy benchmark range set by the Treasurer. The net expenses of the portfolio are borne by the Treasurer.

There are transactions in the Treasurer's cost of funds portfolio that are not measured and reported against the benchmark range, such as Royal Adelaide Hospital transactions out to 2033. The interest rate exposure on these Royal Adelaide Hospital transactions is managed by fixing the interest rate for a defined term.

Client asset/liability management portfolios

The client asset/liability management portfolios do not reside on SAFA's Statement of Financial Position and only impact on its profit and loss through fee income received. This includes SA Water's Financial Bureau Services Agreement.

SA Water manages its own debt. SAFA's role is to develop and document, in conjunction with SA Water and within strict policy guidelines, a risk management strategy for SA Water's exposures. The strategy must have regard to the likely impact of interest rate exposures on SA Water's results, an assessment of SA Water's ability to carry interest rate risk and SA Water's regulatory framework.

The Treasurer also makes loans directly to government entities and other bodies, including loans by the Treasurer to government departments and statutory authorities. SAFA administers these loans on behalf of the Treasurer.

General market risk management

SAFA is the State's central borrowing authority and manages most of the State's debt. It lends funds raised from financial markets to a number of South Australian public sector clients, including the Treasurer who borrows on behalf of public sector agencies to support their operational requirements.

SAFA's risk appetite statement indicates that it performs its treasury, insurance, fleet and commercial advisory functions to protect the interests of its owners and clients, and to protect its reputation as a provider of services consistent with its strategic direction.

SAFA has a structured approach to risk management. It performs its treasury and commercial advisory functions with a moderate risk appetite and its insurance and fleet functions with a low risk appetite.

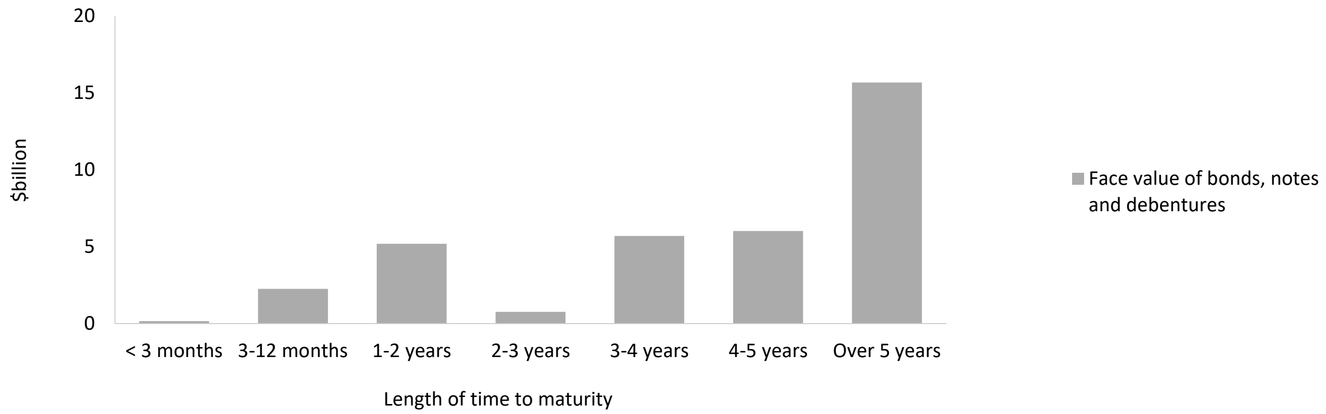
A moderate risk appetite approach for SAFA means that it is prepared to accept exposure to risk within pre-defined limits or parameters.

Funding risk management

SAFA raises funds from domestic and international financial markets to support the SA Government's budgetary funding requirements.

Funding risk refers to the prospect of SAFA either being unable to raise funds when required, or only being able to raise funds at a higher cost. Accordingly, SAFA's objective for funding risk is to ensure that it is not exposed to a significant refinancing or funding risk within any financial year. Guidelines for funding risk are set by the Under Treasurer.

A maturity profile of the undiscounted principal and interest repayment amounts for SAFA's bonds, notes and debentures as at 30 June 2023 is presented in the following chart. Bonds, notes and debentures include SAFA's core funding issue of select lines and floating rate notes.



The chart illustrates that SAFA's principal and interest repayments vary each year for the next four years. From 2029, SAFA will have $15.7 billion of principal and interest repayments.

The chart does not include expectations for the SA Government's early refinancing or future financing requirements.

Catastrophe reinsurance program

The SA Government is fundamentally a self-insurer. However, to protect the State's finances against a very large loss or claim, or a series of large losses or claims in a year, a commercial catastrophe reinsurance program is placed in the international insurance market. SAFA claimed under this program in 2022-23 for the River Murray flood. A determination has yet to be made if losses exceed the deductible of $40 million applicable to any 168-hour period across the event.

The reinsurance program is renewed annually and then approved by the Treasurer after consideration by the Advisory Board.

The structure of SAFA's catastrophe reinsurance program for 2022-23 is shown in the following diagram.

	Catastrophe program cover (Reinsurance)	Aggregate annual retention (SAFA)	Each and every event retention (agency and/or SAFA)
Network security and privacy (cyber)	$20 million		$20 million
Directors and officers liability*	$50 million	$20 million	$1m/$3m
Medical malpractice	$100 million		$20 million
Terrorism	$500 million		$25 million
Professional indemnity*	$300 million	$20 million	$1m/$3m
Public and products liability	$650 million	$20 million	$1m/$3m
UAV (Drone) liability	$50 million		$1 million
General aviation liability	$250 million		$0
Airport aviation liability	$500 million		$5,000**
Industrial special risks	$2 billion		$40 million

* Full insurance placement could not be completed at acceptable/affordable terms for this insurance class.
** Other than damage to aircraft which is $20,000.

SAFA's catastrophe reinsurance premium expense for 2022-23 was $18.5 million ($16.7 million), an increase of 11%.

This rise in cost was driven by increases in the declared values of government-owned assets, combined with continuing challenges in the global insurance market arising from recent natural catastrophe events and the impact of inflation on asset reinstatement costs. Liability insurers continue to impose rate increases as they look to achieve portfolio sustainability.

The impact of inflation on both property and liability claims, combined with the current volatility of the global political and economic environment, is driving reinsurance markets to be prudent in their assessment of risk and carefully assess the adequacy of premiums and the terms and conditions being applied to these classes.

SAFA reviews its coverage levels annually. While various factors influence its final choice of cover, key drivers in this evaluation are the market's willingness to accept risk for SAFA's preferred coverage, and SAFA's internal value-for-money assessments of the prevailing insurance market.

School loans scheme

In the 2016-17 State Budget the SA Government established a $250 million low-interest loan scheme to help non-government schools upgrade their infrastructure and facilities.

Loans of between $500,000 and $10 million per school were made available over five years, with loan terms up to 15 years. All non-government schools were eligible to apply and access was granted based on highest need, taking into account a school's socioeconomic status score. Priority was given to projects that invest in science, technology, engineering and maths, as well as early years facilities.

Since the scheme's inception there have been six funding rounds. The first loan was drawn down under the scheme in February 2017.

Total funds advanced to non-government schools as at 30 June 2023 were $113.8 million, and $27 million had been paid back.

The total value of approved school loans at 30 June 2023 was $115.4 million, with $1.6 million not yet drawn down.

In the 2020-21 State Budget the SA Government announced a new $320 million low-interest loan scheme to help non-government schools upgrade their existing facilities, including early learning centres co-located on a school site. SAFA is administering the new scheme, however loans under the new scheme are reported in the Department of Treasury and Finance's administered items financial statements, not SAFA's. For commentary on the new scheme see the section of this report titled 'Department of Treasury and Finance'.

SA Venture Capital Fund

In June 2017 Cabinet approved the establishment of the $50 million SA Venture Capital Fund as a notional fund within SAFA's Statement of Financial Position.

The objective of the Fund is to help early-stage South Australian companies attract private sources of co-investment from national and international investors. It has been managed by Artesian Venture Partners since March 2020.

Investments from the Fund are required to meet a range of criteria, including requirements for assets and staff to be located in South Australia within 12 months of the initial investment date.

In 2022-23 there were three new investments and further investment in three companies that had previously received investment, totalling $10.3 million.

As at 30 June 2023, investments in 10 companies had been made from the Fund totalling $27.1 million.

National Redress Scheme for Institutional Child Sexual Abuse

In May 2018 the SA Government approved South Australia's participation in the National Redress Scheme for Institutional Child Sexual Abuse and for SAFA to administer all payments associated with this. In June 2018 the Premier signed an Intergovernmental Agreement confirming South Australia's participation.

The start date for the Scheme was 1 February 2019 and it will accept applications until 30 June 2027.

The Treasurer approved the transfer of $146.4 million from the Victims of Crime Fund to SAFA in June 2018 to meet the anticipated cost of paying claims made under the Scheme. A further $25 million was approved and transferred in June 2023 to reflect the increasing estimated costs. Any funds not paid under the Scheme will be returned to the Victims of Crime Fund following closure of the Scheme.

The Scheme is administered through a separate fund, Fund 4. The Scheme's outstanding claims liability is calculated by an external actuary who considered:

- the number of applications for which the SA Government will have full or partial liability
- the average monetary payment for Scheme applications
- other relevant Scheme payments, including counselling, legal and administration costs
- the expected payment pattern and impact of discounting.

As at 30 June 2023, the outstanding claims liability for Fund 4 was $174.1 million ($115.7 million).

While the current estimate of claims is above the level of remaining funding provided to date, the estimate is subject to change because the Scheme is open until 2027.

In September 2023 the Treasurer approved the funding of any future shortfalls for Fund 4 if and when they arise.

There were 1,206 (632) Scheme applications as at 30 June 2023.

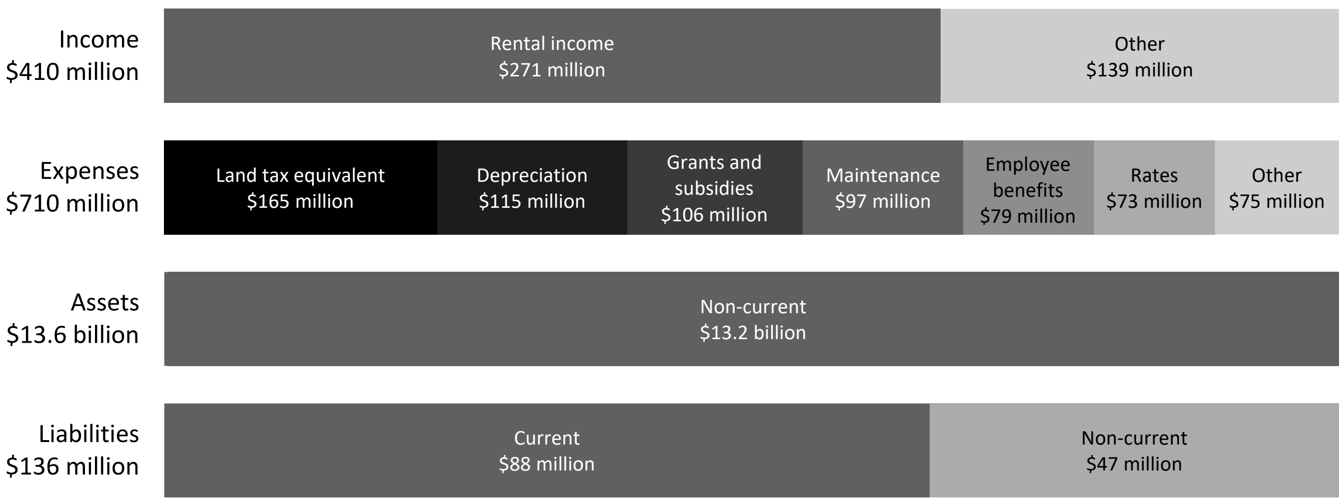
In 2022-23 redress payments totalling $21.8 million ($10.5 million) were made to 216 (117) applicants.

River Murray flood claims

SAFA received five River Murray flood claims from SA Government agencies in 2022-23. At 30 June 2023 one of these claims was closed. The other four open claims were still being assessed.

South Australian Housing Trust (SAHT)

Financial statistics



789
FTEs

$8.6 billion
Value of rental properties

$299 million
Net deficit

Significant events and transactions

— Property, plant and equipment was revalued upwards by $2.1 billion.

— The SAHT completed its procurement of the head contractors for maintenance services (HCMSs). The new contracts, which commenced on 1 January 2023, are for six years with a two-year extension option. The SAHT has estimated a total cost of about $1 billion over the eight-year contract term.

— The HCMSs are underperforming, resulting in a high number of overdue orders for maintenance work and delays in completing urgent high-priority work.

Financial report opinion

Unmodified

Controls opinion findings

— The SAHT did not ensure that payments relating to minor contract variations to maintenance orders were reviewed in line with an approved variation to Treasurer's Instruction 8 *Financial Authorisations* (TI 8).

— Contractor performance reports prepared by HCMSs did not include the scope and outcomes of their work inspections.

Functional responsibility

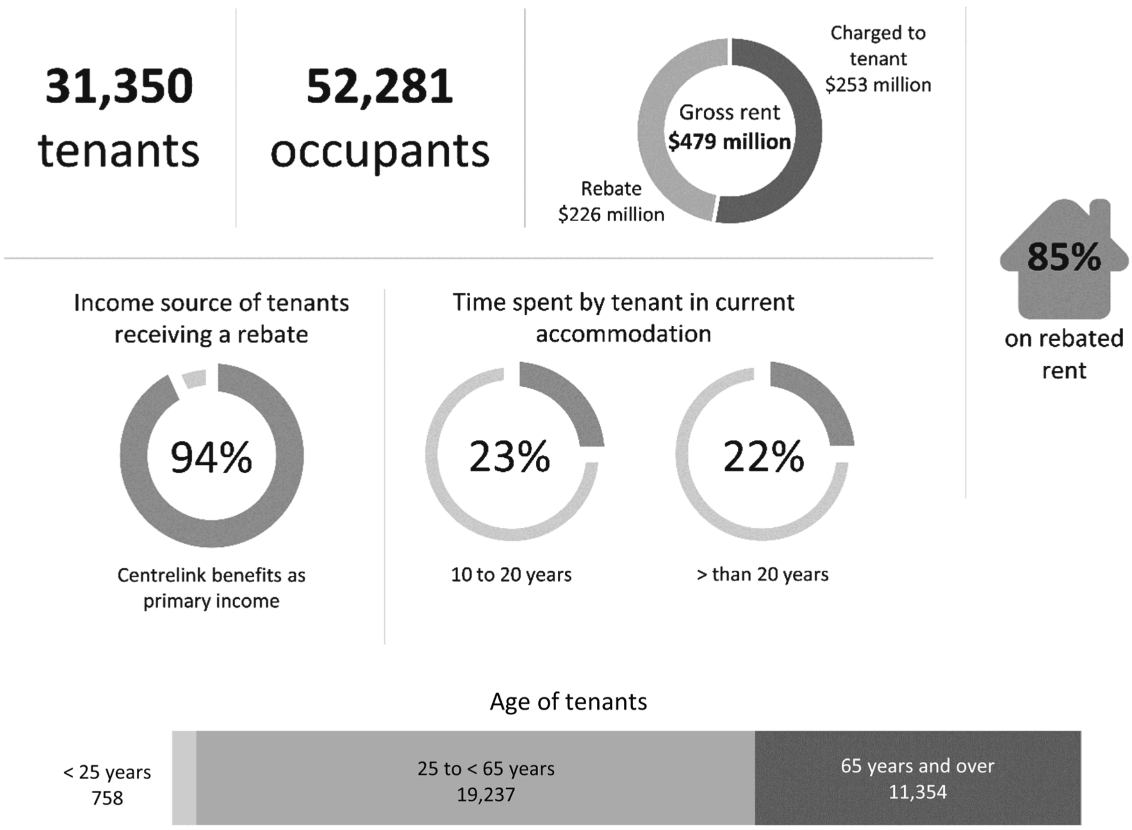
The SAHT is established by the *South Australian Housing Trust Act 1995* (SAHT Act).

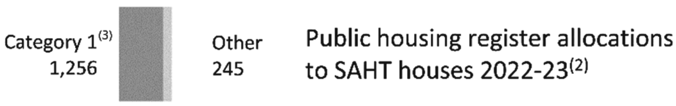
The SAHT's functions include:

- the construction, purchase, ownership and management of houses and units for tenant occupation
- managing SAHT tenancies and housing grant programs
- supporting the homelessness services sector to enable more integrated and responsive service provision.

Snapshot of SAHT operations

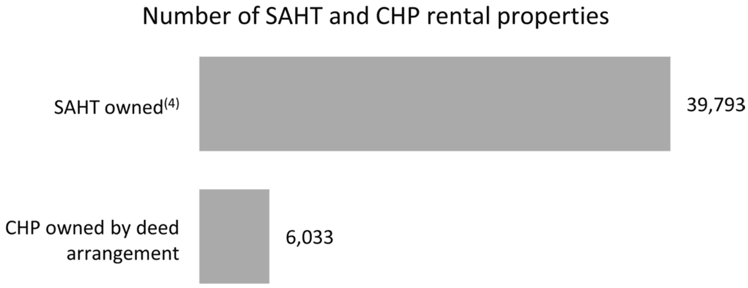
The SAHT's public housing operations (excluding SAHT housing managed by community housing providers (CHPs)) are summarised below.

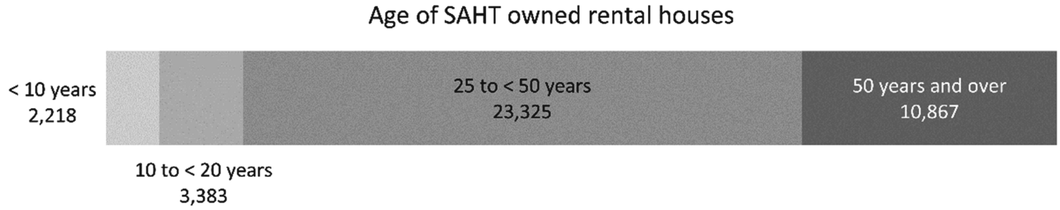




Property, plant and equipment

$13.16 billion





(1) Excludes tenants requesting a transfer to another property.

(2) Excludes tenants transferring between properties.

(3) Category 1 applicants are people with urgent housing need and long-term barriers to accessing or maintaining private housing options.

(4) Includes unlettable properties and SAHT owned properties managed by either the SAHT or CHPs.

All data included in the above snapshot of SAHT operations was provided by the SAHT and is unaudited, except for the value of rental income, rebates and property, plant and equipment.

The number of SAHT owned rental houses has reduced by 24% from 52,257 at 30 June 2002 to 39,793 at 30 June 2023. The number held as at 30 June 2002 has been adjusted to include 1,798 properties transferred to the SAHT when the former SA Aboriginal Housing Authority was dissolved in 2007.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of attention in 2022-23 included:

- revenue, including tenant rents and recoveries
- accounts payable
- payroll

- property expense, including maintenance, land tax, council rates and water rates
- fixed assets, including rental properties, service concession assets and capital works
- house sales
- general ledger.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Controls opinion

We reviewed controls over the following areas as part of our overall controls opinion, which is discussed in Part B of this report:

- rental income
- asset management including:
  - land
  - buildings and improvements
  - assets under arrangement and service concession assets
- the receipt, expenditure and investment of money through the SAHT Operating Account.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. The main findings and the SAHT's responses are discussed below.

Controls opinion findings

The SAHT did not ensure payments relating to minor contract variations to maintenance orders were reviewed in line with an approved variation to TI 8

The SAHT did not have procedures to ensure that its employees reviewed the justification for at least 10% of payments relating to minor contract variations to maintenance orders, which is a requirement of the Treasurer's approved variation to TI 8. A minor contract variation means a variation that meets certain criteria, including that its value does not exceed $1,000 and only relates to a change in cost arising from a change in the hours or materials used to achieve the scope set out in the approved contract.

The TI 8 variation:

- enables maintenance contractors to perform additional work on existing maintenance orders up to an additional cost of $1,000 per order without obtaining the SAHT's pre-approval

- is subject to the SAHT applying rigorous mitigating procedures and systems to obtain assurance that minor contract variations are justified
- requires that invoices constituting not less than 10% of the total value of the minor contract variations in a month be reviewed by an SAHT employee within 14 days of the end of each month.

The TI 8 variation requires that if a payment is made for a minor contract variation that is subsequently found to be unjustified, deductions and abatements (financial penalties) are to be applied to future payments in line with the relevant contracts.

The SAHT must continue to pre-approve any order variations above $1,000. We noted that the SAHT has controls to ensure this occurs.

While the SAHT's internal audit procedures captured some minor contract variations for review they were not designed to ensure the timing and total value of variations reviewed complied with the TI 8 variation.

The SAHT responded that it is reviewing and amending its procedures to ensure compliance with the TI 8 variation, and intends to implement the new procedures by October 2023. While the review is being conducted the SAHT advised us that it has implemented temporary improvements to ensure checks are up to date for the whole of 2023 and is testing new reporting to identify trends and anomalies.

Contractor performance reports prepared by HCMSs did not include the scope and outcomes of their work inspections

HCMS contracts specify minimum percentages of completed works that the HCMSs must inspect. For example, the HCMSs are required to inspect 100% of responsive maintenance work orders valued over $5,000 and at least 5% of those that are below $5,000.

Work inspections provide assurance that works completed by the HCMSs and their subcontractors conform with the SAHT's quality standards and that correct charges are applied to the works order (for example, the reasonableness of materials costs). Work inspections also ensure that HCMSs are applying tenant charges for recovery from tenants that have damaged properties.

We noted that the SAHT did not require HCMSs to include the scope and outcomes of their work inspections in their contractor performance reports for discussion at monthly operational meetings with the SAHT. The SAHT's corporate performance reports did not show percentages of maintenance works inspected against the targets specified in the HCMS contracts, and the outcomes of the inspections.

The SAHT re-inspects some maintenance works previously inspected by HCMSs and inspects certain other works. The SAHT applies abatements to the HCMSs for identified non-conformances.

The SAHT responded that it has advised the HCMSs to include the scope and outcomes of their work inspections in their contractor performance reports from August 2023.

Other audit comments

Housing maintenance

Procurement of head contractors for maintenance services (HCMSs)

In October 2013 the SAHT implemented a multi-trade contractors (MTCs) model to maintain its properties. The MTCs managed most work orders issued by the SAHT for responsive, vacancy, programmed and capital upgrade maintenance within defined geographical areas.

The SAHT replaced its five MTCs with three HCMSs on 1 January 2023. The HCMS contracts are for six years with a two-year extension option. The SAHT has estimated a total cost of about $1 billion over eight years. The HCMSs, like the MTCs, are responsible for all aspects of delivering the works and manage their own direct labour and subcontractors.

The HCMSs are delivering the maintenance programs under a revised maintenance service delivery model. Key changes from the previous model include:

- reconfiguration and reduction of the current 14 contract zones to six larger contract zones
- revised pricing arrangements that separate management fees from the schedule of rates for maintenance items
- enhancement of the model to foster a culture of shared accountability between the SAHT and HCMSs for the delivery of maintenance programs.

Managing underperforming HCMSs

The general conditions of the HCMS contracts include a performance management framework (PMF) specifying the process for assessing HCMS performance against the key performance indicators (KPIs) in the contracts. The framework applies a balanced scorecard approach for measuring overall performance.

The SAHT has identified that the HCMSs are underperforming. Of particular note is the high number of overdue orders for maintenance work and delays in completing urgent high priority work.

The SAHT conducts performance and monthly operational meetings and quarterly performance review meetings with each HCMS. It has required two of the three HCMSs, including the largest contractor, to implement service improvement plans and report their progress against the plans weekly to the SAHT. The SAHT considers that a service improvement plan is not yet warranted for the third underperforming HCMS.

The SAHT can apply abatements to the HCMSs if they continue to underperform after the abatement grace period, which ended on 30 June 2023.

Managing underperforming MTCs

The MTCs are contractually obliged to complete the work orders that were issued to them before 1 January 2023. Before this date, the SAHT noted that:

- the MTCs had a backlog of overdue work orders

- the ability of MTCs to reduce the backlog was hampered by staff leaving them and their sub-contractors focusing resources on the new HCMSs, and inflationary pressure on the rates contracted for the work
- it preferred the backlog of work orders be completed by the MTCs to avoid additional pressures on the new HCMSs.

We were advised by the SAHT in August 2023 that one underperforming MTC still has uncompleted work orders pre-dating 1 January 2023. The SAHT also advised us that, although it regards these work orders as low priority and low risk, it continues to relate with the affected tenants and the MTC to complete the work.

Our Housing Future 2020–2030 housing and homelessness strategy

The National Housing and Homelessness Agreement sets out the amount of Commonwealth funding to be provided to the States. It requires the States to have a publicly available housing strategy indicating projected housing demand and outlining reforms and initiatives to meet this need. It also requires a publicly available homelessness strategy that addresses priority areas of need.

In December 2019 the SA Government released the Our Housing Future 2020–2030 housing and homelessness strategy. This is a whole-of-government, whole-of-state 10-year strategy aimed at transforming the South Australian housing system. The SAHT led its development and will play a significant role in its delivery, including building up to 1,000 affordable houses.

The SAHT's asset management practices

The SAHT is responsible for managing property valued at $13.2 billion.

Since 2018-19 we have reviewed the SAHT's asset management practices and controls against aspects of the International Standard on asset management (ISO 55001) and have noted the SAHT's commitment to applying best practice principles to asset management.

Asset management maturity

One of the SAHT's goals is to achieve a 'competent' level of asset management maturity by 2025. This is reached when the organisation can demonstrate that it systematically and consistently achieves the ISO 55001 requirements. In 2021-22 the SAHT assessed its progress towards achieving its goal by conducting an ISO 55001 self-assessment questionnaire, and rated its asset management maturity for the main requirements of the standard between 'developing' and 'competent'. Reasons for the 'developing' rating included the interim status of certain asset management documents. The SAHT intends to perform another ISO 55001 self-assessment questionnaire to rate its asset management maturity in 2023-24.

Strategic asset management framework

The SAHT has a strategic asset management framework to guide the asset planning process for creating and maintaining a public housing portfolio that will achieve its organisational objectives. It includes processes for developing asset management policies, strategies and plans as well as reporting requirements. Development of the framework was guided by ISO 55001.

The strategic asset management framework:

- aligns the SAHT's asset management objectives with the organisational objectives in its Strategic Plan 2020–2025 and, in turn, aligns these objectives with those in the Our Housing Future 2020–2030 strategy
- details governance groups and reporting requirements to ensure asset management activities meet organisational objectives
- provides a structure to annually review the performance of the asset management system, including the use of the ISO 55001 self-assessment questionnaire
- requires the production of a 10-year asset management strategy containing high-level long-term action plans and objectives for managing assets
- requires the production of five-year regional asset management plans to inform decisions on retention, divestment, investment and development at a regional level. These regional plans are required to be supported by annual investment plans that include program and project targets for measuring progress. They comprise an investment plan for maintenance and an investment plan for development and strategic divestment.

Assets transferred to CHPs to manage properties and tenancies on behalf of the SAHT are also monitored through the strategic asset management framework's governance structure and reporting requirements to ensure accountability. CHPs have their own asset management and investment plans to ensure they meet their contractual obligations for maintaining and developing SAHT properties.

Asset management strategy

In December 2020 the SAHT Board approved an interim asset management strategy to guide the SAHT's capital programs over the next five years. It includes KPIs with time frames to monitor the effectiveness of project and program actions, and is used to inform the development of regional asset management plans. In 2020-21 a consultant engaged by the SAHT completed a housing need and demand analysis to inform the asset management strategy and KPIs. The SAHT is using the results of the analysis to inform its:

- 10-year asset management strategy, which will replace its interim asset management strategy. While the SAHT did not achieve its 2022-23 business plan goal of finalising the asset management strategy by June 2023, it advised us that a new asset management strategy is expected in early 2023-24
- five-year regional asset management plans, which will replace its interim regional asset management plans after its asset management strategy is finalised
- annual investment plans, which have been completed each year since 2021-22.

The SAHT expects the implementation of its final asset management strategy and regional asset management plans will help it achieve its targeted 'competent' level of asset management maturity by 2025.

Improved data on the condition of the SAHT's housing stock

The SAHT completed an assessment of the condition of its housing stock in 2020-21. It uses this condition data to inform its future maintenance and asset management plans and determine whether a property will be upgraded, redeveloped or sold. The condition assessment program was conducted by a contractor who inspected every SAHT property. The condition data will be kept up to date by the three HCMSs appointed on 1 January 2023.

Capital project management framework

The SAHT implemented a Portfolio Planning and Asset Management Project Management Framework in 2021-22. It specifies the requirements for governing individual capital programs and projects and mandates the use of standardised management tools, processes and templates that can be tailored to their project type, individual size and complexity.

Asset management reporting to the SAHT Board

The SAHT Board receives regular reporting on asset management including:

- reports tabled at each SAHT Board meeting containing both the financial and non-financial performance of the SAHT's asset investment activities, along with comments in the Chief Executive's report on capital works activity
- quarterly reporting on the SAHT's capital and maintenance works programs, including progress reporting against targets in annual investment plans
- reporting on the SA Government's election commitments regarding the Public Housing Improvement Plan, which has three components:
  - construction of 400 new public housing dwellings (subsequently increased to 437), with 150 of them in regional South Australia and a 50-bed facility for people experiencing homelessness
  - repair of 350 vacant properties to enable re-tenanting
  - a maintenance blitz on 3,000 properties.
- reporting on the SAHT's collaboration with the Department of Treasury and Finance and the Urban Renewal Authority through the Government Performance Cabinet Committee to deliver an additional 414 public housing outcomes by June 2026. This is in addition to the dwellings delivered under the Public Housing Improvement Plan.

Affordable Housing Initiative (AHI)

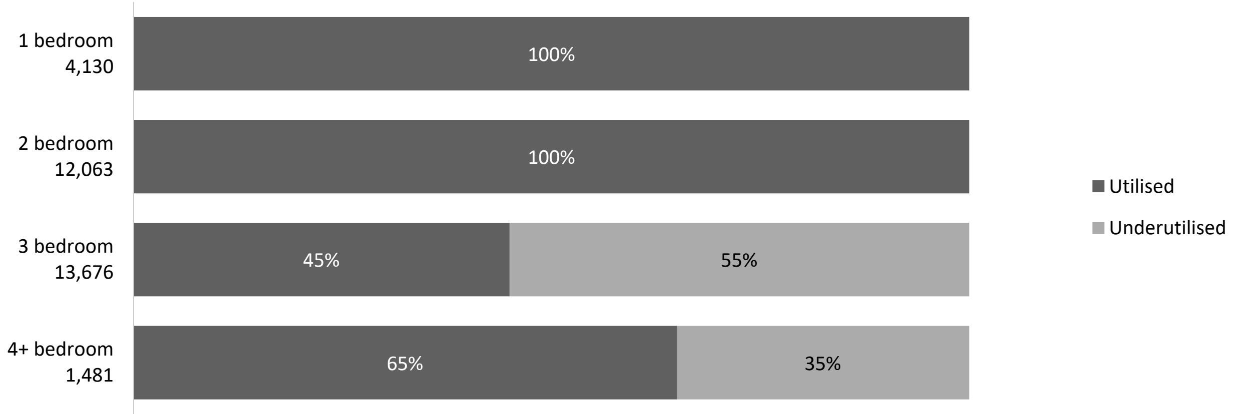
The SAHT aims to build and sell 1,000 new affordable homes between January 2020 and 30 June 2026, through the AHI program. As at 31 March 2023 it had built 93 of these homes, with 147 under construction. Most sales are planned to occur between 1 January 2023 and 30 June 2026. AHI houses are sold through the HomeSeeker SA program managed by the SAHT on behalf of the SA Government. HomeSeeker SA requires property developers, including the SAHT, to build and sell affordable housing to eligible applicants on low to moderate incomes.

Underutilisation of SAHT properties (excludes CHP properties)

A key focus of the SAHT's asset planning is to reconfigure its housing stock through its renewal programs to better match its tenants' needs. The SAHT's strategic asset management framework noted that household size is reducing, reflecting an increase in single person households and single parents, while the number of couples with children had fallen.

About 25.6% of the SAHT's tenanted houses are underutilised, down from 26.1% in 2022. There is an oversupply of three-bedroom houses (55% underutilised) and a shortage of smaller houses (100% utilised).

Utilisation of tenanted properties*



* Properties are defined as underutilised where the number of bedrooms exceeds the number that the household needs by two or more.

All data included in the table above was provided by the SAHT and is unaudited.

Transfer of property and tenancy management to CHPs

The Our Housing Future 2020–2030 strategy replaced the Renewing Our Streets and Suburbs (ROSAS) initiative. ROSAS was implemented to rejuvenate older SAHT homes and improve the supply of affordable housing for rent or purchase, while stimulating the construction sector. It included transferring responsibility for property and tenancy management for over 5,000 SAHT properties to CHPs. This occurred in two tranches, the first in October 2015 and the second in September 2017.

The SAHT has applied a concurrent lease and deed model to these transfers. The leases have 20-year terms and require the CHPs to implement a stock renewal program.

An objective of the CHP transfers is to create better quality social housing stock through:

- rents increasing by the amount of Commonwealth rent assistance to fund housing stock improvements – CHP tenants are eligible for Commonwealth rent assistance whereas SAHT tenants are not
- CHPs using their additional rental income to improve the quality of housing stock by implementing a stock renewal program and increasing programmed maintenance.

All CHPs have established plans to support the stock renewal program. The SAHT retains the title to these properties and the CHPs must also comply with the SAHT's tenancy conditions, ensuring the conditions of transferred tenants remain the same. Due to the lease and deed arrangements, the housing stock remains recognised in the SAHT's Statement of Financial Performance, classified as service concession assets.

Triennial review

The SAHT Act requires the Minister, once every three years, to have a report on the SAHT's operations and administration prepared by someone independent of the SAHT and provided to Parliament.

The report for the four-year period from 2017-18 to 2020-21 was laid before the House of Assembly on 3 November 2022. Key findings in the report included:

- housing affordability continues to decrease
- the SAHT's customer profile is ageing and increasing in vulnerability
- system-wide integration, including the establishment of key definitions across the system to guide consistency, is required to better support customers and avoid them having to repeat their story and requirements to multiple government and non-government organisations
- performance is generally better or in line with national housing and homelessness indicators
- performance measurement could be improved
- CHPs are a critical part of a multi-provider system
- there is a mismatch between the SAHT's asset base and its customer profile
- the SAHT's expenses will continue to exceed its income in the absence of changes to government funding and to the SAHT's cost base.

In response to the findings, the SAHT intends to focus on the following key areas to improve organisational performance and customer outcomes:

- formalise and embed key definitions into its operations and decision-making mechanisms
- strengthen performance reporting, data governance and outcome-focused measurement
- improve referral pathways between government and non-government organisations
- explore adjusted or alternative business models to strengthen sustainability.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Income		
Rental income	271	256
SA Government grants, subsidies and transfers	61	8
Other	78	72
Total income	410	336
Expenses		
Employee benefits expenses	79	78
Maintenance	97	107
Council rates and water rates	73	73
Land tax equivalent	165	149
Depreciation and amortisation	115	98
Grants and subsidies	106	102
Other expenses	75	67
Total expenses	710	674
Net result	(299)	(338)

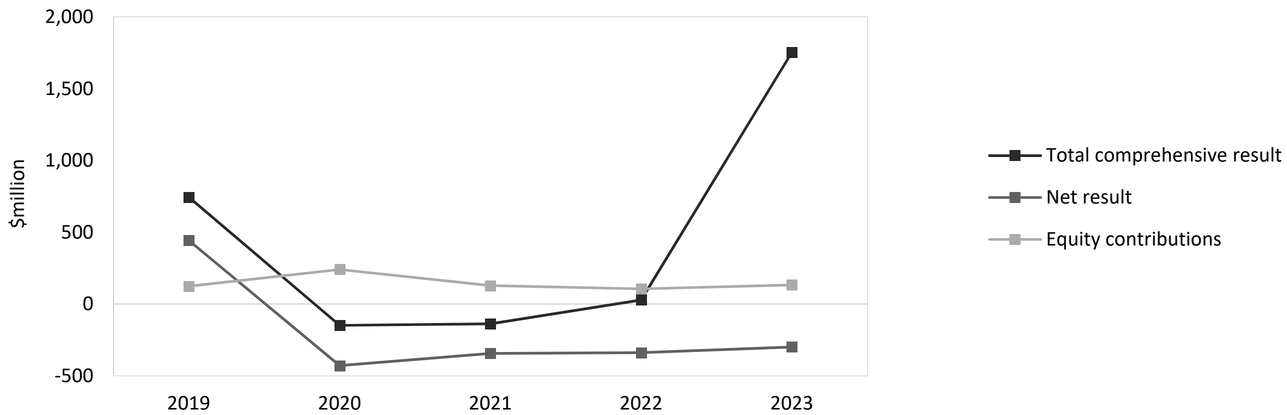
	2023 $million	2022 $million
Other comprehensive income	2,053	366
Total comprehensive result	1,754	29
Net cash provided by (used in) operating activities	(301)	(214)
Net cash provided by (used in) investing activities	(3)	(4)
Net cash provided by (used in) financing activities	131	103
Assets		
Current assets	396	533
Non-current assets	13,224	11,260
Total assets	13,620	11,793
Liabilities		
Current liabilities	88	155
Non-current liabilities	47	43
Total liabilities	136	197
Total equity	13,484	11,596

* Table may not add due to rounding.

Statement of Comprehensive Income

Total comprehensive result and equity contributions

The SAHT's total comprehensive result and equity contributions for the five years to 2023 are shown in the following chart.



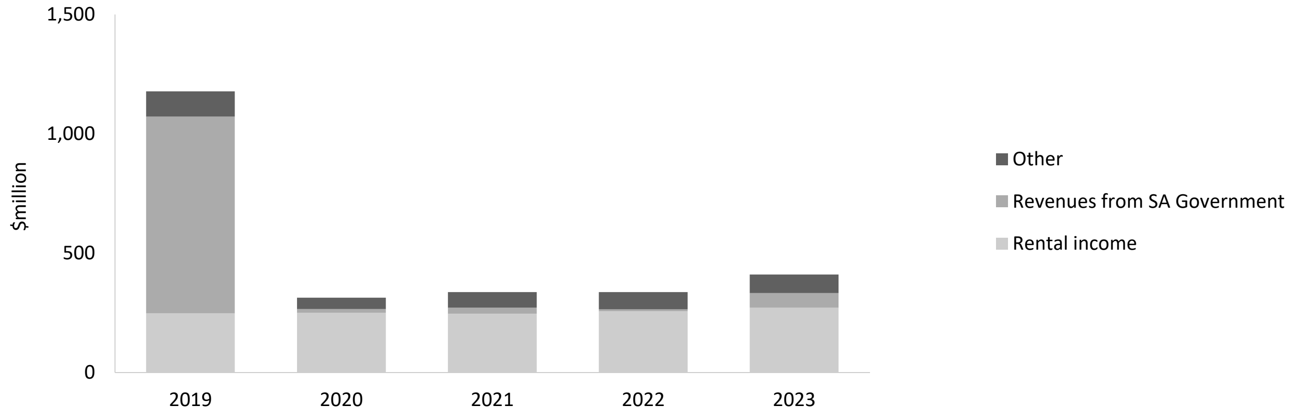
The chart shows deficits in the net results for the past four years.

The deficits were impacted by the SA Government's changed funding arrangements for the SAHT. Since 2019 the SAHT has been funded primarily through equity contributions instead of grants. Equity contributions are not recognised as income in the Statement of Comprehensive Income. In 2023 the SA Government provided an equity contribution of $134 million ($106 million) and grants of $61 million ($8 million).

The total comprehensive result improved from a $29 million surplus last year to a $1.8 billion surplus in 2023, due mainly to a $2.1 billion increase in the upward revaluation of property, plant and equipment.

Income

The SAHT's income for the five years to 2023 is shown in the following chart.



The chart shows the dramatic changes in the SAHT's funding arrangements from 2019.

In 2023 revenues from the SA Government increased by $53 million to $61 million, due mainly to the reinstatement of general purpose grants of $53 million and a one-off emergency management reimbursement of $4 million for the River Murray floods. These increases were partially offset by a one-off build-to-rent capital grant of $6 million received in 2022 to implement schemes for building and letting properties by developers to eligible tenants from the SAHT public housing register.

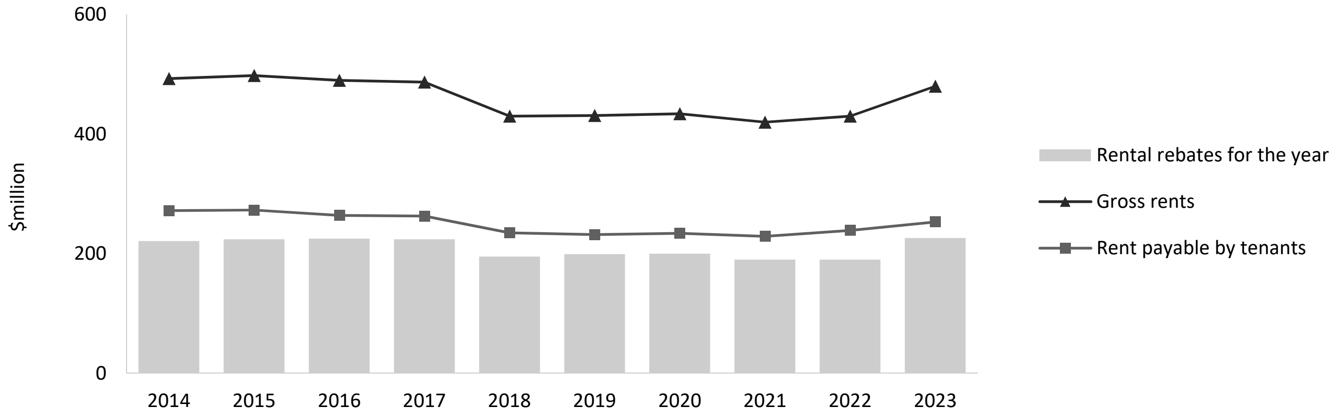
Other movements in total income for 2023 included:

- a net gain from disposal of assets of $30 million ($28 million). Proceeds from selling properties support the SAHT's financial viability strategy and its housing renewal and capital programs. Proceeds were $94 million ($93 million), while the net book value of assets disposed was $63 million ($65 million). This represents a profit margin of 32% (30%). High profit margins reflect the current housing market conditions
- rental income increasing by $15 million to $271 million, due mainly to increases in Centrelink benefits which are included in household income calculations for determining tenant rents
- interest revenue increasing by $9 million to $10 million due to higher interest rates
- resources received free of charge of $6 million ($0) resulting from the SAHT obtaining control of certain properties developed by CHPs under various arrangements
- a $5 million ($16 million) recovery of GST incurred in prior periods as a result of the Australian Taxation Office advising the SAHT that the supply of accommodation to eligible tenants with a disability is a GST-free supply, and that the SAHT can claim GST input tax credits for GST incurred on historic costs from September 2016. The SAHT finished analysing and recovering GST on historic costs in 2022-23.

Rental operations

Information provided by the SAHT shows that 85% (86%) of tenants pay reduced (rebated) rent. The amount of rent rebates depends on each tenant's circumstances, with rent payable charged at 25% of household income or market rent, whichever is lower. For tenants with a moderate household income from 1 July 2021, this percentage will progressively increase by 1% twice a year until it reaches 30% in October 2023. Moderate income is based on average weekly earnings data published by the Australian Bureau of Statistics.

The trend of tenant rents and rebates is shown in the following chart.

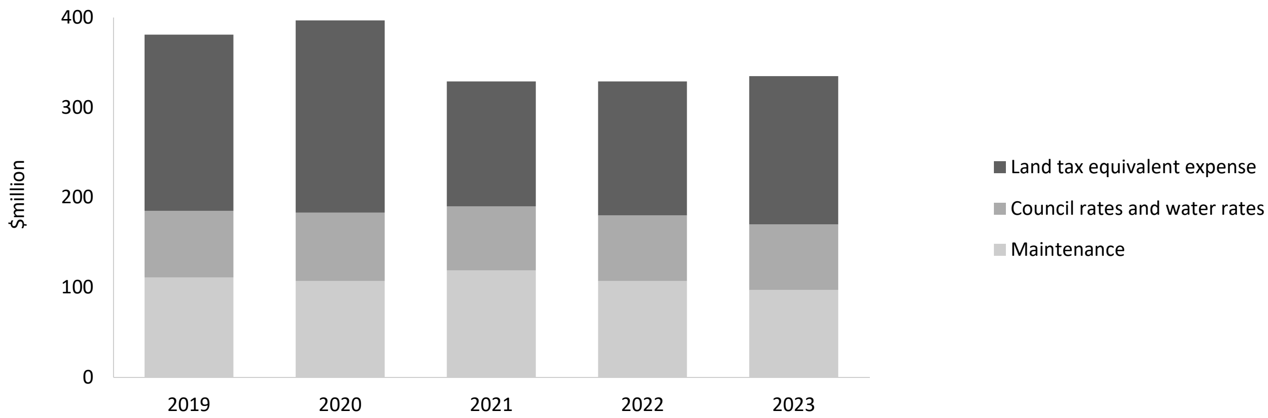


The chart shows that gross rents, rental rebates and rent payable by tenants dropped in 2018 after responsibility for tenancy management of over 5,000 properties was transferred to the community housing sector between 2016 and 2018. The rent on these properties is retained by the community housing sector.

In 2023 gross rent (market rent) increased by $50 million to $479 million, reflecting higher market rents determined by the Valuer-General. Rent payable by tenants increased by $14 million to $253 million, due mainly to increases in Centrelink benefits which are included in household income calculations for determining tenant rents. Rebates (the difference between market rents and rent payable by tenants) rose by $36 million to $226 million. Rebates as a percentage of gross rent were 47% (44%).

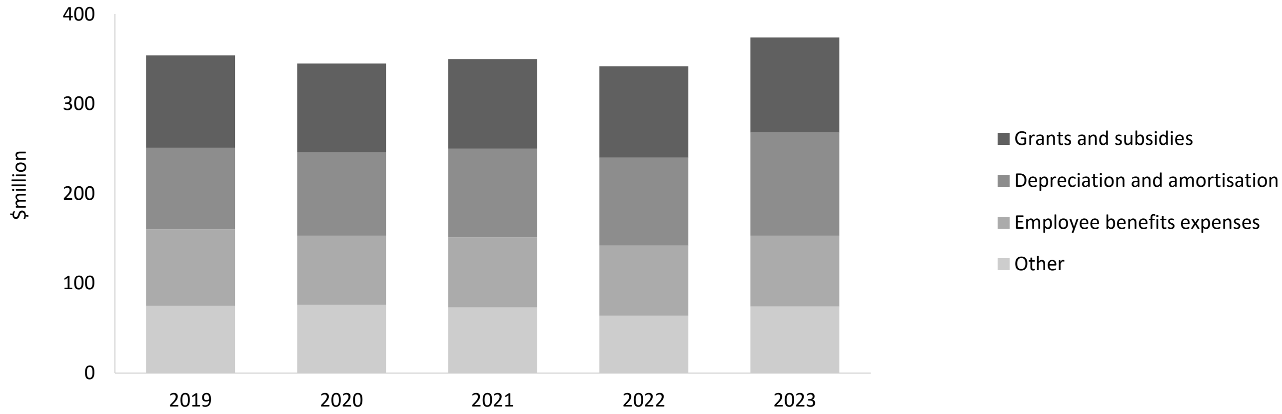
Expenses

Major property expenses for the five years to 2023 are shown in the following chart.



Other than land tax equivalents, major property expenses have remained relatively constant over the last five years. The large decrease in land tax equivalents for 2021 reflects a reduction in land tax rates set by RevenueSA. The SAHT is responsible for the land tax equivalent paid on properties owned by the SAHT but managed by CHPs. It is not responsible for council and water rates on CHP managed properties. Charges paid by the SAHT are driven by changes in the value of properties and rates charged by local government and the South Australian Water Corporation.

Other major expense items for the five years to 2023 are shown in the following chart.



In 2023 total expenses rose by $36 million to $710 million, due mainly to the following movements:

- land tax equivalents expense increasing by $16 million to $165 million following increases in land values
- depreciation and amortisation expense increasing by $17 million to $115 million due to the upward revaluation of property, plant and equipment
- maintenance expense decreasing by $10 million to $97 million due mainly to a large backlog of uncompleted work orders
- grants and subsidies expense increasing by $4 million to $106 million, mainly reflecting specialist homelessness services grants increasing by $2 million to $74 million and the receipt of $3 million for the River Murray flood response
- impairment expenses increasing by $8 million to $28 million, largely driven by an increase of $16 million in demolitions and other asset write-offs mainly resulting from the SAHT's capital programs. This was partially offset by a $7 million decrease in impairment losses on receivables, with an actuarial assessment reducing the impairment rate to 49% (63%). The wider variety of debtor information that the SAHT now captures enabled more detailed analyses using machine learning algorithms to predict the likelihood of debtor repayment and was the main driver of the reduced impairment rate. Receivables of $7 million ($10 million) were written off.

Statement of Financial Position

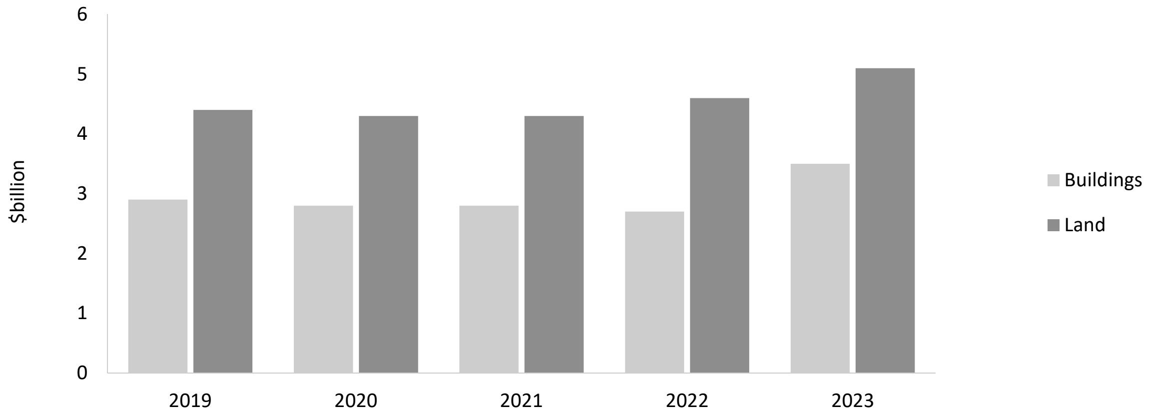
The SAHT's financial position is dominated by its significant property assets, cash and deposits with the South Australian Government Financing Authority (SAFA). The SAHT's net assets increased by $1.9 billion to $13.5 billion due mainly to an upward revaluation of property, plant and equipment of $2.1 billion, partially offset by a reduction in cash and SAFA deposits of $172 million.

The SAHT's current assets of $396 million ($533 million) were significantly higher than its current liabilities of $88 million ($155 million).

Rental properties

The SAHT's rental properties are estimated to be worth $8.6 billion ($7.3 billion) and comprise 66% (65%) of the SAHT's property, plant and equipment of $13.2 billion ($11.2 billion).

The following chart shows the movements in the value of the SAHT's rental properties over the past five years.



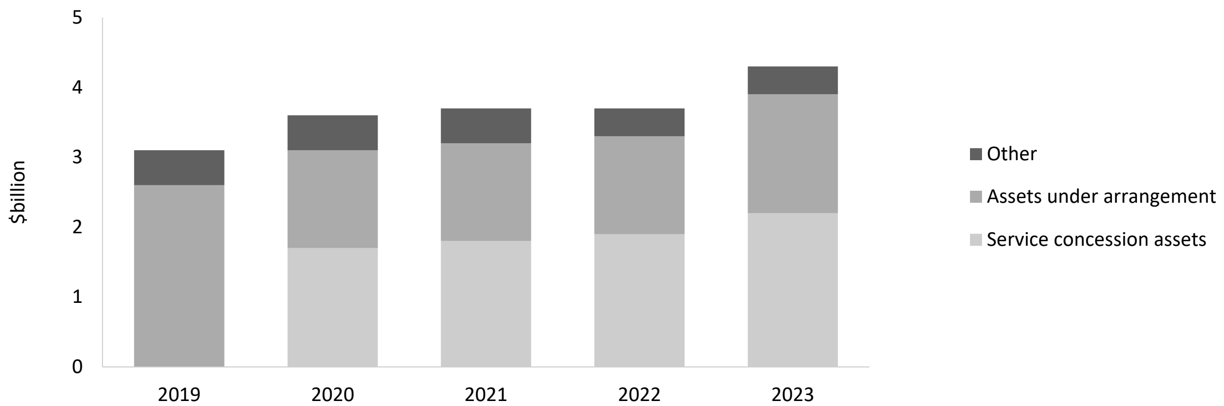
Since 2019 the value of rental properties has increased by $1.3 billion despite a fall in the number of properties over the same period. The value is being maintained mainly through upward revaluations of individual properties and capital upgrades. The SAHT advised us that in 2023 its rental stock reduced from 32,941 to 32,892, a fall of 49 properties (0.2%), yet the value of its rental properties (valued at 1 July 2022) increased by $1.3 billion (18%). Rental stock excludes SAHT owned rental properties managed by the community housing sector on behalf of the SAHT and are classified as service concession assets.

The $1.3 billion rise in the value of rental properties to $8.6 billion in 2023 reflects an upward revaluation of land and buildings of $1.4 billion and additions of $91 million, including completed capital works and maintenance upgrades. These increases were partially offset by transfers to other asset categories of $94 million (mainly to capital works in progress), disposals of $6 million and depreciation expense of $66 million.

The SAHT revalues most land and buildings annually using the Valuer-General's values. Because of the timing of the update of the Valuer-General's database and the SAHT's financial reporting obligations, reported values lag current market values. The values for 2023 were issued by the Valuer-General as at 1 July 2022. This policy has been consistently applied and reflects the practicality of valuing a very large housing stock. The Valuer-General has published a notice in The South Australian Government Gazette advising that the average percentage change in site values is 10.9% as at 1 July 2022 for 2022-23 and 25% as at 1 July 2023 for 2023-24.

Property, plant and equipment (excluding rental properties)

The following chart shows the value of the SAHT's property, plant and equipment (excluding rental properties) over the past five years.



Assets under arrangement are properties managed by the community housing sector on behalf of the SAHT under a variety of arrangements. In 2021, as a result of implementing AASB 1059 *Service Concession Arrangements: Grantors*, the SAHT reclassified certain community housing properties totalling $1.8 billion as service concession assets and restated the 2020 comparative as $1.7 billion.

In 2023 the SAHT's property, plant and equipment (excluding rental properties) increased by $655 million, due mainly to the following movements:

- service concession assets increasing by $296 million to $2.2 billion, largely driven by a net upward revaluation of land and buildings of $367 million and additions of $13 million. These impacts were partially offset by transfers to other asset categories of $67 million (mainly to capital works in progress), disposals of $4 million and depreciation expense of $14 million. These assets are revalued in the same way as rental properties using the Valuer-General's values
- assets under arrangement increasing by $302 million to $1.7 billion following a net upward revaluation of land and buildings of $289 million and additions of $48 million. These increases were partially offset by transfers to other asset categories of $20 million (mainly to capital works in progress), disposals of $2 million and depreciation expense of $14 million. These assets are revalued in the same way as rental properties using the Valuer-General's values
- capital works in progress increasing by $53 million to $206 million. This reflects additional works of $84 million ($95 million) and properties transferred in from other asset categories for development of $140 million ($67 million), partially offset by works completed of $170 million ($139 million)
- vacant land increasing by $11 million to $100 million reflecting additions of $1 million, upward revaluations of $6 million and net transfers in from other asset categories of $5 million following redevelopment of the properties
- remote indigenous leased properties decreasing by $10 million to $256 million, due mainly to depreciation.

Intangible assets

Intangible assets reduced by $2 million to $33 million due to amortisation costs of $4 million, partially offset by the capitalisation of development costs relating mainly to continued improvements to the system used to manage most of the SAHT's operations including rental and maintenance activities.

Current assets

Current assets decreased by $137 million to $396 million, due mainly to a $172 million decrease in cash and deposits with SAFA. This was partially offset by a $26 million increase in inventories of properties developed for sale and a $7 million increase in receivables that was mainly due to increased debtors and reduced impairment losses on receivables. The decrease in cash and SAFA deposits is explained further under 'Statement of Cash Flows' below.

Liabilities

Total liabilities decreased by $62 million to $136 million, due mainly to reduced land tax payable of $75 million. Land tax was not fully paid by 30 June in the prior year. This decrease was partially offset by a $4 million increase in contractual payables for maintenance and capital works.

Statement of Cash Flows

Cash recognised in the Statement of Cash Flows comprises cash and highly liquid financial assets. In 2023 cash decreased by $172 million, reflecting the following movements:

- net cash used in operating activities of $301 million ($214 million), which included:
  - land tax equivalents payments of $240 million ($75 million), noting that 18 months of land tax was paid in 2023 while six months was paid in 2022, due to the timing of the receipt and payment of land tax assessment notices
  - development costs of $123 million ($123 million), noting the growth in property development activity occurring in recent years on properties held for tenant rental or for sale
  - receipts from SA Government grants, subsidies and transfers of $61 million ($8 million), due mainly to the reinstatement of general purpose grants
- net cash used in investing activities of $3 million ($4 million)
- net cash provided by financing activities of $131 million ($103 million), which included equity contributions of $134 million ($106 million) from the SA Government.

Further commentary on operations

Implementing the homelessness alliance model

On 1 July 2021 the SAHT implemented the homelessness alliance model as a new way of helping the homeless.

Before this, the SAHT had contracted with a large number of non-government service providers to deliver Specialist Homelessness Services (SHS) and Domestic and Family Violence (DFV) services at a cost of about $70 million a year. The main objective of these services was to help the homeless find accommodation.

Under the homelessness alliance model service providers have joined together to form five alliances, consisting of two metropolitan Adelaide and two country alliances, combined with a statewide DFV services alliance.

The SAHT expects the alliance model to have the following benefits:

- alignment and common understanding of reform objectives and goals by all stakeholders
- the promoting of collaboration between government and service providers to improve service outcomes
- longer-term outcomes-based contracts for all contractors to evolve their service offerings
- the flexibility to adapt to changes in service outcomes or priorities
- key performance measures that drive desired behaviours to achieve reform outcomes, which are targeted through relevant and measurable metrics and adaptable over time
- the efficient and agile use of available resources to deliver value for money

- improved data collection, analysis and reporting to capture the right data for measuring outcomes, provide transparency within the system, share learnings to optimise the delivery model and inform decision-making.

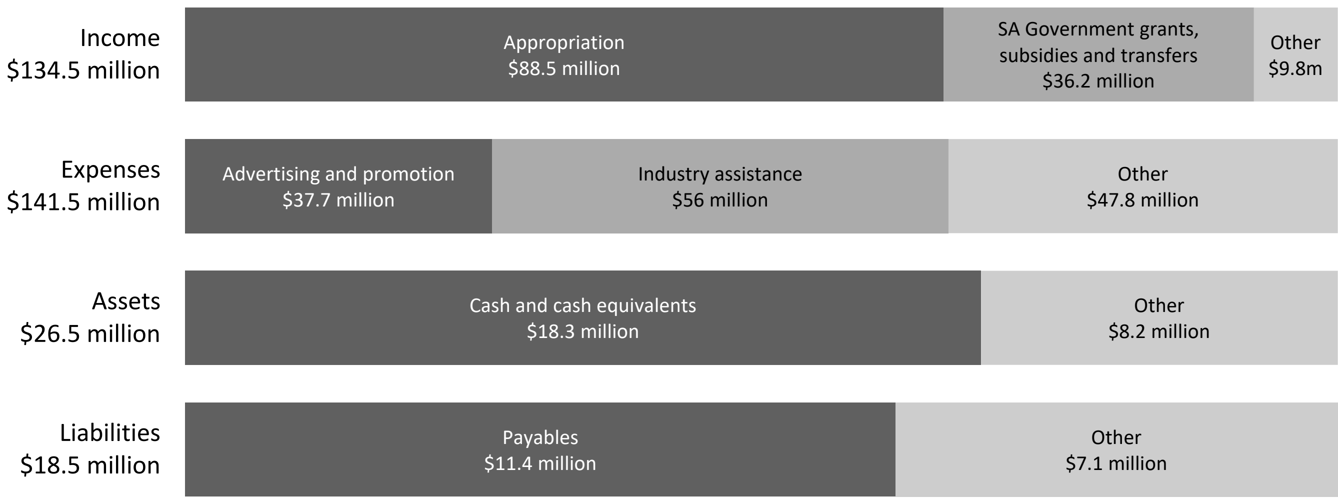
In November 2020 the SAHT released tenders for the supply of homelessness services under the alliance model. The tenders excluded about $20 million of the $70 million of homelessness services provided annually, including highly specific services not suited to an alliance model. Respondents were required to detail in their tender submissions how their alliance would use a specified amount of funding to reform the delivery of SHS and DFV services, achieving the expected benefits of the alliance model.

After evaluating the tender submissions, the SAHT contracted five alliances to deliver homelessness services for an initial two-year period commencing 1 July 2021 at a cost of $103 million, with two extension options of two years each for an additional $201 million.

The SAHT has established an Alliance System Steering Group, comprising senior representation from the SAHT and from each alliance, to work collaboratively towards achieving the expected benefits of the alliance model.

South Australian Tourism Commission (SATC)

Financial statistics



133
FTEs

Significant events and transactions

- There was an increase in sponsored and managed events, such as the AFL Gather Round and LIV Golf tournament.
- The South Australian tourism industry continued to recover from the COVID-19 pandemic, with increases in interstate and overseas visitors.
- The River Murray ‘Rise Up for Our River’ tourism campaign, as well as two rounds of tourism vouchers targeted at flood impacted river regions, were implemented.
- In October 2022 the South Australian Tourism Commission appointed a new Chief Executive who commenced in January 2023.

Financial report opinion

Unmodified

Audit findings

No significant findings.

Functional responsibility

The SATC is established by the *South Australian Tourism Commission Act 1993* and is a body corporate.

The SATC's functions include securing economic and social benefits for the State by promoting and developing South Australia as a tourism and events destination. It aims to achieve this by:

- ensuring a coordinated approach to promoting South Australia
- attracting, developing, owning and supporting major and strategic tourism events
- developing tourism resources to maintain and preserve South Australia's environmental and cultural heritage.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- cash and cash equivalents
- employee benefit expenditure and workforce management
- supplies and services expenditure
- contract management and procurement.

Some services, including accounts payable and payroll processing, were undertaken by Shared Services SA and were reviewed as part of our audit of Shared Services SA.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive. There were no significant matters.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Income		
Appropriation	89	66
SA Government grants, subsidies and transfers	36	20
Other	10	7
Total income	135	93

	2023 $million	2022 $million
Expenses		
Employee benefits expenses	16	13
Advertising and promotion	38	26
Industry assistance	56	46
Event operations	25	9
Other	7	9
Total expenses	142	103
Net result	(7)	(10)
Total comprehensive result	(7)	(10)
Net cash provided by (used in) operating activities	(10)	1
Assets		
Current assets	21	32
Non-current assets	5	6
Total assets	26	38
Liabilities		
Current liabilities	13	17
Non-current liabilities	5	6
Total liabilities	18	23
Total equity	8	15

* Table may not add due to rounding.

Statement of Comprehensive Income

The SATC's financial activities vary from year to year depending on the mix of marketing, destination development and event activities it supports and the extent to which these activities are funded.

In recent years the COVID-19 pandemic significantly impacted the SATC's operations, and therefore financial activities. However, 2022-23 saw a return of the visitor economy to pre-COVID-19 levels and significant new, ongoing and expanded managed and sponsored events.

The main events managed by the SATC in 2022-23 were the Santos Tour Down Under cycling race, National Pharmacies Christmas Pageant and Tasting Australia. Major 2022-23 sponsored events included the AFL Gather Round, Ampol NRL State of Origin and LIV Golf tournament.

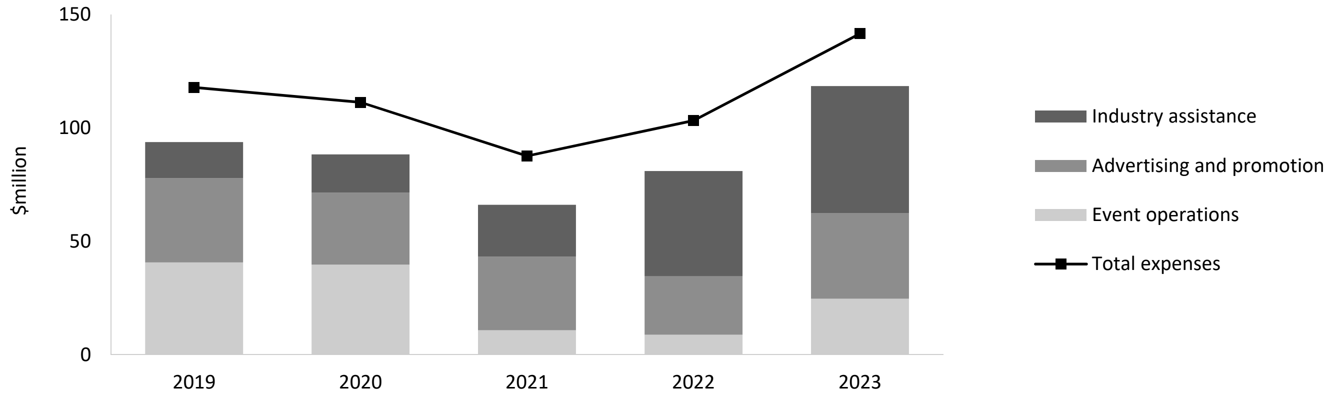
Income

Income rose significantly to $134.5 million ($92.7 million) as a result of increases in appropriations and SA Government grants, subsidies and transfers. The main drivers were major new tourism marketing initiatives, and money received from the Department of the Premier and Cabinet's Major Events Fund for new, ongoing and expanded sponsored and managed events.

Sponsorship and participation income recovered from its prior year decline to increase by $2.6 million (69%). The main driver was an increase in sponsorship income from Santos Tour Down Under event sponsors.

Expenses

The following chart shows the SATC's main expense items for the five years to 2023.

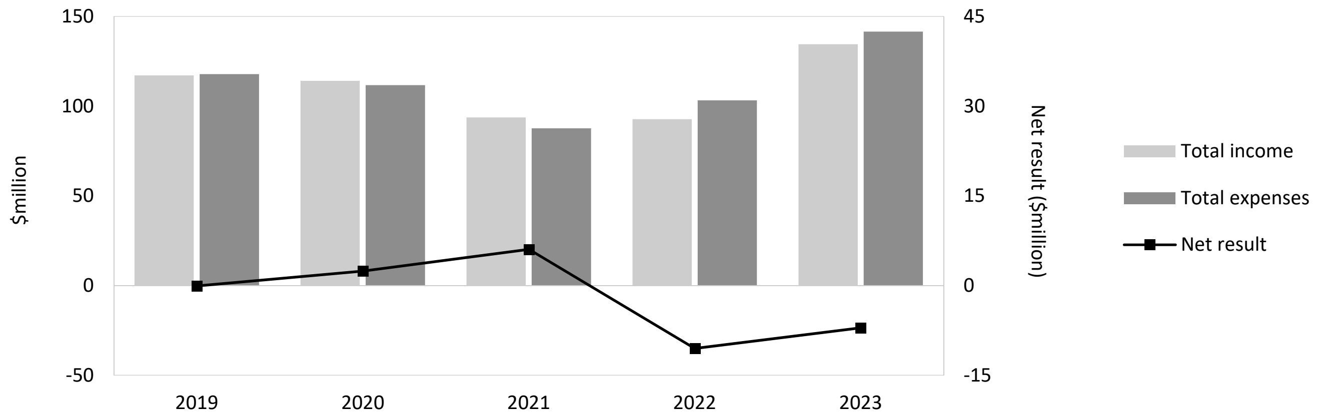


Total expenses increased by $141.5 million ($103.2 million) in 2022-23. The main drivers were:

- a $9.7 million increase in industry assistance, led by major new event sponsorships such as LIV Golf and the AFL Gather Round
- a $15.9 million increase in event operations, reflecting the higher costs associated with facilitating new, ongoing and expanded sponsored and managed events. For example, in 2022-23 the Santos Tour Down Under returned as an international event, rather than being the smaller domestic race it was during the COVID-19 pandemic years.
- an $11.9 million increase in advertising and promotion. This included increases in interstate ($6.3 million) and overseas ($2 million) consumer advertising campaigns.

Net result

The following chart shows the SATC's total income, total expenses and net result for the five years to 2023.



In 2022-23 the SATC recorded a net loss of $7 million. This is explained by the movements in income and expenses outlined above.

Statement of Financial Position

Current and non-current assets

At 30 June 2023 current assets were $21 million ($32 million) and exceeded current liabilities of $13 million by $8 million.

The main current asset change was a decline in cash and cash equivalents due to increased outflows of money for industry assistance, event operations and advertising and promotion activities.

The SATC held $5.1 million ($6.5 million) in non-current assets at 30 June 2023, which mainly comprised plant and equipment. The $1.5 million decline in 2022-23 was mainly due to depreciation expenditure of $1.7 million, offset by acquisitions of event and right-of-use assets of $200,000.

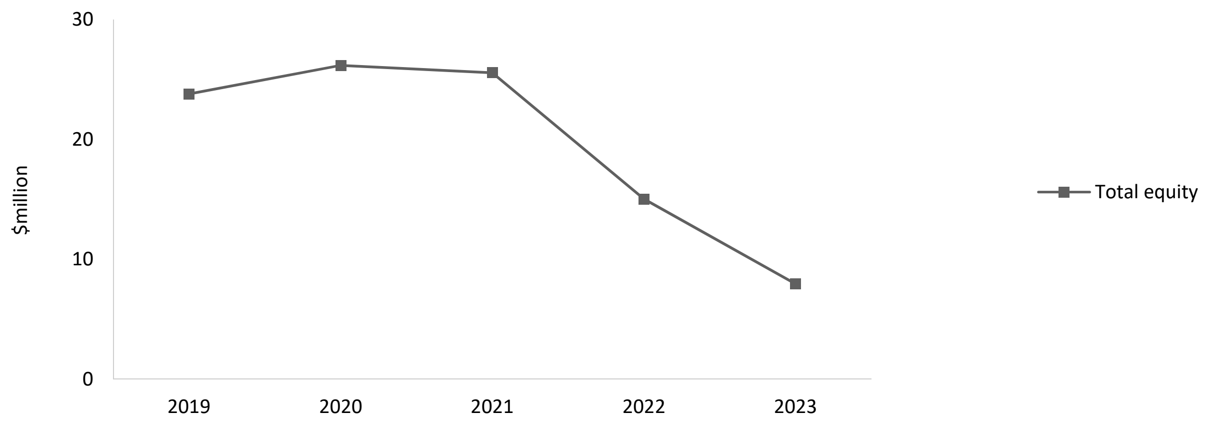
Current and non-current liabilities

Total liabilities decreased by $5 million. The main drivers were:

- a decrease in payables of $3.5 million (23%). Unlike last year, the SATC did not record any large industry assistance accruals
- a decrease in financial liabilities (lease) of $1.2 million (22%) due to ongoing lease-term amortisation.

Equity (net assets)

The following chart shows the SATC's total equity (net assets) as at 30 June for the past five years.



Total equity decreased by $7 million or 47% in 2022-23. This is due to the movements in the statement of comprehensive income and financial position items explained above.

Further commentary on operations

Increase in sponsored and managed events

2022-23 saw an increase in sponsored and managed events involving the SATC, such as the AFL Gather Round and LIV Golf tournament.

Driven by strong international and interstate visitor numbers, the LIV Golf tournament sold 63,000 tickets. Similarly, the AFL Gather Round was supported by an estimated 50,000 interstate visitors, with all nine AFL games sold out and over 200,000 tickets sold. These numbers were provided by the SATC and are unaudited.

River Murray tourism revival campaign

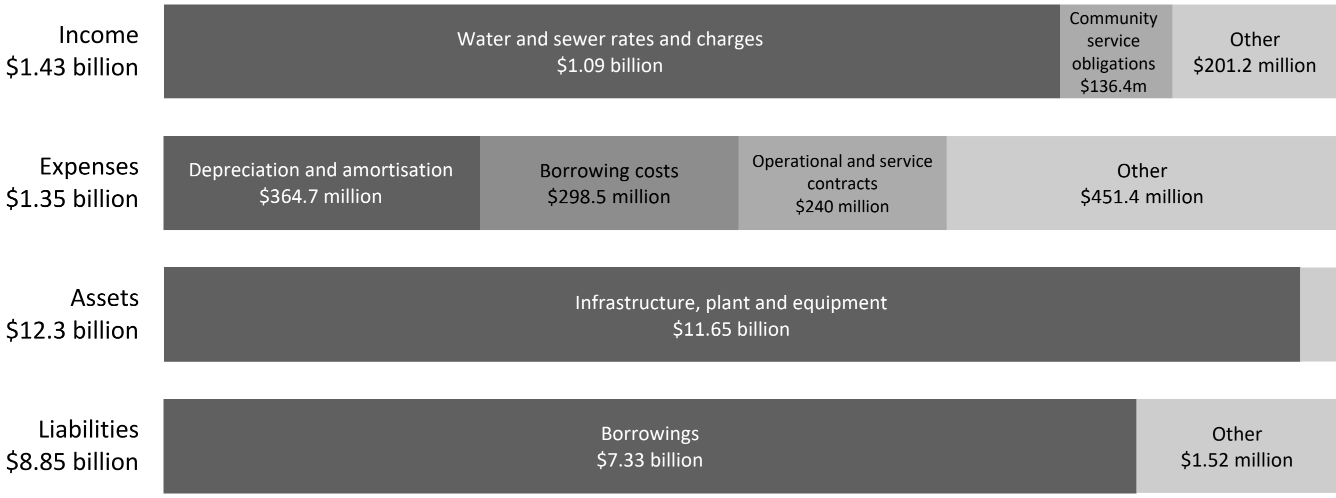
In March 2023 the SATC launched a $4.6 million Murray River tourism recovery plan that included a 'Rise up for our River' marketing campaign and the 'River Revival Voucher' program. The voucher program involves the release of vouchers of varying value that are redeemable for River Murray tourism and accommodation experiences.

The vouchers are being released over three ballot rounds. As of August 2023, two rounds had been completed with almost 70% of the vouchers issued being redeemed in round 2. These numbers were provided by the SATC and are unaudited.

However, the SATC believes that these redemption rates for round one were impacted by reduced tourism product availability due to flood damage. The SATC advised us that round three is expected to roll out in 2024.

South Australian Water Corporation (SA Water)

Financial statistics



1,549
FTEs

$10 billion
System infrastructure assets

37,000 km+
Length of pipes and mains

Significant events and transactions

- SA Water recognised a net profit before tax of $70.8 million, an increase from the $48.1 million result for 2021-22. SA Water paid a dividend of $49.8 million to the SA Government.
- SA Water's system infrastructure assets were revalued downwards by $1.91 billion.
- The Zero Cost Energy Future program was completed in 2022-23, with the final sites reaching practical completion. Total capitalised costs for renewable energy assets were $356.9 million. These assets have been subsequently revalued to a gross value of $288.1 million.
- As at 30 June 2023, capital works in progress totalled $897.9 million. Major projects in progress include the Kangaroo Island desalinisation plant, Eyre Peninsula desalination plant, Mount Bold dam upgrades and Morgan to Whyalla pipeline renewal.

Financial report opinion

Unmodified

Controls opinion findings	— Additional guidance on how quickly dam safety must be reduced to within tolerable limits is needed. — The business-critical infrastructure methodology is not clearly documented. — Asset risk management improvements are needed. — The reactive maintenance strategy is not documented in the asset management plan. — The procurement and contract management framework was not updated for Treasurer's Instruction requirements.
Other audit findings	Corporate strategies were not yet finalised.

Functional responsibility

SA Water is established under the *South Australian Water Corporation Act 1994*. It is responsible to the Minister for Climate, Environment and Water.

SA Water's primary functions are to provide services for the storage, treatment and supply of water and removal and treatment of wastewater.

The *Public Corporations Act 1993* applies to SA Water and requires a charter and performance statement to be prepared by the Minister and the Treasurer after consultation with SA Water.

SA Water is a for-profit entity.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- revenue, including the billing, collection, receipting and banking of water and sewer rates and charges
- expenditure, including operating and service contracts, services and supplies and electricity expenses
- cash and borrowings, including borrowing costs
- employee benefits expenses and provisions

- fixed assets, including capital purchases, depreciation and revaluations
- governance
- general IT controls.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform our audit procedures. We also considered the work of SA Water's internal auditors in planning and conducting the audit.

Controls opinion

We reviewed controls over the purchase of non-financial assets, management of water and sewerage assets and the sale of goods and services (water and sewerage revenue) as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. The main findings and SA Water's responses are discussed below.

Controls opinion findings

Management of water and sewerage assets

SA Water's infrastructure, plant and equipment assets of $11.65 billion are significant to the State. When forming our opinion on collective financial controls exercised by the Treasurer and public authorities, we reviewed SA Water's controls supporting the management of its water and sewerage assets. Due to the complex and varied nature of SA Water's assets, we vary the focus of our work each year. In 2022-23 we focused on controls for the management of pipe network assets, particularly the water reticulation network. We also followed up on our 2021-22 findings on the management of dams and reservoirs.

Management of dams and reservoirs

— *Additional guidance on how quickly dam safety must be reduced to within tolerable limits is needed*

SA Water's dams and weirs asset management plan (AMP) sets out its accepted customer and technical levels of service, including an expectation that dam safety should not pose an unacceptable risk to life. The AMP states that SA Water uses Australian National Committee on Large Dams (ANCOLD) guidelines in a self-regulated environment as the managing principles for its dam and weir asset management. This includes using the ANCOLD limit of tolerability for societal life safety when measuring dam safety.

Societal risk is defined in ANCOLD guidelines as:

> *the risk of widespread or large-scale detriment from the realisation of a defined hazard, the implication being that the consequence would be on such a scale as to provoke a socio/political response.*

The societal risk for a dam is the amount determined by considering the estimated probability of failure in any given year and the estimated loss of life resulting from that failure. Measuring societal risk is performed by specialised dam engineers, considering a range of factors including the likelihood of dam flood capacity being exceeded and population levels.

SA Water's 2019 dams and weirs AMP identified dams that were operating outside the ANCOLD limit of tolerability. In 2021-22 we reported that there were four dams that continued to operate outside that limit:

- Warren
- Baroota
- Mount Bold
- Sturt River.

We noted in the 2019 AMP that the Mount Bold dam has not met the ANCOLD societal risk criterion since at least 1998. The 2019 AMP sets the expectation that all SA Water-owned dams would be compliant with this criterion by 30 June 2028. We note that this results in the Mount Bold dam operating outside of the tolerable limit for at least 30 years.

We recommended that SA Water update its AMP to provide guidance for setting the maximum time frames for ensuring that the societal risk for life safety is reduced to within ANCOLD tolerable limits.

SA Water responded that setting maximum time frames for a dam safety upgrade would result in an inefficient prioritisation and allocation of resources if other higher risks are identified in the interim. SA Water also advised us that it is not industry practice or an ANCOLD requirement to set maximum time frames for managing dam safety risks.

Rather than setting a maximum time for a safety upgrade, SA Water advised us that it planned to revise its dams and weirs AMP to include an objective designed to achieve the greatest amount of risk reduction over a 10-year period, considering the limitations of its organisational capacity. SA Water would then review this objective every four years, prior to its submission to the economic regulator.

Applying a risk-based approach to prioritising expenditure on dam safety is reasonable, provided those dams operate within an accepted tolerance for safety. However, where dams are operating outside an accepted tolerance it is appropriate for SA Water to ensure that dam upgrades are delivered within acceptable time frames.

SA Water is required to schedule work on its dams and weirs in a way that maintains water safety and security, especially when works require emptying a dam. We understand that dam upgrades present significant operational challenges such as finance, resourcing and planning, and that long lead times are required for any significant dam upgrade. We acknowledge that SA Water must decide how to prioritise dam upgrades, balancing these challenges.

In August 2023, SA Water advised us that it had reviewed its AMP. The 2023 AMP and supporting documents detail the planned time frames and approach to reducing the remaining four dams that are outside ANCOLD guidelines to within targeted limits.

SA Water's approach is guided by its Board-endorsed Dam Safety Statement, which states:

> *Dams are critical assets and dam safety risks are actively managed in accordance with ANCOLD guidelines. ... Work is undertaken to maintain water security, balance corporate risks and deliver best value for money. Consequently, whilst major capital dam investment programs are undertaken, some of SA Water's dams may temporarily exceed the limit of tolerability as described in ANCOLD guidelines.*

SA Water further advised us that there are no known structural integrity defects with any of its dams, and the fact that four remaining dams are operating outside the limit of tolerability primarily relates to the need to upgrade dam designs to align with the latest ANCOLD guidelines.

We note that the 2023 AMP states SA Water's dam safety upgrade program objective, which outlines expectations of when dam upgrade works will be undertaken, including:

- Baroota dam construction planned to commence in 2024-25 and be completed in 2025-26
- Warren dam construction planned to commence in 2028-29 and be completed by 2030-31
- Sturt River dam construction planned to commence in 2029-30 and be completed by 2031-32
- Mount Bold dam construction planned to commence in 2028-29 and be completed by 2032-33.

Business plans for each of these dams have been prepared to support the next regulatory submission investment plan for 2024. Investment plans that are not approved are deferred to a later period for delivery. As the scheduled works are planned to be carried out over the next three regulatory periods, there may be changes to planned time frames pending funding outcomes.

Management of pipe network assets

— *Business critical infrastructure (BCI) methodology not clearly documented*

We found that SA Water could improve its documented approach for identifying its BCI. SA Water uses criticality in the asset planning process to maintain acceptable risk profiles across all infrastructure assets, impacting maintenance strategies and prioritisation of works.

SA Water has identified its BCI in a criticality practice document, using the expertise and experience of its asset management teams. The document provides multiple methods for determining criticality, however there is no guidance on how to apply them. This may result in inconsistent application.

We recommended that SA Water document its BCI assessment methodology for staff to consistently apply across the business.

SA Water responded that a new procedure is being prepared that will more clearly document the methodology to assess asset criticality across its infrastructure assets.

— *Asset risk management improvements needed*

We identified opportunities for SA Water to improve its asset risk management practices, including risk recording and monitoring.

SA Water has a risk management framework that outlines its general risk management approach and processes. The framework refers to other asset management documents for specific risk systems and processes. We reviewed key asset management documents and found they did not clearly outline risk management requirements. For example, asset management plans for the water pipe network include information about risk recording, but do not refer to any further risk monitoring requirements.

We also considered SA Water's risk management of the water reticulation network under the framework requirements. We found water reticulation network risks were last formally reviewed and documented when developing its asset management plan in 2018 as part of the last regulatory submission. At the time of our audit, a revised asset management plan was being developed for the next regulatory submission.

In the absence of specific risk monitoring requirements for assets, the overarching risk management framework requires risks to be reviewed quarterly. This is not occurring for water reticulation network risks.

As a result, changes in risk profile may not be identified or documented, leading to identified risks being outdated, incomplete or having ineffective risk mitigation. We recommended that SA Water review its risk management requirements for assets, determine an appropriate frequency to review risks and ensure this is implemented.

SA Water responded that it approved an updated pipe network asset management plan in August 2023. Current reticulation risks are being mitigated through various treatments, resulting in a tolerable risk profile. As such, the recording and reporting of the risks is not required within the risk management system. The current risk management framework does not require quarterly review of tolerable risks.

— *Reactive maintenance strategy not documented in asset management plan*

SA Water's reactive maintenance strategy for the water reticulation network is not documented in its asset management plan. Determining the balance between preventative and reactive maintenance is a key asset management decision that should inform maintenance plans to meet required levels of service.

We were advised that SA Water operates a 'run to failure' strategy of reactive maintenance on the water reticulation network. Failure is classified in the context of the customer, rather than a structural failure of the asset, and is referenced to a set level of breaks within a time period, after which the main will be replaced.

We recommended that SA Water update its asset management plan to define the maintenance strategy it adopts for the water reticulation network.

SA Water responded that the criticality assessment within its recently approved pipe network asset management plan has been updated for different water pipe network assets, which better articulates its maintenance strategies.

Purchase of non-financial assets

While our review of SA Water's controls over the purchase of non-financial assets focused on major capital projects, we identified matters that relate to procurement and contract management generally at SA Water.

Procurement and contract management framework not updated for TI 18 requirements

We found that SA Water's procurement and contract management framework could be improved to increase its compliance with Treasurer's Instruction 18 *Procurement* (TI 18).

TI 18 applied to SA Water from 1 July 2022. Prior to this, and throughout 2022-23, SA Water sought exemptions from some elements of TI 18. It received a variation approved by the Treasurer for some reporting and urgent procurement requirements. Other elements of TI 18 remain applicable to SA Water.

SA Water's procedures do not currently reference TI 18 as the applicable legislative requirement.

We found that SA Water's authorisations to approach the market are not clearly documented in its delegation register, and not all staff involved in the procurement process were authorised by the Chief Executive as required by TI 18.

We also found that SA Water's contract management procedures did not include some elements required by the policies and guidelines developed by Procurement Services SA (PSSA) that support TI 18, such as the requirements for contract management plans and post-contract reviews.

SA Water responded that its framework includes both goods and services and construction procurement. TI 18 had transitional arrangements for construction prior to amendment in February 2023. SA Water expects changes to PSSA policies supporting TI 18 to occur in relation to construction. In the meantime, SA Water is reviewing its framework to best address TI 18 requirements and will amend its delegation register.

Other audit findings

Corporate strategies not yet finalised

SA Water finalised its 2020–2025 strategic plan in September 2020. The strategic plan states that SA Water will develop seven corporate operational strategies to further define how it intends to deliver its strategic goals.

We found that at the time of our audit, five of the seven corporate strategies had been developed. The remaining two operational strategies relate to assets and integrated water management and were in draft.

SA Water advised us that it has a number of activities to help provide strategic direction in the absence of these corporate strategies. We recommended that SA Water finalise the development of the remaining corporate strategies to support its strategic plan.

SA Water acknowledged the two incomplete strategies and advised us that the River Murray flood response necessitated setting aside the final review and endorsement of them. SA Water referred to its annual plans, which set goals for the year for each business unit that link back to the strategic plan, and other activities to provide strategic direction.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Income		
Water and sewer rates and charges	1,088	1,061
Community service obligations	136	134
Other	201	168
Total income	1,425	1,363
Expenses		
Depreciation and amortisation expense	365	368
Borrowing costs	298	286
Operational and service contracts	240	232
Employee benefits expenses	142	141
Other expenses	309	286
Total expenses	1,355	1,314
Net profit before income tax equivalents expense	71	48
Income tax expense	19	12
Net profit after income tax equivalents expense	52	36
Other comprehensive income (net of tax)	(1,327)	(378)
Total comprehensive result	(1,275)	(342)
Net cash inflows (outflows) from operating activities	461	372
Net cash inflows (outflows) from investing activities	(548)	(455)
Net cash inflows (outflows) from financing activities	85	86
Assets		
Current assets	226	223
Non-current assets	12,041	13,743
Total assets	12,267	13,966
Liabilities		
Current liabilities	345	302
Non-current liabilities	8,503	8,932
Total liabilities	8,848	9,235
Total equity	3,419	4,731

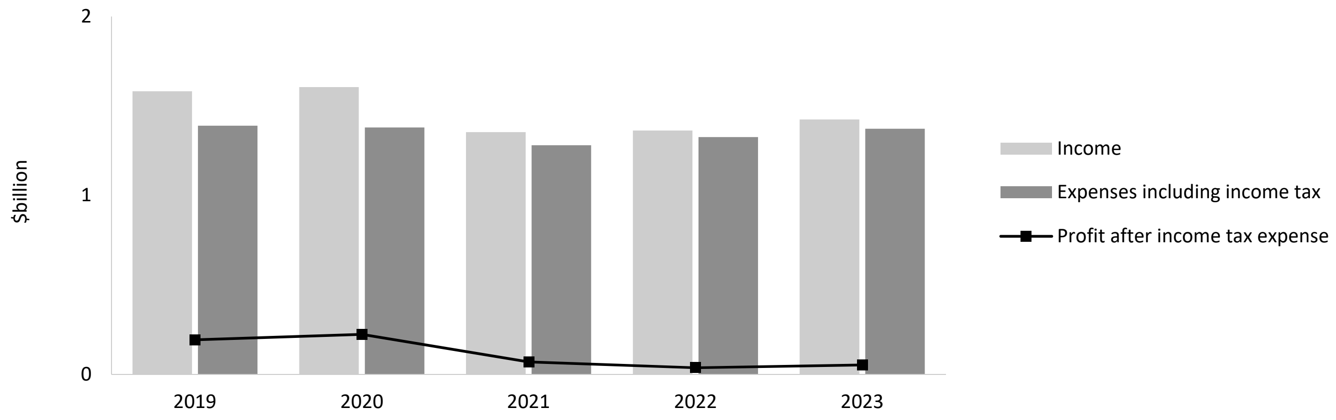
* Table may not add due to rounding.

Statement of Comprehensive Income

Operating result

SA Water's profit after income tax equivalents (income tax expense) increased by $15.7 million to $52.1 million.

The following chart shows the income, expenses (including income tax) and profit after income tax for the five years to 2023.



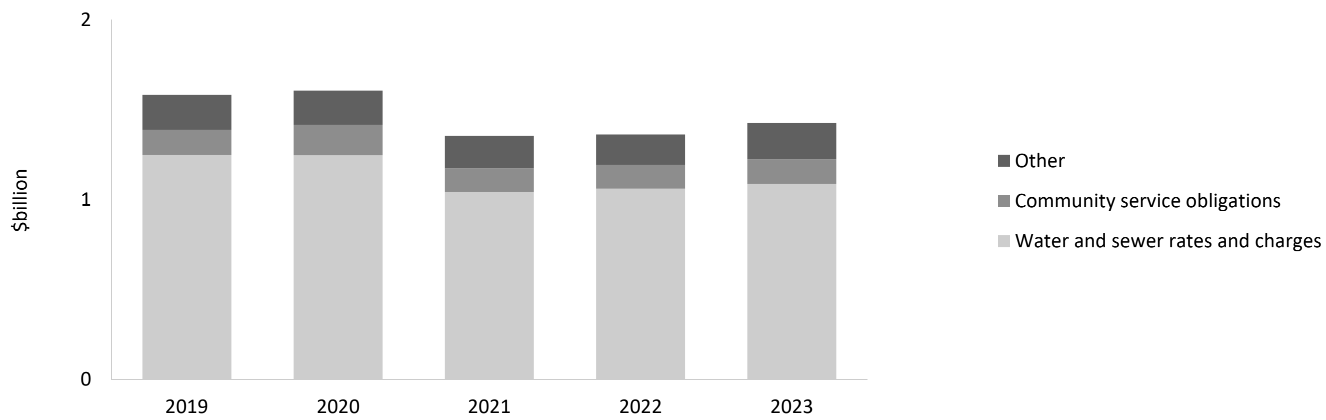
Since 2014 the Essential Services Commission of South Australia (ESCOSA) has regulated the revenue that SA Water can earn from providing drinking water and sewerage retail services. ESCOSA determines the revenue (not price) that SA Water may derive from these services, with SA Water setting annual water and sewerage charges to achieve the revenue limits determined by ESCOSA, and ESCOSA monitoring SA Water's performance.

The chart above shows the decrease in SA Water's profit after income tax corresponding with the impact of the 2020 pricing order from the Treasurer and ESCOSA's final revenue determination for 2020–2024, which has reduced income from the prior regulatory period.

Further information on ESCOSA's role in making revenue determinations and the Treasurer's pricing orders is provided under 'Further commentary on operations' below.

Income

The following chart shows SA Water's main sources of income for the five years to 2023.



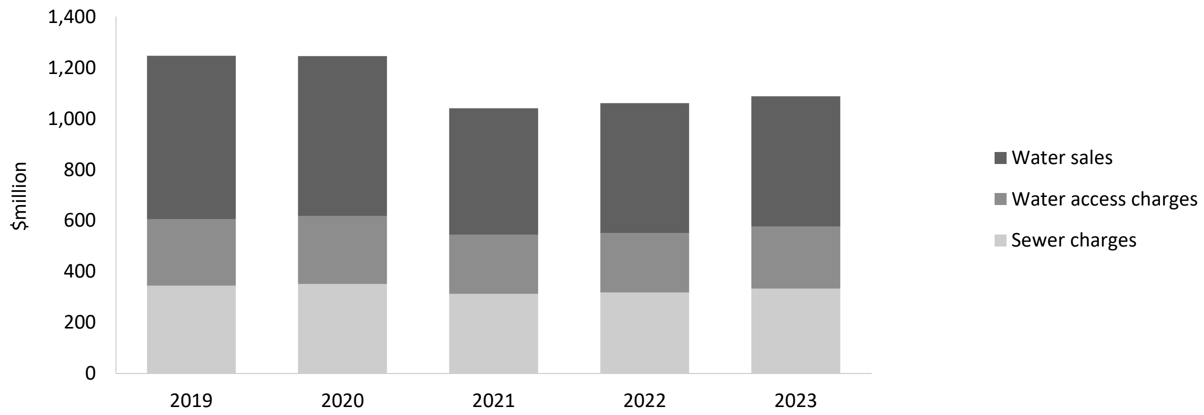
The chart shows that total income reduced in 2021 by $252 million, largely driven by a reduction in income from water and sewer rates and charges following the implementation of a new regulatory period. Since then income has gradually increased as SA Water has progressed through the 2020–2024 regulatory period. In 2023 total income increased to $1.43 billion.

Water and sewer rates and charges

The major source of SA Water's income is water and sewer rates and charges. These mainly comprise:

- water sales, charged by volume of water used
- water access charges, mainly set at a fixed amount
- sewer charges, mainly set on property values.

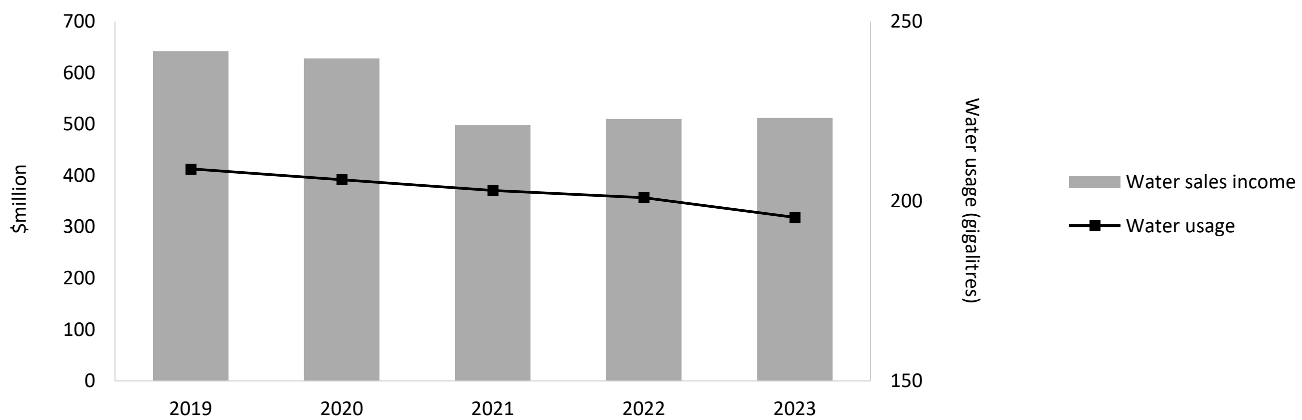
The following chart shows these components for the past five years.



Water and sewer rates and charges revenue is affected by changes in prices charged and water consumption.

The SA Water Final Regulatory Determination 2020 (Final Determination) established significant reductions in the total revenue that SA Water may recover in the four-year period starting 1 July 2020. The Final Determination resulted in reductions in the current regulatory period of 16% ($494 million) and 4% ($54 million) for drinking water and sewerage retail services respectively, compared to the amounts determined for the previous regulatory period (2016–2020). ESCOSA reported that this revenue reduction was driven primarily by lower market-based debt and equity financing costs (through the regulated rate of return). Further information on ESCOSA's role in making revenue determinations is provided under 'Further commentary on operations' below.

The following chart shows water usage and water sales income for the five years to 2023.



Water usage has been declining in the five years to 2023, from 209 gigalitres in 2019 to 195.5 gigalitres in 2023. In 2023, demand for water during a warm summer was offset by higher than average rainfall. While water usage has declined, water sales income has been gradually increasing from 2021 (the start of the current regulatory period) due to the price increases applied. In 2023, water prices increased by 3.2%.

The factors affecting water and sewer prices are discussed further under 'Further commentary on operations' below.

Community service obligations (CSOs)

SA Water is required to provide a number of non-commercial services to the community on behalf of the SA Government. The SA Government provides SA Water with CSO funding to compensate it for these activities. CSO revenue increased by $2.9 million to $136.4 million in 2023.

CSO revenue recognised in 2022-23 includes the following amounts to compensate SA Water:

- $107.9 million ($107.6 million) for the shortfall in the recovery of costs associated with country water and sewer services (due to the requirement for statewide pricing)
- $18.4 million ($17.9 million) for the provision of water and sewer exemptions and concessions to certain properties, including charities and public schools
- $10.1 million ($8 million) for other payments such as the administration of the Pensioner Concession Scheme, South Australian Government Radio Network and emergency functional services, and maintaining water and sewerage services in remote communities.

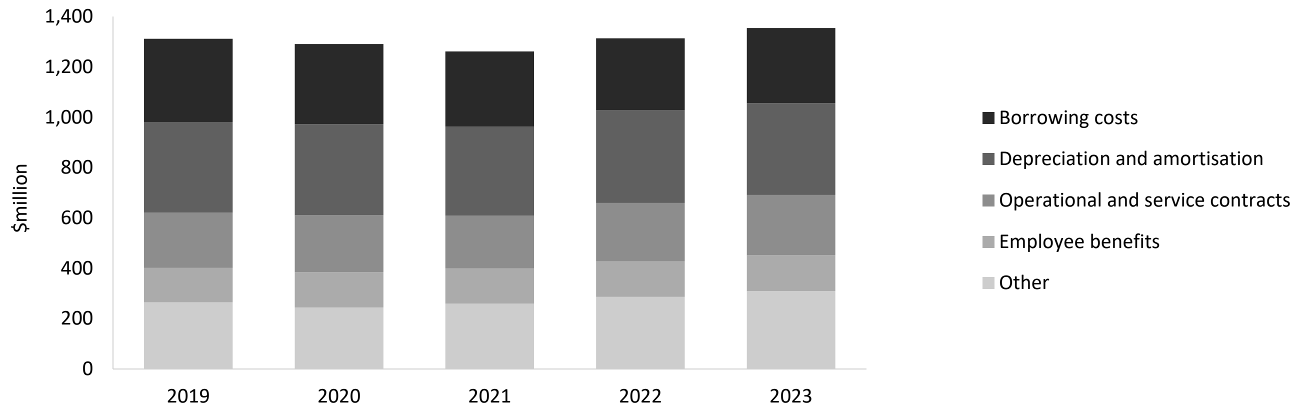
CSOs are provided under SA Water's financial ownership framework, which is agreed with the Department of Treasury and Finance.

Other income

Income from all other sources increased by $33.6 million to $201.2 million and includes income from contributed assets and recoverable works – which can vary from year to year depending on economic conditions and government initiatives – and gains on the disposal of infrastructure and other assets.

Expenses

The following chart shows SA Water's main expense items, excluding income tax expense, for the five years to 2023.



Total expenses increased by $40.1 million to $1.35 billion in 2022-23.

Depreciation and amortisation are SA Water's largest expenses at $364.7 million, making up 27% of its total expenditure. Depreciation and amortisation decreased marginally in 2022-23, mainly as a result of the downwards revaluation of SA Water's infrastructure, plant and equipment assets from the prior year, partially offset by asset additions.

Operational and service contract expenditure relates to contracts that SA Water has with service delivery providers for metropolitan field operations (maintenance etc for the metropolitan pipe network) and water production and treatment. Contract expenditure rose in 2022, as SA Water entered into two new contracts to replace the former long-term contract provider.

Operational and service contract expenses increased by $7.5 million in 2023, due largely to:

- significant initiatives such as the Breakout Creek redevelopment along the River Torrens
- additional activity undertaken for the River Murray flood response
- increased volume costs for Adelaide metropolitan service contracts
- partially offset by reductions in spending for one-off programs in 2022, reduced contract labour and delays in completing works.

Borrowing costs, excluding interest on lease liabilities, totalled $292.1 million in 2023. Borrowing costs are impacted by both the size of SA Water's debt and movements in interest rates. Over the past five years borrowings have increased, but these borrowing costs gradually reduced from 2019 to 2022 due to lower interest rates. In 2023, SA Water's total borrowings increased by $141.9 million and the associated interest expense increased by $13.3 million. As SA Water's long-term borrowings are held at fixed rates, the recent rises in interest rates are yet to have a significant impact.

Employee benefits expenses remained relatively steady, with a marginal increase up to $142.4 million in 2022-23. Increases in salaries and wages were mostly offset by reductions in employee benefit provisions for leave entitlements.

Other expenses in the chart above include a range of expenses including services and supplies, electricity expenses, and asset write-offs and revaluation decrements.

Services and supplies increased by $30.8 million to $209.3 million in 2023, largely due to:

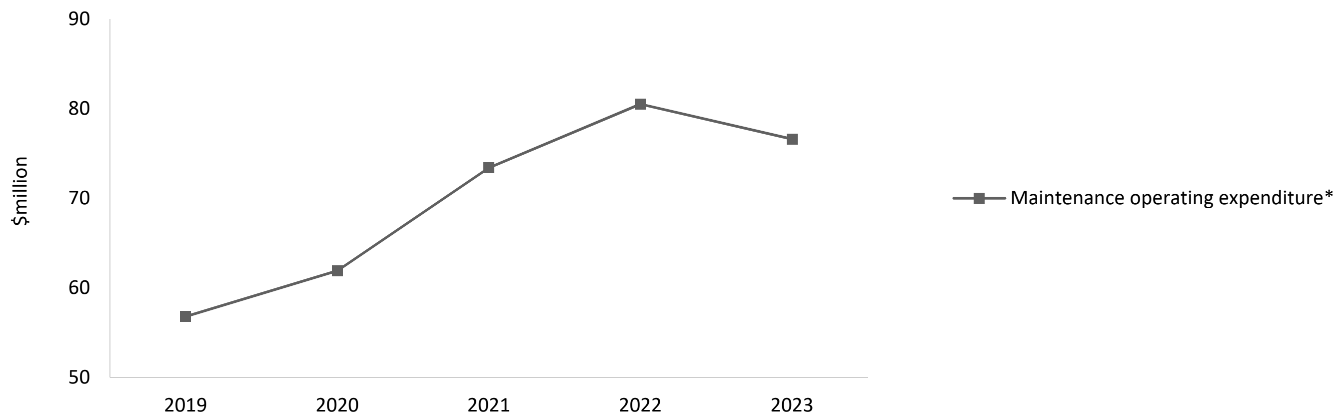
- a $12.9 million increase in materials and chemicals, mainly as a result of additional chemicals needed in the River Murray flood event response to treat water
- a $10.4 million increase in software licenses as SA Water increases its use of software-as-a-service systems
- an $8.3 million increase in other services and supplies, mainly for site restoration costs associated with the River Murray flood event and fire preparation works.

Electricity expenses decreased by $2 million to $71.5 million as SA Water used lower volumes of electricity. SA Water introduced its Zero Cost Energy Future (ZCEF) program to manage its energy price risk. This program included the purchase and installation of approximately 152 megawatts of solar photo-voltaic generation panels and 35 megawatt hours of energy battery storage.

The ZCEF project was completed in 2022-23, with the final sites capitalised (see 'Zero Cost Energy Future (renewable energy) assets' below for more details about the ZCEF program and SA Water's renewable energy assets). The ZCEF renewable energy assets were revalued downwards by $22.1 million in 2022-23 and this decrement is included in other expenses.

Maintenance expenditure

The following chart shows SA Water's routine maintenance and repairs expenditure on water and sewerage assets since 2019.



* Data was provided by SA Water and is unaudited.

SA Water's maintenance and repairs expenditure, including pipe maintenance, increased each year until 2022-23, when it decreased by $3.9 million to $76.6 million. The last decrease was in 2019, which was also the end of the previous regulatory period.

There are a number of factors that affect the level of maintenance, including the nature of the pipe being maintained (metropolitan versus country infrastructure), location, age and reason for maintenance. SA Water also incurs capital expenditure to renew its network, which is described further below.

Pipe bursts data

Maintenance includes the costs of responding to pipe failures, or bursts. The number of bursts over the last five years, with data provided by SA Water and unaudited, is shown in the table below.

	2018-19 Number	2019-20 Number	2020-21 Number	2021-22 Number	2022-23 Number
Reported pipe bursts:					
Metropolitan	2,026	1,801	1,831	1,895	1,744
Country	2,020	1,867	1,780	1,740	1,774
Total	4,046	3,668	3,611	3,635	3,518

For the time frame shown, the number of water and sewer pipe bursts peaked in 2018-19.

The Bureau of Meteorology's *National performance report 2021-22: urban water utilities* reports that SA Water's water main burst rates ranked sixth lowest among 15 large urban water utilities in 2022.

Other comprehensive income

Other comprehensive income includes gains and losses on the revaluation of infrastructure, plant and equipment, and the income tax equivalent impact of these revaluations. In 2023 other comprehensive income saw a loss of $1.33 billion (loss of $378.2 million), principally due to the downward revaluation of infrastructure assets. This is discussed further under 'Statement of Financial Position' below.

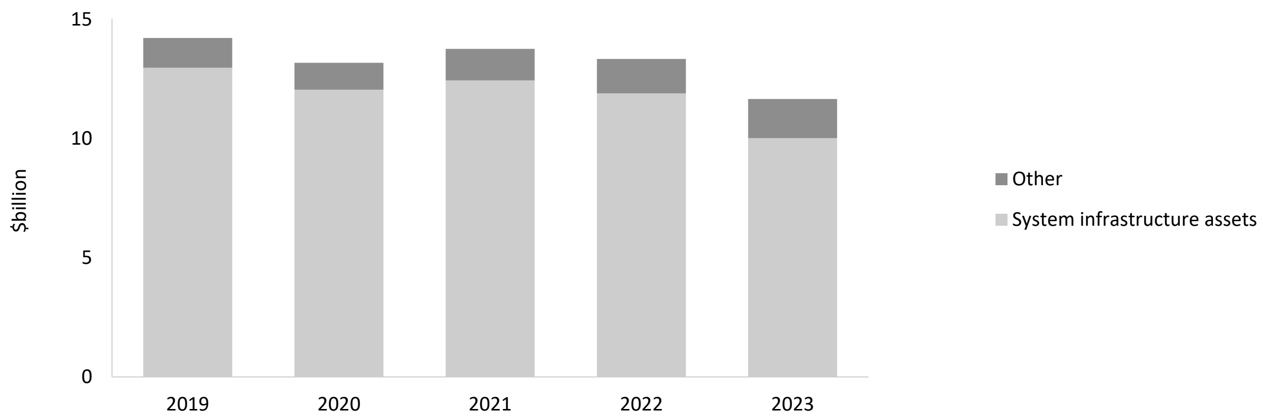
Statement of Financial Position

SA Water's financial position is dominated by non-current water and sewer infrastructure assets, and related borrowings and tax liabilities.

Assets

System infrastructure assets are operationally and financially significant to SA Water, representing $10 billion (82%) of the $12.27 billion in total assets.

The following chart shows the movement in infrastructure, plant and equipment assets for the five years to 2023, most of which are system infrastructure assets.



Since 2019 infrastructure, plant and equipment assets have decreased by $2.56 billion, reflecting net revaluation decrements and depreciation, offset by additions to water and sewer infrastructure.

In 2023 total assets decreased by $1.7 billion from the previous year. Significant movements affecting assets during the year were:

- the downward revaluation of system infrastructure assets and renewable energy assets of $1.94 billion
- depreciation and amortisation charges of $364.7 million

- partially offset by the acquisition of infrastructure, plant and equipment of $581.3 million. Asset purchases include water and sewer pipe network renewal, as well as major projects such as the ZCEF program and the Kangaroo Island desalination plant.

An income approach is used to value system infrastructure assets

System infrastructure assets include water and sewer pipes, treatment plants, pumping stations, storage assets and buildings. These assets deliver water, sewerage and recycled water to and from the customer through SA Water's integrated network of assets.

Since 2020 SA Water has used an income approach to value its system infrastructure assets. It measures the fair value of its system infrastructure by estimating the net future cash flows generated by the use of its water and sewer assets, discounted to present value using a weighted average cost of capital.

The fair value of system infrastructure assets is determined by calculating the total value of all SA Water assets that contribute to generating future cash flows and deducting asset classes that have been separately valued using the market or cost approach (such as land).

A separate income valuation is performed for renewable energy assets, as these assets generate a separately identifiable income source from the water and sewer assets (see 'Zero Cost Energy Future (renewable energy) assets' below for more information on the valuation of ZCEF assets).

SA Water aligns its approach to determining the future cash flows with the methodology applied by ESCOSA. In addition to the cash flows for regulated assets under this approach, SA Water's fair value calculations include estimated cash flows from non-regulated assets, which are not included in ESCOSA's methodology. The valuation of SA Water's assets in its financial statements does not affect the regulated asset base used by ESCOSA when making revenue determinations (see 'Regulation of water and sewer rates and charges' below for information about the regulated asset base).

Asset valuations are sensitive to changes in assumptions

The discounted cash flow model SA Water uses to determine the fair value of its system infrastructure assets is highly sensitive to changes in key assumptions and inputs.

The primary driver of a discounted cash flow model is the income forecasting used in the predicted future cash flows. As noted above, SA Water uses the methodology applied by ESCOSA in determining its future cash flows. The positioning within the regulatory period therefore impacts the certainty of revenue forecasts. Early in the regulatory period, the maximum allowable revenue is known. As the regulatory period progresses, the forecast makes assumptions about future revenue amounts that fall outside of the current regulatory period. As SA Water is currently nearing the end of the 2020–2024 regulatory period, the future revenue forecasts are less certain.

SA Water's revenue forecasts are also impacted by SA Government decisions through the State Budget outcomes. Short-term revenue forecasts have been adjusted to reflect lower price increases based on the approved indexation factor in the 2023-24 State Budget, with medium-term forecasts using Reserve Bank of Australia inflation forecasts.

The following variables have the greatest impact on the fair value calculations:

- the nominal post-tax weighted average cost of capital used to discount future expected cash flows to present values, reflecting the relative risk of the business and the time value of money
- the perpetual nominal growth rate used to estimate the future growth in net cash flows, which is based on long-term inflation estimates
- estimates of future capital expenditure using the ESCOSA final capital expenditure determination as a basis.

The table below demonstrates the sensitivity of the calculation and the impact that small changes in these variables have when estimating the fair value of SA Water's system infrastructure. This sensitivity information is presented in note 14 of SA Water's financial report.

Discount rate	Rate applied %	If higher by +0.1%	If lower by -0.1%
Nominal post-tax rate	4.6%	4.7%	4.5%
Calculated fair value of infrastructure, plant and equipment ($billion)	11.670	11.122	12.273
Resulting change ($million)		(548)	602

Perpetual nominal growth rate	Rate applied %	If higher by +0.1%	If lower by -0.1%
Nominal post-tax rate	2.5%	2.6%	2.4%
Calculated fair value of infrastructure, plant and equipment ($billion)	11.670	12.239	11.153
Resulting change ($million)		569	(517)

Sustainable capital expenditure	Value applied	If higher by $10 million	If lower by $10 million
Nominal post-tax value ($million)	407.4	417.4	397.4
Calculated fair value of infrastructure, plant and equipment ($billion)	11.670	11.271	12.069
Resulting change ($million)		(399)	399

In 2023 the revaluation of system infrastructure assets resulted in a revaluation downwards of $1.9 billion, due mainly to the following:

- the weighted average cost of capital increasing from 4.52% to 4.6%. Increases in the rate used to discount future cash flows will decrease the fair value of system infrastructure
- a change in forecast net cash flows, with expenditure expected to exceed the projected growth in revenue.

The following data provides an overview of SA Water's water and sewer infrastructure assets and their value at 30 June 2023.

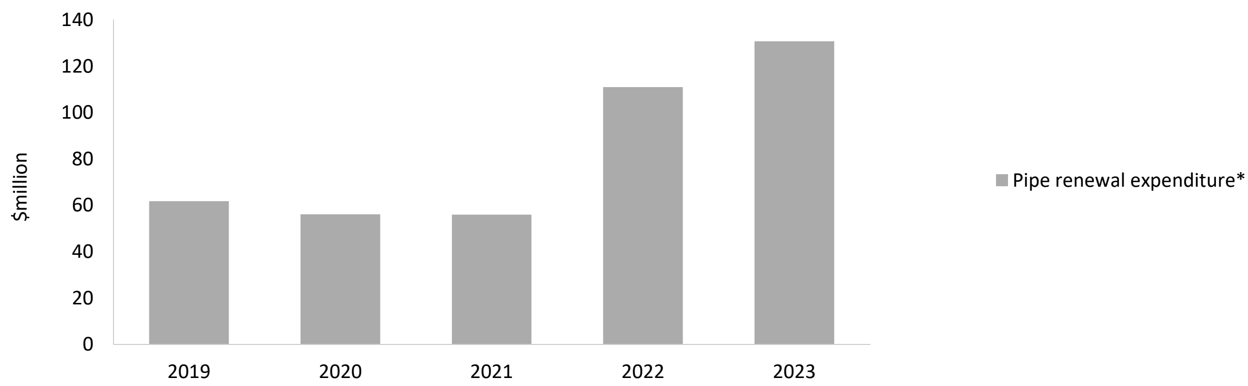
Water	Assets*	Value
Water customer connections	804,493	$562 million
Major pipelines and trunk mains	27,839km	$3.23 billion
Water treatment plants	46	$574 million
Dams/Weirs	31	$481 million
Desalination plants	5	$999 million

Sewerage	Assets*	Value
Customer wastewater connections	637,743	$529 million
Wastewater mains	9,339km	$1.6 billion
Treatment plants	29	$1.01 billion

* Data on assets was provided by SA Water and is unaudited.

Renewal of the water and sewer pipe networks

The following chart shows SA Water's pipe network renewal expenditure (based on data provided by SA Water) for both water and sewer pipes, which includes major projects for each year.



* Data was provided by SA Water and is unaudited.

The chart shows that pipe renewal expenditure has increased, with initiatives to replace water mains in 2022 and further capital expenditure in 2023 for major projects such as the Morgan to Whyalla pipeline renewal.

Zero Cost Energy Future (renewable energy) assets

In 2022-23, SA Water completed its ZCEF project. Over 367,000 solar panels were installed across 33 of SA Water's high electricity usage sites, along with battery storage. The final site was energised in May 2023. Total capitalised costs for this project were $356.9 million.

The project originally aimed to provide 70% of SA Water's electricity needs. Data provided by SA Water shows that the ZCEF assets generated 106.6 gigawatt hours of electricity in 2022-23, up from 69.1 gigawatt hours in the prior year (when site installation was still in progress). SA Water advised us that the ZCEF assets provided a net benefit of $12.2 million in 2022-23. This includes savings in electricity expenses and external revenue, offset by operating costs.

ESCOSA informed SA Water that capital costs associated with the ZCEF project could not be included in the Final Determination. This was because, in ESCOSA's view, water and sewerage users were not adequately protected from the risks and benefits of the program not being realised. By treating the ZCEF program as an unregulated activity, ESCOSA removed from its final determination of revenue all costs of the program and all future savings that SA Water expects to receive from it. All risks and benefits from the ZCEF program will therefore accrue to SA Water and the SA Government. Final drinking water and sewerage retail service revenues for the current regulatory period do not reflect the expected future savings, or costs, arising from the ZCEF program.

SA Water has elected to value its ZCEF assets using the income approach through a discounted cash flow model, using electricity market data and renewable energy certificate pricing estimates. The inputs used for the cash flows are largely derived on the capacity output of ZCEF based on estimated energy prices over the life of the assets, up to 2050.

The revaluation using the income approach resulted in a downwards revaluation of $22.1 million in 2022-23. This is recognised as other expenses in the Statement of Comprehensive Income, as there is no existing revaluation reserve for this class of assets after it was also revalued down by $26.9 million in 2021-22. The written down value of these assets at 30 June 2023 is now $272.6 million.

Liabilities

SA Water's liabilities decreased by $386.6 million to $8.85 billion in 2022-23. Borrowings represent 83% of total liabilities. SA Water has significant debt to maintain the minimum gearing ratio stipulated by the SA Government (see 'Financial ownership framework, charter and performance statement' below for more information).

The decrease in total liabilities is largely due to:

- decreases in deferred tax liabilities of $528.6 million, down to $768.1 million, mainly as a result of temporary differences in the amounts recognised directly through equity, including revaluations of system infrastructure assets

- partially offset by a $141.9 million increase in borrowings, up to $7.33 billion, to fund an increase in capital expenditure. SA Water's borrowings are with the South Australian Government Financing Authority (SAFA). Most of the debt is long term and at fixed interest rates.

Current assets and liabilities

At 30 June 2023 current liabilities amounted to $344.8 million, exceeding current assets of $226 million by $118.8 million. This has grown from the prior year difference of $79 million. While such a deficiency in working capital can be of concern, SA Water has a strong cash flow position from operating activities and access to sufficient borrowing facilities with SAFA, which would enable all of its current liabilities to be met. A large component of its current liabilities is payables, comprising 61% (61%) of the balance.

Statement of Cash Flows

SA Water's cash decreased to $5.6 million in 2022-23, with its short-term borrowings (overdraft facility) with SAFA increasing to $42.7 million.

SA Water's cash position is subject to significant changes associated with its operating, investing and financing activities. Factors affecting cash flows include:

- receipts from customers of $1.35 billion ($1.28 billion), largely reflecting water and sewerage charges
- payments to suppliers and employees of $759 million ($744 million)
- investment in the construction and purchase of infrastructure, plant and equipment and intangible assets. In 2023 investing payments for assets totalled $548 million ($455 million), representing the number of large infrastructure projects
- the payment of a cash dividend to the SA Government of $49.8 million ($29.9 million)
- an increase in SA Water's financing requirements, with net cash inflows from borrowings totalling $142 million ($116 million).

Further commentary on operations

Financial ownership framework, charter and performance statement

SA Water operates under a financial ownership framework, charter and performance statement, all approved by the Treasurer and Minister. The *Public Corporations Act 1993* requires the charter and performance statement to be reviewed at the end of each financial year.

The performance statement defines the contribution to the SA Government in terms of dividends, repayment of capital, income tax equivalents and other rates and taxes. The key financial performance measures agreed to in the performance statement are set out in the following table.

Performance measure	Target 2022-23	Actual results 2022-23
Profit ($million)	141.8	70.8
Tax expense ($million)	42.6	18.8
Dividend ($million)	96.5	49.8
Total contribution ($million)	139.1	68.6
Gearing ratio (%)*	49%	60.7%

* Total interest-bearing debt (including borrowings and lease liabilities) divided by total assets.

SA Water's actual total contribution of $68.6 million was $70.5 million below its performance statement target. Reductions in expected dividends and income tax equivalents were noted in the mid-year budget review, where adjustments were made for third-party works provided to the Department for Infrastructure and Transport for the Fleurieu connections project. Additional costs incurred by SA Water for the River Murray flood event response, contractor costs and electricity prices also impacted its 2023 net result.

The dividend target is calculated at 100% of profit, in line with SA Government requirements for government businesses. Adjustments for differences in forecast and actual profit may be addressed through an interim dividend in the next financial year.

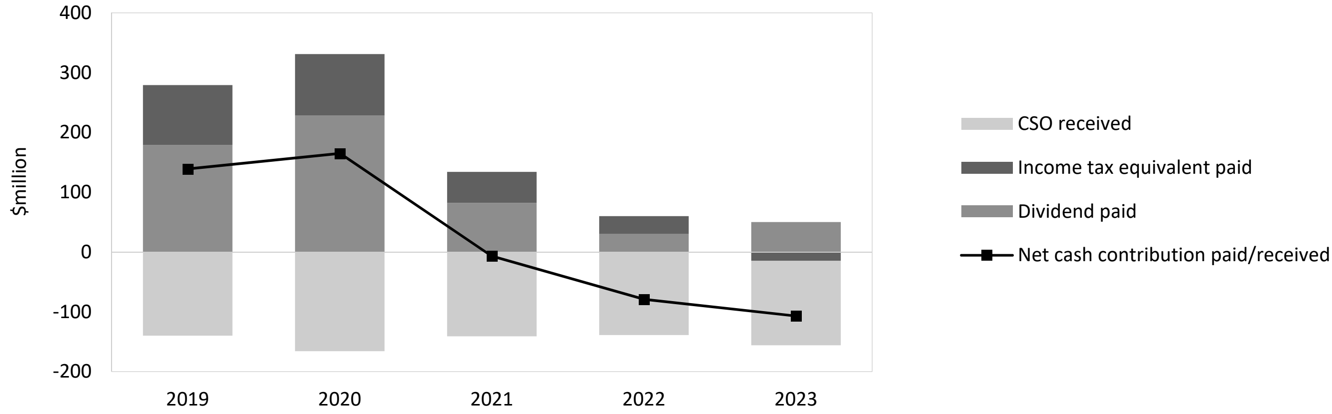
SA Water's performance statement and financial ownership framework includes CSO payments from the SA Government to support non-commercial services (see CSO section above under 'Income') and requires SA Water to maintain a gearing ratio of at least 45%. For 2023 a target gearing ratio of 49% was specified, while the actual result was 60.7%. The gearing ratio represents the proportion of debt (interest-bearing liabilities) to assets for the entity.

The following table summarises movements in the major items influencing SA Water's borrowings (debt).

	2019 $million	2020 $million	2021 $million	2022 $million	2023 $million
Net cash inflows from operating activities	476	518	438	372	461
Net cash outflows from investing activities	(527)	(576)	(446)	(455)	(548)
Surplus (Shortfall in) cash from operations after investing activities	(51)	(58)	(8)	(83)	(87)
Dividend payments to owners	(179)	(228)	(82)	(30)	(50)
Surplus (Shortfall in) funds to pay for dividends and investing activities	(230)	(286)	(90)	(113)	(137)
Net increase in borrowings	221	305	107	116	142

Net borrowings increased by $141.9 million in 2023, reflecting the new debt required to pay for dividends and investing activities. In September 2020, the Treasurer approved a core debt limit of $8.163 billion for SA Water, an increase of $1.13 billion from the previously approved debt limit of $7.037 billion. The approved working capital facility limit with SAFA as at 30 June 2023 was $150 million.

SA Water's cash contributions to the SA Government (dividends and income tax equivalent) and CSO funding provided by the SA Government for the five years to 2023 is shown in the following chart.



The chart shows the amount of money returned to/received from the SA Government through income tax equivalent and dividend payments reducing significantly since 2020. In 2023, SA Water received a refund of income tax equivalents, resulting in a net $106.6 million ($79 million) cash contribution from the SA Government.

Comparison with other water utilities

As discussed above, SA Water is required to maintain a debt to asset ratio of at least 45%. This is designed to ensure its debt is in line with other interstate water utilities.

The table below shows SA Water's 2023 actual gearing ratio and the gearing ratios for four major water utilities from around Australia as at 30 June 2022. SA Water's gearing ratio is above the other utilities listed, although is similar to Sydney Water and Yarra Valley Water.

	SA Water (2023)	Sydney Water	Melbourne Water	Water Corporation WA	Yarra Valley Water
Gearing ratio	60.7	59.4	47.0	29.8	57.5

SA Water's actual gearing ratio increased in 2023, up from 52.4% in the prior year. While total debt increased, SA Water's total assets reduced as a result of infrastructure revaluations.

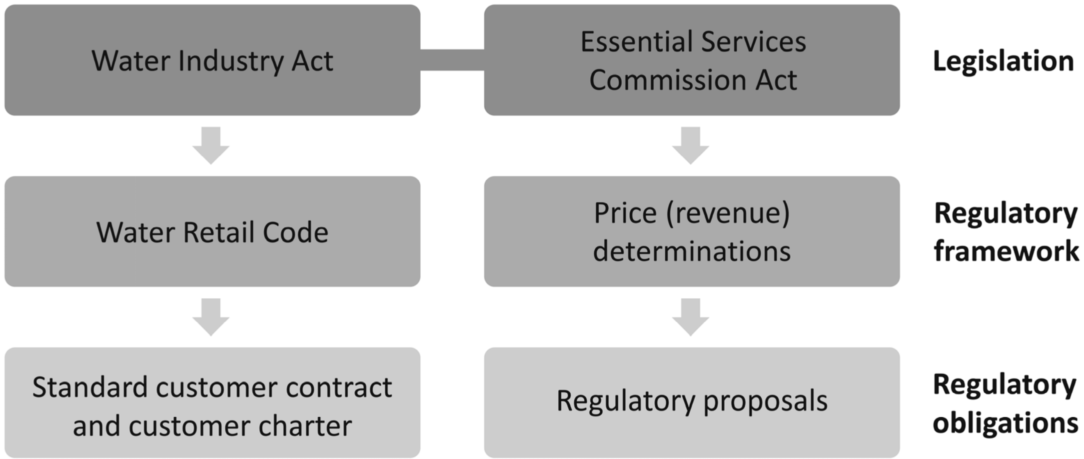
Regulation of water and sewer rates and charges

Essential Services Commission of South Australia

Under the *Water Industry Act 2012* (the WI Act) ESCOSA was appointed as the independent economic regulator for the South Australian water industry from 1 January 2013. SA Water operates within the requirements of the WI Act by holding a licence, and continuing to provide water supply and sewerage services.

Under the WI Act, ESCOSA is responsible for making revenue determinations. In making them, the WI Act requires ESCOSA to comply with the requirements of any pricing order issued by the Treasurer under the WI Act.

Legislation and regulatory framework



Pricing orders

Under the WI Act, the Treasurer has issued a number of pricing orders since September 2012. They have specified that ESCOSA is to determine the revenue (not price) that may be derived from the provision of drinking water and sewerage retail services (separately). ESCOSA considers specified values for SA Water's retail water and sewerage regulated asset bases (RABs) when determining the revenue for water and sewerage services.

In May 2020 the Treasurer issued a pricing order stating that from the regulatory period commencing on 1 July 2020, the RAB for the provision of drinking water retail services was to be set at $7.25 billion as at 1 July 2013 (in December 2012 dollars). This decrease in the RAB (from the previous $7.77 billion) reflected the outcomes of an independent inquiry into South Australian water prices, the *Abridged Advice – Final Report of the SA Inquiry into Water Prices*. The RAB for sewerage remained at $3.58 billion.

The RAB differs from the value of assets reported in SA Water's financial report. The total RAB assets as at 1 July 2013 specified in the pricing order were $10.83 billion in December 2012 dollars (comprising $7.25 billion for water services and $3.58 billion for sewerage services). This compared to SA Water's total assets at 30 June 2013 of $13.8 billion.

We provide no opinion on the amount of the RAB set by the Treasurer. The RAB is rolled forward each year based on regulatory principles to adjust for net capital additions, disposals and depreciation.

The current regulatory period that commenced on 1 July 2020 has a 194 gigalitre drinking water demand forecast for the first year, increasing each year to 195.5 gigalitres in 2024, the final year. Actual demand for 2022-23 was estimated to be 195.5 gigalitres.

ESCOSA determinations

In June 2020 ESCOSA released the final regulatory determination to apply to SA Water for the period 1 July 2020 to 30 June 2024. This establishes the total revenue that SA Water can recover in this four-year period for the provision of drinking water retail services and other allowable expenditure.

This latest determination sets SA Water's maximum allowable revenue for drinking water retail services at $2.54 billion over the four years (averaging $635 million p.a.) and $1.22 billion for sewerage retail services (averaging $304 million p.a.). These amounts are based on December 2018 dollars. Based on 2020 estimations, these figures represent a reduction in SA Water's drinking water and sewerage retail service revenues of about 16% and 4%, respectively, over the current four-year period.

ESCOSA reported that the revenue reductions in the Final Determination for 2020–2024 were driven primarily by lower market-based debt and equity financing costs (through the regulated rate of return).

ESCOSA's revenue determinations set four-year total revenue caps for water and sewerage services. Both caps are subject to a demand adjustment mechanism if actual water sales or sewerage connections are materially different to forecasts. ESCOSA monitors compliance with these caps, but any adjustments allowed under the regulatory framework, including any demand adjustments required, are assessed at the end of the regulatory period.

On ESCOSA's analysis, the revenue outcomes will provide SA Water with sufficient revenue to fund efficient operations, finance prudent investments on a long-term basis and meet the health, safety, environmental and customer service standards that apply to SA Water in the current four-year period.

ESCOSA will make a new regulatory determination to apply from 1 July 2024 to 30 June 2028. While its determination applies to the four-year period, it considers SA Water's long-term asset management, financing and service delivery plans in making its determination.

SA Water recently submitted its Regulatory Business Plan for 2024–2028. ESCOSA considers this plan, including proposed expenditure over the period and whether this is prudent and efficient to deliver services. ESCOSA will consult at various stages before issuing its final determination in 2024.

SA Water pricing

SA Water sets annual water and sewerage charges to achieve the revenue limits determined by ESCOSA, with ESCOSA then monitoring SA Water's performance.

SA Water prices vary according to customer type. The charges for water for residential customers for the five years to 2023-24 are detailed below.

Residential water charges	2019-20 $	2020-21 $	2021-22 $	2022-23 $	2023-24 $
First tier: first 0.3836 kL* per day	2.39/kL	1.95/kL	1.97/kL	2.03/kL	2.13/kL
Second tier: from 0.3836 kL* to 1.4247 kL per day	3.41/kL	2.78/kL	2.81/kL	2.90/kL	3.04/kL
Third tier: over 1.4247 kL per day	3.70/kL	3.01/kL	3.04/kL	3.14/kL	3.29/kL
Annual residential water supply charge per year	301.60	271.40	274.40	283.20	296.80

* First 0.3288 prior to 2020-21.

ESCOSA sets maximum levels of revenue for drinking water and sewerage services across the regulatory period (1 July 2020 to 30 June 2024) of $2.54 billion and $1.22 billion, respectively. Residential water use charges decreased by 18.7% in 2021, the first year of the current four-year regulatory period, and 1.1% in 2022. Residential water use charges for 2023 increased by 3.2% on average and will increase by 4.8% for 2024. Price increases for 2023 and 2024 have been below inflation in line with State Budget decisions.

Regulatory accounting statements

SA Water is required to submit regulatory accounting statements to ESCOSA. Under Water Industry Guideline 2 *Water regulatory information requirements for major retailers*, issued under the *Essential Services Commission Act 2002*, ESCOSA has specified requirements for major retailers for the collection, allocation, recording and reporting to ESCOSA of regulated business data. We do not audit the regulatory statements submitted to ESCOSA, which are special purpose financial statements.

Superannuation sector overview

South Australian public sector superannuation

The SA Government and its controlled entities contribute to defined benefit and defined contribution superannuation schemes for their employees.

Defined benefit schemes provide post-employment benefits to members as defined by the relevant scheme rules. The main defined benefit schemes are now closed to new members.

Defined contribution schemes are post-employment benefit schemes under which the employer pays fixed contributions into a fund. The amount of benefits payable to members depends on a number of factors such as the amount of member and employer contributions, investment earnings and fees charged to the member's account.

The Auditor-General audits the following South Australian public sector superannuation schemes.

Scheme	Type	Membership/Beneficiaries
South Australian Superannuation Scheme (SASS)	Hybrid (defined benefit and defined contribution)	*Pension Scheme* SA Government employees who elected to contribute to SASS before 30 May 1986 *Lump Sum Scheme* SA Government employees who elected to contribute to SASS after 1 July 1988 and before 4 May 1994
Police Superannuation Scheme (Police Super)	Defined benefit	South Australian police officers who commenced employment with South Australia Police on or before 31 May 1990
Southern State Superannuation Scheme (Triple S)	Defined contribution	SA Government employees from 1 July 1995
South Australian Ambulance Service Superannuation Scheme (Ambulance Super)	Hybrid (defined benefit and defined contribution)	Employees of the SA Ambulance Service Inc
Super SA Retirement Investment Fund (SSARIF)	Mixed (income stream and defined contribution)	SA Government employees who have retired, or are nearing retirement age, or have ceased employment with the SA Government
Parliamentary Superannuation Scheme (Parliamentary Super)	Hybrid (defined benefit and defined contribution)	Members of Parliament
Super SA Select (Select)	Defined contribution	SA Government employees wishing to join a taxed scheme
Judges' Pensions Scheme (JPS)	Defined benefit	South Australian judges
Governors' Pensions Scheme (GPS)	Defined benefit	Former Governors of the State

Many schemes offer insurance services to their members, which may include income protection, death, and total and permanent disability. Members of schemes not offering insurance, such as Select and SSARIF, may access insurance benefits by membership of Triple S or SSARIF's flexible rollover product.

All public sector superannuation schemes are exempt public sector superannuation schemes, which are superannuation schemes that are not regulated by the Australian Prudential Regulatory Authority (APRA) under Schedule 1AA of the Superannuation Industry (Supervision) Regulations 1994. These schemes have unique attributes that include, but are not limited to, the following:

- concessional contributions (ie contributions before tax) plus earnings may be released from the age of 55 (or 50 for Police Super members), on termination of South Australian public sector employment. This does not require permanent retirement
- non-concessional contributions plus earnings may be released irrespective of age on terminating South Australian public sector employment
- a member's preservation age will generally remain at age 55 (or 50 for Police Super members) and not increase to age 60
- due to their exempt status, the schemes are not regulated by APRA. However, for statutory purposes, the schemes report to APRA under an agreement between the Commonwealth and State Governments.

A number of South Australian public sector superannuation schemes are also constitutionally protected (ie Triple S, SASS, Parliamentary Super, JPS, GPS, Police Super). As a result, these schemes have the following unique attributes:

- concessional contributions are not taxed on receipt into the scheme, and therefore there is no requirement to deduct the 15% contributions tax
- there is no tax payable on contributions or earnings until the member leaves the scheme. This includes tax on fund income
- there are no annual concessional contribution caps, but a lifetime concessional contribution cap is in place
- annual non-concessional caps do apply to members of the constitutionally protected fund, however any tax payable levied by the ATO is against the member.

Administration and funds management

The following table shows the entities responsible for administering (ie receipting contributions and paying benefits) each of the public sector superannuation schemes.

Scheme	Entity responsible for administration
SASS, Triple S, SSARIF, Ambulance Super	South Australian Superannuation Board
Parliamentary Super	South Australian Parliamentary Superannuation Board
JPS, GPS	Legislation is committed to the Treasurer
Select	Southern Select Super Corporation
Police Super	Police Superannuation Board

Except for Police Super, the Department of Treasury and Finance – State Superannuation Office (Super SA) provides outsourced administration services to the schemes. The Police Super Office, an administrative unit of South Australia Police, provides administration services to Police Super.

The Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for investing and managing the superannuation schemes' funds in line with the *Superannuation Funds Management Corporation of South Australia Act 1995*.

Investments and related performance

In 2022-23, investment performance delivered positive returns for all investment options. Equity markets in particular overcame the ongoing economic risks and delivered strong returns for the year. The Socially Responsible investment option also delivered a standout performance and was a top performing investment option within the broader superannuation industry.

By comparison, the financial market environment was volatile in 2021-22 and investment performance was impacted by high inflation, rising risks to economic growth and the ongoing Russian-Ukrainian war.

In 2022-23, central banks continuously increased cash rates to prioritise the reduction of inflation. The Reserve Bank of Australia increased the official cash rate to 4.1%. Inflation now appears to be retreating as global supply chain pressures ease, with oil and gas prices falling significantly from their Russian-Ukrainian war highs, and the reopening of China following COVID-19 disruptions helping to ease the price of goods. Increased interest rates contributed to positive returns from shorter dated fixed interest assets in the Cash asset class and also resulted in the Department of Treasury and Finance distributing interest earned on SA Government CommBiz bank accounts.

As at 30 June 2023, the superannuation schemes had $38.6 billion ($36.1 billion) in combined investments. The fair value of assets increased by 7% or $2.5 billion, reflecting higher investment returns from the significantly improved market performance.

Net investment income in 2022-23 increased by $5.2 billion (261%). Socially Responsible investment was the highest performing asset class, with a positive return of 19.8%. This was followed by International Equities, with positive returns ranging from 15.4% to 19.5%. Growth Alternatives investments was the lowest performing asset class, with a negative return of 5.6%.

Reported investment expenses decreased by $20 million (14%) in 2022-23 due to investment activities. This year Funds SA reported only those expenses directly incurred in the investment of assets under management for each asset class. Indirect expenses are included in asset unit prices.

The following table summarises the rates of return advised to us by Funds SA for the balanced and growth options for tax exempt (ie constitutionally protected) schemes.

	2021 %	2022 %	2023 %
Balanced	21.9	(6.4)	9.7
High Growth (transitioned from Growth in February 2021)	24.8	(6.1)	10.9

Further details are included in the 'Superannuation Funds Management Corporation of South Australia' commentary in this report.

Surplus (Deficit) of net assets to member benefits liabilities

The SA Government controls and funds a number of defined benefit superannuation schemes designed to provide employees with pensions or defined lump sum benefits on retirement. Except for JPS and GPS, these schemes are now closed to new members.

As at 30 June 2023, the total deficit of net assets to member benefits liabilities was $4.3 billion ($4.2 billion). This is shown in the table below.

	Net assets available for member benefits		Member benefits liabilities		Total equity over (under) funded	
	2022	2023	2022	2023	2022	2023
	$million	$million	$million	$million	$million	$million
SASS	4,721	4,606	8,802	8,867	(4,081)	(4,261)
Police Super	2,279	2,375	2,454	2,552	(176)	(178)
Parliamentary Super*	225	225	196	201	29	25
Ambulance Super*	216	219	193	186	20	31
JPS	309	323	272	269	36	54
GPS	3	3	4	4	(1)	(1)
	7,753	7,751	11,921	12,079	(4,173)	(4,330)

* Amounts included relate only to the defined benefit portion of the schemes.

The total unfunded member benefits liabilities (deficit of net assets to member benefits liabilities) were calculated in line with AASB 1056 *Superannuation Entities*.

Different liability balances are reported under separate accounting standards

The terms of these defined benefit schemes create an obligation for the SA Government to pay future benefits to scheme members. The SA Government estimates a $7.1 billion liability at 30 June 2023 for unfunded superannuation benefits in the 2023-24 State Budget (see 2023-24 Budget Paper 3 *Budget Statement*, page 54). This figure is significantly larger than the accumulated deficit of net assets to accrued benefits of $4.3 billion identified above.

This variance is due mainly to the different discount rates used to calculate accrued member benefits liabilities under AASB 1056, and the rate required under AASB 119 *Employee Benefits*. While both standards require measurement of the present value of expected future benefit payments, superannuation schemes are required to use a market-determined, risk-adjusted discount rate appropriate to the scheme. The schemes applied a discount rate of 7% p.a.

For the purposes of the State Budget and whole of government financial reporting, the SA Government's unfunded superannuation liability is measured in line with AASB 119, which requires the use of a risk-free discount rate reflecting the market yields on Commonwealth Government bonds. The discount rate at the time of the 2023-24 State Budget was 3.9% p.a. (see 2023-24 Budget Paper 3 *Budget Statement*, page 56). The higher discount rate results in a lower present value liability calculation.

Catch-up funding cash payments continue

A program began in 1994-95 to fully fund all employer superannuation liabilities. The 2022-23 State Budget reported that the SA Government was on target to meet its commitment to have the defined benefit schemes fully funded by 2034 (see 2023-24 Budget Paper 3 *Budget Statement*, page 55).

The past service liability contribution for 2022-23 was $402 million ($424 million). The purpose of this contribution is to catch up the shortage of funding for employment in years prior to the full funding policy. The past service contribution is affected by a number of factors, including the long-term earnings rate on superannuation assets. Where investment performance exceeds the assumed rate, it is possible to reduce the level of past service payments required to fully fund superannuation liabilities by 2034. Additional contributions are needed to compensate for reduced earnings to remain on target.

Further commentary

For over 25 years, the Triple S scheme was a dedicated fund that was mandatory for South Australian public sector workers.

In May 2021, Parliament passed the Statutes Amendment (Fund Selection and Other Superannuation Matters) Bill 2020, which amended the *Southern State Superannuation Act 2009* and the *Superannuation Act 1988*, allowing Triple S members to direct employer contributions to a fund of their choice. Parliament subsequently passed the Statutes Amendment (Fund Selection and Other Superannuation Matters) Bill 2021, making further changes to the Acts.

On 30 November 2022, Super SA activated the fund selection and limited public offer options for members. Most Triple S members, including new public sector employees, were eligible and were given the option to choose a superannuation fund.

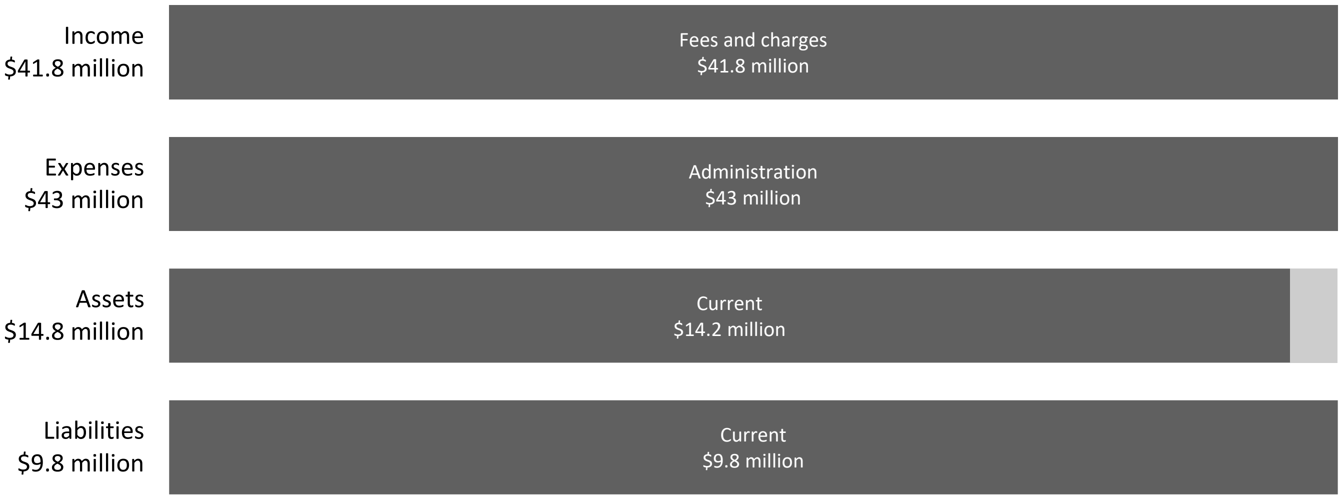
Super SA advised us that by 30 June 2023, 1,793 fund selections had been made. This represents around 1.4% of eligible Triple S members and 7.2% of new SA Government employees activating fund selection. The annualised superannuation guarantee contributions of the members who made a fund selection were approximately $5.98 million p.a. across 790 members.

The limited public offer option allows eligible members to consolidate all their superannuation in one place. SA Government workers who have multiple employers can now ask their non-SA Government employers to pay their superannuation into their taxed fund, Super SA Select. Triple S members who have ceased employment with the SA Government are also eligible to take up this option.

Super SA advised us that as at 30 June 2023, the limited public offer option is mostly being taken up by Health and Education members, which is consistent with expectations regarding dual employment. To date, 30% of these members have a preserved Triple S account, while 70% have an active Triple S account and are in dual employment.

South Australian Superannuation Board (SASB)

Financial statistics



Significant events and transactions

- Investment performance delivered positive returns for all investment options. Equity markets in particular overcame the ongoing economic risks and delivered strong returns for the year.
- The increase in the official cash interest rate set by the Reserve Bank of Australia (RBA) from 0.85% to 4.1% greatly benefited the Cash asset class, resulting in positive returns from shorter dated Fixed Interest assets.
- In May 2021, Parliament passed the Statutes Amendment (Fund Selection and Other Superannuation Matters) Bill 2020, which amended the *Southern State Superannuation Act 2009* and the *Superannuation Act 1988*, allowing Triple S superannuation scheme members to direct employer contributions to a fund of their choice.

  Parliament subsequently passed the Statutes Amendment (Fund Selection and Other Superannuation Matters) Bill 2021, making further changes to the Acts.

  In November 2022, Super SA activated the fund selection, transfers (funds under management) and limited public offer options for members.

Financial report opinion

Unmodified

Audit findings

No significant findings.

Functional responsibility

SASB was established by the *Superannuation Act 1988* (Super Act).

SASB is responsible to the Treasurer for administering the following superannuation schemes:

- South Australian Superannuation Scheme (SASS) under the Super Act
- Southern State Superannuation Scheme (Triple S) under the *Southern State Superannuation Act 2009*
- Super SA Retirement Investment Fund (SSARIF) under the Southern State Superannuation Regulations 2009
- South Australian Ambulance Service Superannuation Scheme (Ambulance Super) under the Super Act.

SASB's administration of these schemes involves maintaining:

- accounts in the names of all members
- employer contribution accounts
- proper accounts for each financial year on receiving contributions and paying benefits.

The Department of Treasury and Finance (DTF) – State Superannuation Office (Super SA) provides services to administer the schemes.

The Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for investing and managing the schemes' funds under the above legislation and the *Superannuation Funds Management Corporation of South Australia Act 1995*.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- reviewing general ledger ICT controls
- reviewing ICT general controls for the core superannuation system
- investment valuations
- measuring accrued benefits and current funding position
- fund selection, transfers and limited public offer
- taxation.

We reviewed internal audit activities in planning and conducting our audit.

Controls opinion

We reviewed controls over SASB's bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

No significant matters were identified by the audit.

Interpretation and analysis of the financial report

SASB's financial report reflects its administration role in that:

- revenue is mainly to reimburse DTF fees from the superannuation schemes
- expenses relate mainly to fees paid to DTF to administer the superannuation schemes.

Highlights of the financial report

	2023 $million	2022 $million
Income and expenses		
Total income	41.8	39.6
Total expenses	43.0	40.8
Total comprehensive result	(1.2)	(1.2)
Net cash provided by (used in) operating activities	(7.0)	8.9
Assets		
Cash and cash equivalents	3.7	10.7
Receivables	11.1	5.9
Total assets	14.8	16.6
Total liabilities	9.8	10.3
Total equity	5.0	6.3

Statement of Comprehensive Income

The total comprehensive result for the year was a loss of $1.2 million (loss of $1.2 million). This result mainly reflects:

- revenue from recoveries of administration fees of $41.7 million ($39.5 million). These are the administration fees charged to the superannuation schemes administered by SASB. They are set by SASB to recover the costs of its operations from the schemes and amounts received are paid to DTF as a reimbursement of actual costs incurred in operating SASB
- administration expenses of $43 million ($40.5 million). This amount is paid to DTF for administrative services, and includes the reimbursement of $2.8 million in strategic project costs.

The increase in revenue from recoveries of administration fees of $2.2 million (5.5%) reflects the increased costs SASB incurred in administering the superannuation schemes in 2022-23. It reflects the range of reforms undertaken by SASB during the year, including implementing the choice-of-fund option for members.

Statement of Financial Position

The main movement in the Statement of Financial Position was a $7 million decrease in cash and cash equivalents, which mainly reflects:

- a $5.2 million increase in receivables, mainly due to the rise in administration fees recoverable from the superannuation schemes and products that the Board administers
- a $545,000 decrease in payables, mostly associated with a $2.5 million increase in payables to DTF for administration fees and a $2.6 million decrease in strategic project expenses also payable to DTF
- $1.2 million in strategic projects expenditure funded by SASB during the year.

General reserve

SASB has established a general reserve to:

- account for under and overspending on office expenditure
- provide for future project expenditure
- provide funding for the triennial SASB election.

In 2022-23, SASB transferred $1.2 million from the general reserve to retained earnings due to its negative operating result for the year.

Further commentary on operations

In May 2021, Parliament passed the Statutes Amendment (Fund Selection and Other Superannuation Matters) Bill 2020, which amended the *Southern State Superannuation Act 2009* and the *Superannuation Act 1988*, allowing Triple S superannuation scheme members to direct employer contributions to a fund of their choice.

Parliament subsequently passed the Statutes Amendment (Fund Selection and Other Superannuation Matters) Bill 2021, making further changes to the Acts.

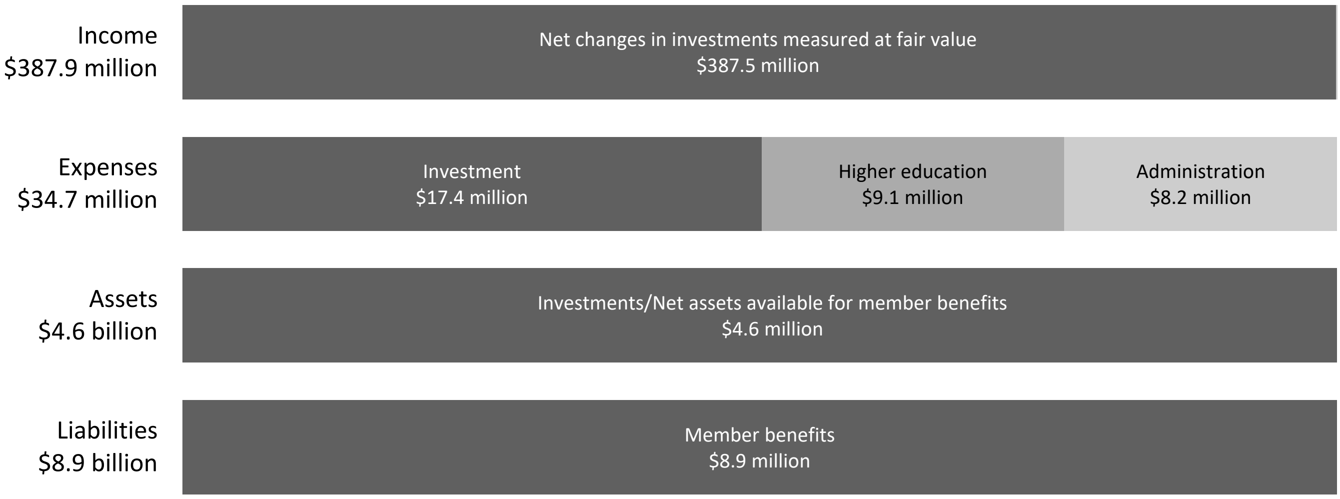
For many years, membership of the State's Triple S scheme administered by Super SA has been mandatory for South Australian public servants. The new laws allow eligible public sector workers to choose their preferred superannuation fund.

From 30 November 2022, Super SA brought into effect the fund selection, transfers (funds under management) and limited public offer options for members. Most Triple S members, including new public sector employees, were eligible and were given the option to choose a superannuation fund.

The limited public offer option allows eligible members to have all of their superannuation in one place. Contributions from non-SA Government employers can be accepted by Super SA directly into the member's taxed fund, Super SA Select. Eligible members include existing Triple S and Super SA Select members who also receive employer contributions from non-SA Government employers. Triple S members who have ceased employment with the SA Government are also eligible.

South Australian Superannuation Scheme (SASS)

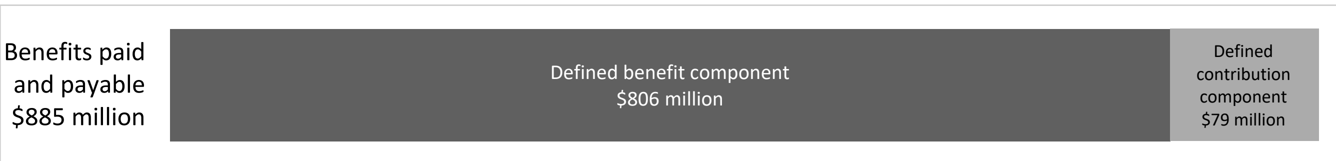
Financial statistics



15,389
Members

$4.3 billion
Defined benefits underfunded

$360 million
Past service liability funding



Significant events and transactions

— Net changes in investments measured at fair value for 2022-23 were $387.5 million, reflecting significantly higher investment performance in 2022-23.

— Investment performance delivered positive returns for all investment options. Equity markets in particular overcame the ongoing economic risks and delivered strong returns for the year. The increase in interest rates also contributed to positive returns from shorter dated fixed interest assets in the Cash asset class.

Financial report opinion

Unmodified

Audit findings

No audit findings.

Functional responsibility

SASS was established by the *Superannuation Act 1988*.

SASS provides superannuation benefits for people employed by the SA Government and other prescribed people and makes provisions for their families.

SASS is divided into two segments – the Pension Scheme and the Lump Sum Scheme.

The Pension Scheme is the superannuation scheme for SA Government employees who elected to contribute to SASS before 30 May 1986. Contributors are entitled to a pension-based benefit.

The Lump Sum Scheme is the superannuation scheme for SA Government employees who elected to contribute to SASS after 1 July 1988 and up to 3 May 1994. Contributors are entitled to a lump sum-based benefit.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- investment valuations
- measuring accrued benefits and the current funding position.

We also reviewed controls over:

- contributions revenue
- benefits payments
- cash management
- maintenance of member accounts.

The investment and management of SASS's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

We reviewed internal audit activities in planning and conducting our audit.

Controls opinion

We reviewed controls over SASS's bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We did not identify any audit findings in our audit of SASS.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Assets		
Investments	4,595	4,713
Other assets	24	16
Total assets	4,619	4,729
Liabilities		
Benefits payable and other current liabilities	13	8
Total liabilities	13	8
Net asset available to pay benefits	4,606	4,721
Member benefits		
Defined benefit member liabilities	8,407	8,307
Defined contribution member liabilities	460	495
Total member liabilities	8,867	8,802
Equity		
Defined benefits that are over (under) funded	(4,261)	(4,081)
Total equity	(4,261)	(4,081)
Revenue		
Changes in investments measured at fair value	387	(83)
Total revenue	387	(83)
Expenses		
Investment expenses	17	19
Higher education expense	9	9
Administration expenses	8	8
Total expenses	34	36
Result from superannuation activities	353	(119)
Net change in defined member benefits liabilities	(498)	(505)
Allocation to defined contribution member accounts	(35)	25
Operating result	(180)	(599)
Changes in member benefits		
Net contributions	417	433
Benefits to members (paid and payable)	(885)	(878)
Net cash flows from operating activities	(15)	(19)
Net cash flows from investing activities	484	467
Net cash flows from financing activities	(466)	(446)

Statement of Financial Position

Investments

Total investments decreased marginally by $118 million (2.5%) to $4.6 billion despite the net investment performance being positive overall in 2022-23. The decrease was due to a 4.5% reduction in the number of members, as well as asset allocations to asset classes with higher fee structures during the year.

Member benefits liabilities

SASS is a defined benefit superannuation scheme. It is comprised of the old scheme whose members are entitled to a pension benefit payment and the new scheme whose members are entitled to a lump sum benefit payment.

The table below shows the net assets available for member benefits, member benefits liabilities and the resulting excess of liabilities over net assets.

	2022 $million	2023 $million
Net assets available for member benefits	4,721	4,606
Member benefits liabilities	8,802	8,867
Over (Under) funded member benefits liabilities	(4,081)	(4,261)

The $8.9 billion in member benefits liabilities comprises $8.4 billion (95%) for the defined benefit liability and $460 million (5%) for the defined contribution liability.

Total unfunded member benefits liabilities increased by $201 million to $4.3 billion. This was largely due to:

- a decrease of $115 million in total net assets available for member benefits
- an increase of $65 million in total member benefits liabilities.

As mentioned in the ‘Superannuation sector overview’ section of this report, the SA Government has committed to fully fund the defined benefit superannuation schemes by 30 June 2034.

The demographic assumptions of the 2022 triennial actuarial review were applied to the calculation of the 2023 member benefits liabilities. The following assumptions were used:

- discount rate 7% (6.5%)
- salary increases for teachers 4% (2.5%)
- salary increases for non-teachers – 2% for the first two years and 4% (2.5%) for the longer term
- CPI factors – 4% for the first year and 2.5% (2%) for the longer term.

Vested benefits

Vested benefits are the benefits members are entitled to had their membership been terminated at reporting date. The vested benefits as at 30 June 2023 were $8.95 billion ($8.91 billion), as disclosed in note 4 of SASS’s financial report.

Income Statement

Investment revenue

Total revenue increased significantly to $387.5 million as a result of significantly higher earnings from changes in investments measured at fair value.

Overall investment performance was also much higher than 2022-23, with all categories experiencing positive returns this year. For SASS, the strong equities market environment has contributed significantly to these positive returns. There were also positive returns from investments in the Balanced and DB High Growth Strategy options.

Further details on investment returns are included in the 'Superannuation Funds Management Corporation of South Australia' commentary in this report.

Expenses

Investment expenses decreased marginally by $2 million to $17 million.

Statement of Changes in Member Benefits

Contribution revenue

Contribution revenue and membership statistics, supplied by Super SA, are shown in the following table.

	2022 $million	2023 $million
Contributions for past service liability	371	360
Contributions by employers	23	19
Public authority employer contributions	30	29
Contributions by members	9	9
Total	433	417

	2021 Number	2022 Number	2023 Number
Pension Scheme	14,296	13,898	13,469
Lump Sum Scheme	2,508	2,218	1,920
Total	16,804	16,116	15,389

Net contributions decreased by $16 million (3.7%) to $417 million, mainly due to:

- a decrease of $11 million (3%) in contributions for the past service liability
- a decrease of $5 million (17.4%) in total contributions by employers and employees.

Past service liability contributions represent funding from both SA Government (since 1994) and public sector employers to meet accrued superannuation liabilities. The SA Government expects to fully fund its liabilities by 30 June 2034. During the year the SA Government transferred $360 million ($369 million) into the South Australian Superannuation Scheme Contribution Account for past service liability funding.

The reduction in employer contributions is indicative of a closed scheme where the number of active members is decreasing due to retirements.

Benefits to members

Benefits to members expense comprises the benefits paid and the change in the liability for accrued benefits. Benefits expense can fluctuate significantly due to changing assumptions in the calculation of the estimated liability for accrued benefits. In 2022-23 the assumptions used varied to reflect the market movements, resulting in a small increase in benefits to members of $7 million (0.8%) to $885 million. This increase is represented across both pension and lump sum members and reflects a decrease in member numbers, consistent with last year, offset by the indexation of pensions based on CPI.

An annual actuarial assessment of the defined benefit members liabilities is required by AASB 1056 *Superannuation Entities*. Details of the liability are provided under ‘Statement of Financial Position’ above.

Further commentary on operations

Funding of benefit payments

Benefit payments are funded from a number of sources that have remained relatively consistent. Over half of the benefit payments are funded from the South Australian Superannuation Scheme – Employer Account.

The South Australian Superannuation Fund portion of a benefit is fully funded. Member contributions are deposited into the Fund and, on payment of a benefit, a proportion of the amount is charged against the Fund. The amount charged is determined by legislation and regulation.

There are numerous arrangements covering the funding of the employer liability for accrued superannuation benefits. Depending on the employer’s arrangement with the South Australian Superannuation Board they may either:

- make provisions for superannuation liabilities in their own accounts and pay for benefits as they emerge
- contribute fortnightly to employer contribution accounts managed by Funds SA, in this way funding their accruing liability
- make cash contributions to the Treasurer, which are invested with Funds SA.

Note 1(d) of SASS’s financial report provides details of the various funding arrangements.

Although a portion of the total superannuation liability is currently unfunded, members’ entitlements to benefits must be paid out of the Consolidated Account, or a special deposit account established for that purpose.

Membership statistics for the last three years, provided by Super SA, are shown in the following table.

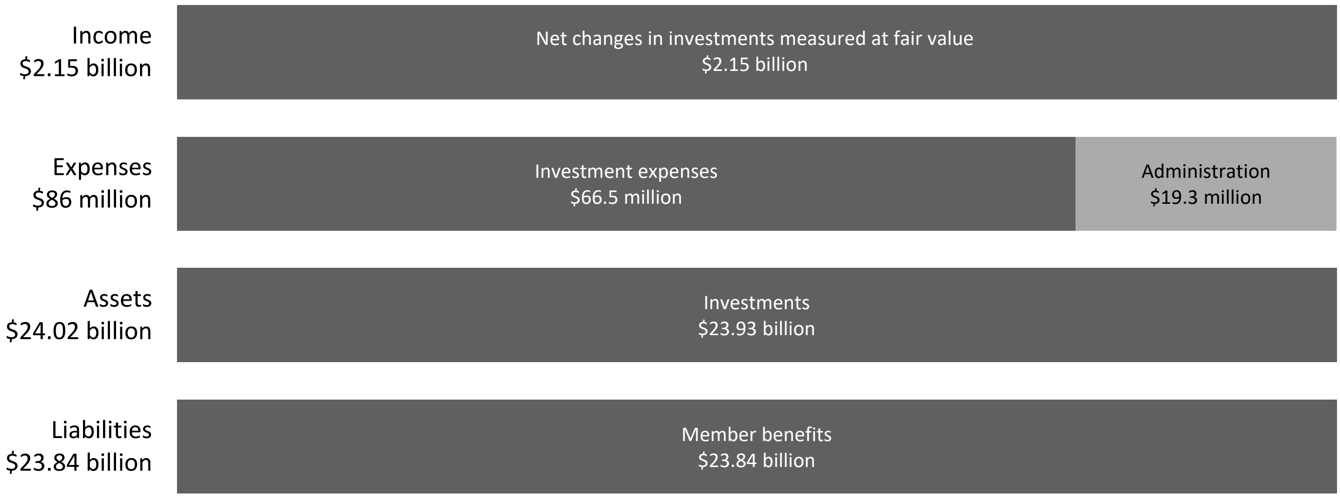
Pension Scheme	2021 Number	2022 Number	2023 Number
Contributory	159	126	93
Preserved	176	143	114
Superannuants	13,961	13,629	13,262
Total	14,296	13,898	13,469

Lump Sum Scheme	2021 Number	2022 Number	2023 Number
Contributory	1,662	1,432	1,210
Preserved	846	786	710
Total	2,508	2,218	1,920

Total members	2021 Number	2022 Number	2023 Number
Contributory	1,821	1,558	1,303
Preserved	1,022	929	824
Superannuants	13,961	13,629	13,262
Total	16,804	16,116	15,389

Southern State Superannuation Scheme (Triple S)

Financial statistics



177,907
Members

$2.01 billion
Net contributions

Significant events and transactions

— Net changes in investments measured at fair value for 2022-23 were $2.154 million, reflecting significantly higher investment performance.

— Investment performance delivered positive returns for all investment options. Equity markets in particular overcame the ongoing economic risks and delivered strong returns for the year. The increase in interest rates also contributed to positive returns from shorter dated fixed interest assets in the Cash asset class.

— Under new laws that came into effect on 30 November 2022, Super SA activated the fund selection, transfers (funds under management) and limited public offer options for members.

Eligible Triple S members, including new public sector employees, were given the option to choose a superannuation fund. Previously, membership of the Triple S scheme was mandatory for South Australian public servants.

Financial report opinion	**Unmodified**
Audit findings	No audit findings.

Functional responsibility

Triple S was established on 1 July 1995 by the *Southern State Superannuation Act 1994* and is continued under the *Southern State Superannuation Act 2009*.

Triple S is a defined contribution scheme that provides superannuation and other products and services for the benefit of people employed, or who have ceased employment, with the SA Government.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- ICT general controls for the core superannuation management system
- investment valuations
- fund selection.

We also reviewed controls over:

- contributions revenue
- benefits payments
- cash management
- maintenance of member accounts
- reconciling superannuation data from the superannuation administration systems to the general ledger.

The investment and management of Triple S's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

We reviewed internal audit activities in planning and conducting our audit.

Controls opinion

We reviewed controls over Triple S's bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We did not identify any audit findings in our audit of Triple S.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Assets		
Investments	23,927	21,992
Other assets	96	76
Total assets	24,023	22,068
Liabilities		
Benefits payable	29	68
Insurance liabilities and payables	40	26
Total liabilities	69	94
Net assets available for member benefits	23,954	21,974
Member benefits		
Member benefit liabilities	23,843	21,764
Total net assets	111	210
Total equity	111	210
Revenue		
Changes in investments measured at fair value	2,154	(1,394)
Interest revenue	1	-
Total revenue	2,155	(1,394)
Expenses		
Investment expenses	67	75
Other expenses	19	12
Total expenses	86	87
Result from superannuation activities	2,069	(1,481)
Insurance activities	(15)	-
Net benefits allocated to members accounts	(2,149)	1,392
Operating result	(95)	(89)
Changes in member benefits		
Net contributions	2,006	1,963
Benefits to members (paid and payable)	(2,070)	(1,899)
Net cash flows from operating activities	(26)	(30)
Net cash flows from investing activities	157	(66)
Net cash flows from financing activities	(127)	112

Statement of Financial Position

The accumulative nature of Triple S (a defined contribution scheme) means that member benefits liabilities are fully funded.

Net assets available for member benefits

Net assets available to pay member benefits increased by $1.98 billion (9%) to $23.95 billion. This reflects the accumulative nature of Triple S, where the increase reflects the contributions received and net investment income less benefits paid and other expenses. In 2022-23, the actual return on investments was significantly higher.

Income Statement

Revenue

Total revenue increased by $3.5 billion to $2.15 billion, compared to -$1.39 billion in 2021-22, as a result of significantly higher earnings from net changes in investments measured at fair value.

Investment performance was significantly higher than 2021-22, with all investment categories experiencing positive returns this year. Overall returns were positive due to the strong equities market environment in 2022-23. The default Balanced option also had a higher rate of return.

The increases in interest rates during the year by the Reserve Bank of Australia further contributed to positive returns from shorter dated fixed interest assets in the Cash asset class and also resulted in the Department of Treasury and Finance distributing interest earned on SA Government CommBiz bank accounts.

Further details on investment returns are included in the 'Superannuation Funds Management Corporation of South Australia' commentary in this report.

Expenses

Total expenses of $86 million were $1 million less than in 2021-22. This was mainly due to there being no transfers to other schemes in 2022-23, offset by an $8 million decrease in investment expenses and a $2 million decrease in administration expenses.

Statement of Changes in Member Benefits

Net contribution revenue

Total contributions increased by $43 million (2%) to $2.01 billion in 2022-23. Increased employer contributions were offset by decreases in member contributions and transfers from other superannuation entities and schemes categories.

Details of contribution revenue and membership statistics, supplied by Super SA, are provided in the following table.

	2022 $million	2023 $million
Employer contributions	1,327	1,412
Member contributions	112	77
Transfers from other super entities	523	516
Government co-contributions	1	1
Total	1,963	2,006

	2022 Number	2023 Number
Contributory members	31,037	29,632
Non-contributory members	97,532	96,187
Preserved members	43,711	51,346
Spouses	741	742
Total	173,021	177,907

Active members of Triple S (including spouse members) can elect to make contributions.

Employers are required to make contributions for active eligible contributory and non-contributory members of Triple S.

In 2022-23 member numbers increased by 4,886 (2.8%). This was mainly due to an increase in preserved members (17%), offset by a smaller decreases in contributory (4.5%) and non-contributory (1.4%) member numbers.

Benefits paid and payable

Benefits paid and payable to members increased by $171 million (9%) to $2.07 billion. This is in line with the number of exiting active members and the increased value of their member accounts at exit – the values of member accounts increased due to the strong investment performance in 2022-23.

The activation of the fund selection option also impacted the benefits paid and payable to members during the year. The option took effect on 30 November 2022, and Triple S members had transferred and/or withdrawn around $125 million of funds under management from their Triple S accounts into new arrangements as at 30 June 2023.

The movements in benefits paid and payable for the last four years are shown in the following table.

	2020 $billion	2021 $billion	2022 $billion	2023 $billion
Benefits paid and payable	1.6	1.5	1.9	2.1

Statement of Cash Flows

The analysis of cash flows shows that Triple S maintained a $41 million balance of funds on hand at 30 June 2023 ($38 million at 30 June 2022). Amounts not used to pay benefits and other expenses are transferred to Funds SA for investment, which is reflected in the cash flows from investing and financing activities.

Further commentary on operations

In May 2021, Parliament passed the Statutes Amendment (Fund Selection and Other Superannuation Matters) Bill 2020, which amended the *Southern State Superannuation Act 2009* and the *Superannuation Act 1988*, allowing Triple S scheme members to direct employer contributions to a fund of their choice.

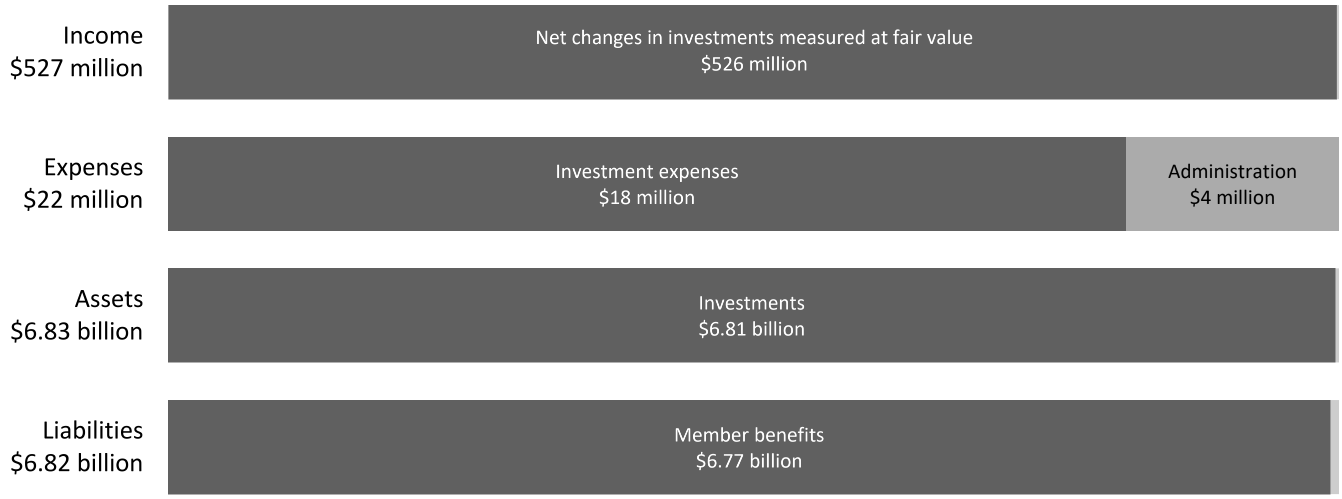
Parliament subsequently passed the Statutes Amendment (Fund Selection and Other Superannuation Matters) Bill 2021, making further changes to the Acts. The Triple S scheme was previously mandatory for South Australian public servants. The new laws enable eligible public sector workers to choose their preferred superannuation fund.

On 30 November 2022, Super SA activated the fund selection, transfers (funds under management) and limited public offer options for members. Most Triple S members, including new public sector employees, were eligible and were given the option to choose a superannuation fund.

Super SA advised us that as at 30 June 2023, 1,793 fund selections had been made. This represents around 1.4% of eligible Triple S members and 7.2% of new SA Government employees activating fund selection. The annualised superannuation guarantee contributions of the members who made a fund selection were approximately $5.98 million p.a. across 790 members.

Super SA Retirement Investment Fund (SSARIF)

Financial statistics



21,455
Members

$6.78 billion
Net assets available for member benefits

Significant events and transactions

- Net changes in investments measured at fair value for 2022-23 were $526 million, reflecting significantly higher investment performance in 2022-23.
- Investment performance delivered positive returns for all investment options. Equity markets in particular overcame the ongoing economic risks and delivered strong returns for the year. The increase in interest rates also contributed to positive returns from shorter dated fixed interest assets in the Cash asset class.

Financial report opinion

Unmodified

Audit findings

No audit findings.

Functional responsibility

SSARIF continues in existence under the *Southern State Superannuation Act 2009*.

SSARIF provides investment services and other products and services for the benefit of people who have retired, are reaching retirement age or have ceased employment with the SA Government.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- ICT general controls for the core superannuation management system
- investment valuations.

We also reviewed controls over:

- contributions revenue
- benefits payments
- cash management
- maintenance of member accounts.

The investment and management of SSARIF's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

We reviewed internal audit activities in planning and conducting our audit.

Controls opinion

We reviewed controls over SSARIF's bank account as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We did not identify any audit findings in our audit of SSARIF.

Interpretation and analysis of the financial report

SSARIF comprises transactions for the Super SA Income Stream Product (Income Stream) and the Flexible Rollover product.

Highlights of the financial report

	2023 $million	2022 $million
Assets		
Investments	6,811	6,193
Other assets	23	28
Total assets	6,834	6,221
Liabilities		
Benefits payable	14	16
Other liabilities	38	17
Total liabilities	52	33
Net assets available for member benefits	6,782	6,188
Member benefits		
Income Stream member liabilities	4,830	4,384
Flexible Rollover product member liabilities	1,939	1,754
Total member liabilities	6,769	6,138
Total equity	13	50
Revenue		
Net changes in investments measured at fair value	526	(341)
Other revenue	1	(8)
Total revenue	527	(349)
Expenses		
Investment expenses	18	19
Other expenses	4	4
Total expenses	22	23
Result from superannuation activities	505	(372)
Net benefits allocated to members accounts	538	324
Income tax expenses	2	(47)
Operating result	(35)	(1)
Changes in member benefits		
Net contributions	1,337	1,399
Benefits to members (paid and payable)	(1,246)	(1,089)
Net cash flows from operating activities	17	(16)
Net cash flows from investing activities	(106)	(302)
Net cash flows from financing activities	88	309

Statement of Financial Position

The accumulative nature of SSARIF (a mixed income and defined contribution scheme) means that member benefits liabilities are fully funded.

Net assets available for member benefits

Net assets available to pay member benefits increased by $594 million (9.6%) to $6.8 billion. This is principally the result of significantly higher investment returns. The investment performance in 2022-23 has been positive overall due to the strong equities market environment. All SSARIF investment options made positive returns, including the default Balanced options which had rates of return from 8.9% to 10.2%.

The increase is also indicative of the accumulative nature of SSARIF, where the increases reflect the total of contributions received and net investment income less benefits paid and other expenses.

Income Statement

Revenue

Total revenue increased to $527 million (-$349 million) as a result of significantly higher earnings from net changes in investments measured at fair value.

Overall investment performance was significantly higher than 2021-22, with all investment categories experiencing positive returns. Equity markets in particular overcame the ongoing economic risks and delivered strong returns for the year. The default Balanced option had higher rates of return.

The increases in interest rates during the year by the Reserve Bank of Australia further contributed to positive returns from shorter dated fixed interest assets in the Cash asset class and also resulted in the Department of Treasury and Finance distributing interest earned on SA Government CommBiz bank accounts.

Further details on investment returns are included in the 'Superannuation Funds Management Corporation of South Australia' commentary in this report.

Expenses

Total expenses decreased marginally to $22 million ($23 million) in 2022-23.

Statement of Changes in Member Benefits

Total net contributions decreased by $62 million (4%) to $1.34 billion, mainly due to:

- a decrease of $70 million in rollovers from other schemes
- an increase of $5 million in income tax expense on rollovers
- offset by an increase of $3 million in member contributions.

Contributions to SSARIF are all voluntary and are therefore open to fluctuation.

Benefits paid or payable to members rose by $157 million (14%) to $1.25 billion due to:

- an increase of $83 million (13%) in payments from Income Stream
- an increase of $74 million (17%) in payments from the Flexible Rollover product.

The increase in benefits paid and payable is due to the rise in the number of members, resulting in more benefit payments to members. In 2022-23, there were 1,072 (5%) more members. The increase in benefits paid and payable is in also in line with the number of exiting members and the increased value of their member accounts at exit – the values of member accounts increased due to the strong investment performance during the year.

Total benefits available to members ultimately depend on the investment strategy and investment performance, with no guarantee of return provided by the SA Government.

Statement of Cash Flows

The net cash from operating activities increased by $33 million, mainly due to higher income tax revenue. The SSARIF tax has changed significantly since 2021-22. The movement in tax balances reflects the stronger performance of Australian and global markets in 2022-23. It also reflects the impacts from the recognition of trust distribution income, the realisation of capital gains and losses, and the movement in unrealised capital gains and losses.

The net flows from investing activities decreased by $196 million, mainly due to a $231 million decrease in payments to Funds SA for the purchase of investments, offset by a smaller $35 million decrease in receipts from Funds SA from the sale of investments.

The net flows from financing activities decreased by $221 million, mainly due to decreased contributions received and net transfers from other superannuation entities, offset by larger increases in payments for Income Stream and Flexible Rollover products.

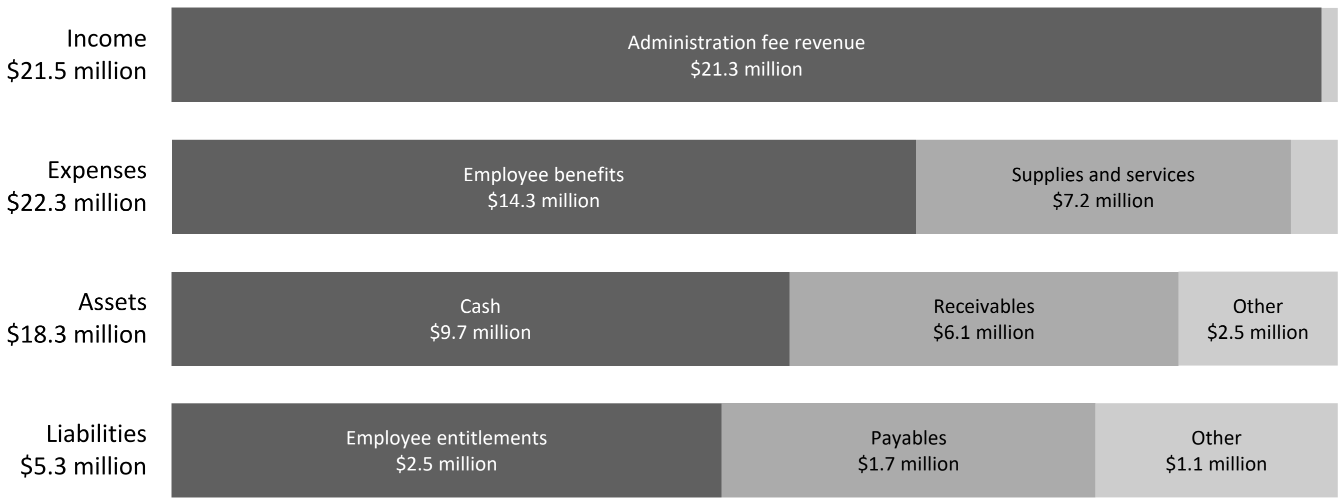
Further commentary on operations

Membership statistics provided by Super SA and total investments for the last four years are shown in the following table.

	2020 Number	2021 Number	2022 Number	2023 Number
Income Stream	11,460	12,122	12,811	13,381
Flexible Rollover product	6,352	6,782	7,572	8,074
Total	17,812	18,904	20,383	21,455
	$billion	$billion	$billion	$billion
Total investments	5.16	6.25	6.19	6.81

Superannuation Funds Management Corporation of South Australia (Funds SA)

Financial statistics

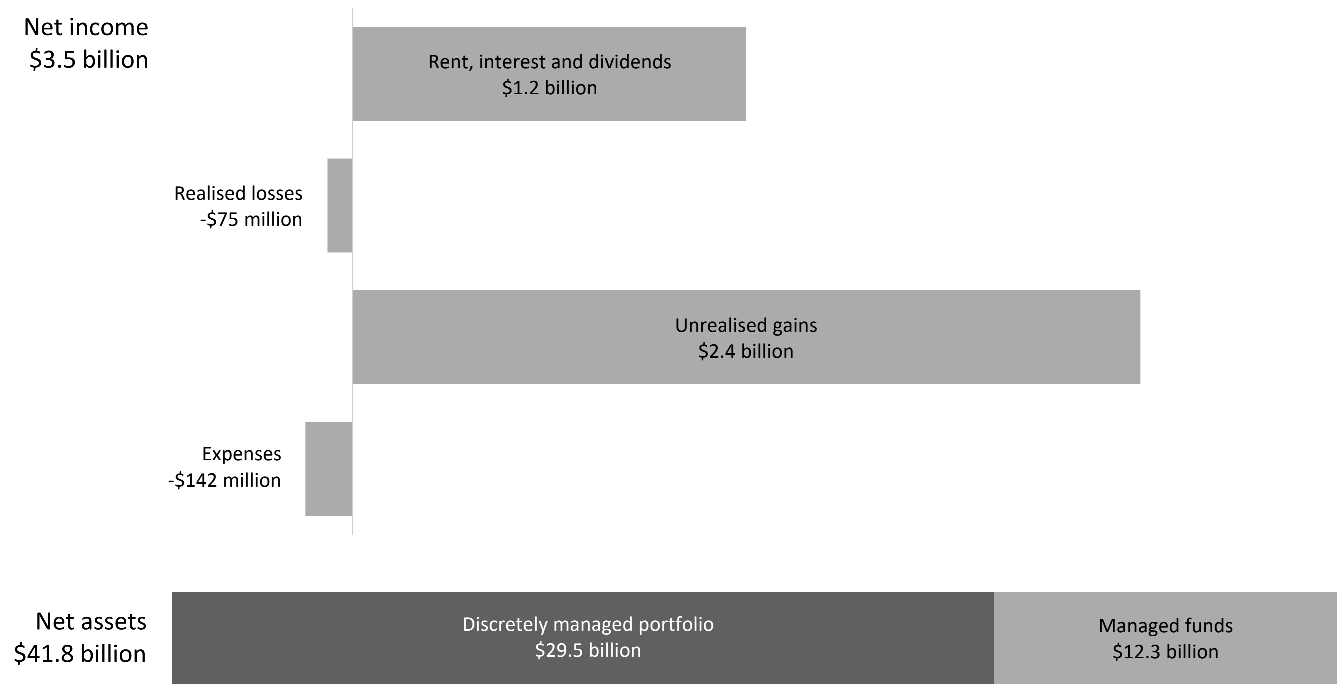


65
FTEs

11
Investment options

33
Client accounts managed

Funds under management



Significant events and transactions	— Funds under management increased by $2.9 billion (7.4%) due largely to $2.4 billion of unrealised gains and $1.2 billion of rent, interest and dividends, offset by $572 million of net redemptions by clients. — Overall investment performance recovered in 2022-23, with net investment income of $3.5 billion compared to last year's $2.1 billion loss. Australian and international equity income contributed $3.1 billion of that amount, reflecting the strong economic growth. — Corporate expenses increased by 16.1% to $22.3 million in 2022-23 due to Funds SA's plan to build capacity and strengthen its capabilities to execute its strategic initiatives, which includes increasing staff numbers and enhancing investment information systems.
Financial report opinion	**Unmodified**
Audit findings	No significant findings.

Functional responsibility

Funds SA is a statutory authority established by the *Superannuation Funds Management Corporation of South Australia Act 1995* (the SFMCSA Act).

Funds SA's main function is to invest and manage the public sector superannuation funds, nominated funds of approved authorities and other funds (funds under management) under strategies it formulates. Details of Funds SA's objectives and functions are provided in note 1.2 of its financial report.

Restrictions on operations

Under the SFMCSA Act, Funds SA is subject to the direction and control of the Minister. However, a ministerial direction must not be given for an investment decision, dealing with property or the exercise of a voting right.

Funds SA has broad powers over the investment of funds under management. It cannot, however, borrow money or obtain any other form of financial accommodation unless authorised to do so by the Regulations under the SFMCSA Act or by the Minister. In addition, the Regulations impose restrictions so that Funds SA cannot invest in real property outside the State or enter into derivative transactions (eg futures contracts, forward contracts and swaps) without the Minister's authority. The Minister has provided authority for Funds SA to enter into such investments.

During the year the SFMCSA Act was amended to allow the Minister to direct Funds SA in relation to the divestment of Russian assets. In November 2022 the Treasurer, as the responsible Minister, issued a direction to divest from Russian assets in a prudent manner.

Structure

Funds SA staff operate across distinct business groups being investment, operations, corporate engagement, people and organisational performance, governance, risk and compliance, and business services. This structure is complemented by extensive use of external fund management firms. Funds SA employs a 'manager of managers' approach, using fund managers for most investments. A single custodian entity is used for the assets managed by most of those fund managers. The custodian is responsible for holding, valuing and accounting for the assets. Each fund manager and the custodian is appointed under an agreement that dictates the scope for investment services, fees and reporting requirements.

Funds SA outsources client unit pricing, private equity administration and general ledger functions to the custodian, but remains responsible for developing investment strategies.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- investment policy and strategy approval and compliance
- client fund allocation and redemption transactions
- investment allocation, income and valuation
- monitoring of custodian activities
- fund manager appointment, monitoring and termination activities
- fund administration fees
- corporate assets and expenditure.

We considered internal audit activities when planning and conducting the audit.

Controls opinion

We reviewed controls over investment assets under management as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

Our audit found that overall the controls established by Funds SA were satisfactory. Our findings were low risk and were communicated to management. Funds SA responded that it will take action to address them.

Interpretation and analysis of the financial report

Highlights of the financial report

Funds SA	2023 $million	2022 $million
Total income	21.5	22.1
Total expenses	22.3	19.2
Net surplus (deficit) and total comprehensive result	(0.8)	2.9
Net cash provided by (used in) operating activities	-	3.5
Total assets	18.3	19.6
Total liabilities	5.3	5.8
Total equity	13.0	13.8

Funds under management	2023 $billion	2022 $billion
Net income	3.5	(2.1)
Net assets	41.8	38.9

Statement of Comprehensive Income

Funds SA's operating result for the year was a net deficit of $798,000 ($2.9 million surplus). Funds SA sets its administration fees annually under a cost recovery policy to cover budgeted corporate expenditure.

Income decreased by $597,000 (3%), due mainly to a combination of:

- administration fees charged for services provided to Funds SA clients reducing by $858,000 to $21.3 million because of lower average funds under management, which is the basis for calculating the administration fee. The rate charged did not change from the previous year
- interest income increasing by $278,000 due to increased interest rates on cash balances. No interest was received in 2021-22 due to the historically low interest rates.

Expenses increased by $3.1 million (16%) to $22.3 million, due mainly to:

- employee benefits costs increasing by $1.5 million (12%) to $14.3 million due to salary increases and the employment of more staff
- supplies and services costs increasing by $1.6 million (28%) to $7.2 million, which included:
  - IT expenses increasing by $1.2 million to $4.5 million due to the continuing investment data and technology project
  - travel and accommodation increasing by $255,000 to $423,000 due to COVID-19 travel restrictions being lifted.

The increase in expenses is in line with Funds SA's strategic plan to build capacity and strengthen its capabilities to execute its strategic initiatives, which includes increasing staff numbers and enhancing investment information systems.

Further commentary on operations

Funds under management

Funds SA responsibilities

As mentioned, Funds SA exists to invest and manage the public sector superannuation funds, funds of eligible superannuation schemes and nominated funds of approved authorities.

To do this, Funds SA has established a range of different investment options and tailored multi-sector strategies it offers to its clients. These investment options and strategies comprise a mix of differing strategic asset allocations to meet its clients' investment objectives, differing time horizons and levels of acceptable risks.

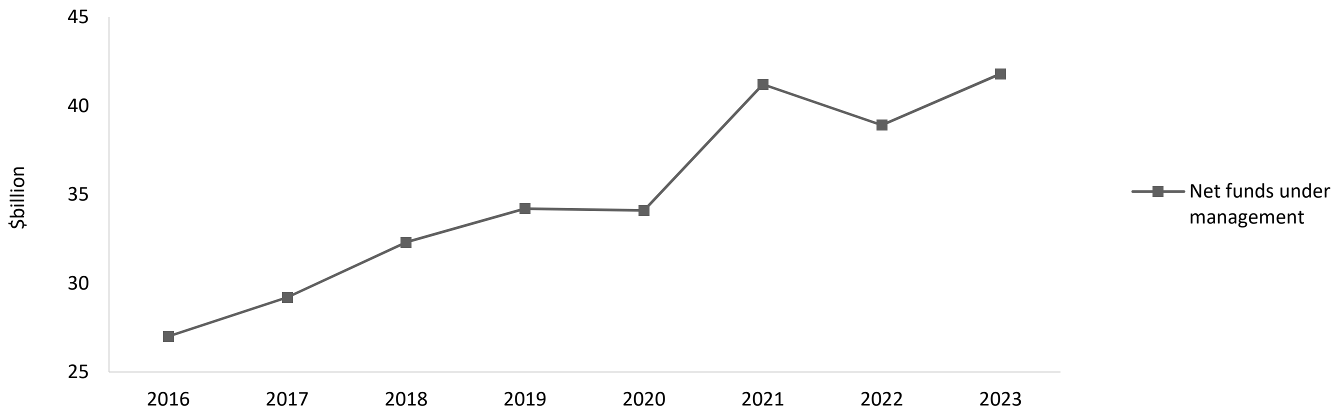
Funds SA is responsible for managing the investment portfolios it has established in line with asset allocations and investment performance reporting agreed with its clients.

Investor responsibilities

The public sector superannuation funds, eligible superannuation schemes and approved authorities work collaboratively with Funds SA to design investment strategies that meet their investment needs. They deposit funds with Funds SA throughout the financial year to acquire units in an investment option, which in turn holds units in each of the asset classes that make up that option. They receive investment performance reporting to meet their responsibilities for their invested funds.

Funds under management increased in 2022-23

The following chart shows the net funds under Funds SA's management as at 30 June for the last eight years.



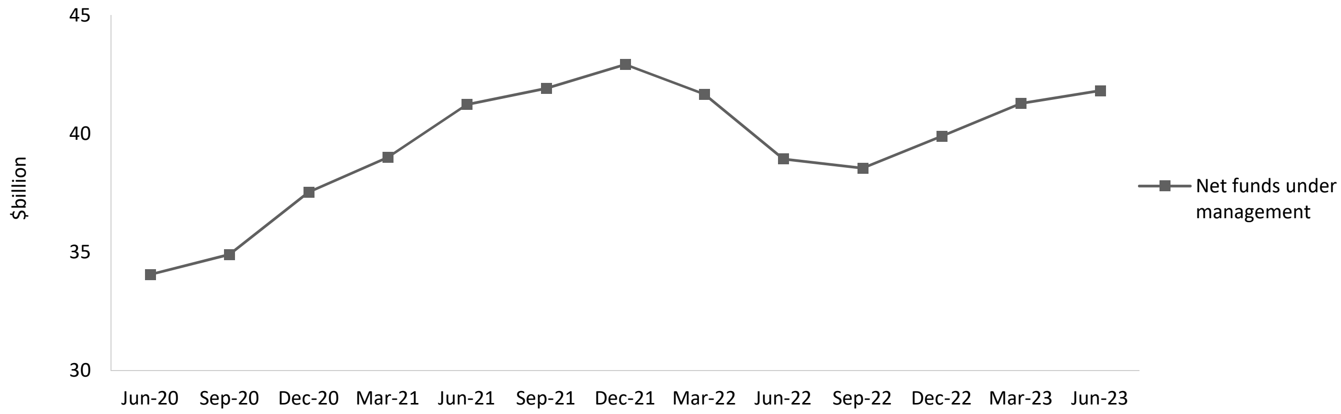
The total funds under management increased significantly from $38.9 billion to $41.8 billion at 30 June 2023. This was largely due to the $3.5 billion in net investment income, offset by net investor activity (applications less redemptions) of $572 million.

The chart shows that the movements in funds under management values have been volatile for the past few years. The main drivers of this are net investment income and losses, which largely reflect the impact on global economic markets of the COVID-19 pandemic, Russian-Ukrainian war, global inflation, rising interest rates and subsequent economic recovery. Notably:

- 2022-23 recorded a $3.5 billion gain
- 2021-22 recorded a $2.1 billion loss
- 2020-21 recorded a $7.1 billion gain
- the period from 2017 to 2019 reflected strong consistent growth.

There is more discussion of these changes under 'Income from investments' below.

The following chart shows how funds under management fluctuated over each quarter for the past three years, and the impact of the above factors coinciding with the decline and recovery of the funds under management balance.



Entities investing with Funds SA at 30 June 2023

The following table shows the entities investing with Funds SA, the investment options they use and the funds they have under management at 30 June 2023.

Investor/Fund	Investment option	Funds under management $million
Superannuation funds		
South Australian Superannuation Board:		
South Australian Superannuation Scheme:		
South Australian Superannuation Scheme – Employer Contribution Accounts	Defined benefit strategy	2,544
South Australian Superannuation Fund – Old Scheme Division	Defined benefit strategy	1,580
South Australian Superannuation Fund – New Scheme Division	Various	471
Southern State Superannuation Scheme:		
Southern State Superannuation Fund	Various	23,927
Super SA Retirement Investment Fund	Various	6,811
South Australian Ambulance Service Superannuation Scheme	Balanced taxable	293

Investor/Fund	Investment option	Funds under management $million
Police Superannuation Board:		
Police Superannuation Scheme	Defined benefit strategy	2,375
South Australian Parliamentary Superannuation Board:		
Parliamentary Superannuation Scheme	Various	273
Trustee of the SA Metropolitan Fire Service Superannuation Scheme:		
SA Metropolitan Fire Service Superannuation Scheme	Various	515
Treasurer:		
Judges' Pension Scheme	Defined benefit strategy	323
Other superannuation schemes	Various	38
Approved authorities for the purpose of investing with Funds SA		
South Australian Government Financing Authority	Various	765
Lifetime Support Authority of South Australia	Lifetime Support Authority strategy	1,478
Other authorities	Various	421

Asset allocation

An investment policy drives decisions about how funds will be invested. The SFMCSA Act provides that Funds SA's objective in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for:

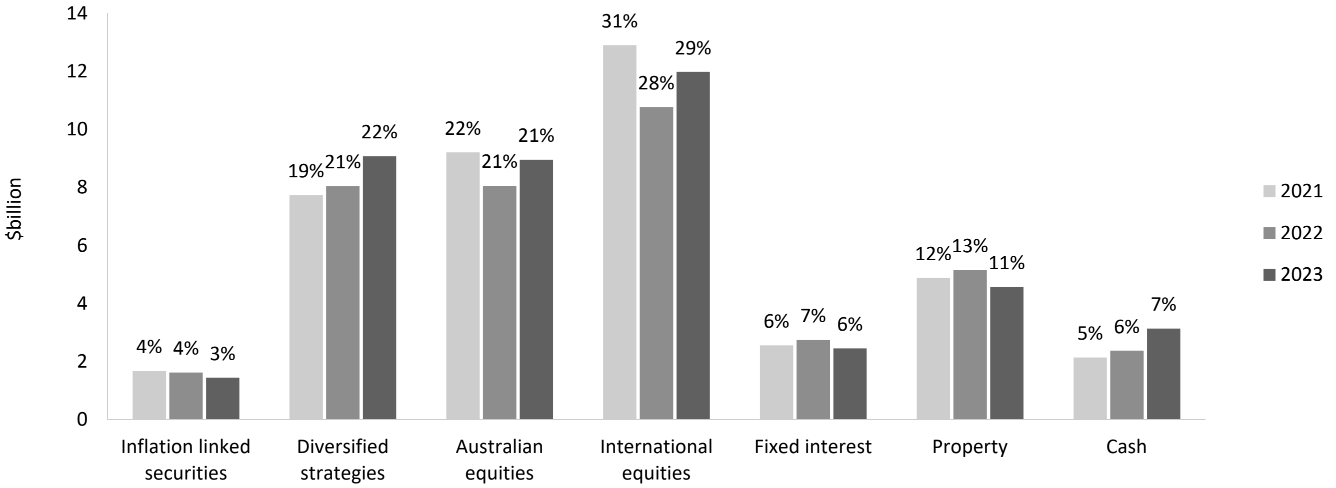
- the need to maintain the risks relating to investment at an acceptable level
- the need for liquidity in the funds
- any other matters that are prescribed by regulation.

Underpinning the investment policy and decision-making is an understanding of the financial risks facing Funds SA. One of the key strategies Funds SA uses in managing its financial risk is to diversify its funds under management into various asset classes.

In 2022-23, Funds SA introduced the Investment Grade Credit asset class, which held funds valued at $178.9 million at 30 June 2023. In addition Investment Option Overlays were introduced to enable more precise implementation of asset allocation decisions at the investment option level. These were valued at $7.5 million at 30 June 2023.

Funds SA continually monitors investment performance and makes adjustments to ensure holdings are in line with target asset allocations.

The holding of each asset class (excluding the socially responsible investment class, which only represents 0.5 % (0.5%) of the total funds under management) as a percentage of total funds under management at 30 June for the last three years is shown in the following chart. The asset classes include both taxed and untaxed funds where applicable. The diversified strategies group includes the former Diversified Strategies Growth and Diversified Strategies Income asset classes, which were separated into Core Infrastructure, Private Markets, Credit, Defensive Alternatives and Growth Alternatives asset classes from 2021-22.



The chart shows the changes in asset class value and percentage holdings over the year. Movements are due to a combination of investment returns, investor switches and investment strategy asset allocation changes.

The International Equities and Australian Equities asset classes increased in value and percentage holdings, mainly due to significant returns of $3.1 billion in 2022-23, which were offset by net divestments of $966 million. International Equities Tax-Exempt recorded a return of 18.5% and Australian Equities Tax-Exempt returned 14.9%, a significant turnaround from the prior year returns of -15.8% and -7.5%, respectively.

Diversified Strategies asset classes increased in both percentage holdings and value, due to additional net investments of $720 million and income of $306 million. Most asset classes in this category produced positive returns, with the largest being Credit at 7.7%. The exception was Growth Alternatives, which recorded a -5.7% return.

Property assets decreased in percentage holdings, with a net divestment of $447 million and a net loss of $136 million leading to a -3% return, a stark decline from the prior year's 9.7% return.

The value and percentage holding of Fixed Interest assets decreased, mainly due to net divestments of $323 million, offset by income of $35 million. While Short-Term Fixed Interest assets achieved a 3.4% return, Long-Term Fixed Interest recorded a -0.6% return.

While the percentage holdings of Inflation Linked Securities declined due to net divestments of $224 million, these assets recorded income of $44 million with a 3.8% return for taxable holdings and 3.4% return for tax exempt holdings.

Cash holdings increased in value and percentage holdings, due to the increased placement of funds of $663 million and income of $101 million for the financial year. Cash obtained a return of 3%, an increase on last year's return of 0.1%.

The primarily long-term nature of investment strategies means funds under management are exposed to periodic rises and falls in financial markets.

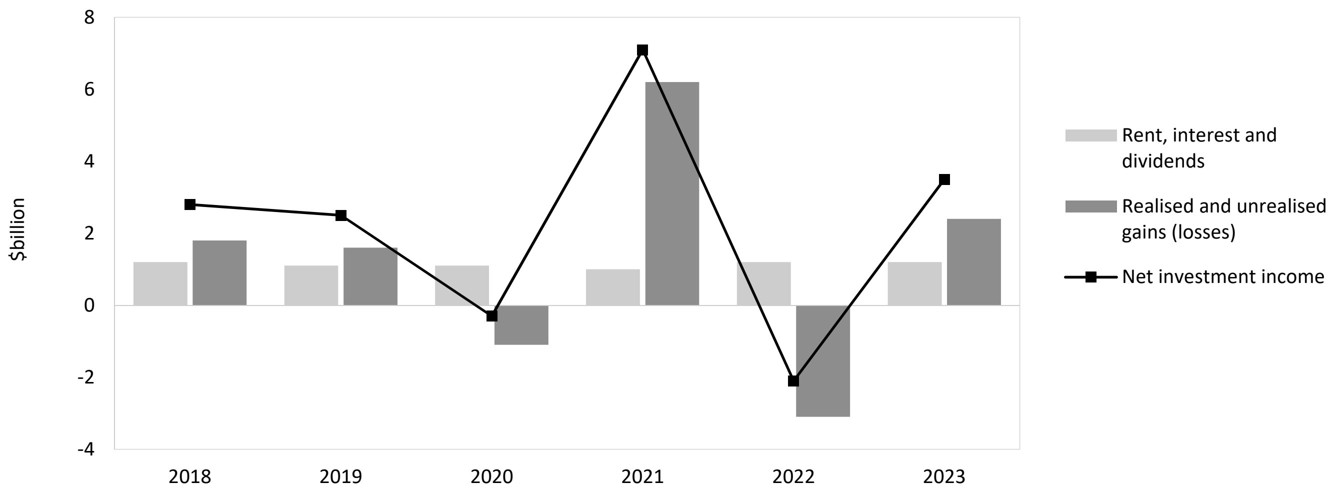
Income from investments

Net income from investment activities comprises income from rent, interest and dividends, and realised and unrealised gains and losses from investment valuations, less expenses incurred in the investment activity.

Net income from investment activities was a surplus of $3.5 billion ($2.1 billion deficit). Income comprised rent, interest and dividends of $1.2 billion ($1.2 billion) and unrealised gains of $2.4 billion ($2.6 billion loss), reduced by realised losses of $75 million ($523 million) and investment expenses of $141.9 million ($159.2 million).

Schedule 1 of Funds SA's financial report provides full details of the income earned from investment activities for each asset class.

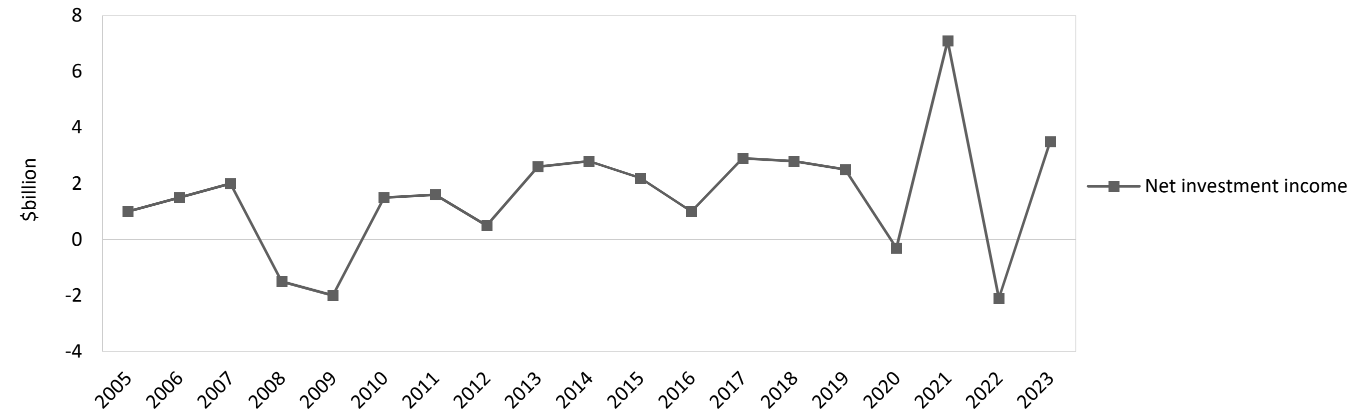
The investment result for funds under management for the six years to 2023 is shown in the following chart.



Rent, interest and dividends income remained consistent with previous years. In 2022-23, there was a significant increase in the value of investment assets leading to unrealised gains of $2.4 billion. These gains are a significant reversal of the $2.6 billion unrealised losses in the prior year. This is the nature of long-term investments, where there may be volatility in the short term. This volatility has been more pronounced over the past few years, and reflects the economic impacts of COVID-19 and subsequent rebound, the impact of the Russian-Ukrainian war, global inflation, rising interest rates and, more recently, economic growth in Australia and globally.

Funds SA's investment strategies are developed in line with the time horizon for each investment option. Each one carries a different level of acceptable risk. Negative returns may occur during the investment horizon. For example, the balanced option has a risk of negative returns in four to six years out of 20. There is more information about each investment option's return in 2022-23 under 'Investment option performance' below.

The chart below shows the long-term performance of total funds under management.



The years with overall negative performance reflect significant events that impacted the economy. Losses correspond with the Global Financial Crisis in 2008 and 2009, the start of the COVID-19 pandemic in 2020 and the Russian-Ukrainian war in 2022 corresponding with global inflation and interest rate rises. 2022-23 reflects economic growth in Australia and globally.

Income by asset class

The following table shows net income earned for the five years to 2023, highlighting the varying performance of the major investment asset classes. It should be noted that the magnitude of net income earned from investment activities in each year is a function of not only the performance of financial markets, but also the size of total assets invested in those markets.

	2019 $million	2020 $million	2021 $million	2022 $million	2023 $million
Inflation Linked Funds	147	55	84	(94)	44
Property	370	(179)	459	471	(136)
Australian Equities	577	(470)	2,077	(619)	1,190
International Equities	620	444	3,471	(1,919)	1,881
Fixed Interest	224	106	(17)	(292)	35
Diversified Strategies*	533	(249)	1,015	-	-
Core Infrastructure	-	-	-	106	104
Private Markets	-	-	-	507	50
Credit	-	-	-	(356)	176
Defensive Alternatives	-	-	-	43	11
Growth Alternatives	-	-	-	64	(31)
Cash/Socially Responsible/Other	31	19	37	(15)	136
Total net income (loss)	2,502	(274)	7,126	(2,104)	3,460
Total value of assets invested as at 30 June	34,179	34,096	41,230	38,926	41,814

* The Diversified Strategies asset classes were restructured in 2021-22, with these now being shown separately as Core Infrastructure, Private Markets, Credit, Defensive Alternatives and Growth Alternatives.

The volatile nature of these investments will cause their returns to fluctuate from year to year in line with prevailing economic conditions.

Most asset classes had increases in net income for 2022-23, largely reversing the previous year's loss.

The earlier chart showing asset class holdings indicated that Funds SA's investment strategy is weighted towards international equities, which returned the largest net income. The table above also shows a large increase in income for Australian equities, consistent with the respective market performance during the year and proportion of holdings. Returns in international and Australian equities reflected strong corporate earnings and economic growth.

The income from Property decreased in 2022-23 due to unrealised losses from the impact of higher interest rates on valuations exceeding rental income. Similarly Private Markets income was affected by higher interest rates impacting realised asset values.

Inflation Linked Securities income increased due mainly to rising inflation in 2022-23.

Fixed Interest income benefited from the increasing interest rates for the Short-Term Fixed Interest asset class. This gain was partially offset by a decrease in Long-Term Fixed Interest income, due to this class being more sensitive to rising interest rates.

Income from Credit benefited from additional investments into this class and positive market returns.

Growth Alternatives recorded a loss due to managers failing to anticipate key market changes.

Cash holdings increased in value and percentage holdings due to the increased placement of funds of $663 million and higher returns for the financial year, which reflect the rise in interest rates by the Reserve Bank of Australia.

Investment expenses

In 2022-23 investment expenses totalled $141.9 million ($159.2 million). This represents only those expenses incurred directly by the fund, such as management and administration fees. The indirect investment expenses are captured as part of unrealised gains/losses through the revaluation of the unit price of Funds SA's pooled investments.

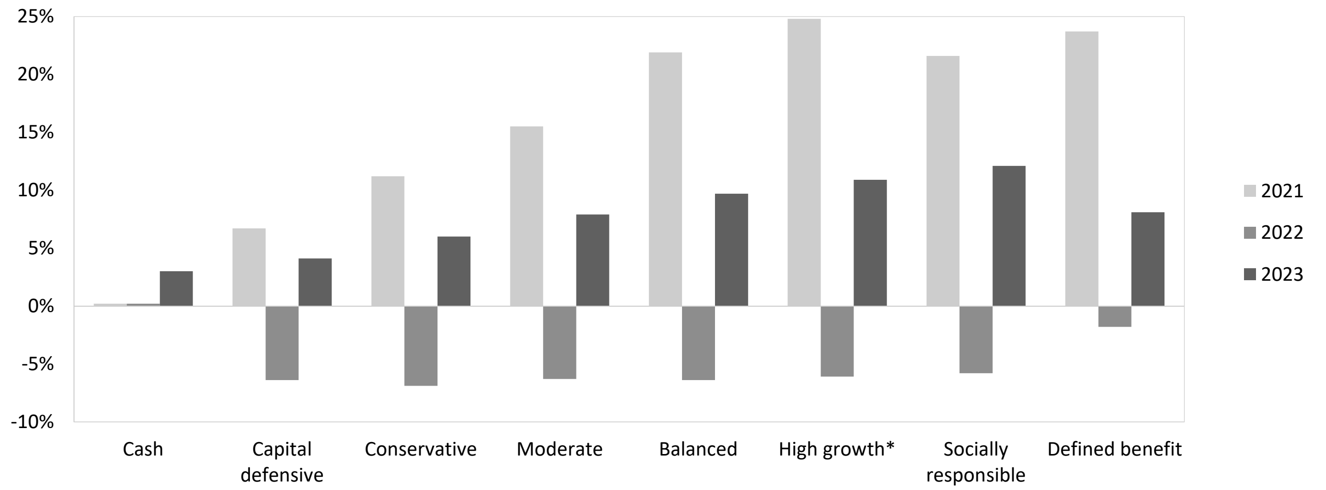
Investment expenses decreased by 11% in 2022-23 mainly due to management fees, as the average funds under management balance was lower in 2022-23.

Investment expenses reported in Schedule 1 of Funds SA's financial report are 0.35% (0.38%) of average funds under management.

Year	Investment expenses $million	Average funds under management $billion
2021	148.4	37.5
2022	159.2	41.5
2023	141.9	40.7

Investment option performance

The chart below shows the returns for Funds SA's tax-exempt investment options and multi-sector strategies as at 30 June for the past three years.



* In 2020-21 the growth option was merged with the high growth option, as the strategic asset allocations of these options had become aligned.

The chart shows the significant volatility in returns over the past few years, with all investment options providing positive returns. Notably the highest returns were for the Socially Responsible and High Growth and Balanced options. The returns of each investment option and multi-sector strategy reflect the performance of the underlying asset classes.

The table below shows Funds SA's percentage return for each of the past 10 years for the balanced tax-exempt fund, which represents over 45% of total funds under management. These figures were provided by Funds SA and are unaudited.

	10 years % p.a.	2014 %	2015 %	2016 %	2017 %	2018 %	2019 %	2020 %	2021 %	2022 %	2023 %
Balanced	7.8	13.8	9.4	3.9	11.0	9.5	8.1	(0.3)	21.9	(6.4)	9.7

Asset class performance against benchmark

The performance against target benchmarks for certain asset classes for 2022-23 and for the three years ended 2022-23 is shown in the following table. These figures were provided by Funds SA and are unaudited.

	1 year Actual %	1 year Benchmark %	3 years Actual *%	3 years Benchmark *%
Cash	3.0	2.9	1.1	1.0
Short-Term Fixed Interest	3.4	3.0	(0.5)	(0.6)
Long-Term Fixed Interest	(0.6)	(1.2)	(5.1)	(5.6)
Inflation Linked Securities Tax-Exempt	3.4	5.4	0.9	1.0
Inflation Linked Securities Taxable	3.8	5.2	1.2	1.5
Credit	7.7	7.7	n/a	n/a
Defensive Alternatives	1.4	4.9	n/a	n/a
Growth Alternatives	(5.6)	6.9	n/a	n/a

	1 year Actual %	1 year Benchmark %	3 years Actual *%	3 years Benchmark *%
Property Tax-Exempt	(3.0)	(1.3)	5.6	6.1
Australian Equities Tax-Exempt	14.9	14.4	11.2	11.1
Australian Equities Passive Tax-Exempt	14.3	14.4	n/a	n/a
International Equities Tax-Exempt	18.5	19.0	11.0	11.8
International Equities Passive Tax-Exempt	15.4	15.2	9.5	9.4
Core Infrastructure Tax-Exempt	5.6	6.9	n/a	n/a
Private Markets Tax-Exempt	2.4	6.9	n/a	n/a
Property Taxable	(3.0)	(1.3)	5.6	6.1
Australian Equities Taxable	14.7	14.4	11.2	11.1
Australian Equities Passive Taxable	14.2	14.4	n/a	n/a
International Equities Taxable	18.2	19.3	10.9	11.8
International Equities Passive Taxable	19.5	19.4	11.9	11.9
Core Infrastructure Taxable	4.8	6.9	n/a	n/a
Private Markets Taxable	0.5	6.9	n/a	n/a
Socially Responsible	19.8	19.0	11.5	10.8

* ‘n/a’ in the table is for recently established asset classes that do not have sufficient activity for comparison to be included.

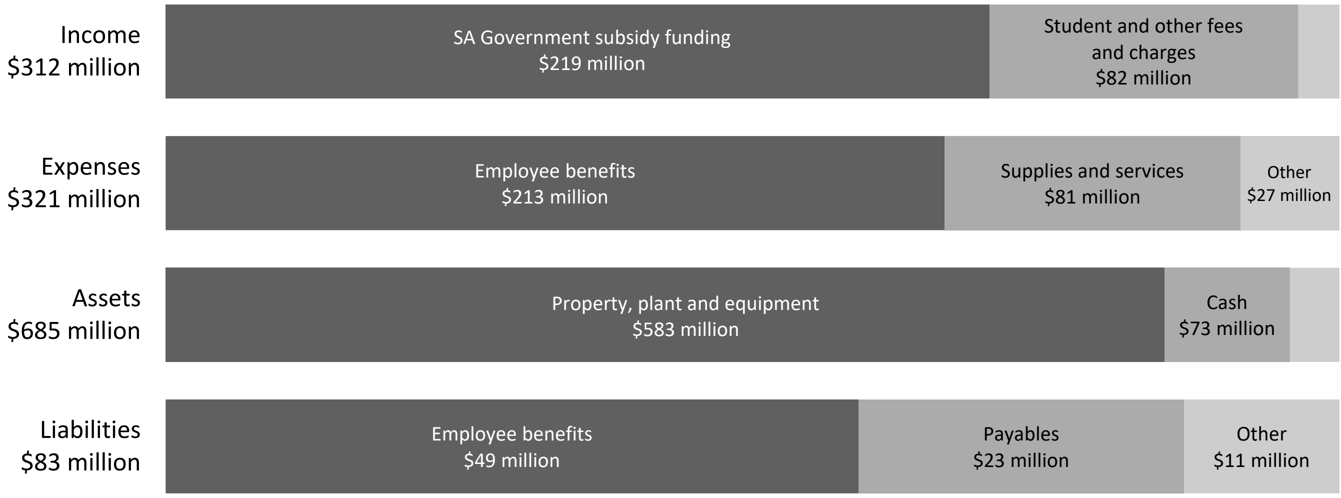
The performance of asset classes against benchmark for 2022-23 varied depending on the asset class. About half the asset classes were close to the benchmark, with:

- Inflation Linked Securities, Core Infrastructure, Growth Alternatives, Defensive Alternatives, Property and Private Markets asset classes significantly underperforming the benchmark
- Fixed Interest being the only class significantly outperforming the benchmark.

Across a three-year time horizon most asset classes performed closer to the benchmark. Fixed Interest and Cash had the strongest relative performance against the benchmark over three years, with Inflation Linked Securities, Property and International Equities having the weakest performance when compared to the three-year benchmark.

TAFE SA

Financial statistics



1,924
FTEs (including casuals and hourly paid instructors)

11.8 million
Number of registered training hours commenced

Significant events and transactions

- Funding of $219 million was received from the Department for Education.
- Fee Free TAFE courses were introduced from the start of 2023 as a joint initiative between the Commonwealth and SA Governments to provide training without tuition fees.
- The *Roadmap for the Future of TAFE SA,* a report from Associate Professor Jeannie Rea, was completed in April 2023 and publicly released in August 2023.

Financial report opinion

Unmodified

Controls opinion findings

User access to the asset maintenance system was not reviewed and may not appropriately restrict access.

Other audit findings

There were some overpayments to staff due to delays in processing HR forms.

Functional responsibility

TAFE SA is established under the *TAFE SA Act 2012* and is a statutory corporation to which the provisions of the *Public Corporations Act 1993* (other than section 35) apply.

The TAFE SA Board is responsible to the Minister for Education, Training and Skills.

TAFE SA's main function is to provide technical and further education.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- expenditure and accounts payable
- payroll processing
- revenue, including funding from the Department for Education, student revenue and accounts receivable
- cash
- property, plant and equipment
- general ledger and reconciliation.

We reviewed the work of internal audit in planning and undertaking our work.

Controls opinion

We reviewed controls over bank accounts and the management of land and buildings as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings, including some that were raised in prior years, in management letters to the Chair of the TAFE SA Board. The main matters we raised and TAFE SA's responses are detailed below.

Controls opinion findings

Asset management

User access to the asset management system was not reviewed and may not appropriately restrict access

TAFE SA uses an asset management system to manage its assets and order maintenance work to be performed. Ordering a maintenance job in the system commits TAFE SA to the associated expense.

TAFE SA had not reviewed the staff with access to the asset management system and checked that their financial delegations were the same as, or higher than, those in the system.

Without checking that user access matches the financial delegations, there is a risk that users may be able to authorise maintenance that is inconsistent with their financial delegation.

We recommended that TAFE SA review user access to the system against the financial delegations. TAFE SA advised us that it would do this in partnership with the system and service provider.

Other audit findings

Payroll

There were some overpayments to staff due to delays in processing HR forms

TAFE SA's salaried employees are required to complete an HR form when adjustments are made to any payroll information. Once completed, the form needs to be approved by a delegate and sent to Shared Services SA for processing.

We found:

- 97 instances of overpayments caused by delayed processing within TAFE SA
- payments made in two cases to employees no longer working at TAFE SA for a number of pay periods after they were no longer with TAFE SA.

These overpayments may indicate that bona fide reports, designed to identify these types of issues, are not being thoroughly reviewed by business units.

We recommended that TAFE SA ensure that HR forms are completed and processed promptly, particularly when employees are changing working arrangements or applying for leave without pay.

TAFE SA responded that it would implement a number of solutions to address the issue, including updating its policies and procedures.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Income		
SA Government subsidy funding	219	236
Student and other fees and charges	82	77
Other income	11	14
Total income	312	327
Expenses		
Employee benefits	213	209
Supplies and services	81	70
Depreciation and amortisation	27	26
Other expenses	-	1
Total expenses	321	306
Total comprehensive result	(9)	21
Net cash provided by (used in) operating activities	15	34
Assets		
Current assets	94	128
Non-current assets	591	603
Total assets	685	731
Liabilities		
Current liabilities	41	39
Non-current liabilities	42	42
Total liabilities	83	82
Total equity	602	649

Note: Table may not add due to rounding.

TAFE SA's governance arrangements

Since March 2022, TAFE SA has been responsible to the Minister for Education, Training and Skills. Its performance agreement and charter are agreed with the Minister.

Continued changes to TAFE SA funding

Prior to 2022-23, TAFE SA's funding arrangements were with the Department for Innovation and Skills (DIS).

Following a machinery of government change in 2022-23, TAFE SA's funding arrangements changed from being with DIS to being with the Department for Education. A new memorandum of administrative arrangements (MoAA) signed in May 2023 noted that TAFE SA would receive:

- fixed monthly payments from the Department for Education from 1 July 2022 to 30 June 2023
- capital funding of $20 million.

TAFE SA's reliance on the Department for Education for funding is discussed further below.

Statement of Comprehensive Income

Income

Funding from the Department for Education

TAFE SA's main income source, making up 70% of income, is funding from the Department for Education. This funding was $219 million ($236 million) in 2022-23 and is made up of the following components.

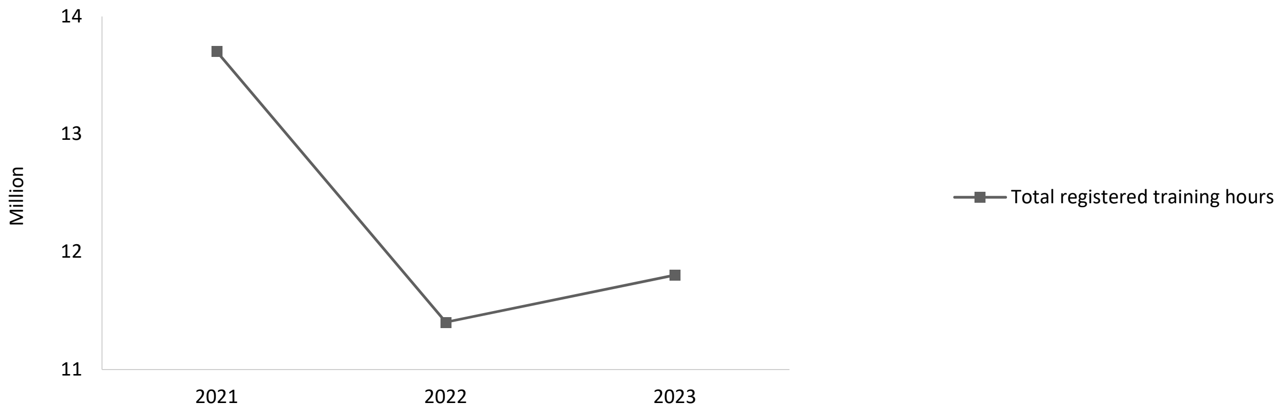
	2023 $million	2022 $million
MoAA for funding and purchasing TAFE SA services	195	212
MoAA for capital funding	20	24
Fee Free TAFE	4	-
Total income	219	236

The 2022-23 MoAA did not include a specific target for the number of subsidised training hours to be delivered by TAFE SA. As with the approach to funding as a whole, the inclusion of specific training hour targets in MoAAs has changed over recent years, with no expected number of training hours to be delivered identified in MoAAs since 2018-19.

TAFE SA total registered training hours increased by 483,000 training hours in 2022-23 to 11.8 million training hours.

The following chart shows the training hours delivered by TAFE SA over the last three years.

Fee Free TAFE commenced for selected courses in 2022-23, with 8,136 students enrolling.



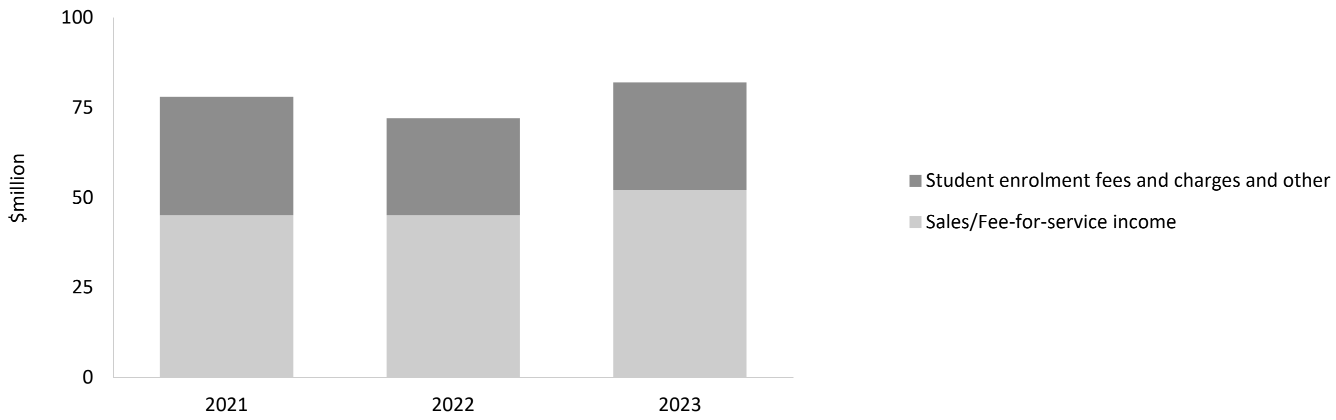
Source: Training hours data provided by TAFE SA and unaudited.

The chart shows that training hours decreased in 2021-22 but increased again in 2022-23. Total training hours commenced of 11.8 million hours in 2022-23 compared to the budgeted delivery of 12.9 million hours. The increase in hours in 2022-23 partly reflects a change in government policy that required TAFE SA to provide a number of fee-free training courses.

Student and other fees and charges

Student and other fees and charges totalled $82 million ($77 million) and make up 23% (24%) of TAFE SA's total income.

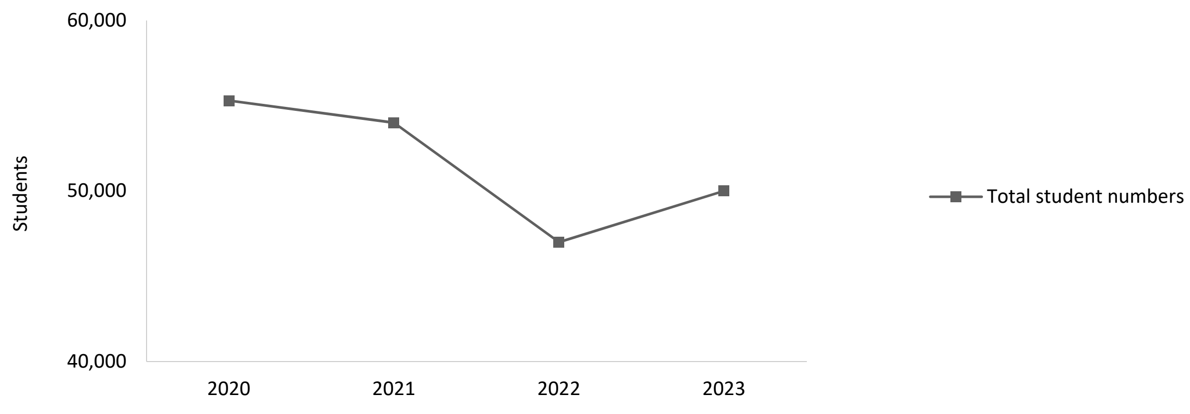
The main components of student and other fees and charges for the past three years are shown in the following chart.



The chart illustrates that sales/fee-for-service income remained steady between 2021 and 2022, before increasing by $8 million to $52 million in 2023. This reflects the increased training hours overall in 2022-23 compared to earlier years.

The sales/fee-for-service income of $52 million ($45 million) includes an additional $6 million received from the Commonwealth Government for the Adult Migrant English and Skills for Education and Employment programs.

As shown in the following chart, TAFE SA's total student numbers had been falling, down to 47,239 in 2022, before increasing to 49,795 in 2022-23. Fee-free courses were a significant contributor to this increase.



Source: Number of students data provided by TAFE SA and unaudited.

Expenses

TAFE SA's total expenses increased by $15 million or 5% in 2022-23. This included an $11 million increase in supplies and services.

Employee benefits

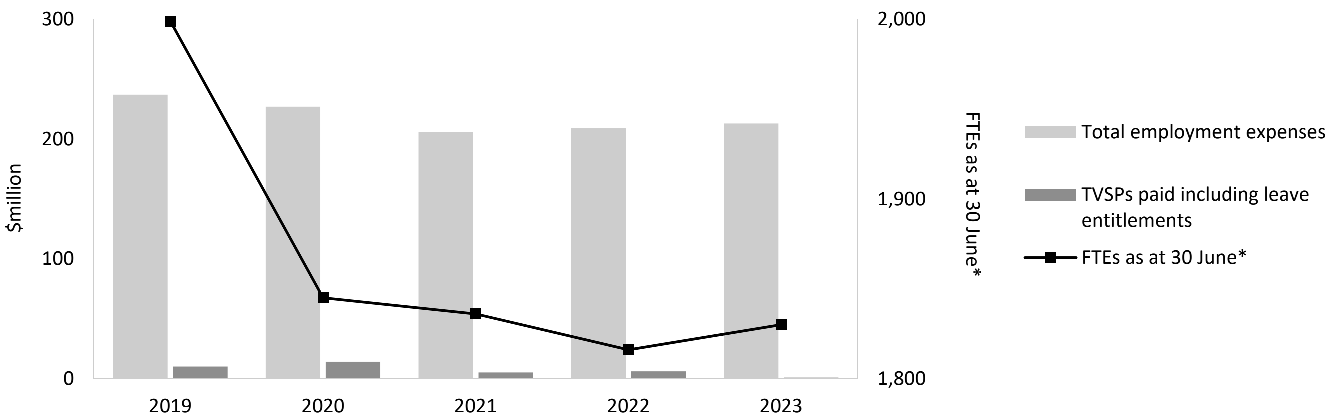
Employee benefits are TAFE SA's main expense, accounting for 66% (69%) of total expenses.

Employee benefits expenses increased by $4 million to $213 million in 2022-23. This was mainly due to:

- an increase in long service leave expense of $5.5 million, reflecting leave taken during the year and changes to assumptions used to calculate the leave liability at 30 June 2023
- an increase in salaries and wages and annual leave of $2 million, mainly due to Enterprise Agreement increases
- offset by a decrease in targeted voluntary separation payments (TVSP) expense of $3 million due to the lower number of TVSPs paid.

Employee benefits expenses included payments of TVSPs and related leave of $338,000 ($4 million) to six (22) staff.

The following chart shows total employment expenses, TVSP payments and FTE staff (not including casuals and hourly paid instructors) for the last five years.



* FTE data provided by TAFE SA and unaudited.

TAFE SA has paid 286 TVSPs over this five-year period, including the six paid this year.

The chart shows that FTE numbers fell until 2022, with an increase in 2023 that was due largely to the increase in fee-free courses and the Adult Migration English Program. Employment costs also fell until 2022, before increasing in line with the number of FTEs in 2023. Salaried FTEs are at their highest level since 2021, increasing from 1,816 as at 30 June 2022 to 1,830 this year. FTEs as at 30 June 2023 are comprised as follows, based on data from TAFE SA.

	2023 FTEs	2022 FTEs
TAFE SA Act	995	963
Public Sector Act	828	842
Excess staff	7	11
Hourly paid instructors	48	42
Casuals	46	38

Supplies and services

Overall supplies and services expenses were $81 million, an increase of $11 million (5%) from 2021-22. The main factors in this increase were:

- growth in building-related expenses of $3.5 million due to unexpected breakdowns, stormwater damage repairs and fees related to the Across Government Facilities Management Arrangements
- a $2.5 million increase in consumables expenses due to new training package requirements, price increases and increased training activity for fee-free courses
- a $1.7 million increase in IT and computing expenses.

Statement of Financial Position

The most significant items in TAFE SA's Statement of Financial Position are shown in the following table.

	2023 $million	2022 $million
Assets		
Cash and cash equivalents	73	111
Receivables	13	9
Property, plant and equipment	583	596
Liabilities		
Payables	23	22
Employee benefits	49	50

Assets

Cash

The decrease in TAFE SA's cash balance mainly reflects a $38 million return of capital under the cash alignment policy to the Department of Treasury and Finance and capital purchases of $14 million, offset by a net cash inflow from operating activities of $15 million.

Receivables and contract assets

Receivables and contract assets of $19 million ($16 million) as at 30 June 2023 increased mainly because of the rise in accrued revenue associated with the higher number of student enrolments.

Property, plant and equipment

Property, plant and equipment decreased by $13 million to $583 million as at 30 June 2023.

These assets are mostly campus assets and associated infrastructure that have been owned by TAFE SA since October 2019. The $13 million reduction in value is mainly due to depreciation expenses of $24 million, offset by additions of $12 million.

As the asset owner, TAFE SA is responsible for developing asset management plans for these assets based on its future plans.

Liabilities

Payables remained consistent with last year at $22 million.

Employee benefits overall also remained at a similar level to last year, with a value of $49 million in 2022-23.

Further commentary on operations

TAFE SA continued to implement its multi-year Bolder Future for TAFE SA initiative in 2022-23. This is a program that aims to allow TAFE SA students and staff to achieve, succeed and thrive while providing industries, employers and communities with real-world outcomes and a skilled, job-ready workforce.

As noted earlier, TAFE SA also started delivering fee-free courses from January 2023, with courses provided in selected areas as part of an initiative jointly funded by the Commonwealth and SA Governments.

Roadmap for the Future of TAFE SA

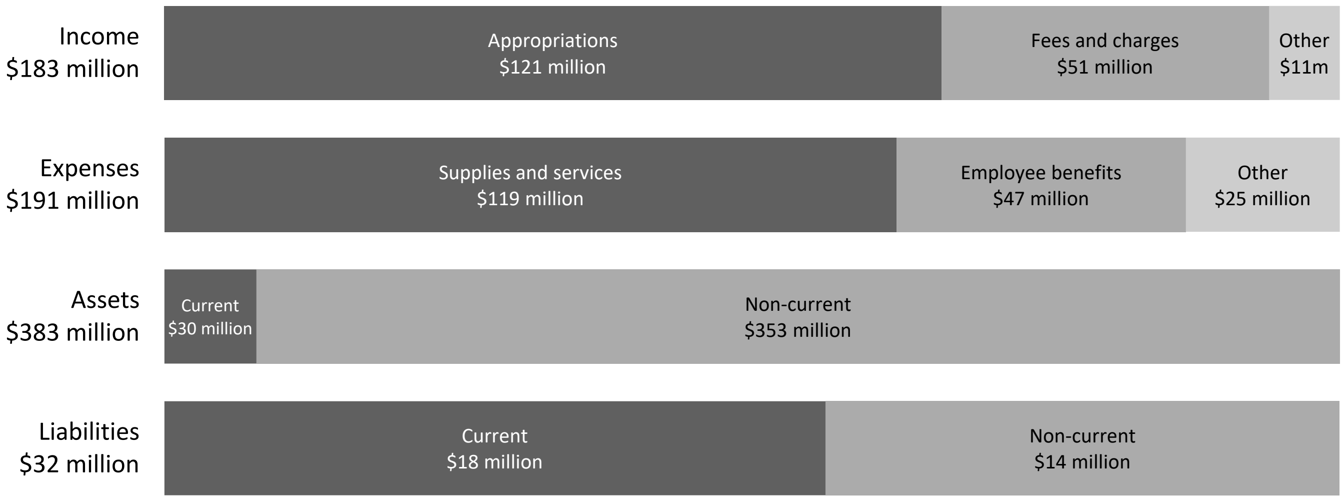
A report by Associate Professor Jeannie Rea, titled *Roadmap for the Future of TAFE SA*, was completed in April 2023 and publicly released in August 2023.

The report's roadmap, which was developed following consultation, aims to identify the future path for TAFE SA and provides guidance across six goal areas for TAFE SA's future development. It has an indicative timeline until 2033 to implement the roadmap actions.

Given the timing of the release of the roadmap, it is expected that the immediate actions identified will start to be delivered in 2023-24.

Department for Trade and Investment (DTI)

Financial statistics



334
FTEs

Administered items

Significant events and transactions

— A machinery of government change from 1 July 2022 resulted in the transfer of Planning and Land Use Services, the Office of the Valuer-General and the Office of the Registrar-General to DTI, from the Attorney-General's Department.

— As a result of the transfer DTI recognised controlled net assets of $345 million and net administered liabilities of $1.4 billion.

— The transfer resulted in DTI being responsible for administering the development application processing (ePlanning) system and the land information system (SAILIS), and for contract management of the Land Services SA contract arrangements.

— The value of the SAILIS service concession asset, which is measured at current replacement cost, was revalued downwards by $7.5 million at 30 June 2023, reflecting lower calculated overhead costs.

Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	IT general control weaknesses in the ePlanning system.

Functional responsibility

DTI is an administrative unit established by the *Public Sector Act 2009.*

DTI's functions include facilitating economic growth in South Australia by helping to attract local investment, enhancing export opportunities and creating employment opportunities. DTI also oversees the State's planning system to further develop liveable and sustainable communities.

From 2022-23, DTI is also responsible for:

- Planning and Land Use Services
- Office of the Valuer-General
- Office of the Registrar-General
- Office for Design and Architecture SA.

Note 1.2 of DTI's financial report provides further information on its functional responsibilities.

Scope of the audit

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls.

Specific areas of audit attention in 2022-23 included:

- general ledger
- cash
- expenditure
- payroll
- revenue
- assets
- grant and receipt payments
- IT general controls – ePlanning system
- administered items.

We reviewed internal audit activities when planning and conducting the audit.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion, which is discussed in Part B of this report.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive. The main findings and the DTI's responses are discussed below.

Controls opinion findings

There were no significant findings for our control opinion work for DTI.

Other audit findings

IT general controls review – Development Application Processing System (ePlanning)

DTI's ePlanning system incorporates searching of property zoning, review of development rules, and the tracking of major projects and development activities across the State.

Our review of the ePlanning system environment in 2022-23 covered the IT general controls applied to the Plan SA portal and Operational Data Store components. The controls we assessed included password management, user access management, privileged user access, audit logging, change management, patch management, backup and disaster recovery management.

We identified areas where controls could be improved, including:

- for the Plan SA portal:
  - weakness in monitoring vendor performance
  - weakness in patch management
  - inadequate backup and disaster recovery testing
- for the Operational Data Store:
  - lack of database patch management
  - no disaster recovery and backup restoration testing
  - weakness in the job monitoring process.

We also found that the matters we raised in our 2021-22 review of ePlanning specific to change management and audit logging were still being addressed.

These overall control risks may increase the potential for malicious activity and disruption of services for the ePlanning system.

DTI responded positively to our findings and agreed to take remedial action.

Interpretation and analysis of the financial report

Highlights of the financial report

	2023 $million	2022 $million
Income		
Appropriations	121	42
Fees and charges	51	-
SA Government grants and funding	9	4
Other	2	2
Total income	183	48
Expenses		
Employee benefits expense	47	19
Supplies and services	119	13
Grants and subsidies	10	11
Depreciation and amortisation	7	2
Other	8	8
Total expenses	191	53
Total comprehensive result	(8)	(5)
Net cash provided by (used in) operating activities	6	(6)
Assets		
Current assets	30	21
Non-current assets	353	5
Total assets	383	26
Liabilities		
Current liabilities	18	7
Non-current liabilities	14	6
Total liabilities	32	13
Total equity	350	13

Statement of Comprehensive Income

Income

DTI's main source of funding is appropriations under the Appropriations Act*,* which totalled $121 million in 2023 ($42 million).

Following the transfer of functions from the Attorney-General's Department on 1 July 2022, DTI also received $51 million in fees and charges in 2022-23, comprising:

- $18 million for land services fees
- $17 million for planning and land use services fees
- $16 million for Value-General services.

These are development application fees for the assessment of development plans for the approval of subdivisions and other developments, planning fees and valuation services. As these services were previously delivered through the Attorney-General's Department, there were no comparable amounts recognised in 2021-22 by DTI. Amounts totalling $53 million for these services were recognised by the Attorney-General's Department.

Expenses

Expenses increased by $138 million in 2022-23 to $191 million, mainly as a result of the machinery of government changes that saw business units from the Attorney-General's Department transfer to DTI from 1 July 2022. The main increases included:

- employee benefits expenses increasing by $28 million to $47 million as a result of FTE numbers increasing from 130 to 339 in 2022-23
- supplies and services increasing by $106 million to $119 million mainly as a result of:
  - contracted fees payable to Land Services SA for services to the Office of the Registrar-General ($80 million) and the Office of the Valuer-General ($11 million) being paid by DTI in 2022-23
  - a $7 million increase in accommodation, administration and staff-related expenses as a result of the increase in employees
  - a $4 million increase in contractors related to Planning and Land Use Services
- increased depreciation and amortisation of $6 million, reflecting that DTI now has additional assets related to the transferred functions
- a revaluation expense of $7.5 million included in other expenses relating to the revaluation of the SAILIS titling database, as explained under 'SAILIS titling database' below.

Statement of Financial Position

Both assets and liabilities increased due to the significant machinery of government changes in 2022-23.

Assets

Assets increased by $357 million to $383 million, mainly due to:

- the transfer in of the SAILIS titling database service concession asset at a value of $316 million, which was recognised in intangible assets. DTI subsequently revalued this asset at 30 June 2023 to $309 million, as discussed under 'SAILIS titling database' below
- the recognition on transfer in of the SAILIS and ePlanning software assets of $28 million
- the recognition of property, plant and equipment of $5 million relating to the fitout of office accommodation for transferred functions.

SAILIS titling database

The SAILIS titling database is a service concession intangible asset measured at current replacement cost. Recognition of this value is required by Australian Accounting Standards because the arrangement with Land Services SA is considered to be a service concession arrangement.

This asset was originally recognised after the State entering into a contract with Land Services SA, a private operator. It was transferred to DTI in the machinery of government changes on 1 July 2022.

The replacement cost of the asset is based on the estimated cost of manually recreating the land titles register and the valuation roll. The asset is revalued annually and the valuation is expected to change each year. In 2022-23 this lead to a revaluation decrement of $7.5 million, recognised as an expense.

This decrement was due to changes in the inputs associated with the revaluation model – mainly a reduction in the overhead cost per record and the volume of records used to calculate the value.

Liabilities

Liabilities increased by $20 million to $32 million, mainly due to:

- an increase in payables of $9 million, mainly relating to Office of the Valuer-General monthly service fees
- increased employee benefits liabilities of $6 million, reflecting additional employees
- an additional $6 million of lease incentive liabilities, relating to the fitout of office accommodation for the transferred functions.

Highlights of the financial statements – administered items

DTI has administered items related to the planning and land use processes, along with some other items. More detail on the administered items is provided in note A1.1 to the administered financial statements.

	2023 $million	2022 $million
Income		
Fees and charges	361	-
Appropriations	2	-
Recoveries and other income	34	-
Other	1	1
Total income	398	1
Expenses		
Payments to the Consolidated Account	336	-
Other – Planning fees	26	-
Other	2	1
Total expenses	364	1
Net result	34	-
Total comprehensive result	34	-
Net cash provided by (used in) operating activities	(5)	-
Assets		
Current assets	40	-
Non-current assets	-	-
Total assets	40	-
Liabilities		
Current liabilities	67	-
Non-current liabilities	1,368	-
Total liabilities	1,435	-
Total equity	(1,395)	-

Note: Table may not add due to rounding.

Income

Fees and charges increased by $361 million, primarily due to the regulatory fees collected by Land Services SA on behalf of the State. Fees and charges are collected as prescribed by the *Real Property Act 1886*.

Expenses

Payments to the Consolidated Account of $336 million were made to transfer fees and charges collected by the Office of the Registrar-General to the Consolidated Account.

Planning fees of $26 million were also paid in 2022-23, mainly to councils.

Assets

Cash increased by $38 million following the transfer of activities as a result of the machinery of government changes.

Liabilities

Total liabilities increased by $1.4 billion. This increase mainly relates to unearned revenue of $1.4 billion for the land services commercialisation (see 'Further commentary on operations' below) and a payable of $32 million to the Consolidated Account, representing amounts collected but not yet transferred in June 2023.

Further commentary on operations

Land Services SA

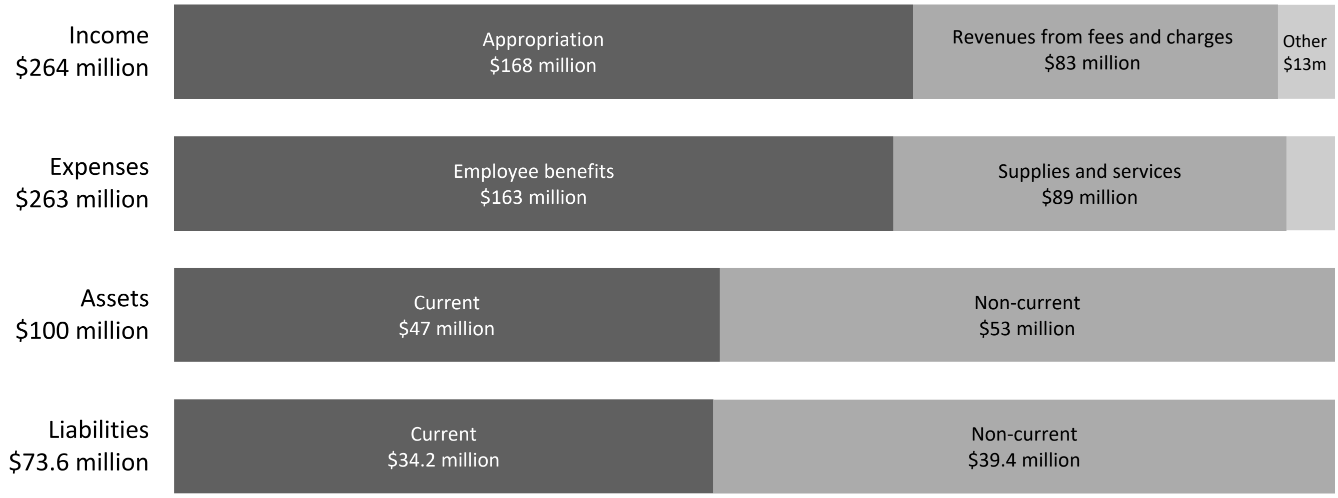
Land Services SA, a private operator, is the exclusive provider of land services in South Australia.

In 2017-18 Land Services SA entered into a 47-year contract with the State to provide land services to customers on behalf of the SA Government under a fee-for-service arrangement. Services to be provided include land titling, registration and valuation services. Fee rates for land titling, property valuations and other land services are set by the SA Government under various legislation, and the fees collected by Land Services SA are paid into the Consolidated Account.

The State received a $1.605 billion up-front payment from Land Services SA, principally for the right to be the exclusive provider of land services, the right to use the State's land information assets and the right to use the State's software (the SAILIS system). The up-front payment is recognised as revenue of $34 million on a straight-line basis over 47 years.

Department of Treasury and Finance (DTF)

Financial statistics



1,643
FTEs

Administered items

Significant events and transactions

- SafeWork SA, the South Australian Employment Tribunal and Industrial Relations transferred from DTF to the Attorney-General's Department on 1 July 2022.
- The Parliamentary Network Support Group transferred from DTF to Joint Parliamentary Services on 1 February 2023.
- Staff involved in hydrogen projects transferred from DTF to the Office of Hydrogen Power SA on 1 March 2023.

Financial report opinion

Unmodified

Controls opinion findings	—	Control processes at Shared Services SA (SSSA) to identify duplicate payments could be strengthened.
	—	Patch management and user access could be improved for some of SSSA's main IT systems.
Other audit findings	—	Accounts payable control processes could be strengthened.
	—	Monitoring of compliance with Payment Card Industry Data Security Standards could be improved.
	—	User access to key taxation revenue systems could be improved.
	—	Documentation supporting applicant eligibility for the first home owner grant could be improved.

Functional responsibility

DTF is an administrative unit established under the *Public Sector Act 2009* and is responsible to the Treasurer.

On 1 July 2022 SafeWork SA, the South Australian Employment Tribunal and Industrial Relations transferred from DTF to the Attorney-General's Department.

On 1 February 2023 the Parliamentary Network Support Group transferred from DTF to Joint Parliamentary Services.

On 1 March 2023 staff involved in hydrogen projects transferred from DTF to the Office of Hydrogen Power South Australia.

DTF administers a range of activities on behalf of the Treasurer, including transactions on behalf of the SA Government for the Consolidated Account.

Notes 1.2 and A1.1 of DTF's financial report provide details of its functions and an overview of its administered activities.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. It also considered the work of DTF's internal auditors.

Specific areas of attention in 2022-23 included:

- taxation revenue

- payroll
- expenditure
- procurement
- general ledger maintenance and reconciliation
- receipting and banking
- first home owner grant payments
- IT general controls.

We reviewed internal audit activities in planning and conducting the audit. We made use of the work performed by internal audit on the management and collection of state taxes, duties and levies.

Financing and insurance services

Commentary on these activities is included in the section of this report titled 'South Australian Government Financing Authority (SAFA)'.

Superannuation services

Commentary on these activities is included in the section of this report titled 'South Australian Superannuation Board'.

Public finances

We review various aspects of the public finances. The results will be reported in a separate Auditor-General's report on the state finances. The Treasurer's statements for the year ended 30 June 2023 will be published on the Auditor-General's Department website after this annual report is tabled in Parliament.

Controls opinion

We reviewed controls over the following areas as part of our overall controls opinion, which is discussed in Part B of this report:

- Commonwealth Government revenue
- taxation revenue – payroll tax
- taxation revenue – stamp duty – conveyances on sale of property
- Treasurer's guarantees and indemnities
- unfunded superannuation liability
- SSSA – accounts payable and payroll functions
- Treasurer's statements A, F, G and I
- a sample of whole-of-government contracts.

Audit findings

Communicating our audit findings

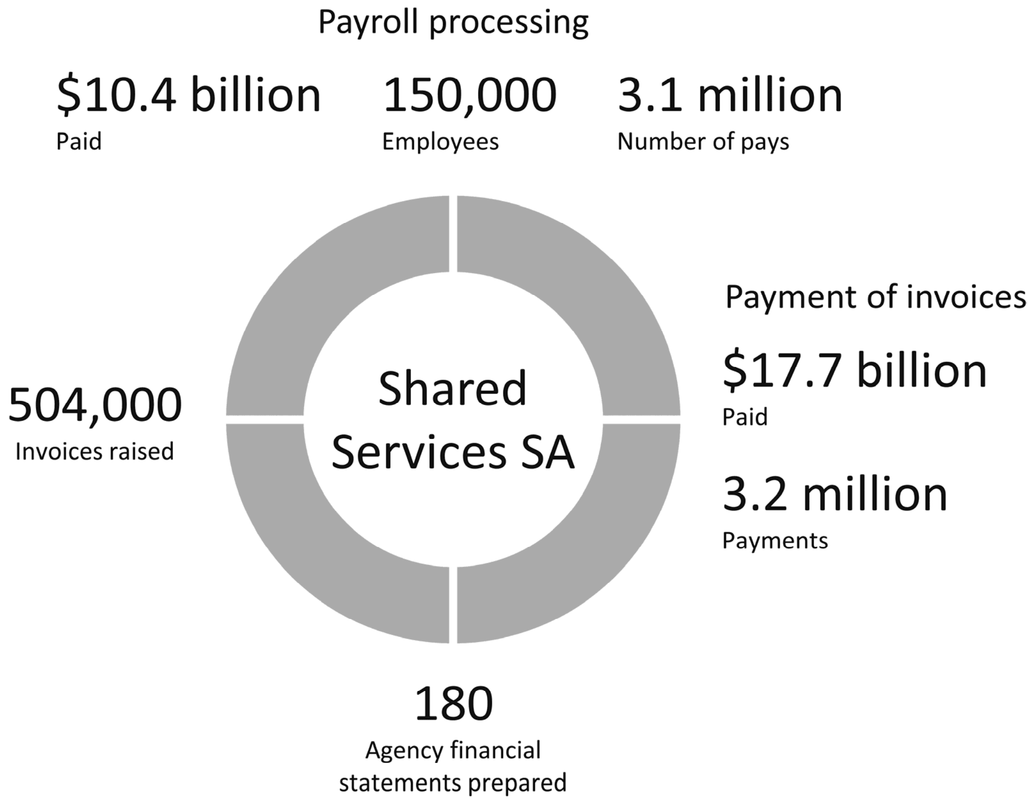
We communicated our audit findings in management letters to the Chief Executive. The main findings and DTF's responses are discussed below.

Controls opinion findings

SSSA – financial systems and transaction processing controls

SSSA processes financial transactions on behalf of a large number of SA Government agencies under service level determinations. Its processing includes accounts payable, accounts receivable, payroll, general ledger processing and financial accounting.

Annual statistics on the services SSSA provides are shown below.



Each year SSSA processes around 3.1 million employee pays using the Chris21 and VALEO payroll systems. It also processes around 3.2 million invoice payments.

In addition to the payroll systems, the main IT systems used by SSSA are:

- Readsoft – for scanning invoices
- Basware – payment processing
- Masterpiece – accounts receivable, accounts payable and general ledger
- CommBiz – banking software used to process payments.

Payroll

SSSA payroll functions include:

- maintaining employee data
- processing, calculating and disbursing payroll
- identifying and managing salary overpayments
- calculating targeted voluntary separation packages and termination payments.

Most SA Government payroll is processed through Chris21, with VALEO used for the Department for Education.

There were no significant findings from our payroll review at SSSA.

Accounts payable

SSSA processes payments on behalf of SA Government agencies. Every year we review key controls over SSSA's processing environment. The main matter we identified in 2022-23 is discussed below.

— Some invoices were paid more than once

SSSA made a number of duplicate payments that were not identified by its internal controls.

The Readsoft system matches the vendor's ABN on an invoice with the corresponding record in the accounts payable master file. SSSA is responsible for ensuring that the vendor details are correctly matched or applying the correct vendor details in cases where they have not been clearly identified.

SSSA also performs a validity check on the vendor's ABN before creating any new vendors.

The duplicate payments we found were a result of accounts payable staff incorrectly coding the invoice number to the Basware header data.

SSSA responded that it is not feasible to implement further automated controls to identify duplicate payments as Masterpiece is a legacy system. SSSA will continue to rely on manual checks at this stage, with automated checking options to be explored as part of its Finance Reform Program.

Staff will be reminded of their responsibility to thoroughly check the key fields of the invoice data against the invoice.

IT general controls

Given the importance of SSSA's systems to SA Government transaction processing, we review IT general controls each year.

— Basware

SSSA operated two versions of Basware in 2022-23 – the version that has been in place for some years, referred to as Current Generation, and a newer version called New Generation. New Generation is a cloud-based version of the software and SSSA clients have been transferring to it since 2021-22.

We found:

- instances where users had access for longer than they needed it and others where user access was not promptly updated for staff role changes
- some weaknesses in patch management, with some patches not yet applied.

SSSA responded that it had reviewed these user access issues and actioned them where appropriate, and that it would reinforce the importance of providing accurate and timely responses to periodic user access reviews.

SSSA also advised us that it:

- applied outstanding database patches in April 2023
- added patch management to the agenda for quarterly contract meetings with Basware
- will update its patch management procedure to reference all patching requirements.

— *Chris21*

We reviewed the patching activities performed by the Chris21 service provider, Frontier, across the current application, production database and operating system. We found that the database was multiple versions behind the current version available. As a result, the database was unsupported.

We also identified user access exceptions for Chris21, with some users having access that they no longer required and missing support for some user access levels.

SSSA advised us that it had spoken with Frontier and requested a plan to upgrade the database software to a version with extended support, including security patches.

SSSA also advised us that it had taken appropriate action on the user access exceptions we identified and would remind staff of the importance of user access reviews.

— *Masterpiece*

There were no significant findings from our Masterpiece review.

Other audit findings

Accounts payable

Approved ministerial delegate not set up in Basware

Payments processed through Basware require payment approval by an authorised financial delegate.

DTF’s ministerial authorisations are generally reviewed annually, with the 2022-23 authorisations approved by the Treasurer in July 2022.

The Commissioner of State Taxation had a delegation of $10 million to approve payments of valuation charges for land tax billing purposes. This was the same as the approved 2021-22 limit.

We noted a $5.6 million payment in September 2022 for the supply of the 2022-23 valuation roll for rating and taxing purposes. The Commissioner was unable to approve the payment in Basware as a limit of $5.5 million was set. To enable the payment, the Commissioner documented her approval outside of the system and another DTF officer approved the invoice in Basware using their super delegate financial authorisation.

We recommended that DTF check the Basware delegations to ensure they reflect approved 2022-23 authorisations.

DTF responded that the annual review of its authorisations would be completed in June 2023 and it would ensure the delegations were accurately reflected in Basware.

Payment not authorised before processing

We noted that no financial authorisation was given before an $800,000 refund was paid to SAFA for the overpayment of a monthly Consolidated Account transfer.

We brought this to DTF's attention and noted that retrospective approval was provided for the refund in line with DTF's financial delegations.

DTF advised us that it now has a form to document financial authorisation before Consolidated Account transfers between DTF, the Treasurer and SAFA occur.

Basware user access reviews not performed promptly

SSSA provides quarterly Basware user access reports, including financial authorisation limits, to DTF for review. This review aims to ensure user access levels and financial delegations are still appropriate.

We noted that DTF only reviews these reports every six months, with the most recent review for the December 2022 quarter.

DTF responded that it will complete a Basware user access review in July 2023 for the June 2023 quarter. It will then perform user access reviews quarterly from the September 2023 quarter.

Accounts receivable

2022-23 service level agreements with DTF portfolio agencies were not finalised promptly

We noted that the 2022-23 service level agreements with DTF portfolio agencies were not finalised before 1 July 2022 and some were still to be finalised in May 2023.

DTF responded that a review of service level agreements ending on 30 June 2023 was in progress. Where appropriate, new three-year agreements were to be prepared and finalised in July 2023.

Taxation revenue

DTF's internal auditors reviewed the management and collection of state taxes, duties and levies.

Lack of monitoring of compliance with Payment Card Industry (PCI) Data Security Standards

RevenueSA collects payment card information as part of its business processes. As a result, it is subject to the requirements of the PCI Data Security Standard, which is the expected minimum security standard for any merchant processing payment card data.

Internal audit found that RevenueSA relied on an annual self-assessment questionnaire on its compliance and that the roles and responsibilities between RevenueSA and DTF were, in some cases, unclear.

DTF responded that it will:

- review and update its PCI compliance policy to ensure that its PCI compliance principles and responsibilities are clearly defined

- implement a centrally coordinated program to ensure DTF branches are meeting their PCI compliance obligations
- report annually to the DTF Risk and Performance Committee on its adherence to PCI compliance obligations and progress on related measures.

User access reviews are not completely performed on a regular basis

User access reviews are required quarterly and annually for both the RevenueSA Online (RSAOL) and RevenueSA Information Online (RIO) taxation revenue applications. These reviews are critical given the strong reliance on appropriate user access being in place to mitigate risks such as inappropriate changes being made to taxpayer data or unapproved exemptions being processed.

For three of the four quarterly RSAOL and RIO reviews we selected, RevenueSA's internal audit was not provided with evidence that all business units had responded.

Internal audit also noted that RIO user access permissions had not been reviewed since August 2020.

DTF responded that:

- it will ensure that record keeping of RSAOL and RIO user access reviews will be made consistent across business units
- a detailed review of RIO user access permissions was in progress and expected to be finalised in June 2023. Any changes identified from the review will be configured in RIO by December 2023.

First home owner grant

Approved agents are not maintaining documentation to support applicant eligibility for the grant

A grant of up to $15,000 is available to eligible first home buyers.

In most cases, grant applications are processed through an approved agent, usually the financial institution that is providing finance. Deeds of Arrangement with approved agents document their obligations, including requirements for application records.

Approved agents could not provide sufficient documentation to support the grant eligibility of a sample of applicants, which is a requirement of the Deed of Arrangement.

DTF advised us that a letter would be sent to all approved agents by September 2023 reminding them of their obligations under the Deed of Arrangement and the requirement to maintain full and proper records supporting grants.

Some position titles in the Commissioner's Instrument of Delegation and 2022-23 Ministerial Authorisations were not current

We noted that all grant payments we tested were approved by a RevenueSA officer whose position was not listed in the Commissioner's Instrument of Delegation or the 2022-23 Ministerial Authorisations.

RevenueSA advised us that an internal restructure had resulted in a change to some position titles and the Commissioner's Instrument of Delegation and 2022-23 Ministerial Authorisations had not been updated to reflect this.

DTF responded that the Instrument of Delegation and 2022-23 Ministerial Authorisations have now been reviewed to ensure that all RevenueSA positions are accurately reflected for the 2023-24 financial year.

In future, RevenueSA will promptly incorporate organisational changes into these documents.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items*

	2023 $million	2022 $million
Income		
Appropriation	168	177
Fees and charges	83	117
Other income	13	9
Total income	264	303
Expenses		
Employee benefits expenses	163	178
Supplies and services	89	101
Other expenses	11	13
Total expenses	263	291
Net result	1	12
Total comprehensive result	1	12
Assets		
Current assets	47	49
Non-current assets	53	66
Total assets	100	114
Liabilities		
Current liabilities	34	42
Non-current liabilities	39	48
Total liabilities	74	91
Total equity	26	24

* Table may not add due to rounding.

Statement of Comprehensive Income – controlled items

Income

Income decreased by $39 million to $264 million in 2023 mainly due to:

- a $34 million decrease in revenue from fees and charges, mostly as a result of the transfer of SafeWork SA to the Attorney-General's Department from 1 July 2022
- a $9 million decrease in appropriations, reflecting the administrative restructures that occurred in 2022-23
- a $4 million increase in SA Government grants, subsidies and transfers, mostly due to $5 million in funding provided for targeted voluntary separation packages and $1.4 million in contingency funding provided for costs associated with the Finance Reform Project that will replace Masterpiece, offset by a $2 million reduction in funding for the administration of COVID-19 relief schemes.

Expenses

Expenses decreased by $28 million to $263 million in 2023 mainly due to:

- a $15 million decrease in employee benefits expenses, mostly due to the transfer of DTF staff to the Attorney-General's Department, Office of Hydrogen Power SA and Joint Parliamentary Services in 2022-23 and a $2.6 million reduction in Rejuvenation Scheme payments as the scheme was only in effect in 2021-22, offset by a $3.9 million increase in targeted voluntary separation packages
- a $12 million decrease in supplies and services expenses, mostly due to the administrative restructures that occurred in 2022-23.

Statement of Financial Position – controlled items

Assets

Total assets decreased by $14 million to $100 million in 2023 due mainly to:

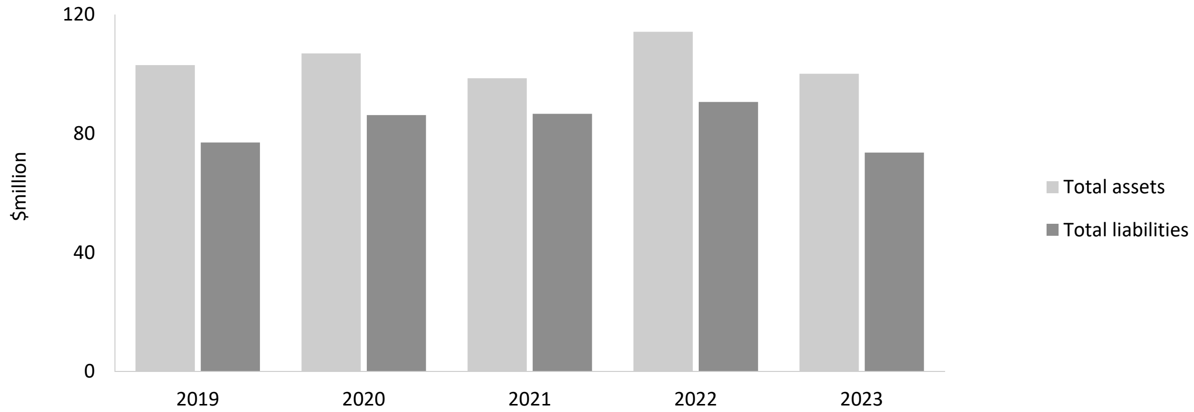
- a $5.6 million increase in cash
- a $6.9 million decrease in receivables, reflecting a $4.5 million decrease in trade receivables and a $2.7 million decrease in prepayments
- a $5.2 million decrease in intangible assets, mostly due to:
  - $6.7 million in amortisation expense
  - $1.5 million of additional work in progress recognised in 2022-23, relating to RevenueSA taxation systems
- a $7.6 million decrease in property, plant and equipment, mostly due to:
  - $4.1 million in additional work in progress recognised in 2022-23, mainly relating to building fitouts and IT equipment
  - $8.6 million of property, plant and equipment transferred out through administrative restructures
  - $4.2 million in depreciation and amortisation expense.

Liabilities

Total liabilities decreased by $17 million to $74 million in 2023 due mainly to:

- a $6.1 million decrease in payables, mostly due to:
  - a $5.4 million decrease in accrued expenses, as last year's payables included amounts payable to the Attorney-General's Department related to previous administrative restructures
  - a $728,000 decrease in employment on-costs, mainly a result of the reduction in employee numbers
- an $8.1 million decrease in employee benefits, mostly due to DTF staff transferring through administrative restructures in 2022-23
- a $2.3 million decrease in provisions for workers compensation, comprising $1.5 million in payments and a $799,000 reduction in the liability due to the actuarial assessment.

The following chart shows DTF's asset and liability balances since 2019.



Assets have varied across the last five years, with fluctuations primarily reflecting the timing of the development of software for RevenueSA and the South Australian Superannuation Board, building fitouts and the transfer of assets and liabilities through administrative restructures.

Statement of Cash Flows

DTF's cash position as at 30 June 2023 was $29 million, an increase of $5.6 million, reflecting increases of $2.9 million in funds held in the operating account and a $2.7 million increase in funds held in the accrual appropriation excess funds account.

Highlights of the financial report – administered items*

The administered financial statements mainly reflect DTF's transactions on behalf of the SA Government for the Consolidated Account. The Consolidated Account result for 2023 is reported in the Treasurer's statements (published on the Auditor-General's Department website).

	2023 $million	2022 $million
Income		
Taxation	5,075	4,974
Commonwealth revenues	11,736	10,699
Appropriation	2,149	2,762
Other revenues	1,741	1,582
Total income	20,701	20,019
Expenses		
Payments to SA Government	14,558	13,855
Grants, subsidies and transfers	4,986	4,984
Other expenses	1,330	1,086
Total expenses	20,874	19,926
Net result and total comprehensive result	(173)	93

	2023 $million	2022 $million
Assets		
Current assets	1,121	2,781
Non-current assets	175	164
Total assets	1,296	2,945
Liabilities		
Current liabilities	423	1,805
Non-current liabilities	177	272
Total liabilities	599	2,077
Total equity	696	868

* Table may not add due to rounding.

Statement of Comprehensive Income – administered items

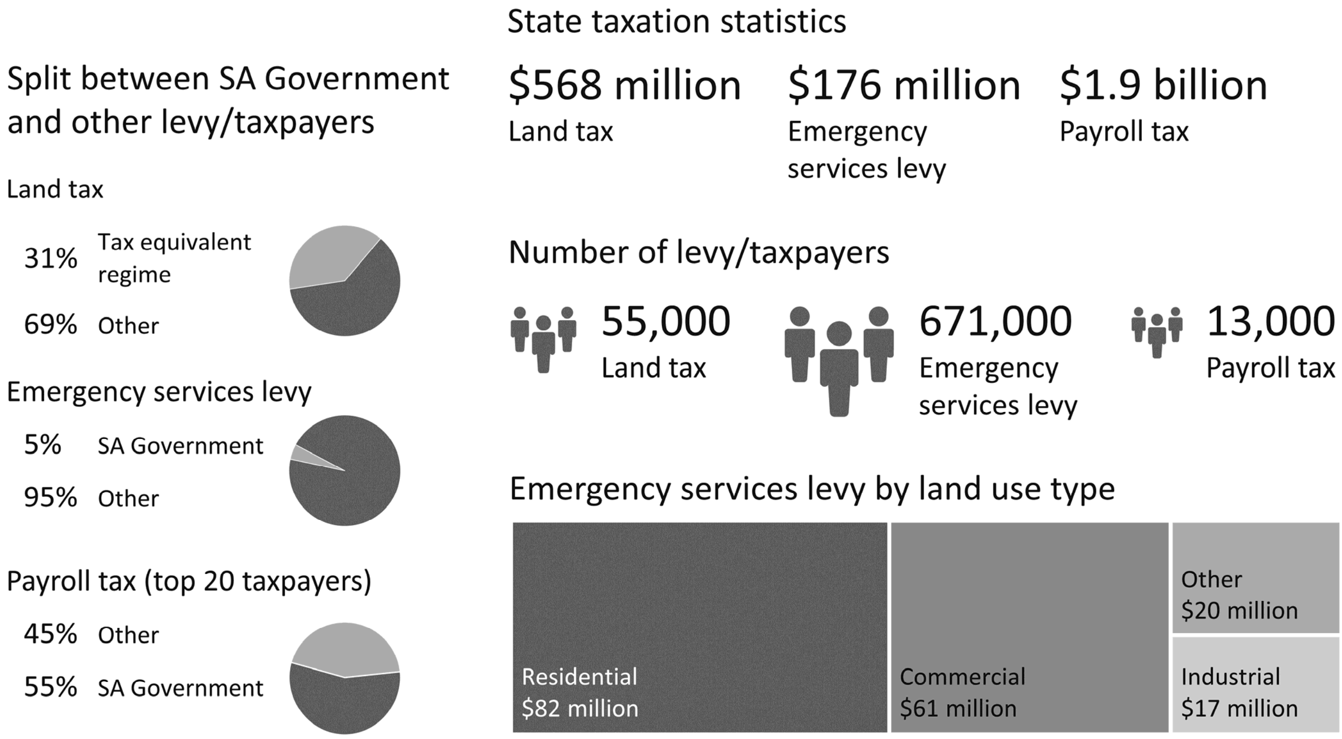
Administered revenue

Taxation revenue increased by $101 million to $5.08 billion in 2022-23, due mostly to:

- increases of $85 million in payroll tax, $69 million in land tax, $44 million in stamp duties on general insurance, $34 million in betting operations tax and $24 million in stamp duties on motor vehicle registrations
- a decrease of $142 million in stamp duty on property sale conveyances and $36 million in income tax equivalents.

The following state taxation statistics show that SA Government agencies paid:

- 31% of land tax but only 5% of the emergency services levy in 2022-23
- 55% of payroll tax collected by RevenueSA from the top 20 taxpayers in 2022-23.



Commonwealth revenue increased by $1.04 billion to $11.74 billion in 2022-23, comprising mainly a $779 million increase in GST revenue grants and a $246 million increase in funding received under the Inter-Governmental Agreement on Federal Financial Relations (IGAFFR).

Commonwealth funding received in the current and prior years for various infrastructure and capital projects is recorded initially as unearned revenue and then recognised as expenditure on the projects as incurred. In 2022-23 grant revenue received from the Commonwealth for capital projects and recognised as unearned revenue was $121 million and grant revenue recognised in 2022-23 for capital works completed was $209 million.

Appropriation decreased by $614 million to $2.15 billion in 2022-23, reflecting decreased funding for DTF's administered activities.

Other revenue increased by $159 million to $1.74 billion in 2022-23, due mostly to:

- a $268 million increase in interest revenue
- a $151 million increase in grants and contributions, due mainly to a $152 million increase in intra-government transfers received for various administered activities
- the return of equity capital contributions by the Department for Education ($80 million) and TAFE SA ($38 million)
- a $25 million increase in recovery for interstate hotel COVID-19 quarantine
- a $13 million increase in fees and charges
- a $363 million decrease in the return of surplus cash from agencies to the Consolidated Account
- a $36 million decrease in dividends from SA Government agencies, due mainly to a $50 million decrease from SAFA, a $20 million decrease from HomeStart Finance and a $10 million decrease from the Motor Accident Commission, offset by a $31 million increase from the Urban Renewal Authority and a $20 million increase from the South Australian Water Corporation.

Administered expenses

Administered expenses increased by $949 million to $20.97 billion in 2023, mainly due to:

- a $703 million increase in payments to the SA Government mostly due to:
  - an $876 million increase in the transfer of revenue received on behalf of the Consolidated Account
  - a $186 million decrease in the transfer of surplus cash to the Consolidated Account
- a $414 million increase in interest costs, mainly on the Treasurer's borrowings from SAFA
- a $36 million increase in payments to the Commonwealth Government to return funding for the North-South Corridor Pym Street to Regency Road and Northern Connector projects
- a $127 million decrease in refunds and remissions, reflecting the winding back of relief introduced in the COVID-19 pandemic
- a $63 million decrease in the revision to the carrying value of the Treasurer's investment in the State Owned Generators Leasing Co Pty Ltd in 2021-22

- a $24 million decrease in employee benefits expenses, mostly due to a $20 million decrease in payments to the Police Superannuation Scheme and the South Australia Superannuation Fund to support funding of the defined benefit liability of the schemes.

Administered net assets

Net assets changed from $868 million in 2022 to $696 million in 2023. This was due to:

- administered assets decreasing by $1.65 billion due mainly to:
  - a $1.6 billion decrease in cash, due mainly to a decrease in deposits with the Treasurer
  - a $57 million decrease in receivables, due mainly to a $56.2 million decrease in accrued Commonwealth funding for capital works projects already completed by the Department for Infrastructure and Transport
- administered liabilities decreasing by $1.48 billion due mainly to:
  - a $1.38 billion decrease in payables, mostly due to a $1.4 billion decrease in revenues collected but not yet paid into the Consolidated Account, offset by a $26 million increase in accrued expenses
  - a $94 million decrease in other liabilities, mostly due to an $88 million decrease in unearned Commonwealth revenue for capital projects (mainly for the Department for Infrastructure and Transport and the Department for Health and Wellbeing) and unearned revenue of $6 million relating to the novation of Urban Renewal Authority loans to the Treasurer as part of the process of TAFE SA buying its campus assets from the Urban Renewal Authority.

Further commentary on operations

Commonwealth Government funding arrangements

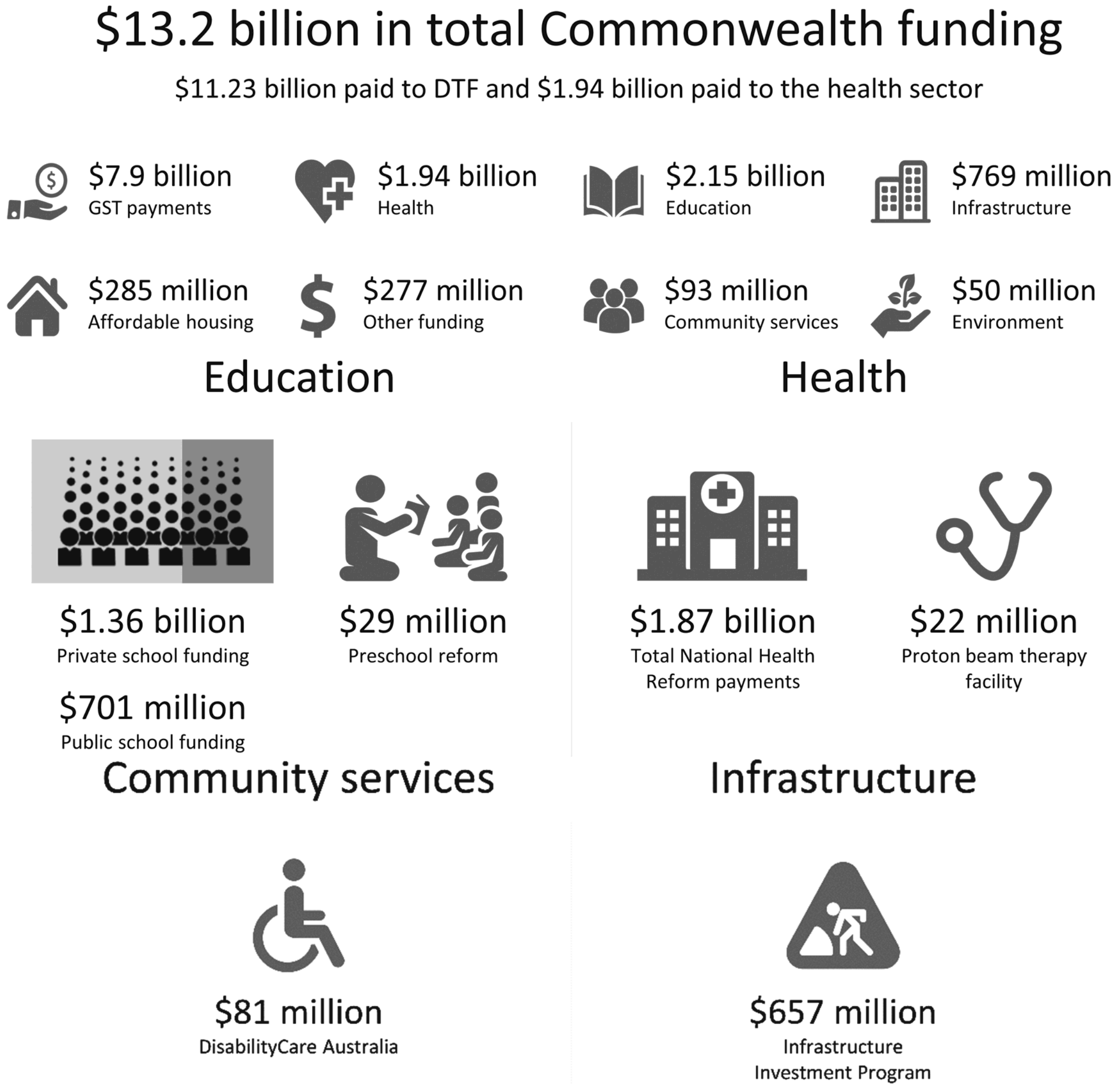
The IGAFFR is the framework for the Commonwealth's financial relations with the States and Territories. It provides for the following types of Commonwealth payments:

- general revenue assistance, including the ongoing provision of GST payments, to be used by the States and Territories for any purpose
- national specific purpose payments to be spent in the key service delivery sectors agreed to between the Commonwealth and the States. Each national specific purpose payment is linked to a national agreement that contains objectives, outcomes, outputs and performance indicators, and clarifies the roles and responsibilities of each jurisdiction
- national partnership payments to support the delivery of specified outputs or projects, to facilitate reforms or to reward those jurisdictions that deliver on nationally significant reforms.

Under the IGAFFR all Commonwealth funding, with the exception of funding under the National Health Reform Agreement, is provided to DTF, which distributes funds to agencies. The Treasurer has established a special deposit account to receive and disburse money paid to the State for the national specific purpose payment purposes listed in Schedule F of the IGAFFR and the national partnership payment purposes listed in Schedule G.

The balance of the IGAFFR account at 30 June 2023 was $99 million ($19 million). This represents funds that DTF is yet to transfer to other agencies.

Commonwealth funding, presented on a cash basis, was provided in 2023 for the purposes shown below. The Commonwealth provided $11.23 billion to DTF and $1.94 billion directly to the health sector. Of this, 58% related to GST revenue grants of $7.9 billion that can be used for any purpose, whereas most of the remaining Commonwealth funding is for specific purposes.



Source: Australian Government GovTeams report as at 30 June 2023.

Local Government Infrastructure Partnership Program

In October 2020 the SA Government announced the Local Government Infrastructure Partnership Program to help local government accelerate spending on community infrastructure projects that:

- contribute to the future economic growth of the region
- support the SA Government's Growth State agenda
- improve local infrastructure facilities for businesses and community organisations to enable them to grow in the future
- upgrade key community facilities.

Under the program, the SA Government will provide grants to councils for up to 50% of the cost of approved infrastructure projects. Councils will fund the remaining 50% either through their own reserves or borrowings. Infrastructure projects can include other funding partners, including the Commonwealth Government and/or local businesses.

Applications for grants closed on 29 January 2021. They were assessed by a panel of staff from the Office of Local Government and DTF.

The program was fully subscribed, with $106.9 million in grants approved for 57 projects across 58 local councils.

Grant payments to reimburse costs are made to local councils in line with key project milestones and as agreed with local councils in grant agreements. Most councils have experienced project interruptions and significant delays due to supply chain issues and labour shortages.

As at 30 June 2023:

- six projects were completed
- three projects were terminated by councils
- 33 projects were in progress, with grant deeds for three projects yet to be finalised.

Payments totalling $33 million were made in 2022-23. As at 30 June 2023, $40 million in total payments had been made.

School loans scheme

In the 2021-22 State Budget the SA Government announced a new $320 million low interest loan scheme to help non-government schools upgrade their existing school facilities, including early learning centres co-located on a school site.

Loans of between $500,000 and $10 million per school were made available for three years, with loan terms up to 15 years and an initial five-year interest-free period.

SAFA is administering the loan scheme. Since its inception there have been two funding rounds.

Total funds advanced to non-government schools as at 30 June 2023 were $58 million.

The total value of approved school loans at 30 June 2023 was $131 million, with $73 million not yet drawn down.

Fines Enforcement and Recovery Unit (FERU) – $419 million debt outstanding

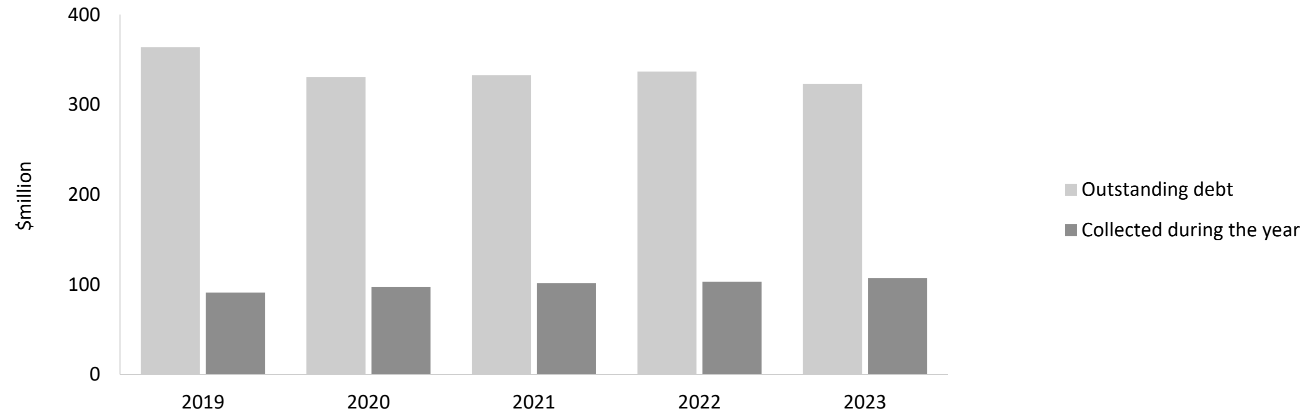
The FERU collects outstanding fines and related payments (suitor amounts and fees and charges associated with overdue amounts). It performs this function for court fines, expiation fees (including overdue local government amounts referred) and other outstanding amounts, including Victims of Crime levies and third-party suitor amounts.

As at 30 June 2023, the balance of debt managed by the FERU was $419.1 million ($423.6 million), which includes $39.8 million ($36.2 million) that is not yet due. This comprises:

- fines – $233.6 million ($237.5 million). This includes expiations of $167.1 million ($168.3 million) and pecuniary sums of $66.5 million ($69.2 million)
- Victims of Crime levies – $96 million ($86.7 million)
- FERU fees – $89.4 million ($99.4 million).

$123.6 million ($127.8 million) of the debt relates to court penalties, while $295.5 million ($295.8 million) relates to expiation notices.

The following chart shows the total outstanding debt from fines and related fees (excluding Victims of Crime levies) and total collections over the last five years.



The chart highlights that while outstanding debts decreased in 2020, they remained steady in 2021 and 2022 then decreased again in 2023. The level of collections has increased since 2019, reflecting different collection management by the FERU and the use of powers to suspend dealings with the Registrar of Motor Vehicles or driver's licences (among other powers available).

Outstanding amounts are not recorded in the Statement of Administered Financial Position as there is significant uncertainty about the amount that will be collected. Instead, revenue is recorded in the Statement of Administered Comprehensive Income when money is received.

In 2022-23 fines lodged with the FERU totalled $229.9 million ($201.4 million). Total collections of $118.1 million ($114.6 million), including Victims of Crime amounts, included $107.1 million ($103.1 million) collected on behalf of the SA Government and $10.1 million ($10.7 million) collected on behalf of non-government entities, including local government councils.

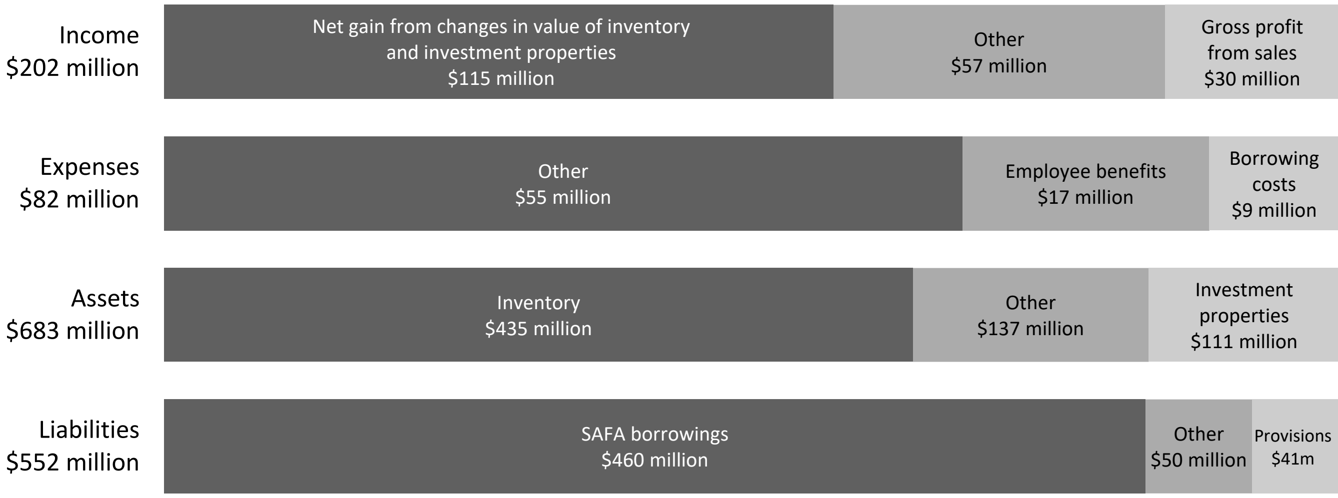
The FERU has previously engaged a panel of external debt collectors to help collect outstanding amounts, particularly those that are more difficult to recover. The outstanding amounts collected by debt collection agencies since the start of the arrangements in 2016-17 total $34.9 million.

Of the $419.1 million ($423.6 million) in total outstanding debt and related payments, $254.8 million ($293.9 million) is under active management, with $175.9 million ($164 million) subject to payment arrangements, $39.8 million ($36.2 million) subject to arrangements prior to fines being overdue and $46.3 million ($47.6 million) not owed to the State. $3.5 million ($30.4 million) of fines were referred to debt collection agencies in 2022-23. The external debt collection deed expired in September 2022 and the FERU is conducting a procurement process for the service.

From May 2019 the FERU began to recover State debt on behalf of other government agencies. As at 30 June 2023 it was recovering State debt for 26 (22) government agencies. In 2022-23 the total debt referred to the FERU was $48.9 million ($55.6 million), of which $7 million ($7.7 million) has been collected and $11.1 million ($9.4 million) is subject to payment arrangements. $5.1 million ($5.6 million) of debt has been paid back directly to government agencies.

Urban Renewal Authority (URA)

Financial statistics



141
FTEs

$11 million
SA Government equity contributions

$121 million
Profit before income tax equivalent

Significant events and transactions

- Profit before income tax equivalent improved by $71 million to $121 million.
- Previous inventory write-downs of $103 million were reversed, reflecting the URA's revised estimates of the net realisable value of its inventory.
- Dividends paid by the URA to the SA Government were $35 million.
- The URA is planning to construct a deep maintenance and modification facility (DMMF) in Edinburgh so defence aircraft can be maintained within South Australia.
- An Office for Regional Housing was established within URA to facilitate regional housing outcomes.
- The Commonwealth and SA Governments announced a land exchange involving land owned by URA and land parcels owned by the Commonwealth Government. The URA expects the exchange settlement to occur in 2023-24.

Financial report opinion

Unmodified

Controls opinion findings

Opportunities to strengthen contract management controls were identified.

Functional responsibility

The URA is established by the *Urban Renewal Act 1995* (URA Act). It is the SA Government's property development agency.

The URA's functions under the URA Act include:

- developing residential, commercial and industrial land in the public interest, particularly for urban renewal purposes
- facilitating public and private investment, undertaking development activities that are attractive to potential investors and participating in the development of the State
- managing the orderly development of areas through the management and release of land
- holding land and other property to be made available as appropriate for commercial, industrial, residential or other purposes.

The URA's trading name is Renewal SA. It is a for-profit entity under the Treasurer's Instructions (Accounting Policy Statements).

Urban renewal program

The URA conducts its urban renewal program through a series of development projects. Its major projects are currently Lot Fourteen, Playford Alive, Tonsley, Bowden and Prospect. A separate business plan is prepared for each project and progress against the plan is monitored. See 'Major development projects' below for further discussion of these projects.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report.

Specific areas of audit attention in 2022-23 included:

- management of projects, procurement and contracts
- land sales
- property income
- payroll
- capital and operating expenditure
- land inventory.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Controls opinion

We reviewed controls over the following areas as part of our overall controls opinion, which is discussed in Part B of this report:

- inventories, including land held for sale and development projects
- the Renewal SA Operating Account.

Audit findings

Communicating our audit findings

Opportunities to strengthen contract management controls

We identified and recommended that the URA could strengthen its contract management controls by:

- improving its tracking and reporting of overdue contractor performance assessments. Contractor performance assessments are completed annually and again at the end of the contract. Underperforming contractors may be reappointed if tender evaluation panels do not review the latest assessments, which provide compensatory controls.

  The URA responded that a technological solution will be investigated as part of its organisational transformation program, although it considers this recommendation to be low risk given its broader procurement processes
- specifying processes for handing over contract management responsibilities between contract managers. Poor contract handover processes may reduce knowledge transfer between contract managers and increase the risk that contractors are not managed effectively.

  The URA responded that it will consider this matter further in reviewing its project management framework, although it considers this recommendation to be low risk given its broader contract management processes.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2023 $million	2022 $million
Income		
Sales	64	149
Cost of sales	(35)	(90)
Revenues from SA Government	7	8
Property income	33	26
Gain from changes in value of non-current assets	115	16
Other revenues	18	15
Total income	202	124
Expenses		
Employee benefits expenses	17	16
Operating expenditure, depreciation and amortisation, other expenses	55	52
Borrowing costs	9	6
Total expense	82	74
Profit before income tax equivalent	121	50
Income tax equivalent	(36)	(15)
Total comprehensive result	84	35
Net cash provided by (used in) operating activities	(48)	(9)
Net cash provided by (used in) investing activities	6	(5)
Net cash provided by (used in) financing activities	55	16

	2023 $million	2022 $million
Assets		
Current assets	190	143
Non-current assets	493	387
Total assets	683	530
Liabilities		
Current liabilities	182	191
Non-current liabilities	370	269
Total liabilities	552	459
Total equity	131	71

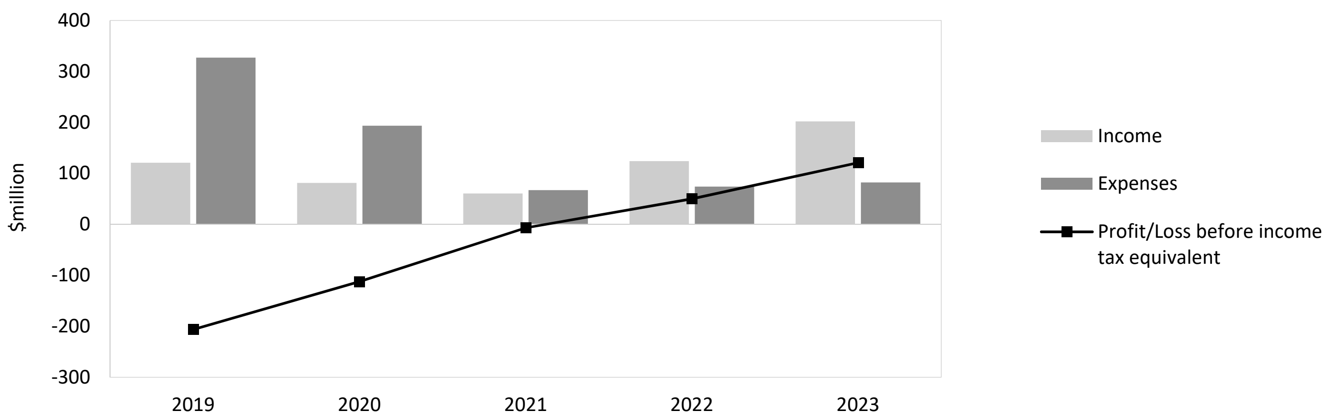
* Table may not add due to rounding.

Statement of Comprehensive Income

The Treasurer has classified the URA as a for-profit entity. The URA's capacity to generate profits is significantly influenced by a range of matters, including government policy. Key elements are discussed in the commentary below.

Profit (Loss) before income tax equivalent

The following chart shows the URA's income, expenses and profit (loss) before income tax equivalent for the five years to 2023.



The URA's profit before income tax equivalent for 2022-23 of $121 million was significantly higher than its 2021-22 profit of $50 million. The $71 million improvement was due mainly to reversals of previous inventory write-downs resulting from the annual review of recoverable values of inventories, partially offset by a decrease in gross profit from sales.

The nature of the URA's business means that its profit (loss) before income tax equivalent is influenced by movements in the value of its inventory and investment property. Losses in 2018-19 were driven by write-downs in the values of development projects (inventories). These write-downs reflected reduced sales forecasts and the SA Government's decision to replace project capital grants with equity contributions. Unlike grants, equity contributions are not recognised as income and cannot be included as future income for projects when measuring their net realisable value.

The following is a more detailed analysis of the income and expenses that resulted in the 2022-23 profit.

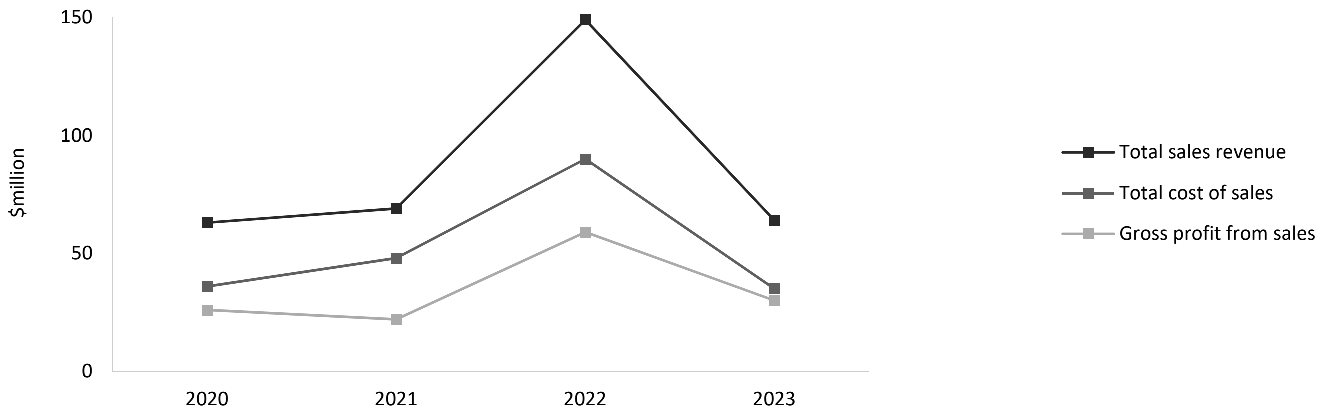
Income

Total income increased by $79 million to $202 million, due mainly to:

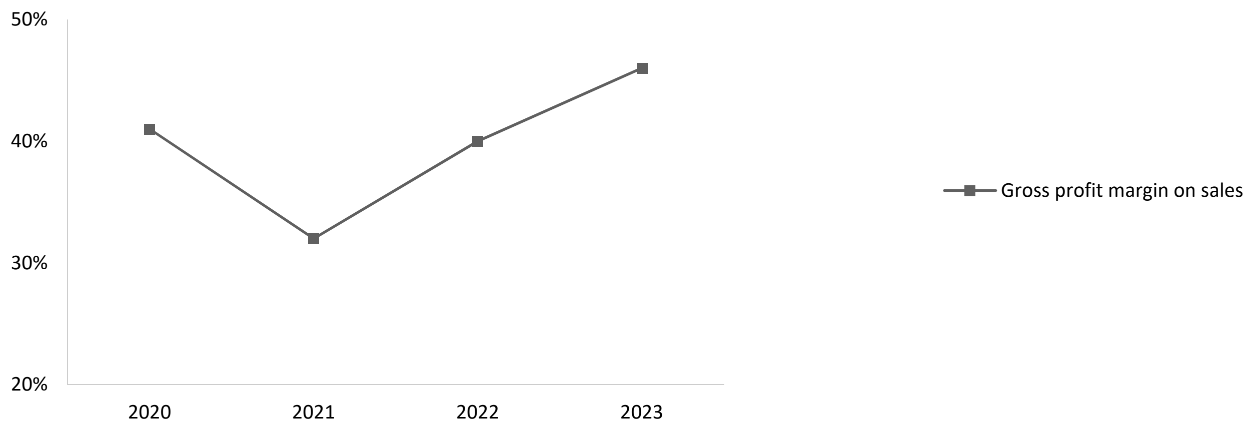
- reversals of previous inventory write-downs of $103 million resulting from the URA's revised estimates of the net realisable value of its inventory
- property income increasing by $7 million to $33 million, reflecting higher rental income resulting from increased tenancies and index adjustments to tenant rents
- gross profits from sales decreasing by $30 million to $30 million. The decrease was due mainly to the recognition of land sold in Oakden in 2021-22 for $81 million with a cost of sale of $44 million.

Further information on changes in the value of inventories and investment properties is provided under 'Assets' below.

The following chart shows the total land sales and cost of sales for the four years to 2023.



The gross profit margin on sales shown in the chart below is an important driver of the URA's profitability and is influenced by market prices for land and the costs of acquisition and development. Gross profit margins on sales increased in 2022-23 from 40% to 46% due to a higher proportion of higher margin industrial land sales rather than lower margin development project sales. Sales of industrial land increased by $14 million to $30 million. This included two sales in Elizabeth West and the East Grand Trunkway for $14.3 million with a gross profit of $12.3 million. Sales from development projects and residential land held for sale dropped by $98 million to $34 million due mainly to the Oakden sale of $81 million in 2021-22. In addition, sales from the Bowden, Playford Alive and Tonsley development projects dropped by $23 million to $22 million.



Sales of properties carried at their net realisable value (which is their likely sales value less future development costs) usually have lower gross profit margins than sales of properties carried at cost and below their net realisable value. The SA Government sometimes requires the URA to undertake development projects that are not purely commercial in nature. These projects are often written down because their net realisable value is below their cost.

Expenses

Expenses were $82 million ($74 million), with the $8 million increase reflecting the following key movements:

- Operating expenses increased by $3 million to $52 million, due mainly to increased property expenses of $10 million reflecting higher marketing expenses and increases to provisions for contractual claims. This was partially offset by a $5 million decrease in payments to contractors and consultants, with payments in 2021-22 including costs to support the rebuild and expansion of the Thomas Foods facility at Murray Bridge.
- Borrowing costs increased by $4 million to $9 million, due to higher interest rates and the higher balance of borrowings throughout 2022-23 compared to the prior year.

Dividend

Under the URA Act, the URA is required to recommend to the Minister whether a dividend will be paid each financial year. The dividend is based on the URA's accounting profit. The URA is also required to declare a dividend of 100% of the after-tax profit relating to the Adelaide Station and Environs Redevelopment site, under the requirements of the URA's Financial Ownership Framework which was approved by the Minister and Treasurer.

The URA paid $35 million ($4 million) in dividends to the SA Government, comprising the following:

- The Minister, in consultation with the Treasurer, approved a dividend payment of $4 million for 2022-23, with the provision that any difference between the 2022-23 expected and final profits will be adjusted for in the 2023-24 dividend declaration process.
- The URA paid an additional dividend of $31 million in 2022-23, calculated on the final profit for 2021-22.

Statement of Financial Position

The URA's total assets of $683 million, mainly comprising investment properties and inventories worth $546 million, exceeded its total liabilities of $552 million. The URA's total liabilities mainly comprise South Australian Government Financing Authority (SAFA) borrowings of $460 million.

The URA's net asset position improved by $60 million to $131 million, due mainly to an equity contribution from the SA Government of $11 million and profits after income tax equivalent of $84 million, partially offset by a $35 million dividend payment.

The major movements in the Statement of Financial Position are discussed below.

Assets

Total assets were $683 million ($530 million). The $153 million increase is mainly attributable to increases in inventories of $144 million, cash of $12 million and investment properties of $6 million, partially offset by decreases in receivables of $7 million.

Receivables

Receivables decreased by $7 million to $95 million, due mainly to a $6 million reduction in lease receivables from property and finance leases.

Receivables include $84 million of deferred payment arrangements arising from the upfront recognition of Oakden, Tonsley and Woodville St Clair sales revenue.

Investment properties

Investment properties increased by $6 million to $111 million, driven largely by gains of $12 million in the fair value of the properties, partially offset by the $7 million disposal of the Bioinnovation building, sold to the Department for Industry, Innovation and Science.

Inventories

The URA's primary activities involve holding and developing land inventory for sale. The value of inventory at 30 June 2023 was $435 million ($291 million). The $144 million increase reflected:

- inventory additions comprising:
  - $103 million in reversals of previous inventory write-downs resulting from the URA's revised estimates of the net realisable value of its inventory. This includes $64 million of reversals due to improved market conditions for industrial land held for sale and $38 million of reversals due to increased estimated future cash inflows from the Bowden and Tonsley development projects
  - $56 million ($55 million) in capitalised development costs including direct materials and salaries where they are directly attributable to land currently under development. These costs are then expensed as part of cost of sales when inventories are sold
  - $20 million ($5 million) in land purchases for future development, which includes the purchase of 275 North Terrace, Adelaide from the Department for Health and Wellbeing for $15 million
- inventory reductions comprising $35 million ($90 million) of inventory sold and included in cost of sales.

Inventory valuations and write-downs

In line with AASB 102 *Inventories*, the URA recognises inventory at the lower of its cost and net realisable value. The measurement of the net realisable value of inventories depends on their intended use. The URA has grouped its inventories into the following two classes:

- land held for sale requiring low capital investment. As at 30 June 2023 the carrying amount of land in this class was $231 million ($156 million). The increase was due mainly to the $64 million reversal of previous inventory write-downs due to improved market conditions for industrial land held for sale, and was determined from independent valuations
- development projects requiring significant capital investment over extended periods of time before the land can be sold. These projects may be initiated by the SA Government, which provides community service obligation (CSO) funds to partly support the costs of these projects. From 2019-20 funding for capital works on the Lot Fourteen, Bowden and Tonsley projects is provided to the URA as equity contributions. Before that all CSO funding was provided as grants.

As at 30 June 2023 the URA valued the development projects at $204 million ($135 million). The increase in 2022-23 was due mainly to the $38 million reversal of previous inventory write-downs due to the URA's increased estimated future cash inflows from the Bowden and Tonsley development projects, as well as capital expenditure of $29 million on Lot Fourteen, $12 million on Playford Alive and $5 million on Tonsley.

The following table shows the inventory write-downs and write-ups (reversals) and the investment property fair value gains and losses that have occurred over the last five years.

Inventory	2019 $million	2020 $million	Write-ups (Write-downs) 2021 $million	2022 $million	2023 $million	Carrying amount 30.06.23 $million	Land area 30.06.22 Hectares	Land area 30.06.23 Hectares
Development projects:								
Tonsley	(40)	(1)	-	-	16	36	33	29
Playford Alive	8	3	-	-	-	17	292	111
Bowden	(21)	(2)	(2)	-	22	22	9	8
Woodville West	1	2	2	-	-	-	1	-
Lot Fourteen	(63)	-	-	-	-	91	7	7
Prospect	-	-	-	-	-	9	2	2
Forestville	-	-	-	-	-	29	4	4
Land held for sale	1	-	2	-	64	231	2,897	3,044
Total inventory	(114)	(1)	2	-	103	435	3,244	3,206
Investment property	(6)	(28)	2	16	13	111	114	116
Total inventory and investment property	(120)	(29)	4	16	115	546	3,358	3,321

Note: Table may not add due to rounding.

The values shown in the table are influenced by the impact of the URA's capitalisation policy and sales forecasts on the carrying amount of long-term development projects and their net realisable value.

Sales forecasting

Development project write-downs and reversals relate mainly to changes in the cash flow models the URA uses to determine the net realisable value of its development projects. Importantly, these changes include revised revenue forecasts that occur when the URA reassesses the likely outcomes of its business strategies for these projects. The revised revenue forecasts take into account the prevailing market conditions and the extent to which the conditions are expected to continue into the future. Where market conditions are challenging for a development project, the URA sometimes modifies its business strategy to increase future sales proceeds or lower future costs. However, if it considers that its revised strategy will be insufficient to fully recover the past costs of a project, it will write it down. If there is clear evidence that market conditions have improved or the circumstances that caused the previous write-downs no longer exist, it reverses the write-downs.

Revised funding arrangements

The large $114 million net write-down of the URA's development projects in 2018-19 mainly resulted from the SA Government's revised arrangements for funding them. As previously mentioned, from 2019-20 funding for capital works on the Lot Fourteen, Bowden and Tonsley projects is provided to the URA as equity contributions rather than as CSO grants. In line with AASB 102 *Inventories*, the URA removed these amounts from the net realisable value calculations for these projects, resulting in significant write-downs.

Inventory is valued at the lower of cost and net realisable value

AASB 102 requires that the value of inventory be measured at the lower of cost and net realisable value. Cost represents the actual cost of acquiring or constructing inventories, while net realisable value represents the estimated proceeds that will be received from the sale of the inventories less any selling costs and remaining estimated construction costs.

The URA initially measures the carrying value of its inventories at their actual cost. At the end of each financial year, it estimates the net realisable value of the inventories for comparison to their carrying values. Inventory carrying values are written down when they exceed their net realisable values.

Land held for sale is classified an inventory and has a carrying value of $231 million. If these assets were not classified as inventory, they would require recognition at their fair value, estimated by the URA to be $630 million. The fair value was estimated using independent valuations over the last three years, reducing the reliability of the estimate.

Measuring net realisable value involves estimating

The net realisable value of inventory may not equal its fair value if the entity does not intend to sell the inventory in its current condition in the most advantageous market at measurement date. The URA estimates the net realisable value of its land held for sale using independent valuations of current market value less estimated selling costs. Measuring the net realisable value of large development projects is more complex. The URA determines their net realisable values by estimating the future net cash flows of the projects (before interest) and discounting them back to present values. Accordingly, inventory valuations can change from year to year because of changes that influence these estimates.

The estimated cash flows are based on the amount and timing of sales and development costs, which for some projects extend many years into the future. The URA estimates when the development of each land parcel under current strategies will be completed and its market price once developed, and also estimates the development costs, taking into account inflation. Changes to market conditions, policies or project strategies can also change the net realisable value of projects.

Liabilities

Total liabilities increased by $93 million to $552 million and reflected:

- liability increases mainly comprising:
  - SAFA borrowings increasing by $79 million to $460 million. These borrowings make up 83% of total liabilities. They are primarily required to fund property purchases, capital development costs for inventories and operating expenditure. See 'Borrowings and gearing' below for further commentary on debt management
  - the provision for income tax equivalent increasing by $21 million to $36 million, payable on the $121 million profit for 2022-23
- liability decreases mainly resulting from unearned income reducing by $10 million to $15 million, due mainly to satisfying obligations required to earn revenues received in advance in the prior year. Unearned income of $15 million includes $11 million relating to a lease premium paid by a tenant that is being amortised over the life of the lease.

Statement of Cash Flows

Cash and cash equivalents increased by $12 million to $27 million following large movements in cash flows from operating and financing activities.

Net cash used in operating activities increased by $39 million to $48 million, largely reflecting:

- payments for land purchases and development increasing by $16 million to $77 million, including the purchase of 275 North Terrace, Adelaide from the Department for Health and Wellbeing for $15 million
- income tax equivalents paid of $15 million on the prior year profit
- receipts from sales, recoveries and sundry receipts decreasing by $11 million to $76 million, mainly due to higher property sales in the prior year
- receipts from tenants increasing by $8 million to $39 million, reflecting increased tenancies and index adjustments to tenant rents.

Net cash generated from investing activities totalled $6 million for 2022-23, an improvement on the net outflow of $5 million in 2021-22. Proceeds from the sale of investment properties increased by $5 million to $6 million, while purchases of investment properties reduced by $8 million to $1 million.

Net cash provided by financing activities increased by $38 million to $55 million, largely reflecting:

- proceeds from borrowings increasing by $258 million to $264 million
- repayments of borrowings increasing by $159 million to $185 million
- equity contributions from the SA Government decreasing by $29 million to $11 million
- the dividend paid increasing by $31 million to $35 million, representing the additional dividend calculated on the final profit for 2021-22.

Further commentary on operations

The URA’s strategic and business plans

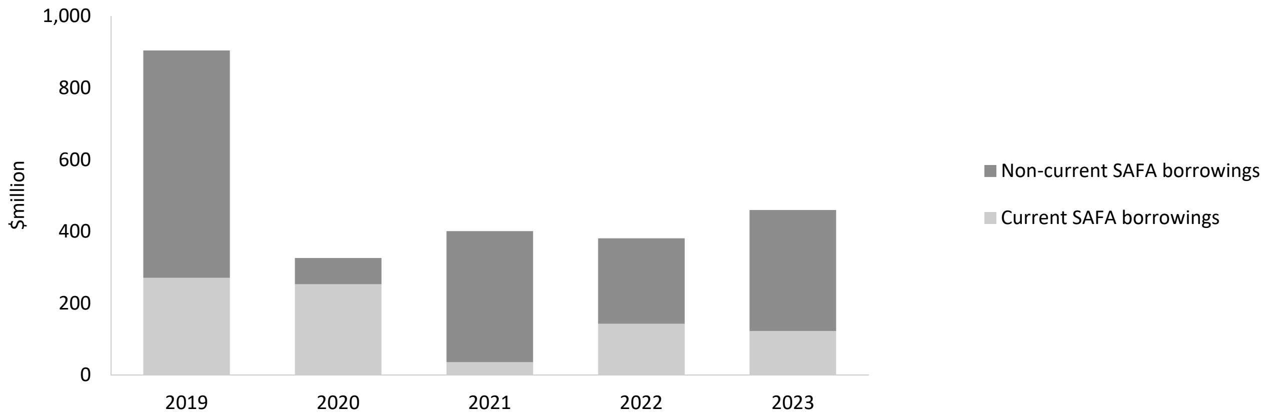
The URA Act requires the URA Board to ensure, as far as practicable, that appropriate strategic and operation plans and targets are established for the URA.

In September 2020 the URA Board approved the URA’s strategic plan for 2020–2023 and in August 2022 the URA Board noted the URA’s business plan for 2022-23. The URA Board also noted the annual business plans for each of the URA’s major development projects. The URA Board receives reporting of progress against the goals and measures in these plans. A new strategic plan for 2023–2026 was provided to the URA Board in July 2023 for noting.

Borrowings, equity contributions and gearing

The URA borrows from SAFA to fund land developments and operating expenditure. Its current business model requires a level of up-front investment in projects that result in an accumulation of borrowings, until such time as sufficient revenues are realised to progressively retire the loan.

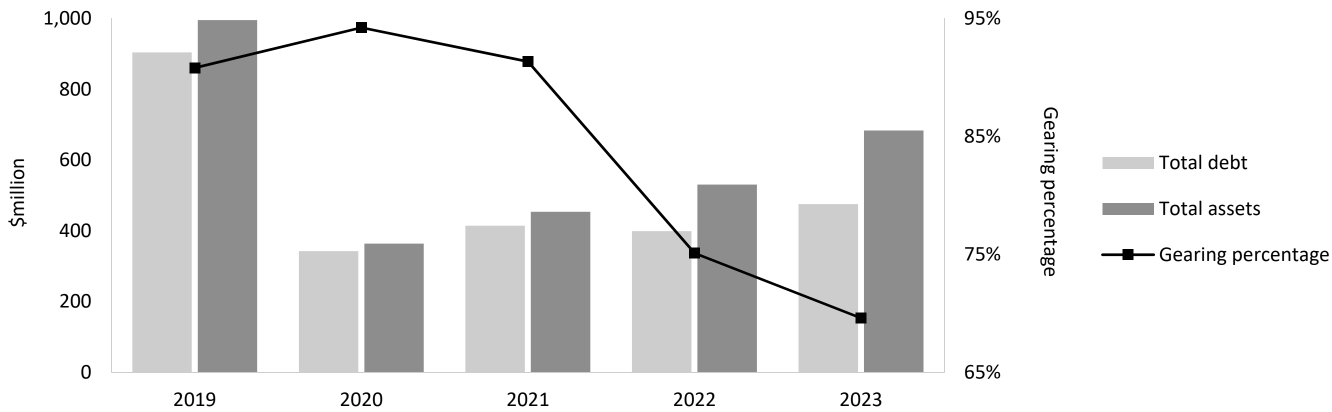
The chart below shows the value of SAFA borrowings since 2019.



The URA borrowed $400 million in 2016-17 to partly fund the purchase of TAFE SA properties from the former Department of State Development for $619 million (including $24 million in stamp duty). The SA Government provided an equity contribution of $219 million to fund the difference. The URA sold the properties to TAFE SA in November 2019 at its carrying book value of $601 million and used some of the proceeds to repay borrowings. It was not required to repay the $219 million equity contribution.

The URA's loans from SAFA at 30 June 2023 increased by $79 million to $460 million, reflecting increased borrowing activity. SAFA borrowings of $123 million will mature in 2023-24.

The chart below shows the trend in the URA's gearing ratio, measured as total debt (loans and lease liabilities) divided by total assets.



A higher gearing ratio in the private sector normally indicates a higher financial risk for lenders and investors, whereas for the URA its entire debt is guaranteed by the SA Government. Gearing as at 30 June 2023 was 70% (75%). Under the Financial Ownership Framework, the Treasurer and the Minister approved that gearing for the URA be under 90% and that, if exceeded, gearing be returned to below 90% within a reasonable period. The Treasurer also approved a performance statement for the URA that sets the gearing target at 86% for 2022-23.

Debt management and financial sustainability

The URA adopts a core debt management facility approach, consistent with other public non-financial corporations. This requires the approval of an annual debt ceiling by the Minister and Treasurer.

In August 2023 the Treasurer approved an increase in the URA's debt ceiling from $510 million to $990 million until 30 June 2026, which includes a core debt facility of $940 million and an overdraft facility of $50 million. The URA's borrowings from SAFA at 30 June 2023 were $460 million.

Status of major development projects

Lot Fourteen

In March 2018, the former Royal Adelaide Hospital site (renamed Lot Fourteen) was transferred to the URA from the then Department for Health and Ageing for $0 consideration.

Cabinet approved a publicly available Development Master Plan for Lot Fourteen in December 2019 that required it to be developed into an Innovation and Commercialisation Precinct, which will include:

- the Innovation Centre
- the International School of Culinary Excellence, Hospitality and Tourism
- the National Aboriginal Art and Cultures Gallery
- Space Mission Control
- the Space Discovery Centre.

The Development Master Plan only relates to the URA's component of the broader project, comprising mainly demolition works, refurbishing heritage buildings and delivering infrastructure and public realm works. Only the estimated costs and revenues for delivering the Development Master Plan are reflected in the URA's project budget. Construction and ownership models for the Innovation Centre, the International School of Culinary Excellence, Hospitality and Tourism, and the National Aboriginal Art and Cultures Gallery will be considered separately by the SA Government. Their estimated construction costs and revenues are not included in the URA's project budget.

Following Cabinet approval in February 2019, the former Premier delegated responsibility for the overarching management and delivery of the Lot Fourteen project to the State Project Lead, a senior employee of the Department of the Premier and Cabinet (DPC). These governance arrangements aim to provide a single point of accountability for the project, given the multiple government agencies involved. In addition to the URA those agencies are:

- DPC
- Department for Innovation and Skills
- TAFE SA
- Defence SA
- Arts South Australia
- Department for Trade and Investment
- Department of Treasury and Finance.

A Lot Fourteen Strategic Steering Committee, comprising members from some of the above agencies and chaired by the State Project Lead, helps coordinate and monitor the progress of the project.

In May 2019, the former Premier directed the URA to implement any instructions issued by the State Project Lead within specified boundaries. The Chief Executive of DPC issued the governance and operational protocols to operate between the URA and DPC for delivering of the Lot Fourteen project. The protocol specifies that, among other things, the URA is responsible for providing development services including demolition works, refurbishing heritage buildings and delivering infrastructure and public realm works, in line with the scope of works approved by the State Project Lead.

The URA expects to complete its capital component of the project by 2026-27 with sales ending in 2027-28, and estimates that its capital expenditure will be $337 million over the life of the project.

The URA's costs will be partially funded through the long-term lease of allotments, with the balance funded by the SA Government. The URA currently owns the Lot Fourteen land and redeveloped allotments and intends to sell some through long-term ground leases.

Lot Fourteen inventory is valued at $91 million ($62 million). Lot Fourteen capital expenditure was $29 million ($35 million) in 2022-23, while CSO funding received from the SA Government to fund the operating costs of managing the project, including the car park, was $2 million ($2 million).

Playford Alive

The Playford Alive project was approved by Cabinet in February 2006. The project involves renewing the suburbs of Davoren Park and Smithfield Plains and developing land at Munno Para, Munno Para Downs, Andrews Farm and Penfield. The URA delivers the renewal areas of the project for the South Australian Housing Trust (SAHT) and develops the greenfield component of the project in its own right. The URA expects that capital expenditure on the project will go beyond 2026-27, substantially ending in 2027-28, with sales and other costs continuing beyond this time.

Playford Alive inventory is valued at $17 million ($14 million). Income from inventory sales was $13 million ($19 million), while capital expenditure was $12 million ($10 million).

Tonsley

In December 2009, the SA Government approved the purchase of the former Mitsubishi Motors Tonsley Park manufacturing site at Clovelly Park. The URA is developing the site into a precinct that supports knowledge-intensive industries helping the economic growth of southern Adelaide. Land is also being developed and sold from the site. The URA expects 2023-24 to be the final year of significant capital expenditure on the project, with sales continuing beyond that time.

Tonsley inventory is valued at $36 million ($18 million). Income from inventory sales was $4 million ($19 million), while capital expenditure was $5 million ($5 million). The URA also reversed $16 million of previous inventory write-downs due to increased estimated future cash inflows based on independent valuations.

Woodville West

The Woodville West medium density residential development commenced in 2009 following Cabinet approval for the then Department for Communities and Social Inclusion to demolish outdated SAHT-owned dwellings and create new dwellings. The project was transferred to the URA in April 2012.

The Woodville West project was substantially completed in 2020-21.

Bowden

Bowden is a higher density urban infill project expected to house approximately 3,200 residents in over 1,850 dwellings, and has a substantial commercial and retail component. The URA manages land development, remediation, infrastructure works, community engagement and marketing, with the private sector purchasing vacant developed land for building construction. It expects that 2024-25 will be the final year of significant capital expenditure on the project, with sales continuing until 2030-31.

Bowden inventory is valued at $22 million ($0 million). Income from inventory sales was $5 million ($6 million), while capital expenditure was $2 million ($3 million). In 2022-23 the URA reversed $22 million of previous inventory write-downs. This was mainly the result of executing an agreement with a developer to redevelop the former gasworks site, which has increased the estimated future cash inflows.

Prospect

Prospect is a residential development on land purchased in 2020-21. The project aims to deliver 180 new dwellings with a minimum 55% affordable housing outcomes. The URA expects that 2025-26 will be the final year of significant capital expenditure on the project, with sales continuing until 2026-27.

Prospect inventory is valued at $9 million ($8 million), while capital expenditure in 2022-23 was less than $1 million.

Forestville

Forestville will be a residential and food-orientated retail development on the former Le Cornu site purchased in 2020-21. The URA has contracted a consortium to deliver the development. The project currently aims to deliver 219 high-quality apartments and 71 townhouses.

Forestville inventory is valued at $29 million ($29 million).

Deep maintenance and modification facility (DMMF)

The URA is planning to construct a DMMF in Edinburgh so defence aircraft can be maintained within South Australia. It is proposed that the URA will lease the facility to the Commonwealth Government. Capital expenditure on the DMMF was $8 million ($4 million). Total capital expenditure to date is $12 million, including $9 million of land acquisitions.

Land exchange between Commonwealth and SA Governments

In March 2023, the Commonwealth and SA Governments announced a land exchange involving land owned by the URA and land parcels owned by the Commonwealth Government. The URA expects the exchange settlement to occur in 2023-24.

Office for Regional Housing

In 2022-23 the SA Government announced the establishment of the Office for Regional Housing within URA to facilitate regional housing outcomes. A Regional Key Worker Housing scheme will be implemented and will include a pilot project for the construction of approximately 30 new houses across five regions for long-term lease to the Government Employee Housing program within the Department for Infrastructure and Transport. They will be tenanted by key government workers, including teachers, health care staff and police. If successful, the model may be expanded to other regions and sectors, including accommodation for private sector employees in key regional industries.

Adelaide Festival Plaza

In May 2016 the SA Government signed a development agreement with the Walker Corporation for the integrated development of the Festival Plaza. The development includes:

- a mixed-use development by Walker, comprising a five-level car park, 29-storey office tower, three-storey retail building and surrounding public realm
- upgrades to the Adelaide Festival Centre and civic spaces
- an upgrade to the northern entrance of the Adelaide Railway Station
- State-delivered elements of the public realm.

An agreement was also entered into with SkyCity Adelaide to facilitate the expansion of the SkyCity Casino.

Upgrades to the Festival Plaza public realm include both Walker and State-delivered components.

The Department for Infrastructure and Transport completed the State-delivered elements of the Festival Plaza public realm in 2021-22, with these assets recognised by DPC as at 30 June 2023.

Since its opening to the public in 2021-22, the following interim governance arrangements for the public realm have applied:

- responsibility for activation and marketing – Adelaide Festival Centre Trust (AFCT)
- responsibility for operations and maintenance – the URA.

A Festival Plaza Marketing and Curation Committee, comprising representatives from AFCT, SkyCity Adelaide, Walker Corporation, Adelaide Oval SMA Limited, the URA and the City of Adelaide and chaired by Andrew Daniels (Chair, Adelaide Venue Management Corporation), provides advice on the curation and activation of the Festival Plaza.

In note 32 of its financial report the URA has observed that further work is required to assign responsibility for the public realm assets and confirm the financial reporting and accounting treatment that will be applied to them.

Annexure – Agencies financial statements that we will publish on the Auditor-General's Department website

The *Public Finance and Audit Act 1987* (PFAA) requires me to publish the audited financial statements of all public authorities on a website. This is a significant accountability measure that ensures they will all be available centrally. The PFAA also allows me to publish other documents on that website, including the financial statements of agencies that are not public authorities.

Under section 36(1)(4) of the PFAA I will publish the financial statements of the following agencies on the Auditor-General's Department website (www.audit.sa.gov.au).

A.1 Agency financial statements included in this Annual Report to be published immediately after it is tabled

The following agencies are included in Part C of this report and their financial statements will be published on our website immediately after the report is tabled.

Adelaide Festival Centre Trust
Adelaide Venue Management Corporation
Attorney-General's Department
Auditor-General's Department
Barossa Hills Fleurieu Local Health Network Incorporated
Central Adelaide Local Health Network Incorporated
Child Protection – Department for
Correctional Services – Department for
Courts Administration Authority
Education – Department for
Energy and Mining – Department for
Environment and Water – Department for
Environment Protection Authority
Eyre and Far North Local Health Network Incorporated
Flinders and Upper North Local Health Network Incorporated
Health and Wellbeing – Department for
HomeStart Finance
Human Services – Department of
Independent Commission Against Corruption
Infrastructure and Transport – Department for
Lifetime Support Authority of South Australia
Limestone Coast Local Health Network Incorporated
Motor Accident Commission
Northern Adelaide Local Health Network Incorporated
Premier and Cabinet – Department of the
Primary Industries and Regions – Department of
Public Trustee
Return to Work Corporation of South Australia
Riverland Mallee Coorong Local Health Network Incorporated

SA Ambulance Service Inc
South Australia Police
South Australian Fire and Emergency Services Commission
South Australian Government Financing Authority
South Australian Housing Trust
South Australian Superannuation Board
South Australian Superannuation Scheme
South Australian Tourism Commission
South Australian Water Corporation
Southern Adelaide Local Health Network Incorporated
Southern State Superannuation Scheme
Super SA Retirement Investment Fund
Superannuation Funds Management Corporation of South Australia
TAFE SA
Trade and Investment – Department for
Treasurer's statements
Treasury and Finance – Department of
Urban Renewal Authority
Wellbeing SA
Women's and Children's Health Network Incorporated
Yorke and Northern Local Health Network Incorporated

A.2 Agency financial statements not in this Annual Report and to be published after the audit is completed

The financial statements of the following agencies that are not included in Part C of this report will be published on our website as soon as reasonably practicable after their audit is completed.

Aboriginal Lands Trust
Adelaide Cemeteries Authority
Adelaide Festival Corporation
Adelaide Film Festival
Agents Indemnity Fund
Alinytjara Wilurara Landscape Board
Art Gallery Board
Australian Energy Market Commission
Board of the Botanic Gardens and State Herbarium
Carrick Hill Trust
Coast Protection Board
Commission on Excellence and Innovation in Health
Construction Industry Training Board
CTP Regulator
Dairy Authority of South Australia
Defence SA
Distribution Lessor Corporation
Dog and Cat Management Board
Dog Fence Board

Electoral Commission of South Australia
Essential Services Commission of South Australia
Eyre Peninsula Landscape Board
Generation Lessor Corporation
Governors' Pensions Scheme
Green Adelaide Board
Health Services Charitable Gifts Board
Hills and Fleurieu Landscape Board
History Trust of South Australia
House of Assembly
Independent Gaming Corporation Ltd
Industry, Innovation and Science – Department for
Infrastructure SA
International Koala Centre of Excellence
Joint Parliamentary Service
Judges' Pensions Scheme
Kangaroo Island Landscape Board
Legal Services Commission
Legislative Council
Libraries Board of South Australia
Limestone Coast Landscape Board
Local Government Finance Authority of South Australia
Lotteries Commission of South Australia
Mamungari Conservation Park Co-management Board
Minister for Primary Industries and Regional Development – Adelaide Hills Wine Industry Fund
Minister for Primary Industries and Regional Development – Barossa Wine Industry Fund
Minister for Primary Industries and Regional Development – Citrus Growers Fund
Minister for Primary Industries and Regional Development – Clare Valley Wine Industry Fund
Minister for Primary Industries and Regional Development – Grain Industry Fund
Minister for Primary Industries and Regional Development – Grain Industry Research and Development Fund
Minister for Primary Industries and Regional Development – Langhorne Creek Wine Industry Fund
Minister for Primary Industries and Regional Development – McLaren Vale Wine Industry Fund
Minister for Primary Industries and Regional Development – Riverland Wine Industry Fund
Minister for Primary Industries and Regional Development – South Australian Apiary Industry Fund
Minister for Primary Industries and Regional Development – South Australian Cattle Industry Fund
Minister for Primary Industries and Regional Development – South Australian Grape Growers Industry Fund
Minister for Primary Industries and Regional Development – South Australian Pig Industry Fund
Minister for Primary Industries and Regional Development – South Australian Sheep Industry Fund

Murraylands and Riverland Landscape Board
Museum Board
Native Vegetation Fund
Northern and Yorke Landscape Board
Office for Public Integrity
Office for Recreation, Sport and Racing
Office of Green Industries SA
Office of Hydrogen Power South Australia
Office of the Commissioner for Public Sector Employment
Office of the Industry Advocate
Office of the National Rail Safety Regulator
Office of the South Australian Productivity Commission
Outback Communities Authority
Parliamentary Superannuation Scheme
Planning and Development Fund
Police Superannuation Scheme
Premier's Delivery Unit
Professional Standards Council
Rail Commissioner
Residential Tenancies Fund
Retail Shop Leases Fund
Rural Industry Adjustment and Development Fund
Second-hand Vehicles Compensation Fund
Small Business Commissioner
South Australian Ambulance Service Superannuation Scheme
South Australian Arid Lands Landscape Board
South Australian Country Arts Trust
South Australian Country Fire Service
South Australian Film Corporation
South Australian Forestry Corporation
South Australian Local Government Grants Commission
South Australian Metropolitan Fire Service
South Australian Motor Sport Board
South Australian Skills Commission
South Australian State Emergency Service
South Eastern Water Conservation and Drainage Board
State Opera of South Australia
State Owned Generators Leasing Co Pty Ltd
State Planning Commission
State Theatre Company of South Australia
Stormwater Management Authority
StudyAdelaide
Super SA Select Fund
Teachers Registration Board of South Australia
Transmission Lessor Corporation
West Beach Trust

Part C – General index

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