Report of the Auditor-General

Auditor-General's Department

Report 12 of 2021

Annual report
for the year ended 30 June 2021
Part A: Executive summary

Government of South Australia

[P.P.4ZA

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for the year ended 30 June 2021
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Tabled in the House of Assembly and ordered to be published, 12 October 2021

Second Session, Fifty-Fourth Parliament

By authority: S. Smith, Government Printer, South Australia

2021

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

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ISSN 0815-9157

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30 September 2021

President
Legislative Council
Parliament House
ADELAIDE SA 5000

Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

Report of the Auditor-General:
Report 12 of 2021 *Annual Report for the year ended 30 June 2021*

As required by the *Public Finance and Audit Act 1987* (PFAA), I present to you my 2021 Annual Report.

Content of this Report

This report is in four parts – Part A, Part B, Part C and Part D.

Part A: Executive summary contains this letter of transmittal, which provides the opinions I am required to give under section 36 of the PFAA, and identifies any examinations I have performed under section 32. It also summarises the key matters that should, in my opinion, be brought to the attention of the Parliament and the SA Government from our 2020-21 audits of public sector agencies. This includes significant financial outcomes, events and control matters communicated to agencies and small scale specific reviews.

Part B: Controls opinion reports our approach to the controls opinion and the outcomes from our work.

Part C: Agency audit reports is a summary of the audit outcomes for each agency included in this report. It has more detailed commentary on many of the matters in Part A and Part B. 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). If modified, the key matters causing the modification are noted. The snapshot also lists the controls opinion findings and any other audit findings for each agency. It is followed by commentary on financial administration matters for each agency that, in my opinion, are important to the Parliament and the SA Government. This commentary also contains selected financial ratios and information for assessing the agency's financial performance and significant financial transactions.

Part D: Managing climate change in South Australia is an overview of aspects of climate change management in South Australia, including recommendations based on the observations I have made.

Audited financial statements of all public authorities

The PFAA requires me to publish on a website the audited financial statements of all public authorities. This is a significant accountability measure that ensures they will all be available centrally.

In addition, the PFAA allows me to publish other documents on that website. Other documents include 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 all agencies audited by me on the Auditor-General's Department website (www.audit.sa.gov.au) as their audits are completed.

A list of the financial statements of all agencies audited by me is provided in the Annexure to Part C.

Agency financial reports not included in this Report

Not every public sector agency I am required to audit is included in this report. Some audits are continuing at the time of preparation, and some I have used my discretion to exclude. I give priority to areas I assess as important enough to be published in this report.

To strengthen accountability for their activities, I prepare a report to Parliament annually that provides a summary of the audit outcomes for the agencies not included in my Annual Report, with a particular focus on agencies with:

- a modified Independent Auditor's Report
- significant matters raised through the audit
- other matters that, in my opinion, need to be brought to the attention of the Parliament and the SA Government.

I expect this report will be completed in early 2022.

In addition, as noted above, all financial reports are published on the Auditor-General's Department website.

Auditor-General's opinions

Section 36(1)(a) of the PFAA sets out three opinions I must state in my Annual Report. I deal with each of them in this section.

In my opinion, the Treasurer's statements reflect the financial transactions of the Treasurer as shown in the accounts and records of the Treasurer for the preceding financial year.

The Treasurer's statements for the year ended 30 June 2021 will be published on the Auditor-General's Department website after this Report is tabled in Parliament.

In my opinion, the financial statements of each public authority reflect the financial position of the authority at the end of the preceding financial year and the results of its operations and cash flows for that financial year.

I give this opinion for each of the public sector agencies included in this Report.

In addition, without modifying my opinion on the financial reports of the Lifetime Support Authority of South Australia 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 2021.

In all cases where a modified opinion is given, or I draw attention to something like an inherent uncertainty, the Independent Auditor's Report explains my reason(s). This is also explained in the commentary on each of those agencies in Part C of this report.

In my opinion, the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities is sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law.

My controls opinion is not modified. We did, however, identify a range of issues from the work we performed this year. Some matters are recurring from year to year. The reported matters, are in my opinion, areas in need of significant improvement for the public sector agencies we reviewed to meet the standards of financial probity, propriety and process expected of them and, at all times, to discharge their responsibilities within the letter and spirit of the law as instrumentalities of government discharging public functions.

Part B reports our approach to the controls opinion and the outcomes from this work. Part C explains any control opinion findings made at individual agencies.

Section 32 examinations

Section 36(1)(ab) of the PFAA requires me to report on any section 32 examinations that were completed during the year and briefly describe the outcome. In 2020-21 we completed and reported on the following

- Report 15 of 2020 *Examination of the management of road asset maintenance - City of Salisbury* (published 17 November 2020). I concluded that overall the Council effectively managed the maintenance of its road assets to enable it to meet the service delivery requirements of its community. I also concluded that there were important improvements needed to ensure information is included in key documents to help make asset management decisions and keep the community better informed.

- Report 1 of 2021 *Examination of cyber security - City of Port Adelaide Enfield* (published on 2 February 2021). I concluded that, for the period December 2019 to March 2020, important internal control elements to mitigate cyber security and technology risks within the Council were not operating effectively. I did acknowledge that the City of Port Adelaide Enfield had implemented some controls over its core resource planning system.

- Report 2 of 2021 *Examination of cyber security - City of Prospect* (published on 2 February 2021). I concluded that, for the period December 2019 to March 2020, important internal control elements to mitigate cyber security and technology risks within the Council were not operating effectively. I did acknowledge that the Council has a small IT team and budgetary constraints and that it implemented some controls over its core resource planning and records management systems.

- Report 3 of 2021 *Examination of cyber security - Port Augusta City Council* (published on 2 February 2021). I concluded that for the period December 2019 to March 2020, important internal control elements to mitigate cyber security and technology risks within the Council were not operating effectively. I did acknowledge that the Council has a small IT team and budgetary constraints.

Acknowledgments

I have great pleasure in recognising and thanking my professional and dedicated staff for their complete commitment and efforts in 2020-21. The high standard of their work and commitment to their responsibilities is evidenced in the timely production and quality content of this and our other reports.

I am grateful for the professional services provided by contractors who have assisted with this year's audit program, and for the cooperation all public sector agencies gave to my staff.

I also extend my thanks to the Chief Executive of the Department of Treasury and Finance, Government Publishing SA and their staff for their part in producing this report.

Yours sincerely

Andrew Richardson
Auditor-General

Contents

1 Overview

This Annual Report presents the results from the principal part of our 2020-21 audits. Its content is designed to meet the Auditor-General's annual reporting requirement in the *Public Finance and Audit Act 1987* (PFAA). Part A is our executive summary, giving an overview of our work for 2020-21. It refers to Parts B and C of this Report and other reports we have delivered for the year. Part B reports our approach and the summary outcomes for our controls opinion work. Agency audit reports are in Part C. Part D this year reports on managing climate change in South Australia.

1.1 Introduction

2020-21 was again dominated by the global coronavirus – the COVID-19 pandemic. We included various aspects of the COVID-19 impacts on agencies in the scope of our audits and have reported on this where relevant in this Report.

Our role is to audit and report on the public finances and whether reasonable controls were exercised over the use of public money. For 2020-21 our work remained primarily about the usual public sector business, because it again made up the largest part of 2020-21 activity.

We report about whether administrative practices used in the public sector provide reasonable evidence that activities are conducted in accordance with law and with probity, integrity and effectiveness. We also provide opinions on whether financial information reported to the Parliament and South Australians is reasonable, reliable and materially correct. We obtain the evidence we need to report and form opinions from policies, processes, systems, transactions and records. These elements are fundamental to accountability, transparency and trust in the public sector. Wherever they fail to meet reasonable standards, trust in the public sector is at risk.

Because of the size of the public sector activity we audit, our work is based on seeking to understand overall control environments and on sampling transactions. We necessarily selectively target our annual program of work, seeking to ensure that it enables us to report to the Parliament on the matters of moment for the year in review.

Also given the size and nature of public sector activity, it is inevitable that we will raise audit findings and that other matters will arise. When they do and we judge that they warrant reporting to the Parliament, they usually involve relatively few transactions or very specific matters. What would be of concern is if we identified systemic issues.

We raise findings because we consider they ought to be resolved to ensure the proper use of public resources. Reporting them also raises awareness that can help to raise the standard of public financial administration generally and reduce the risk of systemic problems.

Our findings also help us to form a view about the overall reasonableness of public sector financial management practices. This is presented in the annual controls opinion.

Overall, our work this year showed that agencies successfully maintained their priority financial responsibilities to a reasonable standard through 2020-21. We have reported on some significant themes and issues we found, however, and I reiterate that these things need improvement for good public financial administration.

Our practice is now to issue reports on our work throughout the year. We have published thirteen reports since my 2019-20 Annual Report. This 2020-21 Annual Report marks the conclusion of the major agency financial audits we did for the year. We also publish an annual report update for the audits not included in this Report. We expect the update report for 2020-21 audits to be tabled in early 2022.

The rest of this introduction gives a snapshot of some of the significant public sector matters we considered in our 2020-21 audits. They substantially influenced our audit plans and work for the year. The other sections report on matters we wish to bring to Parliament's attention or that summarise and introduce matters that are reported on in Parts B and C.

1.1.1 COVID-19 in 2020-21

In June 2021 the very infectious Delta strain of COVID-19 was reported to have arrived in Australia. By late-June 2021, stay-at-home orders for community lockdowns had commenced in NSW. Lockdowns soon followed in other States and Territories. Some were still in place at the time of this Report.

South Australia had short lockdowns in November 2020 and July 2021.

We remain grateful for the public health success achieved through the COVID-19 health response measures in South Australia. The leadership and efforts of the Chief Public Health Officer and our health workers, the Commissioner of Police and our police officers, and many others has been instrumental in that. It is clear to us all that, gauging by what has happened elsewhere in the world, South Australia remains a great and safe place to be at this time.

The COVID-19 pandemic was declared a public health emergency in South Australia on 15 March 2020. Since then, pressure has built up in parts of the economy because of severely reduced economic activity and other consequences from the economic downturn and disruption, including mental health issues.

Resuming local economic and social activity and maintaining public health are the community priorities. A vaccination program is well underway throughout Australia and large parts of the world. Even so, the COVID-19 pandemic continues globally. Citizens remain concerned that their health and wellbeing is protected. Commonwealth and State Governments have the unenviable responsibility of seeking to balance health and wellbeing with economic issues as they decide the next steps in response to this pandemic.

1.1.2 Managing climate change

Part D of this Report is about managing climate change.

Events here and internationally over recent years have focused communities on the increasingly urgent need to act in response to projected risks from global warming and climate change, even as the world grapples with COVID-19. The International Panel on Climate Change recently reported that it is unequivocal that human influence has warmed the Earth's atmosphere, oceans and land with widespread, rapid changes in the air, ocean, cryosphere. We are being warned that climate change could have catastrophic economic and social consequences. We are witnessing global events that are consistent with these warnings.

In Part D I provide an overview of aspects of managing climate change in South Australia and report on some governance and accountability developments that, in my view, should be adopted.

There is a history of successes from climate change work from many years of effort and commitment by South Australians. I briefly recap some of the actions taken in this State, highlighting some specific aspects that show the successes and positive progress of our climate change risk response. South Australians may not be aware of the extensive work in progress that has developed from foundations laid many years ago.

I also report on recent developments in climate change governance and financial reporting. This is to highlight the standard becoming expected by the community generally, from entities in a position to take positive action that contributes to responding to the risk of climate change. Global standards for climate change reporting and disclosure are still being developed and settled.

I propose that these standards be adopted in the public sector at the earliest opportunity. It is reasonable to expect that reaching a mature level of appropriate reporting will take some time, perhaps years. This is because of the complexity of the task. It involves providing, across the public sector, the education and training needed to develop the necessary understanding of climate change projections, exposures and impacts and how to apply it. It will most likely require significant investment, resources and lead-time to implement across government. Agencies and their risk and assurance committees will need to receive support and to support each other with this task.

Accordingly, I recommend that the process begins as soon as possible. This would both support current plans and strategies active across the public sector, so that South Australia continues to show the care for the wellbeing and interests of all South Australians that has been so evident during the COVID-19 pandemic, and ensure that South Australia remains among the leaders in how it responds to climate change risk.

1.1.3 Health sector audits

Health is the largest SA Government sector, spending $7.4 billion in 2020-21. The demands from COVID-19, such as testing, contact tracing, medi-hotels and vaccination rollouts, again significantly affected the Health sector. The sector has identified associated costs and received further budget support to fund its response measures. We have several audit teams and contract auditors who conduct our health audits. Parts B and C of this Report provide the results of these audits.

The Health sector overview in Part C summarises some key issues of interest to us in our 2020-21 audits as well as overall activity data, covering:

- governance arrangements
- the impact of COVID-19 and SA Health's response
- financial sustainability and budget
- other significant matters
- unaudited health sector staffing and patient activity data.

1.1.4 Information technology and system changes

IT continued to receive considerable public attention. The media widely reported on attacks to infiltrate computer systems, including public systems, and other threats like scams.

Each year we focus on testing key elements of IT general controls, because IT systems are such a fundamental part of delivering public services. There is enormous reliance on them being reliable, secure and accurate. It is therefore essential that appropriate IT security practices are maintained in the public sector.

In addition to testing IT general controls, we look at developments that have occurred or are planned across the public sector and report on those systems that we consider are high risk or otherwise representative of activity for the year.

This year we published the following separate IT reports covering both the State and local government sectors:

- Report 1 of 2021 *Examination of cyber security – City of Port Adelaide Enfield*
- Report 2 of 2021 *Examination of cyber security – City of Prospect*
- Report 3 of 2021 *Examination of cyber security – Port Augusta City Council*
- Report 10 of 2021 *ICT vulnerability management in South Australian public sector entities.*

Further details of our IT general control and vulnerability management testing are provided in this Report. We regularly find examples of agencies failing to consistently maintain their IT controls. This heightens the risk that information may not be secured and managed in line with contemporary cyber security requirements.

1.1.5 Assets

In recent years we have put concerted effort into reviewing public asset management. The public sector uses and is responsible for an enormous stock of assets. Public hospitals, schools, utility and roads infrastructure and public housing are among the assets citizens use every day. Our theatres, stadiums, convention facilities and other public places are also essential elements of public infrastructure.

Land and other fixed assets subject to audit in 2020-21 were valued at around $88 billion. Billions of dollars are spent each year investing in new assets and maintaining existing ones.

Our work focusses on understanding how well assets are planned for, acquired and maintained. We found many areas where improvement is required. We also found that positive steps were being taken to address a number of the issues we have previously raised.

Parts B and C of this Report summarise the work we have done in this important area of our responsibility to Parliament.

1.1.6 Procurement

Spending on supplies and services subject to audit in 2020-21 exceeded $10 billion. Of this, significant amounts are spent on contracted services, which we discuss further in section 1.1.7. Centralised guidance for good procurement and contract management practice in the public sector has existed for years. Individual agencies are responsible for applying this guidance and managing their spending practices.

As it remains integral to public spending, we have again given significant attention to procurement and contract management. We have consistently found areas needing improvement in past audits and again in 2020-21. Parts B and C of this Report summarise our work and findings. We also released Auditor-General's Report 10 of 2020 *Passenger transport service contracts: Bus and light rail* and Report 9 of 2021 *Probity of the processes for the heavy rail service contract*.

New procurement guidance arrangements for public sector agencies operate from 1 July 2021 and are discussed in section 1.6.

1.1.7 Outsourcing and contract management

Outsourcing to the private sector is being used to provide an ever-increasing range of public services. It is operating at such significant levels that contract management needs to be demonstrated at a high level of competency consistently throughout each year in the life of these contracts.

In the last few years, outsourcing either renewed or commenced for the following major services.

Department for Infrastructure and Transport (DIT):

- Bus and light rail (tram) services: The value of these service contracts at the time of award was estimated at $3.008 billion (including GST) over their 10-year term.
- Heavy rail services: DIT has estimated the value of this contract at $1.374 billion (including GST) over the initial eight-year term, with an option to extend for a further four years at a DIT estimated value of $764 million (including GST).
- Future across government facilities management arrangements (AGFMA): For facility services estimated at a value of $300 million per annum for an initial term of five years and seven months, starting December 2021. The contract provides for another three two-year extension options. Actual spend will depend on activity.
- Road maintenance: In July 2020 the Commissioner of Highways awarded four separate road maintenance contracts for a total value of $5.1 billion (including GST). The contracts are for an initial period of seven years, with two three-year extension options.

South Australian Water Corporation (SA Water):

- Adelaide metropolitan service delivery: Two new contracts signed in 2020-21 for an initial term of four years, with two three-year extension options. The contracts have an estimated total contract value, including extension periods, of $1.162 billion. Actual spend will depend on activity.

Department for Correctional Services (DCS):

- Adelaide Remand Centre (ARC): Contract to manage and operate the ARC for seven years from August 2019 signed at a cost of $115 million. The SA Government has the option to extend the contract for a further five years.

South Australian Housing Trust (SAHT):

- Homelessness services: New contracts with a range of service providers at an estimated cost of $103 million for an initial term of two years, with two extension options of two years each for an additional $201 million.

SA Health:

- Urgent mental health: Service provider engaged to establish an urgent mental health care centre in metropolitan Adelaide. Contract for four years with an estimated total value of $14.6 million.
- My Home Hospital services: Contract for five years with a total value of $176 million to deliver a health care model.
- Patient services panel: A panel of private health facilities to help local health networks (LHNs) manage demand. 13 providers were contracted with a total estimated contract value of $680 million over eight years.

Others:

- Lotteries Commission: Appointed a Master Agent, Tatts Lotteries SA Pty Ltd, for 40 years from the end of 2012 to operate the Lotteries Commission's brands and products in return for a master agent fee.
- Motor Accident Commission (MAC): The SA Government entered into a reinsurance arrangement for the settlement and management of MAC's remaining outstanding claims liability, which at the time the arrangement commenced had a value of $756 million.

Our audits this year have highlighted a range of issues concerning contract management. Agencies generally need to lift the maturity of their contract management practices to be able to demonstrate that the appropriate proficiency for managing this public expenditure is achieved and consistently applied. We did also find where a sound contract governance framework was established for new contracts. Part B provides a summary of the contract management matters we raised. Part C reports our findings for individual agencies.

1.2 What we do

This section gives an overview of our annual audit work. I trust this will help to assure the Parliament of the breadth of our work.

We perform several types of audits annually to meet our responsibilities under the PFAA. These audits and where we will generally report the outcomes is summarised in figure 1.1.

Figure 1.1: Our audits and how we report on them

Annual financial statement audits	• The PFAA requires the Auditor-General to provide opinions on whether public authorities' financial statements reflect the financial position, results and cash flows of that financial year. • We perform this work in line with Australian Auditing Standards. This requires us to identify and assess the risks of material misstatement to a public authority's financial report and design an audit program addressing these risks, inclusive of controls and other procedures to gather sufficient audit evidence to form our opinion. • Findings of our 2020-21 audits are detailed in **Part C** of this Report. A separate report on the agencies not included in this Report will be issued early in 2022.
Annual controls opinion audit	• The PFAA requires the Auditor-General to provide an opinion on whether the controls exercised by the Treasurer and public authorities are sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law. • Annually we use the criteria reported in **Part B** of this Report to identify a program of work that informs the opinion. This criteria is based on quantitative and qualitative considerations across all public authorities we audit. • Our 2020-21 program and significant outcomes are reported in **Part B** of this Report. Individual agency matters are then further detailed in **Part C**.

Performance audits	
Performance audits	• The PFAA enables the Auditor-General to conduct performance audits which involve examining the efficiency, economy and effectiveness with which a public authority uses its resources. • These are in-depth reviews performed with the objectives of contributing to public accountability and improvement in public sector governance. • Each year we identify a range of topics for potential review and prioritise them based on criteria such as the significance and risk, potential benefits and impact, auditability and previous audit findings relating to the topic. • Our performance audits are reported in individual reports to Parliament throughout the year.
Local government examinations	• The PFAA authorises the Auditor-General to conduct examinations of the accounts and activities of a publicly funded body, project or local government indemnity scheme. • There is a broad scope and discretionary power of examination by the Auditor-General. • Each year we identify a range of topics for potential review and prioritise them based on a set criteria such as the significance and risk, potential benefits and impact, auditability and previous audit findings relating to the topic. • Our local government examinations are reported in individual reports to Parliament throughout the year.

We also perform examinations at the request of the Treasurer or the Independent Commissioner Against Corruption. We received no requests in 2020-21.

1.2.1 Financial controls are considered in all our work

Our controls opinion approach involves planning our program from a whole of government perspective. Our 2020-21 program and its outcomes are reported in Part B.

We focus our attention on controls over areas of importance across the whole of government based on the criteria explained in Part B. This means we can direct our limited resources to the areas we consider most significant.

This approach means we are likely to focus our annual controls program mainly on similar areas in similar agencies from year to year. This is because in most years the level of activity and spending for the largest parts of government activity, like payroll and goods and services, do not change. It does not mean we do not look at controls across all public authorities. We also review them through our focus on selected areas each year and through our financial report and performance audits.

Some of our findings from our 2020-21 controls opinion program include the following:

- The maturity of contract management processes needs to improve to ensure contracts are managed effectively, risks are properly addressed and contract performance is properly assessed.
- Procurement processes need to improve, with instances of inadequate or missing documentation supporting key procurement decisions and processes.

- There are opportunities to improve asset management processes for large infrastructure agencies, with gaps in asset management planning, condition assessments and the oversight of assets under contract arrangements.
- Agencies that participate in the AGFMA need to ensure they have asset management plans in place and asset condition assessments are provided.
- In some cases, employment screening requirements needed to improve to ensure compliance with legislation and agency policy, particularly when employees are working with vulnerable members of the public.
- Performance management processes for staff continue to need improvement.
- Some key payroll processing controls need to improve.

1.2.1.1 Financial report audits

The PFAA requires the Auditor-General to provide opinions on whether public authorities' financial statements reflect the financial position, results and cash flows of that financial year.

To meet this mandate and our professional auditing obligations, we identify and assess the risk of material misstatement of a financial report.

To do this, we are interested in controls relevant to identifying and assessing the risks of material misstatement, whether due to fraud or error, in the financial report. Reviewing controls is one way we can design and implement audit responses to the assessed risks.

As professional auditors, we are required to understand the agency and its environment, including its internal controls. We are also expected to take a controls reliance approach, where possible, to gathering sufficient and appropriate evidence to form our opinion. This is regarded as the most efficient and effective audit approach.

Auditors are required to understand internal controls that are relevant to the audit. Not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgement whether a control, individually or in combination with others, is relevant.

Indeed, we have found that many controls that are vital to whether a transaction is conducted properly and lawfully, may not affect whether the transaction is materially misstated in a financial report.

Any findings we identify from our review of controls are communicated to the agency through a procedural fairness process, which confirms the factual accuracy of the finding. Our more significant findings and any agency responses to them are detailed in Part C.

For those agencies not included in this Report, a separate update to the Annual Report will be issued in early 2022.

1.2.1.2 Performance audits

The PFAA authorises the Auditor-General to conduct performance audits, which involve examining the efficiency, economy and effectiveness with which a public authority uses its resources.

These are in-depth reviews of the performance of an activity, IT system or other area of importance identified at the Auditor-General's discretion. They may involve reviewing controls.

Any controls findings we identify from our performance audits are communicated to the agency through a procedural fairness process, which confirms the factual accuracy of them. Our findings and the agency's responses are detailed in separate reports to Parliament throughout the year.

1.2.2 Changes to the Public Finance and Audit Act

The Statutes Amendment (Local Government Review) Bill 2021 passed Parliament and was assented to in August 2021. The Bill includes the following significant changes that will impact my mandate under the PFAA:

- discretion to undertake an audit of the accounts of a publicly funded body (such as a council) and the controls exercised by a publicly funded body in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities
- discretion to conduct high-level reviews of the accounts or the efficiency, economy and effectiveness of a publicly funded body, publicly funded project or local government indemnity scheme. High-level reviews are less onerous and resource intensive than examinations
- discretion in preparing a report. Other than a review requested by the Treasurer or the Independent Commissioner Against Corruption, the Auditor-General now has the discretion to prepare a public report setting out the results of a review of a publicly funded body, publicly funded project or local government indemnity scheme
- to protect the confidentiality of the audit process in local government, a maximum disclosure penalty of $5000 or imprisonment for two years
- explicit authority to publish supporting documents or information (including data) related to our completed review work as an annexure on our website.

It is important to note that the PFAA continues to prescribe that the priority I give to a particular matter in carrying out my audit functions is entirely at my discretion. Our audit planning process considers various factors, including relative risk, financial materiality, impact on the public finances and public interest. I decide our priorities from this process.

1.3 Outline of the next sections and changes since last year

Sections 1.4 to 1.10 contain the specific matters I wish to bring to the attention of Parliament and the SA Government.

Section 2 summarises the more significant financial outcomes and events for individual agencies in 2020-21.

Section 3 provides commentary and findings from other reviews we performed in 2020-21.

Section 4 is a summary of key disclosures for large general government organisations

Section 5 summarises the key items in the Treasurer's statements for 2020-21.

Beyond this Annual Report, we also have individual performance audits and examinations in progress and will report on them as soon as the work is complete. They are:

- the State finances and related matters
- ICT project reviews – cloud computing
- various aspects of health.

1.3.1 Change to reporting of agency FTE figures

Each year in Part C we report the number of staff (FTEs) in each agency. In consultation with the Office of the Commissioner for Public Sector Employment (OCPSE), this year we have agreed to report agency FTE figures based on data provided by OCPSE. This is a change from our previous practice of using data provided by each agency.

We have made this change to ensure a level of consistency in the approach taken to the calculation of FTE data. OCPSE has established processes to calculate and collect this data from agencies for its annual workforce information reports. We agreed to use this data for FTE reporting from now on.

As a result of this change, FTE numbers we have reported in Part C this year may not be directly comparable to those we have reported in previous years.

1.4 Access to Cabinet records

In this section I inform the Parliament about progress on the matter of accessing documents. I have been reporting to Parliament about this for some years.

In March 2019 the SA Government authorised a new policy on the disclosure of documents to investigative agencies, including the Auditor-General. The policy is set out in Premier and Cabinet Circular 047 *Disclosure of Cabinet documents to investigative agencies* (PC047). Cabinet documents are defined to include:

- Cabinet submissions
- any other document prepared for use in Cabinet (including a Cabinet note or a briefing prepared specifically for a minister to use in discussing or taking a position on a matter in Cabinet, such as agency comments and the policy briefings prepared by Cabinet Office).

PC047 allows the Auditor-General to request access to Cabinet submissions only, not all Cabinet documents. These requests are subject to the approval of the Premier. The Auditor-General is not permitted access to costing comments attached to a Cabinet submission or to Cabinet notes.

Since PC047 was released, I have made numerous requests for Cabinet submissions and they have been granted.

I have also requested access to some Cabinet notes, notwithstanding the policy. I did this when I understood the Cabinet notes had information I needed to understand the authority for or terms of a transaction. I have not been given the access to Cabinet notes that I have requested. This is consistent with the policy.

In 2020-21 I requested Cabinet notes to evidence the approval for nine projects for the Regional Growth Fund administered by the Department of Primary Industries and Regions (PIRSA). The Department of the Premier and Cabinet (DPC) declined my request on the basis that Cabinet notes do not contain approvals.

As a result, we have not been able to evidence that the nine projects were properly approved. We understand that PIRSA has now offered these grants and, in some cases, funding deeds have been executed.

None of these transactions were sufficiently material for me to modify my audit opinions, however not being able to access the documents I need has impeded my audit.

I previously reported to Parliament that I acknowledge that the confidentiality of Cabinet deliberations is an established and accepted convention in the Westminster system of government. I fully respect the convention’s purpose to support collective responsibility and full, frank and confidential exchange in Cabinet.

It is nonetheless essential that I report to Parliament any limitations to completing the audit responsibilities I am charged with.

1.5 Governance in the public sector

Governance arrangements operating in the public sector change from time to time as organisational arrangements or activities change.

There are three matters I would like to highlight this year.

Health boards have operated for two years now, and governance of the public health system has continued to evolve

From 1 July 2019, following the amendment of the *Health Care Act 2008* (HC Act), the governance and responsibility for delivering public health services was devolved to LHN governing boards. These governing boards have full responsibility for providing health services in line with the HC Act and performance agreements established with the Chief Executive of the Department for Health and Wellbeing (DHW).

On 8 June 2021 the South Australian Parliament passed the *Health Care (Governance) Amendment Act 2021,* which amended the HC Act from 23 August 2021. These amendments further support the SA Government's decentralisation of the public health system. Among other matters, the amendments included changing the function of the Chief Executive of DHW to reflect DHW's role as system leader, formalising provisions for service agreements, clarifying workforce responsibilities and minor amendments to reflect the governance and accountability arrangements.

An overview of SA Health governance arrangements is provided in Part C in the Health sector overview and in the sections for each of the health authorities.

Lot Fourteen

Governance arrangements started to be established for Lot Fourteen in February 2019. I mention them here because they were established given the scale and complexity of the project, which involves several government agencies. In response, the SA Government approved a new project management and governance structure for the Lot Fourteen project and precinct development. The Premier became the Minister responsible for Lot Fourteen and delegated responsibility for the overarching management and delivery of the project to the State Project Lead, a senior employee of DPC. The State Project Lead reports to the project sponsor (the Deputy Chief Executive of DPC) who reports to the Premier.

These governance arrangements aim to provide a single point of accountability for the project given the multiple government agencies involved. A Lot Fourteen Strategic Steering Committee, comprising members from some of the agencies involved and chaired by the State Project Lead, helps coordinate and monitor the progress of the project.

In May 2019, the Premier provided a Ministerial Direction to the Urban Renewal Authority (URA) to implement any instructions issued by the State Project Lead within specified boundaries. In February 2020 the Chief Executive of DPC issued a protocol clarifying the governance and operational arrangements between the URA and DPC for delivering the Lot Fourteen project. The protocol specifies that, among other things, the URA is responsible for providing development services including demolition works, refurbishment of heritage buildings, delivery of infrastructure and public realm works, in line with the scope of works approved by the State Project Lead.

The health governance changes discussed above and the arrangements established for Lot Fourteen are two recent examples of specific and detailed responses to governance for complex matters involving multiple government agencies.

Governance and climate change management

Part D of this Report covers aspects of climate change management, including governance. I mention this here because of the nature of the task involved. Climate change is a pervasive risk that affects the whole public sector. Part D explains the legislative provisions and responsibilities. It also notes the current government *Climate Change Action Plan 2021-2025*. The Department for Environment and Water has established cross-agency governance, monitoring, evaluation and reporting arrangements for the Action Plan which aim to ensure accountability for its implementation.

I acknowledge that the governance arrangements for the Action Plan have only recently started operating.

Looking ahead, and again acknowledging my earlier observation that climate change management is developing and can be expected to take some years, I point out the formality of the health and Lot Fourteen governance arrangements as ways that cross-government activities can be governed. These examples may be of interest in the future depending on the demands experienced in managing climate change.

1.6 Changes to procurement rules for 2021-22

In my last Annual Report, I highlighted that Parliament had considered a bill to abolish the State Procurement Board. The *State Procurement Repeal Act 2020* came into effect from 1 July 2021. From that date the State Procurement Board was abolished and the rules governing much of the public sector's procurement arrangements changed.

A new Treasurer's Instruction 18 *Procurement* (TI 18) was introduced and is now the basis for the rules that govern much of the public sector's procurement activity. TI 18 applies generally to public sector agencies from 1 July 2021, with the exception of those that were previously prescribed public authorities under the *State Procurement Act 2004,* such as SA Water, the SAHT and the URA. They will apply the requirements of TI 18 from 1 July 2022.

Construction procurement will also come under the new framework from 1 July 2022.

These changes to the procurement rules follow on from previous reviews of public sector procurement arrangements by the South Australian Productivity Commission and the Statutory Authorities Review Committee of Parliament.

TI 18 has a number of objectives:

- to promote good governance, contract management, transparency and recordkeeping by public authorities in relation to procurement
- to promote compliance with whole-of-government procurement policies
- to provide for reporting to the Department of Treasury and Finance (DTF) about procurements
- make chief executives responsible for procurements at their agency and for determining agency-specific procurement arrangements.

Where the State Procurement Board previously established limits on procurement activity authority for public sector agencies, responsibility for procurement now sits with agency chief executives.

TI 18 is supported by four policies established by Procurement Services SA, the area in DTF that now oversees procurement policy. They are:

- a procurement governance policy

- a procurement planning policy
- a sourcing policy
- a contract management policy.

Each is established by the authority of TI 18. They are further supported by schedules, guidelines, templates and tools established by Procurement Services SA.

A new requirement of TI 18 that will provide improved oversight and aims to contribute to better procurement planning, is the requirement for a 24-month forward plan of planned procurement activity.

Within this overall framework, each public sector agency now has its own procurement framework, reflecting the requirements of TI 18 and associated policies. In 2020-21, agencies submitted their new frameworks to Procurement Services SA. This gave Procurement Services SA time to review the proposed approaches and provide feedback before agencies commenced procurements under the new arrangements in 2021-22.

Fundamentally, the changed arrangements do not mean that the principles governing procurement in the public sector have been substantially changed. The frameworks now in place are new, with some differences, and accountability for procurement now sits more clearly with agency chief executives. However, these changes do not alter the fundamental principles that public sector procurements should be fair, have appropriate probity, accountability and transparency, and should seek to obtain the best value for money.

To these principles, the new procurement governance policy now adds:

- supporting and strengthening collaborative relationships
- maximising the opportunity for South Australian business participation
- promoting innovation through outcomes-based procurement.

As noted, procurement is a key part of our audit work. Parts B and C provide our findings and recommendations based on the previous procurement rules that applied in 2020-21.

In our 2021-22 audits, apart from those agencies that do not have to apply these new requirements until 1 July 2022, we will adapt our audit programs to consider TI 18 and the associated requirements. Part D includes some observations about the new procurement rules as they apply to managing climate change.

1.7 Financial reporting outcomes in 2020-21

Thanks to the success of the response to COVID-19 in this State, our work was able to continue. We received all agency financial statements in the usual time frames and are on track to complete audits as we have in other years.

Liabilities for insurance and injury scheme provisions rose significantly in 2020-21

The SA Government operates significant insurance and injury schemes for workers and accident victims, and self-insures some of these activities. The main agencies involved are the Return to Work Corporation of South Australia (RTWSA), Lifetime Support Authority of South Australia (LSA), South Australian Public Sector Workers Compensation Scheme through the Office of the Commissioner for Public Sector Employment and the South Australian Government Financing Authority's (SAFA's) insurance division. DHW also manages claims for amounts up to an agreed amount (the SAFA deductible). SAFA provides the balance of funding for claims in excess of the deductible.

Each year, the value of liability provisions for these obligations is estimated, to provide the basis for deciding fee and investment strategies and to make other decisions. Uncertainty in this estimate continues to particularly affect RTWSA and the LSA because of the relative newness of their insurance arrangements. Despite this uncertainty, the estimation approach is designed to be sufficiently reliable to estimate the value of the liabilities.

In 2020-21, RTWSA's and the LSA's estimated provisions increased significantly. Neither scheme was fully funded at 30 June 2021. Both had a high probability of sufficiency, exceeding their respective minimum targets. Details of the schemes are provided in Part C in the sections for RTWSA and the LSA.

RTWSA's provision increased by $797 million, mainly attributed to additional costs of $584 million due to a decision 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). RTWSA has applied for special leave to appeal the Summerfield decision to the High Court of Australia.

The LSA's provision increased by $590.8 million to $1.197 billion at 30 June 2021 because LSA changed the basis of discounting when estimating the provision. It stopped using long-term rates, adopting a risk free discount rate for the first time.

It is interesting to note the position of the State insurance and injury schemes at 30 June 2021 compared to 30 June 2014. From that year, significant changes occurred:

- The SA Government announced that it would move to cease the Motor Accident Commission's role as the sole provider of CTP insurance in South Australia (it ended on 30 June 2016).
- The SA Government created the LSA.
- The *Return to Work Act 2014*, proclaimed in December 2014, commenced. On 2 February 2015 the WorkCover Corporation of South Australia was reconstituted as the RTWSA. The legislative changes, coupled with initiatives to get claimants back to work more promptly, resulted in a $1.3 billion decrease in the net outstanding claims liability.

Another major change after 2013-14 was the introduction of entitlements to Additional Compensation with the South Australian Public Sector Workers Compensation Scheme. This provides continuing benefits to employees and prescribed volunteers who have suffered eligible work-related injuries and whose entitlements ceased under the statutory workers compensation scheme. The provision for both schemes is based on an actuarial assessment provided by a consulting actuary engaged through the Office of the Commissioner for the Public Sector Employment. The provision is apportioned over all agencies and details are reported in agency financial statements. The total provision for the Public Sector Workers Compensation Scheme, excluding Additional Compensation, increased from $425 million in 2013-14 to $538 million at 30 June 2021. The Additional Compensation provision did not exist in 2013-14. At 30 June 2021 it was estimated to be $102 million for all the agencies it covers.

The following tables show the relative positions of the schemes. The four years shown were selected to highlight:

- the changes from 2013-14 to 2014-15, when scheme changes commenced
- the changes from 2019-20 to 2020-21, from recent events
- the differences from 2020-21 to the two earliest years.

Figure 1.2 shows that total outstanding claims or scheme provisions for all the schemes discussed increased from $6.7 billion at 30 June 2014 to $7.3 billion at 30 June 2021.

Figure 1.2: Total provisions for all schemes

	2013-14 $million	2014-15 $million	2019-20 $million	2020-21 $million
Total provisions	6 747	5 325	6 184	7 338

Figure 1.3: Net assets position for the three main schemes – RTWSA, LSA and MAC

	2013-14 $million	2014-15 $million	2019-20 $million	2020-21 $million
Net assets	164	1 268	330	(357)

It is important to note that since 2014-15, the Motor Accident Commission has returned $2.5 billion to the Highways Fund and Consolidated Account.

Looking at RTWSA, the LSA and MAC, net assets have decreased from $1.27 billion at 30 June 2015 to a net deficiency of $357 million at 30 June 2021, noting the returns from MAC, the high state of sufficiency of the funds and that RTWSA is appealing the Summerfield decision.

The increase in net assets in 2014-15 was because of the changes to workers compensation that created the RTWSA. The decrease in net assets for 2020-21 was because of the increase in RTWSA and LSA provisions described above.

The provisions of other schemes are incorporated into the financial positions of agencies and are regarded as funded.

Public sector employee benefits expenses are influenced by rising interest rates

A large proportion of the State's financial liabilities are employment, insurance or other injury obligations. They are valued by annual estimation processes for financial reporting. Those processes all involve estimating when and what value of financial payments will be made over the time it takes to fully pay out the liability. Some liabilities, mainly insurance claims, and employee benefits including superannuation and long service leave, involve many payments over many years. The estimated payments are then discounted by prevailing interest rates to take account of the time value of money and produce an estimated value now.

Interest rates have fallen to historic levels in recent years. As they fall, the effect on estimating liabilities is that the values rise. Because interest rates are so low, the value of liabilities reported are at very high levels. Critically, there is no change in the nature of the underlying liability despite this change in values.

In 2020-21, the long service leave liability for many agencies decreased because of an increase in the discount rate applied. The discount rate used is the yield on long-term Commonwealth Government bonds. These have increased across the board, with the specific increase varying between different types of agencies. Generally, increases were between 0.5% and 0.75% when compared to the previous year.

The Reserve Bank of Australia expects interest rates to remain low in the short to medium-term. When and as they rise, the employee liabilities may reduce accordingly, depending on other factors at the time.

The other important effect of the estimation process is that it influences total employee expenses reported by individual agencies.

Accordingly, it is important for readers to review the notes to financial reports to properly understand how the elements that comprise the total move from year to year. Salaries and wages are the actual payments to employees each year. The trend in salaries and wages can be quite different to employee benefits expenses because of estimates for long service leave and workers compensation from year to year.

To illustrate, extracts from the financial statements of the two largest agencies in the public sector show the movements for 2020-21.

Figure 1.4: Movements in employee expenses in 2020-21

	2020-21 $million	2019-20 $million	Increase $million	Increase %
DHW:				
Salaries and wages	3 519	3 355	164	4.9%
Long service leave	35	88	(53)	(60.0%)
Employee benefits expenses	4 394	4 247	147	3.5%

	2020-21 $million	2019-20 $million	Increase $million	Increase %
Department for Education:				
Salaries and wages	2 210	2 135	75	3.5%
Long service leave	51	58	(7)	(12.1%)
Employee benefits expenses	2 655	2 588	67	2.6%

1.8 Referring projects to the Public Works Committee

Section 16A of the *Parliamentary Committees Act 1991* (PC Act) requires agencies to refer any public work to the Public Works Committee if the total amount applied for construction is expected to exceed $4 million. Agencies cannot apply funds to the actual construction of any such public work until the Public Works Committee has presented its final report on the project to the appointing House or published it under section 17(7) of the PC Act.

In June 2019 I wrote to SA Water noting that it had incurred expenditure to procure goods and services for the Zero Cost Energy Future project before the Public Works Committee presented its final report on the project. This project met the definition of a public work for the purposes of the PC Act.

SA Water subsequently sought advice on the correct interpretation of section 16A of the PC Act, which states:

> *(1) Subject to subsection (3), a public work is referred to the Public Works Committee by force of this section if the total amount to be applied for the construction of the work will, when all stages of construction are complete, exceed $4 000 000.*
>
> *(2) No amount may be applied for the actual construction of a public work referred to in subsection (1) unless the work has first been inquired into by the Public Works Committee under this Act and the final report of that Committee on the work has been presented to its appointing House or published under section 17(7).*

Of relevance is the interpretation of the words 'actual construction', together with the definition of 'construction' in section 3 of the PC Act.

SA Water advised me in May 2020 of two reasonable interpretations for section 16A of the PC Act:

- That the prohibition in section 16A only applies where the acquisition and installation of fixtures, plant or equipment occur together, meaning agencies are free to procure the goods and services necessary for a project without waiting for the Public Works Committee to complete its inquiries.
- That Parliament intended for all components that make up a public work to be subject to Public Works Committee scrutiny, meaning that agencies are prohibited from committing any money on a public work until the Committee has completed its inquiries and submitted its final report.

If the second interpretation applies, the timing of complex and significant procurements and the efficiency of project implementation are likely to be affected.

I brought this matter to the attention of the Attorney-General in September 2020. Clarity is important so that agencies can implement appropriate controls to ensure they comply with the law.

In May 2021 the Attorney-General advised me that she had consulted with the Public Works Committee and DIT on this matter, and that she had deferred consideration of amending section 16A of the PC Act until next year.

1.9 Changing audit methodologies and resource demands

The Auditor-General's Department has a unique role, with the responsibility and opportunity to oversee virtually all public sector activity. Every year it is the task of about 100 auditors, supplemented by contract auditors and supported by our corporate staff, to conduct various audit tasks to give audit opinions for about 150 separate organisations across a sector of 109 000 staff, revenue of $26 billion each year and spending activity exceeding $28.6 billion. We also perform in-depth audits for some activities and selected examinations in the local government sector.

In 2020-21 all our financial audits were performed using the new methodology we piloted last year. We acquired it from a private sector auditing software firm, and it is also being adopted or trialled by some other audit offices in Australia. The financial audit is the work we do to issue an independent auditor's report for every agency financial report.

We needed to replace the methodology following the end of support for our former audit methodology and software. This typically occurs every seven to eight years.

Updating the methodology is also consistent with one of our goals. This is to ensure we adopt or maintain modern audit practices so that we remain relevant to the Parliament and the public and sit comfortably beside other compliance agencies, ensuring high standards of integrity and accountability across the South Australian public sector.

Over the last six years we have reviewed, updated or introduced methodologies and techniques for:

- financial report audits
- the annual controls opinion
- IT general controls audits
- data analytics
- performance audit and local government sector examinations
- how we report on all our audit work to Parliament.

Our Department has not been asked to find budget savings in the time I have been Auditor-General, and we received some funding for statutory passenger transport audits. We have moved resources within our budget to respond to changing demands, while continuing to enhance our audit techniques. For example, we have adopted a new four-year strategy to advance data analytics in our audits. We are improving our practice for auditing matters of public interest that should be brought to the attention of Parliament and the SA Government, and for the effectiveness mandate Parliament granted me under amendments to the PFAA in 2018. We also need to now begin readying for the climate change governance and reporting outcomes discussed in Part D. As noted, this is expected to be complex and to take time to develop across the public sector.

From year to year, the Auditor-General also receives inquiries from the public and members of Parliament to consider specific matters. In 2020-21, we received more of these inquiries than in most other years. This highlighted the challenge for us to dedicate time to these matters. Our audit plans are prepared at the start of each year, and generally a relatively small amount of time is available for discretionary work replacing or beyond that planned. We complete about 150 financial report opinions annually and the controls opinion work each year. Professional auditing standards require significant activities to be performed for each audit. This reduces the amount of time available for other work.

The other influence on us is that performance audits and examinations typically are in-depth audits. They involve significant lead times to initiate and then generally significant resources to complete. Changing from these plans is difficult.

As the nature of how public sector activities are delivered changes and as the extent of activity grows, it is challenging for us to cover the expectations of us within our current funding. A relatively small increase in our resourcing would mean we could better meet the demands for audit coverage and continue to meet our professional audit obligations. I will take this up with DTF in the next budget cycle.

The $4 million threshold in the *Passenger Transport Act 1994* (PTA)

In February 2021 I tabled Auditor-General's Report 4 of 2021 *Passenger transport service contracts: Heavy rail,* about progress on that audit. I also reported that a statutory requirement in the PTA to audit low value public transport contracts as they occur is likely to result in the Auditor-General being unable to assign resources to other concurrent, more material transactions by value or nature. Several regional contracts will soon lapse. It is likely that recontracting some will exceed the $4 million PTA threshold for an audit.

I mention this again as, without amendment to the PTA, we will perform the necessary audits. This will mean limiting the discretionary audits we can do in that period. The information we provide in this Report on capital projects, outsourcing arrangements and significant vendors are examples of areas we would not be able to spend audit time. I remain of the view that, with respect, this warrants consideration by Parliament.

1.10 Public finances

Estimated net operating result for 2020-21 is better than budgeted

The 2021-22 State Budget estimated result for 2020-21 is a net operating deficit of $1.8 billion. This compares to a $2.6 billion deficit estimated in the 2020-21 State Budget.

The $1.4 billion improvement compared to the original budget is mainly due to higher than budgeted revenues for GST revenue grants and taxation revenue.

I will report on our review of the Consolidated Financial Report for 2020-21 as soon as the report is available and we have completed our audit.

I will also deliver a separate report on the State Finances and related matters in October 2021.

1.10.1 Treasurer's statements for 2020-21

The Treasurer's statements reflect the financial transactions of the Treasurer as shown in the accounts and records of the Treasurer. The main public accounts are the Consolidated Account, special deposit accounts and deposit accounts established under the PFAA.

The Consolidated Account is credited with all revenue of the Crown that is not authorised by law to be credited to any other account. Money must not be issued or applied from the Consolidated Account except under the authority of Parliamentary appropriation. There is significant financial activity outside of the Consolidated Account in approved special deposit accounts and deposit accounts.

The Consolidated Account result for 2020-21 was a deficit of $4.05 billion, $1.9 billion lower than the budgeted deficit of $5.99 billion. The lower deficit was mainly due to higher Commonwealth general purpose receipts, with total receipts $966 million higher than budgeted. Total payments were also lower than budgeted by $983 million.

Total payments from the Consolidated Account of $16.781 billion were within appropriation authority of $18.224 billion (see Statement K of the Treasurer's statements).

The balance of funds on hand in special deposit accounts ($9.119 billion) and deposit accounts ($1.173 billion) collectively increased by $1.164 billion.

The SA Government's indebtedness to SAFA increased to $20.987 billion in 2020-21 from $16.888 billion. This was mainly due to the $4.05 billion Consolidated Account deficit for 2020-21.

The Treasurer's statements are available on the Auditor-General's Department website (www.audit.sa.gov.au) and a summary of key items is provided in section 6 of this Report.

2 Significant financial outcomes and events in 2020-21

2.1 Key findings

The key findings in this section are as follows:

- RTWSA – the outstanding claims liability was $4.3 billion and inherent uncertainty associated with the Return to Work (RTW) Scheme remains high.
- LSA – Lifetime Support Scheme participants and liabilities continued to increase and inherent uncertainty associated with the Scheme remains high.
- SA Water – awarded new contracts for the provision of Adelaide metropolitan service delivery.
- SAHT – implemented a new homelessness alliance model from 1 July 2021.
- DIT – new contracts for the provision of passenger transport, facilities services and road maintenance were awarded.
- Actual Health expenses exceed the original 2020-21 State Budget by $187 million, while total income, excluding revenue from the SA Government, exceeded the 2020-21 State Budget by $84 million.
- South Australian Tourism Commission (SATC) – announced the cessation of the Superloop Adelaide 500 motor sport race.

Commentary is also provided on several other matters in this section. Part C provides more information on these matters and our other agency audits.

2.2 Insurance agencies

2.2.1 Return to Work Corporation of South Australia liabilities increased

The *Return to Work Act 2014* came into full operation on 1 July 2015. The legislative changes to entitlements, coupled with RTWSA's initiatives to get claimants back to work more promptly, have had a significant impact on the RTW Scheme. Notwithstanding the recent improvements in the Scheme, the interpretation of the legislation is still maturing and there are many challenges to interpretations currently being considered, which may have a significant impact on the Scheme.

The outstanding claims liability increased to $4.3 billion

The liability for outstanding claims as at 30 June 2021 was $4.3 billion, an increase of $797 million from the previous year. The liability was significantly impacted by the Summerfield decision, which added an additional $584 million to the liability.

The RTW Scheme actuary's projections are reviewed by an independent professional actuary engaged by the Auditor-General. Our audit did not identify any issues or variations from expected practice that required the estimate for 30 June 2021 to be adjusted in any material way.

Inherent uncertainty associated with the new RTW Scheme remains high

There is still inherent uncertainty associated with the new RTW Scheme arrangements, which may impact the liability for outstanding claims. In particular, the independent actuary noted the uncertainty regarding serious injury claims, the importance of maintaining the robustness of the Whole Person Impairment assessments and the outcome of any legal challenges. I included an emphasis of matter in RTWSA's unmodified financial report opinion, drawing attention to the uncertainty associated with the outstanding claims liability reported as at 30 June 2021.

The actuarial estimation is primarily based on the anticipated impact of the new legislation. If the RTW Scheme does not operate as intended, the cost implications may be significant, as evidenced by the impact of the Summerfield case.

The RTW Scheme is not fully funded

RTWSA had a negative net asset position as at 30 June 2021 of $349 million (compared to positive net assets of $70 million as at 30 June 2020) and a funding ratio of 91.9% (102%), which means that the RTW Scheme is not fully funded. The average premium rate in 2020-21 was 1.65% and is 1.7% for 2021-22.

The total comprehensive result for 2020-21 was a loss of $419 million

In 2020-21 the underwriting result was a loss of $419 million, after the net liability for outstanding claims increased by $797 million and premium income increased by $14 million. The net investment result increased by $401 million to a profit of $399 million. Other operating expenses decreased slightly to $54 million.

2.2.2 Lifetime Support Scheme is growing and liabilities are sensitive to change

The LSA administers the Lifetime Support Scheme and Fund for people who suffer very serious injuries in motor vehicle accidents. The Scheme started on 1 July 2014 and 2020-21 is its seventh full year of operation. It is mainly funded by a levy on South Australian motor vehicle registrations.

The Lifetime Support Scheme is growing

The Lifetime Support Scheme is growing, with the total number of participants increasing from 231 in 2019-20 to 274 in 2020-21.

The estimated future cost of caring for current participants increased to $1.2 billion

The provision for estimated future cost of caring for current participants increased by $591 million to $1.2 billion. In 2020-21 the LSA changed the basis of estimating the provision, adopting a risk free discount rate for the first time. This change added $525 million to the provision. The LSA made this change to bring its valuation in line with other lifetime care schemes and to prepare for the expected adoption of AASB 17 *Insurance Contracts* in July 2023, which requires the use of risk free discount rates.

The LSA made an operating loss of $270 million

The LSA's operating loss for 2020-21 was $270 million. The levy raised during the year was $169 million and investment revenue was $215 million (compared to a $10 million loss in 2019-20). Expenses included $26 million in direct expenses for participant care and a $591 million increase in the provision for the estimated future costs of caring for current participants.

The Lifetime Support Scheme is partially unfunded

The LSA had negative net assets of $22 million (compared to net assets of $248 million as at 30 June 2020), which means the Lifetime Support Scheme is partially unfunded as at 30 June 2021.

Significant uncertainty in the provision for future treatment, care and support costs

The value of the provision for participant treatment, care and support is pivotal to the LSA's financial position and operating outcome. The Board of the LSA determined the value of the provision after considering a report from an independent actuary. The LSA engaged a reviewing actuary to provide additional comfort about the sufficiency of the amount provided.

The liability estimate is measured as the present value of the expected future payments for claims incurred up to 30 June 2021, including claims incurred but not yet reported. Sensitivity analysis illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars. This has been evidenced this year by the impact of the change to a risk free discount rate.

Given the limited participants' experience to date and the long-term nature of the claims, there is still significant uncertainty surrounding the estimate of the provision for participant treatment, care and support services. I included an emphasis of matter in the LSA's financial report opinion to draw attention to this uncertainty.

2.3 Other statutory corporations

2.3.1 South Australian Water Corporation entered into new contracts for the provision of Adelaide metropolitan service delivery

SA Water entered into two new contracts for the provision of Adelaide metropolitan service delivery for an initial term of four years, with two three-year extension options. The contracts have an estimated total contract value, including extension periods, of $1.162 billion. Actual spend will depend on activity.

System infrastructure is valued using an income approach, which is sensitive to changes in key assumptions

SA Water's system infrastructure assets include water and sewer pipes, treatment plants, pumping stations and buildings. They deliver water, sewerage and recycled water to and from the customer through SA Water's integrated network of assets.

At 30 June 2021 these system infrastructure assets were valued at $12.4 billion.

In 2019-20 SA Water changed from a cost approach to an income approach for valuing its system infrastructure assets.

Under the income approach, SA Water measures the fair value of its system infrastructure by estimating the net future cash flows generated by all of its assets, discounted to present value using a weighted average cost of capital, and then deducting the fair value of assets that have been valued using a market or cost approach (eg land).

The discounted cash flow model SA Water uses is highly sensitive to changes in key assumptions and inputs. The following variables have the greatest impact on value:

- 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. SA Water estimates that a 0.1% increase in the discount rate would decrease the fair value of system infrastructure by $878 million
- the perpetual nominal growth rate used to determine the future growth in net cash flows, which is based on long-term inflation estimates. A 0.1% increase in the growth rates is estimated to increase the fair value of system infrastructure by $920 million
- estimates of future sustainable capital expenditure (depreciation charged on new assets) using the Essential Services Commission of South Australia's final determination as a base. If this estimate increased by $10 million, the fair value of system infrastructure would decrease by $399 million.

2.3.2 South Australian Housing Trust implemented a new homelessness alliance model

In July 2021 the SAHT implemented a new alliance model to reform Specialist Homelessness Services and Domestic and Family Violence services. The main objective of these services is to help the homeless find accommodation. Most of the previous service providers had not been exposed to a competitive tender since 2010 and had their service contracts continually extended for short terms.

The new model requires service providers to join together to form five alliances, consisting of two metropolitan Adelaide and two country alliances, and a statewide Domestic and Family Violence service alliance. The SAHT has established an Alliance System Steering Group comprising senior representation from the SAHT and each alliance to work collaboratively towards achieving the expected benefits of the new model.

New contracts were signed for the provision of homelessness services for a total value of $103 million for an initial two-year term, with two extension options of two years each for an additional $201 million.

2.4 Other agencies

2.4.1 Department for Infrastructure and Transport

New outsourcing arrangements

DIT has recently entered a range of new outsourcing arrangements, including:

- Bus and light rail (tram) services – The value of these service contracts is estimated at $3.008 billion (including GST) over their 10-year term. Bus services have been provided under outsourced arrangements for some time.
- Heavy rail services – DIT has estimated the value of this contract at $1.374 billion (excluding GST) over the initial eight-year term, with an option to extend for a further four years at a DIT estimated value of $764 million (excluding GST).
- Future AGFMA – For facility services estimated at a value of $300 million per annum for the initial term of five years and seven months starting in December 2021. The contract provides for another three two-year extension options. Actual spend will depend on activity.
- Road maintenance – In July 2020 the Commissioner of Highways awarded four separate road maintenance contracts for a total value of $5.1 billion (including GST). The contracts are for an initial period of seven years, with two extension periods of three years each.

Network assets revalued upwards by $525 million

DIT's network assets comprise its road, rail and bus track network. In 2020-21 they were revalued upwards by $525 million (2.27%) to $29.6 billion. This reflected a review of road component and structures unit rates by an independent external estimator.

2.4.2 SA Health

2.4.2.1 Financial outcome

DHW's financial report provides some budgetary reporting information, including explanations for major variances between DHW's original budget provided to Parliament and the actuals reported in its financial statements. Total actual expenses exceeded the original 2020-21 State Budget allocation to Health by $187 million, while total income excluding revenue from the SA Government, exceeded the 2020-21 State Budget by $84 million. It is important to note that budget data is not subject to audit.

2.4.2.2 Governance and accountability arrangements continue to mature

From 1 July 2019 the SA Government devolved governance and responsibility for delivering public health services to LHN governing boards. The governing boards have full responsibility for delivering public health services in line with the HC Act and performance agreements made with the Chief Executive of DHW. In 2021 further amendments to the HC Act were made to further support the decentralisation of the public health system.

DHW has a role of the 'system leader' and focusses on setting strategic direction and statewide policy, as well as the performance of the public health system through high-level direction and performance management.

To support the governance reforms, a number of governance and accountability frameworks have been implemented including a Charter of Responsibility, the SA Health Performance Framework 2020-21, the Corporate Governance Framework Summary and the Commissioning Framework.

2.4.2.3 Review of the operations of the Health Care Act

In line with section 102 of the HC Act, the Minister for Health and Wellbeing appointed an independent person to review the operations of the HC Act. The review commenced on 1 July 2021 and must be completed within six months.

2.4.3 South Australian Tourism Commission

The SATC Board, after consulting with the Premier, approved the cessation of the Superloop Adelaide 500. Reasons for cancelling the event included the uncertainty created by COVID-19 about the ability to hold the event in 2021 and the long-term decline in the event's core sport fan base. The SATC considered that it was no longer in a position to deliver a sustainable and successful event into the future. Net funding received from the SA Government for the event was redirected to the Leisure Events Bid Fund to support major new events.

3 Other reviews in 2020-21

Areas we gave specific attention to this year for focused reviews were:

- COVID-19 response
- Bushfire response
- Grant management
- Cyber security.

3.1 COVID-19 response

3.1.1 Overview

The COVID-19 pandemic began to impact globally in early 2020. In response to the emerging risk and to limit the spread of infection, various restrictions were implemented by the Commonwealth Government, SA Government and other States and Territories in Australia.

While responses varied according to jurisdiction and assessed levels of risk, common responses included restrictions on social gatherings, border controls and restrictions and limits on the types of businesses that could continue trading. The broad purpose of these responses has been to limit COVID-19 infection and transmission rates to enable health systems to build capacity to respond, research vaccinations and implement other measures to deal with the pandemic.

These responses continued in 2020-21, and South Australia had a lockdown in November 2020 as well as continuing restrictions based on the assessed levels of risk throughout the year.

In 2020-21 the focus of the State and Commonwealth Governments has included the COVID-19 vaccination rollout and the management of quarantine and testing arrangements.

In South Australia, the SA Government announced stimulus packages in March 2020 worth an estimated $1 billion. Also in March 2020, Parliament approved a Supply Bill for an unprecedented $15.3 billion to provide appropriation funding to the public service in recognition of the delay in the State Budget until November 2020, as a result of a delayed Commonwealth budget.

In November 2020, the SA Government released its 2020-21 State Budget announcing a $4 billion stimulus package in response to the challenges brought on by COVID-19. This included the previously announced stimulus in March 2020 of $1 billion. The $4 billion was announced with the expectation of leveraging more than $1 billion of additional Commonwealth funding, taking the overall stimulus above $5 billion.

In my last Annual Report I discussed the State's response to COVID-19 and highlighted some of the larger financial assistance provided to South Australians in 2019-20. In this Report I continue to discuss the State's evolving response and further financial assistance provided in 2020-21.

Some of the key South Australian and Australian COVID-19 statistics as at 30 June 2021 are shown in figure 3.1.

Figure 3.1: COVID-19 statistics as at 30 June 2021

South Australia	As at 30 June 2021[1]	Australia
807 Total cases		30,610 Total cases
0 active cases		317 active cases
232,885 Total vaccine doses administered		7,806,975 Total vaccine doses administered
1,547,556 Total tests conducted		20,684,917 Total tests conducted

[1] Data has been sourced from the Australian Government Department of Health website and is unaudited.

Since 30 June 2021, events have continued to evolve and Commonwealth and State Governments have continued to respond. South Australia had a seven-day lockdown in July 2021, with the SA Government announcing additional funding to support businesses impacted. The growing numbers of cases in New South Wales and Victoria have resulted in strict border controls between South Australia and those States, requiring an increased response from public sector agencies and impacting on, in particular, border communities.

The continuation of the vaccination rollout sees more and more South Australians receiving their vaccinations.

Restrictions in some form will continue to impact in 2021-22 and there will be continuing impacts on economies and public sector agencies.

We have conducted further work on the specific SA Government responses to COVID-19 in 2020-21. As many of the measures announced run into 2021-22 and there have been further new measures announced since 30 June 2021, our plans will continue to respond to announced programs and changes and we will include the outcomes from this work in our future reports to Parliament.

3.1.2 SA Health response

SA Health continues to play a lead role in South Australia’s response to the COVID-19 pandemic.

The Chief Executive of DHW declared a public health emergency under the *South Australian Public Health Act 2011* on 15 March 2020.

As the situation continued to change, there was a subsequent declaration on 22 March 2020 of a major emergency under the *Emergency Management Act 2004.* SA Health is the control agency for human disease under the State Emergency Management Plan and, as a result, is a critical agency in the State's response.

In this section we discuss key elements of SA Health's response to COVID-19. Further details are included in Part C under 'Health sector overview'.

SA Health established a governance process for its COVID-19 response, organised by a number of workstreams with objectives for quarantine and border control, key enablers, contact tracing, testing and surveillance. These workstreams reported to the DHW leadership team.

To help coordinate the response a State Control Centre – Health was activated on 18 March 2020. It provides overarching system planning support to the entire COVID-19 response effort.

In 2020-21 SA Health moved into the vaccine delivery phase and had three areas of specific focus:

- vaccinations – implementing a vaccination program
- quarantine and isolation – managing medi-hotel and other arrangements
- COVID-19 management – COVID-Safe Plans and compliance, contact tracing, surveillance and testing, borders and exemptions.

Other continuing areas of focus are ensuring the ability of hospitals to respond, managing enablers (eg personal protective equipment, information technology, pharmacy) and planning for vulnerable groups.

Note 1.7 of DHW's financial report outlines material costs directly associated with COVID-19 totalling $338 million, including costs incurred by DHW, the LHNs and the SA Ambulance Service Inc. These costs are split across spending on equipment, supplies and staff-related costs.

In 2020-21 DHW received a total of $66.6 million from the Commonwealth Government under the National Partnership on COVID-19 Response. The objective of this agreement was to provide financial assistance for the additional costs incurred by the state health services in responding to COVID-19. Further details of the Commonwealth arrangements are included in Part C under 'Health sector overview'.

3.1.2.1 Vaccination rollout

As at 30 June 2021 more than 232 000 vaccinations had been given to South Australians. That number has continued to rise as the collective encouragement from the Commonwealth and State Governments has intensified.

Vaccinations are being delivered through SA Government vaccination clinics and GPs.

In 2020-21 the Commonwealth Government was responsible for purchasing and providing COVID-19 vaccine doses to each State. DHW received the vaccinations free of charge. It does not recognise the value of them in its financial report.

3.1.2.2 Medi-hotel arrangements

South Australia is part of a national agreement assisting with the repatriation of returning Australians from other countries. Managing these flight arrivals is an organised and controlled process, supported by multiple government agencies. Once travellers arrive in South Australia they are moved to one of a number of medi-hotels in the State to complete mandatory supervised quarantine for 14 days. Specific safety measures are in place to mitigate the risk of COVID-19 spreading, including testing on days one, five and 12.

South Australia also has a dedicated COVID-19 medi-hotel where all positive COVID-19 cases, and anyone expected to test positive, are transferred.

Returning international travellers who purchased flight tickets after 13 July 2020 were charged a quarantine fee. These fees total $36.4 million in 2020-21. As at 30 June 2021 DHW had receipted $18.5 million, leaving receivables of $17.9 million.

Figure 3.2 shows key statistics for medi-hotel stays in South Australia at 30 June 2021.

Figure 3.2: Medi-hotel statistics to 30 June 2021

[1] All data was provided by the Department for Health and Wellbeing and has not been audited.

[2] Data only available from 1 November 2020. Where multiple individuals occupy the same room, the room is only counted once.

3.1.2.3 COVID-19 testing

A key part of managing the spread of COVID-19 is ensuring testing occurs regularly. SA Pathology is primarily responsible for this, establishing a range of testing sites across metropolitan and regional areas. This included an Australian-first drive-through testing clinic at the Repatriation Health Precinct, and then more drive-through facilities.

Testing sites were established at major hospitals and in key regional areas, with mobile testing capability also developed.

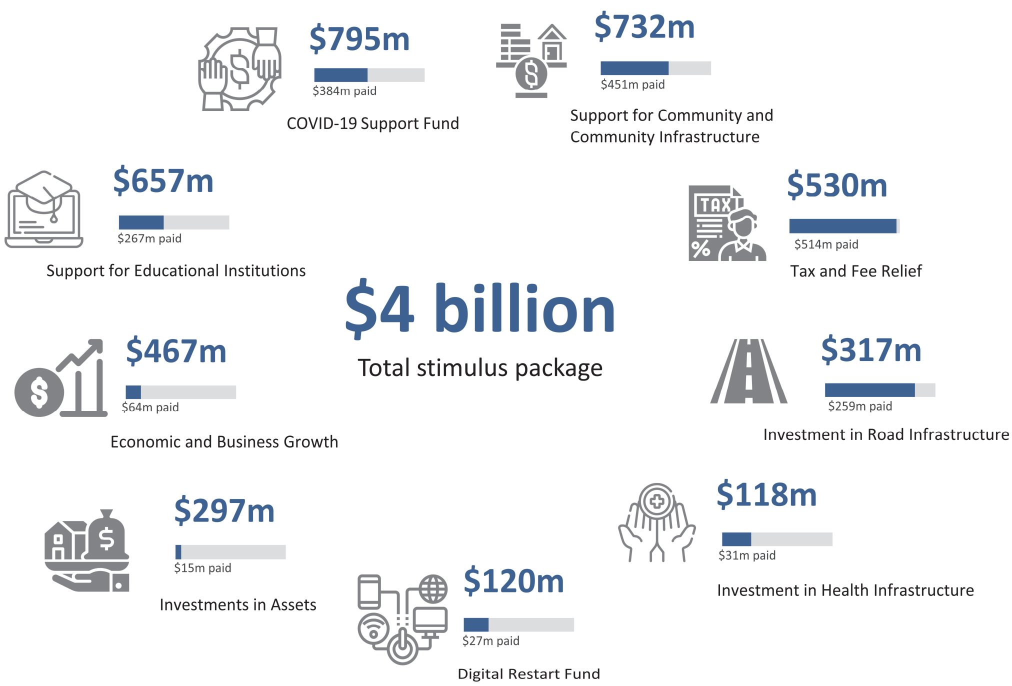
At 30 June 2021 approximately 1.5 million COVID-19 tests had been conducted in South Australia by SA Health and external laboratories.

3.1.3 SA Government financial assistance response

Last year we reported on the SA Government's $1 billion economic stimulus package and expenditure as at 30 June 2020. Since then, the SA Government has presented two State Budgets, with the stimulus package increasing to $4 billion. We reported on the breakdown of this package in our 2020-21 report on the State finances.

The significant initiatives designated in the $4 billion package and their actual expenditure at 30 June 2021 are shown in figure 3.3.

Figure 3.3: $4 billion economic stimulus package designated expenditure and commitments as at 30 June 2021



Source: Data provided by DTF and unaudited.

In addition to the $4 billion of State funding designated as the stimulus package, DTF advised us that an additional $1 billion of Commonwealth, Local Government and business support funding will be received against these initiatives taking the overall value to $5 billion.

The projects that make up the initiatives identified in figure 3.3 are determined by the SA Government and include new spending, brought forward spending from the forward estimates and additional and/or included elements of projects that were in place pre-COVID-19. They also include elements of the State's bushfire response.

Our commentary below focuses on the COVID-19 Support Fund. We also summarise the other categories included in the broader $4 billion stimulus package.

3.1.4 COVID-19 Support Fund

In 2019-20 two funds, the Business and Jobs Support Fund and the Community and Jobs Support Fund, were announced. These two funds combined accounted for $550 million of the $650 million Jobs Rescue package announced by the SA Government in March 2020. The priority for using these funds was the ongoing survival of entities and minimising job losses. I reported on spending from these funds in last year's Annual Report.

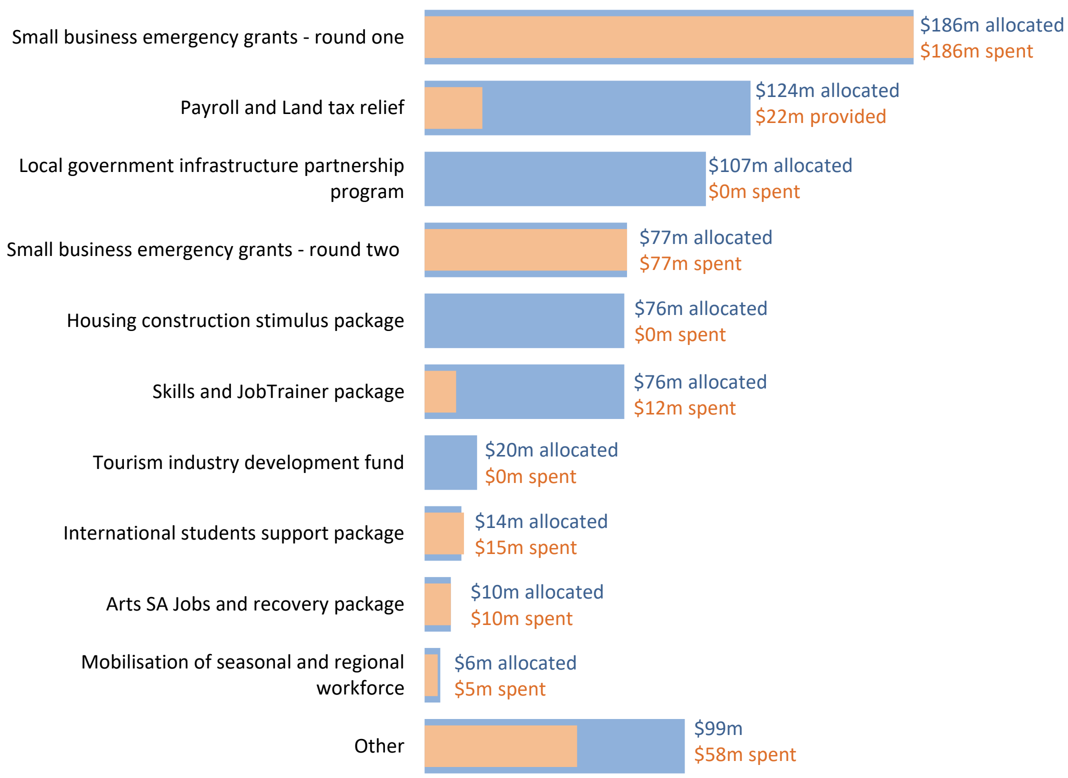
Since that time, these funds have combined to form the COVID-19 Support Fund. The budget for this Fund in the 2020-21 and 2021-22 State Budgets is $795 million. The priority of the Fund remains the ongoing survival of entities and minimising job losses. It supports industry sectors and economy-wide recovery programs but is not intended to support individual business expansion plans. DTF is responsible for managing the Fund.

To access these funds, businesses and industries had to apply through a DTF website established for that purpose.

According to DTF's data, as at 30 June 2021 around $384 million has been spent against the initiatives in the fund. A further $411 million is still to be spent at 30 June 2021.

Details of the significant initiatives funded from the COVID-19 Support Fund, and the committed and actual amount spent as at 30 June 2021, are shown in figure 3.4.

Figure 3.4: COVID-19 Support Fund initiatives spend up to 30 June 2021



Source: Data provided by DTF as at 30 June 2021 and unaudited.

In this Fund there is an amount shown as 'Payroll and land tax relief'. This relates to:

- extended payroll tax waivers from October to June 2021 for businesses with payroll below $4 million and the introduction of waivers for businesses receiving the extended JobKeeper payment from January to June 2021

- land tax relief for landlords
- payroll tax exemptions from wages paid to new apprentices and trainees.

The amount reported as the actual spend to 30 June 2021 is the cash portion advised by DTF and is unaudited. DTF advised us that, based on initial estimates, it believes the total relief provided to taxpayers for the packages described above is around $132 million. The estimation reflects that final figures will depend on taxpayers submitting an annual return.

The housing construction stimulus package is budgeted for spending to occur in the 2021-22 financial year.

The Fund also includes amounts shown as 'Other'. These relate to smaller components of the whole support package including waivers of some fees, support for specific industries, support for some operators and other measures.

In 2020-21, we reviewed controls over round two of the emergency small business grants initiative, which was the most significant area of spending from these funds in 2020-21. We also reviewed the processes for awarding the Local Government Infrastructure Partnership Program grants, however no funds had been paid at 30 June 2021. The findings from these reviews are discussed below.

3.1.4.1 Emergency small business grants (round two)

Last year we reported on the first round of emergency small business grants announced by the SA Government on 9 April 2020. The application period was from 21 April 2020 to 1 June 2020 and specific eligibility criteria applied. From this round approximately $186 million in grants were paid.

A second round of small business grants included $10 000 grants for eligible small businesses that employ staff and are receiving JobKeeper from 28 September 2020 (JobKeeper extension 1) or from 4 January 2021 (JobKeeper extension 2). The second round also introduced $3000 grants for small businesses that do not employ staff, are operating from commercial premises and are receiving JobKeeper extension 1 or 2. This round closed on 28 February 2021, with approximately $77 million in grants paid.

These rounds have been funded from the COVID-19 Support Fund discussed in section 3.1.4.

The actual expenditure for round two as at 30 June 2021 is shown in figure 3.5, along with the number of applications.

Figure 3.5: Emergency small business grants – round two as at 30 June 2021

Source: Data provided by DTF and unaudited.

In 2020-21 we focused our attention on DTF's processes for administering round two of the grant program. We considered its process for administering the grants, including whether there were clear criteria established to assess applications and policies in place assigning responsibilities and outlining key processes. We also tested a sample of grants paid to ensure the guidelines were followed and approval was given.

We found that the program overall had been well controlled.

3.1.4.2 Local Government Infrastructure Partnership Program

The SA Government announced the Local Government Infrastructure Partnership Program on the 31 October 2020 to help councils accelerate spending on community infrastructure projects that contribute to the future economic growth of their region, support the SA Government's Growth State agenda or improve local infrastructure facilities for businesses and community organisations to enable them to grow in the future.

Under the program, Councils could apply for up to 50% of the cost of approved infrastructure projects. Applications for the grant closed on 29 January 2021.

DTF advised us that the program awarded 57 projects across 58 councils (two joint projects) for a total of $107 million. At 30 June 2021 the grant agreements were not finalised and therefore no payments were made against the program. Payments are expected in 2021-22.

We considered DTF's process for administering the program, including whether there were clear criteria established to assess applications and policies in place assigning responsibilities and outlining key processes. We also tested a sample of applications to ensure the guidelines were followed and, where successful, that approval was given.

Our testing did not identify any significant issues.

3.1.5 Summary of the other significant initiatives identified in the stimulus package

The $4 billion stimulus package includes a variety of measures. DTF advised us of the breakdown in figure 3.3.

The initiatives are determined by the SA Government and include new spending, brought forward spending and additional and/or included elements of pre-COVID-19 projects. It also includes elements of the State's bushfire response.

Some of the key aspects of each significant initiative are follows:

- Support for educational institutions of $657 million consists mainly of the bringing forward of non-government school funding and capital works programs and the expansion of the non-government school loans scheme. DTF advised us that $267 million had been spent against these measures at 30 June 2021, with most of this the $180 million in funding brought forward into 2019-20 for the non-government schools sector.

- Support for community and community infrastructure of $732 million in State funding consists of a diverse range of projects. It includes an allocation of approximately $114 million in State funding, plus an additional $98 million of Commonwealth funding, for specific COVID-19 responses. $207 million of the total $212 million for this element had been spent as at 30 June 2021. This initiative also includes $204 million for the Sport and Recreation Infrastructure Plan, with $70 million spent at 30 June 2021. This overall initiative also includes funding related to the State bushfire response (discussed in section 3.2).

- Tax and fee relief includes previously reported tax relief packages from last year as well as ongoing fee relief and other tax relief measures not already funded from the COVID-19 Support Fund. DTF advised us that $530 million is allocated to this category, with $312.8 million of the total related to deferred payroll and land tax. Other elements include the exemption of JobKeeper payments from payroll tax and Return to Work levies.

- The Economic and Business Growth Fund initiative of $467 million, relates mainly to the $344 million allocated for the Jobs and Economic Growth Fund. As at 30 June 2021 $27 million had been spent on initiatives from the Jobs and Economic Growth Fund.

- Investment in road infrastructure has $317 million in State funding allocated, along with approximately $673 million in Commonwealth funding. $259 million was spent as at 30 June 2021. This is discussed further in section 3.1.5.1.

- Investment in our assets consists of $297 million in funding. The main elements include funding towards the cultural institutions storage facility. $184 000 of this had been spent from the allocated $87 million at 30 June 2021. This initiative also includes the Government Buildings Energy Efficiency program of up to $60 million. There had not been any spending against this at 30 June 2021.

- The Digital Restart Fund was announced in the 2020-21 State budget. Approximately $27 million has been spent at 30 June 2021 against an allocation of just under $120 million.

- The investment in health infrastructure initiative consists of $118 million in funding. As at 30 June 2021, just under $31 million had been spent, mainly for the acceleration of Country Health SA sustainment and compliance program work ($15 million) and a contribution to a new Cancer Council SA lodge ($10 million).

3.1.5.1 Investment in road infrastructure

As part of the $4 billion package the SA Government has designated a range of road infrastructure projects as part of the economic response.

DTF advised us that the investment in road infrastructure included $318 million contributed by the SA Government and $673 million contributed by the Commonwealth. DTF also advised us that as at 30 June 2021 $259 million had been spent against the designated initiatives.

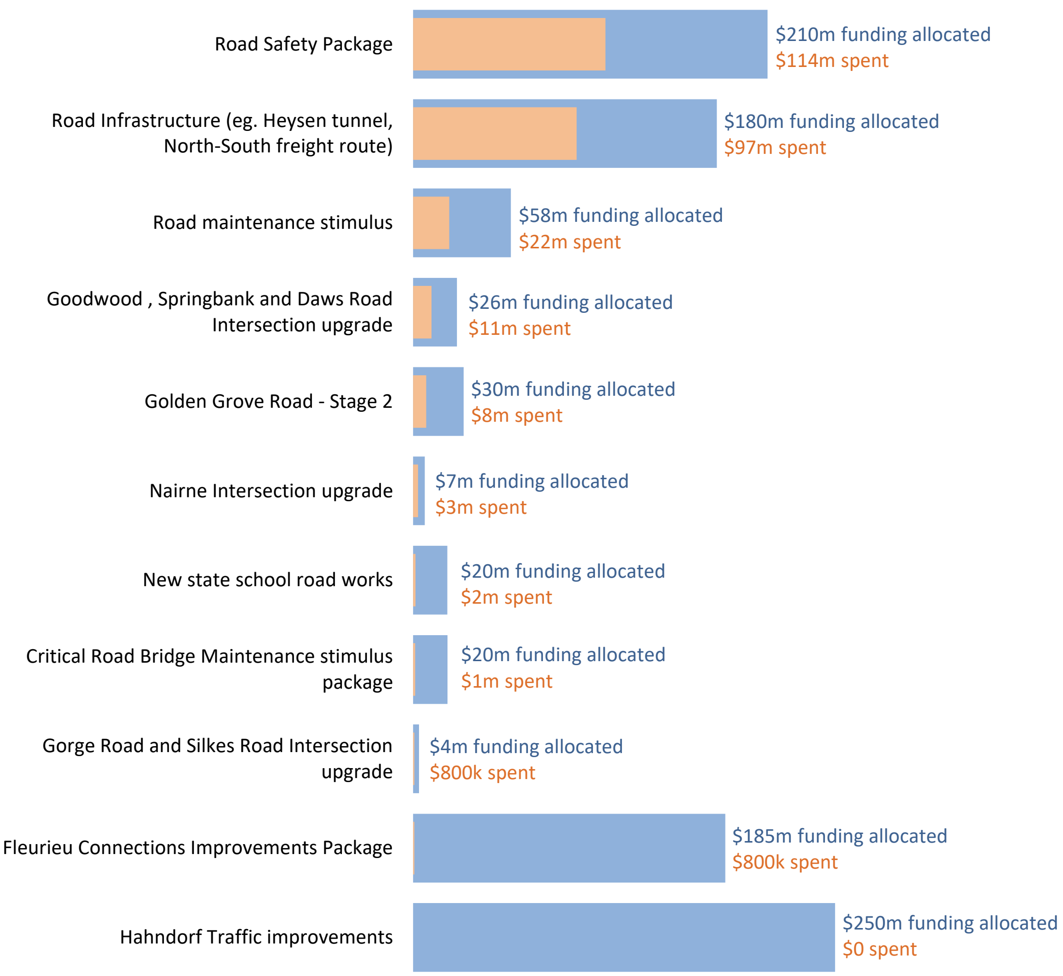
Last year's Annual Report noted that on 29 March 2020 the SA Government announced a $120 million road infrastructure and road safety package to fund a range of projects. In late-June 2020, the total value of these projects was updated to $145 million. The costs of them would be shared between the Commonwealth and SA Governments. Significant individual elements relate to:

- refitting the Heysen Tunnel systems and safety upgrade
- a regional north-south freight route, bypassing the South-Eastern Freeway
- a package of works on the regional road network
- sealing part of the Adventure Way and Innamincka Airport access roads.

This amount also covered road safety upgrades including safety barrier installations, shoulder sealing and tactile line marking on selected roads, road lighting improvements at critical junctions and other safety improvements.

Since last year's Annual Report the investment in road infrastructure has grown to include all those projects listed in figure 3.6. The ones mentioned above are included in the 'Road infrastructure' item in figure 3.6.

Figure 3.6: Investment in road infrastructure initiatives spend up to 30 June 2021



Source: Data provided by DTF as at 30 June 2021 and unaudited. Allocations only reflect amounts funded through the stimulus package; total projects amounts maybe higher.

3.2 Response to the 2019-20 bushfires

3.2.1 Overview

South Australia's 2019-20 bushfire season was one of the worst on record. The personal, health, financial and economic effects are continuing and will be felt for many years to come. Numerous SA Government agencies were involved in the immediate response and are continuing to respond to ongoing impacts from the fires.

A report on the independent review of the bushfire season by former Federal Police Commissioner Mick Keelty AO, with support from the South Australian Fire and Emergency Services Commission (SAFECOM) and others, was released in June 2020. It made 15 recommendations. The SA Government's initial response to the recommendations was the announcement in July 2020 of funding to address a number of immediate areas, with a further response expected by the end of September 2020.

At the time of my 2019-20 Annual Report the final SA Government response had not been published.

Since then, the SA Government has released its comprehensive response to the review, in which it announced 69 actions and funding of $97.5 million. It identified several initiatives that would respond to the review's recommendations.

My 2019-20 Annual Report highlighted key events in the 2019-20 bushfire season, and discussed the more significant financial assistance provided, the additional costs incurred by SAFECOM and the insurance impacts to SAFA.

This year I report on the SA Government's response to the independent review, including expenditure incurred up until 30 June 2021.

Further details are included in Part C under 'South Australian Fire and Emergency Services Commission'.

3.2.2 SA Government's response to the independent review

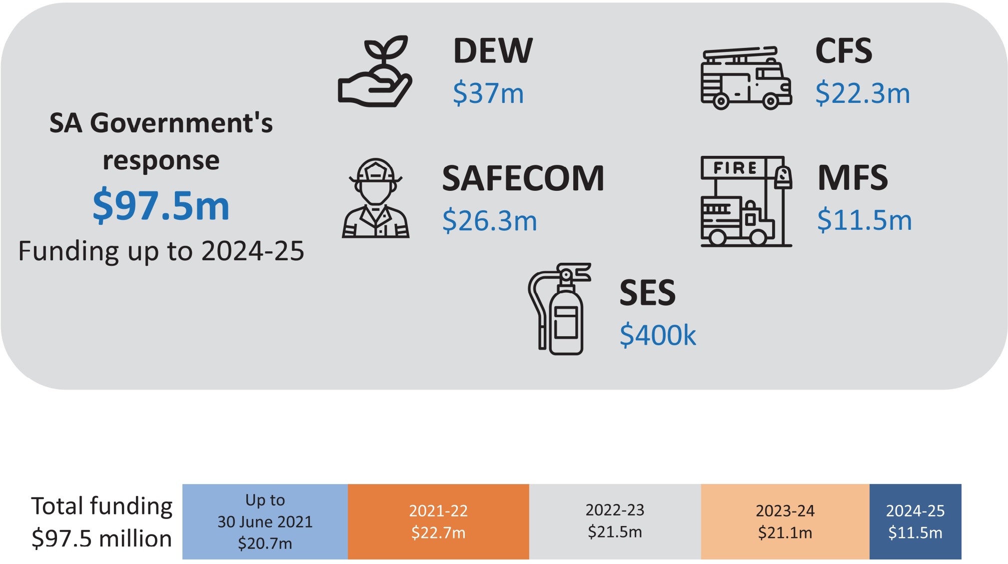
In July 2020, the SA Government committed to implement the report's recommendations, including a significant number of immediate actions that were to be completed before the next bushfire season.

As at September 2021, we were advised that all 27 immediate actions planned to be completed before the 2021-22 bushfire season were complete. Work has started on implementing the longer-term actions.

The SA Government also responded to the recommendations from the independent review by announcing $97.5 million in funding up to 2024-25. This would go to a range of initiatives that respond directly to the recommendations.

Figure 3.7 shows a breakdown in funding across responsible agencies and years.

Figure 3.7: SA Government bushfire response initiatives

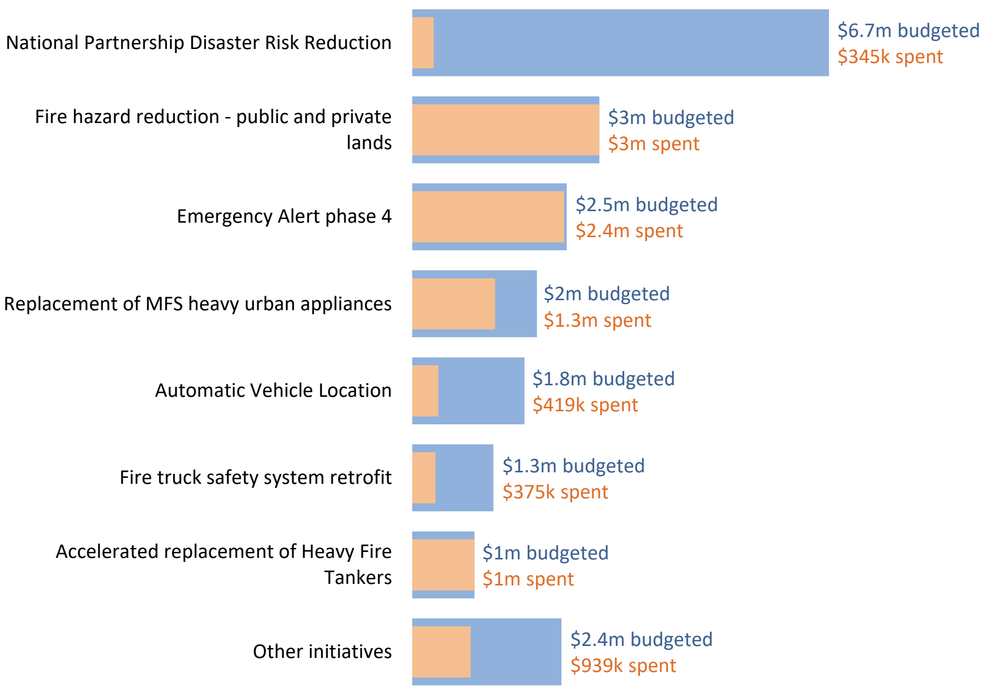


Source: Data provided by DTF and unaudited.

At 30 June 2021 $9.8 million had been spent across the designated initiatives. This was an underspend of $10.9 million compared to the 2020-21 budget.

Figure 3.8 shows the expenditure and budget as at 30 June 2021 for the significant initiatives included in the SA Government response.

Figure 3.8: SA Government bushfire response initiatives spend up to 30 June 2021



Source: Data provided by DTF, DEW and the Emergency Services sector and unaudited.

A summary of progress against some of the larger initiatives is outlined below. This progress was advised by the responsible agency (eg the Emergency Services sector or Department for Environment and Water):

- The signing of the National Partnership on Disaster Risk Reduction 2019-24 was delayed due to the significant bushfires in 2019-20. It was signed in March 2020. Funding for the 2019-20 and 2020-21 years was consolidated into 2020-21 for a total of $6.68 million in grant funding available. On 24 February 2021, 11 projects were approved as part of round 1 funding. The total funding allocated to them was $2.1 million, with $345 000 paid at 30 June 2021. Many of the projects are approved and funded on a milestone basis and therefore payments of the are only made when milestones are reached. COVID-19 has impacted the achievement of some of these milestones.
- The funding for the fire hazard reduction of public and private lands was additional to funding for an existing annual prescribed burning program. The $3 million budgeted was fully spent in 2020-21. It contributed to more staff, more on-ground works (including prescribed burning) and more plant and equipment to deliver an expanded bushfire mitigation program.
- The emergency alert phase 4 is an upgrade of the national platform from emergency alert phase 3. The project is progressing, with the product due to go live in November 2021. The $2.5 million in funding for 2020-21 contributed to progressing the project, with $2.4 million spent as at 30 June 2021.
- The SAMFS ordered eight appliances in October 2020 from Fraser Fire and Rescue New Zealand, all to be fitted with burn over protection systems. Four of them are funded as part of the bushfire response to replace SAMFS heavy urban appliances. The SAMFS expects delivery of these appliances in pairs, commencing in October 2021, with the last delivery to occur in March 2022. At 30 June 2021, $1.3 million was paid against this initiative.
- $419 000 was spent of the $1.8 million budgeted for 2020-21 for the automatic vehicle location project. The project is progressing, having completed a procurement process in 2020-21, and work is commencing with the successful vendor on the implementation stage.
- $375 000 was spent of the $1.3 million budgeted for 2020-21 for fire truck safety system retrofits. Delivery of this program was delayed due to delays in acquiring components from suppliers and additional repairs to appliances being identified as the result of inspections before retrofit, as well as being accommodated within the suppliers' repair schedule. COVID-19 has also had an impact on this project.

3.3 Grant management

3.3.1 Overview

The administration of grant programs includes the design of the program, the selection process, the development and administration of the grant agreements and the monitoring and evaluation of activities under the program. Sound financial management practices supporting the administration of grant programs increase the likelihood that grants will achieve their intended purpose. If these programs are not properly administered it may erode public trust in government administration.

We reviewed the administration of a selection of grant programs administered through the following agencies in 2020-21:

- DTF
- the Department for Innovation and Skills
- the Department for Energy and Mining
- PIRSA
- DPC
- Office for Recreation, Sport and Racing.

Our review focused on:

- whether there was a clear framework supporting the administration of the grant program
- whether the grant selection process was proper and followed the established framework
- the appropriateness of the approval process for grants awarded.

We considered Treasurer's Instruction 8 *Financial Authorisations* and Treasurer's Instruction 15 *Grant Funding* in determining whether the agencies complied with government requirements.

3.3.2 Outcome of our review

We did not identify any systemic issues across the agencies reviewed that would suggest the management of grants overall is a significant issue. We did, however, identify some significant issues when reviewing the management of the Regional Growth Fund strategic business round in 2020-21. These issues are summarised in section 3.3.3 and discussed in more detail in Part C under 'Department of Primary Industries and Regions'.

Other issues we identified that were specific to individual reviews were:

- an opportunity to improve the monitoring of specified reporting obligations
- improvement required for an agency when independently reviewing grant payments made using a data feed file.

3.3.3 Improvements required in the administration of the Regional Growth Fund

In 2019-20 the SA Government announced a special strategic business round (SBR) of the Regional Growth Fund (RGF), with the aim of fast tracking the recovery of regional economies impacted by COVID-19.

The SBR was initially allocated $15 million of funding. A further $10 million was later added to it, bringing total funding to $25 million. Applications closed on 6 July 2020. There were 228 applications submitted to PIRSA for assessment, seeking total funding of over $164 million.

The assessment process was guided by an assessment and evaluation plan. The SBR had a different assessment process and eligibility criteria from previous funding rounds. The additional criteria, including the ability to commence within three months (referred to as being 'shovel-ready'), was approved by the SA Government on 9 June 2020.

Our review of the application assessment and approval process identified gaps in processes that increase the risk that the program will not achieve its intended outcome.

We found the following:

- PIRSA's assessment of key criteria relating to 'shovel-readiness' and minimum applicant co-contributions was in some cases insufficient and inconsistent with information available. Insufficient assessment may result in applications that do not meet the eligibility criteria being progressed to subsequent stages. This may threaten the objective of the SBR to fast track the recovery of regional economies from COVID-19 being met.
- PIRSA was unable to provide documented evidence that it performed a risk assessment of each application consistent with its assessment and evaluation plan. Given the large increase in funding for the SBR and the objective to fast track recovery, we believe this round had additional risk and that a robust assessment process should have been performed and documented for monitoring and ensuring that funding was provided in line with the SBR objectives.
- PIRSA was unable to provide evidence that nine of the 22 grants awarded were appropriately approved. PIRSA advised us that the approvals were included in Cabinet notes. DPC did not allow us to view these notes on the basis that notes do not contain approvals (see section 1.4). Without documentation supporting the approval of these projects we cannot confirm whether they were appropriately approved.
- Our review of PIRSA's website found that two grantees were missing from the list of grants awarded. In my opinion, inconsistency between published information and what is documented by the agency is a lack of transparency.
- There have been delays in formally executing many of the funding deeds. PIRSA advised us that final approval for SBR projects occurred in November 2020. At 30 June 2021 only 12 projects had a formally executed funding deed. Following approval, further information was required from some of the grant recipients to finalise the funding deeds. We consider that, given the aim of the SBR is to provide stimulus relief to regional businesses to help recover from the impact of COVID-19, the delays in executing funding deeds may threaten the immediate stimulus objective of the RGF. PIRSA advised us that successful applicants can start their projects from the date they are formally notified as being successful.

We made a number of recommendations to PIRSA about the need to enhance documentation supporting key processes, decisions and approvals for the RGF. PIRSA, in its response, outlined actions it will take to address our recommendations.

For further detail on these findings, recommendations and PIRSA's response see Part C under 'Department of Primary Industries and Regions'.

3.4 Cyber security

3.4.1 Information technology general controls

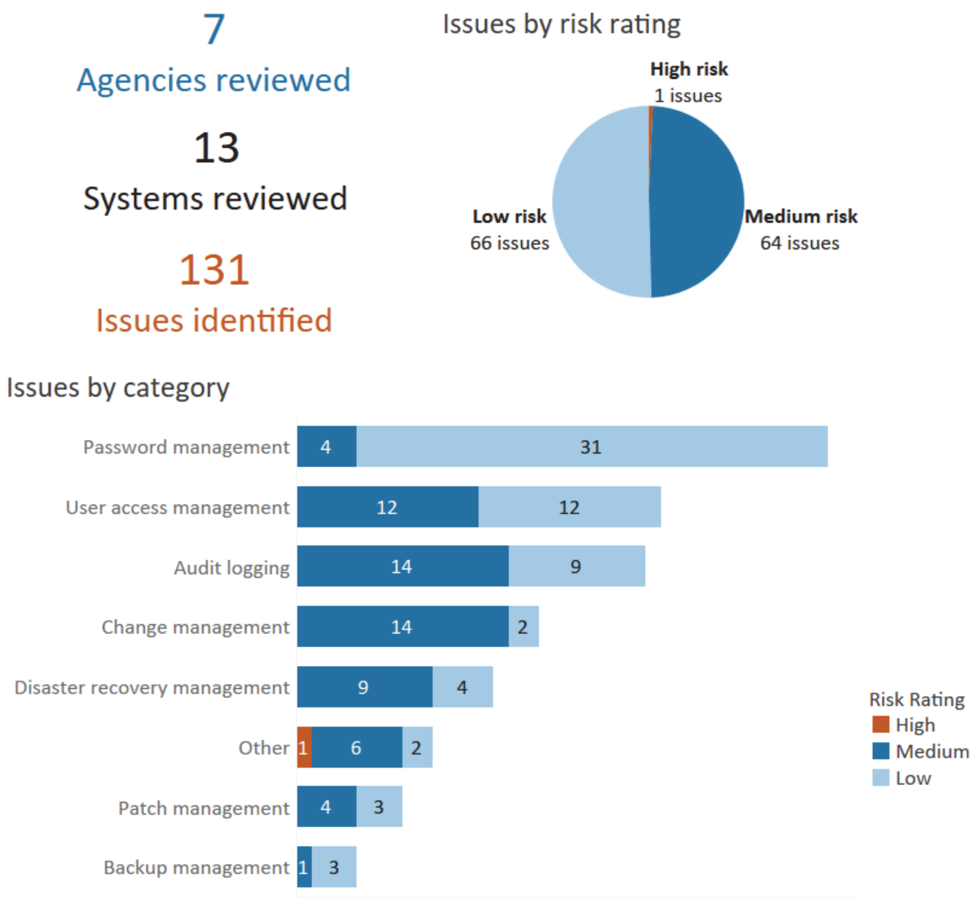
Each year we conduct selected IT general control (ITGC) testing over key agency financial systems.

ITGC testing involves assessing controls over password management, user access management, audit logging, change management, disaster recovery management, backup management and patch management.[1] Our testing takes into consideration the SA Government's Cyber Security Framework and associated agency IT security guidelines.

In 2020-21 our specialised IT audit team conducted ITGC testing over seven agencies and 13 key agency financial systems. Our testing also assessed the remediation of ITGC issues we raised in prior years.

Figure 3.9 summarises our findings on the key control areas that could be strengthened across the agency environments we reviewed.

Figure 3.9: Summary of our ITGC findings



[1] Patch management is the process of updating (acquiring, testing and installing) a set of changes or upgrades to support software, application and technology enhancements and to fix defects and vulnerabilities to an information system.

All agencies responded positively to our findings with details of their remediation approach.

3.4.2 ICT vulnerability management

In 2020-21 we undertook a high-level review of 10 public sector entities to understand the level and maturity of their penetration testing and vulnerability scanning of their public facing ICT environments.

The review confirmed the types of public facing ICT environments maintained by each entity. We sought details of the number and frequency of testing and scanning reviews performed in the last three years, the resources used to perform these reviews and the level of remediation.

We identified that the management of penetration testing and vulnerability scanning of public facing environments was not always effective. We also found that the level of testing and scanning conducted by most of these entities in the last three years was limited, ad hoc and not subject to regular assessment.

Key challenges highlighted by the agencies that affect their ICT vulnerability management include ICT budget considerations, attracting and retaining skilled ICT staff, and a rapidly changing ICT landscape.

Our review identified some areas of ICT vulnerability management where controls can be further strengthened including:

- developing comprehensive policies and procedures
- performing more assessments on a frequent basis
- improving the monitoring and tracking of testing outcomes
- improving the effectiveness of remediation.

Full details of this review were communicated in a separate report to Parliament.[2]

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[2] Auditor-General's Report 10 of 2021 *ICT vulnerability management in South Australian public sector entities*.

4 Observations on key government sector spending

4.1 General government capital expenditure in 2020-21

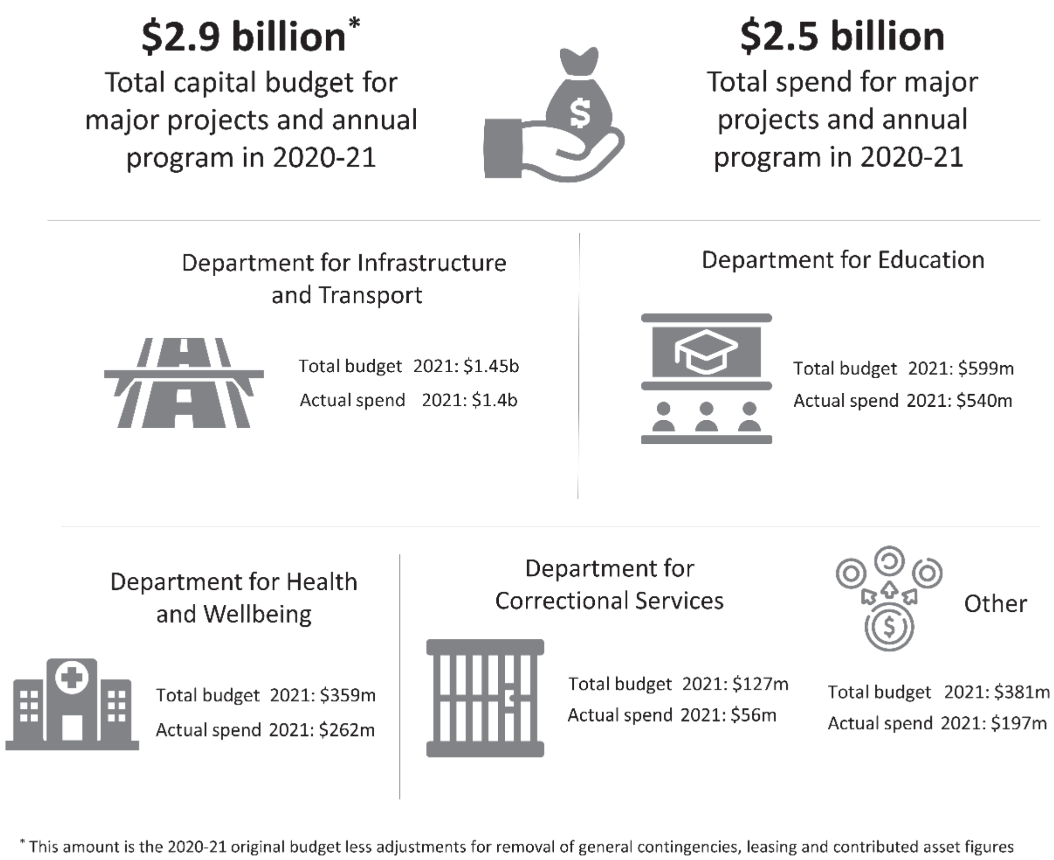
Each year the agencies we audit undertake significant construction projects. These projects are undertaken by agencies with relevant expertise. The SA Government's infrastructure agency, DIT, is responsible for managing construction projects in the civil and building (commercial) construction sectors.

This section outlines the capital expenditure incurred in 2020-21 across the general government sector, where the expenditure occurred and the progress of some of the more significant major projects.

In 2020-21 the general government sector incurred $2.5 billion of capital expenditure for its major projects and annual programs. Just over $300 million was spent on the annual program of capital and the remaining $2.1 billion was for major projects. These figures were provided by DTF at a point in time. Further minor adjustments were still being processed at the time of this Report.

The portfolios that make up most of this spend are identified in figure 4.1.

Figure 4.1: General government capital expenditure for 2020-21



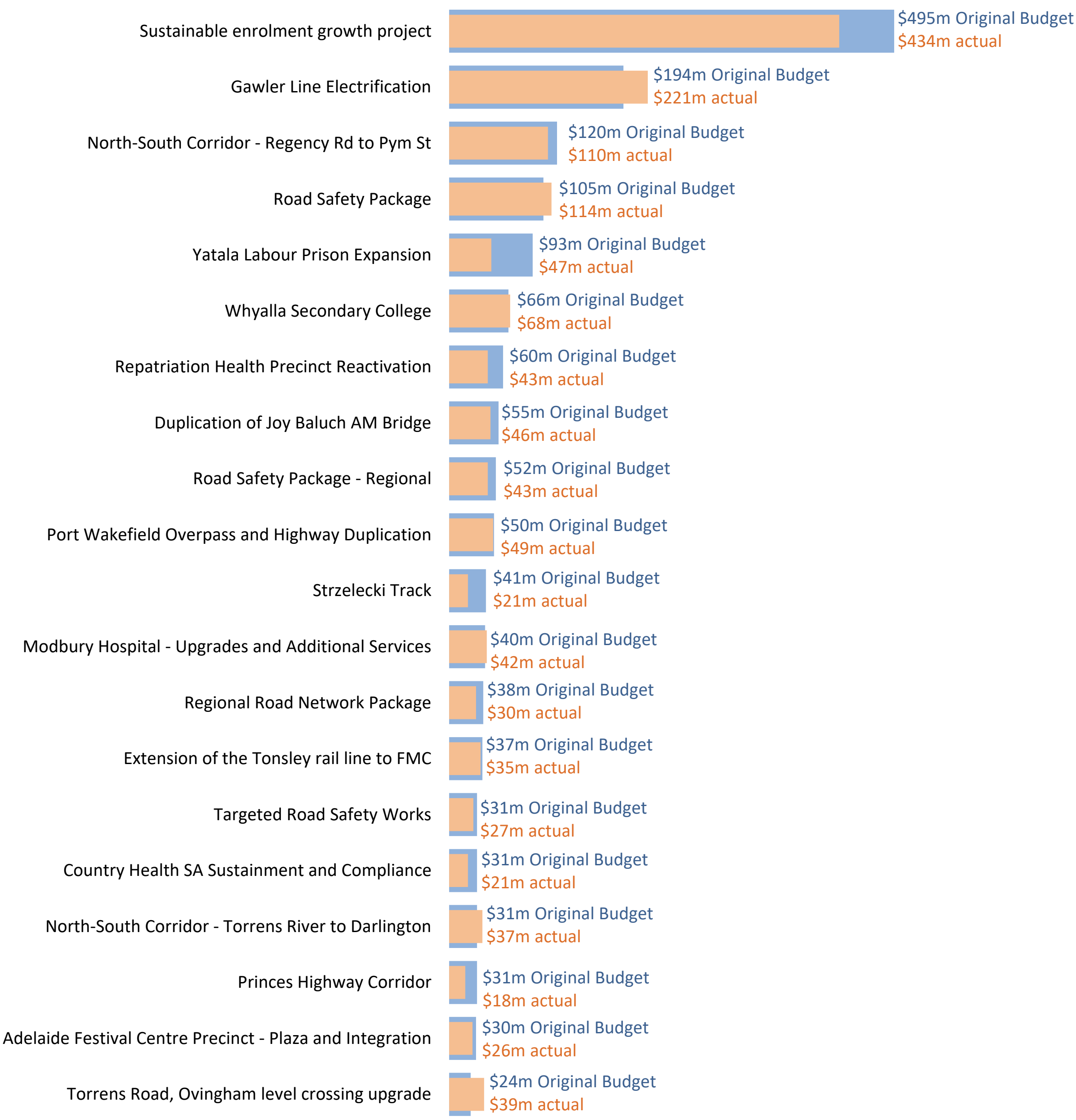
Source: Data provided by DTF and unaudited.

4.1.1 Significant general government major projects

Figure 4.2 shows the individual general government major projects that have incurred expenditure above $30 million, or with original budgeted expenditure for 2020-21 above $30 million.

The budgeted figures are the original 2020-21 budget figures and do not include any revised amounts since the release of the State Budget in November 2020.

Figure 4.2: General government major projects spend for 2020-21



Source: Data provided by DTF and unaudited.

There are many reasons why there are variations between a project's budget and actual spend. In instances where less is spent the agencies, if appropriate, will seek carryovers of their budget to the following year. Where more than originally budgeted is spent, often it reflects changes to scope, costs or timing. An example of where more may be spent is where it is identified during the project that it is more efficient to undertake works concurrently, rather than in different stages.

Variations can be due to differences in the timing of expenditure and delays that are inherent in most capital works projects. The progress of some projects in 2020-21 was also impacted by COVID-19 factors such as contractor availability, border-related closures and accessing specialists from other States.

Below we discuss some projects and the reasons for differences between their actual spend in 2020-21 and their budgeted spend:

- The Sustainable Enrolment Growth project spent $434 million in 2020-21 on modernising schools and facilities, enabling the transition of Year 7 students to high school in 2022 and supporting sustainable enrolment growth. This included funding across 99 schools to be spent by 2023-24. The $61 million difference between budget and actuals is made up of numerous projects across many school sites.
- $221 million was spent on the Gawler line electrification project in 2020-21, $27 million more than originally budgeted. DIT advised us that this overspend was due a revised rail closure, resulting in the Alliance arrangement exceeding its construction program cash flow.
- $47 million was spent in 2020-21 on the Yatala Prison expansion, $46 million less than originally budgeted. DCS advised us that the project is on track and that the difference is purely based on differences in the timing of forecast expenditure.
- The Strzelecki Track project was delayed because of a significant rain event in March 2021 impacting the contractor's ability to gain access to the site. $21 million was spent in 2020-21, $20 million less than originally budgeted.
- $43 million was spent in 2020-21 on the reactivation of the Repatriation Health Precinct. This was less than originally budgeted due to a delay in the anticipated commencement date of some site preparation and service infrastructure works. There were also issues with the delay of the purchase and construction of steel due to a subcontractor going into voluntary administration.
- $18 million was spent in 2020-21 on the Princes Highway Corridor project. This was less than originally budgeted due to favourable pricing outcomes for some works, but was also impacted by COVID-19 and the availability of contractors.
- $39 million was spent in 2020-21 on the Torrens Road–Ovingham Level crossing removal. The project exceeded budget by $15 million due to land acquisition matters being resolved earlier than anticipated and the Alliance arrangement implementing an accelerated program.

Some of the packages listed, including road safety, regional road safety, targeted road safety works and regional road network, are made up of a number of individual projects.

4.2 Significant vendor relationships

As noted in other sections of this Report, the SA Government spends around $28.6 billion a year, with around $10 billion of that spent on supplies and services of various kinds. This spending, understandably, includes spending on a broad range of items. Some are provided under ongoing contracts and others are one-off amounts.

Shared Services SA process around 2.8 million accounts payable transactions each year to effect a large number of these payments. It does not process all the expenditure, but does for a large number of agencies.

We looked at data from a large number of agencies this year to consider the types of significant vendor relationships that exist between the SA Government and vendors. There were two primary reasons why we did this:

- as noted above and discussed in Part B, there are significant outsourcing arrangements in place between individual agencies and service providers
- as I noted in my 2018 Annual Report in relation to the widespread use of Carillion in the United Kingdom, there can be risks from overreliance on a single contractor to deliver services.

Our high-level analysis of vendor data noted a number of significant vendor relationships across the SA Government. The main vendor relationships totalled more than $3 billion and primarily related to:

- significant contracts with construction companies for the delivery of capital works
- facility services providers for the provision of maintenance services
- service providers delivering services under outsourced arrangements
- significant utility or telecommunications arrangements
- funding provided to other sectors.

As stated, the data we based this analysis on is not from all public sector agencies, but it gives an insight into the types of large vendor relationships the State has.

Significant contracts with construction companies are mainly related to payments through DIT, consistent with its role in delivering significant capital works on behalf of other agencies, as well as in its own right.

Facilities services providers are again mostly delivered through payments by DIT, consistent with DIT's role as the main contractor under the AGFMA.

Service providers include those providing services to the Department for Child Protection and SA Health, and those providing transport services to DIT and land services to DIT or, from October 2020, to the Attorney-General's Department.

Whole-of-government electricity and telecommunications service providers also feature among the most significant contracts when viewed by vendors.

The final group of significant vendors identified was those that relate to funding being provided to other sectors – either non-government schools or in funding arrangements under the National Disability Insurance Scheme.

The scale of payments made to the most significant vendors of goods or services to the State is large, although not always under a single contract arrangement. In any case, the values attached to transactions with these vendors reinforce the need to manage contract relationships carefully to ensure value for taxpayers and to manage the risks associated with project or policy outcomes.

5 Summary of key items in the Treasurer's statements

Under section 36(1)(4) of the PFAA I will publish the Treasurer's statements for the year ended 30 June 2021 on the Auditor-General's Department website (www.audit.sa.gov.au).

The Consolidated Account outcome is summarised below.

5.1 Summary of the Consolidated Account for the year ended 30 June 2021

	Budget $'000	Actual $'000
Receipts		
Taxation	4 183 335	4 358 293
Commonwealth general purpose grants	5 109 900	6 036 181
Commonwealth specific purpose grants	217 072	219 538
Commonwealth National Partnership payments	75 252	63 687
Contributions from state undertakings	192 567	234 767
Fees and charges	544 271	595 685
Recoveries	1 087 802	853 224
Royalties	302 060	322 939
Other receipts	56 576	50 054
Total receipts	11 768 835	12 734 368
Payments		
Appropriation Act	17 576 775	16 535 097
Specific appropriation authorised in various Acts	186 935	245 634
Total payments	17 763 710	16 780 731
Consolidated Account deficit	5 994 875	4 046 363

Annexure – Abbreviations used in this report

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

AGFMA	Across government facilities management arrangements
DCS	Department for Correctional Services
DEW	Department for Environment and Water
DHW	Department for Health and Wellbeing
DIT	Department for Infrastructure and Transport
DPC	Department of the Premier and Cabinet
DTF	Department of Treasury and Finance
FTE	Number of staff
ITGC	IT general controls
LHN	Local health network
LSA	Lifetime Support Authority of South Australia
MAC	Motor Accident Commission
OCPSE	Office of the Commissioner for Public Sector Employment
PC047	Premier and Cabinet Circular PC047 *Disclosure of Cabinet documents to investigate agencies*
PFAA	*Public Finance and Audit Act 1987*
PIRSA	Department of Primary Industries and Regions
RGF	Regional Growth Fund
RTW Scheme	Return to Work Scheme
RTWSA	Return to Work Corporation of South Australia
SBR	Strategic business round
SACFS	South Australian Country Fire Service
SAFA	South Australian Government Financing Authority
SAFECOM	South Australian Fire and Emergency Services Commission
SAHT	South Australian Housing Trust
SAMFS	South Australian Metropolitan Fire Service
SASES	South Australian State Emergency Service
SATC	South Australian Tourism Commission
SA Water	South Australian Water Corporation
TI 18	Treasurer's Instruction 18 *Procurement*
URA	Urban Renewal Authority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