Report of the Auditor-General

Auditor-General's Department

Report 12 of 2021

Annual report
for the year ended 30 June 2021
Part C: Agency audit reports

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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Agency audit reports

Introduction

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

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

Agencies not included in this Report

The Auditor-General exercises the discretion to exclude agencies from this Report. The decision to exclude an agency is based on many factors, including:

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

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

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

In addition their financial reports will be published on the Auditor-General's Department website as the audit of each agency is finalised.

Modified Independent Auditor's Reports

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

For the agencies that I am required to audit, I issue an Independent Auditor's Report on the financial report in line with professional requirements and standards. The opinion I give is usually unmodified, but if circumstances warrant it I will give a modified opinion. In extreme cases it may not be possible for me to express an opinion.

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

No modified opinions were expressed on the 2020-21 financial reports of the agencies included in this Report.

Without modifying my opinion on the financial reports of the Lifetime Support Authority and the Return to Work Corporation of South Australia, I drew attention to the inherent uncertainty in certain liabilities reported for those entities at 30 June 2021.

Financial reporting

Impact of AASB 1059 *Service Concession Assets: Grantors* on 2020-21 financial reports

Some existing assets have been reclassified as service concession assets and remeasured in line with the requirements of the standard

AASB 1059 applied to 30 June 2021 financial statements for the first time, however it required adjustments to be made at the beginning of the comparative period (ie 1 July 2019).

AASB 1059 addresses a previous gap in accounting standards and requires public sector grantors to recognise assets and liabilities on balance sheet when certain conditions are met. In some states, applying the standard has resulted in the recognition of assets (and liabilities) not previously considered to be controlled by the public sector.

A key element of the definition of a service concession arrangement is that it contractually obliges the operator to provide some, if not all, of the services to the public, and the operator is responsible for managing at least some of the service concession assets and related services. Applying the definition requires significant judgement.

In implementing AASB 1059, significant arrangements that involve a private sector operator providing services on behalf of the SA Government were assessed against the requirements of the standard. Many of these were previously assessed and disclosed as public private partnerships.

Only two arrangements were considered to meet the definition of a service concession arrangement:

- certain arrangements with community housing providers
- arrangements for the delivery of land titling, registration and valuation services.

In both cases, the assets involved in the arrangement were already considered to be controlled by the SA Government.

The community housing assets were reclassified as service concession assets. For further information refer to the section titled 'South Australian Housing Trust' in this Report.

The assets relating to land titling, registration and valuation services are intangible assets. While the software assets were previously recognised, the database was not considered to meet the recognition criteria under AASB 138 *Intangible Assets*.

AASB 1059 specifically requires previously unrecognised identifiable intangible assets to be measured at current replacement cost, in line with the cost approach to fair value in AASB 13 *Fair Value Measurement*. Accordingly, the land services database was revalued as at 1 July 2019. Applying AASB 1059 did not result in recognising any additional liabilities, or affect the mechanism of realising existing unearned revenue.

The combined impact of adopting AASB 1059 was an increase in assets of $198 million. This adjustment was made to the asset revaluation reserve. For further information refer to the section titled 'Department for Infrastructure and Transport' in this Report. In 2020-21, as a result of machinery of government changes, land titling and registry services transferred to the Attorney-General's Department.

The service concession arrangements at 30 June 2021 are summarised below.

	Asset $million	Liability $million
Community housing arrangements	1 837	-
Land services titling, registration and valuation services	276	1 471

All service concession assets will be subsequently measured at fair value, with the exception of the software assets.

Upcoming changes to accounting standards

Further reduction in disclosure requirements for Tier 2 reporting entities

A significant number of South Australian public sector reporting entities currently apply Tier 2 disclosure requirements (reduced disclosure requirements).

In light of changes made by the Australian Accounting Standards Board for special purpose reporting, from 1 July 2021 reduced disclosure requirements will be replaced by simplified disclosures requirements. Unlike the current approach, these requirements will be contained in a stand-alone standard, AASB 1060 *General Purpose Financial Statements*.

For the most part, applying AASB 1060 will result in fewer disclosures. Even so, this will require some implementation effort by agencies, who should be mindful of ensuring that their financial reports continue to provide useful information to users. The Department of Treasury and Finance will also need to ensure there are sufficient methods for collecting the reliable data needed for whole of government financial reporting.

Adelaide Festival Centre Trust (AFCT)

Financial statistics	Net result:	$316 000
	Revenues from SA Government:	$21 million
	Revenues from sales of goods and services:	$12 million
	Net assets:	$184 million
	Number of FTEs:	129
	Ticketed attendances:	217 867
	Total attendances:	311 986

Significant events and transactions

- The Her Majesty's Theatre redevelopment was completed and operational in August 2020. The building cost $62.8 million to redevelop.
- AFCT operations were significantly impacted by the COVID-19 pandemic in 2020-21.

Financial report opinion — **Unmodified**

Functional responsibility

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

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

The AFCT operated the BASS ticketing system to sell tickets primarily for artistic performances held at the Adelaide Festival Centre and HMT.

Scope of the audit

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

Specific areas of audit attention in 2020-21 included:

- sales and ticketing revenue
- salaries and wages
- supplies and services
- fixed assets.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive Officer. There were no major findings.

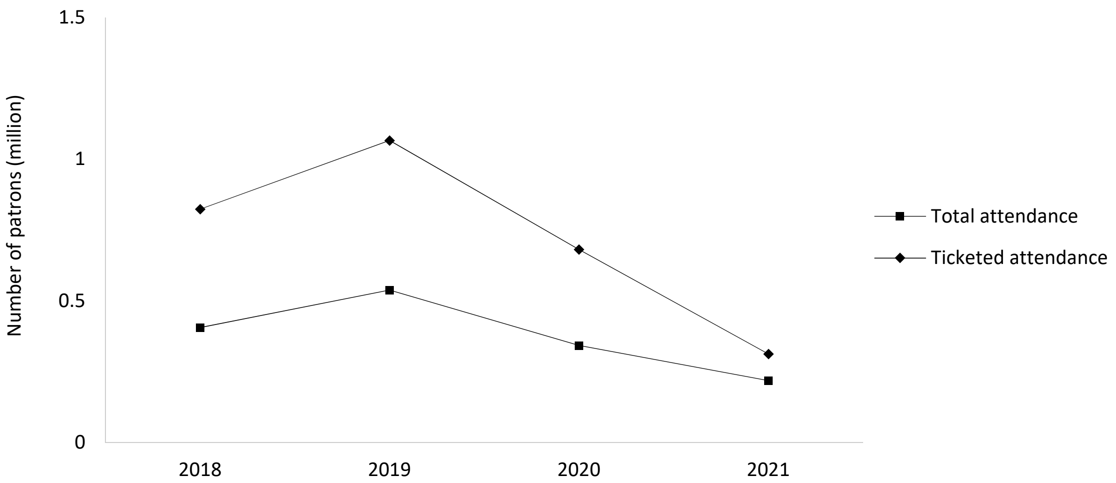
Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Income		
Sales of goods and services	12	16
Revenues from SA Government	21	20
Other income and interest	6	6
Total income	39	42
Expenses		
Employee benefits expenses	15	17
Other expenses	24	25
Total expenses	39	42
Net result	-	-
Net cash provided by (used in) operating activities	19	(12)
Assets		
Current assets	21	15
Non-current assets	163	171
Total assets	184	186
Liabilities		
Current liabilities	14	11
Non-current liabilities	148	153
Total liabilities	162	164
Total equity	22	22

Statement of Comprehensive Income

The AFCT was significantly financially impacted by COVID-19 in 2021 and 2020. Due to the significant number of performance and show cancellations, it has experienced a 71% decrease in total attendance over the two years.



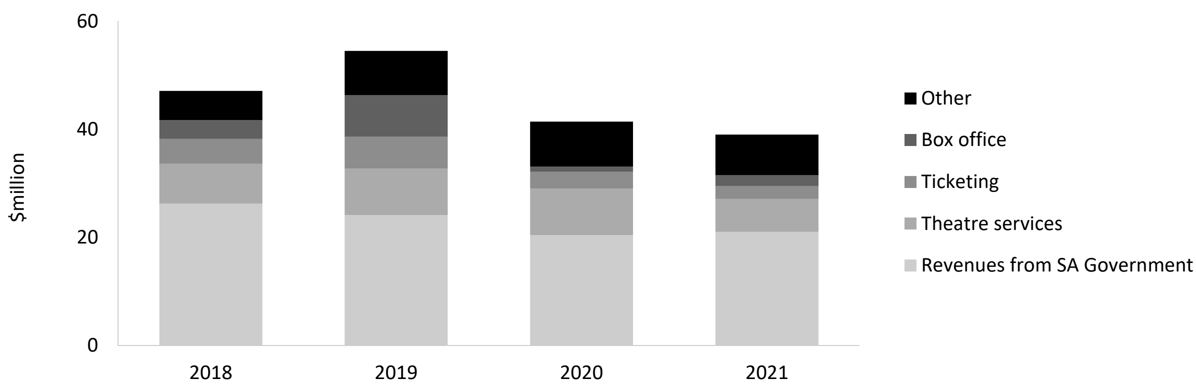
The key impacts, also detailed in note 1.3 of the AFCT's financial report, were:

- the closures and reduced occupancy of the AFCT's theatres throughout 2021 and 2020
- loss of revenue, offset by a reduction in expenses
- insurance claims of $4.7 million ($2.9 million) to 30 June under the business disruption insurance policy with South Australian Government Financing Authority (SAFA)
- reduced demand for theatre set builds for the AFCT set building workshop.

The AFCT relies on SA Government funding to support its operations. Its activities are largely dependent on the level of external demand for theatre services and the extent of its programmed activities. Depending on the level and timing of these activities, the nature and amount of revenues and expenses will vary from year to year.

Income

An analysis of the AFCT's income for the four years to 2021 is presented in the following chart.



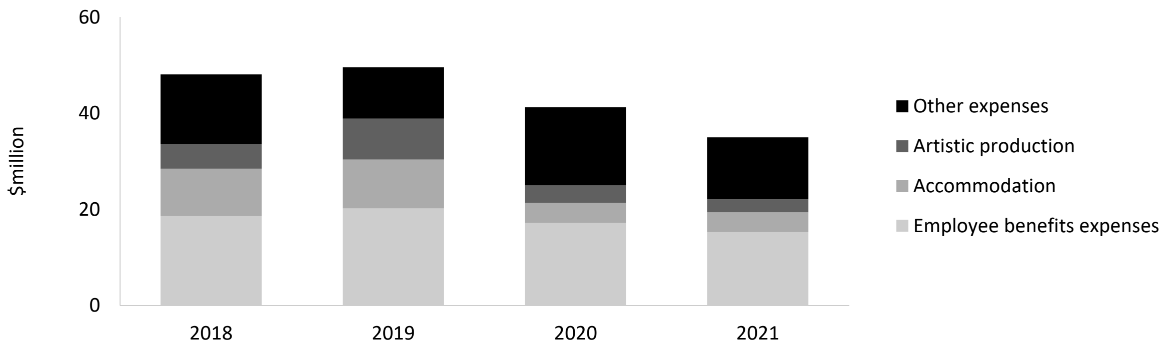
In 2021 the AFCT's income decreased by $3.4 million to $39.1 million due to a decrease in theatre services of $2.5 million, catering and functions of $1.8 million and ticketing of $700 000. These decreases were offset by an increase in box office of $1.3 million due to the Cabaret and DreamBig festivals in 2021, which were not held in 2020. The decrease sales income is due to the decrease in attendance directly related to COVID-19.

Revenues from the SA Government increased by $630 000 to fund the interest payable to SAFA. The main components of these revenues were:

- operating base funding of $15 million ($15 million)
- HMT redevelopment funding of $3.8 million ($3 million) – made up of interest payable to SAFA, $3.4 million, and supplementation funding, $360 000
- Adelaide Festival Centre redevelopment supplementation funding of $1.4 million ($1.4 million) for the closure of the car park.

Expenses

An analysis of the AFCT's expenses for the four years to 2021 is presented in the following chart.



In 2021 the AFCT's expenses decreased by $3.5 million to $38.7 million. This was mainly due to decreases in employee benefits expenses of $2 million and artistic production costs of $882 000. These decreases were due to the impacts of COVID-19.

Statement of Financial Position

Current assets

The AFCT's current assets of $21.2 million ($15.4 million) include cash of $19.2 million ($10 million), of which $5.8 million ($1.6 million) is proceeds from ticket sales through BASS held in trust until distributed to promoters. Cash increased mainly as a result of an increase in cash held in trust for distribution to promoters.

Non-current assets

The AFCT's non-current assets of $163.3 million ($170.3 million) comprise:

- works of art of $9.6 million ($9.6 million)
- property, plant, equipment and intangible assets of $71.2 million ($7.4 million), which increased due to the capitalisation of HMT

- right-of-use plant and equipment of $81.8 million ($88.8 million), being the Adelaide Festival Centre complex
- capital works in progress of $672 000 ($64.6 million). The decrease of $63.9 million is a result of the HMT redevelopment being completed and moved to property, plant and equipment.

Liabilities

The AFCT's liabilities decreased by $1.5 million to $162 million due mainly to:

- lease liabilities decreasing by $4.6 million due to repayments made
- income in advance increasing by $821 000 million due mainly to postponed productions
- offset by payables increasing by $2.4 million due mainly to AFCT holding amounts payable to promoters until postponed productions can be rescheduled.

Further commentary on operations

Redevelopment of Her Majesty's Theatre

In June 2016, the SA Government announced a redevelopment and expansion of HMT. HMT closed in March 2018 and building works of $62.8 million were carried out. HMT tours and shows began in August 2020 with the theatre now fully operational. The kitchen in the gallery on the upper level is still in capital works in progress.

Redevelopment of the Adelaide Festival Centre and Plaza

The $90 million redevelopment of the Adelaide Festival Centre and Plaza, as part of the major redevelopment of the Riverbank Precinct, continued in 2020-21. The construction works have resulted in the closure of the car park, and restricted access to the Dunstan Playhouse, Space Theatre and the footbridge.

Due to the redevelopment work on the Festival Plaza the Adelaide Festival Theatre will be closed from August 2021 to February 2022, which will impact the AFCT's ability to generate revenue in 2021-22.

The Department of Treasury and Finance provided supplementary funding of $1.4 million in 2020-21 to replace lost car park revenue.

Outlook on the impact of COVID-19

It is expected that COVID-19 will continue to significantly impact the AFCT in 2022. The AFCT reports that the key expected impacts are:

- the reduction in sales of goods and services relating to theatre operations as social distancing requirements, enforced lockdowns and State border closures mean promoters may be hesitant to bring shows to Adelaide
- a reduction in supplies and services and employment expenditure corresponding with the reduction in sales of goods and services.

The net impact of reduced revenue and expenditure relating to theatre operations will be funded through an insurance claim under the AFCT's business disruption insurance claims with SAFA. However the claim only covers the period up to 30 June 2022 and it is uncertain whether the AFCT's operations will return to pre-COVID-19 levels by that time.

Note 10.4 of the AFCT's financial report explains the key expected impacts.

Other operational developments

In July 2021 the AFCT entered into a contract with Ticketek for ticketing services. Previously the ticketing services were provided in-house using BASS. The impact of this decision on the financial operations cannot be determined at this time.

As at 31 July 2021 the AFCT ceased its set building workshop. This is expected to have a net positive impact on financial operations, as the workshop has sustained losses for the past two years. A gain on sale of $71 000 will be reported in 2021-22 from the sale of these operations.

Adelaide Oval SMA Limited (AOSMA)

Financial statistics	Net assets:	$16.4 million
	Loss from trading activities:	$8.4 million
	Net contributions from the South Australian National Football League (SANFL) and the South Australian Cricket Association (SACA):	$882 000
	Money collected as agent on behalf of the SANFL, SACA, the Commercial Operations Trust (COT), and the Adelaide Oval Hotel Trust (AOHT):	$11.9 million

Significant events and transactions

- The COVID-19 pandemic significantly impacted AOSMA's financial performance, with a $27 million deterioration in revenues from sales, fees and charges only partially offset by a reduction in expenses from trading activities of $9.2 million and the receipt of JobKeeper subsidies of $12.9 million.
- Right-of-use assets of $24.3 million and lease liabilities of $25 million were recognised for the first time as required by AASB 16 *Leases*, reflecting AOSMA's rights and obligations under its sublease of the Adelaide Oval core area.
- Work on the Adelaide Oval Hotel was completed, with operations commencing on 25 September 2020. AOSMA sub-subleased a portion of the Adelaide Oval core area to AOHT, with these arrangements resulting in the first time recognition of a finance lease receivable asset of $14.2 million.
- To fund hotel construction, AOSMA borrowed $42.6 million from the Treasurer and on-loaned this amount to AOHT.

Financial report opinion — **Unmodified**

Audit findings

- No transactions limits for online banking.
- Improvements required in user access reviews.
- The use of open food and beverage categories in the point of sale system should be limited.

Functional responsibility

AOSMA is a company whose directors are appointed equally by the SANFL and SACA. AOSMA is not a public authority. It was created in December 2009 as a not-for-profit public company limited by guarantee.

AOSMA manages, operates and maintains the Adelaide Oval stadium owned by the SA Government and also the area closely surrounding the stadium (the precinct). Under the *Adelaide Oval Redevelopment and Management Act 2011* the Adelaide Oval Core Area is leased to the Minister by the Adelaide City Council. The Minister has subleased this area to AOSMA until 2091.

AOSMA also provides various services as agent on behalf of the SANFL, SACA, COT, AOHT and other promoters in return for a fee.

Authority for audit

Section 9(3) of the *Adelaide Oval Redevelopment and Management Act 2011* provides for the Auditor-General to audit AOSMA's accounts each year.

Scope of the audit

The audit program covered financial accounting records and processes to obtain sufficient evidence to form an opinion on the financial report.

For the year ended 31 October 2020 specific areas of audit attention included:

- governance
- revenue
- expenditure
- payroll
- cash
- fixed assets
- liabilities
- inventory
- general ledger.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer. The main findings and AOSMA's responses are discussed below.

No transaction limits for online banking

We noted that AOSMA had not established transaction limits in its online banking environment that reflect the maximum likely value of daily processing for each bank account. Establishing transaction limits at either the bank account or user level would strengthen AOSMA's control over its banking system.

AOSMA responded that it would not be establishing transaction limits, noting the high transaction limits that it would need to set to maintain its regular operations. AOSMA was comfortable that the dual authorisation function within the online banking system provided it with sufficient control.

Improvements required in user access reviews

We found that AOSMA did not perform any user access reviews over critical and sensitive ICT systems in 2019-20. We also identified several terminated employees who retained user access to some systems.

We recommended that AOSMA performs annual system access reviews over critical and sensitive systems in line with its policy, and that user access is removed when staff cease employment.

AOSMA responded that:

- COVID-19 shutdowns had impacted the timeliness of user access reviews
- user reviews for ongoing systems had been scheduled
- user accounts for the identified terminated employees had now been removed and it had implemented a control to ensure system access is promptly removed when staff cease employment.

Limit the use of open food and beverage categories in the point of sale system

We noted that $4.2 million in food and beverage transactions for 2019-20 were recorded using the 'open category' in the point-of-sale system. These open categories are used to record sales of food and beverage packages, however they avoid AOSMA's approved pricing structure, which is pre-programmed into the system. The use of these open categories increases the risk of error in accounting records and bypasses system controls designed to ensure customers are accurately charged for goods and services provided.

AOSMA responded that since our audit it had introduced a new finance system that significantly reduced the scope for errors with open items, with only minimal transactions processed using the open items function in this new system.

Interpretation and analysis of the financial report

Highlights of the financial report

	Year ended 31.10.20 $million	Year ended 31.10.19 $million
Trading activities		
Income	52	67
Expenses	61	(70)
Profit (Loss) from trading activities	(8)	(3)

	Year ended 31.10.20 $million	Year ended 31.10.19 $million
Stakeholder contributions		
Contributions from the SANFL and SACA	8	13
Contributions to the SANFL and SACA	(7)	(8)
Net contributions	1	5
Trading result after net contributions from stakeholders	(8)	2
SA Government related items		
SA Government grants and other contributions	2	-
Lease to Minister	-	(1)
Acquisition of capital assets for the SA Government	-	-
Total comprehensive result	(6)	1
Net cash provided by (used in) operating activities	7	1
Assets		
Current assets	18	25
Non-current assets	98	18
Total assets	116	44
Liabilities		
Current liabilities	23	21
Non-current liabilities	76	14
Total liabilities	100	35
Total equity	16	9

* Table may not add due to rounding.

AOSMA operates under a complex set of arrangements with the SANFL and SACA that dictate the accounting treatment of certain financial transactions and their presentation in the financial report.

Statement of Comprehensive Income

The Statement of Comprehensive Income includes only the income and expenses that AOSMA controls. It does not include money that AOSMA collects and distributes as agent on behalf of the SANFL, SACA, AOHT, COT, Australian Football League (AFL), Cricket Australia (CA), football clubs and various other promoters.

The COVID-19 pandemic has significantly impacted AOSMA's operations. Key impacts for 2019-20 were:

- limited crowds for football games – AFL crowd numbers for 2020 totalled 276 300, a 70% reduction on the 933 600 in 2019
- international and domestic border closures significantly limited major events, such as concerts.

Most of AOSMA's staff were stood down in March 2020, assisted by JobKeeper scheme payments for eligible employees of $12.9 million.

Following a request for assistance, on 31 March 2020 the Treasurer approved the following financial assistance:

- ex gratia relief of $1 million for the special annual sublease fee payable under the *Adelaide Oval Redevelopment and Management Act 2011*

- the waiver of AOSMA's $3 million contribution to the sinking fund for 2020-21, payable in October 2020
- interest on the Adelaide Oval Hotel loan of $600 000 deferred for the period to 30 September 2020 and capitalised over the remaining life of the loan.

Trading activities

AOSMA reported a trading loss before stakeholder contributions of $8.5 million, a $5.4 million deterioration from the $3.1 million trading loss before stakeholder contributions experienced in 2019.

Trading income decreased by $14.5 million to $52.5 million due mainly to:

- lower income from fees and charges of $4.1 million, which includes a reduction in AFL match day recoveries of $12.1 million, partly offset by an increase in major events revenue for major events held prior to COVID-19 restrictions
- lower crowd numbers for AFL games impacting food and beverage sales, which reduced by $18.9 million
- the receipt of Commonwealth JobKeeper subsidies of $12.9 million.

Trading expenses decreased by $9.2 million to $61 million ($70.1 million) due mainly to:

- decreases in raw materials and consumables of $5.9 million and supplies and services of $4.4 million, both decreases driven by the reduction in operating activity
- first time recognition of lease interest expenses of $862 000, reflecting the annual amortisation of AOSMA's lease liabilities (refer comments under 'Statement of Financial Position' below)
- an increase of other expenses of $507 000 due to the write-off of obsolete food and beverage stock.

Stakeholder contributions

Net contributions to AOSMA from the SANFL and SACA were $882 000 ($4.7 million).

Under various agreements, AOSMA contributed $3.7 million ($8.1 million) of its trading income to the SANFL and SACA, and a further $3 million to AOHT for the purchase of hotel fittings, fixtures and equipment. The SANFL and SACA contributed $7.6 million ($12.8 million) to AOSMA to support its operations.

The $6.7 million contributed to the SANFL, SACA and AOHT was in addition to $11.9 million ($22.4 million) collected and distributed by AOSMA to the SANFL, SACA, AOHT and COT throughout the year as their agent. For the SANFL and SACA, these distributions replace the funds formerly generated directly by SACA when it held the lease over the Adelaide Oval, and for the SANFL when AFL football was played at AAMI Stadium.

SA Government related items

AOSMA received contributions of $1.7 million from the SA Government, including $1 million ex gratia relief for the annual sublease of the Adelaide Oval Core Area. A further $700 000 was received for several capital projects, including improvements to Telstra Plaza, stair nosing works and cladding.

Statement of Financial Position

Total assets increased by $72.2 million to $115.9 million as at 31 October 2020. This was due largely to:

- the first time recognition of $24.3 million in right-of-use assets in line with AASB 16 *Leases*. This balance largely represents AOSMA's sublease of the Adelaide Oval core area. The right-of-use asset is measured at cost, comprising the initial measurement of AOSMA's corresponding lease liability
- recognition of finance lease receivables valued at $14.2 million for AOSMA's sub-sublease of a portion of the Adelaide Oval core area to AOHT for the Adelaide Oval Hotel
- recognition of AOSMA's $42.6 million loan receivable from AOHT for the construction of the Adelaide Oval Hotel. For more information on the Adelaide Oval Hotel refer to 'Further commentary on operations' below
- a $5.6 million decrease in trade receivables, reflecting the impact of COVID-19 on AOSMA's operations.

Total liabilities increased by $64.4 million as at 31 October 2020 due mainly to:

- a $38.9 million increase in loans and borrowings, principally reflecting AOSMA's obligations to the Treasurer for the construction of the Adelaide Oval Hotel
- the first time recognition of lease liabilities of $24.6 million for AOSMA's sublease of the Adelaide Oval core area. At 31 October 2020 this lease liability was valued at $25.3 million, significantly lower than the $71.8 million outstanding lease commitments AOSMA disclosed in its 2019 financial report. The difference in value largely reflects the impact of discounting outstanding lease payments to present value.

Money collected on behalf of other parties

AOSMA collects money as agent on behalf of the SANFL, SACA, AOHT, COT, AFL, CA, football clubs and various other promoters. Collecting this money involves selling, on their behalf, tickets to events, supply rights, Adelaide Oval football memberships, Stadium Club corporate seats and suites and the Adelaide Oval roof climb.

For the year ended 31 October 2020, AOSMA collected:

- $11.9 million on behalf of the SANFL, SACA, AOHT and COT. This amount is disclosed as related party transactions in note 17 of AOSMA's financial report
- $18 million on behalf of the AFL, CA, football clubs and various other promoters. These collections are not disclosed in the financial report and are unaudited, apart from the balance awaiting distribution as at 31 October 2020. These collections related to tickets sold through AOSMA's ticketing agent on behalf of these other entities.

AOSMA's financial report does not include revenue generated at the Adelaide Oval that is not collected through AOSMA but directly by the SANFL, SACA, AFL, CA, football clubs or other promoters.

Further commentary on operations

State legislative requirements

AOSMA's operations are subject to the requirements of the *Adelaide Oval Redevelopment and Management Act 2011* which specifies the following matters:

- leasing and licensing requirements for the management of the Adelaide Oval. These requirements involve the Corporation of the City of Adelaide (Adelaide City Council), the responsible Minister, the SANFL, SACA and AOSMA
- AOSMA's financial reporting and audit requirements and the redevelopment in general
- that the Auditor-General audits AOSMA's accounts each year
- the establishment of a sinking fund to be managed by AOSMA to pay for non-recurrent expenditure of the Adelaide Oval in the years after its completion. After consulting AOSMA, the Treasurer must determine annually the amount payable by AOSMA into the sinking fund. A report on money paid into and out of the fund must be provided to the Minister by 1 September each year.

AOSMA has established a bank account to hold sinking fund money. It obtained a report from a project consultant that provides an estimate of the forecast non-recurrent expenditure of the Adelaide Oval over a 50-year period and the required annual sinking fund contribution.

Sinking fund

Due to the impact of COVID-19, AOSMA received an exemption from the Treasurer to make a contribution of $3 million to the sinking fund in 2019-20. Payments totalling $3.1 million were made out of the sinking fund in 2019-20 and $114 000 in interest income was received (refer to note 3 of AOSMA's financial report). The balance of the sinking fund as at 31 October 2020 was $6.7 million.

Leasing and licensing arrangements

AOSMA subleases the Adelaide Oval Core Area, which includes the stadium, from the SA Government.

The rent payable by AOSMA to the SA Government over the 80-year term of the lease is expected to be $74.3 million before indexation. AOSMA is required to pay the annual sublease fee by 31 July each year. The land situated in the Adelaide Oval Core Area is leased by the SA Government from the Adelaide City Council for an equal term at $1 per annum.

AOSMA has licensed the SANFL the exclusive right to play football at the oval during the football season from 15 March to 7 October for a term of 20 years, with a right of renewal for three further 20-year terms. The licence enables the SANFL to enter into arrangements with the AFL and football clubs for the use of the oval. Likewise, AOSMA has licensed SACA the exclusive right to play cricket at the oval during the cricket season from 8 October to 14 March for a term of 80 years. The licence enables SACA to enter into arrangements with CA for the use of the oval. The licences preserve AOSMA's right to hold ad hoc events, such as concerts, at the oval at any time provided sufficient notice is given to the SANFL and SACA.

The Adelaide City Council has also licensed the SA Government to use the area closely surrounding the stadium for a 20-year term for no fee, with a right of renewal for three further 20-year terms. The SA Government has sublicensed the use of this area to the SANFL, SACA and AOSMA for an equivalent term for a fee of $10 each per annum.

Adelaide Oval Hotel

On 30 June 2019 the Minister consented to AOSMA undertaking a hotel development at the Adelaide Oval. Work offsite commenced in July 2019, with construction onsite commencing in October 2019. The hotel opened for operations on 25 September 2020.

The Adelaide Oval Hotel is managed by the trustee of the AOHT under a sub-sublease and licence agreement with AOSMA. AOHT is a jointly controlled entity of the SANFL and SACA. AOHT pays AOSMA an annual lease fee of $600 000 (indexed). As required by the accounting standards, amounts owing under this arrangement are recognised in the Statement of Financial Position as finance lease receivables and measured at the present value of outstanding lease payments. At 31 October 2020 these finance lease receivables were valued at $14.2 million. This lease receivables asset will reduce as lease payments are received.

To finance the hotel build, AOSMA entered a facility agreement with the Treasurer on 7 August 2019 for $42.6 million, with AOSMA on-lending these funds to AOHT. As at 31 October 2020 AOSMA had fully drawn down on the loan from the Treasurer, with all funds on-lent to AOHT.

AOSMA is contracted under an operations and services agreement to provide services to AOHT, as required, to operate the hotel. This agreement provides that AOHT will pay AOSMA the cost, as determined by AOSMA, of providing these services without mark up.

AOSMA made a $3 million contribution to AOHT for the acquisition of Adelaide Oval Hotel fittings, furniture and equipment.

Commercial Operations Trust

The trustee for the COT is a jointly controlled entity of the SANFL and SACA established in 2015-16 and appointed to operate the Adelaide Oval roof climb in the Adelaide Oval Core Area. AOSMA licensed COT to operate the roof climb from 1 July 2016 to 16 November 2031. The issuing of the licence was approved by the Minister. AOSMA also entered into a service agreement with COT which enables AOSMA to manage the roof climb business on behalf of COT. The associated licence and management fees outlined in the agreements are recognised as revenue in AOSMA's financial report. Net ticket sales for the roof climb that were administered by AOSMA as agent for COT for the year totalled $687 000. This amount is not recognised in AOSMA's financial report.

In addition to the Adelaide Oval roof climb, COT is responsible for operating the bar and café at the Adelaide Festival Centre and, since 1 November 2018, the catering services at Monarto Zoo. AOSMA was previously responsible for these catering services.

AOSMA is contracted under an operations and services agreement to provide management and staff services to COT to operate the roof climb and other offsite food and beverage operations.

Adelaide Venue Management Corporation (AVMC)

Financial statistics	Income from trading activities: $49.8 million Profit from trading activities: $16.9 million Loss from property management activities: $33.5 million Net loss: $16.5 million Number of FTEs: 316 The following information on the number of events held and patrons attending these events was provided by the AVMC and is unaudited.

	2021 Number	2020 Number
Adelaide Entertainment Centre:		
Events	31	61
Patrons	146 000	261 120
Coopers Stadium:		
Events	15	15
Patrons	127 000	153 600
Adelaide Convention Centre:		
Events/Functions	358	539
Patrons	105 000	292 524

Significant events and transactions

- The COVID-19 pandemic continues to have a significant financial and operational impact on the AVMC.
- Coopers Stadium Upgrade project funds of $45 million were received by the AVMC.
- Business interruption insurance proceeds of $26.4 million were received and accrued by the AVMC.

Financial report opinion

Unmodified

Controls opinion findings

No audit findings.

Functional responsibility

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

The AVMC's main function is to manage and operate the Adelaide Convention Centre, the Adelaide Entertainment Centre and Coopers Stadium. For details of the AVMC's functions refer note 1.2 of its financial report.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- revenue from events, functions, restaurants, bars and carparks
- expenditure on supplies and services
- salaries and wages
- inventory.

Controls opinion

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

Audit findings

Communicating our audit findings

We did not identify any audit findings to communicate in a management letter to the Chief Executive Officer.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Trading activities		
Expenses	33	48
Income	50	51
Profit (Loss) from trading activities	17	3
Property management activities		
Expenses	58	61
Income	24	25
Profit (Loss) from property management activities	(34)	(36)
Net profit (loss)	(17)	(33)

	2021 $million	2020 $million
Net cash provided by (used in) operating activities	14	-
Net cash provided by (used in) investing activities	(1)	(8)
Net cash provided by (used in) financing activities	(2)	(2)
Assets		
Current assets	36	22
Non-current assets	581	612
Total assets	617	634
Liabilities		
Current liabilities	14	11
Non-current liabilities	401	402
Total liabilities	415	413
Total equity	202	221

Statement of Comprehensive Income

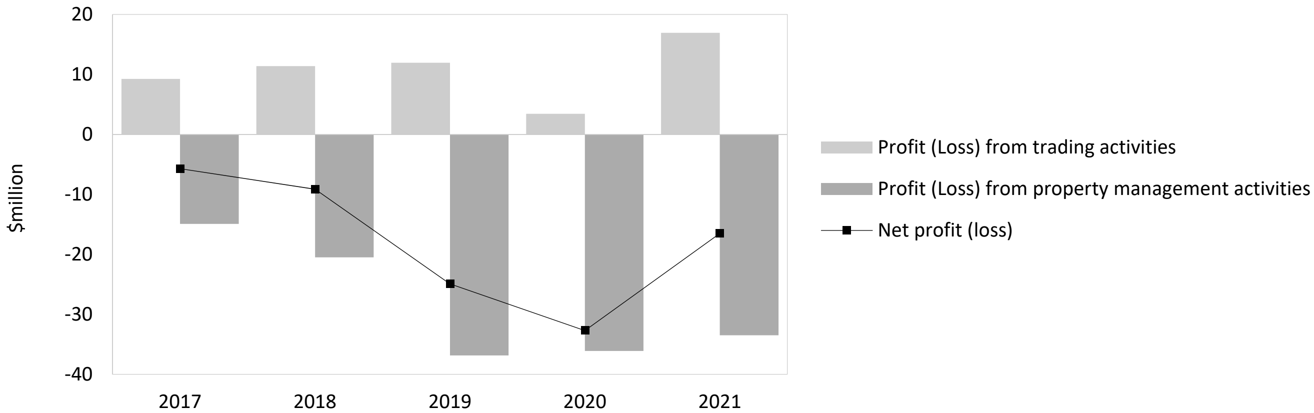
The AVMC recorded a net loss of $16.5 million for 2021.

The AVMC continued to be significantly financially impacted by COVID-19 in 2021. Due to substantial event and function cancellations, it experienced a 37% decrease in revenues (business interruption insurance revenue excluded).

Key impacts, also explained in note 1.3 of the AVMC's financial report, were:

- the cancellation or postponement of a substantial number of event bookings
- the AVMC continuing to activate its Downturn Plan to minimise its financial loss, including ceasing non-essential expenditure, staff drawing down on leave entitlements and most casual employees not being utilised when there is no event activity within the venues
- the AVMC making claims against its business interruption insurance cover.

The following chart shows the profits (losses) from trading and property management activities and the AVMC's net profits (losses) for the five years to 2021.



Profits from trading activities are not sufficient to cover the losses from property management activities.

From 2017 to 2019 profits from trading activities were relatively steady while losses on property management activities grew. In 2020 losses on property management activities were steady but the profit from trading activities declined due to the impact of COVID-19. In 2021 profit from trading activities increased significantly due to the AVMC receiving $26.4 million in business interruption insurance.

The net loss for 2020-21 decreased by $16.2 million to $16.5 million. The profit from trading activities increased by $13.6 million to $17 million and the loss from property management activities decreased by $2.6 million to $33.5 million.

Profit from trading activities

The AVMC's income from trading activities totalled $49.8 million, a decrease of $1.4 million from 2020.

Income from trading activities included $26.4 million in business interruption insurance for claims made due to COVID-19 ($0 in 2020). Other income from trading activities mainly comprised catering revenue of $10.7 million, a decrease of $14.6 million from 2020, and venue hire revenue of $2.5 million, a decrease of $5.6 million from 2020.

Expenses from trading activities amounted to $32.8 million, a decrease of $15 million from 2020. They mainly comprised employee benefits expenses of $20.1 million, a decrease of $8.4 million, and supplies and services expenses of $7.5 million, a decrease of $6.2 million.

Loss on property management activities

Expenses from property management activities were $57.9 million and mainly comprised depreciation ($28.7 million) and borrowing costs ($18.5 million).

The AVMC received $23.6 million in funding from the SA Government, which fully compensated borrowing costs and contributed to property management activities associated with the Adelaide Convention Centre site maintenance of the common areas and the Riverbank Precinct.

Statement of Financial Position

The main item in the AVMC's Statement of Financial Position is property, plant and equipment, representing 91% of total assets. The carrying value of property, plant and equipment is $564 million, which includes land and buildings of $548 million and plant and equipment of $13.4 million. The AVMC's main assets are the Adelaide Convention Centre and the Adelaide Entertainment Centre buildings.

Liabilities as at 30 June 2021 totalled $414.5 million and mainly comprised financial liabilities of $393.7 million and payables of $3.6 million. The AVMC has fully drawn down its approved borrowing limit of $382.3 million from the SA Government.

Current liabilities at 30 June 2021 were $13.8 million ($11.5 million). The increase compared to last year includes an increase in contract liabilities of $3.4 million, reflecting invoicing for future events as client confidence increased. This was offset by a decrease in employee benefits of $919 000.

Statement of Cash Flows

Cash and cash equivalents were $45.4 million ($34 million) as at 30 June 2021. The increase is a result of reduced expenditure due to COVID-19 and the receipt of $6.2 million in business interruption insurance proceeds related to 2020.

The AVMC had a $14.1 million net cash inflow from operating activities for the year while cash used in investing activities was $1.1 million, which included payments associated with its annual investment program.

Cash used in financing activities was $1.6 million and comprised dividends paid to the SA Government. Dividends are paid in line with the AVMC's Performance Statement.

Administered items

Event funds

The AVMC administers, but does not control, gross box office receipts from its ticketing agency. These receipts are held in a separate event funds bank account. Settlement occurs after each event through the payment of funds held to promoters, the AVMC and other service providers. Total administered revenues for the year were $7.4 million and administered expenses were $3.2 million. The balance of funds held in trust as at 30 June 2021 was $6.5 million.

Coopers Stadium Upgrade project funds

Through a memorandum of administrative arrangement (MoAA), the Office for Recreation, Sport and Racing transferred funding of $45 million to the AVMC for the Coopers (Hindmarsh) Stadium Upgrade. Under the terms of the MoAA the AVMC is responsible for all aspects of project management and delivery of the proposed upgrade. As at 30 June 2021 the AVMC had expended $1 million of the funding, leaving a balance of $44 million.

Further commentary on operations

Impact of COVID-19

It is expected that COVID-19 will continue to significantly impact the AVMC in 2022 and beyond.

The number of events and attendees is expected to be significantly below normal levels due to:

- ongoing uncertainty about the severity and/or duration of the pandemic
- related government restrictions
- significant lead times on some event types resulting in a delay in the AVMC returning to normal operational levels.

The AVMC is insured for business interruption through its captive insurer, the South Australian Government Financing Authority.

The AVMC forecasts that it is unlikely to return to pre-COVID-19 levels of revenue and profit until 2025-26.

Note 9.6 of the AVMC's financial report explains the key expected impacts.

Attorney-General's Department (AGD)

Financial statistics

Employee benefits expenses:	$152 million
Net result:	($16 million)
Appropriation:	$193 million
Number of FTEs (includes administered):	1445
Administered income:	
Taxation revenue	$320.2 million
Fees and charges	$229.5 million
Fines and related fees	$98.6 million
Revenues from appropriations	$80.8 million
Recoveries and other	$40 million
SA Government Radio Network	$34.7 million
Victims of Crime levies	$30.5 million
Administered expenses:	
Payments to Consolidated Account	$583.3 million
Grants and subsidies	$51.2 million

Significant events and transactions

— A machinery of government change transferred the planning and local government function to AGD, effective from 1 October 2020. This transferred Planning and Land Use Services, the Office of the Valuer-General, the Office of the Registrar-General and the Office of Local Government to AGD. Responsibility for a number of entities was also transferred to the Attorney-General.

— On transfer of the planning and local government function, AGD recognised total assets of $338.6 million for controlled and $29.3 million for administered, and total liabilities of $15.6 million for controlled and $1.5 billion for administered.

— The major assets transferred were the SAILIS software system used for commercialised land services (data $294.9 million and software $13 million) and work in progress of $25.9 million, mainly for the ePlanning system. Liabilities transferred included contract liabilities of $1.5 billion arising from the consideration received for the commercialisation of the State's land services operations on the date of transfer.

— The SAILIS data service concession asset measured at current replacement cost was revalued downwards by $30.8 million at 30 June 2021.

— The Development Application Processing system (a component of the ePlanning system) used to electronically lodge development applications went live in March 2021.

— The Fines Enforcement and Recovery Unit (FERU) transferred to the Department of Treasury and Finance from 1 July 2021.

Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— Contract management of the Lands Services SA (LSSA) contract needs to improve. In particular: • a financial analysis was not performed to assess the risk of ongoing viability of LSSA • the contract management plan was not updated for all key operating activities and the change in the operating environment due to the machinery of government change. — Bona fide and leave return reports were not reviewed promptly in some business units. — Time attendance records were not completed and reviewed promptly in some business units. — Lack of review of appropriate user roles and delegations in the Crown Solicitor's Office Workflow system. The system is used to the review and approve Victims of Crime payments. — Business processes at Consumer and Business Services need to improve, in particular: • a system error in the online payment system that resulted in overcharging • fee references not being updated to reflect current legislation, resulting in the incorrect upload of a fee • no procedure to manage and reduce the unclaimed bonds liability • the bond refunds EFT payments file was not restricted • customer bank account details entered into the Bonds Management System (BMS) were not independently reviewed • BMS user access reviews were not performed and we found users with inappropriate access • bonds bank reconciliation reconciling items were not cleared promptly. — IT general control weaknesses exist in the Fines Enforcement and Recovery Management System (Debtrak).

Functional responsibility

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

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

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

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- general ledger
- cash and debtors
- payments and employee entitlements
- revenue, including revenue streams transferred from the Department of Infrastructure and Transport (DIT)
- taxation receipts
- statutory funds
- corporate and SA Government Radio Network (SAGRN) assets
- Crown Solicitor's Trust Account
- financial accounting and reporting
- IT general controls over Debtrak.

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

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

Other audit findings

Land Services Agreement

In 2017-18 the State engaged Land Services SA (LSSA), to deliver a range of transactional land and property valuation services on behalf of SA Government for 40 years. Delivery of these services commenced in October 2017. In 2019, the Treasurer approved the extension of the current term for a further seven years.

Under the Land Services Agreement, the State must pay LSSA various charges, including but not limited to, the Lands Titles Office services charge and valuation service charge for providing certain land titling and property valuation services.

The governance framework of the Land Services Agreement is managed by the Offices of the Registrar-General (ORG) and Valuer-General (OVG). However, the day-to-day contract management activities are performed by the ORG. On 1 October 2020 the ORG and OVG transferred to AGD from DIT, as responsibility for the planning and local government function was transferred to the Attorney-General.

Our review of contract management for the Land Services Agreement identified the following findings.

Financial analysis not performed to assess the risk of ongoing commercial viability of LSSA

The risk of ongoing viability of LSSA is included in the Land Services Agreement risk register.

We found that the ORG does not:

- use any detailed and independent financial information to assess this risk
- perform a financial sensitivity analysis due to the lack of independent financial information.

We acknowledged that LSSA regularly conducts risk management reviews that are provided to and reviewed by the ORG. It is important that the ORG does not place exclusive reliance on LSSA's self-reporting mechanisms, as this increases the risk of undetected inaccuracies and omissions in the quality of LSSA's risk management processes.

Without adequate and independent financial information to assess the risk of commercial viability, the ORG cannot be sure that its risk assessment of the outsourced arrangement is effective.

The continual appraisal of LSSA's financial performance is critical to ensuring the integrity and security of the land titling system.

We recommended that the Registrar-General:

- seek advice from the Crown Solicitor's Office (CSO) to determine what financial information can be sought from LSSA to assess the risk of commercial viability
- obtain independent information, if not provided by LSSA, to assess the risk of commercial viability

- assess whether ORG staff have the skills to analyse the risk of ongoing viability and seek external expertise if required
- discuss risks that impact on LSSA and that ORG identifies from the risk analysis at operational and governance meetings.

The Registrar-General indicated that the ORG:

- will seek CSO advice as we recommended
- agreed that over the life of the contract, the State will need to regularly appraise LSSA's financial performance. This will help to understand LSSA's solvency and viability, which will help to maintain the integrity, security and accessibility of the land titling system and valuation roll
- was seeking agreement with LSSA as to the type and frequency of financial reports to be provided by LSSA. However, an agreement has not been reached to date
- will investigate the provision and assessment of independent information, including the engagement of external expertise where necessary
- will discuss any risks identified as a result of the above processes at operational and governance committee meetings, or with the executive of LSSA, as needed.

The Registrar-General also advised us that the risks to the State relating to the potential failures of LSSA are addressed by various mechanisms within the contractual documents. This included the performance framework and the ability of the State to request reports (including financial reports) from LSSA.

Contract management plan is incomplete

We reviewed the contract management plan for the Land Services Agreement and found that it does not:

- include all key operations activities required to manage the contract
- reflect the change in the operating environment since the machinery of government change from DIT to AGD
- include other recent changes such as the Registrar-General's delegated authority from the Attorney-General to approve contract variations under the Land Services Agreement.

The Registrar-General advised that a contract management plan was not prepared when the Land Services Group was initially commercialised in 2017. The ORG subsequently prepared one that is due for review in September 2021 and will be updated to ensure:

- it contains all key operational activities detailing how the Land Services Agreement is managed
- changes to the operating environment due to transfers to AGD and specific Land Services Agreement contract variation delegations are reflected.

Payroll

Employee benefits expenses for both controlled and administered activities totalled $162 million for 2021-20, while employee benefits liabilities totalled $55.6 million as at 30 June 2021.

Key payroll reports not reviewed promptly

We found AGD's bona fide and leave return reports were not always reviewed promptly. This has been raised in previous years.

We noted that the Consumer and Business Services (CBS), South Australian Civil and Administrative Tribunal (SACAT), Policy and Community, and Planning and Land Use Services (PLUS) business units had the most outstanding reports.

The prompt review of bona fide and leave return reports provides assurance that:

- payments to employees are valid and authorised
- leave taken by employees is completely and accurately recorded.

AGD advised us that:

- CBS had recently reviewed its outstanding reports and reviewed their delegates, with a view to improving compliance. Reports have been reviewed and approved retrospectively, with the number of outstanding reports reduced to three
- SACAT and PLUS had been given information about their outstanding reports and other areas will also be provided the same information
- it will consider reporting to executive management on outstanding bona fide and leave returns to help improve the visibility of these issues across the agency
- a new bona fide and leave return procedure has been approved and it details the reporting of leave returns and bona fides. An email has been sent to all business unit heads highlighting this new procedure and providing instructions.

Time not recorded and approved promptly

AGD business units use TimeWise to record time worked and apply for leave. Our review of the manager reminder report between May 2020 and February 2021 for all AGD business units identified:

- timesheets completed but not approved by the manager
- timesheets not completed.

The Policy and Community, CBS, Finance, People and Performance and Projects and Technology divisions had the most outstanding timesheets.

Completing and approving timesheets and leave requests provides assurance that:

- time recorded by employees is accurate
- employees are only paid for hours worked
- leave taken by employees is approved and accurately recorded.

AGD advised us that:

- 122 of the timesheets we identified referred to business units that are no longer part of AGD, including SafeWork SA and the South Australian Employment Tribunal. While these business units transferred from AGD some time ago, timesheets for these separated users are still appearing in the TimeWise. AGD will consider ways to rectify this issue

- CBS had reviewed its outstanding timesheets and reduced the number of them to 17 from 229 at the time of our audit
- it will consider reporting to executive management on outstanding timesheets to help improve the visibility of this issue across the agency.

Policies and procedures not reviewed

We have noted in previous years that the following policies were overdue for review:

- Managing Employee Information and Payments Policy and Procedure – last reviewed in October 2017
- Leave: Guidelines and procedures – last reviewed in September 2018.

These policies and procedures do not reflect recent changes to the automated process of certifying bona fide and leave return reports.

We noted that updated policies had been prepared but were still awaiting approval at the time of our audit in April 2021.

AGD advised us that a new bona fide and leave return procedure has now been approved and communicated across AGD. The previous policy has been rescinded.

Crown Solicitor's Office

Victims of Crime payment system user roles not reviewed

The CSO established the Workflow system to automate the process for reviewing and authorising Victims of Crime payments and to ensure the segregation of the first and second authorising delegates.

The first and second authorising delegates are allocated/determined by Workflow based on the roles assigned to users in the system.

We found that Workflow user roles were not reviewed on a regular basis.

AGD advised us that the user roles will be sent to the Executive Solicitor on a monthly basis for review to ensure user roles are assigned to the correct individuals. This will commence from the August 2021 review.

Cash

No evidence of independent check of the monthly CommBiz user access review

A review of the users in the CommBiz banking system is completed at least quarterly to ensure all users are still AGD employees and require access to the AGD bank accounts as part of their current roles.

Our review of the February 2021 CommBiz user access review found that the user report used was not signed and dated by the person who performed the review or by the independent reviewing officer.

We note that the user report had been signed and dated in previous years, but this process stopped while staff were working from home due to COVID-19. No electronic sign-off was implemented during this time and the signing and dating of this report did not recommence once staff returned to the workplace.

We also noted that the user review procedure did not include the requirement to sign and date the user report by the reviewer and independent reviewing officer.

AGD responded that:

- it would continue to review CommBiz user access at least quarterly
- the user report will be signed and dated to evidence the review and then retained
- the user review procedure will be updated to require the reviewing officers to sign and date the user report.

To improve the review process, a summary of all user access changes during the period will be prepared and attached to the report with supporting documentation of each change request.

Consumer and Business Services

In 2020-21 licence and regulatory fees collected through the Liquor, Occupational, Gaming, Investigations and Complaints revenue collection system (LOGIC) totalled $33.9 million, while gaming and taxation revenue totalled $346 million. Fees collected for issuing birth, death and marriage certificates through the Promadis revenue collection system totalled $6.2 million.

Our audit of CBS identified that:

- the Promadis to general ledger reconciliation, which ensures that all revenue is journalled accurately in the general ledger, was not performed monthly as required by the CBS procedure. The procedure did not specify the time frame for completing and reviewing the reconciliation, only that it should be performed monthly. A similar issue has been raised in previous years
- there is no procedure for reviewing Promadis user access. We confirmed that while this review is not included in a procedure, it is included in the Senior Projects Officer's role description
- when checking whether the fees for a number of licences were correctly applied in line with legislation, we noted one instance where an applicant was charged for each variation in their application instead of just once. After investigating the error, CBS confirmed that this was caused by a system error in the online payment system. They were investigating the reason for the system error and whether it extended to all licence types
- there were several instances where the fee type reference in the spreadsheet of legislative fees had not been updated to reflect the latest references in the Schedule to the Occupational Licensing (Fees Notice) Regulation. As a result, CBS could not agree the value of several fees to the relevant legislation
- there was one instance where the licence fee charged in LOGIC did not match with the legislated rate in the gazetted Occupational Licensing (Fees Notice) 2020. CBS acknowledged that the incorrect rate was applied and has since adjusted it in LOGIC.

CBS advised us that it:

- has updated its procedure to specify the time frame for completing and reviewing the Promadis to general ledger reconciliation and distributed it to relevant staff. The reconciliation will be performed and reviewed within 15 working days of the end of each month
- will document procedures for the monthly review of the Promadis user access
- has investigated why the online payments system charged a fee for each licence variation and implemented changes to correct the system
- will ensure LOGIC fees are updated and checked using a spreadsheet documenting changes to descriptors.

Residential Tenancies Fund (RTF)

As at 30 June 2021 bonds lodged with the RTF totalled $230 million.

Bond refunds EFT payments file not restricted

For several years we have identified that the EFT payments file containing bond refunds can be modified between the time it is created and when payment is released. We have also identified several users with read and write capabilities who should not have access to the EFT payments file. We recommended that CBS review current access to the data folder on the computer drive where the EFT payments file is saved and remove access for staff who do not need it.

CBS previously responded that it had reviewed user access to the shared folder where the bond refunds EFT payments file is saved and limited it to read only where higher access was not needed for the user's daily role.

Our review this year noted that:

- review of user access to the bond refunds EFT payments file was not performed monthly to ensure access is appropriate
- there was no procedure for the review of user access
- several users, including officers within and outside of the Bonds Team, with read and write capabilities should not have access to the EFT payments file.

We understand that the end-of-day banking process will identify any unauthorised changes to amounts in the bond refunds EFT payments file, but it will not identify changes made to bank account details.

CBS advised us that it will continue to perform the end-of-day banking process and retain evidence of this review. A review of current access to the shared folder where the EFT payments file is saved has been completed and staff access has been limited to read only where appropriate. Procedures have been updated and staff have been educated.

Customer bank account details are not independently reviewed in the Bonds Management System

Customer bank account details are manually entered into BMS from the bond refund form. Once processed, the bond refund is included in the bond refunds EFT payments file, which is uploaded into CommBiz for payment.

We found that there was no system control in BMS to prompt an independent review of the accuracy of the bank account details entered, and that changes to bank account details are valid and supported by a signed bond refund form.

CBS responded that it would explore whether a system control could be implemented for an independent review of bank account details changes prior to refunds being paid, to ensure their validity and accuracy. If a system control cannot be identified, a process will be adopted to ensure that bank account detail changes processed in BMS are listed on a report and independently reviewed for validity and accuracy.

Park bonds bank reconciliation reconciling items not cleared

Our review of the February 2021 residential park bonds bank reconciliation (bonds collected for permanent caravan park sites) identified 26 reconciling items and several reconciling items still outstanding from 2014, 2017 and 2018.

We understand that this issue was identified by CBS and that in 2020-21 it had been working with the Bonds team to resolve these longstanding reconciling items.

Without the prompt review of reconciling variances between cash and security bond lodgements, liabilities included in the financial statements may be misstated.

CBS advised us that it would investigate longstanding reconciling items and determine the appropriate follow-up action to ensure they are cleared promptly.

No procedure to manage and reduce unclaimed bonds liability

Section 63 of the *Residential Tenancies Act 1995* requires the repayment of bonds lodged. In 2018-19 CBS developed an unclaimed bonds liability procedure but it did not outline how CBS will manage and reduce this liability. Our review of the procedure in 2020-21, and in previous years, noted that it had not been amended to address this deficiency.

We note that as at March 2021 unclaimed bonds totalled $15 million, an increase of 16% from $11 million as at 30 June 2020.

We understand that CBS has a full-time project officer assigned to reduce the liability and has identified several preventative measures to ensure the balance does not continue to grow. CBS is yet to determine the best method to clear historical bonds.

CBS advised us that a project is underway to actively pursue options to reduce the unclaimed bonds liability, with a procedure being developed to outline the steps CBS takes to manage and reduce it. Due to the complexity of this project and the need for CBS to seek advice to determine the approach to refunding unclaimed bonds, an implementation date cannot be confirmed at this stage.

Bonds Management System user access review not performed

The CBS procedure for modifying users in BMS requires the Bonds Administrator to facilitate a monthly review of BMS user access. We were advised that the review had only been performed in March 2021 and not monthly as required by the procedure, and evidence of the review was not retained.

Our review of the user access listing found:

- two users with Bonds Administrator access they should not have had
- a Finance Officer with access roles in BMS that allowed them to lodge and refund bonds as well as input bank details to process refunds.

CBS advised that it would:

- remove the inappropriate Bonds Administrator access
- remove or change the Finance Officer's access to read only
- remind the Bonds Administrator/team leaders/managers to complete the BMS user access review monthly
- update the BMS procedures to require team leaders/managers to promptly inform the Bonds Administrator when the user access review is complete, retain confirmation emails as evidence of the review, and sign and date user access listings as evidence of the review.

IT general controls review

Fines Enforcement and Recovery Management System (Debtrak)

Debtrak is the revenue system used by the FERU to record the collection of fines referred to the unit.

In 2020-21, we reviewed the IT general controls operating in Debtrak. This included password management, user access management, privileged user access, audit logging, change management, patch management, and backup and disaster recovery management.

We identified some areas where controls could be further improved, including:

- weaknesses in the change management process
- weaknesses in the disaster recovery process
- weaknesses in password management
- inadequate IT security policies and procedures.

These weaknesses increase the potential for unauthorised changes or malicious activity within the Debtrak environment to go undetected.

AGD responded positively to our findings and agreed to take appropriate remedial action, expected to be completed by 30 December 2021.

Births, deaths and marriages revenue system (Promadis)

CBS uses the Promadis revenue system.

In 2019-20, we reviewed the IT general controls over Promadis. This included password management, user access management, privileged user access, audit logging, change management, patch management, and backup and disaster recovery management.

We identified control weaknesses in the change management process, as user acceptance testing was not always performed in a test environment and validation testing was performed in the live production environment.

CBS responded at the time that it would establish a separate user acceptance testing server for BDM by 31 December 2020.

Follow-up in 2020-21 identified that CBS was in the process of establishing a new production database server. Once completed, a development server could be provisioned. We understand that technical issues with Promadis access delayed the implementation process, but are now resolved.

CBS confirmed that it was implementing a new production database server. It will perform all user acceptance testing in a test environment before implementation into the BDM's production environment. The implementation date is 31 August 2021.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2021 $million	2020 $million
Income		
Appropriation	193	99
Revenue from fees and charges	113	87
Donated assets	-	26
Recoveries	14	10
Other	22	13
Total income	342	235
Expenses		
Employee benefits expenses	152	135
Supplies and services	139	61
Loss on revaluation of intangibles	31	-
Other	36	18
Total expenses	358	214
Net result	(16)	21
Total comprehensive result	(11)	21
Net cash provided by (used in) operating activities	27	3
Assets		
Current assets	71	41
Non-current assets	346	40
Total assets	417	81
Liabilities		
Current liabilities	49	29
Non-current liabilities	39	35
Total liabilities	88	64
Total equity	329	17

Statement of Comprehensive Income

Income

AGD collected $113.5 million ($86.8 million) in fees and charges and received $192.7 million ($99.4 million) in appropriation in 2020-21. This represents 90% (79%) of total income. Fees and charges collected in 2020-21 mainly comprise $40.1 million of licence and regulatory fees, $24.9 million of legal services fees, $15.2 million of land services fees and $11.5 million of network services fees.

The increase in total income of $107.1 million is mainly due to:

- appropriations, up $93.3 million, primarily due to additional appropriation of $88.1 million received for the transfer of the planning and local government function to AGD from 1 October 2020
- fees and charges, up $26.7 million, mainly due to the first-time recognition in 2020-21 of land services fees of $15.2 million and PLUS fees of $10.2 million
- Commonwealth-sourced grants and funding, up $6.8 million, as a new five-year National Legal Assistance Partnership (NLAP) commenced on 1 July 2020. Under this agreement $5.2 million was received for Aboriginal Legal Services (previously a separate agreement directly with the Commonwealth) and increased funding was received for Community Legal Centres ($841 000) and NLAP administration ($459 000). An additional $291 000 of legal assistance funding was also received for Bushfire support
- recoveries, up $3.5 million, mainly due to the recovery of expenditure for PLUS of $1.8 million, recognised for the first time in 2020-21, and for the Office of the Director of Public Prosecutions, up $780 000, from confiscations work and the recovery of outposted CSO lawyers
- resources received free of charge, up $3 million, as $2.8 million ICT services were received free of charge from the Department of the Premier and Cabinet, following Cabinet's approval to cease intra-government charges. In previous years only Shared Services SA services were provided free of charge.

These increases were offset by decreases in:

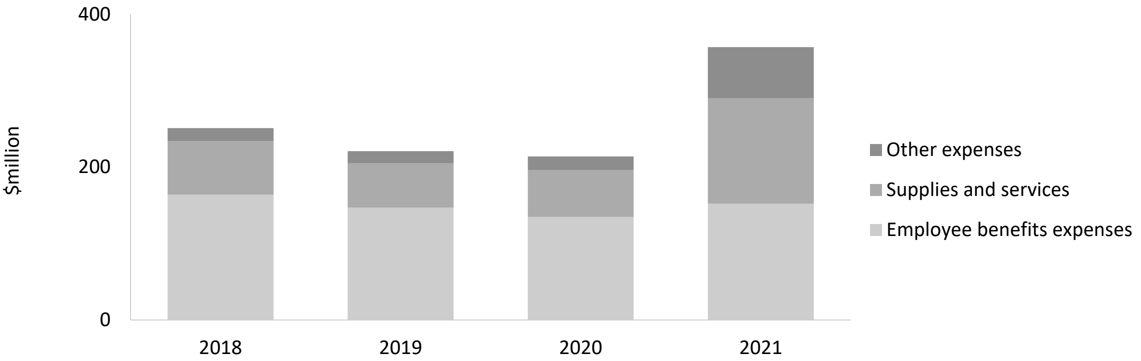
- donated assets, down $25.6 million, received from DIT on the transfer of the GPO Exchange fitout to AGD, of which $21.8 million was capitalised in 2019-20
- intra-government transfers, down $1.9 million, with no recoveries received from the Department of Treasury and Finance as no targeted voluntary separation packages (TVSPs) were paid in 2020-21.

Expenses

In 2020-21 total expenses increased by $143.6 million to $357.9 million, with the transfer of the planning and local government function to AGD being the major contributing factor. The increase is mainly due to increases in employee benefits expenses of $16.5 million, supplies and services of $77.7 million, grants and subsidies of $15.6 million and depreciation and amortisation expense of $3.5 million.

In addition, a loss on revaluation of intangibles of $30.8 million was recognised for the change in value of the SAILIS data service concession asset as at 30 June 2021.

The following chart analyses the main expense items for AGD for the four years to 2021.



Employee benefits expenses total $151.9 million and represent 42.5% of total expenditure. They increased by $16.5 million, with the main movements due to:

- salaries and wages, up $15.8 million, as 220.5 FTEs were transferred from DIT on the transfer of the planning and local government function to AGD on 1 October 2020
- employment on-costs, up $1.8 million, due to the additional employees transferred to AGD in 2020-21
- TVSP payments, down $2 million, as no TVSPs were paid in 2020-21 compared to 20 employees in 2019-20.

Supplies and services expense totalled $139 million ($61.4 million). The main components, which represent 79% (66%) of total supplies and services, were:

- contract payments for land administration services of $69.4 million ($0)
- accommodation charges of $21.3 million ($23.8 million)
- ICT expenses of $18.9 million ($16.6 million).

Statement of Financial Position

Assets

Total assets increased by $336.9 million to $417.6 million. The increase was mainly due to:

- cash, up $18 million. See commentary under 'Statement of Cash Flows' below for further explanation of the increase in cash
- receivables, up $12.6 million, primarily due to an increase in receivables of $7.4 million. This mainly comprised ORG, $3.7 million and PLUS, $2.4 million (all of which were $0 in 2019-20), offset by a decrease in receivables for CBS of $3.7 million related to the recovery from administered CBS funds. In addition, the GST input tax receivable increased by $4.5 million due to the increase in supplies and services expense in 2020-21
- intangible assets, up $303.6 million, mainly due to the transfer of SAILIS, a service concession asset comprising data of $294.9 million and software of $13 million, and $25.9 million of work in progress from DIT. Most of the work in progress related to the ePlanning system. These increases were offset by a revaluation decrement to the SAILIS data service concession asset of $30.8 million and amortisation of $5.9 million. The SAILIS data service concession asset is measured at current replacement cost. The decrement was due to changes in the inputs to the revaluation model, mainly relating to changes in the overhead rate per record and volume of records used to calculate the value. The valuation was performed by KPMG. Note 5.4 of AGD's financial report provides further information

- property, plant and equipment, up $2.7 million, mainly due to a $5.3 million revaluation increment for leasehold improvements as these assets were revalued in 2020-21, purchases of plant and equipment of $2.1 million for Forensic Science, additions to right-of-use assets (vehicles) of $175 000 and $578 000 of assets transferred from DIT. These increases were offset by depreciation of $5.3 million.

Liabilities

Liabilities increased by $24.7 million to $88.4 million. This was mainly due to:

- payables, up $17.8 million, as accrued expenses increased by $13.9 million, primarily due to amounts owing to LSSA for land administration fees of $7.1 million for June 2021. Creditors increased by $2.8 million due to the recognition of PLUS creditors of $2.3 million as at 30 June
- employee benefits liability, up $6.6 million, primarily due to $8.2 million of leave entitlements transferred from DIT. These increases were offset by the decrease to the long service liability of $3.1 million, due to the increase in the Commonwealth bond yield rate used to calculate the liability to 1.25% (0.75%).

Statement of Cash Flows

Cash held at 30 June 2021 was $42.6 million, an increase of $18 million over the previous year. The increase was due to:

- net cash provided by operating activities of $26.8 million, an increase of $23.8 million from last year. The main components of this improvement were:
  - an increase in cash generated from operations of $132 million mainly due to appropriations, up $93.3 million, fees and charges, up $27.5 million, recoveries, up $4.9 million, receipts from Commonwealth-sourced grants, up $6.5 million, GST recovered from the ATO, up $1.6 million and grants and subsidies, up $1.3 million. These were offset by decreases in SA Government grants, subsidies and transfers, down $2 million and other receipts, down $1.2 million
  - an increase in cash used in operations of $108.2 million mainly due to employee benefits payments, up $14.5 million, payments for supplies and services, up $76.3 million, and payments of grants and subsidies, up $17.1 million
- $8.4 million used in investing activities, up $3.4 million, due to purchases of intangible assets, up $4.4 million, offset by purchases of property, plant and equipment, down $1 million.

Highlights of the financial statements – administered items

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

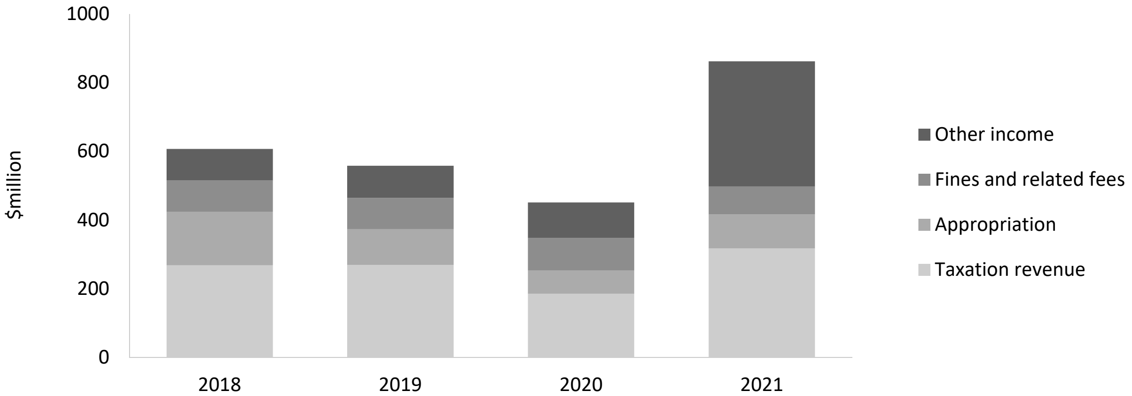
	2021 $million	2020 $million
Income		
Taxation revenue	320	185
Fees and charges	229	3
Fines and related fees	99	95
Appropriation	81	64
Recoveries and other income	40	14
SA Government Radio Network	35	34
Victims of Crime levies	31	26
Other	30	30
Total income	865	451

	2021 $million	2020 $million
Expenses		
Payments to Consolidated Account	583	267
Grants and subsidies	51	25
Victims of Crime payments	18	24
Intra-government transfers	19	21
SA Government Radio Network	22	22
Other	92	68
Total expenses	785	427
Net result	80	24
Total comprehensive result	80	24
Net cash provided by (used in) operating activities	51	24
Assets		
Current assets	476	372
Non-current assets	112	91
Total assets	588	463
Liabilities		
Current liabilities	134	55
Non-current liabilities	1 457	3
Total liabilities	1 591	58
Total equity	(1 003)	405

Statement of Administered Comprehensive Income

Income

The following chart analyses the main sources of AGD's administered income for the four years to 2021.



Taxation revenue ($320.2 million) and fees and charges ($229.5 million) represent 64% of total administered income with fines and related fees ($98.6 million), appropriation ($80.8 million), recoveries and other income ($40 million), SAGRN fees ($34.7 million) and Victims of Crime levies ($30.5 million) accounting for a further 33% of the total.

Total administered income increased by $413.6 million to $864.4 million ($450.8 million). The main components of this increase were:

- taxation revenue, up by $135.6 million, as gaming machine taxation revenue collected increased due to the lifting of COVID-19 trading restrictions in 2020-21. The tax is collected on behalf of the SA Government under the *Gaming Machines Act 1992*

- fees and charges, up $226.8 million, primarily due to the regulatory fees collected by LSSA on behalf of the State of $218.8 million and recognised for the first time in 2020-21. Fees and charges are collected as prescribed by the *Real Property Act 1886*
- appropriation, up $16.6 million, as in 2020-21:
  - $24 million was received for the 2020-21 State contribution to the Legal Services Commission. The 2019-20 State contribution of $22.9 million was received in 2018-19, therefore no State contribution was received in 2019-20
  - an additional $3 million was received for the State Rescue Helicopter Service contract
  - there was a $5.1 million decrease in funding for the South Australian Government Radio Network upgrade project as the project nears completion
  - there was a $2.4 million funding decrease for the Royal Commission into Aged Care Quality and Safety, as the project finished in 2020-21
- recoveries and other income, up $25.8 million, mainly due to revenue from the land services commercialisation of $25.7 million being recognised for the first time. This reflects the straight-line apportionment of the total commercialisation price from the period 1 October 2020 to 30 June 2021. The remaining commercialisation price is recognised as contract liabilities and will reduce over the 47-year period of the arrangement.

Expenses

Total administered expenses increased by $358.2 million to $785 million. Payments to the Consolidated Account of $583.3 million (mainly for gaming machine taxation and land services fees) and grants and subsidies of $51.2 million, principally paid to the Legal Services Commission, are AGD's largest administered expenses and represent 81% of total expenditure.

The increase in total expenses is mainly due to:

- payments to the Consolidated Account, up $315.9 million, mainly due to increased gaming machine taxation revenue collected in 2020-21 and revenue collected by the Office of the Registrar-General of $218.8 million paid for the first time
- grants and subsidies payments, up $26 million, mainly due to increased funding paid to the Legal Services Commission of $25.4 million, as the 2020-21 State contribution of $24 million was paid in 2020-21. The 2019-20 State contribution of $22.9 million was paid in June 2019
- intra-government transfers, down $2.4 million as funds were paid to the Outback Communities Authority of $2.4 million and Local Government Grants Commission of $468 000. Responsibility for funding these entities was transferred from DIT as part of the transfer of the planning and local government function to AGD. These increases were offset by a decrease in funding paid to the Independent Commissioner Against Corruption and Office of Public Integrity of $5.7 million
- other expenses, up $23.7 million, due mainly to:
  - gaming machine taxation refunds, up $15.5 million, which represents the payment of refunds to venues for the overpayment of gaming tax in 2019-20 due to COVID-19 trading restrictions
  - planning fees, up $7 million, which are fees collected by Planning SA for the lodgement of planning and development applications and referral fees received for planning and building compliance that are returned to councils

— suitor payments, up $1.9 million as fines collected on behalf of non-government entities increased in 2020-21.

Statement of Administered Financial Position

Assets

Total assets increased by $125.3 million to $588.4 million. This was mainly a result of increases in cash and cash equivalents, $65.9 million, increases in receivables of $38.3 million and increases to property, plant and equipment of $21.2 million.

The reasons for the increased cash holdings are discussed under 'Statement of Administered Cash Flows' below.

Receivables increased by $38.3 million due to:

- $28.6 million for gaming tax accrued as at 30 June 2021 compared to $21.3 million recognised in 2019-20 for gaming machine tax revenue
- $30.9 million accrued for regulatory land services fees as at 30 June 2021
- an increase in other receivables of $3.4 million, mainly due to the increase in interest accrued on the National Redress Scheme funding.

Property, plant and equipment increased by $21.2 million primarily due to additions of $41.9 million to plant and equipment right-of-use assets. This addition represents the new lease for the State Rescue Helicopter Service. The lease gives the right-of-use for approved aircraft to provide certain helicopter services to assist State emergency services agencies in the provision of emergency rescue and relief services.

The increases to property, plant and equipment were offset by depreciation of $22.2 million.

Liabilities

Total liabilities increased by $1.5 billion to $1.6 billion. This is primarily due to contract liabilities of $1.5 billion, arising from the consideration received for the commercialisation of the State's land services operations as at 30 June 2021. The contract liability was transferred to AGD on the transfer of the planning and local government function.

Payables decreased by $5 million as creditors and accruals decreased by $5 million, mainly due to a $6 million decrease in native title claims payable that were outstanding as at 30 June 2020.

Financial liabilities increased by $28.4 million due to the increased lease liabilities for the renewed lease for the State Rescue Helicopter Service.

Other liabilities, up $38.9 million, are primarily the gaming, fees, fines and other receipts payable, up $31.9 million, which included a $30.9 million accrual for SAILIS fees and charges as at 30 June 2021 and the balance of the Crown Solicitor's Trust Account, up $6.3 million. Both rose due to increased activity.

Statement of Administered Cash Flows

Overall cash and cash equivalents increased by $65.9 million to $379.4 million.

In 2020-21 net cash provided by operating activities was $51.2 million, an increase of $27.2 million from the previous year. This reflects an increase in cash generated from operations of $378.6 million and an increase in cash used in operations of $351.4 million compared with the previous year.

The major components of these changes to cash flows were increases in:

- taxation receipts, $163.2 million
- fees and charges, $195.7 million
- fines and related fees, $3.4 million
- appropriations, $12.6 million
- Commonwealth-sourced grants and funding, $1.7 million
- other receipts, $9.4 million
- payments to Consolidated Account, $289.9 million
- grant and subsidies payments, $26 million
- other payments, $45.3 million.

They were offset by decreases to:

- SA Government grants, subsidies and transfers, $1.1 million
- Victims of Crime levies, $1.9 million
- Victims of Crime payments, $6.5 million
- intra-government transfers, $2.4 million.

The net cash used in investing activities was $1.2 million compared to $5.6 million last year, due to lower purchases of property, plant and equipment.

Cash provided by financial activities was $15.9 million compared to cash used in financing activities of $12.9 million in 2019-20. The increase was mainly due to $29.3 million of cash transferred to AGD as part of the administrative restructure, offset by $13.5 million in the repayment of leases.

Further commentary on operations

Fines Enforcement and Recovery Unit

The FERU collects outstanding fines and related payments (suitor amounts and fees and charges associated with overdue amounts). It performs this function for court fines, expiation fees (including overdue local government amounts referred) and other outstanding amounts, including Victims of Crime levies and third party suitor amounts.

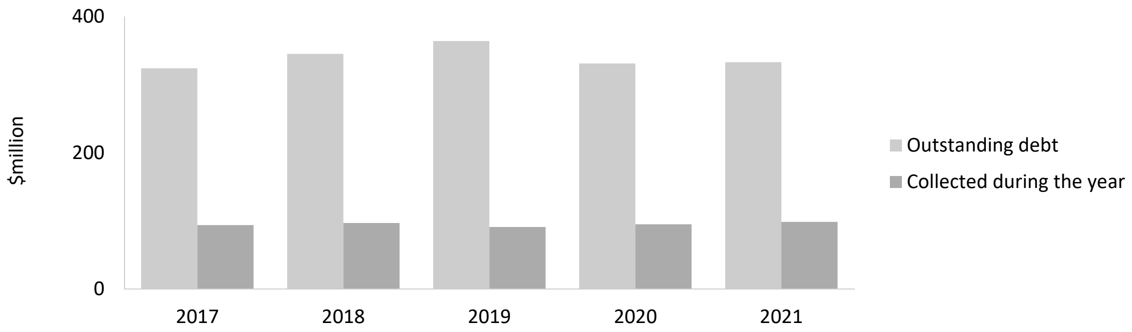
As at 30 June 2021, the balance of debt managed by the FERU was $410.9 million ($409.4 million), which includes $30.7 million ($31.6 million) that is not yet due. This comprises:

- fines – $226.1 million ($215.4 million). This includes expiations of $156.9 million ($151.6 million) and pecuniary sums of $69.2 million ($63.8 million)

- Victims of Crime levies – $78.1 million ($78.7 million)
- FERU fees – $106.8 million ($115.3 million).

$128.3 million ($125.4 million) of the debt relates to court penalties, while $282.6 million ($284 million) relates to expiation notices.

The following chart shows the total outstanding debt from fines and related fees (excluding Victims of Crime levies) and total collections over the last five years.



The chart highlights that while outstanding debts increased up to 2019 and decreased in 2020, they remained steady in 2021. The level of collections increased in 2020 and 2021. The increased collections reflect different collections management by the FERU and the use of powers to suspend dealings with the Registrar of Motor Vehicles or driver's licences (among other powers available).

Outstanding amounts are not recorded in the Statement of Administered Financial Position as there is significant uncertainty about the amount that will be collected. Instead, revenue is recorded in the Statement of Administered Comprehensive Income when money is received.

In 2020-21 fines lodged with the FERU totalled $198.2 million ($190.4 million). Total collections of $112.5 million ($108.9 million), including Victims of Crime amounts, included $101.5 million ($97.3 million) collected on behalf of the SA Government and $10.5 million ($13.5 million) collected on behalf of non-government entities, including local government councils.

The FERU has engaged a panel of external debt collectors to help collect outstanding amounts, particularly those that are more difficult to recover. The outstanding amounts collected by debt collection agencies since the start of the arrangements in 2016-17 total $25.3 million.

Of the $410.9 million ($409.4 million) in total outstanding debt and related payments, $353.4 million ($352.1 million) is under active management, with $152.2 million ($111.1 million) subject to payment arrangements, $30.7 million ($31.6 million) subject to arrangements prior to fines being overdue and $46.1 million ($43.8 million) not owed to the State. $173.6 million ($45.3 million) of fines were referred to debt collection agencies in 2020-21.

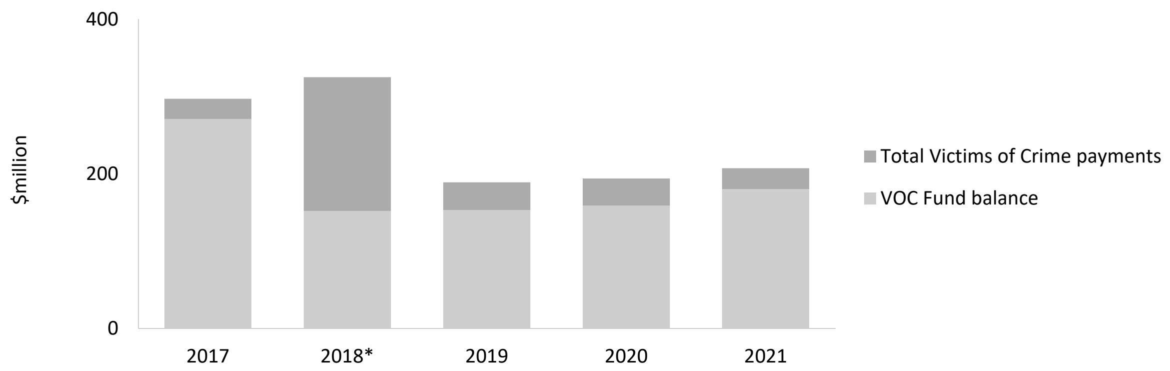
From May 2019 the FERU began to recover State debt on behalf of other government agencies. As at 30 June 2021 the FERU was recovering State debt for 19 (11) government agencies. In 2020-21 the total debt referred to the FERU was $35.7 million ($5.8 million), of which $3.7 million ($1.9 million) has been collected and $5.2 million ($1.6 million) is subject to payment arrangements. $3.9 million ($1.8 million) of debt has been paid back directly to government agencies.

Victims of Crime Fund (VOC Fund)

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

The balance of the VOC Fund as at 30 June 2021 was $180.2 million ($158.7 million).

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



* $146.4 million was paid from the VOC Fund for the National Redress Scheme.

The maximum compensation that can be awarded under the VOC Act is $109 000, in addition to costs and disbursements. A claim can succeed without a known offender.

Compensation is paid where an offence has been admitted or proven beyond reasonable doubt. In cases where no one has been charged with an offence, the applicant's evidence must be corroborated. Where an offence has not been established, the Attorney-General has discretion to make an ex gratia payment to the claimant.

Recoveries from offenders

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

- The amounts recovered directly from offenders during the year totalled $493 000 ($854 000).
- Outstanding amounts at 30 June 2021 were $84.7 million ($84.1 million). $10.1 million ($10.3 million) of this amount is the subject of a judgement and is being actively managed. The remaining $74.6 million ($73.8 million) represents amounts paid in compensation for which no judgement has occurred or is likely to occur because the offenders have either not been identified or have not been prosecuted as yet.

A further $3.8 million ($5 million) was recovered from offenders under the *Criminal Assets Confiscation Act 2005.*

A levy is imposed by the VOC Act on all people convicted of offences and on expiation notices. Total Victims of Crime income for 2020-21 was $51.5 million ($46.6 million) and included Victims of Crime levies of $30.5 million ($25.5 million) and revenues from the SA Government of $9.3 million ($9.1 million).

Payments from Victims of Crime Fund

Victims of Crime expenses for 2020-21 totalled $26.7 million ($35 million) and included:

- victims compensation and legal payments of $17.7 million ($24.2 million)
- grants of $5.2 million ($6.3 million)
- legal and other costs incurred in the administration of the VOC Fund of $3.8 million ($4.5 million).

In 2020-21 there was an increase in the fund balance of $21.5 million.

Taxation

Taxation revenue for 2020-21 totalled $320.2 million ($184.6 million). This mainly comprises gaming machine tax totalling $320.1 million ($184.4 million).

Gaming machine administration

Section 5 of the *Gaming Machines Act 1992* (GM Act) provides that the Liquor and Gambling Commissioner is responsible for scrutinising the operations of all licensees under the GM Act.

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

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

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

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

The following table summarises gaming machine activity for the four years to 2021.

	2018 Number	2019 Number	2020 Number	2021 Number
Machines installed as at 30 June	12 142	12 130	11 638	11 698

	2018 $million	2019 $million	2020 $million	2021 $million
Turnover	7 576	7 651	5 753	8 683
Amount won	6 894	6 969	5 241	7 914
Net gambling revenue	682	682	511	770
Tax	268	269	185	320

Independent Gaming Corporation Limited (IGC)

Under section 25 of the GM Act, the Liquor and Gambling Commissioner granted the Gaming Machine Monitor licence to the IGC. Under this licence the IGC monitors the operations of gaming machine licensees.

Section 75 of the GM Act specifically provides for the accounts and operations of the IGC to be audited by the Auditor-General.

With respect to its 2020-21 operations, the audit of the IGC is complete and an unmodified Independent Auditor's Report was issued for its 2020-21 financial report.

Residential Tenancies Fund (RTF)

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

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

Security bonds received by the Commissioner in 2020-21 increased by $41 000 to $106.6 million ($106.5 million). Security bonds refunded for 2020-21 increased by $540 000 to $94.9 million ($94.4 million).

The value of bonds held as at 30 June 2021 was $230 million ($219.5 million) and the value of unclaimed bonds was $12.5 million ($11 million).

Investment funds totalling $276.6 million are held by the Public Trustee in common funds. They are exposed to movements in the value of the underlying common fund assets. Investments increased by $10.7 million in 2020-21, mainly due to interest and investment income of $7 million and a net gain on the revaluation of investments of $6 million.

Machinery of government change

As a result of an administrative arrangement outlined in The South Australian Government Gazette on 29 July 2020, the Ministerial responsibilities for planning and local government transferred from DIT to the Attorney-General.

A Chief Executive agreement between both departments transferred DIT employees in the Planning and Local Government Directorate to AGD. This is represented by the Planning and Land Use Services, Office of Local Government, Office of the Valuer-General and Office of the Registrar-General programs.

The effective transfer date was 1 October 2020.

Along with these programs, a number of reporting entities were also transferred to the Attorney-General:

- Adelaide Cemeteries Authority
- Outback Communities Authority
- Planning and Development Fund
- South Australian Local Government Grants Commission
- State Planning Commission
- West Beach Trust.

These entities report separately and are not included in the administered financial statements.

The net assets recognised on the transfer of planning and local government in the controlled financial statements was $323 million and for the administered financial statements net liabilities of $1.5 billion were recognised. For further information see notes 1.4 and A1.3 of the AGD's financial report.

For the controlled financial statements, $338.6 million of total assets were transferred, most relating to the following intangible assets of $334.1 million:

- SAILIS data service concession asset of $294.9 million
- SAILIS software service concession asset of $13 million
- work in progress of $25.9 million, mainly for the Development Application Processing system (a component of the ePlanning system).

Liabilities of $15.6 million were transferred, representing payables and employee benefits.

For the administered financial statement, $1.5 billion of liabilities were transferred, most relating to contract liabilities of $1.5 billion. This is the consideration received for the contracted commercialisation of the State's land services operations as at 30 September 2020. The recognition of the contract liabilities is calculated on a straight-line basis over the term of the contract. Another $20.5 million of liabilities were transferred for payables and employee benefits. Cash of $29.3 million was also transferred.

Impact of COVID-19

The continued key impacts of the COVID-19 pandemic for AGD in 2020-21 were:

- Commonwealth revenues of $2.3 million received to help the legal assistance sector respond to increased demand
- a reduction in liquor licensing fee revenue of $1.2 million due to temporary fee relief provided to the industry
- continued provision of legal advice, largely non-billable, by the CSO on COVID-19 matters.

Public Trustee

Financial statistics	
Profit before income tax equivalents:	$7.6 million
Fees and charges revenue:	$23.3 million
Number of FTEs:	177
Number of estates under administration:	7532
Total value of trust funds under administration:	$1.8 billion

Significant events and transactions

- Net operating results increased for the Australian Shares common fund by $51.3 million, for the Overseas Shares common fund by $40.6 million and for the Property common fund by $22.6 million. This is due to the rebound of the investment market in 2020-21 from the impact of COVID-19 in 2019-20.
- Common fund assets in 2020-21 totalled $1.188 billion, increasing by $104.6 million from $1.084 billion.
- The Long-term Fixed Interest common fund is diversifying its investments to include a number of external managers to enhance long-term returns.
- By 30 June 2021 all public investors had withdrawn their investments from the Public Trustee as these services are no longer offered to public investors. The Public Trustee remains as an investment service provider for the public sector and statutory funds, including the Commissioner for Consumer Affairs and the Office of the Small Business Commissioner.
- The Treasurer approved $3 million of funding over three financial years from the Digital Restart Fund to replace the PeopleSoft – Customer Relations Management System.
- An additional $3 million was invested in the Public Trustee by the Retail Shop Leases Fund.
- An additional $10.9 million was invested in Australian Super.
- The integration of the Public Trustee's ICT network with the Attorney-General's Department's Information and Technology Network Services was delayed.

Financial report opinion	**Unmodified**
Controls opinion findings	No significant issues.
Other audit findings	— The signature listings for deceased and personal estates were not up to date. — The Real Estate Keys Register was not audited against the keys in the safe. — The review to ensure that money received is receipted to the correct client account was not performed within specified time frames. — Improvements were needed in the process for verifying that purchases of goods and services greater than $2500 made on behalf of Public Trustee customers were satisfactorily received. — Key payroll reports were not reviewed promptly due to staff turnover and absences.

Functional responsibility

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

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

Scope of the audit

Audit of the financial report

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

The 2020-21 audit covered the Public Trustee's corporate, trust and common fund operations. Specific areas of audit attention included:

- corporate governance
- expenditure
- payroll
- revenue
- cash and investments
- client assets
- IT controls.

Controls opinion

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

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Public Trustee. The main findings and the Public Trustee's responses are discussed below.

Controls opinion findings

Investments at Public Trustee

Changes to Daily Compliance spreadsheet rules are not documented

The Daily Compliance spreadsheet is used to ensure that all internally managed investment transactions comply with the investment guidelines before they are entered into.

In 2019-20 we found that the process for updating the Daily Compliance spreadsheet for changes to the investment guidelines was not documented. This compliance check was to be automated in a compliance checking module that was due for completion in June 2020. Given this we recommended that the process for updating the rules in the compliance checking module for approved changes to the investment guidelines be documented, and evidence of an independent review of updated rules be retained.

We found that due to the delay in the go-live date of the compliance checking module, the process for updating and reviewing the changes to compliance rules in this module had not been formally documented. The current manual compliance check process was also undocumented.

The Public Trustee advised us that the compliance checking module was being run in parallel with existing Daily Compliance spreadsheets, as it was working with the software supplier to resolve some issues. The process for updating compliance rules for all changes to the investment guidelines will be documented in the funds administration procedures as part of the compliance function performed in the compliance checking module. This process will include an independent review of updated rules.

Other audit findings

Estates

Signature listings for deceased and personal estates were not up to date

Signature listings for deceased and personal estates are used to ensure transactions are properly authorised prior to processing.

The signature listings record estate officers' names, position titles and classifications. Position titles and classifications are used to ensure transactions are authorised in line with operational guidelines.

Our review of the signature listings identified that:

- the deceased estates signature listing was last updated for staff departures and new starters in August 2019
- the personal estates signature listing, dated November 2020, did not include the signatures of seven officers.

We also noted that there was no policy or procedure requiring a regular review of signature listings to capture staff movements (including classification changes).

The Public Trustee advised us that it has an automated email signature register. A reminder email is sent out to Customer Services Branch Managers on a quarterly basis, and provides links enabling them to distribute and arrange signature collection from all officers.

The Public Trustee has taken action to:

- add the follow-up of the listings to its monthly and quarterly task list. This will ensure that the Accounts Payable team receives these quarterly signature listings in a timely manner
- update the induction and staff training checklists to require Customer Services Team Leaders to obtain updated signatures and classification levels from staff and provide them to Accounts Payable in their first week of employment.

Real Estate Keys Register is not audited against keys in the safe

The Public Trustee holds properties for sale for deceased estates it is administering and personal estate clients who have gone into accommodation. The keys to these properties are held in a safe and recorded. We identified that the Real Estate Keys Register was not audited against the keys in the safe. In response, the Public Trustee performed an audit of the Real Estate Keys Register, which we attended, and one instance of a missing key was identified. The Public Trustee investigated this instance and confirmed that the property had been sold in 2019. The keys would have been signed out to the real estate agent prior to the sale and the register should have been updated for this.

The Public Trustee agreed to:

- create a procedure for the use and audit of the key safe
- add the key safe audit to the estates control self-assessment process
- conduct six-monthly audits of the Real Estate Keys Register and document the audit and any findings

- list these audits as a scheduled compliance activity with the monthly procedural compliance program.

Receipt verification reports (RVRs) are not reviewed and returned on time

To ensure money received is accurately receipted to the right client account, revenue officers generate a daily RVR and distribute it to estate officers for review.

Estate officers are to review and sign the RVRs and return them to the revenue officers by 4.00 pm on the day of the report if any adjustments are required, or otherwise within 24 hours.

In previous years we found that RVRs were not returned to revenue officers within the specified time frames. In response the Public Trustee implemented an electronic RVR system in May 2019.

Our review of the electronic RVR system noted that there was still a degree of non-compliance, although there had been a significant improvement compared to the former manual RVR process. Compliance continued to improve in 2020-21.

In 2019-20 we recommended that the Public Trustee investigate other alternatives to ensure compliance with time frames, such as performing a risk analysis over receipts to identify if a financial threshold would help eliminate outstanding RVRs.

Following an analysis of the risk of not verifying 100% of receipts, the Public Trustee determined that the risk of incomplete and inaccurate recording of receipts against client accounts was low and approved financial thresholds to provide a risk-based approach to verifying receipts.

The new financial thresholds RVR process was implemented in April 2021.

Verification of goods and services received by clients

In previous years we have raised the issue of the Public Trustee not re-implementing a sample check of invoices to verify that goods and services had been received by clients.

Risk assessments performed by the Public Trustee identified that the risk of:

- supplier fraud or misdirected goods was low based on the historical frequency of identified instances
- fraud against customers by third party purchase requests was considered higher than the risk of supplier fraud.

In response to the risk of third party fraud against personal estate customers, a Declaration to Receipt of Goods/Services is sent to the customer for any purchase of goods or services greater than $2500. The customer is requested to notify the Public Trustee where the goods or services were not provided to them or were not provided to them in a satisfactory condition or to a satisfactory standard.

We reviewed this control and noted:

- it may identify instances of third party/liaison fraud but it was unclear how the Public Trustee could isolate these transactions to confirm the declarations were forwarded to customers

- there was no monitoring control to ensure that personal estate officers were issuing the declarations and actioning any responses received from customers
- there was a mitigating control, as the annual review of client files would identify instances of non-compliance. However, it could be a long time between the annual review and when the transaction occurred.

The Public Trustee advised that in April 2021 it implemented a monthly report detailing all transactions over $5000. 5% of these transactions were sampled each month to ensure compliance. This has been incorporated into its monthly compliance reporting regime.

The Public Trustee also advised that the following risk-based controls exist for payments under $2500 to ensure they are made appropriately and that multiple payments under the threshold are detected:

- request can only be made by identified liaisons or supports of customers
- a quotation is required and, if goods and services are valued at over $1100, three independent quotes are required
- payment is made directly to the supplier on receipt of an invoice
- if a third party asks to make the purchase on behalf of the customer, reimbursement is only made on provision of a receipt
- cash funds made for purchase will only be made to a customer's personal bank account.

Corporate

Key payroll reports not reviewed promptly

We found that:

- bona fide reports were not reviewed and certified for two pay periods due to staff turnover
- leave return reports had not been reviewed for July 2020 to October 2020 due to unplanned staff absences.

The prompt review of bona fide and leave return reports provides assurance that:

- payments to employees are valid and authorised
- leave taken by employees is completely and accurately reviewed.

The Public Trustee responded that it would:

- develop and issue to staff a procedure for the review and certification of bona fide reports and leave return reports that clearly identifies responsibilities and time frames
- train back-up staff in the review and certification of bona fide and leave return reports.

Management advised us that all reviews were completed and up to date in February 2021.

Information technology controls – HiPortfolio

HiPortfolio is the system the Public Trustee uses to record client transactions including revenue, expenses and assets.

Non-compliance with audit logging and monitoring procedure

Key activities that occur in databases, application and operating systems are recorded in audit logs. Audit logs are checked for abnormal activities.

In response to an issue we raised in 2019-20 about the lack of checks over audit logs, the Public Trustee modified its audit logging and monitoring procedure to include monthly review of security logs kept by its ICT systems. The procedure required the monthly review of:

- the HiPortfolio Windows Server security log
- the SharePoint audit log.

We were advised by the Manager ICT Services and Senior Systems Analyst that no audit logs were reviewed in 2020-21.

The Public Trustee responded that following an upgrade of SharePoint in October 2020, the audit log procedures were no longer current. Audit logging was disabled as it would impact system performance to an unacceptable level. While tracking has been implemented to review HiPortfolio roles and access levels, a periodic review of failed login attempts has not been conducted.

The Public Trustee also advised us that it would:

- advise the Security Steering Committee of the audit logging changes for the Committee's consideration prior to approval
- revise procedures to ensure the review of privileged users is carried out to an appropriate level and included in a monthly checklist
- revise procedures to ensure that a periodic review of HiPortfolio failed system login attempts is carried out and included in a monthly checklist
- update the ICT control self-assessment to include these controls.

Interpretation and analysis of the financial report

Highlights of the corporate financial report

	2021 $million	2020 $million
Income		
Fees and charges	23	23
Community service obligation	6	5
Other revenues	3	4
Total income	32	32
Expenses		
Employee benefits	17	17
Supplies and services	6	6
Other expenses	2	3
Total expenses	25	26
Net result before income tax equivalents	7	6
Income tax equivalent	2	2
Net result after income tax equivalents and total comprehensive result	5	4

	2021 $million	2020 $million
Net cash provided by (used in) operating activities	4	4
Assets		
Current assets	11	13
Non-current assets	34	34
Total assets	45	47
Liabilities		
Current liabilities	6	6
Non-current liabilities	17	18
Total liabilities	23	24
Total equity	22	23

Statement of Comprehensive Income

Income

The Public Trustee's main source of income is fees and charges, which principally comprises commissions from managing estates and management fees for investing in common funds. In 2020-21 fees and charges income increased by $661 000 to $23.3 million.

The increase in fees and charges was due to the following movements:

- Common fund management fees increased by $165 000 as the average funds under management in common funds increased from $1.09 billion to $1.13 billion in 2020-21. These fees were set at a maximum of 1% p.a. (charged monthly) in line with the *Public Trustee Act 1995*, based on the level of funds invested.
- Commissions and fees and charges increased by $496 000, as the collection of commissions is directly affected by the types and number of estates being administered and the nature of the assets held. The number of personal estates administered increased by 2% and the number of deceased estates and trusts decreased by 5%. The increase in commissions and fees and charges is primarily due to:
  - capital commission revenue, up by $856 000. Capital commissions increased by $578 000 for personal estates and by $278 000 for deceased estates and trusts, primarily due to the buoyant property market achieving higher sales values in excess of reserve prices in 2021
  - income commission revenue, down by $511 000. Income commissions decreased for personal estates by $380 000 and for deceased estates and trusts by $131 000, primarily due to the low interest environment
  - professional fees, up by $151 000 due to the growth in regulatory and taxation revenue.

Other increases in income were due to:

- the rebound in the investment market in 2020-21 from the impact of COVID-19 in 2019-20, which resulted in unrealised gains on financial assets of $1.7 million compared to unrealised losses on financial assets of $1.5 million in 2019-20. The increase is primarily due to unrealised gains in Australian equities of $1.2 million and overseas equities of $496 000

- investment income increasing by $599 000 due to realised gains of $228 000 on the rebalance of the portfolio in December 2020 and an increase in distributions from investments of $371 000, primarily from equities
- community service obligation funding increasing by $266 000 to $5.7 million due to the growth in customer numbers in 2021. Community service obligation funding is received by the Public Trustee to compensate it for providing non-commercial services to the South Australian community on behalf of the SA Government.

These increases were offset by a decrease in other income of $652 000, mainly because 2019-20 included a gain on lease modification of $532 000 due to a reduction in lease space. There was no similar income in 2020-21.

Expenses

Employee benefits account for 68.5% of total expenses and decreased by $91 000 to $16.8 million in 2020-21. The decrease is mainly due to:

- long service leave, down by $71 000 due to the increase in bond yield rates (1.25%, up from 0.75%) used to calculate the long service leave liability. This had the net financial impact of decreasing the long services leave expense by $365 000. This was offset by an increase in the long service leave expense paid to other government agencies on employee transfer and long service leave paid on termination
- workers compensation, down by $254 000 due to changes to the estimated value of claims as determined by the actuary
- targeted voluntary separation package (TVSP) payments, up by $203 000 as two TVSPs were taken in 2020-21 compared to none in 2019-20.

Supplies and services increased by $26 000 to $5.7 million. The increase was mainly due to:

- ICT costs, up $293 000 mainly due to security enhancements to the Public Trustee's ICT network
- consultants, up $194 000 as there were two consultancies in 2020-21 compared to none in 2019-20, mainly for the development of a business case for the replacement of the Public Trustee's customer accounting systems
- the cost of service contractors, up $357 000 primarily due to $273 000 of additional temporary resources in 2021 to cover short-term vacancies and to help manage the Public Trustee's response to the COVID-19 pandemic.

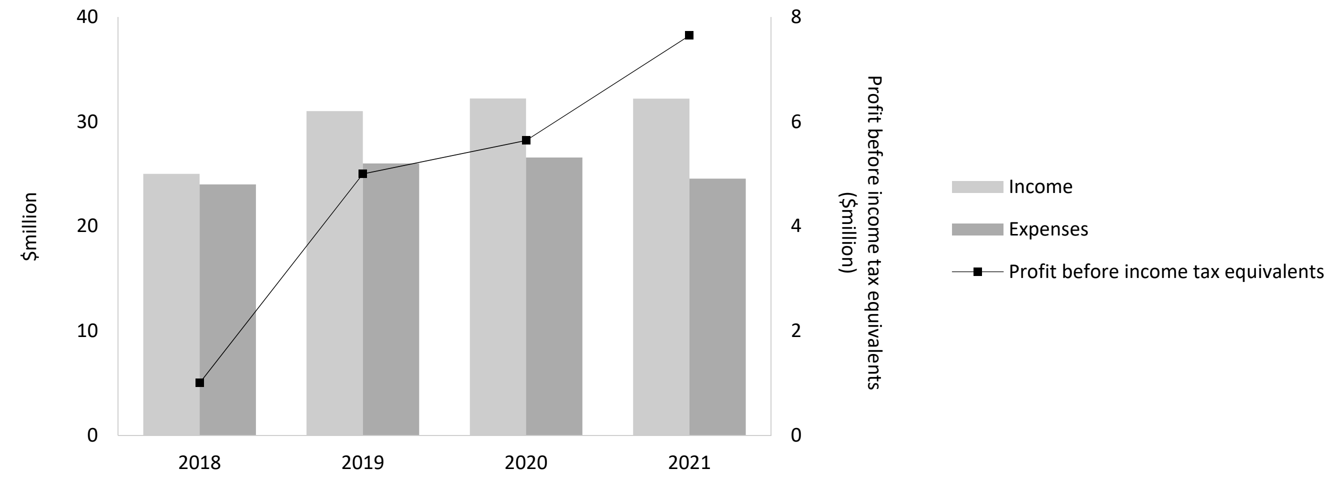
These increases were offset by decreases to:

- accommodation costs, down $227 000 as the space leased by the Public Trustee reduced when the lease was renewed
- other supplies and services, down $615 000 mainly due to the lower payments for estate losses, down by $500 000.

Depreciation and amortisation decreased by $404 000 as depreciation for right-of-use assets was down by $149 000 and for accommodation and leasehold improvements was down by $239 000 due to the lease renewal in May 2020.

Net result

The following chart shows income, expenses and profit before income tax equivalents for the four years to 2021.



Profit before income tax equivalents of $7.6 million ($5.6 million) increased mainly due to:

- unrealised gains on financial assets of $1.7 million in 2020-21 compared to unrealised losses on financial assets of $1.5 million in 2019-20
- fees and charges, up $661 000
- investment income, up $599 000
- community service obligations, up $266 000
- depreciation and amortisation, down $404 000
- other income, down $652 000, as 2019-20 included a gain on lease modification of $532 000.

These increases were offset by the decrease in the depreciation write-back of $2.5 million.

Statement of Financial Position

Assets

Financial assets of $20.6 million represent 46% of total assets. Financial assets increased by $1.4 million due to unrealised gains in Australian and international equities investments, attributable to the strong performance of equity markets in 2021.

Property, plant and equipment decreased by $1.5 million mainly due to depreciation of right-of-use assets of $1 million and depreciation of accommodation and leasehold improvements of $413 000.

In 2020-21, the Public Trustee increased its capitalisation threshold for the recognition of assets from $5000 to $10 000. This had the impact of writing off $6000 of assets in 2020-21 and $48 000 of assets in 2019-20.

Receivables increased by $1.1 million as:

- prepayments were up by $554 000 because $300 000 was paid for the annual licence and support fees for customer assets management software in June, usually paid in July, and a $200 000 first instalment was paid for the customer relationship management system
- accrued revenues were up by $413 000 due to an increase in accrued investment income.

Cash decreased by $3.9 million (see commentary under 'Statement of Cash Flows' below).

Liabilities

Financial liabilities of $14 million represent 61.4% of total liabilities and employee benefits of $5.6 million represent 24.5% of total liabilities.

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

The decrease in employee benefits liability of $267 000 is mainly due to:

- accrued salaries and wages, up $58 000 as the number of days accrued was eight in 2020-21 compared to five in 2019-20
- long service leave liability, down $354 000 due to the increase in the bond yield rate (1.25%, up from 0.75%) used to calculate the liability. The net financial impact of the changes to the actuarial assumptions was to decrease the long service leave liability by $365 000.

Statement of Cash Flows

Cash and cash equivalents decreased by $3.9 million to $8.4 million in 2021. The main factors contributing to this decrease were:

- net cash used in financing activities increasing by $4.7 million as the dividend paid to the SA Government was up by $5.4 million, offset by a decrease in lease liabilities repaid of $589 000
- net cash provided by investing activities decreasing by $2.1 million due to proceeds from the sales/maturities of financial assets going down $1.7 million and the purchase of financial assets going up by $247 000
- net cash provided by operating activities decreasing by $309 000 as:
  - cash generated from operations was down by $123 000 mainly due to cash inflows for fees and charges, down $534 000, offset by an increase in community service obligations, up $266 000, and investment income, up $377 000
  - cash used in operations was up by $186 000 due to payments for supplies and services, up $238 000, and tax equivalent payments, up $385 000, offset by employee benefits payments, down $464 000.

Interpretation and analysis of Statement of Trusts being Administered

The value of trust funds administered by the Public Trustee as at 30 June 2021 was $1.8 billion ($1.7 billion).

Detailed below are the number and value of trust funds under administration for the last two years.

	2020 Number	2021 Number	2020 $000	2021 $000
Deceased estates	1 026	994	175 979	174 706
Trusts	1 258	1 188	134 651	145 440
Administration matters	317	293	40 417	45 106
Court award orders	769	756	428 606	478 124
Protected estates	3 828	3 963	382 166	438 668
Workers compensation awards	5	5	97	86
Power of attorney	280	260	65 178	70 058
Investors	153	73	440 037	457 112
	7 636	7 532	1 667 131	1 809 300

Of the total funds being administered, 64% (64%) were invested in the common funds with the remaining 36% (36%) represented by other estate assets.

The two largest categories of other estate assets are real estate assets of $360 million ($364 million) and superannuation of $192 million ($154 million).

Further commentary on operations

Common fund financial reports

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

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

Analysis of common fund key figures

The common funds' assets in 2020-21 totalled $1.188 billion, increasing by $104.6 million from $1.084 billion in 2019-20.

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

The following table summarises the annual net operating result and value of assets held for each common fund at 30 June 2021 and 30 June 2020.

	Net operating result		Total assets	
	2020	2021	2020	2021
Common fund	$000	$000	$000	$000
Cash	4 775	1 004	*468 188	*479 299
Short-term Fixed Interest	1 157	91	65 882	69 930
Long-term Fixed Interest	2 486	4	107 039	108 387
Overseas Fixed Interest	663	603	60 644	62 544
Australian Shares	(3 636)	47 709	170 305	211 199
Overseas Shares	(4 779)	35 803	140 144	166 887
Property	(8 223)	14 368	108 787	125 251

* Includes $35 million ($37 million) deposited by other common funds.

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

In 2020-21 a further $3 million was invested in the Public Trustee from the Retail Shop Leases Fund. The additional funds were received throughout 2020-21, with $900 000 invested in the Balanced SIS, $600 000 in the Capital Stable SIS and $1.5 million in the Cash SIS. The $3 million was allocated across the following common funds: Cash ($1.64 million), Short-term Fixed Interest ($220 000), Long-term Fixed Interest ($280 000), Overseas Fixed Interest ($170 000), Australian Shares ($250 000), Overseas Shares ($190 000) and Property ($250 000).

The investment of Retail Shop Leases Fund money was approved by the Small Business Commissioner, who has responsibility for managing these funds.

The table below details the performance of each SIS and its performance against the Public Trustee's established benchmarks as at 30 June 2021. These figures were provided by the Public Trustee and are unaudited.

		1 year	3 years	5 years	7 years	10 years
Standard investment strategy		%	%	%	%	%
Cash	Performance	0.14	1.03	1.34	1.66	2.37
	Benchmark	-0.94	-0.04	0.29	0.61	1.19
Capital stable	Performance	6.15	3.04	3.59	3.75	4.61
	Benchmark	5.81	3.82	3.70	3.75	4.49
Balanced	Performance	12.00	4.76	5.68	5.66	6.69
	Benchmark	11.35	5.86	5.95	5.73	6.65
Growth	Performance	16.90	6.10	7.45	7.07	8.13
	Benchmark	17.14	7.48	7.86	7.09	7.97
Equities	Performance	27.56	9.12	11.35	9.78	10.56
	Benchmark	28.64	10.56	11.67	9.60	10.21

The Public Trustee's investment returns ranged from 0.14% for Cash to 27.56% for Equities, net of fees. The increase in investment returns for Capital Stable, Balanced, Growth and Equities standard investment strategies reflect the rebound of the equity markets in 2020-21.

All SIS outperformed their benchmarks except for Growth and Equities. Their slight underperformance was due to the relatively defensive positioning of some of the Public Trustee's overseas share fund managers. The marginally below benchmark performance for those funds is consistent with what would be expected when share markets are extremely strong, given the Public Trustee's focus on quality and more defensive style investments.

Net operating result

All common funds in 2020-21 recorded profits. The table below shows the net operating results for each fund for the past two years, together with the rate of return achieved by the fund.

	Net operating result		Return *	
	2020	2021	2020	2021
Common fund	$000	$000	%	%
Cash	4 775	1 004	2.04	1.17
Short-term Fixed Interest	1 157	91	2.91	1.24
Long-term Fixed Interest	2 486	4	3.49	1.07
Overseas Fixed Interest	663	603	2.14	2.15
Australian Shares	(3 636)	47 709	-1.04	29.84
Overseas Shares	(4 779)	35 803	-2.14	27.59
Property	(8 223)	14 368	-5.87	14.08

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

The net operating results for the Cash, Short-term Fixed Interest and Long-term Fixed Interest common funds decreased and were impacted by:

- a decrease in interest revenue due to lower interest rates paid on investments in 2020-21. This is consistent with the reduced interest on investment returns available in the current market. It is also indicative of the reduction in the official cash rate by the Reserve Bank in 2020-21 from 0.25% to 0.1%
- a net loss on financial assets of $44 000 and $2.6 million for the Short-term Fixed Interest and Long-term Fixed Interest common funds respectively. This is consistent with the reduced investment returns available in the current market.

These decreases were offset by trust distributions of $1.7 million in the Long-term Fixed Interest common fund. In 2020-21 the Public Trustee started diversifying this common fund's investments to include a number of external managers to enhance long-term returns. As a result, distributions from those external managers were recognised for the first time in 2020-21.

The net operating result of the Overseas Fixed Interest common fund decreased by $60 000 as trust distributions were up by $1.86 million, offset by a net loss on financial assets of $2.6 million (2020: $755 000 net loss) attributable to the reduction in the portfolio value in 2021.

The net operating result of the Australian Shares common fund increased by $51.3 million as:

- trust distributions were up by $4 million, with $11.6 million received in 2020-21 compared to $7.6 million in 2019-20

- the net gain on financial assets was $37.4 million in 2020-21 compared to a $10.1 million net loss on financial assets in 2019-20.

The improved result was due to an increase in financial assets held as an additional $6 million was invested with existing and new fund managers, and strong equities performance in 2020-21 due to the stronger market recovery.

The net operating result for the Overseas Shares common fund increased by $40.6 million as:

- trust distributions were up by $12.5 million, with $15.1 million received in 2020-21 compared to $2.5 million in 2019-20
- the net gain on financial assets was $21.9 million in 2020-21 compared to a $6.2 million net loss on financial assets in 2019-20.

The improved result was due to the strong global performance in overseas equities in 2020-21, and an additional $5 million invested with existing and new fund managers.

The net operating result of the Property common fund increased by $22.6 million as:

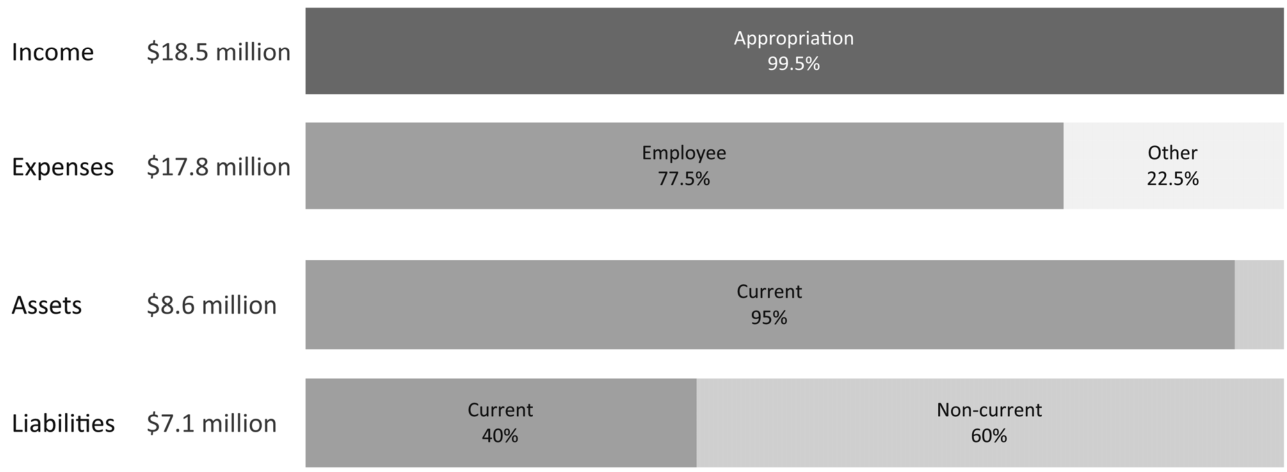
- trust distributions were up by $1.6 million, with $4.6 million received in 2020-21 compared to $2.9 million in 2019-20
- the net gain on financial assets was $10.9 million in 2020-21 compared to a $10 million net loss on financial assets in 2019-20.

The improved result was due to the positive performance of underlying listed investments following the strong recovery in financial markets in 2020-21, and an additional investment of $4 million with existing and new fund managers.

All investments for the common funds are valued at market value, being market price at the reporting date.

Auditor-General’s Department

Financial statistics



126
Number of FTEs

19
Number of reports

158
Number of audits

Financial report opinion	**Unmodified**

Functional responsibility

The Auditor-General’s Department operates to help the Auditor-General discharge his/her statutory audit mandate.

Audit findings and comments

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

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

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Revenues from (Payments to) SA Government	18.4	18.2

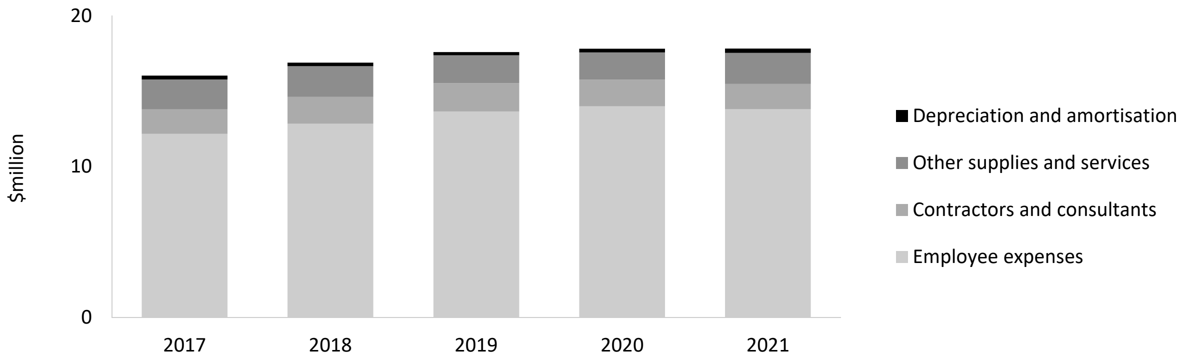
	2021 $million	2020 $million
Expenses		
Employee expenses	13.8	14.0
Supplies and services	3.7	3.5
Other expenses	0.3	0.3
Total expenses	17.8	17.8
Net result	0.7	0.4
Net cash provided by operating activities	1.0	1.0
Assets		
Current assets	8.2	7.4
Non-current assets	0.4	0.4
Total assets	8.6	7.8
Liabilities		
Current liabilities	2.9	2.6
Non-current liabilities	4.2	4.4
Total liabilities	7.1	7.0
Total equity	1.5	0.8

Statement of Comprehensive Income

The Auditor-General's Department relies on SA Government appropriations as its major revenue source to fund its operations. The Department charges fees for audits, which is permitted by section 39 of the *Public Finance and Audit Act 1987*. The fees raised are not retained or controlled by the Department. They are paid into the SA Government's Consolidated Account as they are received. Audit fees raised in 2020-21 totalled $16.5 million.

Expenses

The following chart shows the Department's main expense items for the five years to 2021.



There was no change in total expenses in 2020-21 This was mainly due to a decrease in employee expenses of $200 000 offset by an increase in supplies and services expenses of $200 000. The decrease in employee expenses was mainly due a decrease in the long service leave liability resulting from a reduction in the discount rate used in its valuation.

Department for Child Protection (DCP)

Financial statistics	Appropriation:	$601 million
	Total expenses:	$629 million
	Child protection services:	$324 million
	Number of FTEs:	2245
	Number of children in care at 30 June 2021:	4646

Significant events and transactions

From October 2020 DCP stopped using commercial care and all children in this type of care were moved to residential care.

Financial report opinion

Unmodified

Audit findings

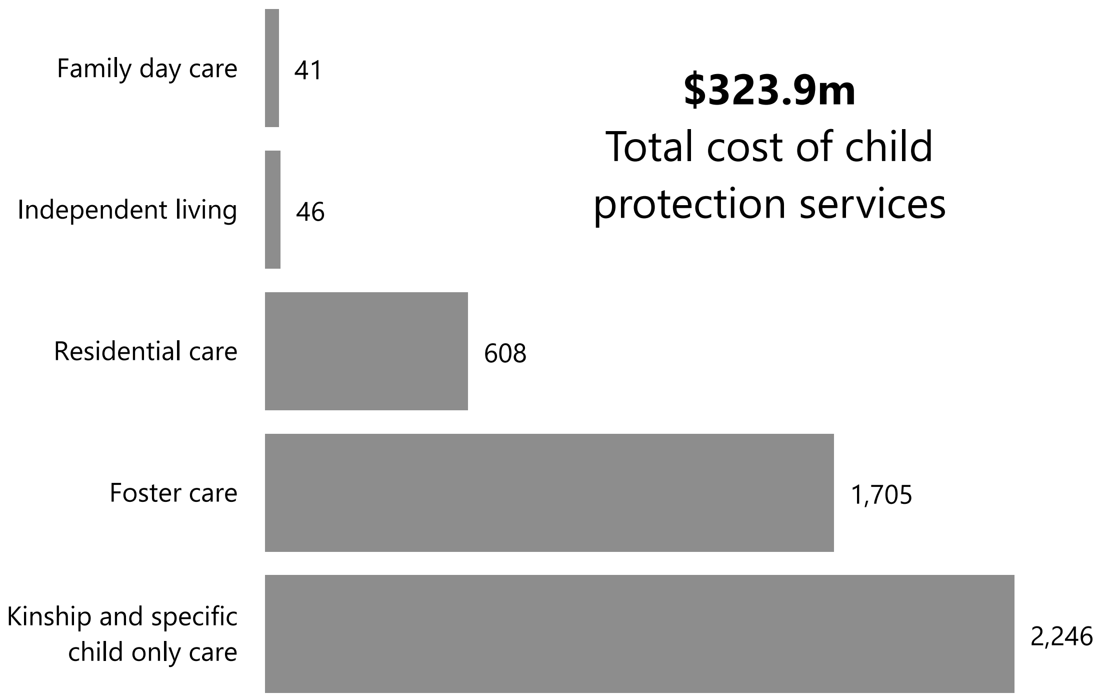
- Foster carer reviews are not being completed on time.
- No reporting on the key performance indicator for foster carer reviews.
- No documented process or approval for reassessing contract performance levels.
- No documented key performance indicator data for temporary staffing services contracts.
- 33% of performance development plans are overdue.
- Performance development plans are not being completed on time for new employees.

Functional responsibility

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

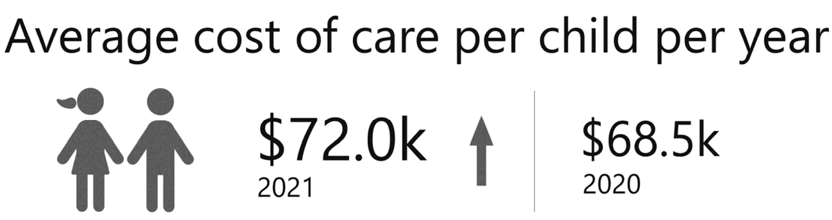
DCP's objective is to care and protect children and young people who have been abused and/or are assessed as at risk of harm within their families, or whose families do not have the capacity to protect them.

The chart below shows the number of children by care type and the total child protection services payments as at 30 June 2021.



The total cost of care increased by 13% from 2020 due to an 8% rise in the average number of children in care, a 9% increase in the number of children in non-family based care and an increase in the cost of non-family based care.

In 2021 the average cost of care per year was $72 000 per child compared to $68 500 per child in 2020.



Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

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

- general ledger
- governance
- performance management
- carer reviews.

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

Audit findings

Communicating our audit findings

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

Audit findings

Foster carer reviews

The *Children and Young Persons (Safety) Act 2017* requires all approved carers to be regularly reviewed.

We believe these reviews are an important mechanism to identify and address the financial, training and support needs of carers.

Foster carer reviews are not being completed on time

In 2020-21, DCP's procedures required foster carer reviews to be conducted annually in the carer's home by the supporting external provider.

In 2019-20, we raised an issue about foster carer reviews not being completed on time. DCP informed us the reports used were not accurate and that new reporting would be in place by October 2020.

In July 2021, based on DCP's new reporting, we noted that 51% of all foster carers who were eligible for a review had their review submitted by the service provider and processed by DCP.

DCP informed us that this new report is not accurate as it includes carers who are no longer active or are complex in nature and require follow up. We note this makes it difficult to follow up and monitor foster carer reviews to ensure they are completed timely.

DCP also advised us that it had just completed a review of the processes for family based carer reviews and had changed its procedures from annual to two yearly reviews. DCP advised us that this change and the change discussed in the next section will result in more timely foster carer reviews being conducted.

No reporting on the key performance indicator for foster carer reviews

Contracted service providers have a list of KPIs that set the minimum service level expected by DCP. One of the KPI measures is the percentage of foster carer reviews completed and submitted as required during the reporting period (quarterly).

In 2019-20, we reported that there was no mechanism for monitoring this KPI to ensure service providers are meeting it. DCP advised us that reporting for this KPI was in development and would be in place by 30 June 2021.

In the absence of this new report, DCP uses reports from its case management system that, as discussed above, may not be accurate, and has quarterly discussions with the contracted service providers about their performance.

In 2020-21, we found that a new report to allow for monitoring and reporting of this KPI had been developed, but performance management with service providers had not begun.

DCP informed us that performance management will begin in 2021-22.

Service contracts

DCP has a Contract Performance Management Framework (CPMF) that describes how it measures, monitors and manages the performance of service providers to ensure DCP is receiving the services it is paying for.

No documented process or approval for reassessing contract performance levels

The CPMF states that contract performance assessed as level 2 or greater requires performance management meetings and a formal performance recovery plan to be developed and approved.

We identified a service provider whose contract performance was assessed as level 3 in two quarters, but the contract manager discussed this with the service provider and reassessed contract performance to level 1. Therefore there were no performance management meetings or formal performance recovery plan.

The CPMF does not cover the reassessment of contract performance levels, when they are appropriate or what approval is needed to reduce the assessed performance level.

DCP responded that it would review and update the CPMF by 31 October 2021.

No documented key performance indicator data for temporary staffing services contracts

When commercial care arrangements ended in October 2020, DCP entered into a temporary staffing services panel for service providers to provide care on a case-by-case basis.

The temporary staffing services panel deed states that service providers must meet certain KPIs quarterly. KPI data should be used to monitor the performance of the service providers and ensure that DCP receives what it is paying for. DCP's CPMF requires this data to be collected.

We found there was no KPI data documented.

DCP responded that KPI data would be documented from the first quarter of 2021-22.

Performance development plans (PDPs)

PDPs inform employees of the performance standard expected of them, whether they are achieving it and how to improve their performance.

33% of performance development plans are overdue

We found that at 1 December 2020, 33% of PDPs were overdue.

DCP advised us that it recently procured a system to improve and streamline the performance development process and will initiate a communication strategy to improve PDP completion rates.

Performance development plans not being completed on time for new employees

We tested a sample of new employees and found that none of them had completed their initial PDP within the suggested time frame set by DCP of one month. Some did not have an initial PDP more than four months after they started.

DCP advised us that the new system will have a mechanism to ensure PDPs are established timely for new employees and the induction checklist has been updated to make expectations clearer.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Income		
Appropriation	601	568
Other	13	8
Total income	614	576
Expenses		
Employee benefits expenses	239	218
Child protection services	324	286
Supplies and services	54	54
Other	12	16
Total expenses	629	574
Net result	(15)	2
Changes in revaluation surplus	1	2
Total comprehensive result	(14)	4
Net cash provided by (used in) operating activities	(5)	2
Assets		
Current assets	38	43
Non-current assets	44	43
Total assets	82	86
Liabilities		
Current liabilities	62	55
Non-current liabilities	54	52
Total liabilities	116	107
Total equity	(34)	(21)

Statement of Comprehensive Income

Income

DCP is predominantly funded by appropriation, which accounts for 98% of total income. Appropriation from the SA Government was $601 million in 2021, an increase of 6% from 2020. DCP received additional funding for the expected increase in the number of children in care.

Expenses

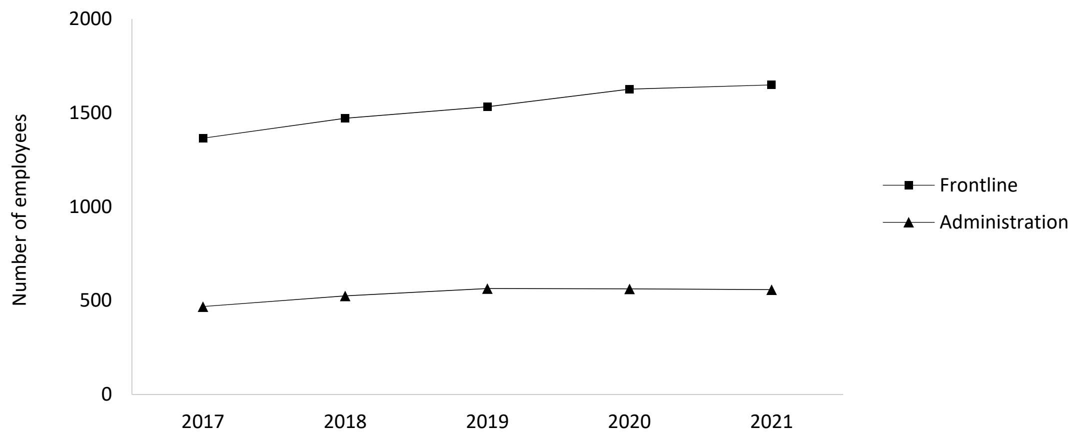
Employee benefits expenses

Employee benefits of $239 million accounted for 38% of total expenses in 2021. This was an increase of $21 million from 2020 due to:

- a $12 million increase in workers compensation expense. This is mainly due to a $10 million increase in the workers compensation provision due to the increased risk of workers meeting the threshold of a seriously injured worker by combining impairments rather than assessing each injury separately. The workers compensation provision is based on an actuarial assessment provided by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment
- a $10 million increase in salaries and wages due to an increase in the average number of FTEs during the year, although as at 30 June 2021 FTEs were about the same as in 2020.

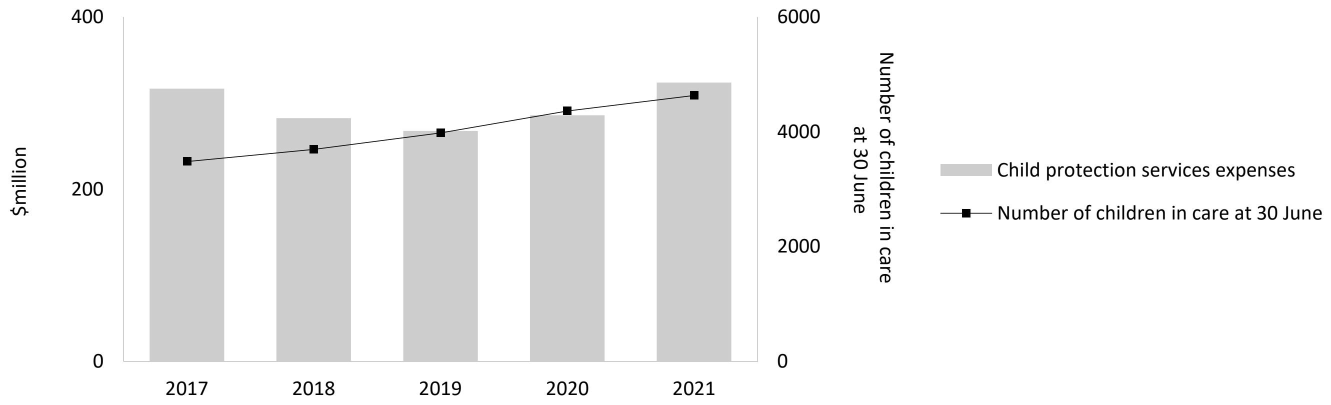
As at 30 June 2021 there were 2245 FTEs, an increase of 83 FTEs since 2020.

The following chart shows the number of FTEs as at 30 June by category over the last five years. Frontline employees have risen by 18% and administration employees by 15% over the last five years.



Child protection services

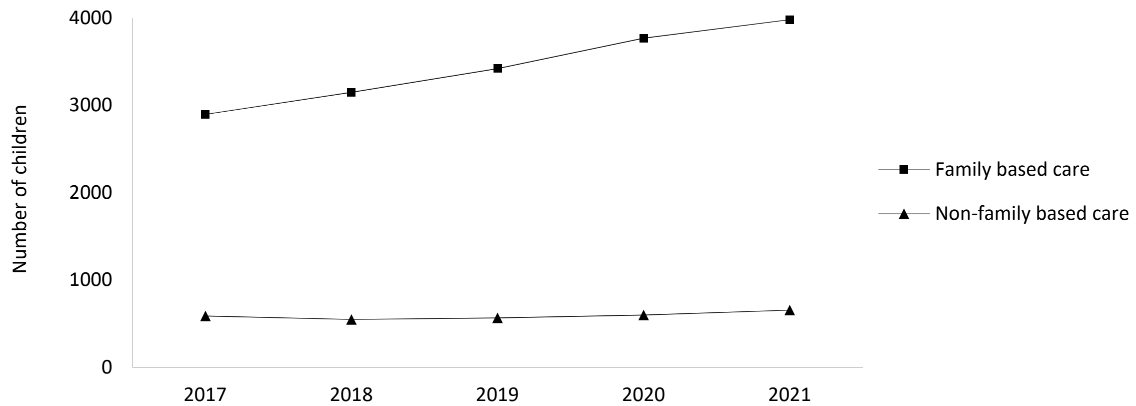
The chart below shows the number of children in care at 30 June and the child protection services expenses for the past five years.



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

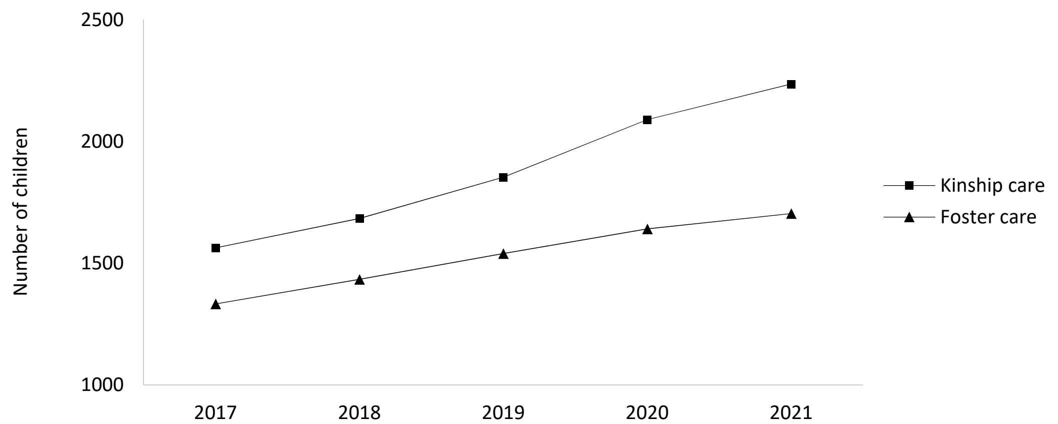
Over the last five years the number of children in care has risen by 33% or 1162 children, whereas child protection services expenses have risen by 2% or $7 million.

The two main types of care provided are family based (foster, kinship and family day care) and non-family based (residential care and independent living). The graph below shows the number of children by type of care for the past five years.



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

Family based care is the preferred form of care for most children, as the goal is for a child to be in a stable family environment where possible. Family based care at 30 June 2021 has increased by 6% or 221 children since 30 June 2020. The main area of growth in family based care over the past five years has been in kinship care as shown by the chart below.



Non-family based care fluctuates depending on need and is the most expensive type of care. There are some children with special needs for which this is the best form of care, as a suitable place in family based care is not available. Non-family based care increased by 9% or 55 children from 30 June 2020.

From October 2020, DCP stopped using commercial care and all children in this type of care were moved to residential care. Residential care is provided by DCP and the not-for-profit sector in a suitable residential building.

Statement of Financial Position

Cash and cash equivalents represent 38% of total assets and property, plant and equipment represents 53%. Property, plant and equipment mainly consists of residential accommodation of $14 million and land of $20 million.

Liabilities are made up of two main categories:

- 79% of total liabilities are employee related amounts, which include employee benefits, employee on-costs and workers compensation provisions
- 17% of total liabilities are payables. Most payables relate to care related services provided but not paid at 30 June.

DCP had a negative net asset and total equity position at 30 June 2021 of $34 million. Its current liabilities were $24 million higher than its current assets. DCP works with the Department of Treasury and Finance on its cash requirements on an ongoing basis.

Statement of Cash Flows

Cash at 30 June 2021 was $31 million. This includes $7 million for accrual appropriations. While controlled by DCP, the use of these funds must be approved by the Treasurer. DCP's cash position declined by $8 million in 2020-21. $6 million was returned to the Consolidated Account in line with the Department of Treasury and Finance's cash alignment policy.

Department for Correctional Services (DCS)

Financial statistics	Net result:	$128 million
	Total appropriation:	$467 million
	Total prisoner numbers at 30 June 2021:	3110
	Number of FTEs:	1839
Significant events and transactions	— Appropriations increased by $98.4 million, mainly for capital expenditure for the Yatala Labour Prison expansion. — Works are currently in progress to increase capacity by a further 270 beds at Yatala Labour Prison. Up until 30 June 2021, $59 million had been spent with approximately $103 million in expenditure remaining for completion. — Targeted voluntary separation packages (TVSPs) for 21 staff were approved totalling $1.9 million.	
Financial report opinion	**Unmodified**	
Controls opinion findings	Progress for asset management planning, although further work is required.	

Functional responsibility

DCS is an administrative unit established by the *Public Sector Act 2009.*

DCS's functions include contributing to public safety by safely, securely and humanely managing offenders and providing opportunities for their rehabilitation and reintegration. DCS provides:

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

Scope of the audit

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

Specific areas of audit attention in 2020-21 included:

- asset management
- payroll
- general ledger
- fixed assets
- workers compensation
- accounts payable
- revenue.

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

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

Progress for asset management planning, although further work is required

DCS owns land and buildings worth $697 million (after depreciation). It is important that they are properly managed and maintained.

Our 2019-20 audit found that DCS's asset management planning did not meet the minimum expectations of the *International Standard on Asset Management* (ISO 55000) or the Department for Infrastructure and Transport's Strategic Asset Management Framework. In particular, we noted that DCS had not developed and documented:

- the principles that it intends applying for asset management to achieve its organisational objectives (asset management policy)
- its asset management objectives, practices and action plans for asset management improvement (asset management strategy)
- its approach to implementing its asset management strategy (asset management plan).

DCS has now developed a draft asset management policy, strategy and plan. While these governance documents are yet to be approved, we noted that DCS had:

- ensured that facilities services providers completed condition assessments as required under the Across Government Facilities Management Arrangements

- prepared condition assessment plans and related procedures
- developed asset management risk documentation.

DCS's draft asset management plan notes further improvements that are required in its asset management arrangements. These include developing:

- an improved condition assessment methodology and framework
- a complete Portfolio Property Plan that groups together DCS assets into functional requirements and summarises recommended asset strategies. DCS plans to develop a template to help identify key areas to provide a more robust planning and decision-making process
- the rollout of a site-based environment assessment tool. Assessments will be undertaken by each correctional site, which then helps to develop the Portfolio Property Plan. This is important as DCS currently does not have fit-for-purpose information on its assets
- a Capacity Management Plan based on capacity requirements. Benefits include enabling the allocation of DCS's capital works budget in a more informed and strategic way, and a more transparent and strategic process governing the delivery of capital and minor works programs
- updates to existing design standards for correctional facilities to bring them into line with the standards of recent capital projects
- opportunities to improve data systems for a more effective understanding of the asset portfolio
- training for relevant DCS staff to ensure they understand DCS's asset management expectations.

Target dates for these actions range from December 2021 to December 2022.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2021 $million	2020 $million
Income		
Appropriation	467	368
Sale of goods	7	7
Other income	10	16
Total income	484	391
Expenses		
Employee benefit expenses	193	202
Supplies and services	133	124
Other expenses	30	28
Total expenses	356	354
Net result	128	37
Total comprehensive result	128	37
Net cash provided by (used in) operating activities	155	42
Net cash provided by (used in) investing activities	(26)	(36)
Net cash provided by (used in) financing activities	(2)	(2)

	2021 $million	2020 $million
Assets		
Current assets	160	29
Non-current assets	773	739
Total assets	933	769
Liabilities		
Current liabilities	80	44
Non-current liabilities	71	72
Total liabilities	152	115
Total equity	781	653

* Table may not add due to rounding.

Statement of Comprehensive Income

Impact of COVID-19

DCS estimates that the COVID-19 pandemic impacted its operations with additional expenditure for 2020-21 of about $2.7 million, comprising additional salaries and wages, IT equipment charges and cleaning and the purchase of protective equipment.

Income

Total income increased by $93.3 million to $484.1 million.

DCS relies on SA Government appropriations as its major revenue source to fund its operations. Appropriations increased by $98.4 million to $466.7 million, with funding for capital projects increasing to $128.2 million. This was mainly for the Yatala Labour Prison expansion.

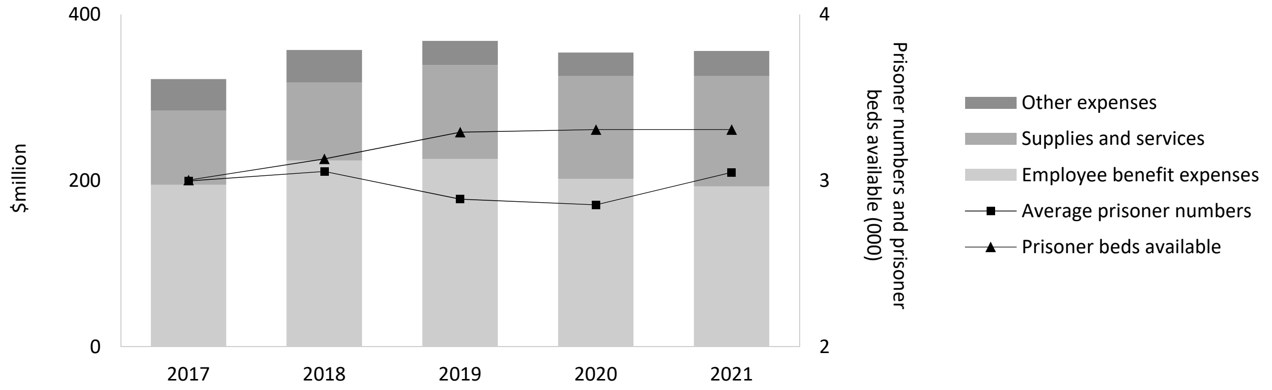
All other income decreased by $5.1 million, with reimbursements from the Department of Treasury and Finance for TVSPs reducing by $4.8 million to $2 million. A total of 21 TVSPs were accepted in 2021 compared to 95 in the previous year.

Expenses

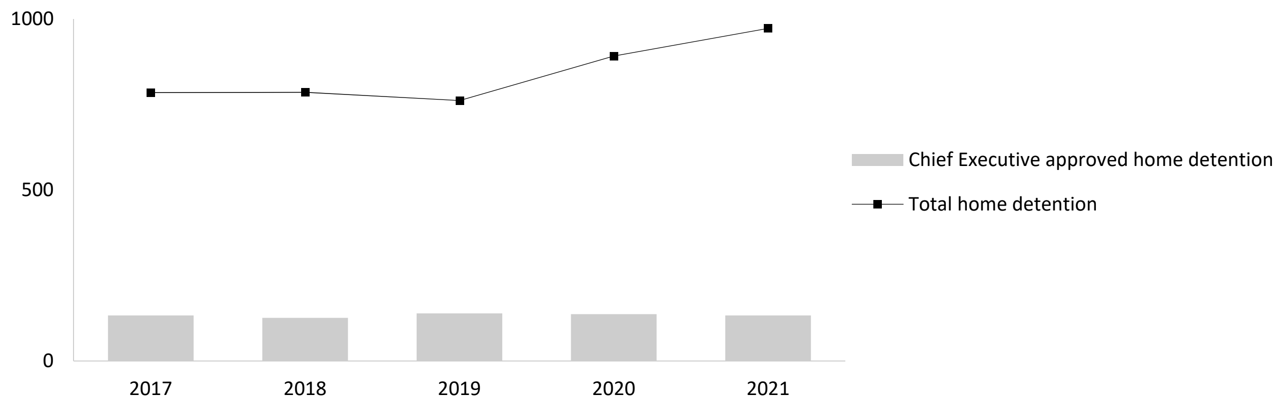
A structural analysis of DCS's main expense items and average prisoner numbers for the five years to 2021 is shown in the chart below.

While total expenses have increased by $34 million (10%) since 2017, expenses have dropped by 3% since 2019. The decrease reflects the influence of DCS's Better Prisons Reform Program, which includes outsourcing the management and operations of the Adelaide Remand Centre and implementing high performance benchmarking and workforce flexibility. The shift of expenditure from employee benefits expense to supplies and services since 2019 was impacted by the outsourcing of the Adelaide Remand Centre in August 2019.

While average prisoner numbers increased by 5% in 2021, since 2017 the average number of prisoners has risen by less than 4%. At 30 June 2021 there were 858 prisoners held in contractor operated prisons (Mount Gambier Prison and the Adelaide Remand Centre).



In 2016, changes to the *Correctional Services Act 1982* and *Criminal Law (Sentencing) Act 1988* allowed the Courts to apply home detention orders. Prior to this only the DCS Chief Executive could release prisoners for home detention under certain conditions. Total home detention numbers increased by 81 to 973 at 30 June 2021, mainly as a result of increases in court ordered home detentions.



Employee benefit expenses

Employee benefit expenses decreased by $9.5 million due mainly to:

- a decrease in salaries and wages costs of $5.3 million, reflecting the full-year impact of staff reductions that occurred in 2020. A total of 241 TVSPs were accepted over the past three years, including 21 accepted in 2021
- a $4.5 million decrease in TVSP expenses.

Supplies and services expenses

Supplies and services expenses increased by $9.2 million to $132.9 million following:

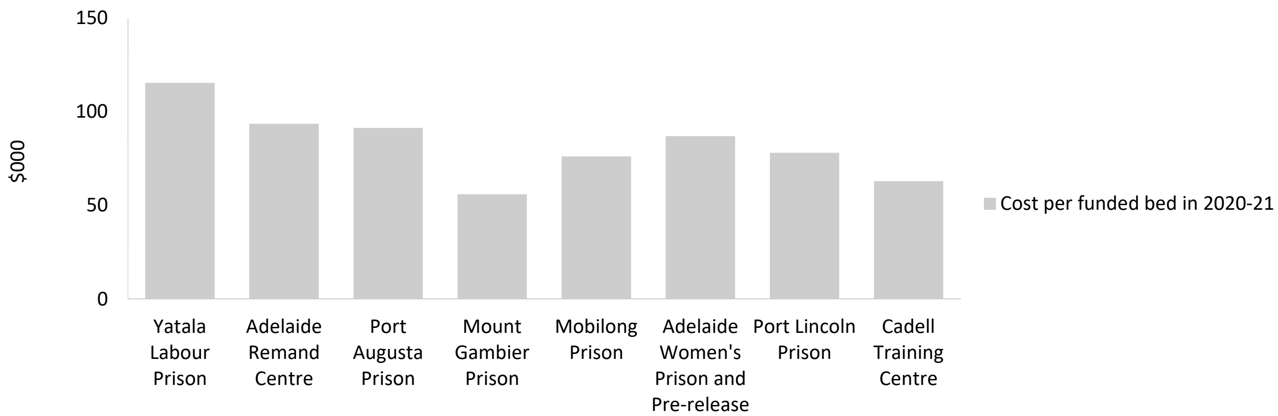
- a $4 million increase in contract expenditure due mainly to:
  - a $2.1 million increase due to the full-year impact of the outsourced management of the Adelaide Remand Centre in 2020-21 (commenced August 2019)
  - a $460 000 increase resulting from a scheduled 1.94% annual price escalation for the Mount Gambier Prison contract
  - a $500 000 increase for the Home Detention Integrated Support Services Program for annual escalation and additional participants

- a $540 000 increase for home detention electronic monitoring due to annual escalation as well as an additional 100 units leased in 2020-21 due to higher demand
- offender related costs increasing by $460 000 due mainly to food costs related to an increase in prisoner numbers

- an increase in IT expenditure of $1.4 million mainly for increased intra-government IT charges and licencing fees
- additional COVID-19 related charges of $760 000
- an increase of $720 000 mainly for workers compensation lump sum payments
- a $710 000 increase in fees relating to the new renegotiated Prisoner Movement and In Court Management Contract
- an increase of $570 000 for strategic projects, including the provision of a strategic business case for a new Rehabilitation Prison
- a cost of goods sold canteen sales increase of $440 000 due to the increase in prisoner numbers.

Annual cost per funded bed per facility

The following chart shows the per prisoner cost of managing each facility in 2020-21. Figures include all direct and indirect operating costs. Indirect costs are allocated to prisons based on either a percentage of total salaries, a percentage of total beds or a percentage of total direct costs. Data was supplied by DCS and is unaudited.



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

- the built environment of the prison. Ageing infrastructure at sites like Yatala Labour Prison can impact costs. For example, the design of prisoner accommodation, visitor centres and admissions areas can impact staffing levels, which then impact cost. Cell based accommodation as opposed to residential type accommodation also influences the cost per prisoner
- work practices and staffing levels, which vary at each site and have evolved over time. For example, there are variations at prison sites in the number of correctional officers required to escort prisoners within the facility and the number of correctional staff required to monitor prisoners

- the role and function of the prison, which can vary based on factors including out of cell hours, the level of industry activity at each site, the level of prisoner employment, whether it is an open campus (eg Mobilong) and the security level of prisoners.

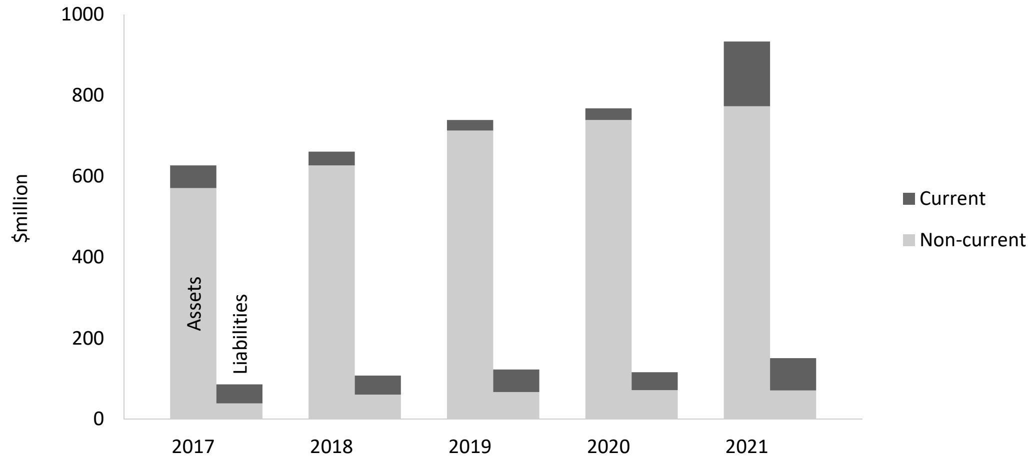
It is also important to note that South Australian prisons have varied security requirements rated as high, medium and low security. This influences the cost of managing each facility, with higher security requirements generally increasing the cost of running a prison.

The chart above illustrates the cost differences between facilities. These comparisons require consideration of the following points:

- The Adelaide Remand Centre, Port Augusta Prison and Yatala Labour Prison have mainly high and medium security prisoners.
- Cadell Training Centre (low security prisoners), Mobilong Prison (medium and low security prisoners), Mount Gambier Prison (medium and low security prisoners) and Port Lincoln Prison (medium and low security prisoners) have the lowest cost per prisoner.
- The Adelaide Women's Prison accommodates all security profiles.

Statement of Financial Position

For the five years to 2021, a structural analysis of assets and liabilities is shown in the following chart.



Current assets of $160 million exceed current liabilities, with cash and cash equivalents representing 94% of current assets.

Assets

Total assets increased by $164 million to $933 million, largely associated with a $127 million increase in cash and cash equivalents and a $34 million increase in property, plant and equipment and capital works in progress.

Cash and cash equivalents

Cash and cash equivalents increased by $127 million to $151 million, due primarily to timing differences between the receipt of appropriations for capital purposes and the associated capital expenditure. Appropriations for 2021 included funding for the Yatala Labour Prison expansion based on initial estimates of the timing for capital expenditure. These payments were not reprofiled when the project schedule was finalised.

Property, plant and equipment

The main item of DCS's Statement of Financial Position is property, plant and equipment, representing 76% of total assets.

Land and buildings represent 98% of total property, plant and equipment and were valued at $697 million as at 30 June 2021. The following chart shows asset values for DCS's land and buildings for the last two years.

The increase in property, plant and equipment of $8.1 million was due to:

- $30.1 million of completed capital works, primarily the additional accommodation and upgrade at the Adelaide Women's Prison of $15 million and $12 million for the Yatala Labour Prison expansion
- partially offset by depreciation charges of $21.9 million.

Capital works in progress

At 30 June 2021 capital works in progress totalled $59 million, an increase of $25.8 million from the prior year. This included costs associated with the following prisoner accommodation and associated projects in progress at 30 June 2021:

- $47 million for additional beds at Yatala Labour Prison
- $2.7 million for audio video link upgrades at several prison sites
- $2.2 million for Adelaide Women's Prison upgrades
- $1.6 million for the upgrade of analogue to digital security systems
- $5 million for a number of other capital projects.

Liabilities

Total liabilities increased by $36.5 million to $151.9 million.

This increase is largely attributable to a $36.5 million increase in creditors owed for capital works incurred prior to 30 June 2021, mainly for the Yatala Labour Prison expansion.

Provision for workers compensation

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

The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2021 provided by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment. DCS's workers compensation liability increased by $2.8 million (11.7%) to $26.7 million based on the actuarial assessment. The liability for seriously injured workers increased by 11.3% and non-seriously injured worker claims increased by 12.4%.

Additional compensation provision

As at 30 June 2021 the additional compensation provision was estimated at $5.1 million, down from $6.1 million the previous year. This reflects reductions in the estimated number of incurred but not reported claims, and the average claim size.

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

The additional compensation provision as at 30 June 2021 was estimated by an actuary engaged by the Office of the Commissioner for Public Sector Employment on behalf of all affected agencies across the public sector. The liability comprises an estimate for known claims and an estimate of incurred but not reported applications.

There is a significant degree of uncertainty associated with the estimate of the additional compensation provision. In addition to the general uncertainties associated with estimating future claim and expense payments, the provision is impacted by the absence of claims history and the evolving nature of the interpretation of, and evidence required to meet, eligibility criteria.

Given these uncertainties the actuary has noted that the actual cost of additional compensation claims may differ materially from the estimate.

Statement of Cash Flows

The following table summarises DCS's net cash flows for the five years to 2021.

	2017 $million	2018 $million	2019 $million	2020 $million	2021 $million
Net cash flows					
Operating	48	24	41	42	155
Investing	(51)	(67)	(49)	(36)	(26)
Financing	47	20	-	(2)	(2)
Change in cash	44	(23)	(8)	4	127
Cash at 30 June	51	28	20	24	151

In 2020-21 cash increased by $127 million largely as result of timing differences between the receipt of appropriations for capital purposes (classified as an operating cash inflow) and the resulting capital expenditure (classified as an investing cash outflow). Since 2019 capital expenditure has been funded through operating cash flows. In 2017 and 2018 capital expenditure was funded in part through capital contributions from the SA Government, which are reflected in financing activities. The classification of cash inflows for capital purposes is dependent on a determination of the Treasurer before or at the time the cash is transferred.

Courts Administration Authority (CAA)

Financial statistics	Total revenues from SA Government: $109 million Administered total expenses: $65 million Number of FTEs: Controlled 647 Administered 88
Significant events and transactions	— Development of the Electronic Court Management System (ECMS) criminal stage continued in 2020-21, with an expectation that it will start to be used in early 2022. — The Higher Courts Redevelopment Project was finalised in July 2020.
Financial report opinion	**Unmodified**
Controls opinion findings	Monthly operating account bank reconciliations were not completed during 2020-21.
Other audit findings	— The review of a number of ECMS to general ledger reconciliations was not prompt. — A key ICT security document, the CAA's IT User Handbook, was only in draft. — No user access review of the ECMS was performed. — There were weaknesses in the processes to validate vendor masterfile changes.

Functional responsibility

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

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

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- expenditure and accounts payable
- revenue and receipting
- financial accounting and cash
- payroll
- property, plant and equipment and intangible assets
- trust accounts.

We considered internal audit activities when designing our audit procedures.

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

Monthly operating account bank reconciliations were not completed during 2020-21

The CAA did not complete any monthly operating account bank reconciliations in 2020-21.

In May 2018 the CAA implemented the ECMS for civil matters. The original intention was for ECMS civil to include a bank reconciliation function, but this functionality has not been developed.

As a result, the CAA implemented manual workarounds to address system deficiencies, which has made effectively reconciling its cash position difficult.

A properly reconciled cash position is the foundation of complete and accurate financial reporting. It is a key accounting process for ensuring actual amounts spent and received reconcile to an entity's general ledger record. It is also a requirement of the Treasurer's Instructions that all bank accounts are reconciled at the end of each month.

Where bank reconciliations are not performed for extended periods, there is an increased risk of financial reporting errors, with additional resources often then needed to perform a reconciliation.

The CAA completed its operating bank reconciliation for 2020-21 in August 2021 as part of finalising its financial statements.

Other audit findings

Financial accounting

The review of a number of ECMS to general ledger reconciliations was not prompt

We found that the monthly reconciliations between ECMS and the general ledger between October 2020 and March 2021 were only independently reviewed in late-May 2021. Where reconciliations are not reviewed promptly, there is an increased risk of errors not being identified and resolved promptly.

The CAA responded that subsequent reconciliations have been reviewed promptly.

IT general controls

A key ICT security document, the CAA's IT User Handbook, was only in draft

We found that the CAA's IT User Handbook was only in draft. It details information about employee responsibilities for using IT resources and handling digital information, as well as providing practical guidance about ICT security.

Where documentation like the IT User Handbook is not finalised, there is an increased risk that employees may not be aware of the current approach to cyber security, increasing the risk that information may not be secured and managed in line with contemporary cyber security requirements.

The CAA responded that its IT User Handbook was still being developed and is expected to be approved by late 2021.

No user access review of the ECMS was performed

As we have noted since 2018-19, in 2020-21 we found that ECMS user access reviews had not been performed. Our analysis of user details identified 40 former staff who still had active ECMS credentials.

Not removing user access that is no longer required increases the risk of inappropriate access to confidential and sensitive data.

The CAA responded that ECMS user access reviews would be completed in 2021-22.

Expenditure

There were weaknesses in the processes to validate vendor masterfile changes

CAA accounts payable vendor masterfile changes are required to be independently reviewed.

In 2020-21 we sampled nine vendor masterfile changes involving either the creation of a new vendor or changes to payment instructions. We found two instances where the changes were not independently checked until nine working days later and five instances where an independent check only happened after a payment had been made.

Not checking vendor masterfile changes promptly increases the risk that incorrect payment details are not promptly detected and corrected. This can result in avoidable financial loss.

The CAA responded that it will review its procedures in this area.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

Statement of Comprehensive Income

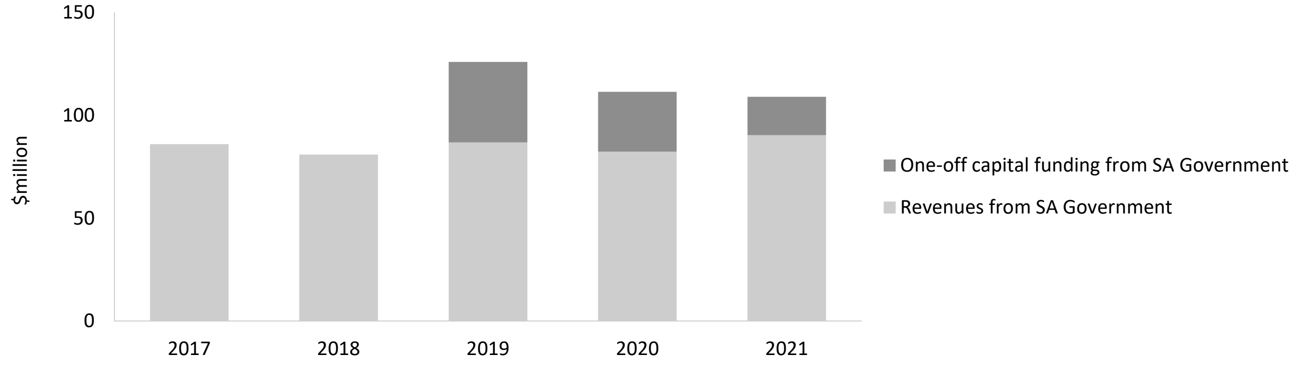
The CAA's expenses reflect the cost of performing its statutory responsibilities, including collecting administered income such as fines and court fees on behalf of the SA Government. This income is directly credited to the Consolidated Account and is reported under administered income.

	2021 $million	2020 $million
Income		
Revenues from SA Government	109	111
Fees and charges	3	3
Other revenues	2	2
Total income	114	116
Expenses		
Employee benefits expenses	60	57
Supplies and services	31	27
Other expenses	11	8
Total expenses	102	92
Net result	12	24
Net cash provided by (used in) operating activities	27	36
Assets		
Current assets	49	35
Non-current assets	349	349
Total assets	398	384
Liabilities		
Current liabilities	15	14
Non-current liabilities	37	36
Total liabilities	52	50
Total equity	346	334

Income

Revenues from the SA Government are the major source of funding for the CAA, accounting for 96% (96%) of total income.

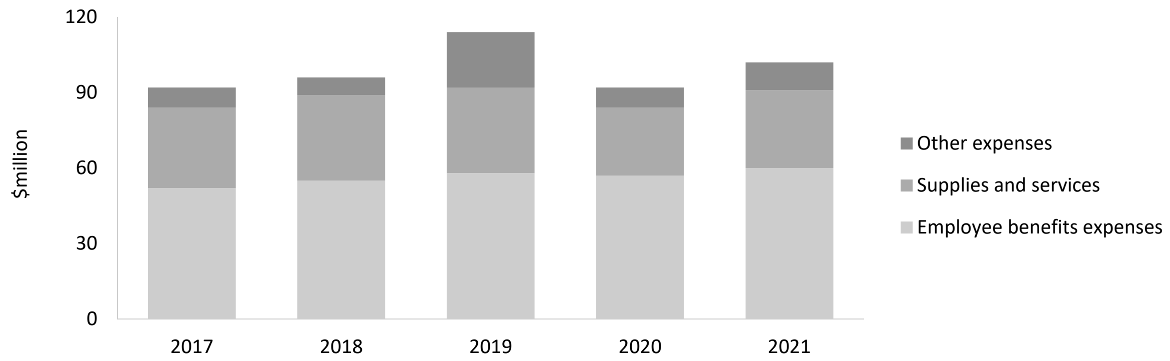
The following chart shows the amount of revenue received from the SA Government for the five years to 2021.



Revenue received from the SA Government decreased by $2.3 million in 2020-21, to $109.2 million. The small decrease mainly reflects that the CAA received $2 million in additional funding from the Governor's Appropriation Fund in 2019-20.

Expenses

The following chart shows the main expense items for the five years to 2021.



The chart shows that all categories of expenditure increased in 2020-21.

Employee benefits expenses are the CAA's major expense category, accounting for 59% (62%) of total expenditure. In 2020-21 employee benefits expenses increased by $2.9 million. The main drivers of the increase were:

- salaries and wages increases of $1.1 million, mainly attributable to increased use of Sheriff Officers, including for regional security and criminal courtrooms
- workers compensation expenditure increases of $3.6 million, mainly associated with the recognition of amounts associated with a potential significant claim for a seriously injured worker

- partially offset by a $600 000 decrease in costs associated with targeted voluntary separation packages and a $500 000 reduction in long service leave expenditure, related to an increase in the discount rate used to value the long service leave liability.

Supplies and services account for 30% (29%) of total expenses. While this percentage of total expenditure remained steady, actual expenses increased by $3.9 million to $31 million. This mainly reflects:

- increases in computing and communication costs of $2.3 million, mainly attributable to the purchase of audio visual equipment that is not capitalised
- increases in minor works and maintenance costs of $500 000, including the completion of disability access upgrades to the Supreme Court and other minor works
- increases in Sheriff's Officer payments of $400 000 and court expenses of $400 000, attributable to court activity returning to more normal levels after reduced activity in part of 2019-20 when the COVID-19 pandemic first started and three additional criminal jury courtrooms.

Statement of Financial Position

Non-current assets mainly comprise land and buildings totalling $302 million ($306 million), which account for 86% (88%) of non-current assets.

Current assets mainly comprise cash and cash equivalents totalling $45 million ($30 million), which accounts for 91% (88%) of current assets.

Included in cash are deposits with the Treasurer, including $9.5 million ($1 million) held in the Accrual Appropriation Excess Funds Account. The balance of these funds is not available for general use and can only be used with the Treasurer's approval.

The increase in cash reflects underspending on capital projects of around $10 million. This relates to the timing of payments for ECMS, Sir Samuel Way Building façade works, the Courts audio-visual link project and Court of Appeal accommodation upgrades.

Higher Courts Redevelopment project

In July 2020 the Higher Courts Redevelopment project – the most significant capital redevelopment in the CAA's recent history – was completed.

It has delivered six refurbished civil courtrooms in the Supreme Court precinct, including refurbished accommodation for judicial use, as well as three additional criminal jury courtrooms and associated facilities in the Sir Samuel Way Building.

The total project cost was $30 million, in line with the budget.

Electronic Court Management System project

The 2015-16 State Budget allocated $23.2 million to develop a system to support administrative case management, provide online functions and address the CAA's critical records management and information exchange requirements.

Total capitalised ECMS costs as at 30 June 2021 were $8.7 million, with a further $3 million costed to work-in-progress in 2020-21. It is currently expected that Criminal Courts functionality will be in use by early 2022, and the project remains within its $23.2 million budget.

Interpretation and analysis of the financial report for administered activities

Highlights of the financial report – administered items

	2021 $million	2020 $million
Income		
Revenues from SA Government	45	43
Court and transcript fees and other	20	22
Total income	65	65
Expenses		
Judicial benefits expenses	44	42
Payments to the Consolidated Account	20	22
Other expenses	1	1
Total expenses	65	65
Net and total comprehensive result	-	-
Net operating cash provided by (used in) administered activities	(32)	45
Assets		
Current assets	65	96
Total assets	65	96
Liabilities		
Current liabilities	61	93
Non-current liabilities	12	11
Total liabilities	73	104
Total equity	(8)	(8)

Statement of Administered Comprehensive Income

Income

Court and transcript fees

Court and transcript fees are raised and collected by the CAA and then paid to the Consolidated Account. $19.7 million was raised, collected and transferred to the Consolidated Account in 2020-21, a decrease from last year due to an overall decline in civil court related activity levels. The reduced activity is partly related to the ongoing impact of COVID-19, with litigants either delaying or not proceeding with some civil matters.

Revenues from SA Government

In 2020-21 revenues of $45 million ($43 million) were received from the SA Government to fund the CAA's Judiciary benefits expenses.

Expenses

Payments to the Consolidated Account of $19.7 million mainly comprise court and transcript fees.

Judicial benefits expenses were $44 million, an increase of $1.8 million (4.2%) from last year. The increase reflects an increase in Supreme Court judicial officers, the increased use of auxiliary judges, salary increases for the President of the Court of Appeal and the other Court of Appeal judges and increased auxiliary payments.

Statement of Financial Position

The CAA receives money into trust accounts on behalf of parties involved in court matters and also makes payments to parties as determined by the Courts. In 2020-21 total administered assets and liabilities both decreased by over $30 million as a result of more cash being released from trust accounts, particularly the Supreme Court Suitors Fund.

Land acquisition payments made by the Commissioner of Highways, mainly for the north-south corridor upgrade, accounted for over $23 million of the decrease in administered cash.

Further commentary on operations

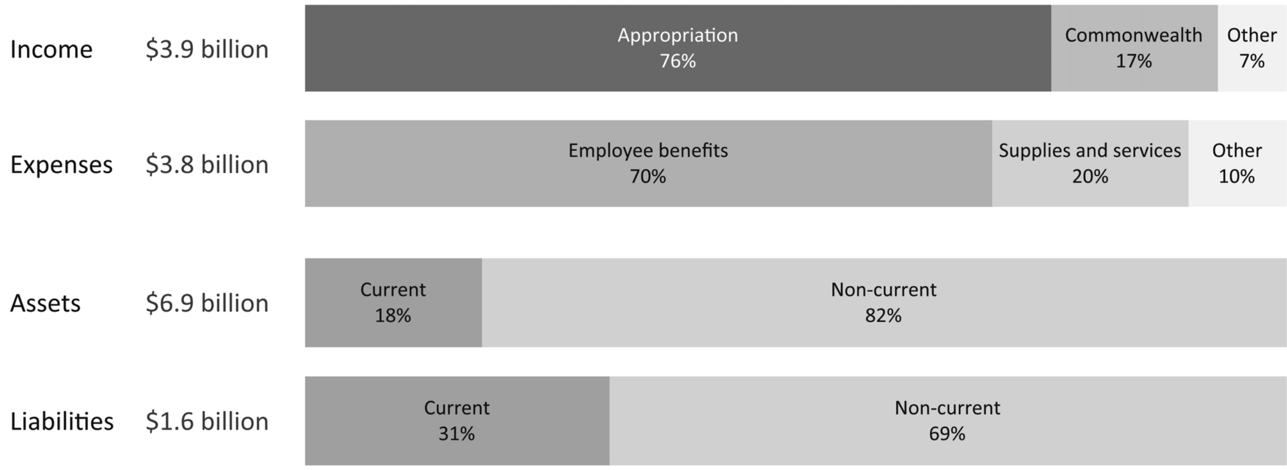
Total cost of services for the administration of justice through the courts system

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

For 2020-21 total expenses were $167 million ($157 million) and total income, excluding revenues from the SA Government, was $25 million ($27 million). The SA Government provided $154 million ($154 million) towards the cost of administering justice.

Department for Education (Education)

Financial statistics



24,830
Total FTE employees

911
Number of public school and preschool sites

175,393
Number of FTE students in public schools in term 1, 2021

Administered items

Significant events and transactions

- Capital works in progress as at 30 June 2021 were $773 million, with $689 million added during the year due to the Sustainable Enrolment Growth and new schools capital works projects, and more to come next year.
- Education returned $111 million to the Department of Treasury and Finance.
- Education received an equity contribution of $293 million from the SA Government.

Financial report opinion

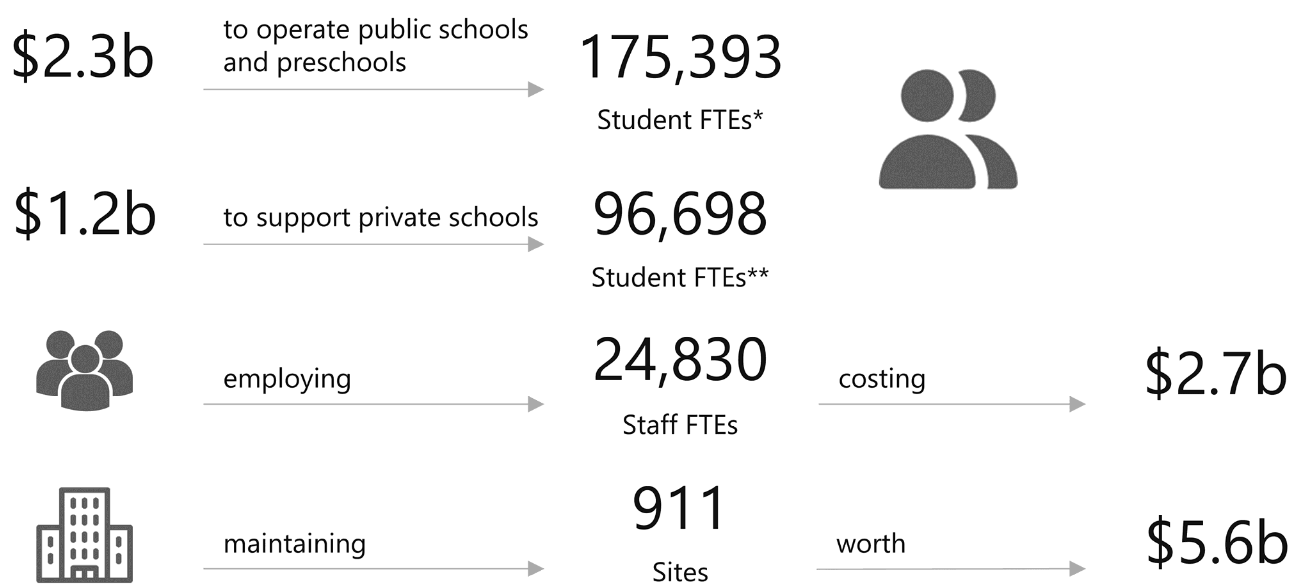
Unmodified

Controls opinion findings	— Important elements of planning for capital works were not in place. — Minor works and maintenance expenses were paid without being reviewed and approved. — 27% of employee performance development plans were overdue.
Other audit findings	Disaster recovery for the payroll system needs improvement.

Functional responsibility

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

Education's main functions



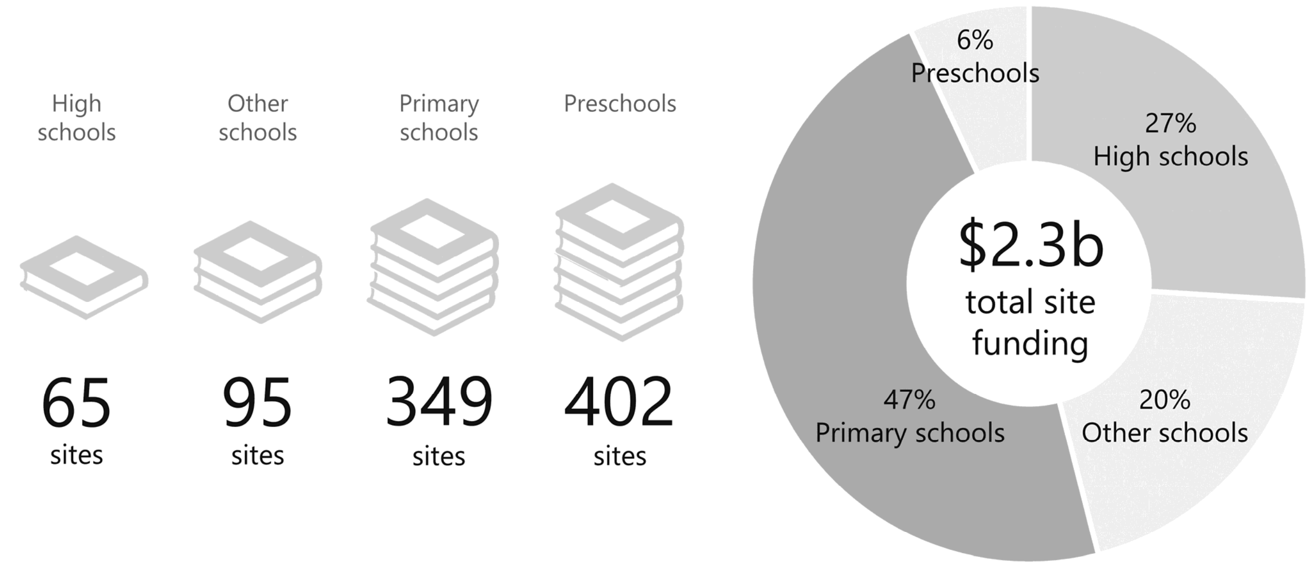
* Student FTEs as at 5 February 2021 not including preschool student FTEs.
** Student FTEs as at 7 August 2020, as 2021 numbers are not available yet.

Education funding arrangements

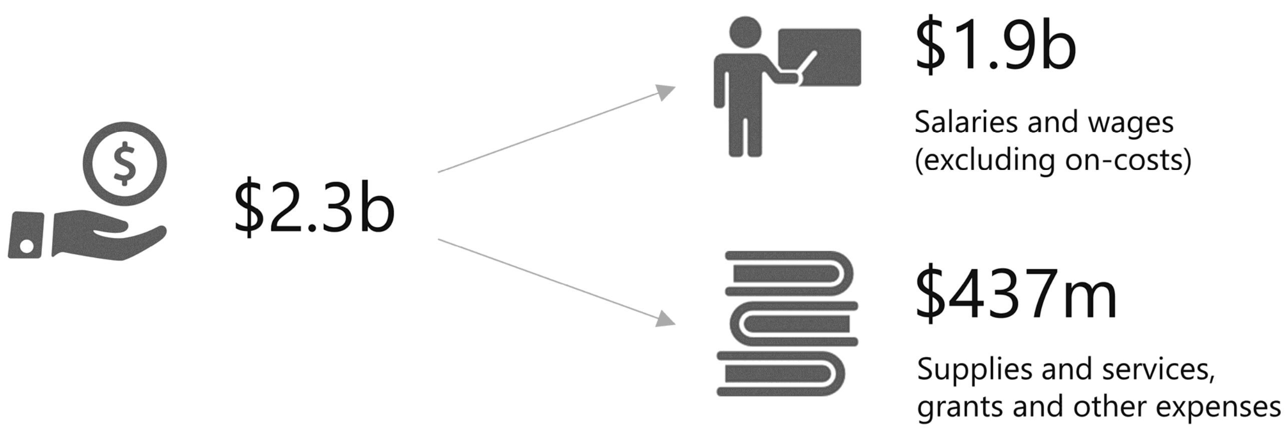
The National School Reform agreement between the Commonwealth and the states sets out the funding model for both public and private education.

Government funding to run public schools and preschools

How are the public schools and preschools split?



Where is the public school and preschool funding spent?



Salaries and wages are 81% of the total amount provided to operate public schools and preschools.

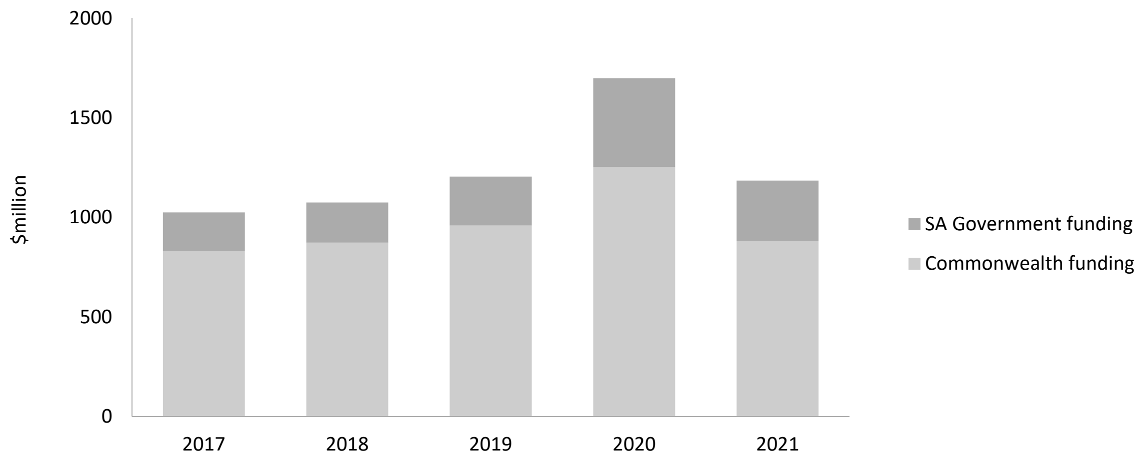
In 2021 payments to and on behalf of public schools and preschools were funded by $1.7 billion in SA Government appropriation and $649 million in Commonwealth grants. Additional SA Government funds were also provided for capital works.

Payments to and on behalf of public schools and preschools are within the controlled financial report.

Funding to support private schools

In 2020 there was a large increase of 41% in funding due to private schools receiving their July 2020 payments between April and June 2020 to help them manage the impact of the COVID-19 pandemic. Without these early July 2020 payments there was a 7% increase in 2020 due to normal increases in enrolments and indexation.

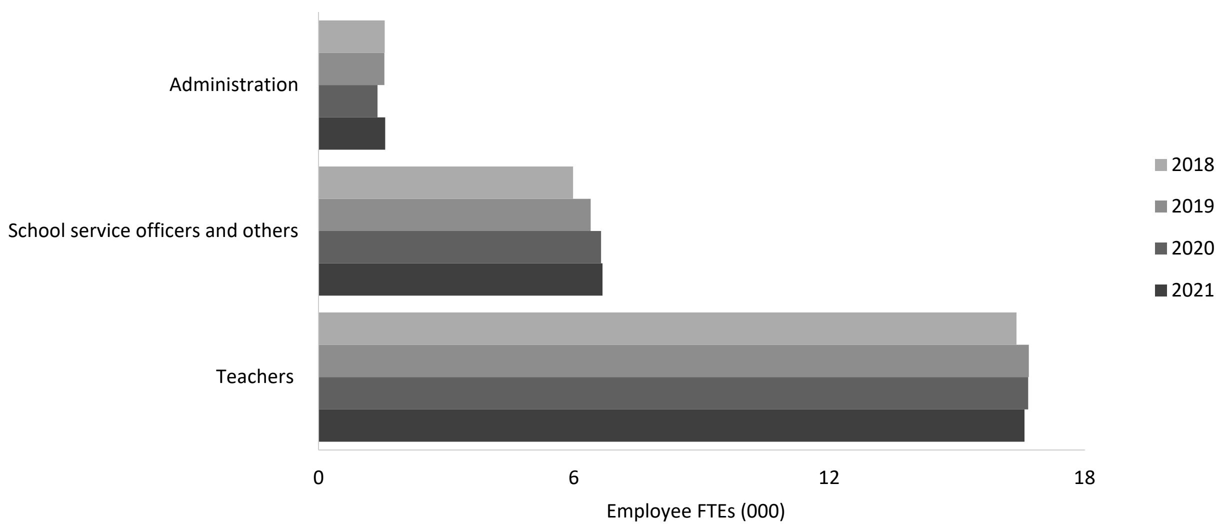
Because of the advance payments in 2020, private school funding substantially decreased in 2021. The following chart shows the composition of private school funding.



In 2021 private schools were funded by $303 million ($445 million) in SA Government appropriations and $882 million ($1.254 billion) in Commonwealth grants. Transfers are based on the term 3 enrolment census and the needs of the school and its students. The amount each private school receives is determined by the Commonwealth.

Transfers to private schools are recorded in the administered financial report as they are payments from the Minister.

Employees



In 2021 employee expenses were $2.7 billion and there was an increase in staff of 135 FTEs, from 24 695 to 24 830.

Since 2018 school services officers have increased by 13% (675 FTEs) due to a number of reform programs, such as more support for students with disabilities, being implemented to improve school performance and student outcomes. In 2021 the number of schools services officers increased by 19 FTEs.

As at 30 June 2020 there was a 10% decrease (162 FTEs) in administration staff compared to 30 June 2019. This was due to the SA Government asking Education to reduce administration staff by 200 FTEs by 30 June 2019. An organisational restructure was completed in 2019 with the new structure starting on 1 July 2019.

The above chart shows that the number of administration staff has now returned to the pre-restructure level.

Assets

Education has $5.6 billion of tangible assets spread over 911 sites across the State.

The assets mainly relate to land of $1.6 billion and buildings and improvements of $3 billion.

In 2021 Education increased its spending on capital works by 580 million with $199 million on minor works, maintenance and equipment, $689 million on capital works in progress and $13 million on other additions.

In 2020 we reviewed the effectiveness of Education's capital planning and governance of capital works, including the Sustainable Enrolment Growth program. We produced a separate report on the audit – Auditor-General's Report 9 of 2020 *Education capital works: planning and governance*.

In 2021 we followed up the findings from the report and the number of outstanding issues is shown below.

An overview of the main findings still outstanding is provided under 'Audit findings' below.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- expenditure
- payroll
- property, plant and equipment
- grants
- general ledger
- governance.

We reviewed internal audit activities to assess the risks of material misstatement in the financial report and to design and perform audit procedures. We made use of the work performed by internal audit on government school audits, which were performed by contractors appointed, managed and monitored by internal audit.

Controls opinion

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

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

Important elements of planning for capital works were not in place

Education owns $3 billion of buildings and improvements, across 911 sites. It is therefore important to ensure it has sound strategies, plans and information to ensure these assets are properly managed and maintained and that future capital works are based on need and sound reasoning.

Auditor-General's Report 9 of 2020 *Education capital works: planning and governance* assessed the effectiveness of Education's planning and governance of the capital works program. The main component of its capital works is the Sustainable Enrolment Growth program, which includes:

- modernising schools and facilities
- enabling the transition of Year 7s into high schools in 2022
- supporting sustainable enrolment growth.

This program replaced the Building Better Schools program and provides $890 million in capital funding to 99 schools to be spent by 2023-24.

In 2020-21 we followed up Education's progress on the issues we raised and, while progress was made on all 18 of the original findings we identified, 10 had not been fully addressed.

The main issues raised that were still not fully addressed in 2020-21 were:

- Education's strategic asset management framework and 20 year infrastructure plan being under development but not complete. They are due for completion by 31 December 2021
- key asset condition information not being available.

The outstanding issues also impact the managing and planning of other capital works, other asset classes, minor works and maintenance expenditure.

Education's response to our 2021 follow-up was positive and it advised us of a number of initiatives that were in progress to address our recommendations.

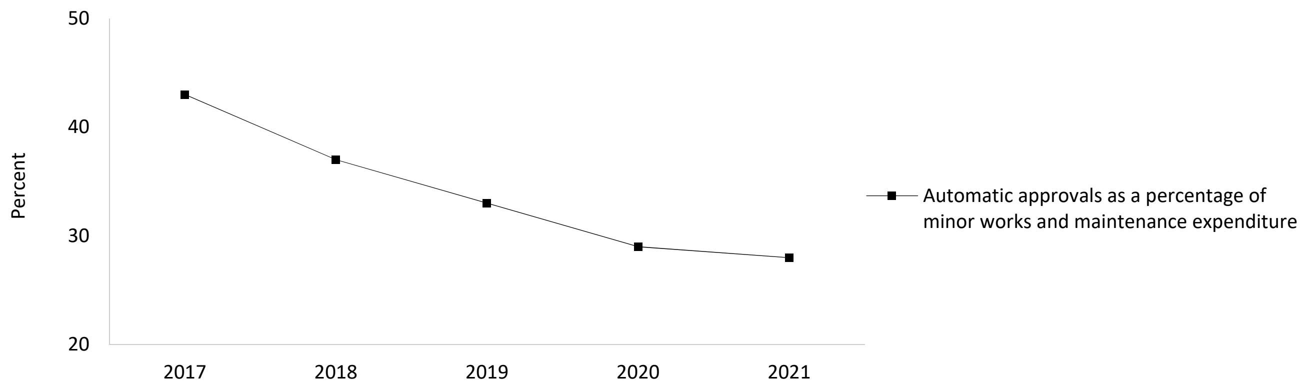
Minor works and maintenance expenses paid without being reviewed and approved

Education paid $199 million for minor works, maintenance and equipment in 2021.

Minor works and maintenance are performed by facilities management service providers. Under the contractual arrangements, if invoices are not approved or disputed by sites within 30 days, they are automatically paid.

For a number of years we have raised the issue of automatic payments as there is an increased risk of paying for works not performed or being overcharged. In our view these payments also breach the Treasurer's Instructions, as no delegate has approved the payments.

A number of changes have been implemented by Education and the Department for Infrastructure and Transport that have reduced the number of automatic payments since 2017 to the lowest level in five years, as shown below.



While there has been a significant improvement, a substantial amount of expenditure ($30.3 million as at 29 February 2021) was still paid automatically without review and approval.

Education advised us that in April 2021 it expanded its emails to sites to remind them to review and approve invoices. Where previously only the top 10 sites with the most expenditure auto-approved in the month received reminder emails, now any site that has an auto-approval in the month receives them. This has improved the overall number of auto-approvals.

Employee benefits

Employee benefits expenses were $2.7 billion in 2021 for 24 830 controlled FTEs, representing 70% of total expenses.

Education also administered $4 million in employee benefits expenses for 34 administered FTEs at 30 June 2021.

27% of employee performance development plans (PDPs) were overdue

There has been improvement in overdue PDPs since last year, from 32% down to 27%, due to Education implementing a new biannual PDP drive.

However, we noted there were still issues with long overdue PDPs and new appointments not completing their PDPs on time.

We recommended that Education follow up long overdue PDPs and determine the reasons for the non-completion to reduce the number of overdue plans.

Education responded that it will review a sample of sites with low current PDPs to determine the reasons and recommend areas for improvement by 30 November 2021.

Other audit findings

Disaster recovery for the payroll system needs improvement

Education's payroll system is Valeo. It is the largest system currently managed by Education. Support services for the database and operating system are provided by NEC.

We found that Education does not have a detailed disaster recovery plan or a secondary disaster recovery site for Valeo. As a result, disaster recovery testing of the Valeo environment has not been completed for a long time. This is a repeat finding from 2017-18.

Education advised us that it has initiated a review of Valeo's system infrastructure, which will be completed by September 2021. The development of a disaster recovery plan will depend on the outcome of this review. A detailed plan covering all infrastructure and environments in use will be in place by the end of 2021.

Interpretation and analysis of the financial report

Highlights of the financial report (Consolidated)

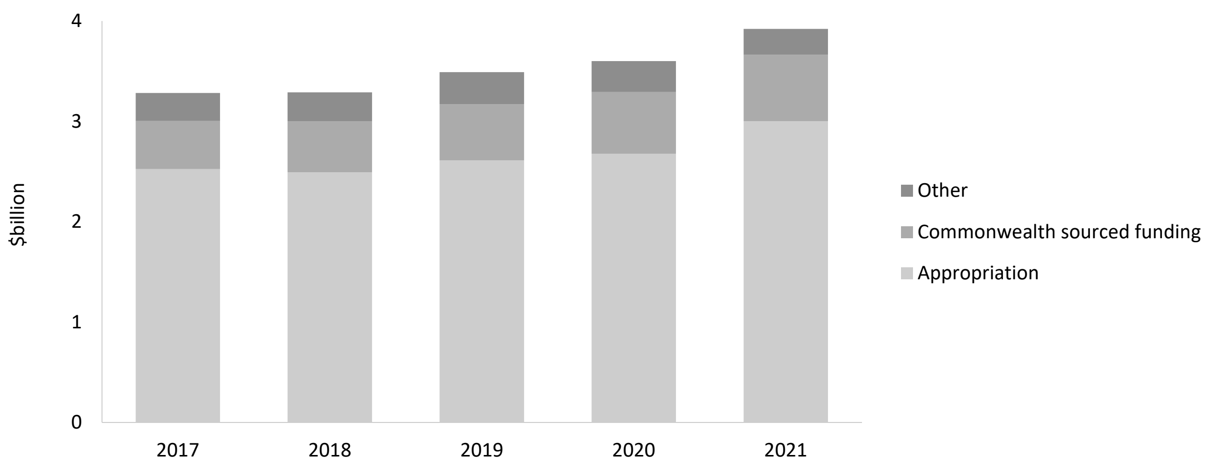
	2021 $million	2020 $million
Income		
Appropriation	3 001	2 671
Commonwealth sourced funding	660	614
Other	259	315
Total income	3 920	3 600

	2021 $million	2020 $million
Expenses		
Employees benefits	2 655	2 588
Supplies and services	767	762
Other	362	257
Total expenses	3 784	3 607
Net result	136	(7)
Other comprehensive income		
Changes in revaluation surplus	242	3
Total comprehensive result	378	(4)
Net cash provided by operating activities	330	183
Net cash used in investing activities	484	111
Net cash provided by financing activities	285	25
Assets		
Current assets	1 233	1 096
Non-current assets	5 659	4 853
Total assets	6 892	5 949
Liabilities		
Current liabilities	484	414
Non-current liabilities	1 074	872
Total liabilities	1 558	1 286
Total equity	5 334	4 663

Statement of Comprehensive Income

Income

The main income items for Education for the five years to 2021 are shown in the following chart.



In 2021 total income increased by $319 million (9%) to $3.9 billion. This included:

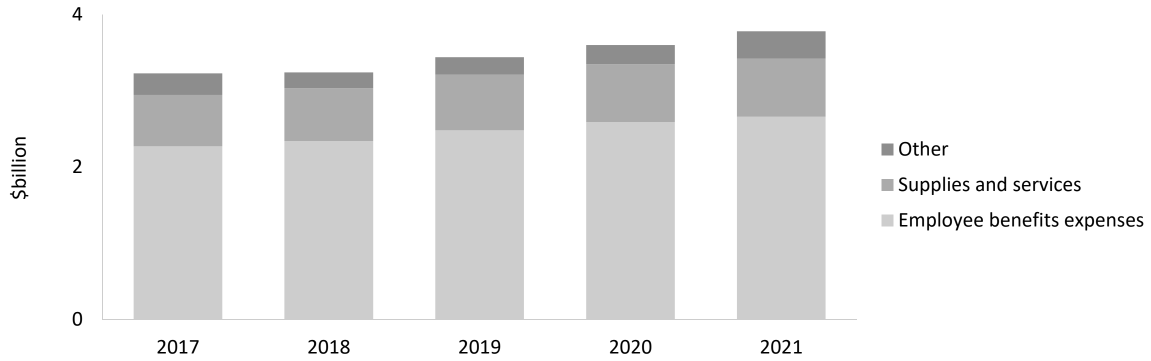
- a $46 million increase in Commonwealth sourced funding mainly due to an increase in National School Reform agreement funding, reflecting mainly indexation under the funding arrangement

- appropriation from the SA Government increasing by $330 million (12%), primarily as a result of additional funding for National School Reform ($178 million) and employee benefit increases ($187 million)
- offset by a $27 million reduction in sale of goods and services mainly due to a reduction in camp, excursion and out-of-school care fees and a $14 million reduction in SA Government grants.

Education received another $293 million from the SA Government as an equity contribution for capital projects. The contribution was made through the Appropriation Act and was in lieu of recurrent appropriation.

Expenses

The main expense items for Education for the five years to 2021 are shown in the following chart.



Total expenses increased by $176 million (5%) to $3.8 billion in 2021. This comprised:

- a $67 million increase in employee benefits expenses largely due to:
  - an increase of $74 million in salaries and wages (including annual leave), $7 million in superannuation and $3 million in payroll tax, resulting from salary rate increases related to the new enterprise bargaining agreement
  - offset by a $7 million decrease in long service leave expense, mainly reflecting an increase in the discount rate. The discount rate used is the yield on long-term Commonwealth Government bonds, which increased from 0.5% to 1%
  - a $9 million decrease in workers compensation expense due to changes in the rates and estimated claim values used by the actuary. The actuarial assessment is provided by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment
- a $102 million increase in cash alignment transfers to the Consolidated Account.

Statement of Financial Position

Assets

Current assets increased by $137 million due to:

- a $131 million increase in cash and cash equivalents (see commentary under 'Statement of Cash Flows')
- a $5 million increase in assets held for sale.

SA Schools Investment Fund (SASIF) cash balances

We have previously highlighted continued growth in school cash balances held in SASIF accounts. As at 30 June 2021, physical SASIF balances for schools and preschools totalled $553 million ($498 million).

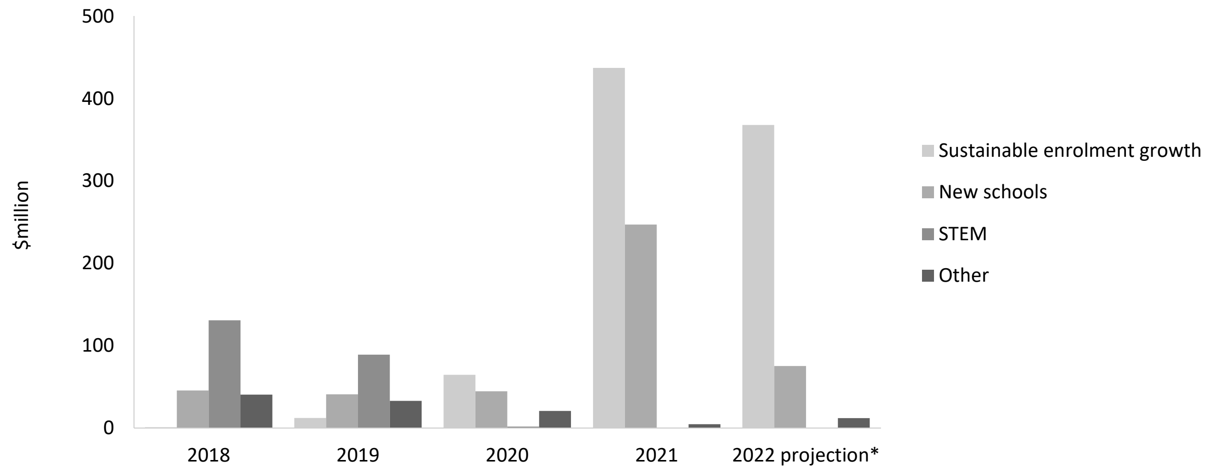
There was an increase in total SASIF balances of $55 million in 2021 mainly due to schools and preschools holding funding for repairs, maintenance and minor works.

Property, plant and equipment increased by $812 million to $5.5 billion

The increase of $812 million in the value of property, plant and equipment was the result of:

- a $242 million increase in the value of land, buildings and improvements due to a revaluation
- $689 million of capital works in progress and $13 million of other additions, mainly due to the Sustainable Enrolment Growth and new schools capital works programs
- offset by $138 million of depreciation.

Capital works will continue to be high over the next few years due to the Sustainable Enrolment Growth projects and new schools (relating to the Northern and Southern public private partnerships (PPPs), Whyalla High School and Rostrevor High School), as shown in the chart below.



* 2022 projection figures were sourced from Education and are unaudited.

In 2019 the capital works in relation to STEM ceased. This was offset in 2020 by an increase in capital works for Sustainable Enrolment Growth and new schools capital work programs.

Projections provided to us last year showed the amount expected to be spent on Sustainable Enrolment Growth in 2021 was $479 million. $434 million was actually spent in 2021. As a result of this underspend, $45 million will be carried forward into 2022 and future years.

Education has very tight time frames to perform some of these works due to some of the buildings being needed to accommodate Year 7s in high schools. Any time delays in these works may impact this transition.

As discussed in our 2020 report on Education capital works, Education faces several challenges in completing the Sustainable Enrolment Growth program:

- COVID-19 potentially impacting the availability of building materials and reducing productivity on construction due to social distancing
- the capacity of the building industry to cope with the significant volume of works required within short time frames
- ensuring any reductions in design and consultation time frames to achieve the targeted timelines do not compromise quality.

Liabilities

As at 30 June 2021 liabilities mainly comprise:

- \$877 million (\$835 million) in employee benefits and related on-cost liabilities, making up 56% (65%) of total liabilities
- \$389 million (\$209 million) in financial liabilities costs relating to obligations under leases mainly for facilities provided under the PPP agreement, comprising 25% (16%) of total liabilities. The increase in 2021 is due to the two new Northern and Southern PPPs currently being built and due for completion prior to January 2022
- \$115 million (\$104 million) in the provision for workers compensation, which accounts for 7% (8%) of total liabilities.

The workers compensation provision increased by \$11 million in 2021 due to an increase in costs associated with workers compensation claims, offset by a decrease in the discount rate. Movements over the past five years are shown in the following table.

	2017 \$million	2018 \$million	2019 \$million	2020 \$million	2021 \$million
Workers compensation payments	21	16	19	17	20
Balance of the provision	72	59	82	104	115

The closing balance of the workers compensation provision varies according to actuarial assessments performed each year. The actuarial assessment reflects a range of items, including economic assumptions, experience of actual claims and the impact of any legislative changes to workers compensation arrangements.

Statement of Cash Flows

Education's cash position as at 30 June 2021 was \$1.2 billion, an increase of \$131 million that included:

- \$393 million in deposits with the Treasurer in the Accrual Appropriation Excess Fund Account, which increased by \$52 million mainly due to additional deposits to cover increased employee benefit liabilities
- \$223 million in deposits with the Treasurer, which increased by \$33 million mainly due to funding for capital works not being fully spent
- \$499 million in cash held by schools in SASIF accounts, which increased by \$42 million due to schools receiving funds in 2021 for repairs, maintenance and minor works that they have not yet spent.

Administered items

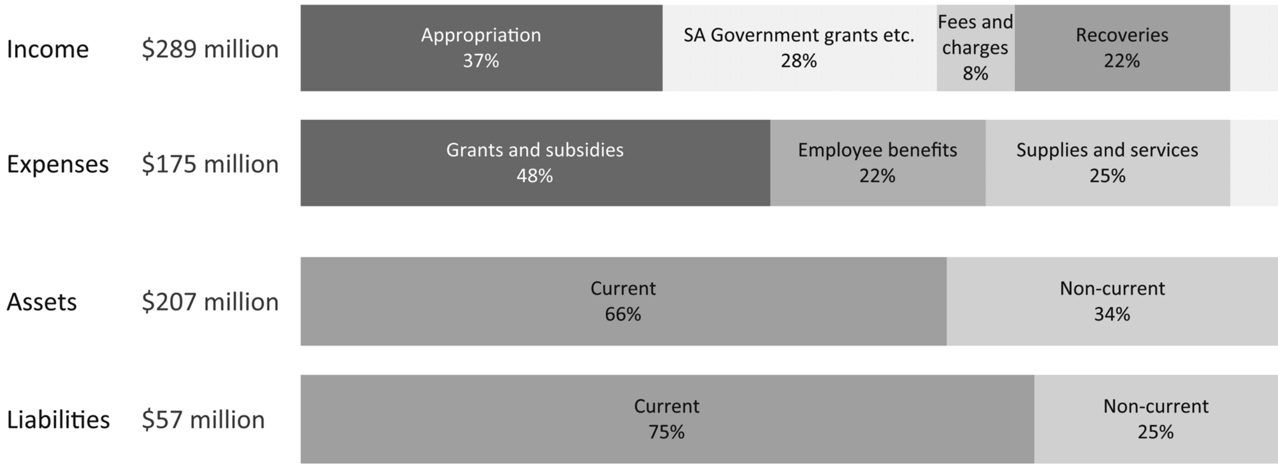
Education administers certain funds on behalf of the Minister for Education. Funds are received from the Commonwealth and SA Governments and used mainly to pay:

- $1.185 billion ($1.699 billion) in transfers and grants to private schools
- $17 million ($19 million) in Commonwealth child care subsidies for family day care
- $22 million ($19 million) for an operating grant to the SACE Board of South Australia
- $15 million ($14 million) for student travel concessions on transport services to the Department for Infrastructure and Transport.

There was an increase in income and expenses in 2020 due to private schools being paid about a quarter of their 2020-21 funding in 2019-20 to help them manage the impact of COVID-19. $180 million was paid by the SA Government in April 2020 and $217 million was paid by the Commonwealth Government in May and June 2020, all of which related to 2020-21.

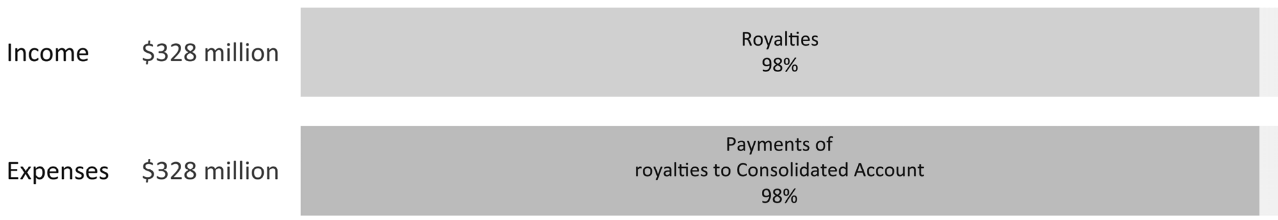
Department for Energy and Mining (DEM)

Financial statistics



322
Total employees

Administered items



Significant events and transactions

- DEM continued to support the project to deliver a new electricity interconnector between South Australia and New South Wales, including spending $37 million in 2020-21.
- DEM received recoveries of $53 million in 2020-21 after approval by the boards of TransGrid and ElectraNet to proceed with the electricity connector with New South Wales.
- DEM paid $24 million in subsidies under the Home Battery Scheme to help with the installation of home battery systems.
- DEM collected administered royalty revenue of $323 million and paid it to the Consolidated Account.

Financial report opinion **Unmodified**

Controls opinion findings	No significant findings.
Other audit findings	DEM's processes were not always effective in ensuring the prompt review of key payroll reports.

Functional responsibility

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

DEM's main functions include responsibility for the aim to deliver affordable, reliable and secure energy supplies and regulation of the mining and energy sectors. Full details of its objectives are contained in note 1.2 of its financial report.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

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

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

Controls opinion

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

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive. The main finding and DEM's response is detailed below.

Other audit findings

Payroll

DEM paid a total of $31 million in salaries and wages to around 322 staff in 2020-21.

DEM's processes were not always effective in ensuring the prompt review of key payroll reports

DEM's main control to ensure payments to employees are correct is the review of bona fide certificates.

A report from June 2021 showed there were 48 outstanding bona fide and leave reports, with 33 overdue by more than two months. The longest outstanding was overdue by five months.

The ineffective review of key payroll information increases the risk of incorrect payroll payments being processed because errors are not identified or rectified promptly.

DEM responded that, since May 2020, additional measures for monitoring key payroll information had been implemented. These included a monthly audit of outstanding bona fide certificates, manager education and support and regular performance reporting, with reviewing key payroll reports as one of the metrics.

DEM also noted that it would continue to reinforce the importance of this process.

DEM was satisfied that, despite the instances of non-compliance, compensating controls currently in place to monitor salary and wages variances against budget mitigate the risk of any material incorrect payroll payments being processed.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Income		
Appropriation	107	90
SA Government grants, subsidies and transfers	80	48
Fees and charges	24	25
Recoveries	64	5
Other income	14	12
Total income	289	180
Expenses		
Grants and subsidies	84	82
Supplies and services	43	48
Employee benefits expenses	39	41
Other expenses	9	12
Total expenses	175	183
Net result	114	(3)

	2021 $million	2020 $million
Net cash provided by operating activities	83	6
Assets		
Current assets	137	37
Non-current assets	70	49
Total assets	207	86
Liabilities		
Current liabilities	43	36
Non-current liabilities	14	14
Total liabilities	57	50
Total equity	150	36

Statement of Comprehensive Income

Income

In 2020-21 DEM was predominantly funded by appropriations and SA Government grants, subsidies and transfers, receiving $107 million ($90 million) and $80 million ($48 million) respectively, which made up 65% (77%) of total income.

There was a $17 million increase in appropriations in 2020-21 mainly as a result of:

- increased funding of $27 million for the electricity interconnector with New South Wales, Project EnergyConnect
- an $11 million increase for the electricity demand management trials program
- offset by a $13 million reduction in funding for the operation of the State's emergency generators, which were transferred to the Treasurer at 30 June 2020.

Revenue from SA Government grants, subsidies and transfers increased by $32 million or 67% in 2020-21. This was mainly the result of an additional $22 million in funding received from the Green Industry Fund, predominantly for subsidies under the Home Battery Scheme. DEM also received an additional $9 million in funding from the Economic Business and Growth Fund. $4.7 million of this was for the electric vehicle action plan, which provides funding to support the increased uptake of electric vehicles.

Recoveries income increased substantially, with $64 million received in 2020-21 compared to $5 million in 2019-20. Of the $64 million:

- $52.7 million related to the reimbursement of early works costs incurred on Project EnergyConnect
- $9.4 million related to recoveries of operating costs from the State Owned Generators Leasing Company Pty Ltd for the state owned emergency generators.

DEM also received $24 million ($25 million) in fees and charges revenue, 8% of total income. The main source of fees and charges income, accounting for $23 million ($23 million), is fees associated with mining and petroleum licences.

Expenses

The main expense items for DEM in 2020-21 were grants and subsidies of $84 million (48%), supplies and services of $43 million (25%) and employee benefits expenses of $39 million (22%).

Grants and subsidies

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

$66 million (78%) of total grants paid were directly related to energy programs, under several schemes. Grants were paid for Project EnergyConnect, the Home Battery Scheme, the Renewable Technology Fund (RTF) and the Energy Productivity Program.

Project EnergyConnect

In 2018-19 an electricity interconnector between South Australia and New South Wales was proposed, initially costed at around $1.5 billion, which would require approval by the Australian Energy Regulator (AER). This additional transmission link would help to improve the security of electricity supply in South Australia. To help develop the project, DEM provided grant funding of $3 million to TransGrid in 2018-19.

In January 2020, the AER approved the project. TransGrid then reimbursed DEM for the initial $3 million, with this amount reported as recovery income in 2019-20.

In September 2020, TransGrid and ElectraNet submitted their initial contingent applications to the AER, estimating the total cost of the project as $2.36 billion. The AER reviewed the proposal and provided final regulatory approval in May 2021. As part of the review, the project costs were reduced by $88 million resulting in a final approved project cost of $2.28 billion.

The SA Government approved funding to TransGrid for further early works up to a maximum of $60 million. A total of $41 million was paid to TransGrid, with $16 million spent in 2019-20 and $25 million in 2020-21.

In May 2021, TransGrid announced that its Board had approved a final investment decision. As a result, the contractual conditions with DEM were met and $41 million was repaid to DEM in July 2021. This is reported as recoveries revenue and a receivable in DEM’s 2020-21 financial statements.

Similarly, the SA Government also approved funding to ElectraNet up to a maximum of $12 million in 2020-21. On 7 June 2021, the ElectraNet Board announced that it had approved a final investment decision and, as a result, returned $12 million to DEM on 28 June 2021. This amount is reported as recoveries revenue.

Home Battery Scheme

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

An additional $18 million in funding was approved by the SA Government in October 2020.

The subsidy was implemented in steps:

- a step one subsidy of up to $6000 was available between 29 October 2018 and 14 April 2020
- a step two subsidy, up to a maximum of $4000 per battery installation, was available for applications from 15 April 2020 to 10 September 2020
- a step three subsidy, up to a maximum of $3000, was available from 10 September 2020.

Although subsidies will continue, they will reduce under step four to $2000. The subsidy amount will continue to be reduced as the uptake of the scheme increases.

Since the introduction of the Home Battery Scheme:

- there have been 1302 installations with associated expenditure of $7 million in 2018-19
- following the transition to the step two subsidy there was a significant increase in subsidy applications, with 6585 installations and expenditure of $38 million in 2019-20
- in 2020-21 there was a slight decrease in activity, with 6108 installations and expenditure of $25 million.

Renewable Technology Fund

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

Grant expenditure incurred under the RTF in 2020-21 was $2.6 million ($5.6 million). This consisted of grants to recipients to support renewable resources in the energy market.

There are commitments for future projects totalling $43 million, including $27 million for a grid-connected battery facility.

Virtual power plant (VPP)

The SA Government is working with Tesla through the RTF to develop a network of up to 50 000 home solar photovoltaic and battery systems across South Australia, working together to form a VPP.

The aims of the VPP are to:

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

The VPP commenced with two trial phases involving 1100 South Australian Housing Trust properties receiving a home energy system comprising a solar photovoltaic system, battery and smart meter.

Phase 1 involved the installation of 100 home energy systems in South Australian Housing Trust properties. The RTF provided $2 million of funding in 2017-18 to complete Phase 1. In Phase 2 another 1000 home energy systems were installed.

DEM provided a loan in 2018-19 with an initial drawdown of $11 million and in 2019-20 a further $9 million was provided for a total of $20 million towards the project. The balance of the loan is $17.7 million at 30 June 2021.

In 2020-21 the VPP entered Phase 3A, which involves the installation of a further 3000 units to bring the total up to 4100 homes. During the year, DEM executed an amendment to the loan contract that changed the arrangement and it is now considered to be a concessional loan, resulting in a $2.2 million concessional lending discount that will be amortised over the life of the loan. The loan is reported in receivables and the concessional lending discount in other expenses.

DEM has also committed a further $10 million in grants from the Grid Scale Storage Scheme for the VPP.

Energy Productivity Program

Expenditure under this program was $1.9 million in 2020-21 ($2 million in 2019-20). Grants were available to large businesses that used more than 160 MWh of electricity each year to provide an incentive to invest in energy productivity measures identified as a result of energy audits.

Grid Scale Storage Fund

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

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

- the Hornsdale Power Reserve Expansion, with a commitment for $15 million to be paid over five years. Grant payments commenced in 2020-21 and a total of $1.2 million has been paid to date
- the Virtual Power Plant Expansion, with a commitment for $10 million to be paid over five years. Grant payments commenced in 2020-21 and a total of $1.4 million has been paid to date.

Accelerated Discovery Initiative

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

The SA Government announced successful applicants from round one under the program in June 2020, with 14 proposals endorsed for co-funding of $3 million. Grant payments commenced in 2020-21, with a total of $317 000 in round one grants paid out of a total of $3 million approved in that round.

Successful applicants for round two were announced in May 2021. Due to the high level of interest in round one, funding for round two increased and a total of $4.5 million was awarded to 22 companies. No expenditure was incurred in 2020-21 for round two grants.

Supplies and services

Supplies and services decreased by $5 million or 10% in 2020-21 to $43 million.

Emergency generation and storage expenses make up $13 million (30%) of supplies and services expenses and decreased by $3 million in 2020-21. Payments under this category were for the following activities.

Emergency generators

DEM previously owned and operated nine generator assets (generators) as emergency generation capacity for the State. The generators transferred to the Treasurer and, subsequently, to the State Owned Generators Leasing Company Pty Ltd (the company) on 30 June 2020.

DEM continued to incur costs associated with the operations of these generators in 2020-21 amounting to $9 million on behalf of the company. These amounts were reported as emergency generation and storage expenses, until they were reimbursed to DEM and included under recoveries.

Hornsdale Power Reserve

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

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

Expenditure for the Hornsdale Power Reserve was $4 million in 2020-21 ($4 million in 2019-20) with commitments for a further $27 million to be paid over the next seven years.

In November 2019, it was announced that the Hornsdale Power Reserve would be expanded by 50% from 100MW to 150MW. The installation of battery components for the additional 50MW was completed in March 2020 and the expanded capacity is now fully operational.

Statement of Financial Position

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

	2021 $million	2020 $million
Assets		
Cash	84	10
Property, plant and equipment	52	47
Receivables	65	27
Liabilities		
Payables	14	11
Employee benefits	14	15
Security deposits	19	17

Cash represents 41% (12%) of total assets and increased by $74 million to $84 million as at 30 June 2021. The increase arises from net cash provided by operations of $83 million, offset by purchases of property, plant and equipment of $8 million, and reflects the increased revenues explained above.

Property, plant and equipment represents 25% (55%) of total assets and increased by $5 million to $52 million as at 30 June 2021.

The main increase related to acquisitions of $8 million, of which $6 million was recognised in capital works in progress associated with the Renewable Integration Central Power House Project for generator sets and smart meters at Umuwa. These additions were offset by depreciation expenses of $2 million.

Receivables increased by $38 million to $65 million as at 30 June 2021. The increase mainly relates to the $41 million to be recovered from Project EnergyConnect, partially offset by a decrease of $5 million in loans receivable.

Payables mainly relate to creditors and accrued expenses of $7.6 million ($8.8 million), with $1.6 million ($2 million) of this amount for accrued grants payable where conditions have been met but amounts had not yet been paid. In addition, $4.6 million in GST was payable as at 30 June 2021.

Security deposits of $19 million ($17 million) are received by DEM to ensure that mining operators rehabilitate mine sites. Further securities are held by bank guarantees and are reported under contingent assets, amounting to approximately $216 million in 2020-21.

Statement of Cash Flows

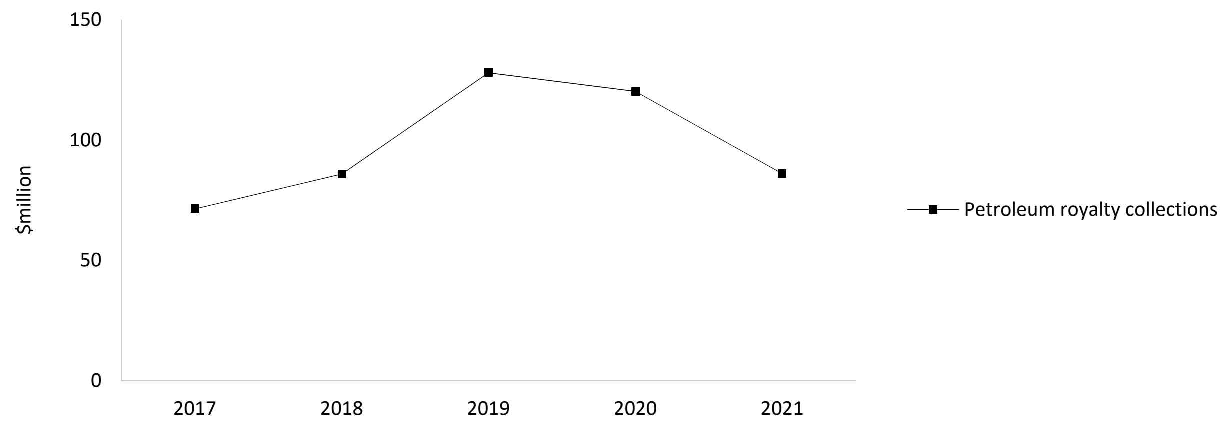
Cash and cash equivalents at 30 June 2021 totalled $84 million ($10 million). They are held in DEM's operating account.

Major cash movements included an increase in appropriation, grants and recoveries, including for Project EnergyConnect, and reduced cash outflows, including reduced grant expenditure.

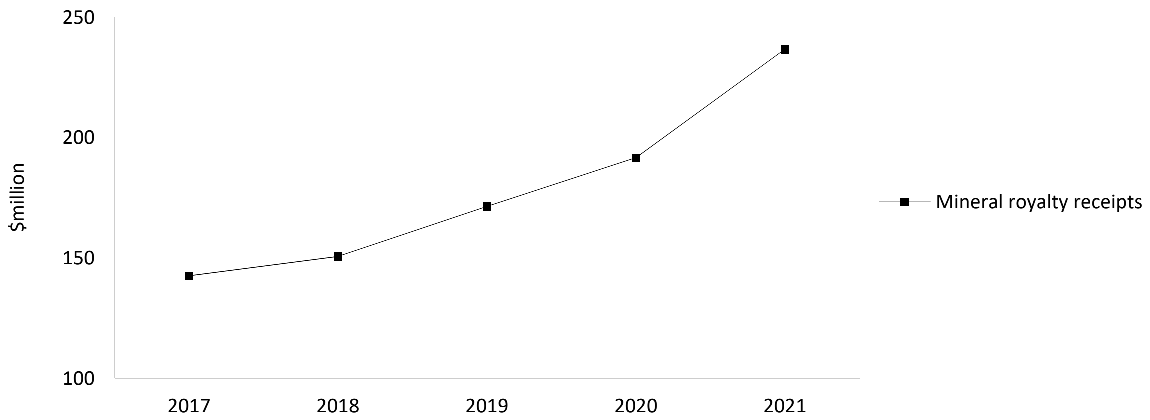
Administered items

DEM is responsible for administering the collection of royalties levied on mineral and petroleum production on behalf of the SA Government. In 2020-21 it administered the collection of $323 million ($312 million) in royalties, which was paid to the Consolidated Account.

The charts below show royalty receipts over the last five years. During this period responsibility for the collection of royalties has transferred between the former Department of State Development, the Department of the Premier and Cabinet and DEM.



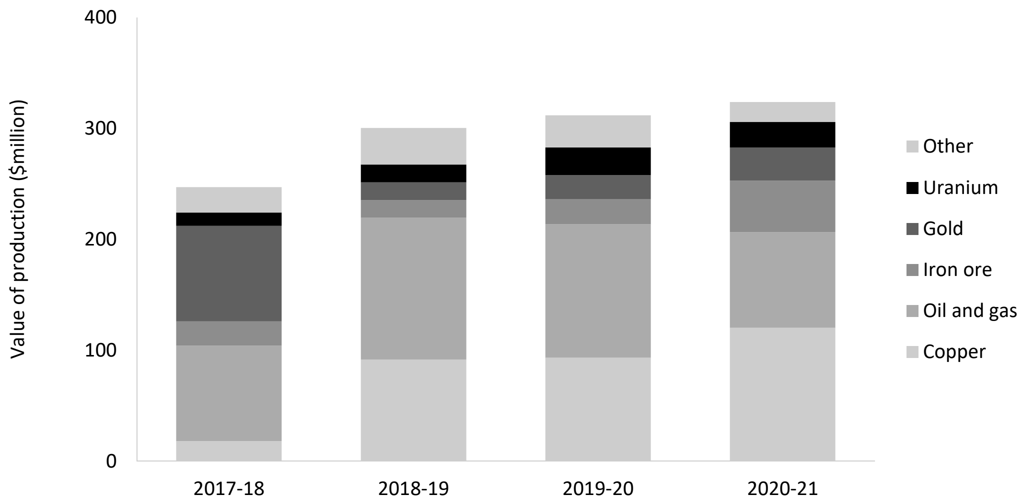
Petroleum royalty collections steadily increased from 2016-17 to 2017-18, with a significant increase in 2018-19 due to increases in petroleum production and pricing. In 2019-20 and 2020-21 the decrease in petroleum royalties was due to a fall in worldwide oil prices and the effects of the COVID-19 pandemic.



Mineral royalty receipts have increased over the five years, with increases in 2018-19 and 2019-20 due to an improvement in commodity prices particularly for copper and gold in 2018-19 and gold, iron ore and uranium in 2019-20. There was also increased production in both years at Prominent Hill and Olympic Dam. 2020-21 saw further price increases in iron ore and copper and increased copper production at Olympic Dam.

The chart below shows royalty revenue from various commodities over the past four years.

For 2020-21 copper royalties made up 37% of total royalties and oil and gas provided a further 27%.



Environment Protection Authority (EPA)

Financial statistics	Net assets:	$54.2 million
	Waste levies and environmental fees:	$64.2 million
	Net result:	$15.9 million
	Number of FTEs:	195

Significant events and transactions

- $98.2 million in waste levies were collected, with $48.3 million transferred to the Green Industry Fund (Green Industries SA).
- Surplus cash of $22.8 million was returned to the SA Government under the cash alignment policy.

Financial report opinion — **Unmodified**

Functional responsibility

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

The EPA financial reporting entity comprises:

- a statutory authority with an appointed board established by the *Environment Protection Act 1993* (EP Act)
- an administrative unit, also named the EPA, established under the *Public Sector Act 2009*
- the Environment Protection Fund established under the EP Act.

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

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

Scope of the audit

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

Specific areas of audit attention in 2020-21 included:

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

Audit findings

Communicating our audit findings

We did not identify any audit findings that required a management letter to the EPA.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2021 $million	2020 $million
Income		
Fees and charges	69	60
Appropriation	-	-
Other revenues	2	1
Total income	71	61
Expenses		
Employee benefits expenses	22	23
Surplus cash transferred to the Consolidated Account	23	20
Supplies and services	7	8
Other expenses	2	1
Total expenses	55	51
Net result	16	9
Net cash provided by (used in) operating activities	18	4
Assets		
Current assets	60	45
Non-current assets	5	5
Total assets	65	49

	2021 $million	2020 $million
Liabilities		
Current liabilities	4	4
Non-current liabilities	6	7
Total liabilities	11	11
Total equity	54	38

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income increased by $10 million to $71 million due mainly to an $8.3 million increase in waste levies, primarily as a result of an increase in solid waste tonnage. This reflected an increase in infrastructure and development activity. A 2% increase in solid waste levy rates also contributed.

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

Expenses

Total expenses increased by $3.4 million in 2020-21 due mainly to:

- a $2.7 million increase in surplus cash paid to the Consolidated Account under the SA Government's cash alignment policy
- a $1.2 million increase in the impairment loss on receivables, largely reflecting the EPA's assessment of the collectability of two individually large debts. One of these debts was written off in 2020-21.

Surplus cash transferred to the Consolidated Account

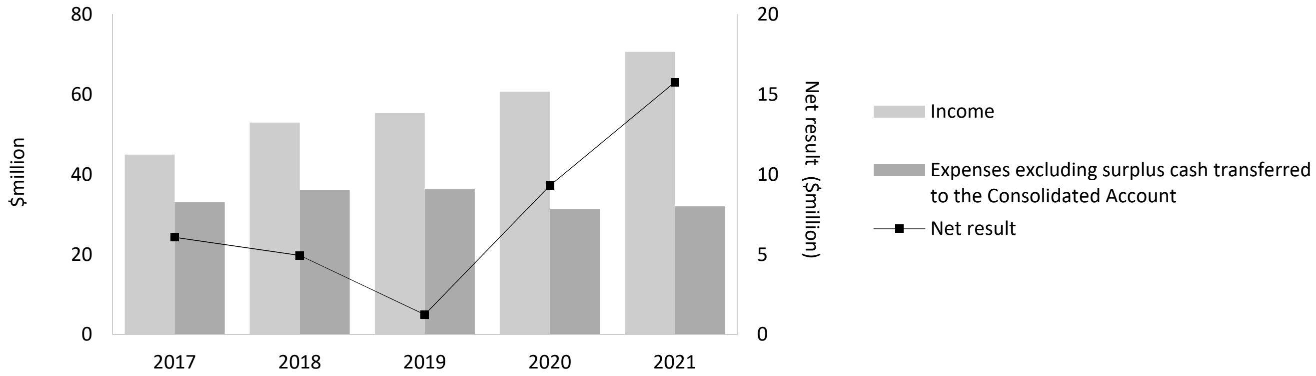
The EPA has achieved operating surpluses and generated surplus cash from operations for a number of years. It has returned $72.4 million to the Consolidated Account over the past four years under the cash alignment policy, as shown in the following table.

	2018 $million	2019 $million	2020 $million	2021 $million
Surplus cash transferred to the Consolidated Account	12.0	17.7	20.0	22.7

Net result

The chart below shows the net result for the five years to 2021.

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



Since 2017 the EPA's annual income has significantly exceeded its underlying expenses, excluding surplus cash transferred to the Consolidated Account.

The chart indicates that without significant changes to its income and expenses, the EPA will either accumulate cash or continue to be able to make significant returns of cash to the Consolidated Account.

Statement of Financial Position

Current assets – cash and cash equivalents

Cash and cash equivalents, $49.9 million ($33.4 million), represent 83% (75%) of total current assets and 77% (68%) of total assets. These balances include the Environment Protection Fund deposit account of $11.8 million ($9.4 million).

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

Receivables

Receivables decreased by $1.4 million to $9.8 million ($11.2 million), with a large individual debt of $1.2 million outstanding as at 30 June 2020.

Non-current assets

Property, plant and equipment make up 4% (6%) of total assets and largely comprise furniture and fittings, and plant and equipment.

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

Administered items

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

Transfer of solid waste levies to the Green Industry Fund (Green Industries SA)

The EPA receives solid waste levies from waste depots under section 113 of the EP Act. There was a small increase in solid waste levy rates of 2%, after increases of 27% from 1 January 2020, 15% from 1 July 2018, 14% from 1 July 2017, 9% from 1 July 2016 and 23% from 1 September 2016.

The solid waste levy in the metropolitan area increased from $140 per tonne on 1 January 2020 to $143 per tonne from 1 July 2020.

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

The EPA transferred $48 million ($37 million) to the Green Industry Fund during the year.

The Green Industry Fund can only be applied:

- by Green Industries SA:
  - in line with a business plan approved by the Minister under section 14 of the GI Act
  - in any other manner authorised by the Minister for the purposes of the GI Act
- by the Minister towards the payment of costs of:
  - climate change initiatives, including research and development, education, innovation or business activity, in relation to initiatives for mitigating the effects of climate change, minimising carbon emissions and adapting to climate change
  - managing waste or debris, or harm to the environment, following an identified major incident, major emergency or disaster under the *Emergency Management Act 2004*.

The balance of the Green Industry Fund at 30 June 2021 was $90 million ($114.1 million).

In June 2019, the Minister for Environment and Water approved the expenditure of $155.6 million across the four years to 2021-22 from the Green Industry Fund. Most of it (96%) will fund the Home Battery Scheme ($100 million) and Grid Scale Storage Fund ($50 million) initiatives being delivered by the Department for Energy and Mining. In October 2019, the Minister for Environment and Water approved a re-profile for the $50 million Grid Scale Storage Fund from four years to nine years to 2027-28. Further re-profiling for the Home Battery Scheme from four years to five years to 2022-23 was approved by the Minister for Environment and Water in April 2021 with the total amount of funding remaining unchanged.

The Home Battery Scheme commenced in October 2018 and will provide grants up to $6000 to deliver battery storage systems to up to 40 000 homes across the State.

The Grid Scale Storage Fund was launched in November 2018, providing grants for projects that support grid scale energy storage infrastructure to address the intermittency of South Australia's electricity supplies.

Green Industries SA's 2021-22 business plan forecasts that the balance of the Green Industry Fund will reduce to $57 million by 30 June 2023.

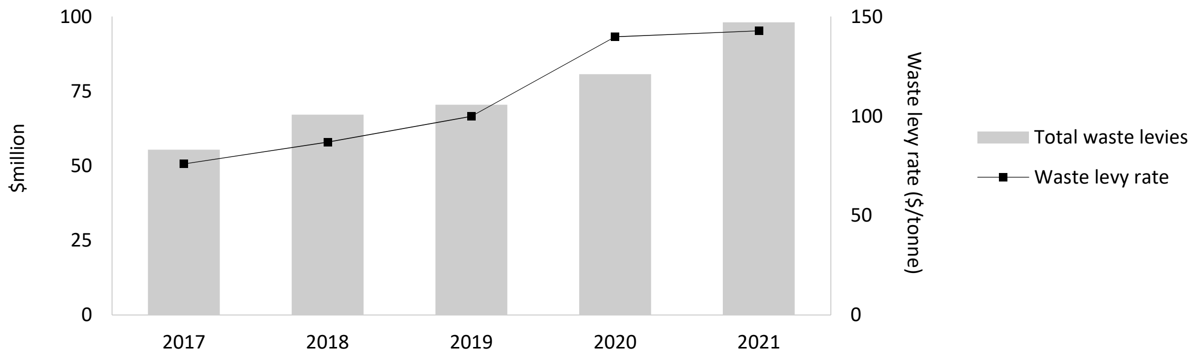
Further commentary on operations

Waste levies

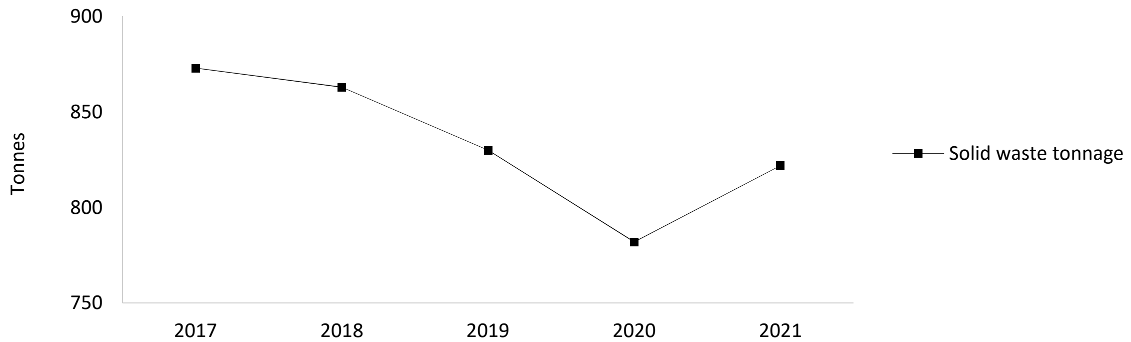
Waste levies collected by the EPA (controlled and administered) totalled $98.2 million ($81.6 million) (refer notes 2.1 and 8.4 of the EPA's financial report).

There has been an increasing trend in solid waste levy rates and total waste levies received over the past five years.

The following chart shows the waste levies collected from 2017 to 2021.



The chart below shows the increase in solid waste tonnage reported by waste depots in 2021, following annual decreases over the period to 2020. Solid waste tonnage reported by waste depots for 2020-21 was 822 tonnes (782 tonnes). The EPA advised us that this reflects the increase in infrastructure and development activity being experienced due to the COVID-19 economic response. This data was provided to us by the EPA and is unaudited.



Department for Environment and Water (DEW)

Financial statistics

1,244
Total FTEs

Significant events and transactions

- On 1 July 2020 the *Natural Resources Management Act 2004* was repealed and all eight Natural Resources Management Boards (NRMBs) established under that Act were abolished. The new *Landscape South Australia Act 2019* (Landscape Act) came into effect from 1 July 2020 and established eight regional Landscape Boards and a new metropolitan board, Green Adelaide Board.
- With effect from 1 July 2020, 264 DEW employees were transferred to the newly established regional Landscape Boards. A further 37 DEW employees transferred on 12 April 2021. These transfers resulted in lower expenditure and revenue in 2020-21.
- From 1 July 2020 under section 66 of the Landscape Act, land levies are now collected by the Landscape Administration Fund on behalf of regional Landscape Boards and the Green Adelaide Board. Prior to 1 July 2020, they were collected directly by NRMBs. The Landscape Act requires the Minister to distribute funds collected in the Landscape Administration Fund to the Landscape Boards based on receipts. Payments from the Landscape Administration Fund to Landscape Boards this year totalled $76.6 million and included land levies, water levies and appropriation collected on their behalf.
- DEW completed significant capital projects, predominately relating to the SA Riverland Floodplains Integrated Infrastructure Program, resulting in a transfer of $66 million from capital works in progress to completed assets.

Financial report opinion	**Unmodified**
Controls opinion findings	Problems with DEW's bank reconciliation process remain unresolved.
Other audit findings	We continue to raise matters relating to reviewing certain payroll reports.

Functional responsibility

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

DEW plays a critical role in delivering South Australia's future environmental, social and economic prosperity. To help South Australians conserve, sustain and prosper, DEW aims to deliver high quality policies, programs and assets. To support this, it pursues four complementary goals:

- South Australia's natural places, ecosystems and wildlife are conserved
- secure water for the future
- people access and enjoy South Australia's national parks, gardens, coasts and heritage places
- play our part in making South Australia's economy resilient and positioned for the future.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

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

We also reviewed IT general controls in relation to DEW's Masterpiece financial reporting applications.

Controls opinion

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

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

Problems with DEW's bank reconciliation processes remain unresolved

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

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

For a number of years we have commented on the need for DEW to improve its control over the bank reconciliation process. Our review of DEW's May 2021 bank reconciliation identified over 47 000 uncleared reconciling items, with a net variance of $1.07 million between the bank account and the general ledger. These reconciling items comprise:

- 5307 transactions recorded in the bank statement but not recorded in DEW's general ledger
- 41 977 transactions recorded in DEW's general ledger but not matched to the bank statement.

Some unresolved reconciling items date back to 2016-17.

DEW is currently working with Shared Services SA (SSSA) to implement a system solution to efficiently automate bank reconciling item matching.

Until a system solution is implemented, DEW is continuing to manually clear reconciling items from the bank reconciliation.

As at 30 June 2021 there were uncleared reconciling items with a net variance of $123 000 between the bank account and the general ledger.

Other audit findings

We continue to raise matters related to reviewing certain payroll reports

Employee benefits expenses were $134 million in 2020-21 and the liability for leave entitlements at 30 June 2021 was $45 million.

Incomplete and unapproved attendance records

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

We have previously commented on the need for DEW to improve its controls over the prompt submission and approval of TimeWise attendance records. These controls are important for ensuring the completeness and accuracy of employee leave entitlements.

Our review of TimeWise records up to 31 December 2020 noted:

- 1300 instances where TimeWise records were yet to be completed by DEW employees
- 125 completed TimeWise attendance records that had not been reviewed and approved.

These statistics show a worsening number of incomplete and unapproved TimeWise records since last year.

In response to our prior year findings DEW advised us that it had introduced regular reporting that provides its executive with data on completing and approving attendance and leave records in TimeWise.

While this and other measures implemented last financial year helped reduce the number of timesheets outstanding at 30 June 2020, the results for 2021 demonstrate that further action is needed.

In response to this year's findings, DEW advised us that it has started an upgrade of the TimeWise system. As part of this, DEW will receive the following system enhancements:

- automated manager reminder emails to prompt action on outstanding time entries
- functionality that stops employees from applying for certain types of leave until previous time entries have been completed.

In late-August 2021 DEW advised us that it had cleared 99.4% of the outstanding TimeWise records we identified in this year's audit.

Leave reconciliations between TimeWise and CHRIS are not completed promptly

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

Our review of DEW's central leave reconciliation register as at 31 December 2020 identified 246 leave reconciliations outstanding for 2020-21 and 400 outstanding for 2019-20.

Our review of DEW's central leave reconciliation register as at March 2020 identified 367 leave reconciliations outstanding at 30 June 2020. These statistics show a worsening number of outstanding leave reconciliations since last year.

If these controls to ensure all leave taken is deducted from an employee's leave entitlement are not operating effectively, DEW's leave liabilities may be overstated.

DEW responded that it would complete all outstanding leave reconciliations by 30 June 2021 and that the upgrade of TimeWise mentioned in the previous section was expected to ensure that all TimeWise records are promptly completed and approved so that outstanding leave reconciliations can be completed.

In late-August 2021 DEW advised us that it had reviewed and completed all but eight of the outstanding leave reconciliations we identified.

IT general controls review – Masterpiece application

Masterpiece is the application DEW uses for accounts payable, accounts receivable, general ledger and fixed assets.

In 2020-21, we reviewed the IT general controls operating in the Masterpiece environment. This included password management, user access management, privileged user access, audit logging, change management, patch management, and backup and disaster recovery management.

We identified a control weakness in the review of audit logs. This weakness increases the potential for unauthorised changes or malicious activity in the Masterpiece environment to go undetected.

DEW responded positively to our findings and agreed to take appropriate remedial action, which is expected to be completed by end of October 2021.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2021 $million	2020 $million
Income		
Appropriation	144	150
Sales of goods and services	83	95
Commonwealth grants and funding	28	74
SA Government grants, subsidies and transfers	30	28
Resources received free of charge	6	9
Fees and charges	3	3
Other income	18	12
Total income	312	372

	2021 $million	2020 $million
Expenses		
Employee benefits expenses	134	156
Supplies and services	88	78
Grants and subsidies	32	33
Depreciation and amortisation expense	31	27
Assets transferred for consideration	1	8
Other expenses	1	13
Total expenses	287	315
Net result	25	57
Other comprehensive income	(1)	34
Total comprehensive income	24	91
Net cash provided by (used in) operating activities	55	70
Assets		
Current assets	220	200
Non-current assets	848	835
Total assets	1 068	1 035
Liabilities		
Current liabilities	63	54
Non-current liabilities	52	60
Total liabilities	114	115
Total equity	953	920

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income decreased by $60.1 million. The major items causing this change were:

- a $45.9 million decrease in Commonwealth-sourced grants and funding. This is mainly due to a reduction of $41.2 million in funding received for the SA Riverland Floodplains Integrated Infrastructure Program, which is nearing completion
- a $12.4 million decrease in revenue from the sale of good and services, largely attributable to a $24.2 million decrease in salary recoveries, offset by a $12.2 million increase in water planning management cost recoveries from the South Australian Water Corporation (SA Water).

  The decrease in salary recoveries reflects revised staffing arrangements following the abolishment of NRMBs and the establishment of regional Landscape Boards. In 2020-21 301 DEW employees were transferred to the regional Landscape Boards.

  The increase in revenue from water planning and management fees from SA Water enables DEW to maintain its compliance with relevant obligations under the Murray-Darling Basin Plan. This includes the ongoing operation and maintenance of River Murray infrastructure such as environmental regulators, blocking banks and fishways

- a $6 million decrease in appropriation from the Consolidated Account, largely attributable to once-off funding received in 2019-20 from the Governor's Appropriation Fund for the bushfire response
- a $6.2 million increase in other income, largely attributable to a $5.7 million increase in insurance recoveries for the Kangaroo Island bushfires and COVID-19 business interruption claims.

Expenses

Total expenses decreased by $28.3 million. The major items causing this change were:

- a $22.8 million decrease in employee benefits expenses following the transfer of 301 employees, in two stages, to regional Landscape Boards
- an $11.6 million decrease in other expenses due mainly to $5.8 million of asset write-offs, $2.6 million in impairment losses and a $2.7 million settlement of legal claims that occurred in the previous year.

These decreases were partially offset by a $9.7 million increase in supplies and services, due mainly to:

- $2.2 million in expenses for the Kangaroo Island bushfire rebuild, including fire recovery and heritage fencing replacement
- a $2.3 million payment to SA Water to support the opening of reservoirs for recreational access, as recommended by the cross-government Opening Reservoirs Taskforce established by the Minister for Environment and Water
- a $1.7 million increase in SSSA administration charges, due mainly to the cost of IT security patches rolled out across DEW and increased costs associated with the transfer of employees to Landscape Boards.

Statement of Financial Position

DEW's assets comprise two main items: property, plant and equipment and cash.

Non-current assets – property, plant and equipment

Property, plant and equipment is $841 million and represents 79% of total assets.

DEW's property, plant and equipment holdings are diverse. Land valued at $370 million comprises national, conservation and recreation parks, and wilderness protection areas and reserves. Related park infrastructure is valued at $29 million, while roads, tracks and trails total $24 million. DEW also controls a range of environmental infrastructure valued at $214.4 million, which includes groundwater monitoring wells, regulators and embankments, sand pumping infrastructure, surface water monitoring assets and waste disposal stations. DEW is also responsible for the Patawalonga seawater circulation system, valued at $39 million.

Property, plant and equipment increased by $11 million due mainly to asset additions of $30.6 million, the initial recognition of assets identified during a stocktake of $6 million and assets received for no consideration of $3 million, all offset by depreciation of $28.7 million.

Asset additions primarily relate to capital works associated with the SA Riverland Floodplains Integrated Infrastructure Program and Kangaroo Island fire recovery.

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

Current assets – cash

Cash of $203.7 million ($184.8 million) represents 93% (92%) of total current assets, and 19% (18%) of total assets. DEW's cash at 30 June 2021 comprised operating deposit accounts of $85.5 million ($78 million) and an Accrual Appropriation Excess Funds Account of $118 million ($106.7 million). Access to the latter account is subject to the Treasurer's/Under Treasurer's approval.

Liabilities

Total liabilities decreased marginally to $114.5 million, but reflected the following movements:

- a $7.7 million decrease in employee benefits liability, which is attributable to the transfer of DEW employees to Landscape Boards
- a $2.6 million decrease in other liabilities, due mainly to the annual reduction in DEW's accommodation incentive
- a $5.7 million increase in contract liabilities, largely attributable to amounts received from the Commonwealth Government for the SA Riverland Floodplains Integrated Infrastructure Program. Cash received is recognised as revenue as the asset is constructed
- a $3.9 million increase in payables, which reflects the timing of payments.

Administered items

DEW's administered activities include:

- Crown lands
- Minister's other payments
- the Natural Resources Management Fund
- the Landscape Administration Fund
- the Landscape Priorities Fund
- the Water for Fodder program
- the South Australian Drought Resilience Fund
- the State's joint interest in the Murray-Darling Basin Authority (MDBA).

Crown lands

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

Minister's other payments

DEW received $18.5 million ($17.3 million) appropriation revenue from the SA Government, which is then distributed to other agencies through grants and subsidies approved by the Minister for Environment and Water. DEW administers the receipt and distribution of this money.

Natural Resources Management Boards and Natural Resources Management Fund

DEW had primary responsibility for helping the Minister to administer the *Natural Resources Management Act 2004* (NRM Act). The main purpose of the NRM Act was to promote sustainable and integrated management of the State's natural resources and to protect these natural resources. It provided a range of entities with specific responsibilities, including eight regional NRMBs.

Water levies were collected by DEW for prescribed water resources within specific natural resources management regions under section 101 of the NRM Act. The levies were subsequently paid to the regional NRMBs under section 116(1)(a)(ii)(A).

The NRM Act was repealed on 1 July 2021. The Landscape Act came into effect from that date and established eight regional Landscape Boards and the Green Adelaide Board.

$4.022 million held in the Natural Resources Management Fund at 30 June 2020 was transferred to the Landscape Administration Fund on 1 July 2020.

Landscape Administration Fund

On 1 July 2020, the Landscape Act replaced the NRM Act as the primary basis for managing the State's landscapes.

The Landscape Administration Fund was established under section 90 of the Landscape Act to receive and disburse fees, land levies, water levies and other money authorised by the Landscape Act.

In 2020-21, $69.7 million in fees and levies were raised on behalf of Landscape Boards. DEW also received $8.1 million in appropriation revenues from government for transfer to the Landscape Boards.

Payments to Landscape Boards from the Landscape Administration Fund during the year were $76.6 million. The Landscape Act requires the Minister to distribute funds collected to the Landscape Boards based on receipts.

Landscape Priorities Fund

The Landscape Priorities Fund was established under section 93 of the Landscape Act and receives annual revenue from the Green Adelaide Board. The contribution from Green Adelaide Board is determined under subsection 89(1) of the Landscape Act and is a gazetted percentage of the total land and water levies received by the Green Adelaide Board in a financial year.

Under section 93(5) of the Landscape Act, the Minister may apply any part of the Landscape Priorities Fund:

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

In 2020-21 $4.3 million was paid into the Landscape Priorities Fund by the Green Adelaide Board, while $3.1 million was granted from the Fund to regional Landscape Boards following an application process approved by the Minister.

Water for Fodder program

The Water for Fodder program formed part of the Commonwealth Government's drought response package to improve the resilience of farmers and rural communities and support drought-affected farmers. An intergovernmental agreement between the Commonwealth and SA Governments provided for the production of up to 100 gigalitres of water from the Adelaide Desalination Plant in two rounds, and the transfer of water allocations from entitlements held by the State to eligible irrigators in the Southern Murray-Darling Basin.

Commonwealth revenue of $1.7 million ($27.8 million) received under the agreement for Round 1 was disbursed by the Minister for Environment and Water in relation to milestone outputs under the agreement.

Following a review of Round 1 and consultation with South Australia, the Commonwealth announced that there will not be a second round of the Water for Fodder program. Improved seasonal conditions across the Murray-Darling Basin reduced the need for Round 2 as an emergency drought response.

South Australian Drought Resilience Fund

This Fund was established pursuant to the Commonwealth's Water for Fodder program. The fund received revenue from Southern Murray-Darling Basin irrigators in exchange for the transfer of South Australian water allocations in line with the Water for Fodder program. The Fund will be applied by the Minister towards programs and measures to build the resilience of the River Murray water users and environment to withstand drought and longer term climate change, or to improve the adequacy, security and quality of the State's water supply from the River Murray. As Round 2 of the Water for Fodder program did not go ahead, no funds were received at 30 June 2021.

Murray-Darling Basin Authority

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

The MDBA's functions are set out in section 172 of the *Water Act 2007* (Cth).

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

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

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

The State's interest in the arrangement was valued at $900 million ($889 million).

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

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

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

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

Under the River Murray Operations and Living Murray Initiative asset agreements, each asset controlling government is obliged to provide funding to the MDBA for the management of the assets. In 2020-21 DEW paid $19.7 million to the MDBA.

COVID-19 impacts

The key impacts of the COVID-19 pandemic on DEW operations in 2020-21 were:

- although National Parks remained open in 2020-21, restrictions on interstate and international travel meant that some sites reliant on those visitors experienced a downturn in revenue
- providing rent relief and fee waivers costing $769 000 in 2020-21 for tourism and hospitality operators that leased sites or premises from DEW or conducted commercial activities in national parks.

DEW expects that the continued key impacts of COVID-19 will include the following:

- National Parks revenue is forecast to improve in 2021-22, however it is expected to continue to be lower than pre-COVID-19 levels. Revenue losses related to fees associated with national park activities are difficult to estimate and will depend on restrictions imposed on travel, gatherings and movements in general. Restrictions at some commercial sites still exist and will limit income from those sites and fees from commercial tour operators.
- DEW builds and maintains physical assets across the State, both in parks and for the purpose of managing water resources. While DEW's ability to deliver this part of its mandate has not been materially impacted by COVID-19, the imposition of significant restrictions could impact these activities by increasing shortages of materials and contractors to undertake works.

Health sector overview

Collectively the Department for Health and Wellbeing (DHW), the local health networks (LHNs) and the SA Ambulance Service Inc (SAAS) are known as SA Health or the Health sector. Wellbeing SA and the Commission for Excellence and Innovation in Health are attached offices to DHW.

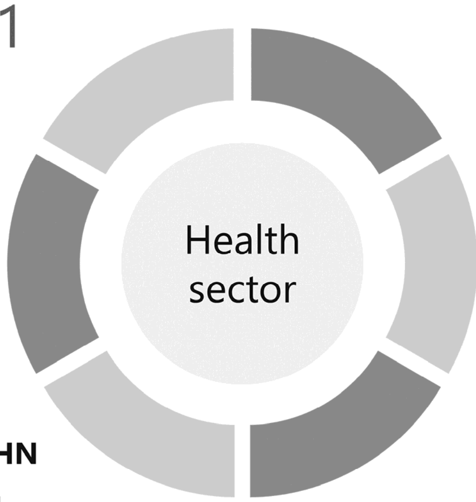
Total expenditure and FTE employees

Central Adelaide LHN

$2.78b spent — 11,891 employees

Southern Adelaide LHN

$1.2b spent — 6,103 employees



Regional LHNs

$1.1b spent — 6,430 employees

Northern Adelaide LHN

$861m spent — 4,197 employees

Women's and Children's HN

$534m spent — 2,891 employees

SA Ambulance Service

$359m spent — 1,669 employees

Department for Health and Wellbeing*

$6.62b spent — 1,657 employees

Wellbeing SA

$63m spent — 111 employees

Commission on Excellence and Innovation in Health

$5m spent — 24 employees

* Includes grants to LHNs and SAAS.

Structure of this section

This Health sector overview discusses the following matters:

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

Overview of governance arrangements

Governance and accountability

The *Health Care Act 2008* (HC Act) provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of DHW, the LHNs, their governing boards and their chief executive officers (CEOs).

In recent years, the SA Government and SA Health have established new governance and accountability frameworks and amended the HC Act to support the SA Government's commitment to devolved decision-making in the public health system. From 1 July 2019 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 made with the Chief Executive of DHW.

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

Role of governing boards

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN.

Each governing board's role includes the following financial accountability functions prescribed by the HC Act:

- ensure effective, efficient and economical operations of the incorporated hospital
- manage its budget so that performance targets are met
- provide strategic oversight of and monitor the incorporated hospital's financial and operational performance
- manage performance against the performance measures in the service agreement between the incorporated hospital and the Chief Executive of DHW.

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

Each year service agreements between LHNs and the Chief Executive of DHW outline the requirements of the formal relationship between DHW and the LHN and set out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. Service agreements are public documents available on the SA Health website.

Role of the Department for Health and Wellbeing

Amendments to the HC Act changed the role of the Chief Executive of DHW from 1 July 2019 to remove direct responsibility for administering LHNs.

DHW has a role as the 'system leader' and focuses on setting strategic direction and statewide policy, as well as the performance of the public health system through high-level system direction and performance management. DHW retains its government departmental roles to support the Minister for Health and Wellbeing and Chief Executive in exercising their statutory duties and responsibilities.

A number of functions remain under the central control of the Chief Executive of DHW, including the Chief Executive's role as employing authority under the HC Act for all LHN staff (excluding SA Pathology).

The Minister for Health and Wellbeing

The Minister for Health and Wellbeing is responsible for setting reform agendas and priorities. The governing boards must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW. In March 2021 LHN boards were given a direction relating to mental health bed management under the HC Act.

Frameworks supporting the governance and accountability changes

To support devolving governance and responsibility for delivering public health services to the LHN governing boards, the SA Government and DHW have made significant changes to SA Health's governance and accountability frameworks in recent years.

The main elements of governance reforms supporting the role of DHW as system leader, and the LHNs and SAAS as providing local leadership and service delivery, include:

- a Charter of Responsibility to support the effective functioning of the South Australian public health system
- the SA Health Performance Framework 2020-21, which sets out how DHW monitors and assesses the performance of public health services and resources in South Australia
- the Corporate Governance Framework Summary outlining governance requirements applying across SA Health
- the Commissioning Principles and Priorities, distributed to LHNs as a part of the budget process
- the Commissioning Framework
- a charter for LHN governing boards
- service agreements
- performance information dashboards.

Review of the operations of the *Health Care Act 2008*

In line with section 102 of the HC Act, the Minister appointed an independent person, Ms Fran Thorn, to review the operations of the HC Act. She has significant experience in health system governance, having held the role of Secretary of the Department of Health in Victoria and provided advisory services across multiple Australian states on public health system governance and reform.

Ms Thorn was appointed from 1 July 2021 and will examine and consider:

- the extent to which the new governance and accountability framework, established under the HC Act on 1 July 2019, has been fit for purpose in achieving the SA Government's commitment to:
  - devolve decision-making in the public health system to the metropolitan and regional governing boards

— put real responsibility and accountability at the local level, with strengthened oversight

— improve patient safety and hold governing boards accountable for delivering real progress

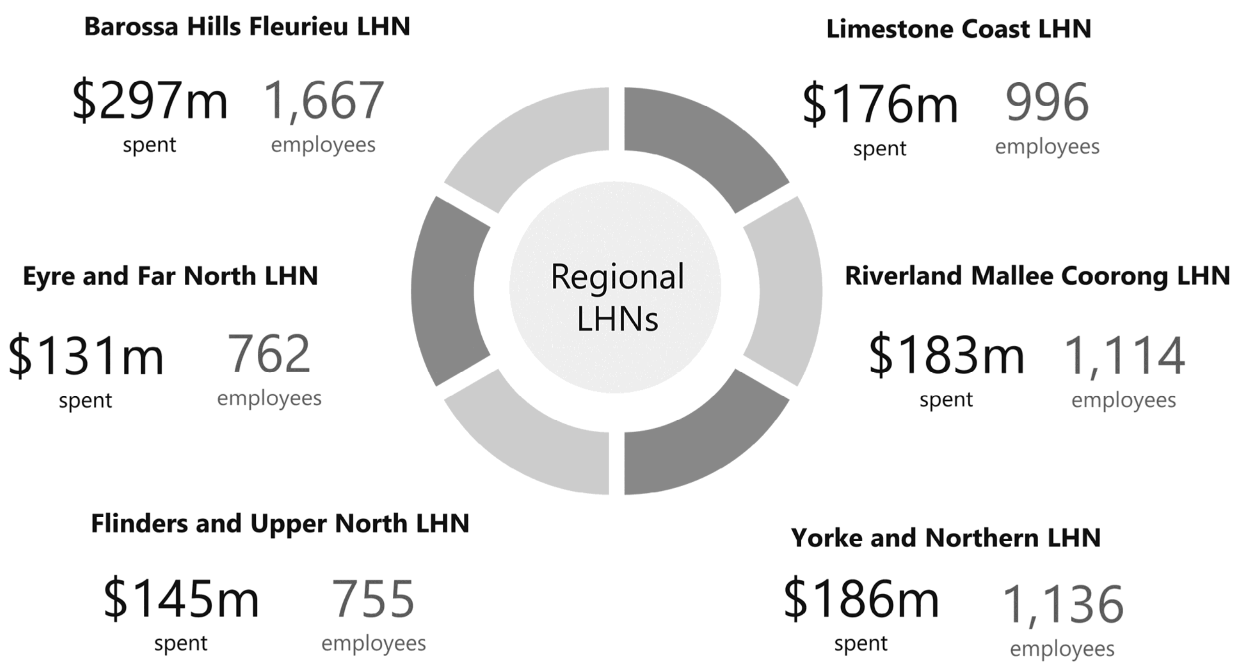
- the extent to which the new governance and accountability framework has, to date, driven progress towards achieving the reform objectives listed above
- the extent to which the new governance and accountability framework achieves an effective balance between local decision-making in relation to LHNs and health system planning, integration and management
- any recommendations, through consultation with relevant stakeholders, for improvements to the current governance and accountability framework for the South Australian health system.

Under the HC Act the report must be completed within six months of the person's appointment and published as soon as practicable. The Minister must provide the report to both Houses of Parliament within 12 sitting days of receiving it.

Regional local health networks

Six regional LHNs are responsible for providing health services to their local regions. The following chart shows the expenditure and FTE employees of each of them for 2020-21.

Total expenditure and FTE employees



Attached offices

Proclamations on 6 January 2020 under the *Public Sector Act 2009* established Wellbeing SA (WBSA) and the Commission on Excellence and Innovation in Health (CEIH) as attached offices to DHW.

Wellbeing SA

The proclamation establishing WBSA also abolished the South Australian Mental Health Commission.

WBSA has a long-term vision to create a balanced health and wellbeing system that supports improved physical, mental and social wellbeing for all South Australians.

Commission on Excellence and Innovation in Health

The CEIH provides leadership and advice within SA Government on clinical excellence and innovation with a focus on maximising health outcomes for patients, improving care and safety, monitoring performance, championing evidence-based practice and clinical innovation, and supporting collaboration.

Impact of COVID-19

SA Health's role

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

On 22 March 2020, the Governor declared a major emergency under the *Emergency Management Act 2004*. This major emergency declaration has been extended numerous times and was in effect throughout 2020-21. SA Health is the control agency for human disease under the State Emergency Management Plan.

Response to COVID-19

In response to COVID-19, SA Health established work streams with objectives for quarantine and border control, key enablers, contact tracing, testing and surveillance.

As focus shifted during 2020-21 into the vaccine delivery phase, SA Health adjusted its focus to three key areas:

- vaccinations – implementing a COVID-19 pandemic vaccination program to ensure the timely distribution of a safe and effective COVID-19 vaccine to the South Australian community
- quarantine and isolation, including ensuring transmission is contained through:
  - medi-hotel quarantine arrangements
  - home and special interest group quarantine arrangements
- COVID-19 management (COVID-safe plans and compliance, contact tracing, surveillance and testing, borders and exemptions):
  - coordinating COVID-safe planning – whole of government approach to planning and monitoring adherence to directions
  - contact tracing and outbreak investigations – through SA Health's Communicable Disease Control Branch, which tracks and traces positive cases and contacts and identifies, assesses and manages individual exposure information to break the chain of transmission
  - testing – ensure that testing is available where and when needed, that positive cases are identified rapidly and that testing is easy with fast results

— borders and exemptions – to control access to the State and sensitive locations to minimise the potential for further outbreaks.

Other focus areas in SA Health are:

- acute system readiness, including at LHNs and private hospitals
- enablers, including personal protective equipment, information technology, pharmacy
- planning for vulnerable groups.

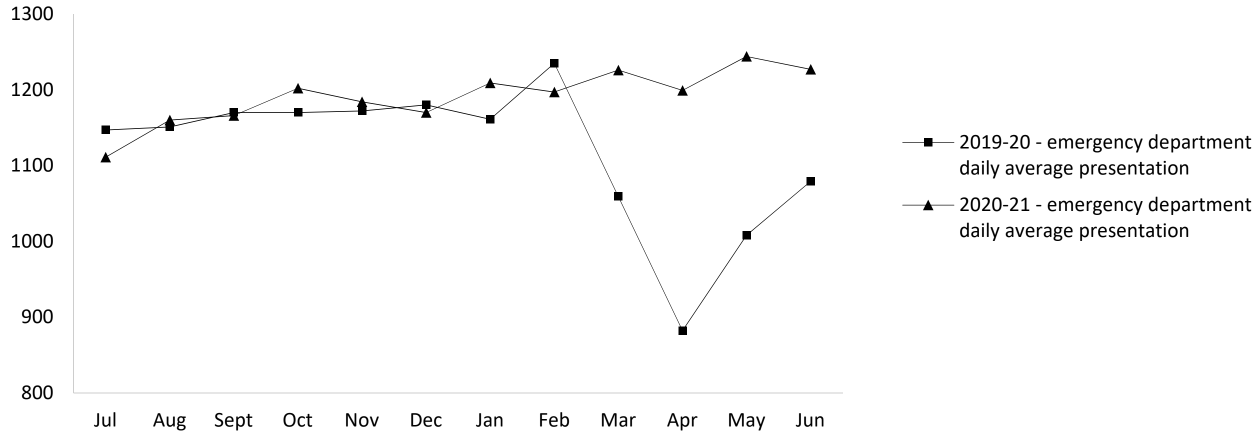
State Control Centre – Health

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

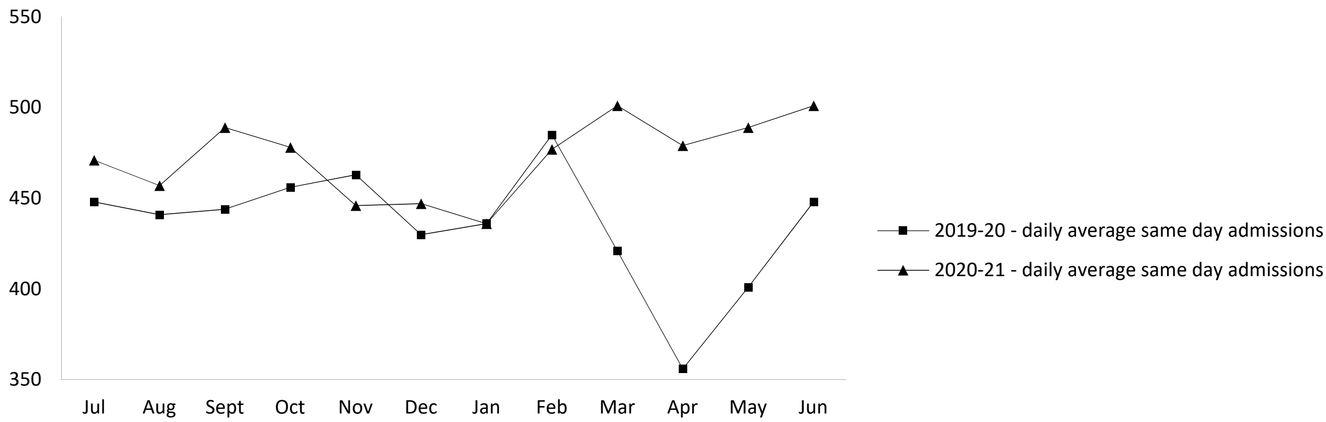
Impact on activity levels

The first few months of the COVID-19 pandemic significantly influenced activity levels across SA Health. Since then activity has returned to almost normal levels.

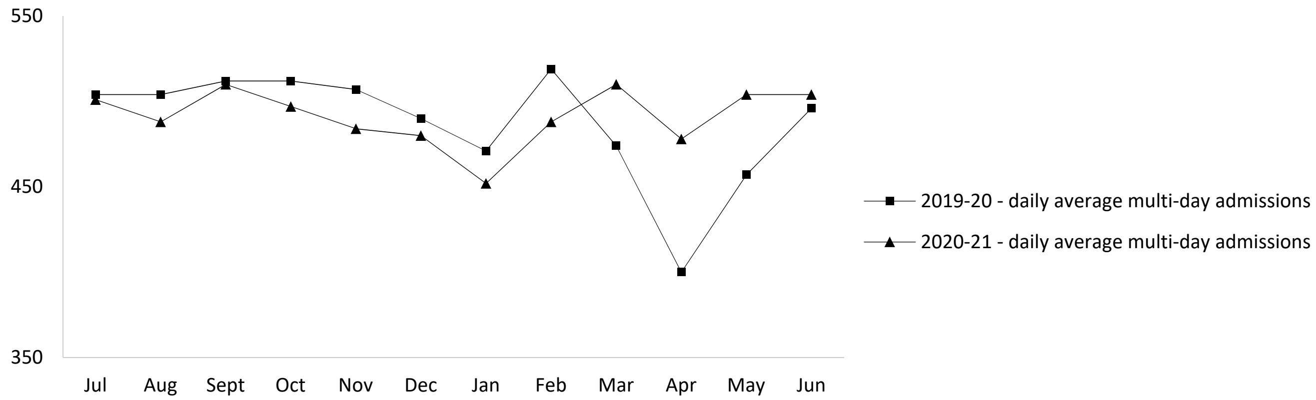
The following chart shows metropolitan emergency department daily average presentations for each month in 2019-20 and 2020-21.



The following chart shows the daily average metropolitan same day admissions for each month in 2019-20 and 2020-21.



The following chart shows the daily average metropolitan multi-day admissions for each month in 2019-20 and 2020-21.



Commonwealth funding to support COVID-19 pandemic response

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

In 2020-21, DHW received a total of $66.6 million from the Commonwealth Government under the NPCR for hospital services, public health and private hospital viability, comprising:

- hospital services funding of $20 million – the Commonwealth provides a 50% contribution for activity-based costs incurred by the State for the testing/diagnosis and treatment of COVID-19 patients, including suspected cases. Funding is based on monthly estimates of public hospital systems' patient activity as provided by the State and reconciled every three months against actual activity
- public health funding of $103.6 million – the Commonwealth provides a 50% contribution to costs incurred by States for other COVID-19 activity undertaken by state public health systems for the management of the pandemic. This funding is also based on monthly estimates of public hospital systems' costs and reconciled every three months against actual expenditure. It includes the following costs:
  - facilities (minor capital expenditure)
  - equipment, including ventilators
  - additional consumables, including personal protective equipment
  - communication, operational and response
  - costs associated with border force, airport screening and quarantine
  - paramedic and ambulance
  - additional non-clinical costs such as cleaning
  - additional health services expenditure outside hospitals – rural, remote and/or indigenous patients

- private hospital capability and viability funding of $7.8 million – the Commonwealth Government provided funding to ensure the viability of private hospitals during the pandemic, in return for the expectation that private hospitals would maintain capacity and support the COVID-19 response. While this funding is provided to DHW, it is subsequently paid to the Department of Treasury and Finance and then to eligible private hospitals. Under the agreed terms, unused funding or that returned from private hospitals is offset against future Commonwealth Government activity-based funding
- offset by unused Private Hospital Financial Viability grants of $64.8 million received in 2019-20 under the NPCR, reducing the 2020-21 Commonwealth NPCR payments.

Commonwealth funding under the NPCR makes up part of the other Commonwealth-sourced grants and contributions revenue recognised in note 4 of DHW's financial report.

Commonwealth funding for the State's vaccination delivery program not received in 2020-21

In March 2021 the SA Government signed Schedule C 'Coordination and delivery of a safe and effective COVID-19 vaccine' to the NPCR.

Schedule C sets out the Commonwealth's funding arrangements for each vaccination dose delivered by the State on an activity basis from 15 February 2021. It specifies that the Commonwealth would provide the first parts of this funding through an upfront payment of $7 million to ensure interim funds were available to set up State-run vaccination clinics. Funding under Schedule C is conditional on the State meeting responsibilities outlined in the Australian COVID-19 Vaccination Policy, Australia's COVID-19 Vaccine National Roll-out Strategy and agreed jurisdictional implementation plans.

The State did not receive any funding from the Commonwealth for vaccine delivery under Schedule C in 2020-21.

COVID-19 vaccine doses

In 2020-21 the Commonwealth was responsible for purchasing and providing COVID-19 vaccine doses to each State. They were provided free of charge and DHW did not recognise the value of them in its financial report (see note 17 of DHW's financial report).

Cost incurred by SA Health in responding to COVID-19

Note 1.7 of DHW's financial report outlines the material costs directly associated with COVID-19, which total $338 million including cost incurred by DHW, the LHNs and SAAS:

Material costs incurred by DHW were:

- salaries, wages and agency costs specifically related to COVID-19 – $33 million ($3 million)
- security – $35 million ($300 000)
- border force, airport screening and quarantine – $61 million ($2 million), offset by $36 million ($0) fees and charges revenue associated with returned travellers
- housekeeping – $12 million ($16 000)
- advertising and communication – $8 million ($3 million)

- hospital and office lease costs – $7 million ($4 million)
- personal protective equipment – $6 million ($1 million)
- ICT and equipment costs – $5 million ($4 million)
- COVID-19 support grants – $3 million ($1 million)
- service contractors – $10 million ($500 000)
- contractors – contract management – $5 million ($500 000)
- other – $17 million ($9 million).

In addition, DHW inventory increased by $55 million as at 30 June 2021 compared to the previous year, mainly due to stockpiled personal protective equipment.

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

Material costs incurred by local health networks

Note 1.7 of DHW's financial report outlines net COVID-19 specific costs for the LHNs at $136 million. It explains that costs incurred related to increasing capacity and preparation, COVID-19 testing clinics, establishing vaccine clinics, increased demand for personal protective equipment and increased staffing costs (including agency staffing) to ensure compliance.

Financial sustainability and budget

State Budget

The 2020-21 State Budget confirmed that the SA Government's principal financial objective for DHW remains achieving national average efficiency in delivering public hospital services. Recent State Budgets have provided significant additional funding from that originally budgeted. Further details on health savings targets and the impact of delays experienced in achieving national average efficiency will be provided in my upcoming report on the State finances and related matters.

Note 35 of DHW's financial report provides some budgetary reporting information, including explanations of major variances between DHW's original budget approved by 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. It is important to note that budget data is not subject to audit.

Performance management

The SA Health Performance Framework sets out the framework within which DHW monitors, assesses and responds to the performance of public sector health services in South Australia. It provides for increasingly intensive levels of monitoring and, where necessary, intervention to ensure that issues relating to poor performance are addressed. The systems and processes in place to achieve this include, but are not limited to, assessing and monitoring LHN performance, reporting on LHN performance and, as required, intervening to manage identified performance issues.

DHW has also established a Health Performance Community of Practice, a forum for DHW and health services managers to share information and collaborate. The forum is intended to also provide DHW with an opportunity to better understand the underlying factors contributing to performance issues or barriers and how the system can work collectively to improve performance.

Service agreements between LHNs/SAAS and the Chief Executive of DHW set out a mutual understanding of statutory and other legal functions and obligations through a statement of expectations and performance deliverables for each financial year. The intent is that they are binding on all parties.

Summary of 2020-21 management budget and forecast data

Total expenses for the consolidated Health sector in 2020-21 were $7.4 billion, an increase of $204 million (3%) over 2019-20.

Auditor-General's reports since 2007 have reported annually about expenditure pressures and budget supplementation in the Health sector. In recent years, our reports have focused on continued expenditure growth, failure to achieve the savings targets set out in the SA Government's annual State Budgets and ongoing risks associated with the financial sustainability of the public health system.

DHW monitors the budget performance of individual LHNs and SAAS throughout the year and reports the outcomes in its Portfolio Performance Report (PPR).

In 2020-21 we performed a limited review of reported outcomes for the LHNs and SAAS against budget targets. We looked at whether their 2020-21 budgets were achieved and what factors influenced budget outcomes for the year.

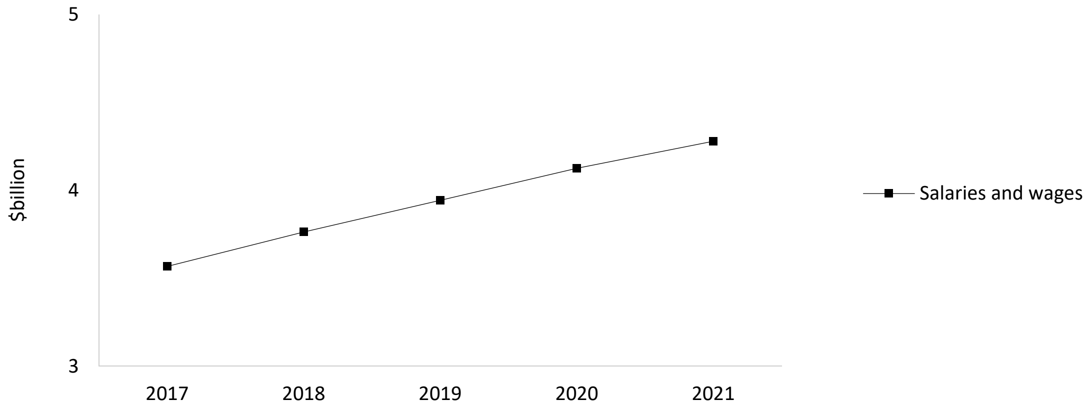
In recent years, DHW has changed elements of its commissioning and funding models, and COVID-19 has significantly affected activities across the sector, so it is not possible to compare budget results from year to year. It is important to again note that the budget data is not subject to audit.

The May 2021 PPR was the last published performance report for 2020-21 and provides LHNs, SAAS and DHW projected individual year end results against their adjusted budgets. Combined, it projected an unfavourable net operating result for the LHNs and SAAS of $202 million. The May 2021 PPR projected the SA Health portfolio overall to be balanced as at 30 June 2021 reflecting approved budget decisions forming part of the 2021-22 State Budget.

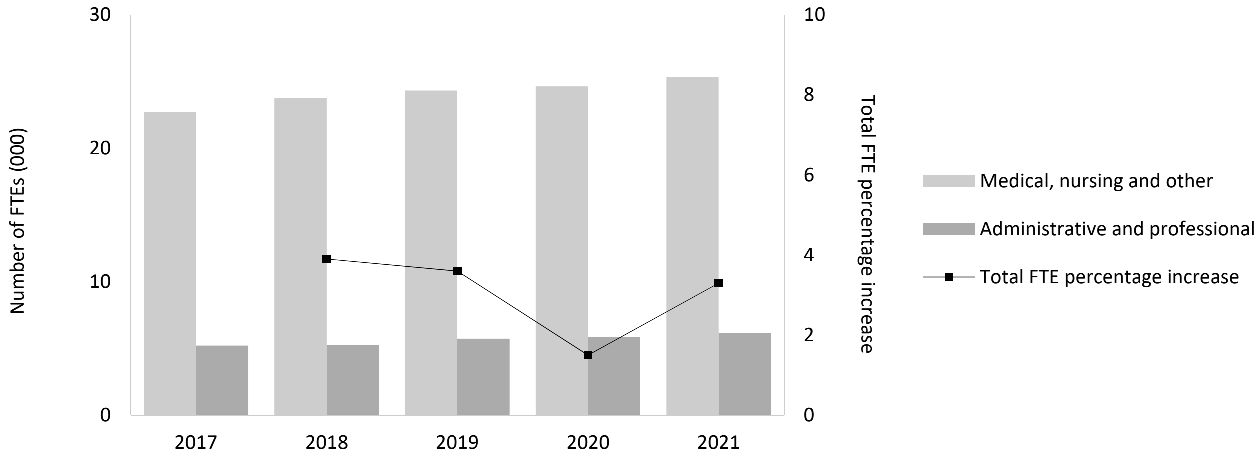
The LHNs and SAAS reported that $87 million of their combined projected outcome related to the impact of COVID-19 costs. The Central Adelaide Local Health Network Incorporated contributed $118 million to the combined projected outcome.

Salaries and wages was the cost category that contributed most significantly to the LHN and SAAS combined projected unfavourable result.

The following chart shows a steady growth in salaries and wages costs for the consolidated entity over the last five years. The figures exclude long service leave and workers compensation expense as they involve a degree of estimation, including discounted present value.



The following chart shows growth in FTE employees for the LHNs over the last five years.



Independent Commissioner Against Corruption (ICAC) 2019 report

In November 2019, ICAC tabled the *Troubling Ambiguity: Governance in SA Health Report*. It highlighted concerns about governance arrangements in SA Health that contribute to the risk of corruption, misconduct and maladministration.

In response the Premier established an inter-agency taskforce to independently and critically review the adequacy of SA Health's response. The taskforce included senior members of the public service.

DHW prepared a Program Implementation Plan to target and address the issues raised by ICAC, arranged into work streams for Industrial Reform, Cultural Reform and Policy and Practice Reform.

SA Health reported the successful delivery of these three work streams in 2020-21, which were then closed by the taskforce. Recognising that the work is part of a long-term strategy to improve accountability and integrity across its portfolio, SA Health is also implementing the following:

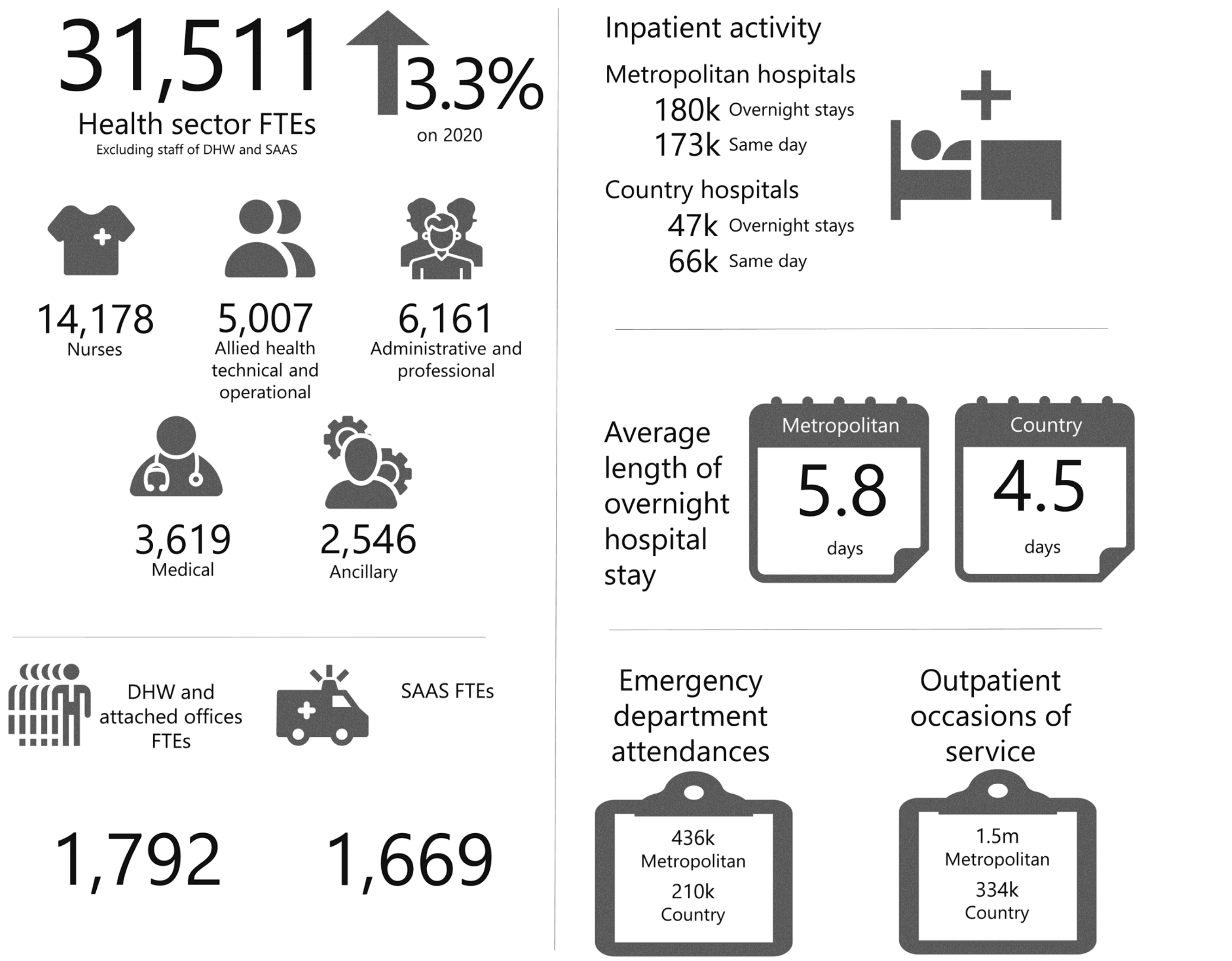
- Cultural Evolution Pathway – this identifies areas for improvement and provides a roadmap for cultural improvements over the next 12 months
- Policy Framework – this provides an ongoing approach to the development of policies across the portfolio that recognises the need for flexibility to reflect local requirements

- Integrated Compliance Framework – this provides the basis for ongoing annual certification by LHNs regarding policy and legal compliance
- Rights of Private Practice Policy – this provides the basis for ongoing governance arrangements over medical officer rights of private practice.

Health sector staffing and patient activity data – unaudited

The following staffing activity was provided by the Office of the Commissioner for Public Sector Employment in response to our request and is unaudited. The patient activity information was provided by DHW and is also unaudited.

Health sector activity and staffing statistics



Source: Staffing statistics were provided by the Office of the Commissioner for Public Sector Employment in response to our request and are unaudited. Patient activity information was provided by DHW in response to our request and is unaudited.

The following table shows staffing levels as at 30 June in the LHNs for the past three years.

Local Health Networks FTE mix (unaudited)

	2019 Number	2020 Number	2021 Number
Staff categories:			
Nurses	13 735	13 780	14 178
Medical staff	3 388	3 509	3 619
Allied health, technical and operational	4 681	4 822	5 007
Health ancillary	2 524	2 529	2 546
Administrative and professional	5 730	5 865	6 161
Total staff	30 058	30 505	31 511
Increase (Decrease)	1 052	447	1 006
Percentage increase (decrease)	3.6%	1.5%	3.3%

Department for Health and Wellbeing staffing statistics

The following table shows the staffing levels of DHW as at 30 June for the past three years.

Department for Health and Wellbeing FTEs (unaudited)

	2019 Number	2020 Number	2021 Number
Medical officers, nurses and other	181	199	375
Administrative and professional	1 348	1 124	1 282
Total staff	1 529	1 323	1 657

Offices attached to the Department for Health and Wellbeing staffing statistics (unaudited)

	2020 Number	2021 Number
Commission on Excellence and Innovation in Health	21	24
Wellbeing SA	89	111

SA Ambulance Service Inc staffing statistics

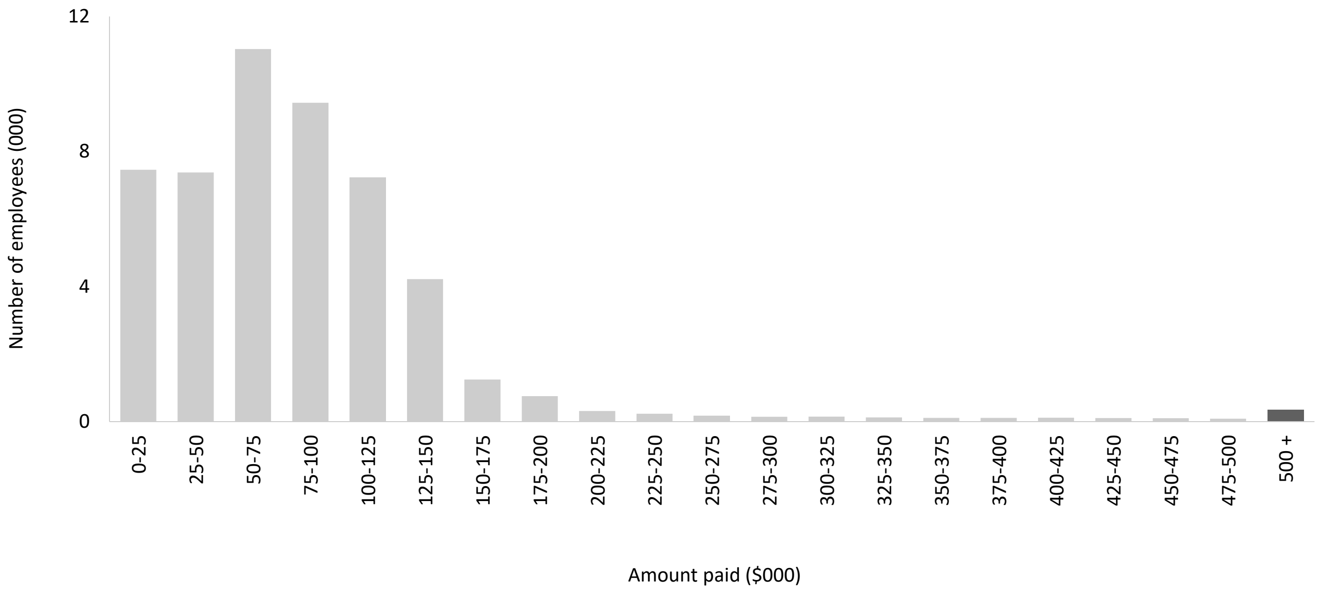
The following table shows the staffing levels of SAAS as at 30 June for the past two years.

SA Ambulance Service Inc FTEs (unaudited)

	2020 Number	2021 Number
Administrative	375	371
Emergency services	1 180	1 204
Medical officers, nurses and other	89	94
Total staff	1 644	1 669

Overall analysis of payments to SA Health staff

Our analysis of remuneration to all SA Health employees for 2020-21 is shown in the following breakdown. The chart shows remuneration to individuals (not FTEs) and includes all costs of employment.



Hospital activity statistics

The tables below show the trends over past years in inpatient activity (unweighted), length of hospital stay, and casualty and outpatient activity (unweighted).

The data in the tables was sourced from DHW's reporting systems and has not been audited. DHW advised us that its processes to collate activity data for 2020-21 were not complete at the time of this Report and the figures presented are not final. Accordingly, the activity statistics below are at a point in time and subject to change.

Inpatient activity (unaudited)

	2019 Number	2020 Number	2021 Number
Metropolitan hospitals:			
Overnight stay	179 561	177 806	179 809
Same day	155 422	158 945	172 875
Total	334 983	336 751	352 684
Country hospitals:			
Overnight stay	50 147	47 064	47 142
Same day	64 261	62 955	66 414
Total	114 408	110 019	113 556

Average length of overnight hospital stay (unaudited)

	2019 Days	2020 Days	2021 Days
Metropolitan hospitals	5.8	5.9	5.8
Country hospitals	4.7	4.6	4.5

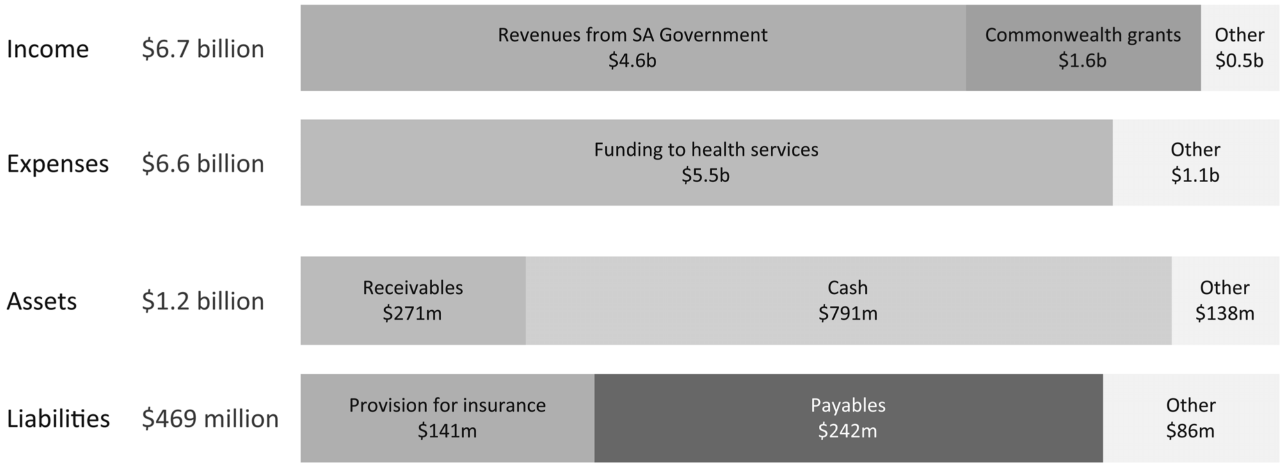
Emergency department and public outpatient activity (unaudited)

	2019 Number	2020 Number	2021 Number
Metropolitan hospitals:			
Emergency department attendances	425 353	407 816	435 976
Outpatient occasions of service	1 213 213	1 280 945	1 486 001
Country hospitals:			
Emergency department attendances	196 816	193 011	209 895
Outpatient occasions of service	167 276	208 747	334 423

COVID-19 testing and vaccine delivery contribute to the significant increases in outpatient occasions of services.

Department for Health and Wellbeing (DHW)

Financial statistics



1,657
Total employees - DHW

34,837
Total employees - SA Health

Significant events and transactions

- On 22 March 2020, the Governor declared the COVID-19 pandemic a major emergency under the *Emergency Management Act 2004*. This declaration was extended numerous times and was in effect throughout 2020-21.
- SA Health is the control agency for human disease under the State Emergency Management Plan.
- DHW continued to respond to COVID-19 including delivering vaccines, testing, quarantine, compliance, contact tracing, border exemptions and other additional health activities.
- The consolidated financial report outlines material costs directly associated with COVID-19 totalling $338 million.
- The South Australian Parliament passed the *Health Care (Governance) Amendment Act 2021* which amended the *Health Care Act 2008* from 23 August 2021, making further amendments to the role of the Chief Executive, clarifying workforce responsibilities and making other amendments to reflect governance and accountability arrangements.
- Consolidated total expenses exceeded the original budget by $187 million.

Financial report opinion	**Unmodified**	
Controls opinion findings	—	Procurement and contract management practices need to improve.
	—	No conflict of interest declarations for some sampled procurements.
	—	Inadequate documentation supporting some sampled procurement processes.
	—	Post-sourcing review of large procurements not completed for some sampled procurement processes.
	—	No contract management plans for sampled contracts.
	—	Contractually required meetings with suppliers not held.
	—	Improvements needed to ensure financial authorisations in the payments systems align with approved delegations.
	—	A probity advisor did not provide the required reports.
Other audit findings	—	Compliance framework not fully implemented.
	—	Management of inventory records needs to improve.
	—	Delayed recovery and payment of interstate patient debtors.
	—	Expired agreements with other jurisdictions for interstate patient debtors.
	—	Opportunities to improve professional development leave and reimbursement processes.
	—	Inadequate procurement processes and no contract with an external warehouse provider.
	—	Areas where IT general controls could be improved.

Functional responsibility

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

DHW is a funder or purchaser of health services, policy setter, strategic planner and provider of services. Note 1 of its financial report provides details about its objectives.

In line with AASB 10 *Consolidated Financial Statements*, consolidated financial statements were prepared comprising DHW, the local health networks (LHNs) and SA Ambulance Service Inc (SAAS).

Collectively DHW, the LHNs and SAAS are known as SA Health or the Health sector.

Governance

The *Health Care Act 2008* (HC Act) provides for the governance, management and administration of the South Australian public health system. The HC Act sets out the role, functions and powers of the Minister, the Chief Executive of DHW, the LHNs, their governing boards and their chief executive officers (CEOs).

In recent years the SA Government and SA Health have established new governance and accountability frameworks and amended the HC Act to support the SA Government's commitment to devolved decision making in the public health system.

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

The Chief Executive of DHW is charged with the overall management, administration and provision of health services and ensuring that DHW plays a leadership role in the administration of health services. The HC Act makes the Chief Executive of DHW responsible for facilitating the efficient and economic operation of the public health system.

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. LHN governing boards must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW. In March 2021 LHN boards were given a direction relating to mental health bed management under the HC Act.

From 1 July 2019 amendments to the HC Act provided for LHNs to be governed by boards. The amendments also changed the role of the Chief Executive of DHW to remove direct responsibility for administering LHNs from that date.

Each LHN governing board is responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the Board functions and responsibilities.

To support devolving governance and responsibility for delivering public health services to the new LHN governing boards, the SA Government and DHW continue to make changes to SA Health's governance and accountability frameworks. The details of these changed arrangements are discussed in the section titled 'Health sector overview' in this Report.

Service agreements between the Chief Executive of DHW, LHNs and SAAS outline the requirements of the formal relationship between DHW and these health services, and set out performance expectations and funding arrangements. The intent of the service agreements is to be binding on all parties.

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

Scope of the audit

Audit of the financial report

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

Financial services are provided through a mix of:

- central services provided by DHW for LHNs and SAAS
- services provided by Shared Services SA (SSSA).

Specific areas of audit attention in 2020-21 included:

- payroll
- accounts payable
- procurement
- contract management
- cash
- general ledger
- funding to health services
- funding to non-government organisations
- interstate patient transfers
- non-current assets
- inventory management
- revenues from the Commonwealth Government
- insurance services
- IT general controls
- professional development entitlements.

We considered internal audit activities in designing and performing our audit procedures.

Controls opinion

We reviewed controls over procurement and contract management, approval of payments, buildings and improvements, and grant revenue as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Procurement

Each year we review DHW's procurement processes and activities.

In 2020-21 we looked at elements of the following six procurements that resulted in contracts being established during the year:

- The My Home Hospital services (MHHS) – resulted in a period contract for the provision of acute, hospital-level care to patients in their place of residence across metropolitan and peri-urban Adelaide. The purchase recommendation estimated the value of the resulting contract with a joint venture provider at $176 million over five years.
- The GE Healthcare consolidated service agreement (GEHCSA) – resulted in service agreements for the GE Healthcare equipment located throughout SA Health. The purchase recommendation estimated the contract value with GE Healthcare at $8 million over five years.
- The urgent mental health care centre (UMHCC) – resulted in a period contract for a UMHCC designed to provide an alternate for consumers in the urgent, semi-urgent or not urgent categories who currently present to an emergency department. The purchase recommendation estimated the value of the contract with a sole provider at $15 million over four years.
- Specialist drug and alcohol assessment and treatment services (SDAATS) – resulted in 11 period contracts for funding to non-government organisations to deliver evidenced-based specialist treatments that are accessible within the metropolitan and specific regional areas. The purchase recommendation estimated the total value of the contracts at $123 million over nine years.
- Pathology collection consumables – resulted in a period contract with one provider for the supply of pathology collection consumables. The estimated value of the contract was $6 million over three years, with options to extend.
- Mammography equipment – resulted in a period contract with one provider for the supply, installation, commissioning and maintenance of mammography units for BreastScreen SA. The estimated value of contract was $4.6 million over 11 years.

Our audit included reviewing procurement documentation against the mandated requirements of the State Procurement Board (SPB) and SA Health procurement policies. From 1 July 2021 the SPB was dissolved and replaced by Procurement Services SA. Our review took into account the required processes at the time.

We found that while DHW complied with most of these requirements, the following areas needed improvement. Most have been raised with DHW in previous audits.

Missing conflict of interest declarations, confidentiality agreements and associated management plans

In his November 2019 *Troubling Ambiguity: Governance in SA Health Report*, the Independent Commissioner Against Corruption raised ‘serious problems with the way in which conflicts of interests held by SA Health employees are being identified, declared and managed’. In recent years we have also raised concern about the documentation and declaration of conflicts of interest. Our review this year raised similar concerns.

Staff involved in procurement processes are required by SA Health’s procurement policy to declare any conflicts of interest and sign confidentiality forms. We found that this did not always occur.

Where conflicts are noted, SA Health's policy directive requires an approved management plan and a briefing to the Chief Executive. We found instances where conflict management plans were not approved and where the Chief Executive was not briefed as required.

Formal statutory declaration of interests and confidentiality certifications provide accountability from external and internal members of key panels and committees. Where they are not executed as expected, or where management plans are not approved, it can impact the integrity of the procurement process.

DHW advised us that as part of its response to the new SA Government procurement framework it is developing a new SA Health procurement framework. It advised us that, among other things, this framework will outline training and experience requirements to help improve compliance. In the interim, DHW will remind its senior procurement staff of the requirements.

Evaluation plan not completed as planned

Our review of the UMHCC procurement considered whether it was carried out according to the agreed procurement acquisition and evaluation plans. We noted that both plans specified that an evaluation report would be prepared for approval by the appropriate delegated authority. Evaluation reports are often appropriate for high-value or high-risk procurements, as they provide an audit trail and form the basis for the purchase recommendation.

We found that DHW did not prepare an evaluation report as planned, and the purchase recommendation did not explain this deviation. We also noted that the purchase recommendation did not cover all elements of the evaluation process.

DHW responded that its planned SA Health procurement framework will outline training and experience requirements that will help to improve compliance. In the interim, it will remind its senior procurement staff of the requirement to follow acquisition and evaluation plans, including developing evaluation reports where required.

Evaluation of procurement not demonstrated through documentation

Our review of the GEHCSA procurement found that the evaluation discussion in the procurement documents only summarised the results of the evaluation and did not adequately describe the evaluation process undertaken. Where procurement documents do not comprehensively describe the evaluation process, approvers may not adequately understand the circumstances of the procurement and this may affect their decision-making.

DHW advised us that it would remind its staff of the need to ensure documentation adequately describes the evaluation undertaken.

Post-sourcing reviews not completed

The SPB's Supplier Selection Policy requires that public authorities undertake a post-sourcing review for procurements valued at or above $4.4 million. These reviews are also required by SA Health's procurement policies. A post-sourcing review is a useful formal retrospective assessment of the procurement process undertaken and can identify any potential improvements for future procurements.

We found that DHW did not perform the required post-sourcing reviews for the following procurements, each of which were above $4.4 million:

- GEHCSA
- SDAATS
- pathology collection consumables
- mammography equipment.

DHW advised us that the new SA Government procurement framework only requires post-sourcing reviews for complex and strategic procurements. It indicated that its planned SA Health procurement framework will be implemented by 1 July 2022 and will include a methodology for assessing the complexity of procurements. Once developed, the review requirement for each complexity category (routine, transactional, complex, strategic) will be communicated to staff. DHW advised us that, in the interim, it would remind staff to ensure post-sourcing reviews are completed for significant contracts and all procurements valued above $4.4 million.

DHW also advised us that it would lead a post-sourcing review for the procurements of pathology collection consumables and mammography equipment for BreastScreen SA.

Evaluation plan not signed by all team members prior to evaluation processes

An evaluation plan outlines the processes to be followed in evaluating tender proposals, and includes details about timing, membership and the weightings of selection criteria.

We found that the GEHCSA evaluation plan was not signed by all of the evaluation team members.

DHW advised us that it would remind staff to ensure final evaluation plans are endorsed by all members of the evaluation team and that evidence of this is maintained. While recognising the compliance failure, DHW considered that the integrity of the evaluation process was supported by other processes and documents.

Purchase recommendations not signed by all of the evaluation team

A purchase recommendation details the selection outcome and relevant findings of the evaluation. The SPB's Supplier Selection Policy requires the purchase recommendation (or evaluation report) to be signed by all members of the evaluation team, demonstrating that it is a true reflection of the selection process and increasing accountability.

We found that purchase recommendations were not signed by all evaluation team members for the SDAATS procurement. We have raised similar concerns in previous audits.

DHW advised us that it would remind staff to ensure purchase recommendations are signed by all members of the evaluation team and that evidence of this is maintained.

Negotiation plan not documented

The SPB's Negotiation Plan Template provides specific guidance on how to effectively plan a negotiation when undertaking procurements. Negotiation plans discuss the objectives of the negotiation, responsibilities, rules of participation and conduct, including probity and negotiation issues and priorities.

The SDAATS acquisition plan indicated that negotiation strategies would be developed, based on the Negotiation Plan Template. While the evaluation report and purchase recommendation referred to a negotiation plan, no plan was prepared.

DHW advised us that it would remind its staff to:

- ensure negotiation plans are documented and implemented in line with acquisition plans
- ensure any deviations from acquisition plans are documented in line with its policies.

Sustainability impact assessment not performed

The SPB provides guidance on how to effectively integrate sustainability features and objectives into the procurement process for goods and services. It requires all procurements greater than $4.4 million to include a sustainability impact assessment in the acquisition plan.

We found that the SDAATS acquisition plan had only very brief comments indicating the evaluation team's view that sustainability impact was considered low. We found that the UMHCC acquisition plan did not consider sustainability impacts. These procurements did not demonstrate how the evaluation team would meet the sustainability impact assessment required by the SPB guidelines.

DHW responded that its planned SA Health procurement framework will include sustainability assessment requirements. Once finalised these requirements will be communicated to staff.

Deviations from acquisition plan not appropriately documented and assessed

We considered the makeup of DHW's procurement evaluation teams and noted the follow deviations from the membership documented in the evaluation plans:

- MHHS – changes to the membership of the evaluation team and to some of the evaluation team members' voting rights
- pathology collection consumables – two members were removed from the evaluation team.

SA Health's procurement policies require DHW to report deviations like this to the approving authority by documenting them in the purchase recommendation.

We found that the purchase recommendations in both of these procurements stated that there were no deviations to the acquisition plan. Consequently, the recommendation in each case did not provide an assessment of the departure from the acquisition plan.

DHW advised us that it would remind its staff to ensure deviations from acquisition plans are assessed and appropriate actions and approvals are followed, in line with SA Health policy.

Probity advisor did not submit probity reports

DHW appointed a probity advisor for its SDAATS procurement. A probity advisor provides independent advice and works actively with the evaluation team to ensure key probity issues are considered and actioned during the procurement process. The scope of services stated that the probity advisor would provide:

- an interim probity report

- a final probity report.

We found that the probity advisor did not provide either of these reports.

DHW advised us that it would remind its staff to ensure probity plans are obtained as planned and that outcomes defined in the scope of services are monitored to ensure they are delivered.

Improvements needed in risk management planning

The SPB requires acquisition plans to include a separate risk management plan for all procurements assessed as high risk or valued at greater than $4.4 million. Our review of the acquisition plan for the pathology collection consumables procurement found that it did not include a separate risk management plan.

A risk register was included in the acquisition plan, but it did not address key information usually found in a risk management plan, such as:

- procurement objectives, scope and key stakeholders
- risk management responsibilities
- details of how risks were identified and analysed
- proposed treatments and monitoring of risks, including responsibilities and time frames.

We have raised similar issues in previous years.

DHW did not directly respond to these concerns, but indicated it would undertake a post-sourcing review of the pathology collection consumables procurement.

Contract management

Each year we review elements of DHW's contract management processes, including reviewing some higher value or higher risk contracts.

In 2020-21, our review included a focus on DHW's management of:

- the Locum Medical Services (locum) panel contract, which consists of 12 individual contracts with suppliers. The estimated contract value over the initial and extended term of the contract is $304 million and expenditure for 2020-21 was $19.5 million
- the Supply of Wound Closures and Associated Consumables (wound closure) panel contract, which consists of 14 individual contracts with suppliers. The estimated contract value over the initial and extended term is $69 million and expenditure for 2020-21 was $6.2 million
- the pathology collection consumables contract
- the contract for mammography equipment for BreastScreen SA.

Our objective was to determine whether there was reasonable assurance that these contracts were managed in line with SPB guidelines. This included SA Health ensuring that supplies were provided in line with the contracts.

The following areas needed improvement. Most have been raised previously.

No contract management plans

A contract management plan is an internal document that details the key strategies, activities and tasks required to effectively manage a contract. It provides a systematic and accountable method to ensure both parties fulfil their contractual obligations. SPB policy requires entities to develop, implement and monitor contract management plans for all contracts valued at or above $4.4 million, and for significant contracts below that value.

We found that DHW had not developed contract management plans for the following contracts:

- locum contracts, which commenced in January 2020
- the pathology collection consumables contract, which commenced in September 2020
- the mammography equipment contract executed in October 2020.

We have previously raised concerns about DHW's delay in establishing contract management plans.

DHW advised us that:

- it would establish a contract management plan for the locum contracts by 31 December 2021
- the Central Adelaide Local Health Network Incorporated would establish contract management plans for the pathology collection consumables and mammography equipment contracts by 30 November 2021.

DHW will remind its staff of the need to complete and approve contract management plans prior to contract commencement.

No formal contract manager currently appointed

We found that at the time of our audit DHW did not have an appointed contract manager responsible for its 14 wound closure contracts and its 12 locum contracts.

The SPB's Contract Management Policy requires entities to appoint an adequately resourced and skilled contract manager for contracts valued at or above $4.4 million, and for significant contracts below that value.

DHW responded that it had appointed contract managers but that from time to time resourcing matters had impacted their continuity. It advised us that a contract manager had been appointed for its wound closure contracts and that one would be appointed for the locum contracts in September 2021.

Contractually required meetings with suppliers not held

The wound closure and locum contracts require the supplier's representative to attend periodic quarterly meetings (or on demand) with the Minister's representative to discuss contract administration matters. They also require the supplier to meet with the Minister, as and when requested throughout the term, for the purpose of monitoring, discussing and reviewing the provision of the supplier's obligations under the contract.

DHW staff advised us that meetings were held with the 14 suppliers of the wound closure contracts but could not provide documented minutes or agendas for these meetings. The SPB's Contract Management Policy and SA Health's contract management framework discuss that keeping records and documentation is a crucial aspect of good contract management. This includes records of contract management meetings. The contract manager is responsible for ensuring that minutes of these meetings are recorded and distributed to all attendees of the meeting.

For the locum contracts, DHW staff advised us that none of the required periodic quarterly meetings between the Minister's representative and the 12 supplier representatives occurred in 2020-21. The last formal meetings occurred with suppliers in February 2020, soon after the contracts commenced. As there was no contract management plan for these contracts, there was uncertainty as to the objectives and purpose of these meetings and the responsibilities of each party in their conduct.

DHW advised us that its proposed contract management plan for the locum contracts will outline the timing of them and the requirements for minutes. It also advised us that its contract manager for the wound closure contracts would keep records of meetings and discussions.

Approval of payments

SA Health relies on established system-based controls to help ensure only those employees with delegated authority can incur expenditure, enter into agreements and make payments. Our review of these controls identified the following areas needing improvement.

Payment system authorisation limits are not matched to the approved delegations

In prior years we have reported concerns that financial authorisation limits in the Basware and Oracle payment systems did not always align with the financial delegations approved by the Chief Executive.

In 2020-21 we matched the approved financial delegations register against the system-based financial limits in Basware and Oracle and found positions with approval capacity in both systems that:

- did not have any delegated authority
- exceeded the delegated authority
- were lower than the delegated authority.

Some of the discrepancies we noted in this review were also reported to management in 2019-20, but were not rectified.

Incorrect financial authorisation limits in payment systems can allow payments to be made outside of delegated authority. Payments made without adequate authorisation increase the potential for invalid or inappropriate transactions.

In response to similar concerns we raised in 2019-20, DHW indicated that it would undertake a quarterly reconciliation of Basware and Oracle's financial authorisation limits against its financial delegations register. We found that this had not occurred as regularly as advised.

DHW advised us this year that its quarterly reconciliation of payment systems authorisation limits was paused while its delegations were reviewed. It indicated that the reconciliations would recommence between October 2021 and January 2022 and would then be done annually. It also advised us that it would review the validity of all payments made by the positions we identified as having access that exceeded delegated authority.

Other audit findings

Interstate patient transfers

The National Health Reform Agreement stipulates that the State where a patient would normally reside should meet the cost of services where its resident receives hospital treatment in another jurisdiction. Revenue and expenditure transactions for interstate patient transfers arise when patients receive healthcare services in hospitals outside of the State they permanently reside in. The charges are based on patient activity records provided by the National Health Funding Pool Administrator (the Administrator) and the national efficient price.

Our review of interstate patient transfer revenues and expenses raised the following issues.

Expired agreements with other jurisdictions

Last year we reported concerns that cross-border agreements between South Australia and other jurisdictions had expired. In response, DHW indicated that it had taken a lead in pursuing negotiations for cross-border agreements, including leading a process to create a template by the end of 2020.

Our follow-up of this matter in 2020-21 noted that some States had agreed to extend the 2014-17 agreements to 30 June 2020. We also noted that, while negotiations had commenced to formalise cross-border agreements with States and Territories for the period 1 July 2020 to 30 June 2025, these agreements were not in place for any jurisdictions.

DHW advised us that all jurisdictions except the Northern Territory and the Australian Capital Territory had formally extended the 2014-17 agreements to 30 June 2020. It also advised us that it was taking a lead in pursuing negotiations for cross-border agreements for the 2020 to 2025 period, noting that an agreement template was sent to all jurisdictions in May 2021 and that all jurisdictions were engaging actively.

Delayed recovery and payment of interstate patient transfers

DHW continues to recognise very large and longstanding interstate patient transfer receivables and payables with other States and Territories. As at 30 June 2021 interstate patient receivables were $203 million ($138 million) and payables were $144 million ($119 million), a net receivable of $59 million ($19 million). While there were payments and receipts in 2020-21, as at 30 June 2021 there are receivables and payables for patient activity dating back as far as 2015-16.

In response to similar concerns we raised last year, DHW advised us that it was reliant on negotiations with other jurisdictions, indicating that it was actively engaged in those negotiations to finalise outstanding balances. We acknowledge that cross-border agreements are retrospective in nature and, as such, the negotiations and payments always occur some time after the financial year in question.

DHW advised us that it had completed cross-border reconciliations with all jurisdiction for the 2015-16 and 2016-17 years, with the exception of Northern Territory where it had commenced a dispute process.

Compliance framework not fully implemented

Since 2016 we have reported on DHW's and SA Health's progress in implementing its legislative compliance framework. Last year we reported that while work on establishing a framework has continued, it was not fully implemented.

In light of changed statutory responsibilities and lines of accountability in amendments to the HC Act, SA Health reassessed the way it would undertake legislative compliance activities across the sector. In July 2020, DHW released a System-wide Integrated Compliance Policy (SICP), which provides an overarching framework encompassing all SA Health compliance activities including policy, financial management and legislative compliance.

We found that DHW has supported the implementation of its SICP across the sector. It had established a sector-wide Integrated Compliance Community of Practice to share learnings and approaches and support the SICP implementation. CEOs of the LHNs and SAAS are required to certify that they have effective systems and processes in place to facilitate compliance with the key focus areas, or identify areas for improvement.

While we found that DHW, as system leader, had made significant progress helping to support the SICP, important tools such as subscriptions to legislative alerts and updates and IT compliance systems were not available throughout 2020-21 and were not adopted across the sector. We recognise that individual LHNs and SAAS are responsible for their own legal compliance. However, we consider it likely that many will adopt these tools and may rely on DHW's resources and expertise as system leader rather than reinvent processes themselves.

DHW responded that it would continue to support the LHNs and SAAS in implementing the SICP. It also indicated that it would update its implementation plans to incorporate improvements identified from the first year of implementation, clearer time frames and additional information on the IT system. This would include a pilot implementation of its IT compliance system, which it expects to be rolled out to business units within DHW from early 2022.

Professional development reimbursements and leave

We have previously raised concerns about the recording and management of medical officers' professional development leave and reimbursement claims.

Our follow-up of these concerns in 2020-21 noted that in November 2020, DHW implemented a new statewide SA Health Professional Development Reimbursement System (SAHPDRS). Features of the new system that have improved the control environment include:

- improved recordkeeping, including a real-time central record of professional development leave, reimbursements and entitlement balances
- the ability for medical officers to submit claims online or through mobile device apps
- the ability to amalgamate data for employees who work across multiple health services

- improved segregation of duties through mandated electronic system-based declarations, authorisations and review of claims
- improved reporting.

While these features improved the control environment, we identified the following opportunities for further improvement:

- A memorandum of administrative arrangement (MoAA) detailing the roles, responsibilities and obligations of DHW and the LHNs was not formalised. DHW advised us that it was developing one.
- The user system access register for SAHPDRS is not reviewed. DHW advised us that it would review access lists each quarter to ensure permissions are up to date.
- SAHPDRS is not integrated with the CHRIS payroll system and therefore, when professional development leave is claimed in SAHPDRS it is not automatically recorded in CHRIS, and vice versa. We found that leave records in SAHPDRS are not reconciled to CHRIS. DHW advised us that it would recommend that LHNs reconcile these systems each quarter.
- There were inconsistencies between professional development leave records in SAHPDRS and CHRIS. DHW advised us that it would check the validity of leave claimed by DHW staff.

Inventory

In 2021 DHW spent around $144 million on medical, surgical and laboratory inventory through its distribution centre and bulk stores.

Managing the frequency of stock counts

Our review of the frequency of stocktaking processes at the DHW inventory distribution centre found a need for the following improvements:

- There were no documented guidelines or methodology supporting the frequency of scheduled cycle counts.
- The ability to alter the frequency of scheduled counts in the Oracle inventory management system was not restricted.

DHW responded that it would document a methodology supporting the frequency of stocktakes and would restrict access to amend the scheduled counts in the Oracle inventory management system. It indicated that where this was not possible, it would implement alternative controls to capture unauthorised modifications.

Management of inventory records needs improvement

We tested inventory records and found instances where Oracle inventory management system records did not match the physical stock. We discussed these with the inventory team, who acknowledged the discrepancies but could not provide the specific causes.

DHW responded that planned new technology at the new distribution centre in Gepps Cross will reduce the number of picking errors, which were the main cause of stock inaccuracy.

No procurement records or written contract to support external warehousing arrangements with freight supplier

At the onset of COVID-19, DHW had an urgent need for additional warehousing space to hold bulk pallet storage of its personal protective equipment (PPE). To meet this need, DHW has used its contracted freight provider's warehousing facilities to hold PPE stock since March 2020. At the time of our audit in May 2021, the freight company held approximately $47 million of DHW's PPE in its warehouse.

We reviewed DHW's procurement and contracting processes for this arrangement. The existing contract with the freight company did not cover the use of its warehousing facilities.

Given the declared pandemic emergency, we considered this was an emergency procurement. Therefore, DHW could have used the provisions of the SPB's Emergency Procurement Policy or its COVID-19 Major Emergency Procurement Policy. Our review of the procurement and contracting arrangements was mindful of the reduced or waived SPB requirements under these emergency policies.

Our review of the arrangements found:

- DHW did not maintain the required documentation of the procurement process, including evidence of the financial authority for entering into the arrangement
- warehousing arrangements were not set out in a written contract
- the warehousing arrangements were not listed in DHW's register of emergency procurements, as required under the COVID-19 Major Emergency Procurement Policy
- between June 2020 and April 2021, stock at the warehouse was only counted once and there was no written stocktake methodology or policy for the stock held at the warehouse.

DHW responded that the arrangements were organised to minimise risk to the timely delivery of critical clinical goods and commenced in the same month as South Australia declared a public health emergency.

DHW also advised us that:

- a contract variation had now been approved and a letter of variation would be issued to the supplier
- the financial authority to vary the contract was not obtained until July 2021
- it would develop a contract management plan
- the stock was counted once a year in line with its inventory policy, and it would review and document the methodology supporting stock counts at the freight company's warehouse.

IT general controls review

Oracle Corporate System (OCS)

The OCS is DHW's application for accounts payable, accounts receivable, general ledger and fixed assets.

In 2020-21, we reviewed the IT general controls operating in the OCS environment. This included password management, user access management, privileged user access, audit logging, change management, patch management, and backup and disaster recovery management.

We identified areas where controls could be improved, notably:

- segregation of duty conflicts in the system's business rules
- weaknesses in the offboarding process
- weakness in managing dormant user accounts.

These present risks that increase the potential for malicious activity by users within the system and inappropriate changes to financial data.

DHW responded positively to our findings and agreed to take appropriate remedial action, expected to be completed by October 2021.

Electronic Medical Records system (EMR)

In 2020-21, we reviewed the IT general controls operating in the EMR environment. This included password management, user access management, privileged user access, audit logging, change management, patch management, and backup and disaster recovery management.

We identified areas where controls could be improved, notably for privileged user access, change management, audit logging and disaster recovery processes. Without these improvements, there is an increased risk of potential malicious activity by users within the system and inappropriate changes to financial data.

DHW responded positively to our findings and agreed to take appropriate remedial action, expected to be completed by December 2021.

Interpretation and analysis of the financial report

Highlights of the financial report – Department for Health and Wellbeing (parent)

	2021 $million	2020 $million
Income		
Revenues from SA Government	4 554	4 329
Fees and charges	294	167
Grants and contributions	1 684	1 684
Other	196	190
Total income	6 728	6 370
Expenses		
Staff benefit expenses	195	172
Supplies, services and other expenses	798	767
Grants and subsidies	5 628	5 375
Total expenses	6 621	6 314
Net result	107	56

	2021 $million	2020 $million
Net cash provided by (used in) operating activities	21	146
Assets		
Current assets	1 147	977
Non-current assets	94	88
Total assets	1 241	1 065
Liabilities		
Current liabilities	269	228
Non-current liabilities	200	172
Total liabilities	469	400
Total equity	772	665

Statement of Comprehensive Income – Department for Health and Wellbeing (parent)

Revenues

Revenues from the SA Government

Revenues from the SA Government increased by $225 million to $4.6 billion (5%).

Revenues from the SA Government include $4.5 billion ($4.2 billion) in appropriation from the Consolidated Account under the *Appropriation Act 2020*. Appropriation revenue was $993 million under the $5.5 billion appropriation listed in the *Appropriation Act 2020* and included the following budget initiatives and adjustments:

- an additional $73 million to meet COVID-19 related expenditure
- an additional $30 million for the COVID-19 vaccine rollout, consisting of expenditure operating initiatives of $36.9 million and revenue offsets of $6.9 million
- an additional $27 million for cross-border settlements
- an additional $93 million to meet the end-of-year projected net overspend, excluding COVID-19 and cross-border impacts
- a reduction of $73 million for initiatives and capital projects carried over to future years
- a reduction of $144 million to decrease DHW's estimated cash held.

Revenues from the SA Government also included:

- $26 million ($28 million) in Commonwealth grants received through the Department of Treasury and Finance
- $8 million ($21 million) in funding for targeted voluntary separation packages.

Grants and contributions

Income from grants and contributions totalled $1.7 billion ($1.7 billion) and principally comprised:

- Commonwealth Government National Health Reform Agreement funding of $1.48 billion ($1.48 billion)

- other Commonwealth Government grants of $80 million ($133 million). This includes $67 million ($115 million) in funding under the National Partnership on COVID-19 Response, with these payments reduced for unused Private Hospital Financial Viability grants of $65 million that were received in 2019-20
- Commonwealth Transition Care Program funding of $26 million ($25 million)
- Department of Veterans' Affairs funding of $41 million ($37 million)
- other SA Government grants and contributions of $51 million ($1 million), which includes $48 million in unused Private Hospital Financial Viability funds received through the Department of Treasury and Finance.

DHW receives Commonwealth Government grants paid from the State Pool account in line with the funding agreement under the National Health Reform Agreement.

In March 2021 the SA Government signed Schedule C 'Coordination and delivery of a safe and effective COVID-19 vaccine' to the National Partnership on COVID-19 Response (Schedule C). Schedule C sets out the Commonwealth's funding arrangements for each vaccination dose delivered by the State on an activity basis from 15 February 2021. Funding under Schedule C is conditional on the State meeting responsibilities outlined in the Australian COVID-19 Vaccination Policy, Australia's COVID-19 Vaccine National Roll-out Strategy, and agreed jurisdictional implementation plans. The State did not receive funding from the Commonwealth for vaccine delivery under Schedule C in 2020-21.

The section of this Report titled 'Health sector overview' discusses Commonwealth funding to support the COVID-19 response further.

Fees and charges revenue

Fees and charges increased by $127 million to $294 million and principally comprised:

- revenue for interstate patients treated in South Australian public hospitals of $113 million ($50 million). The increase relates to a change in estimated patient activity levels
- sale of medical supplies of $130 million ($105 million), which mainly relates to medical supplies inventory held in DHW and sold to health services. These sales are largely eliminated for consolidated reporting. The increase reflects the impact of COVID-19, including the increased use of PPE and other supplies
- quarantine hotel user charges of $36 million ($0). Returning travellers in 2020-21 were required to quarantine in South Australian medi-hotels. Those who had purchased flight tickets after 13 July 2020 were charged a quarantine fee. As at 30 June 2021, DHW had receipted $18.5 million, leaving receivables of $17.9 million.

Expenses

Staff benefit expenses

Staff benefit expenses increased by $22 million (13%) to $195 million. Contributing to the increase was an increase in FTE staff of 334 (25%) to 1657 as at 30 June 2021. This included the following FTE increases: nurses by 154 to 217; allied health professionals of 18 to 57; and medical officers of 3 to 14. This reflects an increase in employees dedicated to SA Health's COVID-19 response.

DHW paid targeted voluntary separation packages to 27 employees in 2020-21 (nine in 2019-20) at a cost of $3 million ($1 million).

The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 92 (69), comprising 45 (43) executive, 28 (16) administration, eight (seven) medical and 11 (three) nursing employees. Total remuneration for these employees was $21 million ($16 million).

Supplies and services expenses

Supplies and services expenses increased by $161 million (28%) to $745 million. Significant components of supplies and services were:

- contract of services – $105 million ($103 million)
- contractors – agency staff – $37 million ($26 million). The increase mainly related to the increased use of agency staff in ICT, procurement, health regulation and protection, and the temporary engagement of staff from LHNs
- cost of goods sold to incorporated health services – $144 million ($106 million). The increase reflects growth in the use of PPE and other medical supplies provided to LHNs, SAAS and other organisations
- computing costs – $114 million ($101 million). The increase reflects the increased cost of system licences and leases
- insurance – $57 million ($42 million). The increase is impacted by a rise in the value of the provision for insurance estimates carried out through an actuarial assessment, in line with AASB 1023 *General Insurance Contracts*
- interstate patient transfers – $60 million ($96 million). The decrease relates to a change in estimated patient activity levels
- hotel quarantine accommodation costs – $60 million ($2 million)
- security – $36 million ($1 million). The increase reflects cost associated with DHW's COVID-19 response.

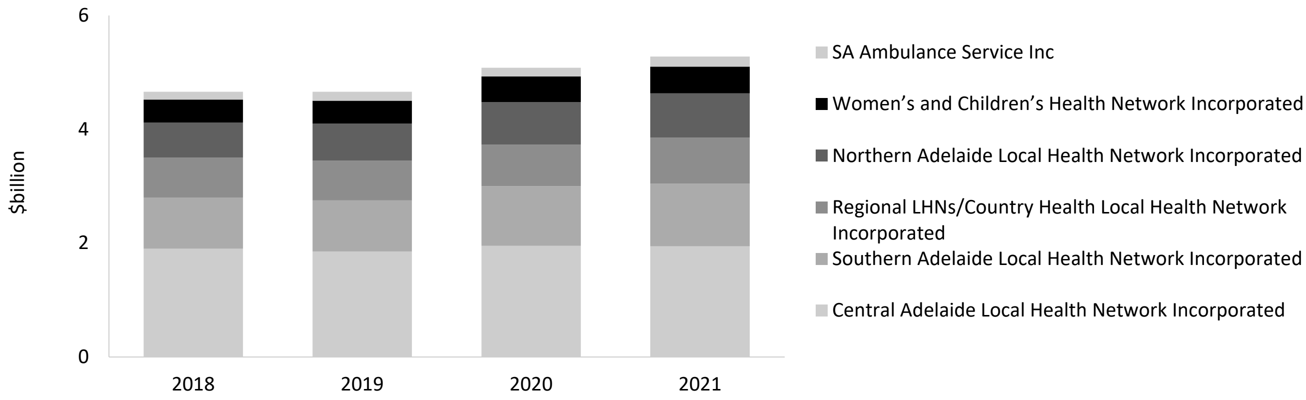
Grants and subsidies

Grants and subsidies expense increased by $253 million to $5.6 billion. It consists mainly of operating and capital grants to LHNs and SAAS.

Operating funding to incorporated health services

Operating funding to incorporated health services increased by $196 million (4%) to $5.3 billion. It is provided to health services to meet their cost of services.

The following chart shows operating funding provided to incorporated health services over the last four years.

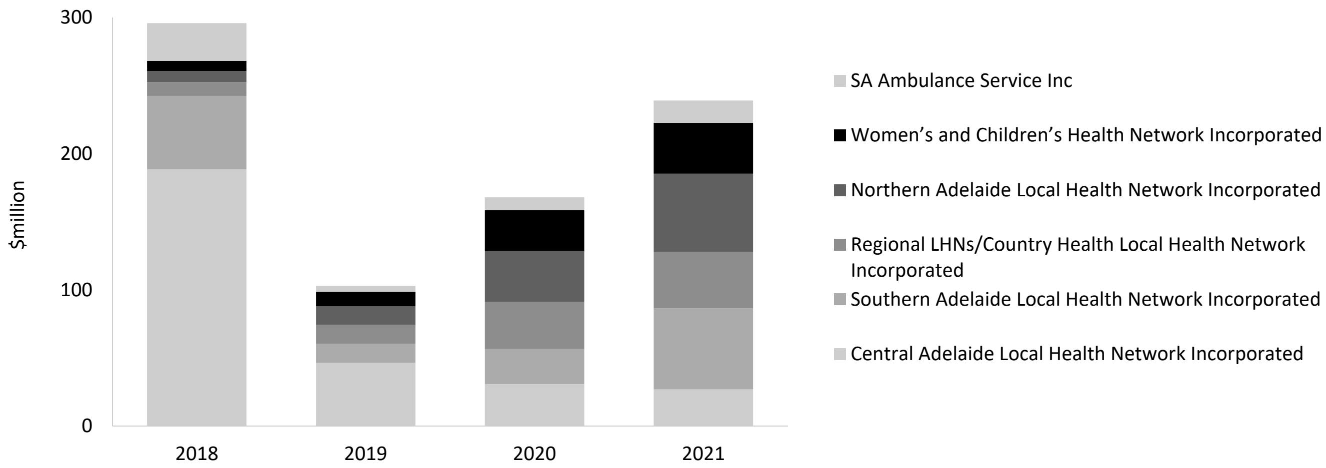


Total operating funding has increased by 13% over the four years, from $4.7 billion in 2018 to $5.3 billion in 2021 (see note 10.1 of DHW's financial report).

Capital funding to incorporated health services

Total capital funding increased by $71 million to $239 million. This was mainly due to the upgrade of the Women's and Children's Hospital buildings, upgrades and expansions at the Southern Adelaide Local Health Network Incorporated, redevelopments at The Queen Elizabeth Hospital, Lyell McEwin Hospital and Modbury Hospital, reactivation of the Repatriation General Hospital, country health sustainability and compliance, and the new Women's and Children's Hospital.

The following chart shows capital funding to incorporated health services for the four years to 2021.



Statement of Financial Position – Department for Health and Wellbeing (parent)

Assets

Current assets increased by $170 million to $1.1 billion as at 30 June 2021 and essentially comprise:

- cash and cash equivalents of $791 million ($769 million)
- receivables of $271 million ($178 million), which includes:
  - $203 million ($138 million) in interstate patient transfer debtors owed by other jurisdictions for patients treated in South Australian public hospitals

- — $23 million ($3 million) in general debtors, including $18 million for outstanding quarantine medi-hotel fees
- inventories of $84 million ($29 million). The increase relates mainly to stockpiled PPE relating to the COVID-19 response and preparedness.

Liabilities

DHW's total liabilities were $469 million at 30 June 2021, an increase of $69 million from the previous year. Significant components of liabilities were:

- payables, $242 million ($205 million) – contributing to the increase were a $26 million increase in payables for interstate patient transfers owing to interstate jurisdictions for South Australian residents treated in interstate public hospitals and a $7 million increase in creditors and accrued expenses
- employee benefits liabilities and related on-costs, $69 million ($63 million) – contributing to the increase was an increase in annual leave liability of $4 million
- provision for insurance, $141 million ($132 million).

DHW manages the public health system insurance program. It pays premiums to the South Australian Government Financing Authority and retains responsibility for claims up to certain amounts. The provision estimates the value of claims directly payable by SA Health.

The provision for insurance estimates DHW's liability for professional indemnity (including medical malpractice) and general public liability. The determination of the insurance provision was carried out through an actuarial assessment, in line with AASB 1023 *General Insurance Contracts,* and takes into account prudential margins, inflation, taxes, claims incurred but not reported and current claim values (see note 26.2 of DHW's financial report).

Equity

As at 30 June 2021, DHW had a net assets position of $772 million ($665 million). It did not receive any equity contribution from the SA Government in 2020-21.

Highlights of the financial report – consolidated entity

The consolidated entity comprises:

- Department for Health and Wellbeing (parent)
- Barossa Hills Fleurieu Local Health Network Incorporated
- Central Adelaide Local Health Network Incorporated
- Eyre and Far North Local Health Network Incorporated
- Flinders and Upper North Local Health Network Incorporated
- Limestone Coast Local Health Network Incorporated
- Northern Adelaide Local Health Network Incorporated
- Riverland Mallee Coorong Local Health Network Incorporated
- SA Ambulance Service Inc
- Southern Adelaide Local Health Network Incorporated
- Women's and Children's Health Network Incorporated
- Yorke and Northern Local Health Network Incorporated.

	2021 $million	2020 $million
Income		
Total revenues from SA Government	4 554	4 329
Fees and charges	771	637
Grants and contributions	2 115	2 084
Other	111	119
Total income	7 551	7 169
Expenses		
Employee benefit expenses	4 394	4 247
Supplies, services and other expenses	2 412	2 298
Borrowing costs	121	153
Depreciation and amortisation	308	317
Grants and subsidies	116	133
Total expenses	7 351	7 148
Net result	200	21
Other comprehensive income		
Change in asset revaluation reserve	(7)	-
Gains or losses recognised directly in equity	47	15
Total other comprehensive income	40	15
Total comprehensive result	240	36
Net cash provided by (used in) operating activities	440	506
Net cash provided by (used in) investing activities	(247)	(182)
Assets		
Current assets	1 883	1 610
Non-current assets	6 018	6 047
Total assets	7 901	7 657
Liabilities		
Current liabilities	1 326	1 271
Non-current liabilities	3 822	3 872
Total liabilities	5 148	5 143
Total equity	2 753	2 514

Statement of Comprehensive Income – consolidated entity

Expenses

Total expenses increased by $204 million to $7.4 billion (3%) and principally comprised employee benefit expenses of $4.4 billion and supplies and services expenses of $2.3 billion.

Employee benefit expenses

Employee benefits, clearly the most significant health sector expense, increased by $147 million (3.5%) to $4.4 billion. Contributing to this increase was an increase in FTE employees by 1365 to 34 837 (4%) at 30 June 2021.

The consolidated entity paid targeted voluntary separation packages to 93 employees in 2020-21 (393 in 2019-20) at a cost of $9 million ($31 million).

The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 3727 (3369), comprising 122 (110) executive, 111 (102) non-medical, 2823 (2619) medical, 393 (251) nursing and 278 (287) operational employees. Over the past five years the number of employees whose remuneration received or receivable exceeds base executive level has increased by 32%.

Total remuneration for these employees was $1 billion ($945 million).

The following table summarises the remuneration of employees for 2020-21, included in note 8.3 of DHW's financial report.

	Executive Number	Medical Number	Non-medical Number	Nursing Number	Operational Number	Total Number
$155 000 – $255 000	88	1 404	103	388	271	2 254
$255 001 – $355 000	22	502	7	5	7	543
$355 001 – $455 000	6	427	1	-	-	434
$455 001 – $555 000	3	276	-	-	-	279
$555 001 – $655 000	3	160	-	-	-	163
$655 001 – $755 000	-	39	-	-	-	39
$755 001 – $855 000	-	12	-	-	-	12
$855 001 – $955 000	-	1	-	-	-	1
$1 055 000 – $1 155 000	-	1	-	-	-	1
$1 355 001 – $1 455 000	-	1	-	-	-	1
Total	122	2 823	111	393	278	3 727

Supplies and services expenses

Supplies and services expenses increased by $236 million to $2.3 billion. Significant components were:

- medical, surgical and laboratory supplies – $386 million ($322 million)
- drug supplies – $292 million ($278 million)
- contract of services – $139 million ($139 million)
- fee for service – $201 million ($195 million)
- contractors – agency staff – $95 million ($83 million)
- public private partnership operating expenses – $98 million ($95 million)
- electricity, gas and fuel – $42 million ($48 million)
- interstate patient transfers – $60 million ($96 million), the decrease relating to a change in estimated interstate patient activity levels
- insurance – $61 million ($45 million)
- computing – $130 million ($113 million)
- repairs and maintenance – $109 million ($103 million)
- housekeeping – $88 million ($81 million)
- hotel quarantine accommodation costs – $60 million ($2 million)
- security – $88 million ($45 million).

Comparison of actual expenses to original budget

For 2020-21, total expenses exceeded the original budget by $187 million. Note 35 of DHW's financial report provides budgetary reporting information, including explanations of major variances between the original budget DHW provided to Parliament and the actuals reported in its financial statements. Note 35 explains that overall the increased cost of providing hospital services, the COVID-19 response and the COVID-19 vaccination rollout significantly impacted the unfavourable variance.

Statement of Financial Position – consolidated entity

As at 30 June 2021, the consolidated entity had a net assets position of $2.8 billion.

Assets

The consolidated entity's financial position is dominated by non-current property, plant and equipment assets, representing 75% of total assets, being mainly hospital buildings and right-of-use buildings (the RAH).

The carrying value of property, plant and equipment decreased by $25 million to $5.9 billion. Key movements during the year were:

- depreciation and amortisation of $290 million
- disposed and donated land assets of $16 million, including $15 million of Oakden land assets sold and transferred to the Urban Renewal Authority and the Department for Environment and Water respectively
- impairment of assets of $7 million
- additions of $289 million, including $222 million in capital works in progress additions.

The main categories of property, plant and equipment were:

- land – $326 million
- buildings – $2.2 billion
- right-of-use buildings, including those under public private partnership – $2.6 billion
- capital works in progress – $269 million
- leasehold improvements – $57 million
- plant and equipment – $181 million
- right-of-use plant and equipment – $233 million.

Liabilities

Employment liabilities make up $1.7 billion of the consolidated entity's total liabilities at 30 June 2021, comprising:

- employee benefits liabilities and related on-costs, $1.6 billion ($1.6 billion)
- provision for workers compensation, $150 million ($109 million). The worker compensation provision was estimated by an independent actuary as at 30 June 2021. The provisions include a non-statutory provision for certain work-related injuries as part of enterprise bargaining agreements.

Further commentary on operations

Response to the COVID-19 pandemic

Responding to COVID-19 continued to have a significant impact across SA Health in 2020-21.

On 22 March 2020, the Governor declared a major emergency under the *Emergency Management Act 2004*. This declaration was extended numerous times and was in effect throughout 2020-21. SA Health is the control agency for human disease under the State Emergency Management Plan.

SA Health's response to COVID-19 included:

- the COVID-19 pandemic vaccination program
- quarantine and isolation arrangements, including:
  - medi-hotel quarantine
  - home and special interest group quarantine
- COVID-19 management including compliance, contact tracing, surveillance and testing, borders and exemptions
- acute system readiness, including at LHNs and private hospitals
- providing enablers including PPE, information technology and pharmacy
- planning for vulnerable groups.

The 'Health sector overview' section of this Report provides further detail of SA Health's response to COVID-19.

Commonwealth funding to support the COVID-19 response

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

In 2020-21, DHW received a total of $67 million from the Commonwealth Government under the agreement comprising:

- hospital services funding of $20 million
- public health funding of $104 million
- private hospital capability and viability funding of $8 million
- reduced for unused private hospital financial viability grants of $65 million that were received in 2019-20.

Commonwealth funding under the agreement makes up part of the other Commonwealth grants and contributions revenue recognised in note 4 of DHW's financial report.

Commonwealth funding for the State's vaccination delivery program not received in 2020-21

In March 2021 the SA Government signed Schedule C to the National Partnership on COVID-19 Response.

Schedule C sets out the Commonwealth's funding arrangements for each vaccination dose delivered by the State on an activity basis from 15 February 2021. Under Schedule C the Commonwealth provides the first parts of this funding through an upfront payment of $7 million to ensure interim funds are available to set up State-run vaccination clinics. Funding under Schedule C is conditional on the State meeting the responsibilities outlined in the Australian COVID-19 Vaccination Policy, Australia's COVID-19 Vaccine National Roll-out Strategy and agreed jurisdictional implementation plans.

The State did not receive any funding from the Commonwealth for vaccine delivery under Schedule C in 2020-21.

COVID-19 vaccine doses

In 2020-21 the Commonwealth was responsible for purchasing COVID-19 vaccine doses and providing them to each State free of charge. DHW did not recognise the value of these vaccines in its financial report (see note 17).

Material direct costs

Note 1.7 of DHW's financial report outlines material costs directly associated with COVID-19, which total $338 million, including cost incurred by DHW, the LHNs and SAAS.

Material costs incurred by DHW

The material costs incurred by DHW for COVID-19 were:

- salary, wages and agency costs specifically related to COVID-19 – $33 million ($3 million)
- security – $35 million ($400 000)
- border force, airport screening and quarantine – $61 million ($2 million), offset by $36 million ($0) in fees and charges revenue associated with returned travellers
- housekeeping – $12 million ($16 000)
- advertising and communication – $8 million ($3 million)
- hospital and office lease costs – $7 million ($4 million)
- PPE – $6 million ($1 million)
- ICT and equipment costs – $5 million ($4 million)
- COVID-19 support grants – $3 million ($1 million)
- service contractors – $10 million ($500 000)
- contractors – contract management – $5 million ($500 000)
- other – $17 million ($9 million).

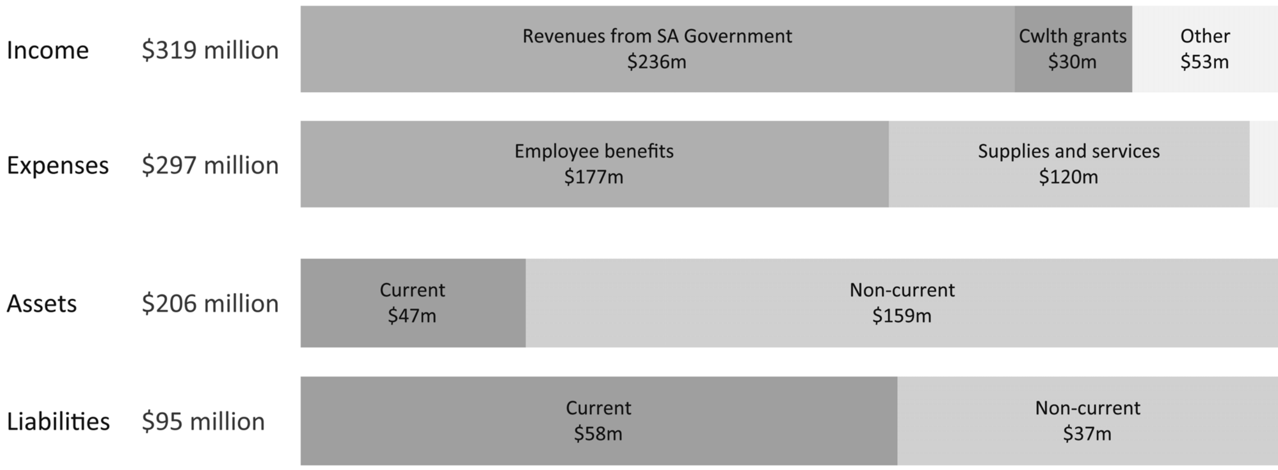
In addition, DHW inventory increased by $55 million as at 30 June 2021 compared to the previous year, mainly due to stockpiled PPE.

Material costs incurred by LHNs

Note 1.7 to DHW's financial report outlines net COVID-19 costs for the LHNs of $136 million. It explains that the costs incurred related to increasing capacity and preparation, COVID-19 testing clinics, establishing vaccine clinics, increased demand for PPE and increased staffing costs (including agency staffing) to ensure compliance.

Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)

Financial statistics



1,667
Number of FTEs

13
Hospitals and health services

Significant events and transactions

— 2020-21 was the second year of the BHFLHN Governing Board.

— BHFLHN continued to prepare and respond to the COVID-19 pandemic including providing testing clinics, establishing vaccine clinics and other additional health activities.

— BHFLHN's financial report outlines material costs associated with COVID-19 of $7 million.

Financial report opinion | **Unmodified**

Audit findings

- Contracts with general practitioners needed updating.
- Specialists were working in BHFLHN without contractual agreements.
- The unsupported patient administration system, Chiron, is considered by BHFLHN to be an extreme risk.
- A contract was not established for a large medical imaging supplier.
- Procurement and contracting of acute pharmacy services needed improvement.
- There were delays in updating information to the Credentialing and Scope of Clinical Practice System.
- Contracts were not established for some regular services.
- The follow-up of longstanding patient debtors was ineffective.
- Revenue system access restrictions were insufficient.
- Invoices were paid without purchase orders.

Functional responsibility

BHFLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019.

BHFLHN's powers and functions are to provide health services in the Barossa, Hills and Fleurieu region of South Australia.

The consolidated accounts of BHFLHN include the assets, liabilities, revenues and expenses of incorporated Health Advisory Councils (HACs) within the region and unincorporated regional HACs. These HACs were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about the provision of health services, health issues, goals, priorities, plans and other strategic initiatives, and to perform other functions as determined under the HC Act.

On 27 May 2021 the Minister for Health and Wellbeing declared that certain previously unincorporated HACs would be incorporated bodies from that date.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the Board functions and responsibilities.

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

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

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between BHFLHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and BHFLHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2020-21 BHFLHN service agreement was executed in October 2020.

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

Rural Support Services (RSS)

The RSS was established on 1 July 2019, when the regional LHNs and their governing boards became operational. The RSS is hosted within the BHFLHN and sits within its governance, however it is accountable to all six regional LHNs through administrative governance arrangements. The RSS provides a range of specialist clinical and corporate functions for the six regional LHNs including business services, governance and risk assurance, workforce development and clinical services development and support.

Scope of the audit

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

Financial services for BHFLHN are provided through a mix of:

- finance services located within BHFLHN, including through its RSS
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

BHFLHN continued to operate some legacy systems. Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, BHFLHN, RSS and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A chartered accounting firm assisted the Auditor-General with the audit of BHFLHN.

Specific areas of audit attention in 2020-21 included:

- payroll
- accounts payable
- procurement and contract management
- patient revenue, including accounts receivable
- fee for service
- property, plant and equipment
- cash
- general ledger.

We considered internal audit activities in designing and performing our audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of BHFLHN.

The main findings and BHFLHN's responses are discussed below.

Audit findings

Accounts payable

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is listed in the approved purchase order exemption list or the purchase is below $2200. We found payments without purchase orders for which the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

BHFLHN advised us that it would introduce an ongoing review of invoices without purchase orders and would provide targeted training and advice to its managers.

Financial authorities in the payment system not in line with approved delegations

Our review compared the authority limits assigned to individuals in the Basware payment processing system to approved financial delegations and found a variance between them. Where this occurs, there is an increased risk of a breach of Treasurer's Instruction 8 *Financial Authorisations*.

BHFLHN advised us that it had corrected the variance we identified and would complete a quarterly review of users to ensure inaccurate delegations are actioned immediately.

Procurement and contract management

Contracts not established for some regular services

We analysed expenditure and identified suppliers where regular and significant expenditure was incurred but no contract was in place.

Written contractual arrangements with suppliers typically provide better clarity over terms and pricing and can help the LHN manage these arrangements. We recommended that BHFLHN regularly review its expenditure to identify opportunities to implement formal procurement processes and contractual arrangements.

BHFLHN advised us that it would perform quarterly reviews of significant suppliers to ensure formal procurement processes are followed and to identify opportunities to develop contractual arrangements.

Revenue

Ineffective follow-up of longstanding patient debtors

We reviewed the effectiveness of debtor follow-up activities performed by revenue officers located at various hospitals throughout BHFLHN. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed. We reported similar concerns last year.

In 2020-21 BHFLHN increased its review of debtors over 120 days, but we found that this had little impact on amounts outstanding and we continued to note instances of non-compliance with the patient and debt management procedure. For example, we noted delays recovering long stay resident debts from a health insurance company. Effective debt recovery through prompt follow-up of amounts owed increases the likelihood of collection and reduces the level of billing queries.

BHFLHN responded with its intended actions, including a review of outstanding debtors and providing training to ensure debts are followed up monthly, with particular attention to debtors over 120 days and long stay resident debts. It also indicted it would introduce quarterly reporting to its audit and risk committee.

Patient billing system access restrictions insufficient

Our review of fee-for-service and patient billing in the Chiron patient billing system found opportunities to improve the segregation of duties through independent review processes or restricting user access. These matters were also raised with BHFLHN last year and prior to that with the Country Health SA Local Health Network Incorporated.

BHFLHN advised us that it would review current user access and access requirements and develop relevant checks and reviews where Chiron system controls were not possible.

Revenue officers had access to change admission and charge type data

We found that admission and discharge dates and charge types could be modified by revenue officers, increasing the risk of inappropriate adjustments to invoiced fees.

BHFLHN advised us that it would, where possible, introduce a system access control to restrict staff responsible for invoicing patients from changing admission and discharge dates and charge types. Where this is not possible, it will investigate the potential for introducing additional processes, such as reviewing audit trail reports.

Rural Support Service

The RSS is operated by BHFLHN and provides some administrative and accounting support to all regional LHNs. The observations below relate to controls or activities performed by staff who report to the RSS.

Unsupported patient administration system – Chiron

Chiron is used widely across the six regional LHNs as their main patient administration system. It also has financial modules, for example to invoice private patients and to manage fee for service for rural medical officers. Sunrise has replaced Chiron in two hospital sites.

In August 2016, SA Health entered into a settlement with Working Systems Software Pty Ltd for a licence to continue to use Chiron. This licence has been extended several times and does not include vendor support.

We noted that in 2020-21 all six regional LHNs had identified that their dependency on the unsupported Chiron patient administration system was an extreme risk that they had escalated to DHW.

Using software products past their end of life and unsupported can increase the risk of security vulnerabilities, software incompatibilities and reliability issues. We recommended that BHFLHN work with DHW to address the identified extreme risk of continuing use to the unsupported Chiron system identified in BHFLHN's strategic risk register.

BHFLHN advised us that DHW had drafted a regional electronic medical record and patient administration system business case with a view to seeking funding approval.

Contract not established with a large medical imaging supplier

Regional LHNs had medical imaging, reporting and consultation services arrangements with two suppliers. We found that a contract was not signed for one of the providers, despite the arrangements having commenced in July 2019 for a value up to $30.4 million over five years. Any period without a formal instrument of agreement potentially impacts the regional LHNs' ability to manage contractual obligations and conditions, including price. This was particularly concerning given the clinical nature of the services provided under the arrangements.

BHFLHN advised us that it was working with individual LHNs to establish agreements with suppliers.

Concerns with the procurement and contracting of acute pharmacy services

Our audit included a review of the arrangements for contracted acute pharmacy services throughout the regional LHNs. The arrangements at 37 sites for a value of $7.8 million resulted from a procurement to place all uncontracted pharmaceutical supply under contract.

Our review of the acute pharmacy services procurement and resulting arrangements found:

- contracts were awarded before the procurement process finished
- the Chief Executive of DHW had not provided financial authorisation prior to the awarding of contracts
- the largest supplier of these services operated without a contract.

BHFLHN responded with its reasons for the procurement approach and intended actions.

Payments to medical practitioners – fee for service

BHFLHN pays medical practitioners in line with the terms of the South Australian Rural Fee Agreement. Our review identified a number of opportunities to improve control processes relating to fee-for-service payments.

Contracts with general practitioners needed updating to reflect overarching agreements

Agreements with the Australian Medical Association (AMA) and the Rural Doctors Association of South Australia (RDA) require general practitioners (GPs) and GP registrars who provide public inpatient medical services to enter into a fee-for-service agreement.

Since 2018 we have reported that many GPs and clinics were operating without updated agreements. Our follow-up in 2020-21 found that, while the RSS had worked to update contracts with those who provide medical services to the six regional LHNs, a number of GPs and clinics were still operating without signed agreements or had an agreement that expired in November 2020 with no extension signed.

BHFLHN advised us that a GP fee-for-service agreement was being negotiated and that contracts would be issued for all GPs.

Specialists working in regional hospitals without contractual agreements

Specialist doctors (specialists) provide public medical services at regional hospitals and charge local health networks on a fee-for-service basis.

Consistent with concerns we have raised since 2018, we found that some specialists were operating in regional LHNs without contractual agreements. We also noted that the six regional LHNs:

- did not have overarching agreements with the AMA and RDA defining terms and conditions for contracts with specialists. We have also reported these concerns since 2018
- did not have policies and procedures in place to provide guidance on entering into contracts with specialists.

BHFLHN advised us that it will develop a framework agreement for specialists and, once established, the agreement template will be available for use by LHNs to engage individual specialists.

Delays in updates to the Credentialing and Scope of Clinical Practice System (CSCPS)

The CSCPS records evidence of credentials and scope of clinical practice to verify practitioners' qualifications, skills and competencies. The scope of clinical practice includes the extent of an individual practitioner's clinical practice within a particular hospital (location).

Our sample testing of fee-for-service payments included a comparison of the services claimed to the practitioner's scope of clinical practice. We found instances where the location was not included in the CSCPS. For these instances, the fee-for-service officers could not rely on the CSCPS and needed to request information from the BHFLHN's credentialing team, causing delays in processing fee-for-service payments.

BHFLHN advised us that its credentialing team relies on receiving scope of clinical practice information from each of the six regional LHNs to keep the CSCPS up to date. It indicated that it did not have, but was working towards, a formal process to capture, update and maintain scope of clinical practice information.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021		2020	
	Consolidated $million	Parent $million	Consolidated $million	Parent $million
Income				
Revenues from SA Government	236	236	193	193
Revenue from fees and charges	18	18	19	19
Grants and contributions	33	33	29	29
Other income	32	32	34	34
Total income	319	319	275	275
Expenses				
Staff benefit expenses	177	177	168	168
Supplies and services	110	110	103	103
Depreciation and amortisation	9	4	9	5
Other expenses	1	3	2	2
Total expenses	297	294	282	278
Net result	22	25	(7)	(3)
Assets				
Current assets	47	39	35	27
Non-current assets	159	79	149	66
Total assets	206	118	184	93
Liabilities				
Current liabilities	58	58	57	57
Non-current liabilities	37	37	38	38
Total liabilities	95	95	95	95
Net assets	111	23	89	(2)

Statement of Comprehensive Income – Consolidated

Revenues

Revenues from SA Government

BHFLHN is principally funded by DHW. In 2020-21 funding of $236 million or 74% of total income comprised operational funding of $219 million ($189 million) and capital funding of $17 million ($4 million). The increase in operating funding reflects payments for increased operating expenses and the timing of payments. The capital funding increase related mainly to the Mount Barker emergency department redevelopment, the Strathalbyn residential aged care redevelopment and fire services upgrades.

Fees and charges

Fees and charges decreased by $1 million (4%) to $18 million and include the following significant components:

- fees for health services of $4 million
- residential and aged care charges of $5 million that relate primarily to long stay nursing home fees, including daily care fees and daily accommodation fees
- patient and client fees of $4 million.

Grants and contributions

Grants and contributions increased by $4 million to $33 million and include the following significant components:

- Commonwealth aged care subsidies of $11 million
- other Commonwealth grants of $19 million, up $3 million
- other SA Government grants and contributions of $2 million.

Other revenues

Other revenues and income decreased by $3 million to $28 million and mainly comprise health recoveries of $28 million ($31 million), which includes recovery of RSS costs from other regional LHNs.

Expenses

Staff benefit expenses

Staff benefit expenses represent 59% of BHFLHN's total expenses and increased by $8 million (5%) in 2020-21 to $177 million. Full-time equivalent staff increased by 64 (4%) to 1667 as at 30 June 2021.

The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 60 (53), comprising 40 (38) medical (excluding nursing), 13 (nine) nursing, three (two) executive and four (four) non-medical employees. Total remuneration for these employees was $18 million ($16 million).

Supplies and services expenses

Supplies and services expenses increased by $7 million to $110 million and included the following significant components:

- fee-for-service payments to medical practitioners – $23 million ($22 million)
- medical, surgical and laboratory supplies – $14 million ($12 million)
- patient transport – $13 million ($14 million)
- contract of services – $9 million ($8 million)
- contractors – agency staff – $11 million ($7 million)
- repairs and maintenance – $5 million ($6 million).

Statement of Financial Position – Consolidated

Assets

Current assets increased by $12 million to $47 million as at 30 June 2021 and essentially comprise cash and cash equivalents of $18 million ($8 million), receivables of $5 million ($5 million) and other financial assets of $23 million ($21 million), which primarily relate to aged care refundable deposits.

Property, plant and equipment

As at 30 June 2021, property, plant and equipment represented $158 million (77%) of BHFLHN's total assets and includes the following significant components:

- buildings – $120 million ($124 million)
- land – $14 million ($13 million)
- right-of-use lease assets – $3 million ($3 million)
- capital works in progress – $17 million ($5 million)
- medical, surgical, dental and biomedical equipment – $2 million ($2 million).

Liabilities

Current liabilities of $57 million exceeded current assets of $47 million at balance date.

Cash and cash equivalents of $18 million were sufficient to meet current payables of $9 million. BHFLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses continuity of operations.

Staff related liabilities

Staff related liabilities make up $64 million (68%) of BHFLHN's total liabilities at 30 June 2021, comprising:

- staff benefits liabilities and related on-costs – $60 million ($61 million)
- provisions for workers compensation – $4 million ($3 million).

Note 22 of BHFLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

Further commentary on operations

Response to the COVID-19 pandemic

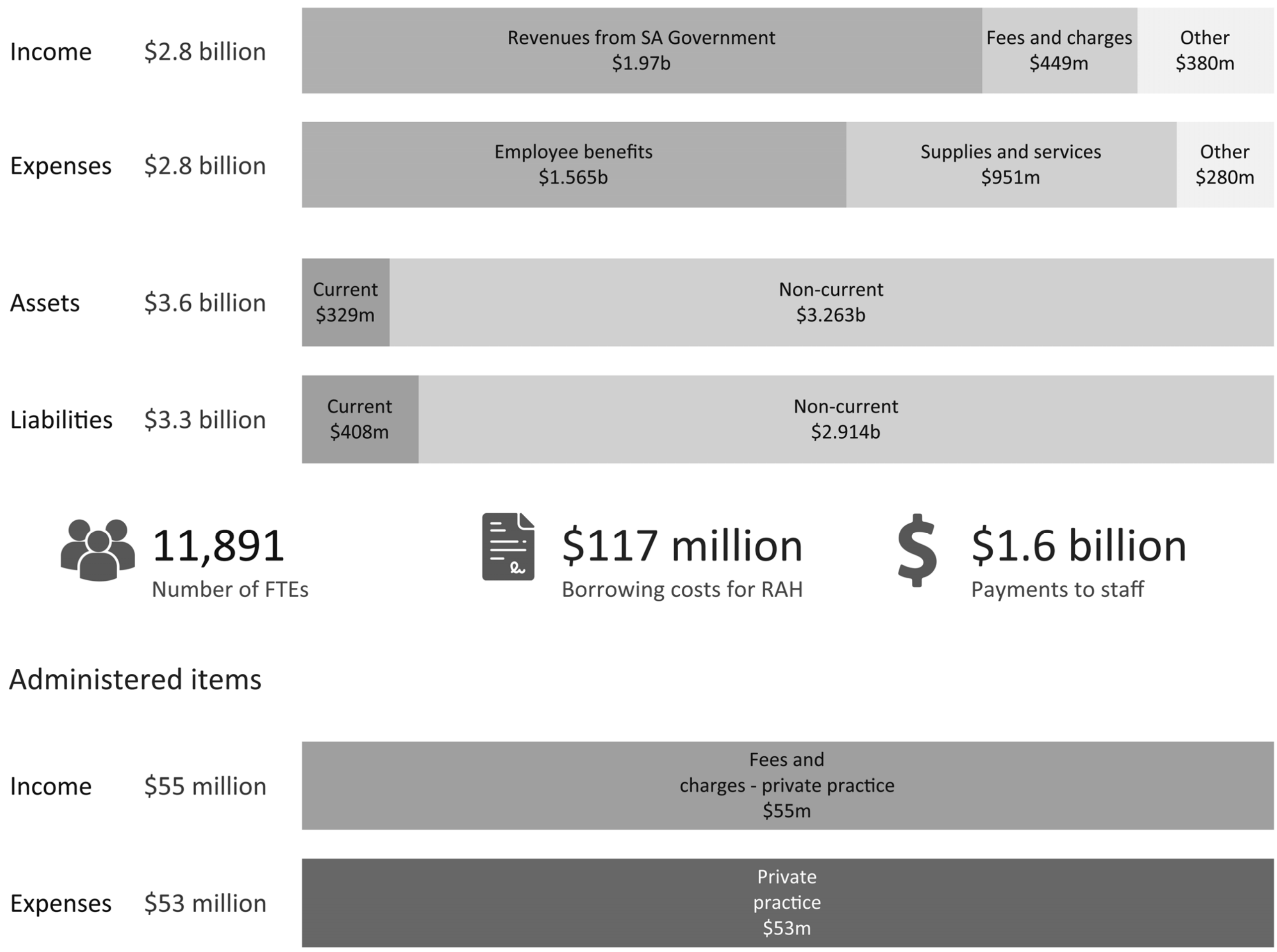
Responding to COVID-19 continued to have a significant impact across SA Health in 2020-21, including at BHFLHN.

Note 1.7 of BHFLHN's financial report outlines material costs associated with COVID-19 for additional public health activities at a cost of $7 million, including for:

- COVID-19 capacity and preparation
- testing clinics
- vaccine clinics
- increased demand for personal protective equipment
- increased staff costs to ensure necessary compliance measures are followed.

Central Adelaide Local Health Network Incorporated (CALHN)

Financial statistics



Significant events and transactions	— Quarterly service payments of $253 million for the Royal Adelaide Hospital (RAH) were paid in line with the project agreement. — The RAH continued as the lead hospital in South Australia's response to the COVID-19 pandemic. — The KordaMentha financial recovery program was finalised.
Financial report opinion	**Unmodified**

Controls opinion findings	— Payroll planning, monitoring and approval processes could be improved. — Asset management processes under the across government facilities management arrangements (AGFMA) could be improved.
Other audit findings	— Prosthesis billing processes could be improved. — SA Pathology debt management has improved, with further improvement still in progress.

Functional responsibility

CALHN is established under the *Health Care Act 2008* (HC Act) on 1 July 2019.

CALHN's powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for the local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the Board functions and responsibilities.

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

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

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between CALHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and CALHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2020-21 CALHN service agreement was executed in February 2021 by CALHN and July 2021 by DHW.

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

Impact of COVID-19 on CALHN

The COVID-19 pandemic continues to have an impact on CALHN's operations. This includes the increased costs associated with:

- COVID-19 capacity and preparation
- the readiness of COVID-19 testing clinics
- establishing vaccine clinics
- increased demand for personal protective equipment
- increased staff costs (including agency) to ensure necessary compliance measures are followed.

Financial recovery program – KordaMentha

Finalisation of the KordaMentha financial recovery program

In 2018-19, KordaMentha was engaged to help CALHN implement a financial recovery program, which was to run over three years. Due to the impacts of COVID-19, the contract with KordaMentha was suspended in April 2020. It was subsequently varied in October 2020. The cost of the varied contract was $4.4 million. With the contract variation, the KordaMentha team focused on initiatives to assist CALHN's operational services, workforce capability and flexibility. This arrangement concluded in April 2021.

The Royal Adelaide Hospital

Legal action in progress

On 1 August 2017, the builder of the RAH (Hansen Yuncken Pty Ltd and CPB Contractors Pty Ltd (formerly Leighton Contractors Pty Ltd)) filed legal proceedings against Celsus, independent certifier Donald Cant Watts Corke Pty Ltd and the State of South Australia for alleged breaches of contract and other matters in relation to the construction of the new RAH. At the time of this Report the proceedings were stayed.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for CALHN are provided through a combination of:

- central services provided by Shared Services SA through an integrated finance service model
- finance services located within CALHN
- central services provided by DHW.

We completed audit work at Shared Services SA's central services, CALHN and DHW.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- DHW matters.

Specific areas of audit attention in 2020-21 included:

- property, plant and equipment
- payroll and workforce management
- cash and online banking
- general ledger and financial accounting
- patient billing and debtor management
- goods and services expenditure and accounts payable
- borrowings
- SA Pharmacy
- SA Pathology
- governance
- accounts receivable and other revenue.

We considered the work of CALHN's internal auditors in planning and conducting the audit.

Controls opinion

We reviewed controls over bank accounts, employee expenses, goods and services expenditure, borrowings, buildings and improvements and the AGFMA as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Payroll planning, monitoring and approval processes could be improved

CALHN employs more than 11 800 FTEs and its payroll related costs are significant, with $1.6 billion in staff benefits expenses paid and $563 million in staff benefits liabilities and associated on-costs as at 30 June 2021. Given the significance of these costs, we review key payroll controls each year.

CALHN's records indicate that it is below the KPI set for current staff performance reviews

In 2020-21, we continued to review how current the employee performance reviews were at a number of agencies, including CALHN.

While noting an improvement from our findings in 2019-20, our review of CALHN's records in 2021 indicated that less than 60% of performance reviews for its staff were current. DHW has established a key performance indicator in CALHN's service agreement that 80% of performance reviews should be current.

CALHN responded that significant progress had been made over the last 12 months and that it will continue targeted communication to leaders. Monthly reports are distributed to leaders that include information on performance reviews and CALHN will continue to support managers and employees to ensure current information is captured in the Chris21 payroll system.

Weaknesses in the approach to monitoring employment screening requirements

As part of our review of controls associated with managing staff, we again chose to look at CALHN's management of employment clearances.

Different positions within an LHN can require different types of employment clearances. Working with vulnerable people, children and the aged require specific clearances for some staff, while others may require more general clearances. SA Health policy requires employees to have appropriate criminal and relevant history screening before employment and to maintain them. These requirements apply to employees who are in prescribed positions under the *Child Safety (Prohibited Persons) Act 2016,* as well as those in an 'approved provider position' under the *Aged Care Act 1997.*

While DHW provides policy guidance, LHNs need to determine what employment clearances are required for specific positions. The policy directive was updated in October 2020 in response to legislative changes.

At CALHN, professional judgement is used to determine what screening is needed for employees. We recommended CALHN provide further clarity about the application of business rules that require criminal and relevant history screening, so that there is consistency between different CALHN programs.

CALHN advised us that a newly published SA Health screening policy was communicated to all managers in August 2021.

CALHN will develop guidance through a fact sheet and list of current prescribed positions that require working with children checks, criminal history and other relevant history screening in line with current legislative requirements.

Key payroll information was not always reviewed for CALHN staff

Key payroll reports for CALHN's staff differ depending on the type of staff member. The effective review of these reports helps to ensure payments to staff are accurate and valid.

For staff who are automatically paid each fortnight, key payroll information is captured on bona fide and leave return reports.

For nursing staff, key payroll information is contained in the ProAct rostering system, as this interfaces with the payroll system.

There are also other CALHN staff who are paid based on manually submitted timesheets and medical staff who are paid significant allowances based on timesheets in addition to their base pay, which is paid automatically.

Consistent with prior years, in 2020-21 we found:

- gaps or inconsistencies in the review of payroll information or leave information across all employee types
- ineffective monitoring of leave certificates
- system reporting issues that create false records, which makes monitoring the level of outstanding reports challenging
- there was still no effective process to ensure medical officer timesheets were submitted promptly.

Where employee payroll information is not always reviewed, there is an increased risk of inaccurate payments to staff, potentially resulting in financial loss for CALHN.

CALHN responded that it has established a procedure clearly detailing the roles and responsibilities of managers to review reports and it will continue work to fix system reporting issues.

Asset management processes could be improved

CALHN has property, plant and equipment worth $3.2 billion. Its main asset, apart from the RAH, is The Queen Elizabeth Hospital (TQEH). As part of our controls opinion work in 2020-21, we followed up CALHN's control processes for managing the maintenance of these assets, including considering the AGFMA. This did not include detailed work over maintenance at the RAH, as this is covered by the separate public private partnership (PPP) arrangements.

Consistent with prior years, we found that CALHN:

- had not yet developed a strategic asset management plan

- had not developed comprehensive asset management plans or local procedures to support them for assets other than the RAH.

We noted that CALHN has taken significant steps to develop a draft strategic asset management plan (SAMP). However, at the time of our review, CALHN was yet to implement a completed SAMP. We also noted that substantial work had been done on asset management plans, but these were not yet complete.

CALHN responded that, with assistance from DHW, it will finalise its SAMP and asset management plans, with a target date of 31 December 2021.

Other audit findings

Patient billing

CALHN's revenue from patient and client fees was over $382 million in 2020-21, with a further $34 million recorded in private practice fees controlled by CALHN. In addition, $55 million was collected on behalf of medical officers and DHW in administered revenue from private practice arrangements.

Prosthesis billing processes can be improved

Currently Prosthesis billing processes are largely manual and can be prone to error. Due to a lack of integration with corporate systems, the current process involves duplicated data entry, delays and potential inaccuracy.

We found that there has historically been an average two-month processing delay between procedures and patient billing. We were advised by CALHN that the amount of outstanding work in progress can at times be significant – including at times approaching $1 million worth of work yet to be billed.

CALHN advised us that it was seeking approval from Digital Health SA to procure an integrated prostheses implant data management system to replace the outdated manual system that is resulting in inefficiencies and inaccuracies in data.

SA Pathology

SA Pathology patient fees for public and private patients totalled more than $172 million in 2020-21.

Debtor management

We found that SA Pathology had continued to make significant progress to address debtor management issues in 2020-21. We have, for a number of years, raised issues about its debtor management and noted that a system issue was preventing final and demand notices from being issued for outstanding amounts.

SA Pathology has worked with the software vendor and implemented new processes that have significantly reduced the amount of debt outstanding throughout 2020-21 to around $600 000 as at 30 June. Further work to allow final and demand notices to be issued was being finalised at the time of our 2020-21 audit.

SA Pathology advised us that it will continue to work with SA Health and the vendor and expects that a solution will be available by the end of September 2021.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021		2020	
	Consolidated $million	Parent $million	Consolidated $million	Parent $million
Income				
Revenues from SA Government	1 970	1 970	1 981	1 981
Fees and charges	449	438	423	411
Grants and contribution	253	253	232	232
Resources received free of charge	15	15	11	11
Other revenue/income	85	85	105	104
Total income	2 772	2 761	2 752	2 739
Expenses				
Staff benefits expenses	1 566	1 557	1 546	1 537
Supplies and services	951	950	909	906
Borrowing costs	118	118	149	149
Depreciation and amortisation	137	137	140	139
Grants and subsidies	1	1	4	4
Impairment loss on receivables	0	0	(2)	(2)
Other expenses	11	11	12	12
Total expenses	2 784	2 774	2 758	2 745
Net result and total comprehensive result	(12)	(13)	(6)	(6)
Assets				
Current assets	329	316	307	296
Non-current assets	3 263	3 258	3 358	3 352
Total assets	3 592	3 574	3 665	3 648
Liabilities				
Current liabilities	408	405	415	414
Non-current	2 913	2 914	2 967	2 966
Total liabilities	3 321	3 319	3 382	3 380
Net assets	271	255	283	268

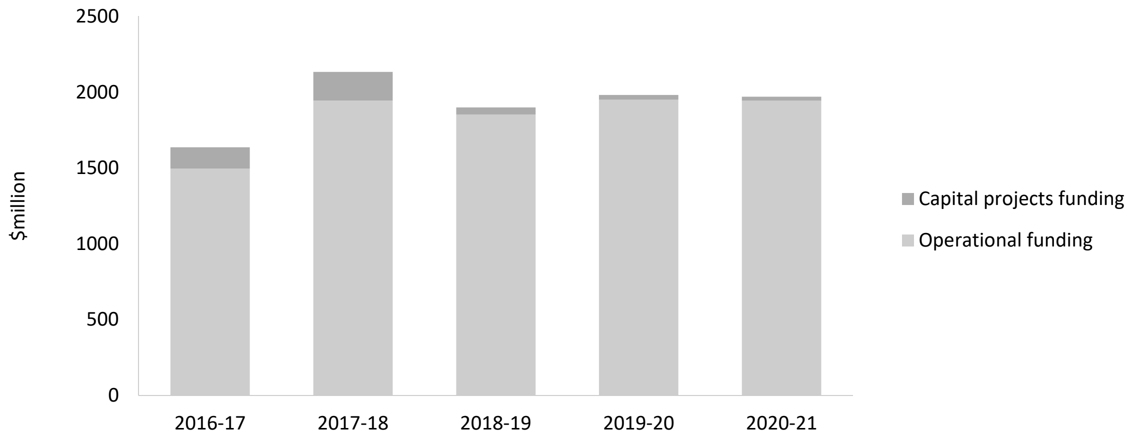
Statement of Comprehensive Income

Income

CALHN is mainly funded through recurrent and capital funding from DHW. In 2020-21, CALHN received recurrent funding of $1.943 billion and capital funding of $27 million, mainly for works at TQEH.

The reduction in recurrent funding in 2020-21 is the result of DHW changing elements of its funding model to reflect that LHNs would pay the full cost of statewide services, such as pathology and imaging. These costs are paid by other LHNs to CALHN, as the provider of statewide services, with a reduced amount of recurrent funding to CALHN reflecting the recovery of these amounts through increased fees and charges.

The chart below shows revenues from SA Government over the last five years.



The chart shows that the overall level of funding to CALHN increased between 2016-17 and 2020-21. The higher value in 2017-18 reflects the timing of the transition to the new Royal Adelaide Hospital.

2020-21 reflects a slight drop in recurrent funding as a result of the changed funding arrangements for statewide services described above.

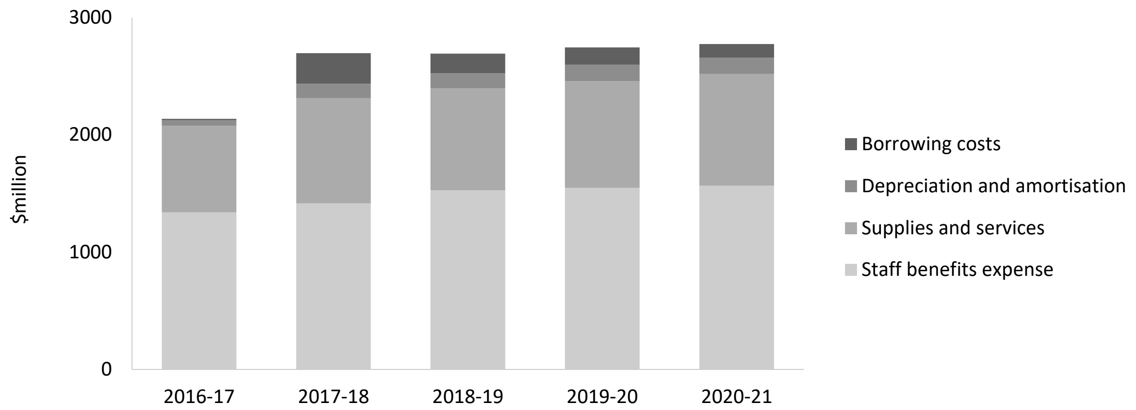
Grants and contributions income increased by $21 million to $253 million, due to an increase of $21 million in Pharmaceutical Benefits Scheme subsidies to $227 million.

Fees and charges increased by $27 million to $438 million, due to increases in patient and client fees of $43 million, reflecting increased recharging of central services such as imaging and pathology under the revised arrangements described above. These increases were offset by a reduction in private practice fees of $10 million and a $3 million reduction in car parking revenue because of changes in SA Health policy for staff car parking due to COVID-19.

Expenses

In 2020-21 the consolidated entity’s total expenses increased by $26 million to $2.784 billion.

The chart below shows the composition of expenses for the last five years.



The chart shows an overall increase in expenditure between 2016-17 and 2020-21. Borrowing costs increased in 2017-18 with the opening of the new Royal Adelaide Hospital and have since declined as interest rates associated with these arrangements have reduced.

Staff benefit expenses

Staff benefit expenses, $1.6 billion, represent more than 56% of CALHN's total expenses and increased by $20 million in 2020-21.

The increase in staff benefit expenses is due to:

- a $49 million increase in salaries and wages, reflecting an increase in FTEs including additional temporary staff to assist with COVID-19, and wage rises associated with enterprise agreements, including those for nursing staff and visiting medical officers
- a $14 million increase in workers compensation expenses, reflecting the outcomes of the annual actuarial reassessment of this liability
- offset by a $21 million decrease in long service leave expenses, mainly due to the impact of changed actuarial assumptions used to estimate the associated liability. The discount rate used to calculate the liability increased, resulting in a decrease in the liability
- further offset by a $22 million reduction in targeted voluntary separation package (TVSP) expenses as a result of a significant reduction in the number of staff taking a TVSP, down from 293 in 2019-20 to 24 in 2020-21.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical staff, based on FTEs, since 2016-17. The table shows an overall growth in FTE numbers over the five years, including in 2020-21.

	2016-17 FTEs	2017-18 FTEs	2018-19 FTEs	2019-20 FTEs	2020-21 FTEs
Medical officers	1 269	1 364	1 418	1 473	1 480
Nurses	4 129	4 347	4 672	4 544	4 582
Non-medical	4 867	5 388	5 507	5 560	5 829
Total FTEs	10 265	11 099	11 597	11 577	11 891

The number of employees whose remuneration received/receivable exceeded the base executive level ($155 000) totalled 1332 (1221), comprising 1138 (1071) medical, 59 (61) non-medical, 102 (64) nursing and 33 (25) executive employees. Total remuneration for these employees was $393 million ($368 million).

Supplies and services expenses

Supplies and services expenses increased by $42 million (5%) to $951 million, with the significant components being:

- drug supplies, which increased by $18 million (7%) to $278 million
- PPP operating expenses, which increased by $3 million to $98 million and relate to the operations of the RAH (security, cleaning, maintenance and food supplies) as a result of increased charges from the provider, Spotless
- medical, surgical and laboratory supplies, which increased by $29 million.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 90% of CALHN's total assets, with a carrying value that remained steady at $3.2 billion.

Significant movements in property, plant and equipment in 2020-21 were:

- depreciation and amortisation expenses, which decreased by $2 million to $127 million
- asset additions of $40 million, including $21.2 million of works associated mainly with the TQEH redevelopment.

Liabilities

Current liabilities decreased by $7 million to $408 million during the year and exceeded current assets of $329 million at 30 June 2021. CALHN works with DHW to ensure sufficient funding is provided to CALHN to meet expected cash flows for its administration and program delivery. Cash and cash equivalents of $197 million are sufficient to meet current payables of $93 million.

Staff benefits are the largest element of current liabilities, totalling $234 million at 30 June 2021, and include leave entitlements expected to be taken within 12 months.

Total liabilities reduced by $60 million to $3.3 billion, mainly as a result of payments associated with the RAH lease reducing the outstanding liability.

Staff liabilities and associated on-costs make up $598 million of CALHN's total liabilities at 30 June 2021, comprising:

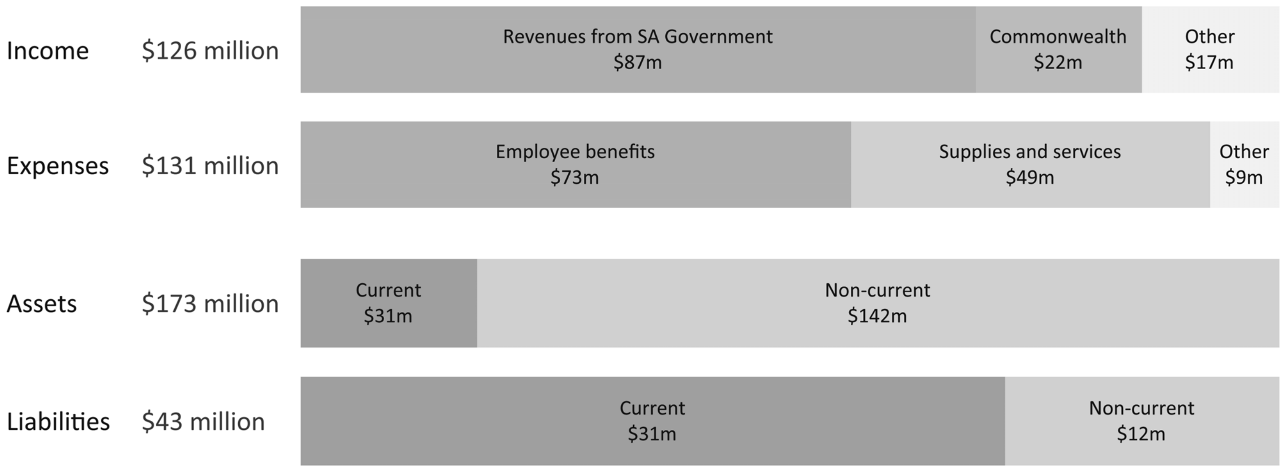
- staff benefits liabilities and related on-costs – $563 million ($572 million)
- provision for workers compensation – $35 million ($21 million).

The decrease in staff liabilities is the result of changes in the actuarial assumptions relating to the long service leave liability valuation. An increase in the yield on government bonds, which is the rate used to discount future long service leave cash flows, results in a decrease in the reported long service leave liability.

The $14 million increase in the provision for workers compensation reflects the additional compensation provision based on an actuarial assessment of the outstanding liability as at 30 June 2021. The liability comprises an estimate for known claims and an estimate for future claims.

Eyre and Far North Local Health Network Incorporated (EFNLHN)

Financial statistics



762
Number of FTEs

14
Hospitals and health services

Significant events and transactions

- 2020-21 was the second year of the EFNLHN Governing Board.
- EFNLHN continued to prepare and respond to the COVID-19 pandemic including providing testing clinics, establishing vaccine clinics and other additional health activities.
- EFNLHN's financial report outlines material costs associated with COVID-19 of $3 million.

Financial report opinion

Unmodified

Audit findings

- Invoices were paid without purchase orders.
- Contracts were not established for some regular services.
- Bank account signatories include former employees.
- Ineffective follow-up of longstanding patient debtors.
- Revenue system access restrictions were insufficient.

Functional responsibility

EFNLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019.

EFNLHN's powers and functions are to provide health services in the Eyre and Far North region of South Australia.

The consolidated accounts of EFNLHN include the assets, liabilities, revenues and expenses of incorporated Health Advisory Councils (HACs) within the region. These HACs were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about the provision of health services, health issues, goals, priorities, plans and other strategic initiatives, and to perform other functions as determined under the HC Act.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the Board functions and responsibilities.

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

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

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between EFNLHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and the EFNLHN and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2020-21 EFNLHN service agreement was executed in September 2020.

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

Scope of the audit

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

Financial services for EFNLHN are provided through a mix of:

- finance services located within EFNLHN
- administrative and financial services from Rural Support Services (RSS) within the Barossa Hills Fleurieu Local Health Network Incorporated
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

EFNLHN continued to operate some legacy systems. Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, EFNLHN, RSS and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A chartered accounting firm assisted the Auditor-General with the audit of EFNLHN.

Specific areas of audit attention in 2020-21 included:

- payroll
- accounts payable
- procurement and contract management
- patient revenue, including accounts receivable
- fee for service
- property, plant and equipment
- cash
- general ledger.

We considered internal audit activities in designing and performing our audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the CEO of EFNLHN.

The main findings and EFNLHN's responses are discussed below.

Audit findings

Accounts payable

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is listed in the approved purchase order exemption list or the purchase is below $2200. We found payments without purchase orders for which the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

EFNLHN advised us of its planned actions to address this issue, including creating standing purchase orders with the suppliers identified by our audit.

Procurement and contract management

Contracts not established for some regular services

We analysed expenditure and identified suppliers where regular and significant expenditure was incurred but no contract was in place.

Written contractual arrangements with suppliers typically provide better clarity over terms and pricing and can help the LHN to manage these arrangements. We recommended EFNLHN regularly review its expenditure to identify opportunities to implement formal procurement processes and contractual arrangements.

EFNLHN responded that it would undertake a procurement process to establish contractual agreements with the suppliers identified by our audit.

Revenue

Ineffective follow-up of longstanding patient debtors

We reviewed the effectiveness of debtor follow-up activities performed by revenue officers located at various hospitals throughout EFNLHN. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed. For example, we noted delays in recovering long-stay resident debts from a health insurance company. Effective debt recovery through prompt follow-up of amounts owed increases the likelihood of collection and reduces the level of billing queries.

In 2020-21 EFNLHN increased its review of debtors over 120 days, but we found that this had little impact on amounts outstanding and that actions to follow up debts were not documented.

EFNLHN responded that it would add more revenue officer resources to the finance team to address longstanding issues, including the processing of write-offs.

Patient billing system access restrictions insufficient

Our review of fee-for-service and patient billing in the Chiron patient billing system found opportunities to improve segregation of duties through independent review processes or restricting user access. These matters were also raised with EFNLHN last year and prior to that with the Country Health SA Local Health Network Incorporated.

EFNLHN responded it had addressed some of these user access concerns in 2020-21 and would address the rest in 2021-22.

Revenue officers had access to change admission and charge type data

We found that admission and discharge dates and charge types could be modified by revenue officers in Chiron, increasing the risk of inappropriate adjustments to invoiced fees.

EFNLHN advised us that it intended to resolve these concerns in 2021-22.

Cash

Bank account signatories include former employees

We identified signatories for EFNLHN bank accounts who were no longer employees of SA Health and recommended a regular review to ensure bank account signatories remain valid. This matter was also raised with EFNLHN last year and prior to that with the Country Health SA Local Health Network Incorporated.

EFNLHN advised us that it would update its signatories in 2021-22.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021		2020	
	Consolidated $million	Parent $million	Consolidated $million	Parent $million
Income				
Revenues from SA Government	87	87	83	83
Revenue from fees and charges	10	10	10	10
Grants and contributions	27	27	26	26
Other income	2	2	3	2
Total income	126	126	122	121
Expenses				
Staff benefit expenses	73	73	68	68
Supplies and services	49	49	46	46
Depreciation and amortisation	7	4	7	4
Other expenses	2	2	3	3
Total expenses	131	128	124	121
Net result	(5)	(2)	(2)	-

	2021		2020	
	Consolidated $million	Parent $million	Consolidated $million	Parent $million
Assets				
Current assets	31	31	31	30
Non-current assets	142	80	146	82
Total assets	173	111	177	112
Liabilities				
Current liabilities	31	31	30	30
Non-current liabilities	12	12	12	13
Total liabilities	43	43	42	43
Net assets	130	68	135	69

Statement of Comprehensive Income – Consolidated

Revenues

Revenues from SA Government

EFNLHN is principally funded by DHW. In 2020-21, funding of $87 million or 69% of total income comprised operational funding of $84 million ($81 million) and capital funding of $3 million ($2 million).

Fees and charges

Fees and charges totalled $10 million and included the following significant components:

- residential and aged care charges of $4 million ($4 million) that relate primarily to long stay nursing home fees, including daily care fees and daily accommodation fees
- patient and client fees of $3 million ($3 million)
- other fees and charges of $3 million ($3 million).

Grants and contributions

Grants and contributions increased by $1 million to $27 million and included the following significant components:

- other Commonwealth grants of $22 million
- private sector grants and contributions of $4 million.

Expenses

Staff benefit expenses

Staff benefit expenses represent 55% of EFNLHN’s total expenses and increased by $5 million (7%) in 2020-21 to $73 million. Full-time equivalent staff increased by 36 (5%) to 762 as at 30 June 2021.

The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 13 (nine), comprising one (one) medical (excluding nursing), 11 (seven) nursing and one (one) executive. Total remuneration for these employees was $3 million ($2 million).

Supplies and services expenses

Supplies and services increased by $3 million to $49 million and included the following significant components:

- fee-for-service payments to medical practitioners – $13 million ($11 million)
- contract of services – $5 million ($6 million)
- internal SA Health service level agreement payments – $4 million ($4 million)
- medical, surgical and laboratory supplies – $5 million ($4 million)
- repairs and maintenance – $4 million ($5 million).

Statement of Financial Position – Consolidated

Assets

Current assets were $31 million as at 30 June 2021. They essentially comprise cash and cash equivalents of $10 million ($6 million), receivables of $3 million ($6 million) and other financial assets of $17 million ($18 million), which primarily relate to aged care refundable deposits.

Property, plant and equipment

As at 30 June 2021, property, plant and equipment of $141 million represents 82% of EFNLHN's total assets and includes the following significant components:

- buildings – $128 million ($134 million)
- land – $7 million ($7 million)
- capital works in progress – $4 million ($2 million).

Liabilities

Staff related liabilities

Staff related liabilities of $23 million make up 52% of EFNLHN's total liabilities at 30 June 2021 and comprise:

- staff benefits liabilities and related on-costs – $22 million ($21 million)
- provisions for workers compensation – $1 million ($1 million).

Note 22 of EFNLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

Further commentary on operations

Response to the COVID-19 pandemic

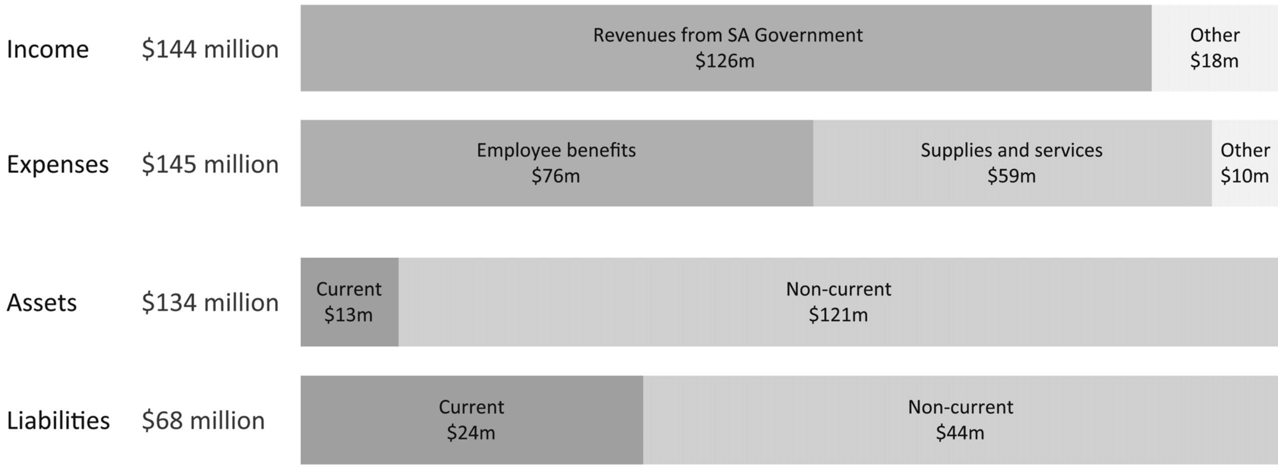
Responding to COVID-19 has had a significant impact across SA Health in 2020-21, including at EFNLHN.

Note 1.7 of EFNLHN's financial report outlines material costs associated with COVID-19 for additional public health activities at a cost of $3 million, including for:

- COVID-19 capacity and preparation
- testing clinics
- vaccine clinics
- increased demand for personal protective equipment
- increased staff costs to ensure necessary compliance measures are followed.

Flinders and Upper North Local Health Network Incorporated (FUNLHN)

Financial statistics



755
Number of FTEs

7
Hospitals and health services

Significant events and transactions	— 2020-21 was the second year of the FUNLHN Governing Board. — FUNLHN continued to prepare and respond to the COVID-19 pandemic including providing testing clinics, establishing vaccine clinics and other additional health activities. — FUNLHN's financial report outlines material costs associated with COVID-19 of $1 million.
Financial report opinion	**Unmodified**
Audit findings	— Invoices were paid without purchase orders. — Ineffective follow-up of longstanding patient debtors. — Revenue system access restrictions were insufficient.

Functional responsibility

FUNLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019.

FUNLHN's powers and functions are to provide health services in the Flinders and Upper North region of South Australia.

Health Advisory Councils (HACs) within the region were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about the provision of health services, health issues, goals, priorities, plans and other strategic initiatives, and to perform other functions as determined under the HC Act. The assets, liabilities revenues and expenses of all HACs in the region are consolidated in the accounts of the Barossa Hills Fleurieu Local Health Network Incorporated (BFHLHN). Note 32 of FUNLHN's financial report provides further detail on the region's HACs.

On 27 May 2021 the Minister for Health and Wellbeing declared that certain previously unincorporated HACs within the region would be incorporated bodies. The declaration incorporated all but one HAC in the region.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. The HC Act sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the Board functions and responsibilities.

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

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

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between FUNLHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and FUNLHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2020-21 FUNLHN service agreement was executed in February 2021.

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

Scope of the audit

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

Financial services for FUNLHN are provided through a mix of:

- finance services located within FUNLHN
- administrative and financial services from Rural Support Services (RSS) within the BHFLHN
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

FUNLHN continued to operate some legacy systems. Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, FUNLHN, RSS and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A chartered accounting firm assisted the Auditor-General with the audit of FUNLHN.

Specific areas of audit attention in 2020-21 included:

- payroll
- accounts payable
- procurement and contract management
- patient revenue, including accounts receivable
- fee for service
- property, plant and equipment
- cash
- general ledger.

We considered internal audit activities in designing and performing our audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of FUNLHN.

The main findings and FUNLHN's responses are discussed below.

Audit findings

Accounts payable

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is listed in the approved purchase order exemption list or the purchase is below $2200. Our review found payments without purchase orders for which the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

FUNLHN advised us that it would remind staff of the requirement to raise purchase orders. It also advised us that it would implement a quarterly review of all purchasing in 2021-22 to ensure compliance with SA Health policy.

Revenue

Ineffective follow-up of longstanding patient debtors

We reviewed the effectiveness of debtor follow-up activities performed by revenue officers located at various hospitals throughout FUNLHN. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed.

FUNLHN advised us that it would continue to have a large focus on debt management by providing education to staff and monitoring debt recovery procedures.

Patient billing system access restrictions were insufficient

Our review of fee-for-service and patient billing in the Chiron patient billing system found opportunities to improve the segregation of duties through independent review processes or restricting user access. These matters were also raised with FUNLHN last year and prior to that with the Country Health SA Local Health Network Incorporated.

FUNLHN advised us that it had now restricted user access between specific areas in Chiron.

Revenue officers had access to change admission and charge type data

We found that admission and discharge dates and charge types could be modified by revenue officers, increasing the risk of inappropriate adjustments to invoiced fees.

FUNLHN advised us that it will investigate whether it can implement these system access restrictions in Chiron.

Need to restrict access to make billing changes

FUNLHN operates the Sunrise electronic medical record and patient administration system (Sunrise EMR) at its Port Augusta hospital site.

Compensable and private patients are invoiced through Sunrise EMR based on a number of different input variables affecting the type and value of the charge, including the patient's length of stay, admission type, admission election and episode of care. We found that access to make changes to these registration and clinical inputs was not adequately restricted, including that revenue officers had access to make changes. We recommended FUNLHN restrict access to make changes or introduce additional review processes to identify and assess the changes made.

FUNLHN advised us that it would investigate whether these system access restrictions could be implemented in Sunrise EMR.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Income		
Revenues from SA Government	126	117
Revenue from fees and charges	6	6
Grants and contributions	9	8
Other income	3	3
Total income	144	134
Expenses		
Staff benefit expenses	76	75
Supplies and services	59	53
Depreciation and amortisation	9	9
Other expenses	1	1
Total expenses	145	138
Net result	(1)	(4)
Assets		
Current assets	13	7
Non-current assets	121	128
Total assets	134	135
Liabilities		
Current liabilities	24	21
Non-current liabilities	44	46
Total liabilities	68	67
Net assets	66	68

Statement of Comprehensive Income

Revenues

Revenues from SA Government

FUNLHN is principally funded by DHW. In 2020-21, funding of $126 million or 88% of total income comprised operational funding of $124 million ($114 million) and capital funding of $2 million ($3 million).

Fees and charges

Fees and charges totalled $6 million and include the following significant components:

- patient and client fees of $3 million
- fees for health services of $1 million
- residential and aged care charges of $1 million, which relate primarily to long stay nursing home fees, including daily care fees and daily accommodation fees.

Grants and contributions

Grants and contributions totalled $9 million and included:

- Commonwealth grants of $7 million
- other SA Government grants and contributions of $1 million.

Expenses

Staff benefit expenses

Staff benefit expenses represent 53% of FUNLHN's total expenses and increased by $1 million (2%) in 2020-21 to $76 million. Full-time equivalent staff increased by 38 (5%) to 755 as at 30 June 2021.

The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 20 (20), comprising 12 (12) medical (excluding nursing), seven (seven) nursing and one (one) executive. Total remuneration for these employees was $6 million ($7 million).

Supplies and services expenses

Supplies and services increased by $6 million to $59 million and included the following significant components:

- fee-for-service payments to medical practitioners – $13 million ($11 million)
- contract of services – $7 million ($7 million)
- internal SA Health service level agreement payments – $6 million ($7 million)
- medical, surgical and laboratory supplies – $9 million ($8 million)
- repairs and maintenance – $5 million ($4 million).

Statement of Financial Position

Assets

Current assets increased by $6 million to $13 million as at 30 June 2021 and essentially comprise cash and cash equivalents of $9 million ($3 million), receivables of $1 million ($2 million) and other financial assets of $2 million ($1 million), which primarily relate to aged care refundable deposits.

Property, plant and equipment

As at 30 June 2021, property, plant and equipment of $121 million represented 90% of FUNLHN's total assets and includes the following significant components:

- right-of-use lease assets – $31 million ($34 million)
- buildings – $81 million ($82 million)
- land – $4 million ($4 million)
- accommodation and leasehold improvements – $3 million ($3 million)
- medical, surgical, dental and biomedical assets – $2 million ($1 million).

Liabilities

Current liabilities of $24 million exceeded current assets of $13 million at balance date.

Cash and cash equivalents of $9 million were sufficient to meet current payables of $5 million. FUNLHN is funded to meet expected cash flows for its current program. Note 1.4 of its financial report discusses continuity of operations.

Staff related liabilities

Staff related liabilities make up $28 million (41%) of FUNLHN's total liabilities at 30 June 2021, comprising:

- staff benefits liabilities and related on-costs – $26 million ($26 million)
- provisions for workers compensation – $2 million ($2 million).

Note 22 of FUNLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

Financial liabilities

Financial liabilities make up $32 million (47%) of FUNLHN's total liabilities at 30 June 2021, representing lease liabilities.

Further commentary on operations

Response to the COVID-19 pandemic

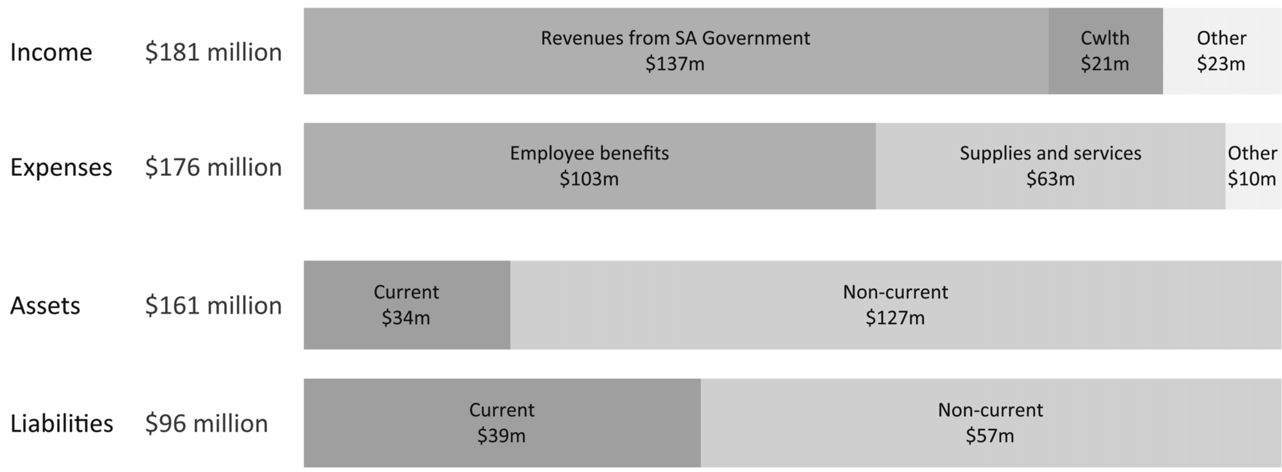
Responding to COVID-19 continued to have a significant impact across SA Health in 2020-21, including at FUNLHN.

Note 1.7 of FUNLHN's financial report outlines material costs associated with COVID-19 for additional public health activities at a cost of $1 million, including for:

- COVID-19 capacity and preparation
- testing clinics
- vaccine clinics
- increased demand for personal protective equipment
- increased staff costs to ensure necessary compliance measures are followed.

Limestone Coast Local Health Network Incorporated (LCLHN)

Financial statistics



996 Number of FTEs

15 Hospitals and health services

Significant events and transactions

- 2020-21 was the second year of the LCLHN Governing Board.
- LCLHN continued to prepare and respond to the COVID-19 pandemic including providing testing clinics, establishing vaccine clinics and other additional health activities.
- LCLHN's financial report outlines material costs associated with COVID-19 of $2 million.

Financial report opinion

Unmodified

Audit findings

- Invoices were paid without purchase orders.
- Ineffective follow-up of longstanding patient debtors.
- Revenue system access restrictions were insufficient.
- No contract management plan for a significant contract.
- Procurement requirements were not followed.
- Contracts were not established for some regular services.

Functional responsibility

LCLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019.

LCLHN's powers and functions are to provide health services in the Limestone Coast region of South Australia.

The consolidated accounts of LCLHN include the assets, liabilities, revenues and expenses of incorporated Health Advisory Councils (HACs) within the region. These HACs were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about the provision of health services, health issues, goals, priorities, plans and other strategic initiatives, and to perform other functions as determined under the HC Act.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the Board functions and responsibilities.

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

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

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between LCLHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and LCLHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2020-21 LCLHN service agreement was executed in October 2020.

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

Scope of the audit

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

Financial services for LCLHN are provided through a mix of:

- finance services located within LCLHN
- administrative and financial services from Rural Support Services (RSS) within the Barossa Hills Fleurieu Local Health Network Incorporated
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

LCLHN continued to operate some legacy systems. Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, LCLHN, RSS and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A chartered accounting firm assisted the Auditor-General with the audit of LCLHN.

Specific areas of audit attention in 2020-21 included:

- payroll
- accounts payable
- procurement and contract management
- patient revenue, including accounts receivable
- fee for service
- property, plant and equipment
- cash
- general ledger.

We considered internal audit activities in designing and performing our audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the CEO of LCLHN.

The main findings and LCLHN's responses are discussed below.

Audit findings

Accounts payable

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is listed in the approved purchase order exemption list or the purchase is below $2200. We found payments without purchase orders for which the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

LCLHN advised us that it would appoint a procurement and contracts manager to help review its procurement practices to streamline processes and to ensure compliance with policy.

Procurement and contract management

Contracts not established for some regular services

We analysed expenditure and identified suppliers where regular and significant expenditure was incurred but no contract was in place.

Written contractual arrangements with suppliers typically provide better clarity over terms and pricing and can help the LHN to manage these arrangements. We recommended LCLHN regularly review its expenditure to identify opportunities to implement formal procurement processes and contractual arrangements.

LCLHN responded with its intended actions, including that it would evaluate its arrangements with the suppliers identified by our audit.

Contract management plan not established

We found that there was no contract management plan for four separate contracts between LCLHN and a large medical imaging supplier. These contracts were signed on 1 July 2019 and have a combined value of up to $24.8 million. The absence of an approved and implemented contract management plan may impact the consistency and systematic application of contract management processes.

LCLHN responded with its intended actions, including that it would establish the contract management plans.

Procurement requirements not followed

Our audit included a review of LCLHN's procurement of contracted physiotherapy services. We found that LCLHN did not obtain the necessary quotes and did not complete the simple procurement plan required by SA Health's procurement policies. Compliance with procurement policies helps to ensure and demonstrate equitable processes and achieve value for money.

LCLHN advised us that it would ensure that correct processes are in place for future purchasing and procurement arrangements.

Revenue

Ineffective follow-up of longstanding patient debtors

We reviewed the effectiveness of debtor follow-up activities performed by revenue officers located at various hospitals throughout LCLHN. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed. Effective debt recovery through prompt follow-up of amounts owed increases the likelihood of collection and reduces the level of billing queries.

In 2020-21 LCLHN increased its review of debtors over 120 days, but we found that this had little impact on amounts outstanding and that actions to follow up debts were not documented.

LCLHN advised us that it was reviewing its debt management processes and had identified areas for improvement. It also advised of a planned internal audit that it expected would provide further clarity on processes and improvement opportunities.

Patient billing system access restrictions insufficient

Our review of fee-for-service and patient billing in the Chiron patient billing system found opportunities to improve segregation of duties through independent review processes or restricting user access. These matters were also raised with LCLHN last year and prior to that with the Country Health SA Local Health Network Incorporated.

LCLHN advised us that it would implement regular review of user access.

Revenue officers had access to change admission and charge type data

We found that admission and discharge dates and charge types could be modified by revenue officers in Chiron, increasing the risk of inappropriate adjustments to invoiced fees.

LCLHN advised us that it would implement either a system control or an audit trail review.

Sunrise electronic medical record and patient administration system (Sunrise EMR)

LCLHN operates Sunrise EMR at its Mount Gambier hospital site.

Need to restrict access to make billing changes

Compensable and private patients are invoiced through Sunrise EMR based on a number of different input variables affecting the type and value of the charge, including the patient’s length of stay, admission type, admission election and episode of care. We found that access to make changes to these registration and clinical inputs was not adequately restricted and revenue officers had access to make changes. We recommended LCLHN restrict access to make changes or introduce additional review processes to identify and assess any changes made.

LCLHN advised us that a recent change in staffing structure would allow it to make the necessary improvements.

No independent review of repricing report

Sunrise EMR produces a repricing report that provides details of any change performed by revenue officers that impacts the amount charged to the patient. The report was not independently reviewed at the Mount Gambier Hospital, which increases the risk of inappropriate changes in Sunrise EMR going undetected.

LCLHN advised us that it would implement a regular review.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021		2020	
	Consolidated $million	Parent $million	Consolidated $million	Parent $million
Income				
Revenues from SA Government	137	137	124	124
Revenue from fees and charges	17	17	16	16
Grants and contributions	22	23	21	21
Other income	5	4	3	3
Total income	181	181	164	164
Expenses				
Staff benefit expenses	103	103	96	96
Supplies and services	63	63	58	58
Depreciation and amortisation	6	5	6	5
Other expenses	4	4	3	3
Total expenses	176	175	163	162
Net result	5	6	1	2
Assets				
Current assets	34	32	29	27
Non-current assets	127	98	128	99
Total assets	161	130	157	126
Liabilities				
Current liabilities	39	39	37	37
Non-current liabilities	57	57	60	60
Total liabilities	96	96	97	97
Net assets	65	34	60	29

Statement of Comprehensive Income – Consolidated

Revenues

Revenues from SA Government

LCLHN is principally funded by DHW. In 2020-21, funding of $137 million or 76% of total income comprised operational funding of $133 million ($119 million) and capital funding of $4 million ($5 million).

Fees and charges

Fees and charges increased by $1 million (5%) to $17 million and included the following significant components:

- patient and client fees of $7 million ($6 million)
- residential and aged care charges of $4 million ($4 million) that relate primarily to long stay nursing home fees, including daily care fees and accommodation fees
- fees for health services of $5 million ($5 million).

Grants and contributions

Grants and contributions increased by $1 million to $22 million and included the following significant components:

- Commonwealth aged care subsidies of $8 million ($8 million)
- other Commonwealth grants of $14 million ($12 million).

Expenses

Staff benefit expenses

Staff benefit expenses represent 59% of LCLHN's total expenses and increased by $7 million (7%) in 2020-21 to $103 million. Full-time equivalent staff increased by 52 (5.5%) to 996 as at 30 June 2021.

The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 40 (32), comprising 24 (21) medical (excluding nursing), 15 (10) nursing and one (one) executive. Total remuneration for these employees was $11 million ($10 million).

Supplies and services expenses

Supplies and services increased by $5 million to $63 million and included the following significant components:

- fee-for-service payments to medical practitioners – $16 million ($15 million)
- internal SA Health service level agreement payments – $6 million ($7 million)
- medical, surgical and laboratory supplies – $14 million ($11 million)
- repairs and maintenance – $5 million ($4 million).

Statement of Financial Position – Consolidated

Assets

Current assets increased by $5 million to $34 million as at 30 June 2021. They essentially comprise cash and cash equivalents of $11 million ($5 million), receivables of $4 million ($3 million) and other financial assets of $19 million ($19 million), which primarily relate to aged care refundable deposits.

Property, plant and equipment

As at 30 June 2021, property, plant and equipment represents $127 million (79%) of LCLHN's total assets and includes the following significant components:

- right-of-use lease assets – $44 million
- buildings – $55 million
- land – $4 million
- accommodation and leasehold improvements – $18 million
- capital works in progress – $4 million.

Liabilities

Current liabilities of $39 million exceeded current assets of $34 million at balance date.

Cash and cash equivalents of $11 million were sufficient to meet current payables of $5 million. LCLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses continuity of operations.

Staff related liabilities

Staff related liabilities make up $34 million (35%) of LCLHN's total liabilities at 30 June 2021, comprising:

- staff benefits liabilities and related on-costs – $32 million ($31 million)
- provisions for workers compensation – $2 million ($2 million).

Note 23 of LCLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

Financial liabilities

Lease liabilities of $42 million make up 44% of LCLHN's total liabilities at 30 June 2021.

Further commentary on operations

Response to the COVID-19 pandemic

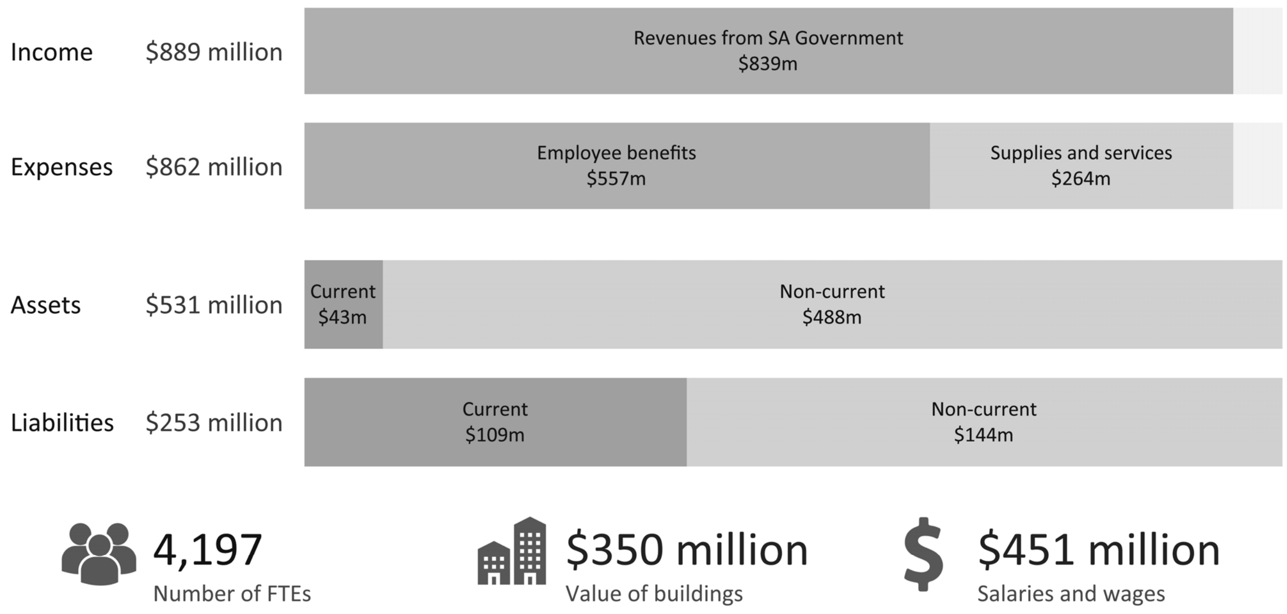
Responding to COVID-19 continued to have a significant impact across SA Health in 2020-21, including at LCLHN.

Note 1.7 of LCLHN's financial report outlines material costs associated with COVID-19 for additional public health activities at a cost of $2 million, including for:

- COVID-19 capacity and preparation
- testing clinics
- vaccine clinics
- increased demand for personal protective equipment
- increased staff costs to ensure necessary compliance measures are followed.

Northern Adelaide Local Health Network Incorporated (NALHN)

Financial statistics



Significant events and transactions	— Investment in capital projects continued at NALHN, with $39 million spent in 2020-21 on upgrading the Modbury Hospital, including new outpatient facilities. $9 million was also spent on works to expand the Lyell McEwin Hospital emergency department. — The SA Government approved the transfer of land where the former Older Persons Mental Health Facility was based to the Urban Renewal Authority (through the Department for Health and Wellbeing (DHW)).
Financial report opinion	**Unmodified**

Controls opinion findings	— Processes to ensure appropriate employment clearances are in place need to improve, with some employees working without the required checks in place. — Payroll planning, monitoring and approval processes could be improved. — Asset management processes under the across government facilities management arrangements (AGFMA) could be improved. — Some controls over procurement, contracting and purchasing could improve.
Other audit findings	— Delays in debtor follow-up and inconsistent debtor management practices. — Controls supporting the completeness of Rights of Private Practice offsite generated revenue could be improved.

Functional responsibility

NALHN was established under the *Health Care Act 2008* (HC Act) and its powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of DHW, the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the Board functions and responsibilities.

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

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

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between NALHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and NALHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2020-21 NALHN service agreement was executed in November 2020.

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

Ongoing response to the COVID-19 pandemic

NALHN has continued to provide a frontline response to COVID-19 in its local area. This has included:

- operating a COVID-19 testing clinic at the Lyell McEwin Hospital
- operating a vaccination clinic, for use by priority population groups, from the Playford Civic Centre
- ensuring its inventory of personal protective equipment, other equipment and staffing levels are sufficient to meet potential increased demand.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for NALHN are provided through a mix of:

- central services provided by Shared Services SA (SSSA) through an integrated finance service model
- finance services located within NALHN
- central services provided by DHW.

NALHN continues to operate some DHW legacy systems, so our audit included the review of new and legacy systems. We completed audit work at SSSA's central services, NALHN and DHW.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- DHW matters.

Specific areas of audit attention in 2020-21 included:

- governance
- payroll and workforce management
- goods and services expenditure and accounts payable
- property, plant and equipment

- AGFMA arrangements
- patient billing and debtor management
- medical officer professional development
- cash and online banking
- general ledger and financial accounting.

We considered the work of NALHN's internal auditors in planning and conducting the audit.

Controls opinion

We reviewed controls over bank accounts, employee expenses, goods and services expenditure and the AGFMA as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the CEO of NALHN. The main findings and NALHN's responses are discussed below.

Controls opinion findings

Payroll

NALHN employs more than 4100 FTEs and its payroll related costs are significant, with $557 million in staff benefit expenses paid and $174 million in staff benefit liabilities. Because of the significance of these costs, we review key payroll controls each year.

Processes to ensure appropriate employment clearances are in place need to improve, with some employees working without the required checks in place

In 2020-21, we again considered the way NALHN manages employment clearances for its staff as part of our overall review of controls associated with managing staff.

— *Employees worked without current working with children checks*

SA Health policy requires a current working with children check for all SA Health employees working in prescribed positions, as defined in child protection legislation.

As was the case last year, our analysis of NALHN's employee data identified 11 employees who had worked for a time without a current working with children check in place. Clearances expire and need to be renewed. Of the 11 employees who worked without a current clearance:

- one was confirmed as having provided direct care to a child
- it was likely a further two had done so
- NALHN was unable to identify if a further five staff had worked with a child during the period their clearance was not in place.

NALHN advised us that the three remaining employees did not have contact with children, but could not provide direct evidence of this.

Instances where a staff member works directly with a child without a current clearance are breaches of the *Child Safety (Prohibited Persons) Act 2016.*

NALHN responded that it will release a criminal history check procedure and a tool to help staff and management identify prescribed positions. The procedure will include a risk assessment tool and escalation processes. NALHN also stated that it will review and improve its reporting processes.

— *Employees worked without current aged care checks*

NALHN requires staff working in some areas to have a current Department of Human Services aged care check. Our analysis of NALHN's employee data for these areas identified 10 employees who continued to perform their duties after their aged care checks had expired, and before they were renewed.

NALHN responded that the changes it will implement to address the working with children check issues discussed above will also address the need for valid aged care checks for staff that require them.

— *Statutory declarations used instead of required criminal history checks*

One of NALHN's divisions – Aged Care, Rehabilitation and Palliative Care – asks employees whose criminal history check has expired to sign a statutory declaration stating they have not been charged or convicted of a criminal offence if there are delays in renewing their criminal history check.

Where this occurs, these staff continue to work in their usual roles, which involves contact with the elderly and vulnerable, while waiting for their criminal history check renewal.

A statutory declaration is not an independent assessment of criminal history. Allowing staff with an expired criminal history check to continue in their normal roles once they have signed a statutory declaration increases the risk to patients.

NALHN responded that its new criminal history check procedure will explain when a statutory declaration can be used as part of its risk assessment processes. It will also remind staff of the appropriate use of statutory declarations.

— *NALHN employment clearance records are not up to date*

NALHN's main record for employment check information is the Chris21 payroll system. Consistent with last year, we found that some of this information was either out of date or had no supporting documentation.

We also found that there were various approaches used by divisions to monitor data for employee clearances, and different ways of managing the review of monthly criminal history check reports.

Where data about employment clearances is not accurate, there is an increased risk of non-compliance with legislation. It also increases risk for NALHN's patients.

NALHN responded that its intended actions to address the working with children and aged care check matters identified above would help to address this issue.

Payroll planning, monitoring and approval processes could be improved

— *NALHN's records indicate only 63% of its staff had a current performance review in March 2021*

Our review of NALHN's employee performance review records as at March 2021 found that only 63% were current. Of the more than 1900 reviews that were not current, 28% were more than a year overdue. SA Health's benchmark is that 80% of performance reviews should be current.

NALHN responded that it will continue to reinforce the requirements for performance reviews and work with divisions to improve current performance review levels.

— *NALHN did not have a consolidated workforce plan*

For the last two years we have raised the fact that NALHN does not have a consolidated workforce plan.

NALHN previously advised us that it would only be able to develop a workforce plan once its clinical services plan was in place. This latter plan was completed and released in March 2021.

NALHN advised us that it will continue work to develop a workforce plan that aligns with its strategic and clinical services plans.

— *Key payroll information was not always reviewed for NALHN staff*

Key payroll reports for NALHN's staff differ depending on the type of employee. The effective review of these reports helps ensure staff payments are accurate and valid.

For staff who are automatically paid each fortnight, key payroll information is captured on bona fide reports and leave return certificates.

For nursing and midwifery staff, key payroll information is contained in the ProAct rostering system, as this interfaces with the Chris21 payroll system used to pay these staff.

There are also other NALHN staff, around 10%, who are paid based on manually submitted timesheets, with many of these employees paid significant allowances in addition to their automatically paid base pay.

In 2020-21 we found:

- while there had been significant improvement, the review of bona fide reports and leave return certificates is not uniformly performed across all areas. 70% of bona fide reports and 65% of leave return certificates had been reviewed and approved as at March 2021
- unlike automatically paid staff who are reported on bona fide certificates, there is no regular review to ensure payments made to staff who submit manual timesheets are correct once payment has been processed into the payroll system

- around 3000 nursing and midwifery ProAct timesheets had not been authorised as at March 2021, an improvement compared to 2019-20.

In response NALHN advised us that it:

- is currently implementing a procedure that has an escalation process for outstanding bona fide reports and leave return certificates
- will reinforce the importance of the prompt review and approval of bona fide reports and leave return certificates, and will remind reviewers that training can be provided if needed
- has updated an existing procedure to reflect changes in the reporting of unauthorised ProAct timesheets, including the addition of trend reporting. NALHN also noted that managers are provided with reports for each fortnight and across the year about timesheet approval.

— *Inconsistent medical rostering practices across divisions*

Consistent with our findings over the last few years, medical rostering practices continue to vary between divisions. As there is no rostering system for medical officers, and no central training for staff preparing rosters, varying local practices have developed. The inconsistencies in rostering approaches increase the risk of different interpretations of complex enterprise agreements between divisions.

We understand that the SA Health Electronic Timesheet Project, which aims to transition medical officers who currently submit manual timesheets onto ProAct, should be operational by early 2021-22. If successful, the project will help to set consistent rules and practices for rostering, and ensure a consistent review of medical officer time worked can occur.

NALHN responded that it will implement the electronic timesheet project as soon as possible, with a view to a full roll-out by September 2021.

— *Recall allowances are not consistently reviewed for accuracy and some were unsubstantiated*

We reviewed NALHN’s processes to confirm the accuracy of recall allowances paid. Consistent with the past few years, our testing identified ongoing weaknesses in how these allowances were checked. There is still no consistent practice to review recall allowances for accuracy, which is continuing to result in the payment of recall claims that do not meet SA Health policy requirements.

Consequently, there is a risk that NALHN is paying recall allowances when they should not be paid.

NALHN responded that a procedure for the review of recall allowances remains in consultation with staff, with an aim to implement it before the end of 2021.

Asset management processes under the AGFMA could be improved

NALHN has property, plant and equipment worth over $486 million. As part of our 2020-21 controls opinion work, we considered NALHN’s processes to manage the maintenance of these assets, including the implementation of the AGFMA.

Consistent with the last two years, we found that:

- NALHN had not developed a strategic asset management plan and accompanying asset management plan. NALHN was working with DHW to develop a plan by late 2021
- NALHN did not use the Department for Infrastructure and Transport's asset management system, SAMIS, to effectively record asset information. NALHN's approach to recording asset information using spreadsheets does not comply with Premier and Cabinet Circular 114 *Government Real Property Management* minimum asset information requirements. Information gaps in the data increase the risk that required maintenance or capital work planning may not occur as promptly as needed
- NALHN's assigned service provider under the AGFMA, Spotless, had not performed any asset condition assessments. As a result, asset condition was not being taken into account in its annual service delivery planning, raising the risk that important preventative maintenance is not being performed.

NALHN responded that:

- with the assistance of an engineering consultancy firm, it is developing a strategic asset management plan and accompanying asset management plan, with a finalisation date of September 2021
- Spotless is helping it with the appropriate recording of asset data in SAMIS, with the data expected to be in place by September 2021
- once the base data has been updated, asset condition inspections to support preventative and breakdown maintenance processes will progress.

Some controls over procurement, contracting and purchasing could be improved

NALHN spent $264 million on supplies and services in 2020-21. As part of our 2020-21 controls opinion work we considered NALHN's controls to ensure the effective procurement, contracting and purchasing of goods and services.

We found that:

- between July 2020 and February 2021, there was at least $5 million of expenditure that should have been supported by purchase orders but was not. Where purchase orders are not used when required, there is an increased risk of unnecessary or unauthorised expenditure occurring due to the lack of prior approval
- consistent with our previous findings, conflict of interest declarations for some evaluation team members for a patient entertainment system procurement and a cleaning services procurement could not be provided
- validation that a service had been provided for permanent and on-demand guard services was not occurring before payment. Where the provision of a service is not confirmed before payment, there is an increased risk of paying for services that were not received, or at rates that are not consistent with the contract.

NALHN responded that:

- a regular report of expenditure processed without purchase orders will be provided to divisions for their review, and training for managers reinforcing purchase order requirements will be provided
- it will review its procedure for mandatory procurement evaluation requirements. It will also mandate that procurement documentation cannot be loaded into the contract management system until all mandatory procurement evaluation requirements are met
- contract managers will be provided with contract management training, a contract management framework for the security services contract will be implemented and corporate governance will be provided with quarterly contract compliance reports.

Other audit findings

Patient billing practices and debtor management could be improved

NALHN received $23.6 million in patient and client fees in 2020-21. Patient fees include compensable revenue amounts recovered through compulsory third party arrangements for motor vehicle accidents, or through the Return to Work Corporation of South Australia for workplace related injuries. NALHN was also responsible for managing over $6.6 million in patient and client fee debts as at 30 June 2021.

Delays in debtor follow-up and inconsistent debtor management practices

Our February 2021 analysis of outstanding debts managed by NALHN found that the proportion of debt outstanding for more than 60 days, across the different categories of debt, ranged from 30% to 80%. These statistics, which are similar to last year, indicate that NALHN needs to improve the effectiveness of its debtor management practices.

We also found weaknesses in NALHN’s debt follow-up practices. This included inconsistent processes and a lack of evidence confirming follow-up action for certain debt types.

NALHN responded that it agreed that the effectiveness of its debt recovery processes could improve, and that it is:

- implementing a new structure that includes a dedicated debt recovery function
- continuing to automate its debt recovery functions, including the implementation of a more efficient process to send out emails and text message debt reminders.

Controls supporting the completeness of Rights of Private Practice (RoPP) offsite generated revenue can be improved

Under the terms of the various RoPP memorandums of arrangements, medical officers must transfer all offsite generated RoPP receipts to NALHN. NALHN recorded more than $2.6 million in private practice fees in 2020-21.

NALHN has little visibility over offsite RoPP generated receipts. Therefore this offsite revenue arrangement carries a higher degree of risk that not all offsite generated fees are completely and accurately transferred to NALHN.

While NALHN has implemented some strategies to help address these risks, most notably the use of medical officer statutory declarations, we concluded that more work to build on the progress made to date is needed, to further reduce NALHN's risk in this area.

NALHN responded that it has undertaken a comprehensive review of 2020-21 RoPP compliance processes, and is now implementing the recommended improvements for 2021-22.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Income		
Revenues from SA Government	839	787
Fees and charges	33	32
Grants and contributions	4	4
Other income	13	10
Total income	889	833
Expenses		
Staff benefit expenses	557	541
Supplies and services	264	253
Depreciation and amortisation	33	35
Other expenses	8	2
Total expenses	862	831
Net result and total comprehensive result	27	2
Assets		
Current assets	43	34
Non-current assets	488	476
Total assets	531	510
Liabilities		
Current liabilities	109	104
Non-current liabilities	144	148
Total liabilities	253	252
Net assets	278	258

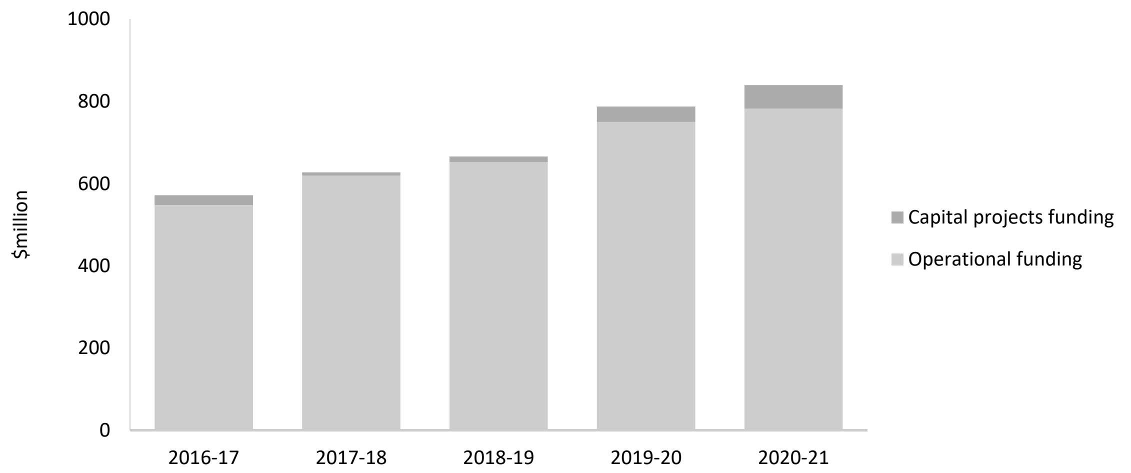
Statement of Comprehensive Income

Income

Revenues from SA Government

NALHN is mainly funded through recurrent and capital funding from DHW. In 2020-21, NALHN received recurrent funding of $782 million and capital funding of $57 million. The capital funding mainly relates to works at the Modbury Hospital, including a new outpatient facility and palliative care unit, and for works associated with the expansion of the Lyell McEwin Hospital emergency department.

The chart below shows revenues from SA Government over the last five years.

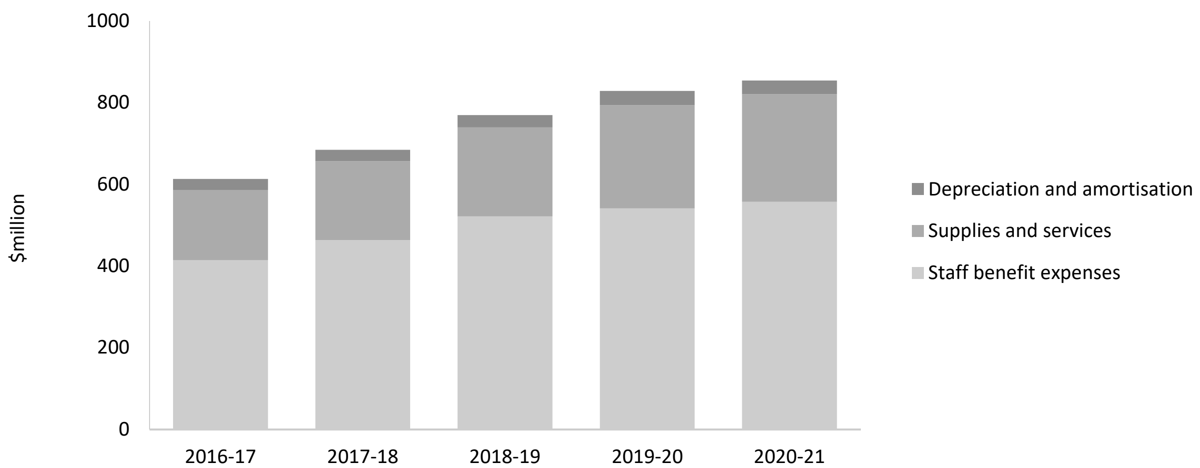


The chart shows the overall increase in funding over the last five years, with the last two years including more significant amounts for capital projects.

Expenses

In 2020-21 total expenses increased by $30.5 million (4%) to $862 million.

The chart below shows the composition of expenses for the last five years.



The chart shows that all major categories of expense have increased over the last five years.

Staff benefit expenses

Staff benefit expenses of $557 million represent 65% (65%) of NALHN's total expenses. These costs have increased by $16 million, which is mainly attributable to:

- an $18 million rise in salaries and wages, mainly from growth in FTEs and the impact of enterprise bargaining salary increases for nursing staff and visiting medical officers
- a $1.7 million increase in targeted voluntary separation package (TVSP) expenditure as a result of more staff, 22 (11), electing to take a TVSP in 2020-21
- offset by a $6.3 million decrease in long service leave expenditure, mainly as a result of changed actuarial assumptions used to estimate the associated liability. The discount rate used to calculate the liability increased, resulting in a decrease in the liability.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical staff, based on FTEs, since 2016-17. The table shows an overall growth in FTE numbers over the five years, including in 2020-21.

	2016-17 FTEs	2017-18 FTEs	2018-19 FTEs	2019-20 FTEs	2020-21 FTEs
Medical officers	559	563	633	670	687
Nurses	1 861	1 994	2 144	2 199	2 264
Non-medical	1 109	1 051	1 164	1 227	1 246
Total FTEs	3 529	3 608	3 941	4 096	4 197

The number of staff whose remuneration received/receivable exceeded base executive level ($155 000) totalled 496 (432), comprising 429 (387) medical officers, seven (six) executives, 56 (38) nursing staff and four (one) non-medical staff. Total remuneration of these staff was $143.6 million ($127.4 million).

Supplies and services expenses

Supplies and services expenditure increased by $10.9 million (4%) in 2020-21 to $264 million. Significant changes in supplies and services were:

- medical, surgical and laboratory supplies, which increased by $9.4 million (11%) to $92.1 million. The increase was mainly attributable to a rise in activity following a return to normal clinical service levels, the ongoing response to COVID-19 and the full year impact of increased charges for statewide services, including pathology
- minor equipment cost increases of $1.9 million, mainly relating to the purchase of non-capitalised equipment associated with the Modbury Hospital upgrade
- agency staff contractors, which decreased by $1.6 million (10%) due to an increase in staff appointments and a reduced need to fill temporary vacancies.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment assets represent 92% of total assets.

The carrying value of property, plant and equipment increased by $11.6 million to $486 million. The rise was mainly attributable to spending on construction activity at the Lyell McEwin Hospital and work at Modbury Hospital, as discussed above. The total value of new capital work for buildings in 2020-21 was $49.9 million.

This increase was offset by $33 million in depreciation charges and a $12 million reduction due to the transfer of the former Older Persons Mental Health Facility to DHW, prior to its transfer to the Urban Renewal Authority.

Liabilities

Current liabilities increased by $4.5 million to $109 million during the year and exceeded current assets by $65.9 million as at 30 June 2021. NALHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of NALHN's financial report discusses its continuity of operations.

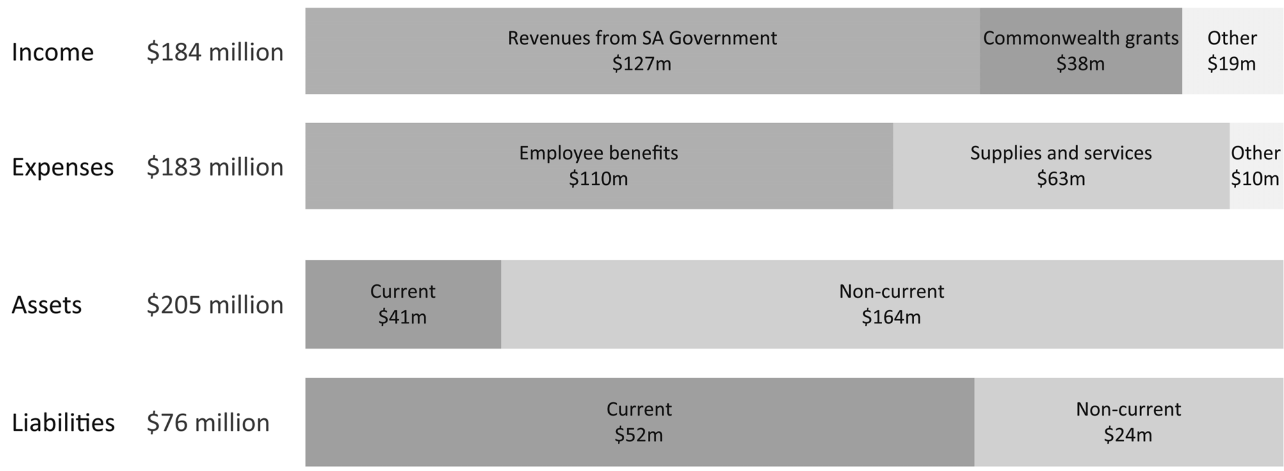
Staff liabilities make up $192 million (76%) of NALHN's total liabilities at 30 June 2021, and comprise:

- staff benefits liabilities and related on-costs of $185.6 million ($184.5 million)
- workers compensation provisions of $6.6 million ($6 million).

Overall staff benefits have remained steady in 2020-21.

Riverland Mallee Coorong Local Health Network Incorporated (RMCLHN)

Financial statistics



1,114
Number of FTEs

14
Hospitals and health services

Significant events and transactions

- 2020-21 was the second year of the RMCLHN Governing Board.
- RMCLHN continued to prepare and respond to the COVID-19 pandemic including providing testing clinics, establishing vaccine clinics and other additional health activities.
- RMCLHN's financial report outlines material costs associated with COVID-19 of $2 million.

Financial report opinion

Unmodified

Audit findings

- Invoices were paid without purchase orders.
- Ineffective follow-up of longstanding patient debtors.
- Revenue system access restrictions were insufficient.
- Bank account signatories include former employees.

Functional responsibility

RMCLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019.

RMCLHN's powers and functions are to provide health services in the Riverland Mallee Coorong region of South Australia.

The consolidated accounts of RMCLHN include the assets, liabilities, revenues and expenses of incorporated Health Advisory Councils (HACs) within the region. These HACs were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about the provision of health services, health issues, goals, priorities, plans and other strategic initiatives, and to perform other functions as determined under the HC Act.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the Board functions and responsibilities.

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

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

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between RMCLHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and RMCLHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2020-21 RMCLHN service agreement was executed in October 2020.

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

Scope of the audit

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

Financial services for RMCLHN are provided through a mix of:

- finance services located within RMCLHN
- administrative and financial services from Rural Support Services (RSS) within the Barossa Hills Fleurieu Local Health Network Incorporated
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

RMCLHN continued to operate some legacy systems. Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, RMCLHN, RSS and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A chartered accounting firm assisted the Auditor-General with the audit of RMCLHN.

Specific areas of audit attention in 2020-21 included:

- payroll
- accounts payable
- procurement and contract management
- patient revenue, including accounts receivable
- fee for service
- property, plant and equipment
- cash
- general ledger.

We considered internal audit activities in designing and performing our audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the CEO of RMCLHN.

The main findings and RMCLHN's responses are discussed below.

Audit findings

Accounts payable

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is listed in the approved purchase order exemption list or the purchase is below $2200. We found payments without purchase orders for which the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

RMCLHN advised us that it had reviewed the exceptions identified by the audit and was exploring actions to ensure that purchase orders are created wherever possible.

Revenue

Ineffective follow-up of longstanding patient debtors

We reviewed the effectiveness of debtor follow-up activities performed by revenue officers located at various hospitals throughout RMCLHN. We found instances where no signature was obtained from patients on the National Private Patient Hospital claim form, which caused delays in recovering the debt from the private health insurer.

RMCLHN's response acknowledged this issue and detailed its intended actions to address them.

Patient billing system access restrictions insufficient

Our review of fee-for-service and patient billing in the Chiron patient billing system found opportunities to improve segregation of duties through independent review processes or restricting user access. These matters were also raised with RMCLHN last year and prior to that with the Country Health SA Local Health Network Incorporated.

RMCLHN advised us that it would establish a project to address these concerns.

Revenue officers had access to change admission and charge type data

We found that admission and discharge dates and charge types could be modified by revenue officers in Chiron, increasing the risk of inappropriate adjustments to invoiced fees.

RMCLHN advised us that it would establish a project to address these concerns.

Cash

Bank account signatories include former employees

We identified signatories for RMCLHN bank accounts who were no longer employees of SA Health and recommended a regular review to ensure bank account signatories remain valid. We also reported this last year.

RMCLHN advised us that it had updated its bank signatories to only include current employees.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021		2020	
	Consolidated $million	Parent $million	Consolidated $million	Parent $million
Income				
Revenues from SA Government	127	127	123	123
Revenue from fees and charges	14	14	15	15
Grants and contributions	39	40	36	38
Other income	4	4	3	2
Total income	184	185	177	178
Expenses				
Staff benefit expenses	110	110	102	102
Supplies and services	63	63	62	62
Depreciation and amortisation	8	2	8	1
Other expenses	2	15	1	8
Total expenses	183	190	173	173
Net result	1	(5)	4	5
Assets				
Current assets	41	37	34	29
Non-current assets	164	15	161	19
Total assets	205	52	195	48
Liabilities				
Current liabilities	52	52	47	47
Non-current liabilities	24	24	20	20
Total liabilities	76	76	67	67
Net assets	129	(24)	128	(19)

Statement of Comprehensive Income – Consolidated

Revenues

Revenues from SA Government

RMCLHN is principally funded by DHW. In 2020-21, funding of $127 million or 69% of total income comprised operational funding of $118 million ($109 million) and capital funding of $9 million ($14 million).

Fees and charges

Fees and charges decreased by $1 million (4%) to $14 million and included the following significant components:

- residential and aged care charges of $8 million ($8 million) that relate primarily to long stay nursing home fees, including daily care fees and daily accommodation fees

- patient and client fees of $4 million ($4 million)
- fees for health services of $1 million ($1 million).

Grants and contributions

Grants and contributions increased by $3 million to $39 million and included the following significant components:

- Commonwealth aged care subsidies of $14 million ($14 million)
- other Commonwealth grants of $25 million ($21 million).

Expenses

Staff benefit expenses

Staff benefit expenses represent 60% of RMCLHN's total expenses and increased by $8 million (8%) to $110 million in 2020-21. RMCLHN employed 1114 FTE staff as at 30 June 2021, which was an increase of 32 (3%) from the previous year.

The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 20 (14), comprising eight (five) medical (excluding nursing), 11 (eight) nursing and one (one) executive. Total remuneration for these employees was $5 million ($3 million).

Supplies and services expenses

Supplies and services expenses increased by $1 million to $63 million and included the following significant components:

- fee for service payments to medical practitioners – $16 million ($15 million)
- medical, surgical and laboratory supplies – $12 million ($10 million)
- internal SA Health service level agreement payments – $6 million ($6 million)
- contractors – agency staff – $2 million ($5 million)
- repairs and maintenance – $4 million ($4 million)
- patient transport – $3 million ($3 million).

Statement of Financial Position – Consolidated

Assets

Current assets increased by $7 million to $41 million as at 30 June 2021. They essentially comprise cash and cash equivalents of $13 million ($8 million), receivables of $4 million ($4 million) and other financial assets of $24 million ($21 million), which primarily relate to aged care refundable deposits.

Property, plant and equipment

As at 30 June 2021, property, plant and equipment of $163 million represents 79% of RMCLHN's total assets and includes the following significant components:

- buildings – $147 million ($139 million)

- land – $8 million ($8 million)
- capital works in progress – $4 million ($9 million)
- right-of-use lease assets – $2 million ($2 million).

Liabilities

Current liabilities of $52 million exceeded current assets of $41 million at balance date.

Cash and cash equivalents of $13 million were sufficient to meet current payables of $5 million. RMCLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses continuity of operations.

Staff related liabilities

Staff related liabilities of $40 million make up 53% of RMCLHN's total liabilities at 30 June 2021, comprising:

- staff benefits liabilities and related on-costs – $34 million ($33 million)
- provision for workers compensation – $6 million ($2 million).

Note 22 of RMCLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

Further commentary on operations

Response to the COVID-19 pandemic

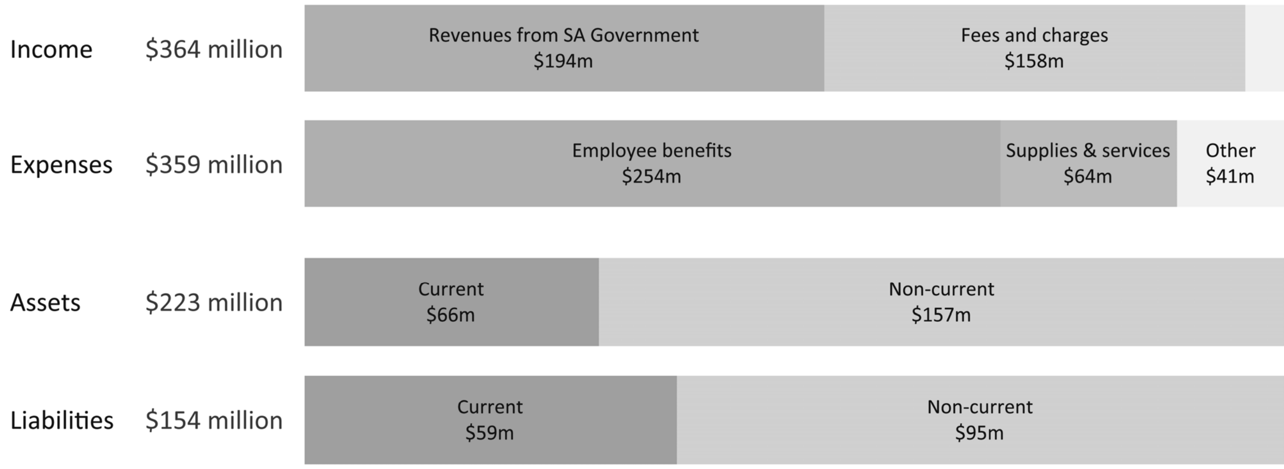
Responding to COVID-19 continued to have a significant impact across SA Health in 2020-21, including at RMCLHN.

Note 1.7 of RMCLHN's financial report outlines material costs associated with COVID-19 for additional public health activities at a cost of $2 million, including for:

- COVID-19 capacity and preparation
- testing clinics
- vaccine clinics
- increased demand for personal protective equipment
- increased staff costs to ensure necessary compliance measures are followed.

SA Ambulance Service Inc (SAAS)

Financial statistics



1,669
Number of FTEs

743*
Triple 0 calls - daily average

877*
Incidents responded to - daily average

* Data provided by SAAS and unaudited.

Significant events and transactions

- SAAS continued work to address historical issues with leave balance inconsistencies between the Chris21 payroll system and its roster system attendance records. Review work in 2020-21 identified a further $3.9 million reduction in leave liabilities and associated payables.
- SAAS continues to recognise a contingent liability relating to its enterprise bargaining agreement. Agreement negotiations remain ongoing and, under a clause in the current agreement, any increase will be backdated to the first pay period after 31 December 2018.

Financial report opinion **Unmodified**

Audit findings

- Ongoing adjustments made to reduce staff benefit liabilities due to historical errors.
- Improvements needed to confirm the completeness and accuracy of timesheets submitted.
- Delays in generating patient transport invoices.
- Improvements needed to ensure transport charges are completely and accurately raised.
- Use of gazetted call-out fees not set out in policy.
- Business continuity risk for an ageing invoicing system.
- Invoices paid without purchase orders and purchase orders created outside of the mandated financial system.

Functional responsibility

SAAS is a body corporate constituted under the *Health Care Act 2008* (HC Act) and is the principal provider of ambulance services in South Australia. It delivers:

- out-of-hospital emergency care and transport
- non-emergency patient care and transport
- emergency and major event management
- medical retrieval services.

Governance

Under the HC Act the Chief Executive, Department for Health and Wellbeing (DHW) is responsible for the administration of SAAS. This includes appointing SAAS's Chief Executive Officer. The Chief Executive, DHW cannot give a direction about a person's clinical treatment.

SAAS enters into a service agreement with the Chief Executive, DHW that sets out expectations and deliverables for the financial year, with the intent that it binds both parties.

Ongoing response to the COVID-19 pandemic

COVID-19 continued to impact SAAS's operations in 2020-21, with SAAS experiencing increased costs associated with supporting the health system response to the pandemic, increased demand for personal protective equipment and increased agency staffing costs to ensure necessary compliance measures were in place.

Note 1.6 of SAAS's financial report states that specific costs attributable to COVID-19 in 2020-21 totalled $4.1 million ($1.4 million).

Scope of the audit

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

Financial services for SAAS are provided through a mix of:

- central services provided by DHW
- finance services located within SAAS
- services provided by Shared Services SA (SSSA).

Our audit included the review of new and legacy systems and completing audit work at DHW's central services, SAAS and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A chartered accounting firm assisted the Auditor-General with the SAAS audit.

Specific areas of audit attention in 2020-21 included:

- payroll
- accounts payable
- revenue and accounts receivable
- fixed assets
- cash
- general ledger.

We considered the work of SAAS's internal auditors in designing and performing our audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of SAAS. We had reported most of these findings in previous years.

The main findings and SAAS's responses are discussed below.

Payroll

Ongoing adjustments to reduce staff leave liabilities due to historical errors

In 2019-20, SAAS advised us that an internal review had identified that its employee leave entitlement records were overstated by $6 million, including on-costs. SAAS identified these errors by reconciling operational employee records from its rostering system against employee leave records in Chris21. Adjustments processed mainly related to employee leave taken but not deducted from Chris21 leave balances.

The review considered records dating back to 2013 and resulted in a reduction in staff leave liabilities processed as at 30 June 2019. This adjustment was made to SAAS's general ledger and financial report, but not to individual leave entitlement balances in Chris21.

In 2020-21 SAAS undertook a further internal review that involved the examination of additional employee leave records. This review resulted in an additional reduction in staff leave liabilities of $3.9 million.

SAAS will continue to address the outcomes from these reviews in 2021-22.

Improvements needed to confirm the completeness and accuracy of timesheets submitted

Since 2017 we have raised concerns about weaknesses in SAAS management's review of manual timesheets.

SAAS previously advised us of its intention to interface its rostering system with Chris21 to ensure the completeness of timesheets received against the total expected. However, while this interfacing project has commenced, it was not complete.

In the absence of an interfacing system solution, SAAS advised us that it had developed an electronic timesheet that was being piloted, together with a timesheet register. At the time of our audit, this pilot program consisted of 300 employees, with managers being provided with a timesheet register to record timesheets received and missing.

However, in the absence of an interfacing system, we found that the following weaknesses continued to exist:

- there was no system-wide comprehensive process to ensure the completeness of timesheets received for processing
- there was no process in place to ensure team leaders follow up timesheet errors and rejections
- management did not validate certain types of overtime and allowances recorded on manual timesheets.

Consequently, there remains a high risk that employee payments, including leave balances, may be incorrectly stated in the general ledger and the payroll system. Incorrect leave records can lead to incorrect payments.

SAAS confirmed the issues identified and advised us that it expected the interface between the roster system and Chris21 to be in place later in 2022.

Revenue

Delays in generating patient transport invoices

At the time of our 2020-21 audit, there was a backlog of more than 90 days in generating patient transport invoices. The impact of this delay is evident by the $18 million increase in the balance of ambulance transport jobs not yet invoiced recognised in the financial statements (in note 14) as at 30 June 2021. Delays in raising invoices increase the risk of debt recovery not being successful.

SAAS responded that it had developed a recovery plan to address the backlog, reviewed data entry requirements and engaged additional resources to help with invoice processing. Longer term, SAAS considers an electronic patient care record would address this issue by eliminating manual processes.

Improvements needed to ensure transport charges are completely and accurately raised

Since 2017 we have reported that there is no mechanism to check whether all dispatch data recorded in SAAS's dispatch system was interfaced completely and accurately to its invoicing system.

Our 2021 review found that SAAS had not yet implemented controls to address this risk.

SAAS responded that, consistent with its response last year, further work and resources would be required to implement a comprehensive process. SAAS indicated that it was balancing its priorities against its longer term intention to replace its current invoicing system.

SAAS also indicated that it has progressed its business case for an electronic patient care record project and, if successful, expects this would be in place in about two years.

Use of gazetted call-out fees not set out in policy

The South Australian Government Gazette lists two categories of emergency call-out fees, however, as we have reported since 2017, SAAS only ever charges public call-outs at the higher classification. Its website also only indicates one rate (the higher rate). While this practice is supported by an internal memorandum, the categories and practice are still not defined in policy.

Last year SAAS advised us that it would continue to progress the removal of this rate from the gazetted fees in its next budget cycle. However our 2021 review found that there is still only a single rate on SAAS's website while the Gazette retains two rates.

SAAS responded that in June 2021 the description of the second rate in the Gazette was updated to include the words 'inter-health non-life threatening'. SAAS expects that this more detailed fee description will help to remove ambiguity about why the public is not charged this fee.

Business continuity risk for a legacy invoicing system

Due to its unique programming language, ICT support for SAAS's legacy invoicing system is mainly provided by a single analyst in DHW's Digital Health SA area. Consistent with last year, we noted that no business continuity plan exists to address the loss of knowledge in the event that this analyst becomes temporarily or permanently absent.

Therefore, this business continuity risk remains for 2021.

SAAS stated that the implementation of an electronic patient care record would help address this and other legacy system issues.

Supplies and services expenditure

Invoices paid without purchase orders and purchase orders created outside of the mandated financial system

In 2020-21 we found that SAAS continues to process expenditure that should be supported by purchase orders without them. Where purchase orders are not used when required, there is an increased risk of unnecessary or unauthorised expenditure occurring due to the lack of prior approval.

We also noted that SA Health's requisition, purchase order and invoice management policy mandates that purchase orders are created in the Oracle financial system. However, as has been the case since 2017, SAAS's fleet services team still raises manual, spreadsheet-based purchase orders. This approach has weaker controls than when using Oracle, especially around delegated approvals and the ability to authenticate the authorising officer.

SAAS responded that it would continue to remind its financial delegates of the requirement to use purchase orders. As in 2019-20, SAAS advised us that it had monitored for non-compliance but acknowledged further work was needed in this area.

SAAS also stated that it is performing targeted fleet purchase order workflow reviews to determine how these can be transitioned to Oracle.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Income		
Revenues from SA Government	194	160
Fees and charges	158	148
Other income	12	11
Total income	364	319
Expenses		
Staff benefit expenses	254	233
Supplies and services	64	63
Depreciation and amortisation	13	14
Other expenses	28	22
Total expenses	359	332
Net result	5	(13)
Other comprehensive income	46	15
Total comprehensive result for the year	51	2
Assets		
Current assets	66	43
Non-current assets	157	143
Total assets	223	186
Liabilities		
Current liabilities	59	67
Non-current liabilities	95	101
Total liabilities	154	168
Net assets	69	18

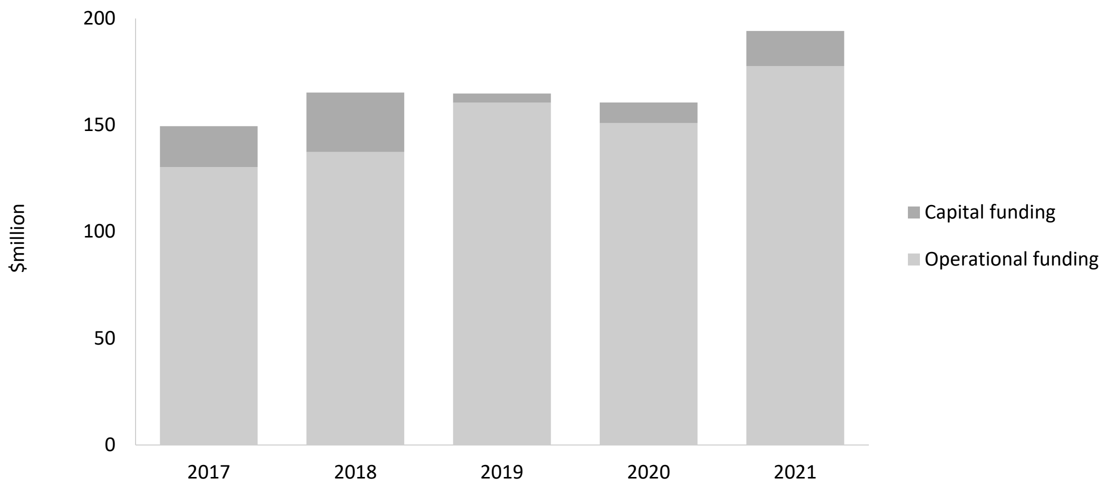
Statement of Comprehensive Income

Revenues

Revenues from SA Government

SAAS is dependent on revenue from the SA Government, which comprises 53% of its total revenue. In 2020-21 total revenues from the SA Government increased by $34 million (21%) to $194 million and comprised recurrent funding of $178 million ($151 million) and capital funding of $16 million ($10 million).

The chart below shows SA Government funding over the last five years, separated between capital and operational funding. While there have been changes in the composition of SA Government funding over this period, there has been an overall rise in total funding between 2017 and 2021.



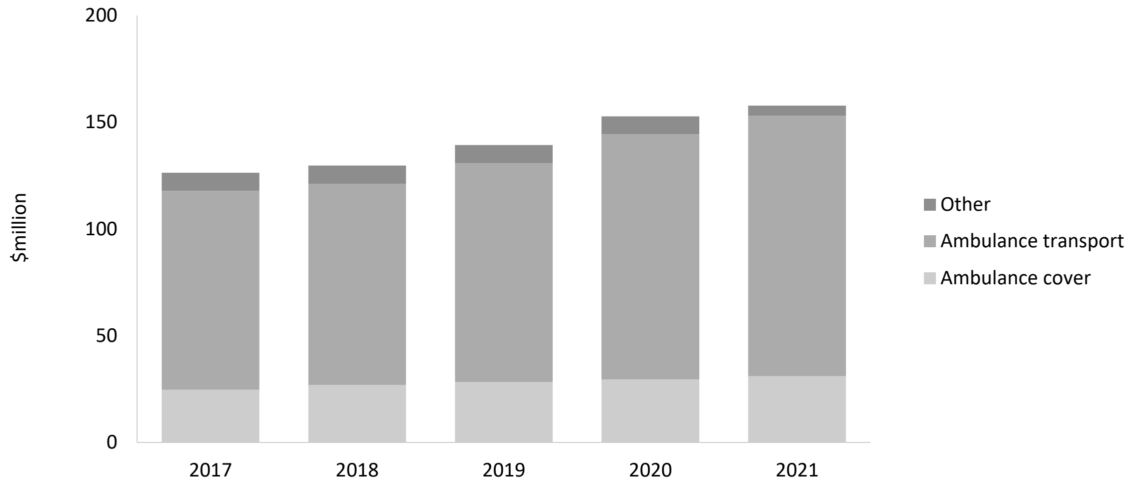
Revenues from fees and charges

Revenues from fees and charges increased by $10 million to $158 million. Significant components were:

- ambulance cover – $31 million ($29 million)
- ambulance transport – $122 million ($115 million).

Ambulance cover revenue is from member subscriptions to the SAAS ambulance cover scheme. The scheme covers members against the cost of ambulance transport. Ambulance transport revenue is earned from patient transport services to the general public, $90 million, and SA Government customers, $32 million. The increase in revenue from ambulance services reflects a gazetted fee rise of 2%, as well as growth in activity levels.

The following chart shows the growth in fees and charges revenue over the past five years. Fees and charges revenue increased by 23% over this period, reflecting growth in activity levels and rates.



Expenses

In 2020-21 total expenses increased by $27 million (8%) to $359 million.

Staff benefit expenses

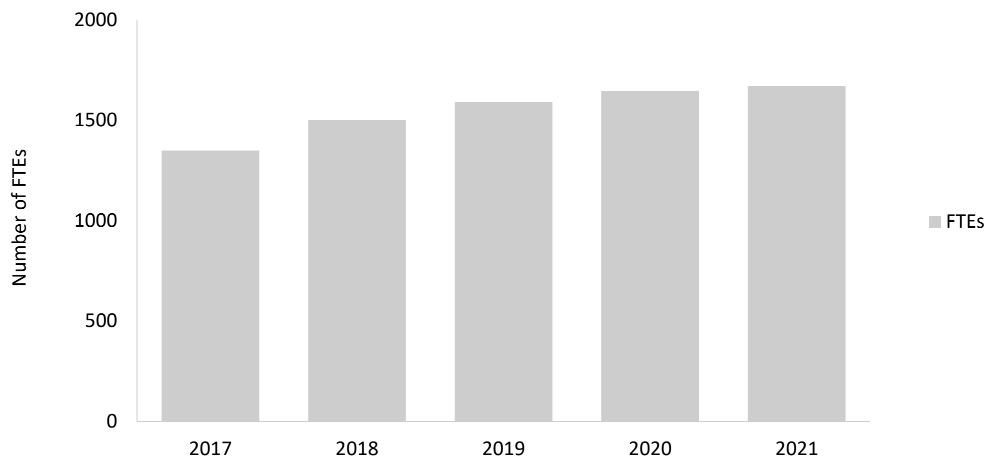
Staff benefit expenses of $254 million represented 71% of SAAS's total expenses. Salaries and wages rose by $8 million (5%) to $177 million. Long service leave expenses decreased by $4 million to $900 000, mainly due to the impact of changed actuarial assumptions used to estimate the associated liability, including a doubling of the discount rate to 1.5%.

The number of staff whose remuneration received/receivable exceeded the base executive level ($155 000) totalled 336 (334) comprising 281 (287) operational, 29 (19) medical, 20 (20) nursing, five (six) executive and one (two) administration staff.

Total remuneration for staff across these categories was $64 million ($64 million).

Total FTEs employed by SAAS have increased over the five years to 30 June 2021. There were 1348 FTEs at 30 June 2017, based on Office of the Commissioner for Public Sector Employment data, compared to 1669 at 30 June 2021. Within this total increase, the number of paramedics, medical, nursing and allied health staff increased from 1150 to 1268 between 2017 and 2021.

The chart below shows the overall growth in FTE numbers over five years.



Supplies and services expenses

Supplies and services expenses increased by $1.1 million to $63.9 million and included the following significant components:

- contractors – agency staff – $3.3 million ($4.7 million). The decrease in 2020-21 is mainly because SAAS changed how it engaged some resources, with more medical staff and senior registrars being employed directly rather than being seconded from local health networks
- travel – $300 000 ($2.2 million). The 2020-21 decrease reflects the impact of travel restrictions associated with COVID-19
- communication – $4 million ($3.4 million). The increase is attributable to a rise in service activity.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 66% of SAAS's total assets. The carrying value of property, plant and equipment increased by $6.5 million to $148 million in 2020-21. This was primarily due to:

- $20.3 million in additions, mainly related to the purchase of ambulance units and defibrillator equipment
- offset by depreciation and amortisation of $13.4 million.

Current assets

Cash and cash equivalents comprise 25% of current assets and increased by $6.3 million (61%) to $16.7 million. The main driver for the increase was increased SA Government revenue of $34 million, offset by moderate rises in supplies and services and staff benefits expenses and increased payments for capital works.

Current receivables make up 38% of current assets and decreased marginally by $1.4 million (5%) to $25 million.

Contract assets of $23 million relate to work completed but not yet invoiced. Contract assets increased by $18 million, with this rise mainly attributable to the significant delays in processing patient transport invoices discussed under 'Audit findings' above.

Liabilities

Staff liabilities comprise $127 million (82%) of SAAS's total liabilities at 30 June 2021, comprising:

- staff benefits liabilities and related on-costs – $91 million ($123 million)
- provisions for workers compensation – $36 million ($18 million).

Staff benefits liabilities decreased by $32 million to $91 million due mainly to:

- the de-recognition of a previous defined superannuation fund payable totalling $37 million in 2020-21, with the fund moving to a receivable position of $5.9 million as a result of an actuarial review. This movement is explained by the defined benefit scheme obligation and scheme asset movements detailed in note 20.3 of SAAS's financial report
- offset by an increase annual leave liabilities of $5 million.

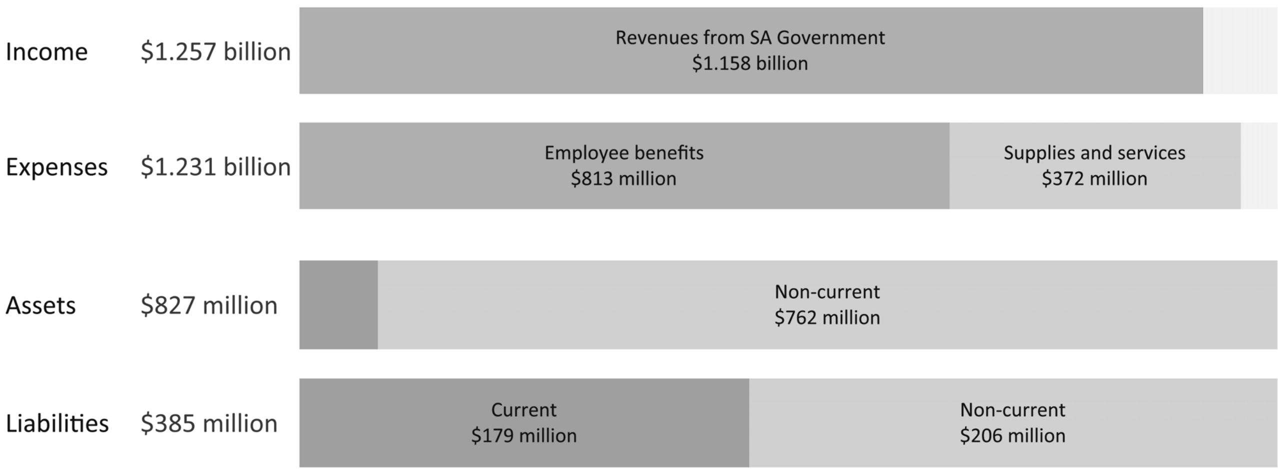
The provision for workers compensation increased by $17.1 million to $35.5 million. Workers compensation provisions are based on independent actuarial assessments. The increase was largely attributable to several new claims related to seriously injured workers. The actuarial model applied in determining the provision takes into account current claims as well as historical claim data.

As explained in note 21.1 of SAAS's financial report , which provides information on the actuarial assessment, there is a high level of uncertainty about the ultimate value of claims.

Current assets, $65.6 million, exceeded current liabilities, $59.3 million, at 30 June 2021. SAAS is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report provides information about its continuity of operations.

Southern Adelaide Local Health Network Incorporated (SALHN)

Financial statistics



6,103
Number of FTEs

$813 million
Payments to staff

$646 million
Buildings

Significant events and transactions

- The Chief Executive Officer (CEO) of SALHN resigned from her position effective 30 June 2021, with SALHN's Chief Operating Officer initially taking over as interim CEO until SALHN's Chief Financial Officer took over as interim CEO from late-August 2021.
- The Sunrise patient electronic medical record system (Sunrise EMR) activation commenced in March 2021 at the Flinders Medical Centre (FMC). The activation will allow better integration between FMC patient records and those at Noarlunga Hospital and other select services across SALHN that are already using Sunrise EMR.
- SALHN provided COVID-19 vaccination services at FMC and at a vaccination clinic in Noarlunga.
- Work was performed in 2020-21 to support the expansion of the FMC emergency department and to open new facilities at the Repat Health Precinct (RHP).

Financial report opinion — **Unmodified**

Controls opinion findings	— Payroll planning, monitoring and approval processes could be improved. — Asset management processes under the across government facilities management arrangements (AGFMA) could be improved. — Some contract management processes could be improved.
Other audit findings	— No review performed over user access to Sunrise EMR. — No agreement with health insurers for Hospital in the Home arrangements. — Some staff have taken more professional development leave than they are entitled to.

Functional responsibility

SALHN was established under the *Health Care Act 2008* (HC Act) and its powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. The HC Act sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their CEOs.

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the Board functions and responsibilities.

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

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

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between SALHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and SALHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2020-21 SALHN service agreement was executed in November 2020.

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

Impact of the COVID-19 pandemic

SALHN has continued to provide a frontline response to COVID-19 in its local area. This has included:

- establishing COVID-19 vaccination clinics at the FMC and at Noarlunga
- maintaining COVID-19 testing services at FMC and a dedicated COVID-19 healthcare facility at the RHP
- continuing to plan for potential workforce requirements and ensuring workforce capability to deal with pandemic scenarios.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for SALHN are provided through a mix of:

- central services provided by Shared Services SA (SSSA) through an integrated finance service model
- finance services located within SALHN
- central services provided by DHW.

SALHN commenced the activation of Sunrise EMR at FMC in March 2021. Sunrise EMR replaces FMC's legacy system and will allow better integration with other SALHN services that already use it. Consequently, our audit included the review of new and legacy systems. We completed audit work at SSSA's central services, SALHN and DHW.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and systems
- matters for individual health services
- DHW matters
- governance.

Specific areas of audit attention in 2020-21 included:

- governance
- accounts payable and goods and services expenditure
- payroll and workforce management
- patient billing and debtor management
- medical officer professional development
- cash and online banking

- general ledger and financial accounting
- property, plant and equipment.

We considered the work of SALHN's internal auditors in planning and conducting the audit.

Controls opinion

We reviewed controls over bank accounts, employee expenses, goods and services expenditure, buildings and improvements and the AGFMA as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Payroll planning, monitoring and approval processes could be improved

SALHN employs around 6100 (5900) FTEs and its payroll related costs are significant, with $813 million in staff benefit expenses paid and $286 million in staff benefit liabilities at 30 June 2021. Given the significance of these costs, we review key payroll controls each year.

SALHN does not have documented policies and procedures for identifying and reviewing positions requiring specific employment clearances

Different positions within an LHN can require different types of employment clearances. Working with children clearances are required for some staff, while others may require more general clearances. SA Health policy requires a current working with children clearance for all SA Health employees working in prescribed positions, as defined in child protection legislation.

In 2020-21, we found that SALHN had completed a review of positions and the types of checks required for them. It then commenced compliance reviews to ensure staff had the required checks.

However, we noted that SALHN did not have formally documented procedures in place to ensure the types of checks required were identified and monitored on an ongoing basis.

SALHN advised us that it would develop and implement documented procedures to ensure the ongoing monitoring of compliance with legislative requirements for employment checks.

High probability that staff have worked in prescribed positions without a working with children check

SA Health's criminal history screening policy requires a current Department of Human Services working with children check for all SA Health employees before their commencement or engagement in a prescribed position.

This requirement reflects the requirements of the *Child Safety (Prohibited Persons) Act 2016*.

In 2020-21, SALHN performed a compliance review of staff in positions it identified as prescribed. As at May 2021, SALHN had a total of 5225 staff working in prescribed positions requiring a working with children check. Of these, it identified 1252 staff (24%) who either had an expired working with children check or no record of a check.

Our analysis of the staff without a current working with children check found that they included staff working in the emergency department and in the women and children area. As a result, there is a high probability that some of those staff provided care to children when they did not have a check in place.

SALHN acknowledged the importance of this issue and advised us that it would track non-compliance by implementing a working with children check compliance KPI, to be monitored each fortnight at a senior managers meeting.

Employees working in aged care roles without a current aged care check

Under the *Aged Care Act 1997,* screening checks must be obtained for employees working in Commonwealth Government subsidised aged care roles.

SALHN's Aged Care Assessment Team (ACAT) is part of a Commonwealth funded program and the staff are in Commonwealth subsidised aged care roles. This means ACAT staff should have a valid aged care check to comply with legislative requirements.

At the time of our audit, we noted that none of the ACAT staff had a valid aged care check.

SALHN advised us that it was working to ensure all required staff obtained the appropriate aged care checks.

SALHN did not have a consolidated workforce plan

We have, for a number of years, considered workforce planning across a number of agencies with significant workforce numbers. In 2018-19, we found that SALHN did not have a consolidated workforce plan. Since then, SALHN has addressed aspects of its workforce planning and is continuing to progress work to develop a consolidated workforce plan and strategies to identify and manage workforce needs, including targeted work to reduce its reliance on agency staff.

In 2020-21, SALHN undertook further work in this area, including:

- completing an evaluation of its sustainability in early 2021
- identifying the need for a SALHN-wide nursing workforce plan after completing the Nursing Workforce Scheme
- developing a Clinical Services Workforce Plan, with expected completion in August 2021
- developing a workforce plan as part of its COVID-19 response plan.

SALHN advised us that it would continue to develop its workforce plan and to work on other strategies to ensure it had the appropriate workforce to deliver its outcomes.

SALHN's records indicated around 33% of its staff did not have a current performance review in April 2021

In 2020-21, we continued to review how current the employee performance reviews were at a number of agencies, including SALHN.

Our review of SALHN's data in April 2021 indicated that 2671 staff (33%) out of a total of 8183 did not have a current performance review. Of these, 1068 (40%) had been expired for more than a year.

SALHN advised us that it would continue to reinforce the importance of the performance review process to all divisions, to ensure that they actively conduct the performance review process in line with established KPIs.

No central monitoring process to ensure regular review of payroll information occurs

Key payroll reports for SALHN's staff differ depending on the type of employee. The effective review of these reports helps ensure payments to staff are accurate and valid.

For staff who are automatically paid each fortnight, key payroll information is captured on bona fide reports and leave return certificates. SALHN relies on these payroll reports for a small group of its workforce.

For nursing and midwifery staff, a large part of SALHN's workforce, key payroll information is contained in the ProAct rostering system, as this interfaces with the Chris21 payroll system used to pay these staff.

There are also other SALHN staff who are paid based on manually submitted timesheets, with many of them paid significant allowances in addition to their automatically paid base pay.

In 2019-20, SALHN introduced staff establishment reports to cover all employees who were not automatically paid. These reports are sent to divisional managers each month for review to ensure employee information is correct and accurate. However, we noted that there were no procedures covering the use of these reports, their review and approval or the required time frames.

In 2020-21, we found that SALHN had updated the correspondence it sends to divisions, setting out the actions required and areas of the staff establishment reports to review. We noted, however, that the revised approach did not specify time frames for reviews to be completed, and there was no requirement for managers to submit reviewed information centrally to be monitored. As a result, we could not obtain assurance that the reports were being reviewed appropriately and that any errors detected in employee payroll information were promptly followed up and rectified.

SALHN advised us that it would engage with key divisional personnel to explore opportunities to establish an effective methodology for ensuring the validity and accuracy of payroll information.

Inconsistent medical rostering practices

We have previously reported that SALHN had inconsistent medical rostering practices between divisions. In 2019-20 we noted that SALHN had established a medical workforce project team to review the standardisation of rostering practices for medical staff, the approval of non-rostered overtime and the review of overtime information.

In 2020-21, SALHN formally issued guidelines for the rostering of trainee medical officers (TMOs) to address deficiencies in the standardisation of rostering practices.

SALHN advised us that it would continue work to standardise rostering approaches, building on its recent experience with TMOs.

On-call allowances were not always reviewed

Remote call allowances paid to staff are subject to review at least twice a year to ensure that the criteria for paying the allowance are satisfied. SALHN has a work instruction that requires the review of these allowances in April and October each year.

In prior years, we identified instances where either no reviews were performed or the reviews were incomplete. In 2020-21, we noted that the biannual review that commenced in May 2020 was completed in July 2020. No other reviews were completed in 2020-21.

SALHN advised that it was exploring opportunities to streamline the review of remote call allowances.

Leave management

In prior years, we noted that SALHN had staff with negative leave balances and staff with excessive annual leave balances. In 2020-21, this continued to be an issue, despite SALHN implementing enhanced reviews and management practices. From our review, we found:

- 122 employees with negative leave balances
- 418 employees with annual leave liability balances of more than 400 hours.

SALHN advised that it would continue work to investigate negative leave balances and reduce excess leave.

Asset management processes could be improved

SALHN has property, plant and equipment worth $753 million. As part of our controls opinion work in 2020-21, we considered the control processes in place to manage the maintenance of these assets, including considering the AGFMA.

Consistent with our 2019-20 findings, in 2020-21 we continued to find that SALHN:

- did not have a consolidated strategic asset management plan and supporting asset management plans. In 2020-21, we found that work on the strategic asset management plan continued and asset management plans had not been finalised
- did not use asset condition reports prepared by Spotless (as the facilities services provider). In 2020-21, these reports were still not useful to SALHN as many assets in continued use were rated as unserviceable. The lack of guidance for condition assessments potentially results in the information necessary for appropriate asset management not being captured
- did not use the strategic asset management system, SAMIS, to record detailed asset information. Instead, SALHN used a Spotless system that does not comply with the minimum requirements. In 2020-21, we noted that some SALHN asset information was still being manually updated in SAMIS.

In 2020-21, we also continued to find that the financial delegations in the system used to order maintenance work were not consistent with SALHN's financial delegations. We also found a number of instances where approvals were given by staff who did not have the appropriate delegation.

SALHN responded that:

- DHW had collaborated with all the LHNs to develop a standardised plan for asset management planning. SALHN advised us that a draft strategic asset management plan was being considered by its Executive
- the current systems have deficiencies that reduced the effectiveness of the information generated. SALHN also believed that Spotless was responsible for updating asset information. SALHN will liaise with the new AGFMA provider in 2021-22 to re-establish an accurate condition rating for its assets, as part of the due diligence and asset information transition process
- delegations will be reviewed to reflect operational requirements and work practices
- work instructions will be reviewed to ensure efficient workflows and that segregation of duties is maintained and monitored.

Some contract management processes could be improved

SALHN paid over $372 million for supplies and services in 2020-21. We identified issues in contract management and purchasing from our work on goods and services expenditure for the controls opinion.

We found that:

- contracts were not established for some regular services, as was the case in prior years. In 2020-21 we identified one instance where significant expenditure of about $3 million between 1 July 2020 and 30 April 2021 was not supported by a contract with the supplier. We noted that no contract has been in place with this supplier since 2017-18
- not all of SALHN's high-value and high-risk contracts have a contract management plan. Contract management plans are required for strategic contracts under SALHN's framework. In 2020-21, we found examples of contract management plans not being developed for strategic contracts.

SALHN responded that:

- it conducts quarterly reviews of non-contract spend to identify contract establishment opportunities. SALHN had received approval to negotiate with the supplier to ensure a contract was in place by September 2021, with a public tender for these services to be called by October 2021
- it will continue to complete outstanding contract management plans in 2021-22, including those identified in our audit.

Other audit findings

Hospital billing

Our audit covered the major financial functions for hospital billing. Sunrise EMR is used for patient billing at Noarlunga Hospital and part of the FMC, with Homer used for most patient billing at the FMC.

In March 2021, SALHN commenced activation of Sunrise EMR for the rest of FMC. However, due to timing, our audit covered Sunrise EMR and the legacy systems.

SALHN's revenue from patient and client fees was around $42 million in 2020-21, with a further $3 million recorded in private practice fees controlled by SALHN. A further $14 million was collected on behalf of medical officers and DHW in administered revenue from private practice arrangements.

No user access review performed for Sunrise EMR

SA Health policies require periodic user access reviews. A SALHN system administrator is responsible for reviewing general user access to Sunrise EMR.

In 2020-21, we found that SALHN had not performed a review of general user access to Sunrise EMR. The last review was completed in January 2020.

We acknowledge that a review of general user access was not conducted for the main part of FMC due to the activation of Sunrise EMR. However, as Sunrise EMR was already in use in the other parts of SALHN, a review should have been performed for these areas to ensure that user access remained appropriate.

SALHN responded that:

- it would review Sunrise EMR user access in September 2021 following activation, and then annually
- it would develop a work instruction to support the Sunrise EMR user access review process
- as part of user access control, Sunrise EMR user accounts are disabled if they have not been used for six months.

No agreement with health insurers for Hospital in the Home (HIH) arrangements

As we have noted in the past, SALHN is not collecting revenue for HIH services because there are no agreements in place with health insurers. In 2020-21, we found there were still no agreements in place between SA Health and private health insurers.

As at 30 April 2021, around $410 000 in 2020-21 HIH charges were not billed. As HIH services become more common, the amount of potential revenue SALHN is losing will increase if arrangements with health insurers are not in place.

SALHN responded that it will continue to work with SA Health to progress negotiations for HIH agreements with private health insurers.

Management of professional development entitlements

SA Health enterprise agreements provide for medical officers to claim an allowance of up to $44 000 over a two-year period for professional development expenses.

In addition, salaried medical officers are entitled to up to 10 days of professional development leave a year.

Some staff have taken more professional development leave than they are entitled to

SA Health's enterprise agreements state that medical officers, visiting medical specialists and clinical academics are entitled to 10 days of professional development leave each year and can accumulate up to 20 days over two years.

In 2020-21, we analysed payroll transactions from April 2019 to April 2021 and identified eight medical officers who had exceeded the 20-day maximum for professional development leave over that period.

SALHN responded that the eight identified instances of excess leave had been escalated for review. A reminder would also be sent to all managers who have delegation to approve professional development leave to ensure entitlements are checked before approving professional development leave.

SALHN also advised us that its new system for managing professional development should prevent employees from claiming in excess of their leave entitlements in future.

Interpretation and analysis of the financial report

Highlights of the financial report

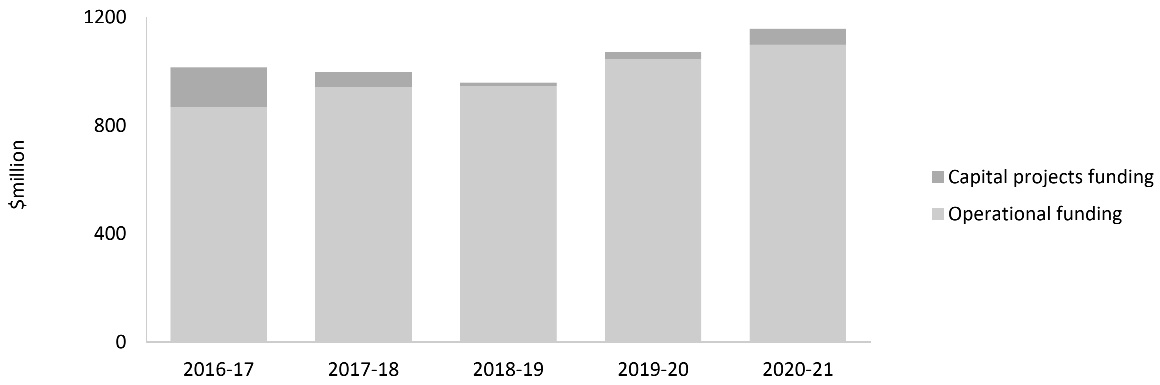
	2021 $million	2020 $million
Income		
Revenues from SA Government	1 158	1 071
Revenue from fees and charges	62	58
Grants and contributions	5	5
Other income	32	26
Total income	1 257	1 160
Expenses		
Staff benefit expenses	813	787
Supplies and services	372	350
Depreciation and amortisation	44	43
Other expenses	2	1
Total expenses	1 231	1 181
Net result and total comprehensive result	26	(21)
Assets		
Current assets	65	56
Non-current assets	762	744
Total assets	827	800
Liabilities		
Current liabilities	179	169
Non-current liabilities	206	215
Total liabilities	385	384
Total equity	442	416

Statement of Comprehensive Income

Income

Revenues from SA Government

SALHN is mainly funded through recurrent and capital funding from DHW. In 2020-21, overall revenues increased by $87 million (8%) to $1.158 billion due to increased capital funding of $34 million and increased recurrent funding of $53 million. The chart below shows revenues from SA Government over the last five years.



The $34 million increase in capital funding was mainly associated with works at the RHP, described further under 'Further commentary on operations' below.

The $53 million (5%) increase in recurrent funding to $1.098 billion reflects additional funding for the costs associated with increased service provision at the FMC and RHP. There were also additional costs associated with COVID-19 responses, including the operation of vaccination clinics, and funding associated with the activation of Sunrise EMR at the FMC.

Revenues from fees and charges

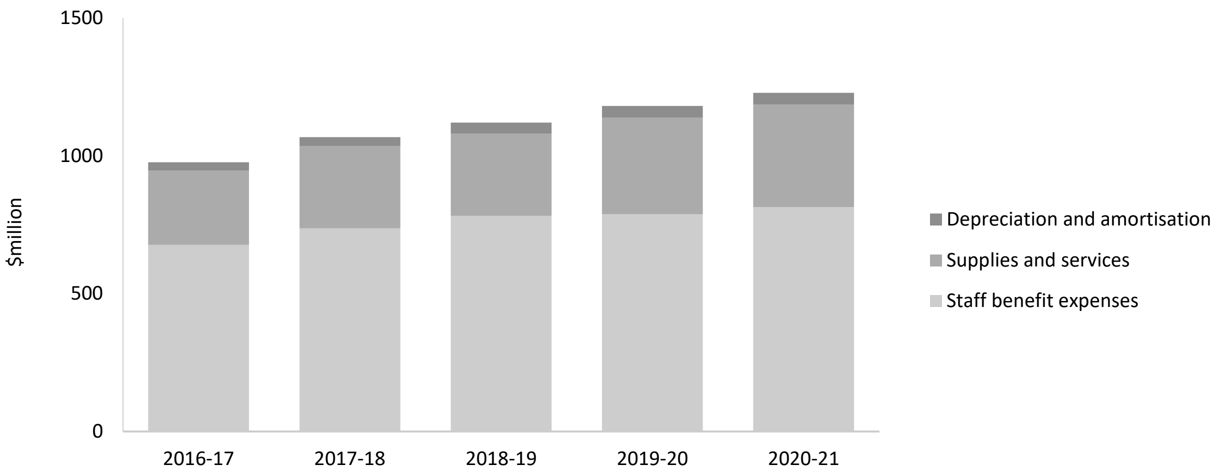
In 2020-21 revenues from fees and charges increased by $4 million (6%) to $62 million, mainly due to:

- a $5 million (13%) increase in patient and client fees received, mainly as a result of increased compulsory third party claims for motor vehicle accident related treatments
- a $1 million (10%) increase in fees for health services for doctors and nurses, reflecting recharges to other SA Health entities
- offset by a $2 million (36%) decrease in general car parking revenue, reflecting the provision of free staff parking as a result of COVID-19.

Expenses

In 2020-21 total expenses increased by $50 million (4%) to $1.231 billion.

The chart below shows the composition of expenses for the last five years.



Staff benefit expenses

Staff benefit expenses of $813 million represent 66% of SALHN's total expenses. These costs have increased by $26 million in 2020-21 mainly due to:

- a $34 million increase in salaries and wages expense to $659 million, a $2 million increase in staff superannuation on-costs to $69 million and a $1 million increase in annual leave costs, mainly from an increase in FTEs of 188 in 2020-21 and annual salary and allowance increases associated with enterprise agreements for nursing staff and visiting medical specialists
- offset by a $12 million decrease in long service leave expenses. In 2020-21, the increase in the interest rate used in the actuarial calculation of long service leave liabilities resulted in a decrease in the reported long service leave liability and a reduction in the associated expense.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical staff, based on FTEs, since 2016-17. The table shows an overall growth in FTE numbers over the five years, including in 2020-21.

	2016-17 FTEs	2017-18 FTEs	2018-19 FTEs	2019-20 FTEs	2020-21 FTEs
Medical officers	807	863	891	923	963
Nurses	2 751	2 959	2 918	2 989	3 084
Non-medical	2 124	1 907	1 901	2 003	2 056
Total FTEs	5 682	5 729	5 710	5 915	6 103

The number of staff whose remuneration received or receivable exceeded the base executive level ($155 000) totalled 731 (649), comprising 661 (597) medical officers, 57 (38) nursing staff, 10 (eight) executives and three (six) non-medical staff. Total remuneration for these staff was $208 million ($188 million).

Supplies and services expenses

Supplies and services expenses of $372 million represent 30% of SALHN's total expenses.

Supplies and services expenses increased by $22 million (6%) in 2020-21, mainly due to:

- medical, surgery and laboratory supplies, which increased by $12 million (10%) to $138 million, and drug supplies, which increased by $834 000 (3%) to $26 million. These increases mainly reflect the impact of changes to charging for central services, such as pathology tests, with the full cost now charged to LHNs (and funded through revenues from the SA Government)
- minor equipment, which increased by $3 million (83%) to $7 million, mainly from costs associated with upgrading patient bedside monitor systems as part of the Sunrise EMR activation
- security expenses, which increased by $3 million (38%) to $10 million
- fee for service, which increased by $2 million (5%) to $41 million
- repairs and maintenance, which increased by $2 million (10%) to $18 million
- offset by a $2 million (12%) decrease to $15 million in contractors – agency staffing expenses.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 91% of SALHN's total assets. Its carrying value increased by $18 million (2%) to $753 million in 2020-21. This increase is due mainly to:

- additions of $53 million for capital works in progress, mainly at the RHP
- additions of $5 million for new medical and surgical equipment
- assets received free of charge of $2 million for capital works in progress
- offset by depreciation charges of $43 million.

Liabilities

Current liabilities increased by $10 million (6%) to $179 million during the year and exceeded current assets by $114 million at balance date. Cash and cash equivalents of $36 million were insufficient to meet current payables of $37 million at 30 June 2021. SALHN works with DHW to ensure sufficient funding is provided to meet the expected cash flows for its administration and program delivery.

Total liabilities increased marginally by $1 million to $385 million.

Staff liabilities make up $350 million (91%) of SALHN's total liabilities at 30 June 2021, comprising:

- staff benefits liabilities and related on-costs of $305 million ($306 million)
- workers compensation provisions of $45 million ($44 million).

The movement in staff liabilities is marginal and mainly due to:

- a $6 million (8%) increase in annual leave liabilities
- offset by a $7 million (4%) decrease in long service leave liabilities.

Further commentary on operations

SALHN infrastructure changes

Repat Health Precinct capital works

Work continued in 2020-21 at the RHP, with building works associated with previously announced initiatives being undertaken.

As at 30 June 2021, SALHN recorded completed capital works of approximately $33 million at the RHP, mainly comprising :

- $15 million for the neuro behavioural unit
- $4 million for the refurbishment of wards for use by COVID-19 patients
- $10 million for the care transition unit
- $3 million for the veterans wellbeing centre.

SALHN also recorded capital works in progress of $32 million at the RHP, including:

- $14 million for the brain injury and spinal cord injury rehabilitation unit
- $8 million for improvements to the gym and town square
- $10 million for master planning and common area works.

Flinders Medical Centre capital works

As at 30 June 2021, SALHN recorded completed capital works at FMC, mainly comprising:

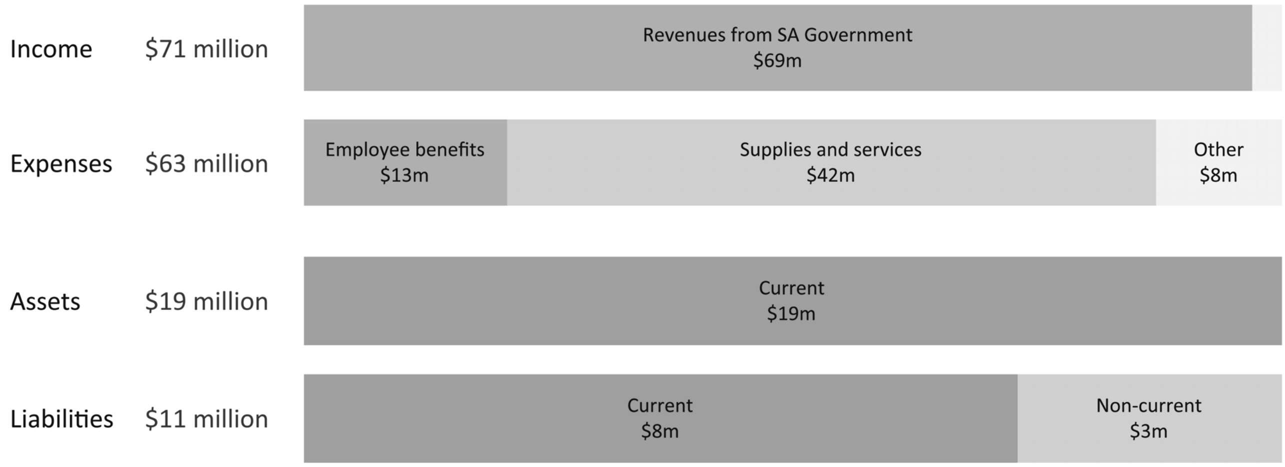
- $3 million for improvements to solar power generation capacity at the FMC
- $2 million for general upgrades and improvements.

SALHN also recorded capital works in progress of $8 million at FMC, including:

- $5 million for the FMC emergency department expansion
- $3 million for various building improvements at FMC.

Wellbeing SA (WBSA)

Financial statistics



111
Number of FTEs

Significant events and transactions	— WBSA released its Strategic Plan 2020-25. — WBSA commenced My Home Hospital services. — WBSA's financial report outlines costs associated with the COVID-19 pandemic of $3 million.
Financial report opinion	**Unmodified**
Audit findings	Aspects of the procurement of My Home Hospital services managed by the Department for Health and Wellbeing (DHW) needed to improve.

Functional responsibility

WBSA was established on 6 January 2020 as an attached office to DHW by proclamation under the *Public Sector Act 2009* (PS Act).

WBSA has a long-term vision to create a balanced health and wellbeing system that supports improved physical, mental and social wellbeing for all South Australians. WBSA's strategic plan states that it will employ the following approaches to its work:

- Lead – provide system leadership in prevention, the collection and use of data and evidence to inform practice and out-of-hospital strategies and services.

- Commission – fund approaches and services for prevention, health promotion, early intervention and hospital avoidance.
- Partner – work collaboratively with community and stakeholders to impact health and wellbeing and coordination of care.
- Deliver – support the implementation of evidence-based approaches for health promotion and integrated community-based health care.
- Prioritise – focus on priority settings and priority population groups who experience poorer health outcomes and are at higher risk of preventable hospital admissions.

The Minister for Health and Wellbeing is responsible for WBSA.

Scope of the audit

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

Financial services for WBSA are provided through a mix of:

- finance services located within WBSA
- services provided by DHW
- services provided by Shared Services SA.

Specific areas of audit attention in 2020-21 included:

- payroll
- accounts payable
- grants and subsidies
- cash
- general ledger
- procurement activities, including those for My Home Hospital services.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of WBSA. The main findings are discussed below.

Audit findings

Procurement of My Home Hospital services

The My Home Hospital services procurement resulted in a period contract for the provision of acute, hospital-level care to patients in their place of residence across metropolitan and peri-urban Adelaide. The purchase recommendation estimated the value of the resulting contract with a joint venture provider at $176 million over five years.

Staff from both WBSA and DHW's Procurement and Supply Chain Management team (PSCM) were responsible for elements of the procurement of My Home Hospital services.

We found that WBSA and DHW had generally complied with State Procurement Board requirements and SA Health policies, however the following areas required improvement:

- instances where conflict of interest management plans were not approved by the Executive Director, PSCM or briefed to the Chief Executive of DHW as required by SA Health's Probity in SA Health Procurement Policy Directive
- instances where deviations from the acquisition plan were not assessed and documented in the purchase recommendation in line with SA Health's Deviation from Approved Acquisition Plan Policy Directive.

Given DHW's role to support and advise entities on large procurements across SA Health, we reported these findings to the Chief Executive of DHW. The section in this Report titled 'Department for Health and Wellbeing' provides further details and a summary of DHW's response to these matters.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Income		
Revenues from SA Government	69	27
Other	2	1
Total income	71	28
Expenses		
Employee benefits expenses	13	5
Supplies and services	42	19
Grants and subsidies	8	4
Total expenses	63	28
Net result	8	-
Assets		
Current assets	19	7
Total assets	19	7
Liabilities		
Current liabilities	8	5
Non-current liabilities	3	2
Total liabilities	11	7
Total equity	8	-

2020-21 was the first full year of WBSA's operations, whereas the 2019-20 figures in the table above represented approximately six months of operation.

Statement of Comprehensive Income

Revenue

Revenues from SA Government

WBSA is principally funded by the SA Government. In 2020-21, funding of $69 million or 97% of total income comprised appropriations of $20 million and funding from DHW of $49 million.

Expenses

Employee benefits expenses

Employee benefits expenses of $13.5 million represent 21% of WBSA's total expenses. Full-time equivalent staff increased by 22 (25%) to 111 as at 30 June 2021.

The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled five (one). Total remuneration for these employees was $1.3 million.

Supplies and services expenses

Supplies and services increased by $23.5 million to $42.4 million and included the following significant components:

- contract of health services – $34.7 million ($14.9 million), mainly relating to the SA Community Care Program and My Home Hospital
- contractors – $2 million ($1 million)
- health surveys – $1.3 million ($870 000)
- advertising – $775 000 ($1 million)
- contractors – agency staff – $871 000 ($151 000).

Statement of Financial Position

Assets

Current assets increased by $11.4 million to $18.8 million as at 30 June 2021 and essentially comprise cash and cash equivalents of $17.6 million ($6.2 million) and receivables of $1.2 million ($1.1 million).

Liabilities

Employee related liabilities

Employee related liabilities of $4.8 million ($3.7 million) make up 43% of WBSA's total liabilities at 30 June 2021 and mainly relate to employee benefits liabilities and related on-costs.

Further commentary on operations

Response to the COVID-19 pandemic

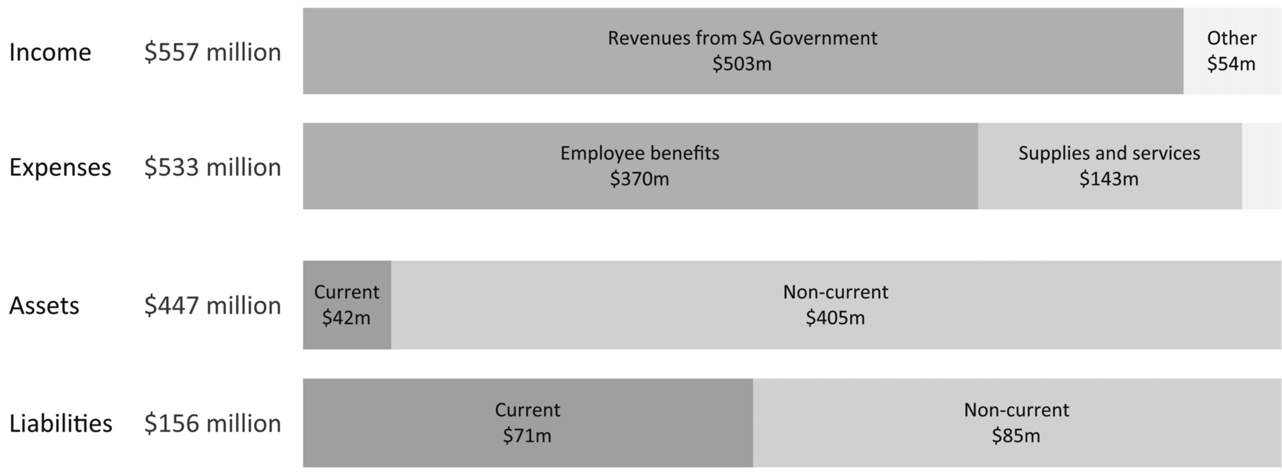
Responding to COVID-19 has had a significant impact across SA Health in 2020-21, including at WBSA. Some of the more significant initiatives implemented by WBSA were:

- developing an Open Your World campaign and platform to raise awareness about building community resilience and to support physical, social, mental and community wellbeing in response to COVID-19
- community wellbeing and resilience grants providing funding for community-based projects that contribute to positive wellbeing and resilience outcomes, to address the impacts of COVID-19 on groups of people in the South Australian community

Note 1.4 of WBSA's financial report outlines net costs associated with COVID-19 of $3 million.

Women's and Children's Health Network Incorporated (WCHN)

Financial statistics



2,891
Number of FTEs

Significant events and transactions

- Sustainment upgrades budgeted at $62 million for the existing Women's and Children's Hospital, addressing priority clinical and infrastructure requirements, progressed in 2020-21.
- The project to build the new Women's and Children's Hospital advanced to the planning and design phase.

Financial report opinion

Unmodified

Audit findings

- Delays in medical officers submitting timesheets.
- Inconsistent management of medical practitioners' rosters.
- Insufficient review of bona fide employee reports.
- Nurses' time records were not always approved.
- Limited workforce planning for medical officers.
- Invoices paid without purchase orders.
- One consultancy engagement was not approved in line with delegations.

Functional responsibility

WCHN is an incorporated hospital established under the *Health Care Act 2008* (HC Act).

WCHN's functions include the provision of health services to women and children, with its principal unit being the Women's and Children's Hospital.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the board functions and responsibilities.

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

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

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between the WCHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and the WCHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2020-21 WCHN service agreement was executed in December 2020.

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

Ongoing response to the COVID-19 pandemic

COVID-19 continues to impact the WCHN's operations, including the increased costs associated with COVID-19 capacity and preparation, the readiness of COVID-19 testing clinics, establishing vaccine hubs, increased demand for personal protective equipment and increased staffing costs.

Scope of the audit

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

Financial services for WCHN are provided through a mix of:

- central services provided by DHW
- finance services located within WCHN
- services provided by Shared Services SA (SSSA).

Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, WCHN and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A chartered accounting firm assisted the Auditor-General with the audit of WCHN.

Specific areas of audit attention in 2020-21 included:

- cash
- payroll and workforce management
- accounts payable
- procurement and contract management
- revenue and accounts receivable
- fixed assets
- general ledger.

We considered internal audit activities in designing and performing our audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of WCHN. The main findings and WCHN's responses are discussed below.

Payroll

WCHN employs around 2900 FTEs and its payroll related costs are significant, with $370 million in staff benefits expenses paid and $125 million in staff benefits liabilities. As a result, payroll is a focus of our audit each year.

Delays in medical officers submitting timesheets

Consistent with last year, we identified delays in the submission of manual timesheets by medical officers. Delays between the time an employee works and when their timesheet is submitted for review can reduce the effectiveness of management's ability to confirm the completeness and accuracy of time recorded.

WCHN responded that business managers would continue to follow up delayed timesheets and noted that it had provided input into the development of DHW's new time and attendance procedure. Where an area of concern is identified, staff will be reminded of the requirement to submit timesheets promptly. WCHN is also in discussions with the Northern Adelaide Local Health Network Incorporated to trial the ProAct rostering system for trainee medical officers.

Inconsistent management of medical practitioners' rosters

We have previously reported that WCHN had inconsistent practices across its departments for managing medical officers' rosters, including manual processing involving spreadsheets. In 2020-21 we found that these inconsistent practices remained.

At the time of our audit we identified 582 salaried medical officers employed under the *SA Health Salaried Medical Officers Enterprise Agreement 2017*. Many of them work a seven-day roster in line with this agreement. We reviewed practices and found:

- roster templates were not uniform across divisions
- in some cases rosters were maintained in spreadsheets requiring significant manual data entry
- no system controls were in place to ensure compliance with the employment agreement (for example, break times between shifts) or operational rules
- there was no WCHN framework or other guidance on establishing, approving and monitoring rosters.

Inconsistent rostering practices impact WCHN's ability to manage award conditions and service capacity, resulting in the potential inefficient use of services.

WCHN responded that it has commissioned a job planning improvement project, with a proposal for team based service planning already developed. However, discussions with DHW indicate that sector discussions about job planning will be led by DHW in line with enterprise bargaining negotiations, meaning WCHN cannot progress its project in this area until those negotiations are completed.

Insufficient review of bona fide employee reports

Since 2018 we have reported that WCHN managers and team leaders did not always review bona fide payroll reports to ensure the completeness and accuracy of staff payments. In 2020-21 we found that this was still an issue. In April 2021, 3587 reports were outstanding, with 1399 outstanding for up to 12 months and 2188 outstanding for more than 12 months.

Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments.

WCHN responded that managers are receiving monthly bona fide payroll reports, and that it will investigate closing out historical bona fide payroll reports that cannot be approved by current managers.

Nurses' time records not always approved

Timesheets for nurses and other ancillary staff are created in the ProAct rostering system. Managers are required to electronically authorise timesheets before they are forwarded to SSSA for payment processing.

Consistent with prior years, the interface between ProAct and the Chris21 payroll system does not prevent unauthorised timesheets from being uploaded and paid. Our review of ProAct timesheets processed between July 2020 to April 2021 found that 10% were unauthorised – an improvement from 13% last year.

WCHN responded that it will investigate options to improve the prompt authorisation of ProAct timesheets.

Limited workforce planning for medical officers

WCHN has developed workforce strategies for its Aboriginal workforce and its nursing and midwifery workforce, but did not have a specific workforce strategy for its medical officers. We note WCHN has identified a key enabler of its 2026 strategy is an 'engaged and capable workforce'.

Without a medical officer workforce plan, WCHN's ability to effectively manage this employee group may be impaired, impacting its overall ability to meet strategic and operational objectives.

WCHN responded that SA Health is committed to developing a whole-of-health workforce strategy, and that WCHN is also developing a local framework and tools for workforce planning.

Supplies and services expenditure

WCHN spent around $143 million on supplies and services in 2020-21. These payments should occur within the processes established to govern them, and be approved by staff with the appropriate financial delegation.

Invoices paid without purchase orders

Consistent with prior years, in 2020-21 WCHN processed some expenditure that should have been supported by purchase orders without them. Payments should be subject to purchase orders at WCHN unless they are on a list of exempt items or are for less than $2200. Where purchase orders are not used when required, there is an increased risk of unnecessary or unauthorised expenditure occurring, due to the lack of prior approval.

WCHN responded that it will improve compliance in this area, and also educate staff about mandated purchasing requirements.

One consultancy engagement was not approved in line with delegations

WCHN's financial delegations require consultancy engagements worth more than $110 000 to be approved by the Chief Executive of DHW. We found an example of a consultancy engagement for $240 000 that was approved by the WCHN Chief Executive Officer, rather than the Chief Executive of DHW.

WCHN responded that this was an isolated error, and that it will continue to comply with relevant WCHN and SA Health procurement policies and guidelines.

Interpretation and analysis of the financial report

Highlights of the financial report

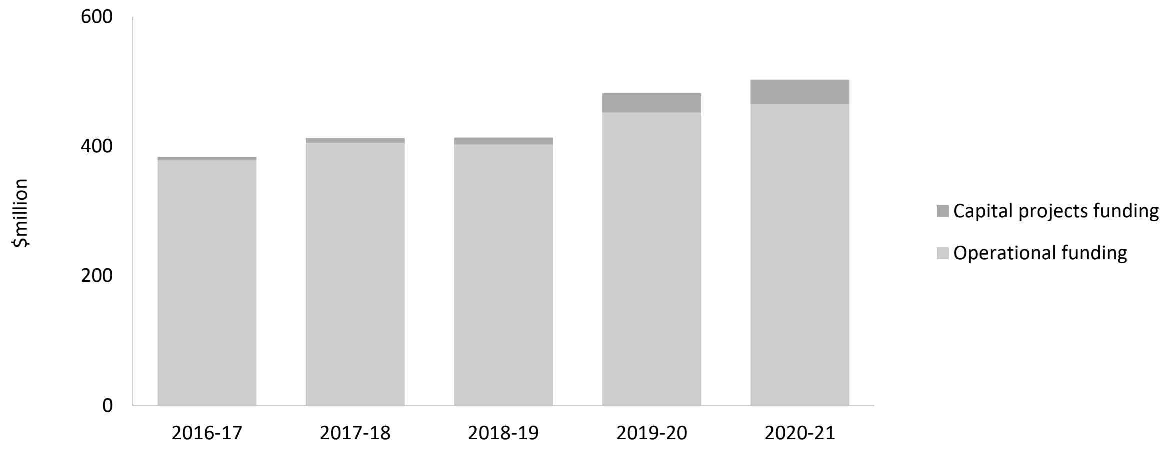
	2021 $million	2020 $million
Income		
Revenues from SA Government	503	482
Fees and charges	27	26
Grants and contributions	9	9
Other income	18	17
Total income	557	534
Expenses		
Staff benefits expenses	370	364
Supplies and services	143	132
Depreciation and amortisation	20	20
Other expenses	-	1
Total expenses	533	517
Net result	24	17
Assets		
Current assets	42	37
Non-current assets	405	385
Total assets	447	422
Liabilities		
Current liabilities	71	68
Non-current liabilities	85	87
Total liabilities	156	155
Net assets	291	267

Statement of Comprehensive Income

Revenues

Revenues from SA Government

WCHN is principally funded by DHW. In 2020-21, DHW funding of $503 million ($482 million) comprised recurrent funding of $465 million ($452 million) and capital funding of $37 million ($30 million). Capital funding mainly related to building sustainment upgrades addressing high priority clinical and infrastructure requirements. The chart below shows revenues from SA Government over the last five years.



The chart shows that there has been overall growth in revenue over the five years and, in the last two years, additional spending on capital projects – mostly associated with sustainment works.

Fees and charges

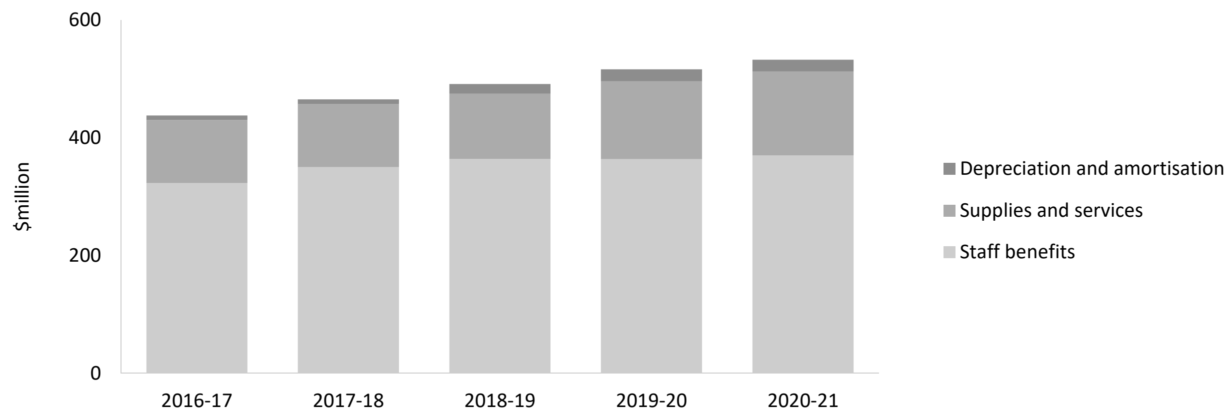
Fees and charges totalled $27 million and include the following significant components:

- patient and client fees – $13.4 million ($12.3 million). The increase was mainly due to moderate rises in clinical activity in 2020-21
- private practice fees – $2 million ($2 million)
- car parking revenue – $1.6 million ($2.4 million). The decrease reflects the provision of free parking in response to COVID-19.

Expenses

In 2020-21 total expenses increased by $16 million to $533 million.

The chart below shows the composition of expenses for the last five years.



The chart shows there has been overall growth in expenditure over the last five years across all three major categories.

Staff benefits expenses

Staff benefits expenses, $370 million, represent 69% of WCHN's total expenses and include the following significant components:

- salaries and wages – $301 million ($292 million). The increase mainly reflects increased staff numbers and the impact of salary increases under the nursing enterprise agreement
- long service leave – $3.2 million ($6.4 million). The decrease was mainly due to the impact of changed actuarial assumptions used to estimate the associated liability. The discount rate used to calculate the liability increased, resulting in a decrease in the liability
- workers compensation – $3.5 million ($400 000). The increase reflects the recognition of liabilities associated with a rise in seriously injured workers.

The following table shows the breakdown of total staff numbers between medical, nursing and non-medical staff, based on FTEs, since 2016-17. The table shows an overall growth in FTE numbers over the five years, including in 2020-21.

	2016-17 FTEs	2017-18 FTEs	2018-19 FTEs	2019-20 FTEs	2020-21 FTEs
Medical officers	305	329	343	339	347
Nurses	1 282	1 347	1 321	1 329	1 393
Non-medical	1 136	1 077	1 096	1 098	1 151
Total FTEs	2 723	2 753	2 762	2 766	2 891

The number of staff whose remuneration received/receivable exceeded the base executive level ($155 000) totalled 324 (293), comprising 274 (256) medical, 31 (21) nursing, 10 (eight) administration and nine (eight) executive staff. Total remuneration for these staff was $90.3 million ($83.3 million).

Supplies and services expenses

Supplies and services expenses increased by $11 million to $143 million. Significant components of supplies and services were:

- medical, surgical and laboratory supplies – $41 million ($37 million). The rise mainly related to increased costs associated with WCHN's COVID-19 response and moderate increases in surgical activity
- security – $4.4 million ($2.6 million). The rise is mainly due to the need for additional security at COVID-19 testing clinics and the WCHN emergency department
- travel – $500 000 ($2 million). The decrease is associated with the imposition of COVID-19 travel restrictions.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 86% of WCHN's total assets. The carrying value of property, plant and equipment increased from $365 million to $385 million.

This increase was mainly due to:

- $34.5 million in capital works in progress additions, mainly relating to sustainment building upgrades to the existing Women's and Children's Hospital
- offset by $20 million in depreciation and amortisation expenditure.

The 2021-22 State Budget outlines that the new Women's and Children's Hospital is estimated to cost $1.95 billion and be completed in 2026, with patients to be admitted by 2027.

Liabilities

Current liabilities increased by $2.7 million to $71 million and exceeded current assets by $29.8 million as at 30 June 2021. Cash and cash equivalents of $31.7 million are sufficient to meet current payables of $12.3 million.

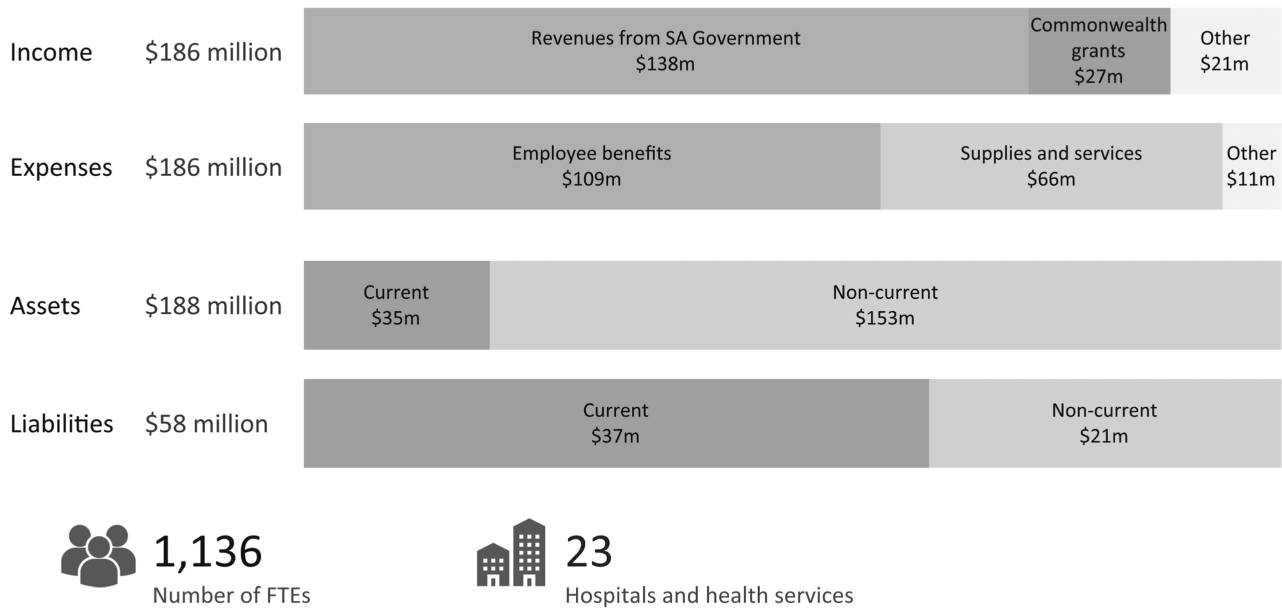
WCHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of WCHN's financial report discusses its continuity of operations.

Staff liabilities are the largest component of liabilities, totalling $142 million or 91% of total liabilities as at 30 June 2021 and comprising:

- staff benefits liabilities and related on-costs – $132 million ($134 million)
- provision for workers compensation – $9.7 million ($7.7 million).

Yorke and Northern Local Health Network Incorporated (YNLHN)

Financial statistics



Significant events and transactions	— 2020-21 was the second year of the YNLHN Governing Board. — YNLHN continued to respond to the COVID-19 pandemic including providing testing clinics, establishing vaccine clinics and other additional health activities. — YNLHN's financial report outlines material costs associated with COVID-19 of $2 million.
Financial report opinion	**Unmodified**
Audit findings	— Invoices were paid without purchase orders. — Ineffective follow-up of longstanding patient debtors. — Revenue system access restrictions were insufficient.

Functional responsibility

YNLHN was established under the *Health Care Act 2008* (HC Act) on 1 July 2019.

YNLHN's powers and functions are to provide health services in the Yorke and Northern region of South Australia.

The consolidated accounts of YNLHN include the assets, liabilities, revenues and expenses of incorporated Health Advisory Councils (HACs) within the region. These HACs were established under the HC Act to undertake an advocacy role on behalf of the community, to provide advice about the provision of health services, health issues, goals, priorities, plans and other strategic initiatives, and to perform other functions as determined under the HC Act.

Governance

The HC Act provides for the governance, management and administration of the South Australian public health system. It sets out the role, functions and powers of the Minister, the Chief Executive of the Department for Health and Wellbeing (DHW), the local health networks (LHNs), their governing boards and their chief executive officers (CEOs).

LHN governing boards are responsible for the overall governance and oversight for local health service delivery by the LHN, including governance of performance and budget achievement, clinical governance, safety and quality, risk management and the achievement of the Board functions and responsibilities.

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

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

The Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities. The governing board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive of DHW.

A service agreement between YNLHN and the Chief Executive of DHW outlines the requirements of the formal relationship between DHW and the YNLHN, and sets out performance expectations and funding arrangements. The intent of the service agreement is to be binding on all parties. The 2020-21 YNLHN service agreement was executed in December 2020.

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

Scope of the audit

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

Financial services for YNLHN are provided through a mix of:

- finance services located within YNLHN
- administrative and financial services from Rural Support Services (RSS) within the Barossa Hills Fleurieu Local Health Network Incorporated
- central services provided by DHW
- services provided by Shared Services SA (SSSA).

YNLHN continued to operate some legacy systems. Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, YNLHN, RSS and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A chartered accounting firm assisted the Auditor-General with the audit of YNLHN.

Specific areas of audit attention in 2020-21 included:

- payroll
- accounts payable
- procurement and contract management
- patient revenue, including accounts receivable
- fee for service
- property, plant and equipment
- cash
- general ledger.

We considered internal audit activities in designing and performing our audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of YNLHN.

The main findings and YNLHN's responses are discussed below.

Audit findings

Accounts payable

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders, unless the item purchased is listed in the approved purchase order exemption list or the purchase is below $2200. We found payments without purchase orders for which the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

YNLHN responded that it had reduced the number of invoices processed without purchase orders and would continue to work with its managers to address the issues. It also advised us that shortcomings in the Basware payment system contributed to the matters raised.

Revenue

Ineffective follow-up of longstanding patient debtors

We reviewed the effectiveness of debtor follow-up activities performed by revenue officers located at various hospitals throughout YNLHN. We found instances where the follow-up and recovery of longstanding debtors was ineffective or not performed.

YNLHN advised us of the actions it took in 2020-21 to reduce outstanding debtors, including that it centralised its debt management function. It also responded that its finance and performance committee would continue to focus on debtor management through reporting and follow-up of actions taken.

Patient billing system access restrictions insufficient

Our review of fee-for-service and patient billing in the Chiron patient billing system found opportunities to improve segregation of duties through independent review processes or restricting user access. These matters were also raised with YNLHN last year and prior to that with the Country Health SA Local Health Network Incorporated.

YNLHN advised us that system limitations prevented some access restrictions and that it had established controls and processes to minimise risks. It indicated that it would review user access to Chiron to ensure access is relevant and work with RSS, who were investigating potential access changes in Chiron.

Revenue officers had access to change admission and charge type data

We found that admission and discharge dates and charge types could be modified by revenue officers in Chiron, increasing the risk of inappropriate adjustments to invoiced fees.

YNLHN advised us that system limitations prevented some access restrictions and that it had established controls and processes to minimise risks. It will also consider these issues when implementing any system replacing Chiron.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021		2020	
	Consolidated $million	Parent $million	Consolidated $million	Parent $million
Income				
Revenues from SA Government	138	138	129	129
Revenue from fees and charges	14	14	13	13
Grants and contributions	29	29	28	28
Other income	5	5	3	3
Total income	186	186	173	173
Expenses				
Staff benefit expenses	109	109	103	103
Supplies and services	66	66	63	63
Depreciation and amortisation	10	6	10	6
Other expenses	1	3	2	2
Total expenses	186	184	178	174
Net result	-	2	(5)	(1)
Assets				
Current assets	35	31	30	26
Non-current assets	153	91	155	92
Total assets	188	122	185	118
Liabilities				
Current liabilities	37	37	35	35
Non-current liabilities	21	21	21	21
Total liabilities	58	58	56	56
Net assets	130	64	129	62

Statement of Comprehensive Income – Consolidated

Revenues

Revenues from SA Government

YNLHN is principally funded by DHW. In 2020-21, funding of $138 million or 74% of total income comprised operational funding $132 million ($121 million) and capital funding of $7 million ($7 million).

Fees and charges

Fees and charges increased by 3% to $14 million and included the following significant components:

- residential and aged care charges of $5 million ($5 million) that relate primarily to long stay nursing home fees, including daily care fees and daily accommodation fees
- patient and client fees of $6 million ($6 million)
- fees for health services of $2 million ($2 million).

Grants and contributions

Grants and contributions increased by $1 million to $29 million and included the following significant components:

- Commonwealth aged care subsidies of $11 million ($11 million)
- other Commonwealth grants of $16 million ($14 million).

Expenses

Staff benefit expenses

Staff benefit expenses represent 59% of YNLHN's total expenses and increased by $6 million (5%) to $109 million in 2020-21. YNLHN employs 1136 FTE staff as at 30 June 2021, an increase of 56 (5%) from the previous year.

The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 16 (five), comprising one (0) medical (excluding nursing), 13 (four) nursing, one (0) non-medical and one (one) executive. Total remuneration for these employees was $3 million ($1 million).

Supplies and services expenses

Supplies and services expenses increased by $3 million to $66 million and included the following significant components:

- fee-for-service payments to medical practitioners – $14 million ($17 million)
- contractors – agency staff – $7 million ($2 million)
- medical, surgical and laboratory supplies – $11 million ($10 million)
- internal SA Health service level agreement payment – $6 million ($6 million)
- repairs and maintenance – $5 million ($6 million).

The decrease in fees-for-service payments to medical practitioners and increase in agency staff contractors reflects in part the impact of changed workforce arrangements towards the increased use of locum doctors.

Statement of Financial Position – Consolidated

Assets

Current assets increased by $5 million to $35 million as at 30 June 2021. They essentially comprise cash and cash equivalents of $10 million ($5 million), receivables of $4 million ($4 million) and other financial assets of $21 million ($20 million), which primarily relate to aged care refundable deposits.

Property, plant and equipment

As at 30 June 2021, property, plant and equipment of $152 million represented 81% of YNLHN's total assets and included the following significant components:

- buildings – $133 million ($133 million)
- land – $10 million ($10 million)

- capital works in progress – \$4 million (\$7 million)
- right-of-use lease assets – \$1 million (\$1 million).

Liabilities

Current liabilities of \$38 million exceeded current assets of \$35 million at balance date.

Cash and cash equivalents of \$10 million were sufficient to meet current payables of \$6 million. YNLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report discusses continuity of operations.

Staff related liabilities

Staff related liabilities make up \$37 million (64%) of YNLHN's total liabilities at 30 June 2021, comprising:

- staff benefits liabilities and related on-costs – \$35 million (\$35 million)
- provisions for workers compensation – \$2 million (\$2 million).

Note 21 of YNLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

Further commentary on operations

Response to the COVID-19 pandemic

Responding to COVID-19 continued to have a significant impact across SA Health in 2020-21, including at YNLHN.

Note 1.7 of YNLHN's financial report outlines material costs associated with COVID-19 for additional public health activities at a cost of \$2 million, including for:

- COVID-19 capacity and preparation
- testing clinics
- vaccine clinics
- increased demand for personal protective equipment
- increased staff costs to ensure necessary compliance measures are followed.

HomeStart Finance (HomeStart)

Financial statistics	Loans and advances:	$2.2 billion
	Short-term borrowings:	$100.5 million
	Long-term borrowings:	$2 billion
	Profit before income tax:	$49.6 million
	Dividends paid:	$26.2 million
	Number of FTEs:	116
	Number of loans outstanding at 30 June 2021:	12 976

Significant events and transactions

- HomeStart is required to pay the Treasurer an annual dividend of 100% of its after tax profit. In June 2021 HomeStart paid a dividend of $26.2 million, comprising 80% of its expected after tax profit for 2020-21 of $25 million and the residual dividend for 2019-20 of $1.2 million. The residual dividend payable for 2020-21 of $9.7 million will be paid in June 2022.
- HomeStart refinanced $551 million in South Australian Government Financing Authority (SAFA) debt in 2020-21. A further $100 million in debt will mature over the next 12 months.
- HomeStart's general reserve for credit losses was written back against retained earnings, reflecting its early adoption of Australia Prudential Regulation Authority (APRA) Prudential Standard 220. This Standard adopts a principle that accounting provisions should be sufficient to cover expected losses and that, in principle, there is no need for a general reserve.
- Since the COVID-19 pandemic began, customers with 783 loans have requested some form of negotiated payment arrangement due to the impacts of COVID-19. Of this group, 648 had completed their arrangements and continued under normal loan management processes by 30 June 2021. The remaining 135 loans were discharged.

Financial report opinion | **Unmodified**

Controls opinion findings	No significant findings.

Functional responsibility

HomeStart is a statutory corporation established by *the Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2020* (regulations) under the *Urban Renewal Act 1995*. It has a Board of Management subject to the control and direction of the Treasurer.

HomeStart's functions include:

- lending money or providing other financial assistance to facilitate home ownership for people who would otherwise have difficulty obtaining finance
- providing, marketing and managing home finance products
- providing, managing or facilitating finance for housing schemes or housing associations and for mortgage relief schemes within South Australia
- providing, managing or facilitating finance for the development, ownership or operation of aged care residential accommodation or facilities.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- expected credit loss provision
- shared equity loans
- loans and advances
- interest income
- derivatives and hedge accounting
- employee expenses and provisions
- SAFA facility, including borrowings and interest expense
- purchases and payables
- treasury.

Controls opinion

We reviewed controls over loans and advances and borrowings as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chair of the HomeStart Audit Committee.

Controls opinion findings

Two low risk findings were communicated. They did not impact the controls opinion.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Interest income	93	105
Interest expense	(13)	(26)
Net interest income	80	79
Other income	16	11
Other expenses	(24)	(32)
Government guarantee fee	(23)	(27)
Profit (Loss) before income tax equivalent	50	31
Income tax equivalent expense	(15)	(9)
Profit (Loss) after income tax equivalent expense	35	22
Other comprehensive income	3	-
Total comprehensive result	38	22
Assets		
Loans and advances	2 250	2 188
Other assets	22	19
Total assets	2 271	2 207
Liabilities		
Borrowings	2 079	2 031
Other liabilities	30	18
Total liabilities	2 110	2 049
Total equity	162	158

Note: Table may not add due to rounding.

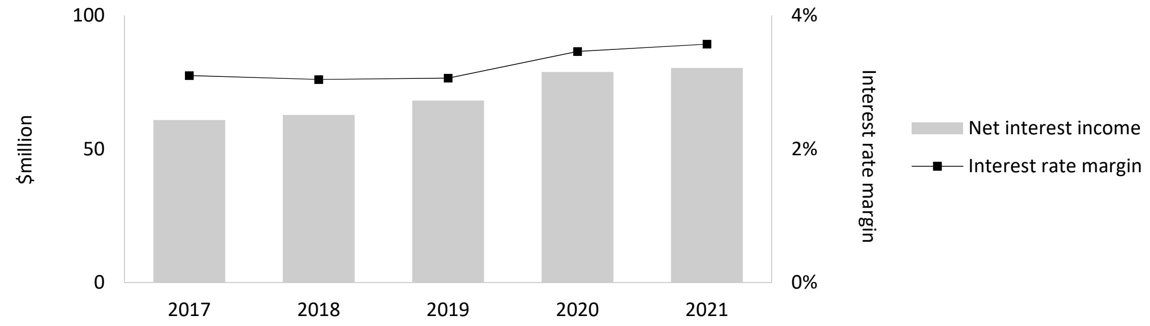
Statement of Comprehensive Income

Profit for the year

Profit before income tax equivalent payments increased by $18.4 million to $49.6 million. The analysis below outlines the main factors contributing to this result.

Net interest income

The following chart compares the net interest income to the interest rate margin between loans and cost of funds, excluding the cost of the government guarantee fee.



Net interest income increased by $1.5 million (1.9%) to $80.3 million. This minor movement is supported by an increase in the loan portfolio of $61.9 million (2.8%) and is offset by the increase in borrowings of $48.7 million (2.4%).

Despite the growth in loans, interest revenue decreased by $11.4 million (10.9%) due to variable borrowing rates decreasing, as well as customers moving from variable to fixed rate loans that offer even lower interest rates. Fixed rate loans increased to represent 24% of total loans compared to 11% in 2019-20.

Despite the growth in borrowings, interest expense saw a significant decrease of $12.9 million (50%) due to the weighted average interest rates charged by SAFA decreasing from 1.13% to 0.45% in 2021.

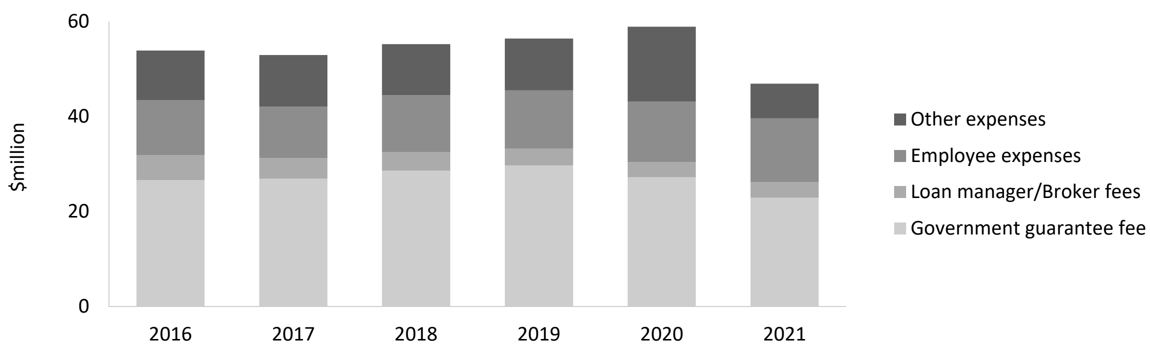
The chart above shows that the interest rate margin between loans and cost of funds remained stable at around 3.5%. HomeStart's standard variable rate is set to be generally in line with the standard variable rate of major lenders. Standard variable rates are generally adjusted when the Reserve Bank of Australia changes the official cash rate.

Other income

Other income increased by $5 million to $16.3 million. The increase is due primarily to the increase in fair value of its breakthrough and shared equity option loans, which is in line with the increased property values experienced in Adelaide. Refer to 'Breakthrough and shared equity option loans' below for further information.

Expenses other than interest and income tax equivalent

The movement in expenses other than interest and income tax equivalent payments over the last five years is shown in the following chart.



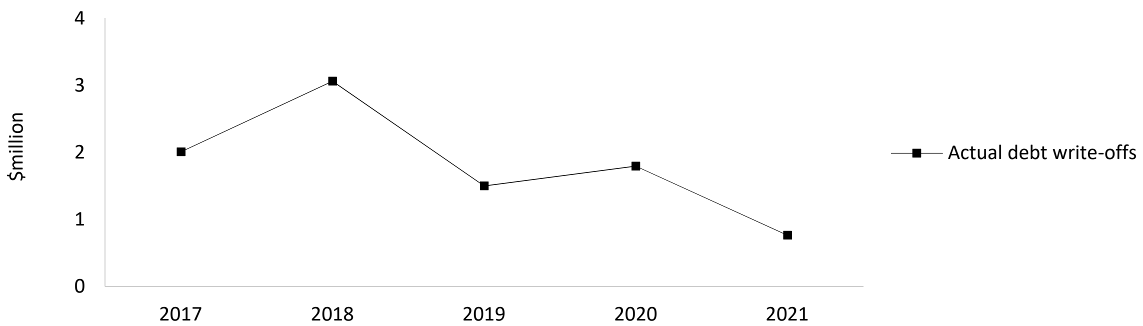
Expenses other than interest and income tax equivalent payments decreased by $11.8 million to $47 million in 2020-21. The more significant movements were:

- an $8.5 million decrease in the bad and impaired loans income/expense. This expense is impacted by movements in HomeStart's provision for impairment, which in 2019-20 increased by $6.5 million. The $2 million improvement in the provision for 2020-21 explains the $8.5 million turnaround in the expense. For more information on this see 'Bad and impaired loans income/expense' below
- a decrease in the government guarantee fee of $4.2 million. The government guarantee fee rate of 0.85% applies to new borrowings taken out or for the refinancing of maturing borrowings in 2020-21, a decrease from the 0.99% that applied for the prior year. Existing debt will continue to attract government guarantee fee rates approved in previous financial years.

Bad and impaired loans income/expense

HomeStart recognised a bad and impaired loans income of $1.9 million for 2020-21 compared to an expense of $6.6 million in 2019-20. The gain for 2020-21 mainly reflects a $2.5 million write-back of HomeStart's specific provision, which was lowered in response to reduced arrears, particularly for loans in arrears greater than three months. While the reduction in the specific provision reflects HomeStart's provisioning policy settings and strong credit performance in 2020-21, the factors driving credit performance over the past 12 months are not seen as sustainable and HomeStart anticipates weaker credit performance into the future.

The total provision for impairment at 30 June 2021 was $20.7 million ($23.4 million). The following chart shows the actual debt write-offs through the provision and the Statement of Comprehensive Income for the last five years.



While showing a general downward trend in debt write-off, the chart demonstrates the volatility in debt write-offs over the past five years, reflecting the impact of the economic circumstances of borrowers.

Statement of Financial Position

Loans and advances

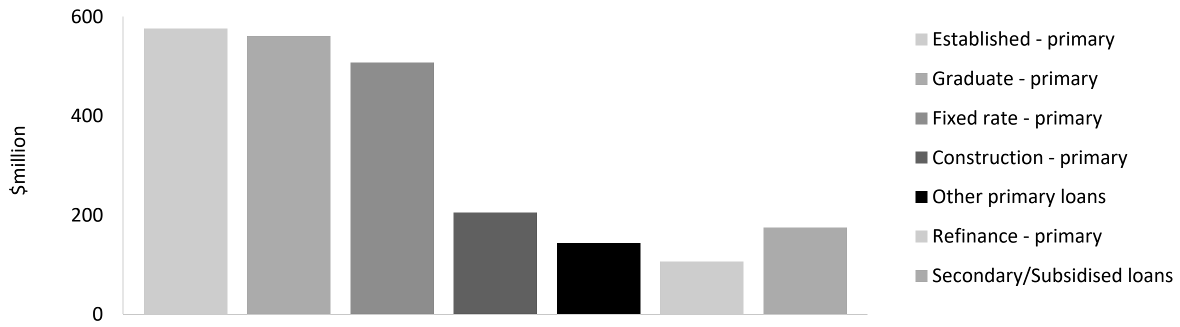
At 30 June 2021 total loans and advances equalled $2.2 billion, an increase of $61.9 million from the previous year.

Information supplied by HomeStart shows that the increase was due mainly to a $21.9 million increase in construction loans and a $294.1 million increase in fixed rate loans, offset by a $124.3 million decrease in established loans, a $106.3 million decrease in graduate loans, a $13.3 million decrease in low deposit loans and a $19.5 million decrease in refinance loans. This information is unaudited.

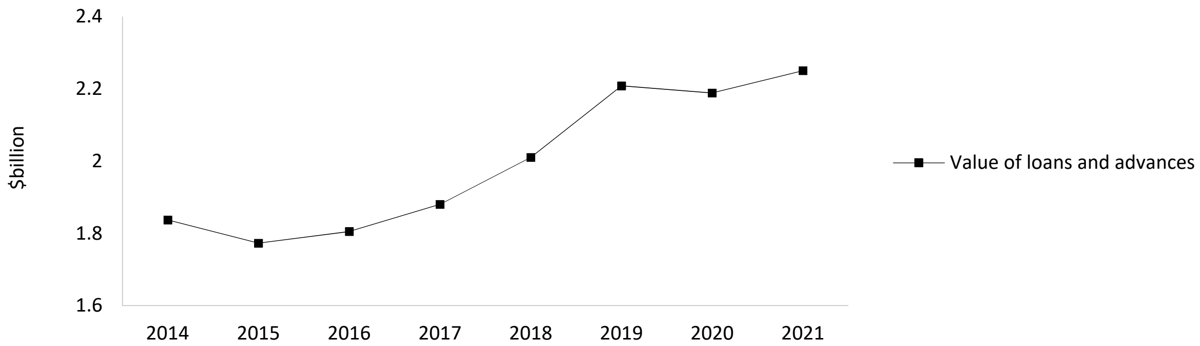
Graduate home loans have seen a decrease due to the ability of these customers (who now qualify for traditional lending) to refinance to other institutions offering lower rates. There has been a significant switch from variable rate loans to fixed rate loans as the interest rates being offered are lower.

HomeStart's loan portfolio includes both primary and secondary/subsidised loans. Primary loans are loans at market interest rates, whereas secondary/subsidised loans are loans, such as Advantage loans and EquityStart loans, at rates lower than market interest rates.

The following chart shows the value, by loan type, of HomeStart's loan portfolio at 30 June 2021.



The following chart shows the value of loans and advances over the past eight years.



The increase in loans and advances from 2015 is primarily the result of the growth in graduate loans. HomeStart changed the lending criteria for these loans in 2015, allowing students with a Certificate III qualification (or higher) to be eligible for a graduate loan. As noted above, there has been a decrease in graduate loans in 2020-21 due to the ability to refinance with other institutions offering lower rates.

In 2021, there has been an increase in construction loans as a result of the HomeBuilder stimulus package offered by Commonwealth Government. HomeBuilder offers a tax free $25 000 grant for owner occupiers who build new homes or carry out substantial renovation projects. It was available for building contracts signed between 4 June 2020 and 31 December 2020 and includes sales contracts for new builds where building commenced after 4 June 2020.

Breakthrough and shared equity option loans

Breakthrough and shared equity option loans are comprised of two components:

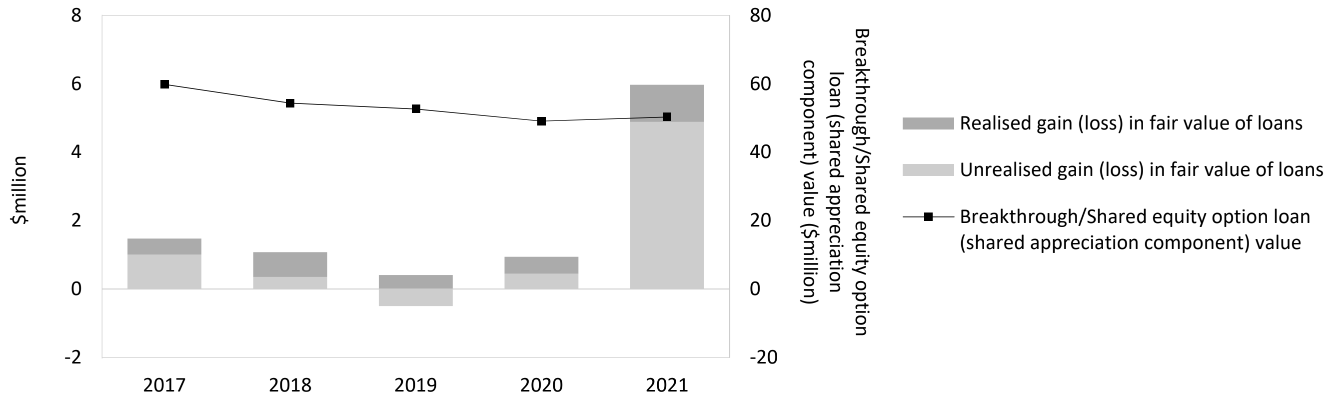
- a standard loan component with standard interest rates and repayments
- a shared appreciation component where the loan is repaid along with a percentage of the change in property value when the property is sold.

The shared appreciation component of these loans is recognised at fair value through profit and loss, while the standard loan component is recognised at amortised cost.

These loans represent a relatively small portion of the total loans and advances value, with the shared appreciation component of these loans representing 2.2% of HomeStart's total loan portfolio. The impact that the shared appreciation component has on HomeStart's operating result, however, has meant that it has implemented specific risk management strategies for these loans. One of those strategies is placing a cap on the total value of these loans outstanding at any given time.

In 2020-21 a net $6 million gain ($945 000 gain) was recognised for these loans, comprising a $4.9 million gain ($450 000 gain) recognised from revaluation and a $1.1 million gain ($495 000 gain) realised on discharge of loans. The movement in the value of the shared appreciation component, and the impact of these loans on the operating result, follows the general growth in the property market in Adelaide.

The chart below shows the impact of these loans on HomeStart's operating result and the total value of the shared appreciation component of them since 2017.



The breakthrough loan product was withdrawn from December 2017, with the new shared equity option loan released in April 2018.

Provision for credit impairment

In 2018-19 the Australian Accounting Standards Board issued a new accounting standard AASB 9 *Financial Instruments,* which HomeStart adopted from 1 July 2018. The standard contains a classification and measurement approach for financial assets and impacts on impairment requirements and other elements. The methodology for determining the provision for credit impairment changed significantly from an 'incurred loss' model to an 'expected credit loss' (ECL) model following the application of AASB 9.

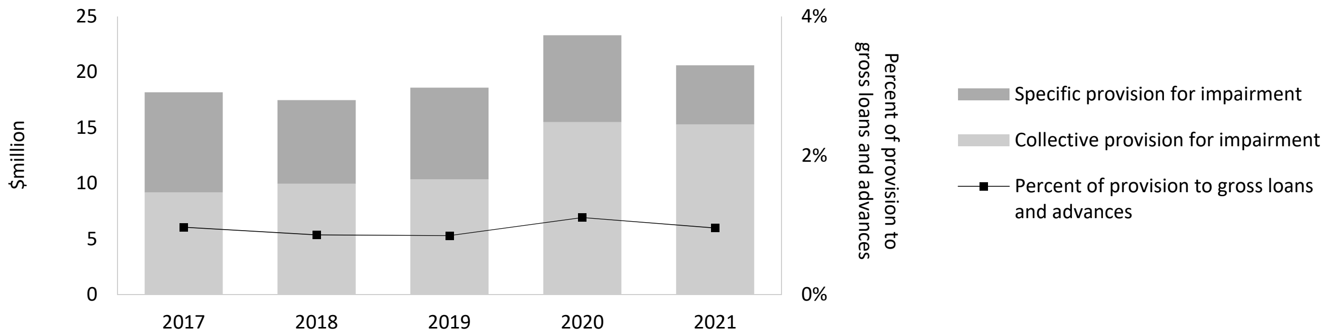
HomeStart assesses whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired at each balance date.

The total provision for credit impairment decreased by $2.7 million to $20.7 million. It has two components based on expected credit losses:

- the specific provision – representing loans and advances that are individually assessed as impaired. As at 30 June 2021 this was $5.3 million ($7.8 million), with the decrease reflecting an ongoing trend of reduced arrears over the year, particularly those in arrears for three months or more

- the collective provision – based on AASB 9. As at 30 June 2021 this was $15.3 million ($15.5 million). The ECL model is used to calculate this provision. The calculation of the collective provision includes assumptions about future economic scenarios and weightings given to each scenario. The likelihood of a good scenario increased from 5% to 10%, while the likelihood of a bad scenario decreased from 40% to 35% in 2020-21.

The following chart shows the level of the total provisions and their composition over the past five years.



The chart shows that the overall level of provisioning has remained fairly consistent between 2016 and 2019, relative to total gross loans and advances, with the increase in 2020 recognising the impacts of COVID-19 on HomeStart's customers. As noted above, improved credit experience resulted in a decrease in the specific provision for 2021.

General reserve for credit losses

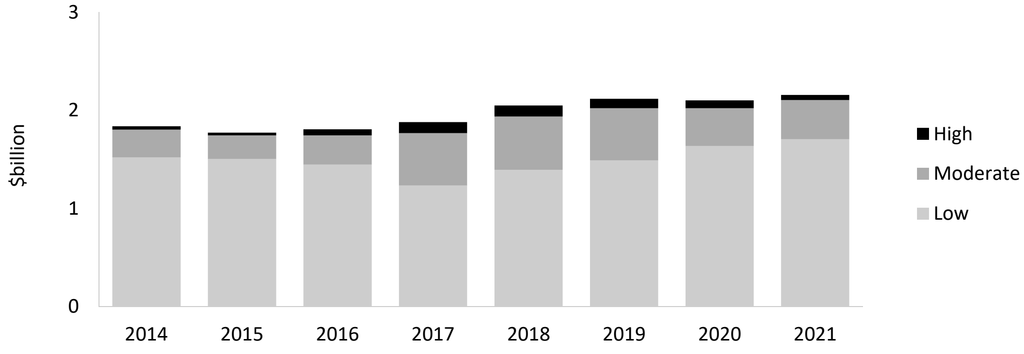
For many years HomeStart has maintained a general reserve for credit losses (GRCL). The GRCL was used to set aside additional funds in excess of the specific and collective provisions and was consistent with APRA's prudential risk management requirement to retain sufficient retained earnings for capital adequacy purposes.

While HomeStart is not regulated by APRA, the use of a GRCL was consistent with the requirements of APRA Prudential Standard 220. HomeStart has early adopted a revised version of the Standard, which removed the requirement to maintain a GRCL.

This has resulted in the transfer of the GRCL to retained earnings.

Loan quality

HomeStart assesses the gross value of loans and advances to customers by credit risk grading. The following chart summarises that assessment.



The chart shows that the proportion of high and moderate credit risk category loans reduced until 2015, with most loans assessed as low credit risk. There was an increase in high and moderate credit risk loans from 2016, mainly as a result of changes to the credit risk classifications based on credit scores. The application of AASB 9 resulted in a larger number of loans now being assessed as low risk, with reductions in high and moderate risk loans.

HomeStart advised that although COVID-19 has impacted its provision for credit impairment, it has had minimal impact on the credit risk grading. Credit risk scores are applied when loans are approved and regularly reviewed based on an assessment of probability of default over the life of the loan. Loan arrears have generally been decreasing since 2019, resulting in overall improvement in risk ratings. Loan arrears have improved following HomeStart's COVID-19 payment assistance (deferred payments), customers receiving JobKeeper payments from Centrelink and using these funds to repay their loans, and customers obtaining early release of superannuation through the Commonwealth Government's COVID-19 response initiatives.

Risk management for loans

HomeStart's risk profile for its loans has a higher inherent risk than a commercial lender's loan portfolio. Key differences include:

- generally HomeStart customers have lower incomes and borrow a greater percentage of their home value
- there is a significant concentration of lending in regional South Australia and outer metropolitan suburbs
- customers are not required to take out lender's mortgage insurance.

There are geographic areas with a greater concentration of HomeStart loans, with 33% of loans by value secured against properties in the City of Playford and the City of Salisbury. A further 17% of loans by value are secured against properties outside of the Adelaide metropolitan area.

HomeStart manages the risks associated with these concentrations of lending through its general lending policies, including loan to valuation ratios and limits on lending in some instances. As HomeStart lends only to individual owner-occupiers, it holds collateral against the value of the loans outstanding through mortgages on the associated properties.

HomeStart's principal exposure is to the risk of a borrower not being able to repay the loan. Where this occurs, the property may be subject to sale as a mortgagee in possession, with HomeStart seeking to recover outstanding amounts by selling the property. In this situation HomeStart is exposed to market risk that the price achieved for the property's sale does not cover the outstanding balance. HomeStart manages this risk by monitoring property valuations annually and complying with loan to valuation ratios for new loans.

As discussed above, HomeStart seeks to manage the risks associated with loan quality by maintaining a specific provision and a collective.

Liabilities

Borrowings at 30 June 2021 were $2.08 billion ($2 billion) and represent 99% (99%) of HomeStart's liabilities. HomeStart is required to use SAFA as its sole counterparty for all funding transactions. At

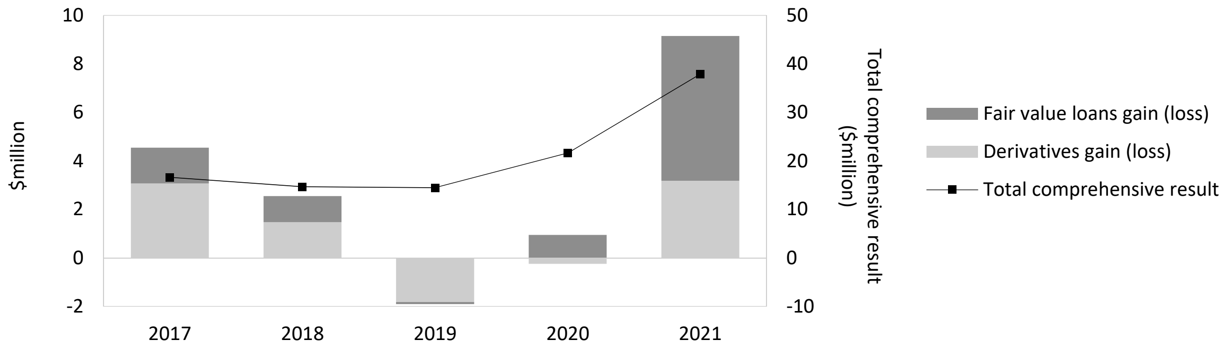
30 June 2021, HomeStart had an approved borrowing limit of $2.46 billion ($2.46 billion). Most of its borrowings from SAFA mature within five years, with $99.8 million of SAFA debt maturing over the next 12 months.

Fair value and comprehensive result

HomeStart recognises derivatives and certain investments, including breakthrough and shared equity option loan (shared appreciation component) products, at fair value. The changes in market value of these items can impact its Statement of Financial Position and Statement of Comprehensive Income.

Derivatives are used to hedge (protect against) changes in interest rates. While these hedges remain effective (as defined by the accounting standards), changes in the fair value of hedges do not affect profit as they are recognised in the derivatives valuation reserve within equity. However, the realised and unrealised changes in the shared appreciation component of breakthrough and shared equity option loans at fair value are recorded in other income or other expenses in the Statement of Comprehensive Income.

The impact of all these changes is included in the total comprehensive result reported in the Statement of Comprehensive Income. HomeStart's total comprehensive result increased by $16.3 million to $37.9 million in 2020-21. The chart below shows the impact of the changes in the fair value of derivatives and loans classified as fair value through profit and loss on HomeStart's total comprehensive result for the last five years. The fair value gains increased significantly in 2021, which is in line with the valuation of properties in Adelaide.



It is important to appreciate that the financial report combines the financial assets and financial liabilities measured at either fair value or cost. The fair value of net financial assets is $128.7 million ($143.7 million), while the carrying value of net financial assets is $148.9 million ($146.7 million). The increase in the margin between fair value and carrying value is a result of a reduction in interest rates during the year by SAFA.

Distributions to and revenue from SA Government

HomeStart's distributions to the SA Government include dividends, guarantee fees and income tax equivalent payments. HomeStart also receives community service obligation funding from the Department of Treasury and Finance in recognition of the cost of performing the following non-commercial activities:

- acceptance of non-commercial credit risk
- Nunga loan program
- Advantage loan program
- domestic violence housing loans (none received or claimed in 2020-21).

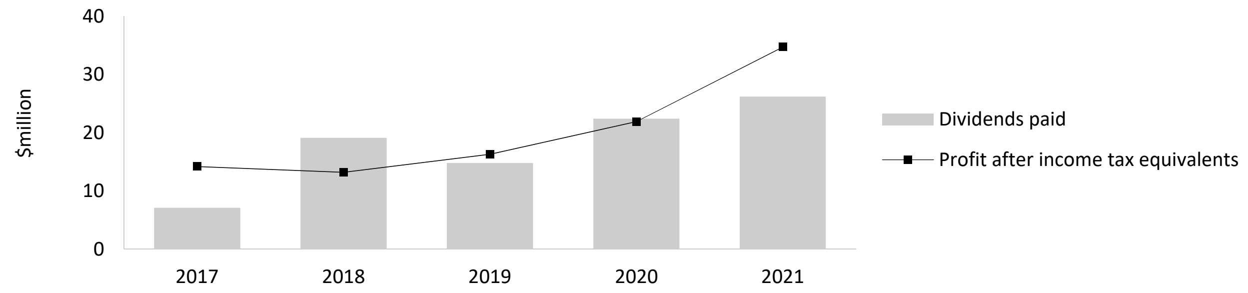
HomeStart's requirement to undertake CSOs is set out in its regulations.

The following table summarises these cash transactions with the SA Government for the four years to 2021.

	2018 $million	2019 $million	2020 $million	2021 $million
SA Government distributions:				
Dividend	19	16	22	26
Income tax equivalent	6	7	9	11
Government guarantee fee	29	30	27	23
Total distributions to SA Government	54	53	59	60
CSO income	(7)	(7)	(7)	(8)
Net amount provided to SA Government	47	46	52	52

Note: Table may not add due to rounding.

The following chart shows profit after income tax equivalent payments and dividends paid for the past five years, highlighting HomeStart's sustained profit performance over that period.



In June 2021 the Treasurer approved the payment of a dividend of $26.2 million, noting the remaining dividend from HomeStart's final operating result would be paid in June 2022. The dividend HomeStart paid is comprised of:

- a residual dividend of $1.2 million to account for the difference between its forecast after tax profit and its actual after tax profit in 2019-20
- a dividend of $25 million relating to 80% of its forecast after tax profit for 2020-21. While the 2020-21 performance statement requires 100% of profit to be paid, the Treasurer has approved an 80% dividend at 30 June 2021 based on estimated profit.

HomeStart recognised a dividend payable of $9.7 million ($1.2 million) at 30 June 2021 for the remaining 20% of after tax profit. It is calculated based on the difference between the forecast after tax profit and the actual after tax profit in 2020-21, which is not included in the chart above. This will be paid in June 2022.

HomeStart aims to return dividends to the SA Government regularly, in line with its established performance statement. Dividends are recommended by the Board and then approved by the Treasurer.

HomeStart pays an income tax equivalent to the SA Government in line with Treasurer's Instruction 22 *Tax Equivalent Payments*. The income tax liability is based on the State Taxation Equivalent Regime, which applies the accounting profit method. This requires that the corporate income tax rate be applied to net profit.

Statement of Cash Flows

Net cash flows

The following table summarises the net cash flows for the four years to 2021.

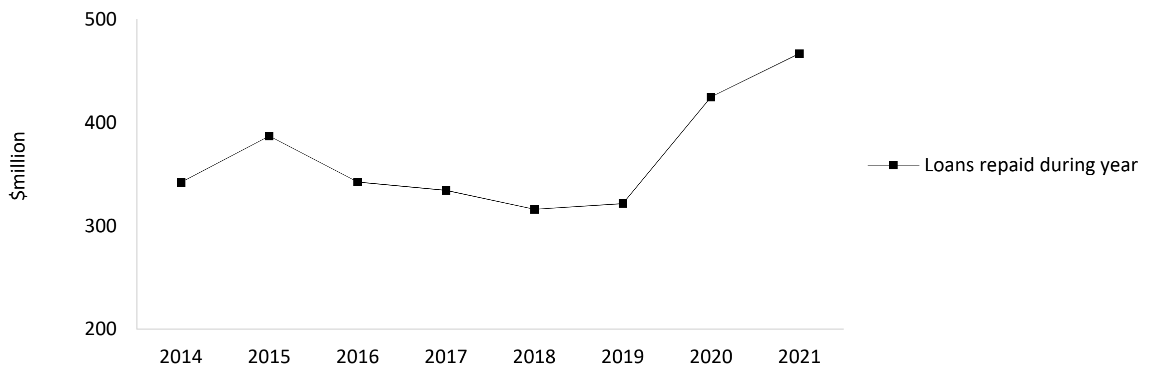
	2018 $million	2019 $million	2020 $million	2021 $million
Net cash flows				
Operating	10	15	24	31
Investing	(161)	(142)	18	(52)
Financing	149	128	(41)	22
Change in cash	(2)	-	1	1
Cash at 30 June	3	3	4	5

Note: Table may not add due to rounding.

Investing activities relate primarily to the provision of loans to customers. In 2021 there was a net $53 million cash outflow for customer loans reflecting loan settlements, which corresponds to the increase in gross loans and advances. The net financing cash inflow of $22 million largely reflects the repayment of borrowings ($551 million) and dividends paid ($26 million), offset by new SAFA borrowings ($600 million).

Customer loans repaid

The following chart shows loan repayments, including discharges, since 2014.



Customer repayments have increased annually since 2018-19. This is due largely to low interest rate levels resulting in:

- customers choosing to repay more debt or refinance with other institutions to take advantage of more suitable loan arrangements
- an increase in fixed repayment loan products repaying proportionately more principal.

Discharges in 2020-21 were $356 million compared to $334 million in the prior year. Of this value, 78% refinanced reflecting the current market conditions, with the remaining 22% sold.

HomeStart operating parameters

HomeStart is required to operate within financial parameters set down in its charter and performance statement approved annually by the Treasurer and the Minister for Infrastructure and Transport.

HomeStart's performance targets compared to actual results are detailed below.

	Cabinet approved operating parameters	Performance statement target for 2021	2020 result	2021 result
Operating profit before tax	n/a	$31 million	$31 million	$50 million
Return on equity	9%	19.8%	19.7%	31%
Cost to income ratio	55%	46%	39.9%	35.32%
Capital adequacy ratio	12%	12.2%	12.4%	11.4%

The most significant factor contributing to HomeStart's above-parameter return on equity in 2021 was the decrease in interest rates charged by SAFA on its borrowings and the recognition of impaired loans income as a result of the write-back of provisions following the improved performance of loans in arrears. The significant increase in the return on equity is due mainly to the gains recognised on shared equity loans.

The Treasurer has not approved any further increases to HomeStart's current borrowing limit of $2.46 billion.

In April 2021, HomeStart sought the Treasurer's approval to revise its operating parameters, including the approach to measuring capital adequacy. HomeStart sought to revise its capital adequacy ratio target range of 9% - 11% measures using APRA's Common Equity Tier 1 definition. In June 2021, the Treasurer temporarily approved a capital adequacy ratio below 12% while the proposed changes to the operating parameters are considered.

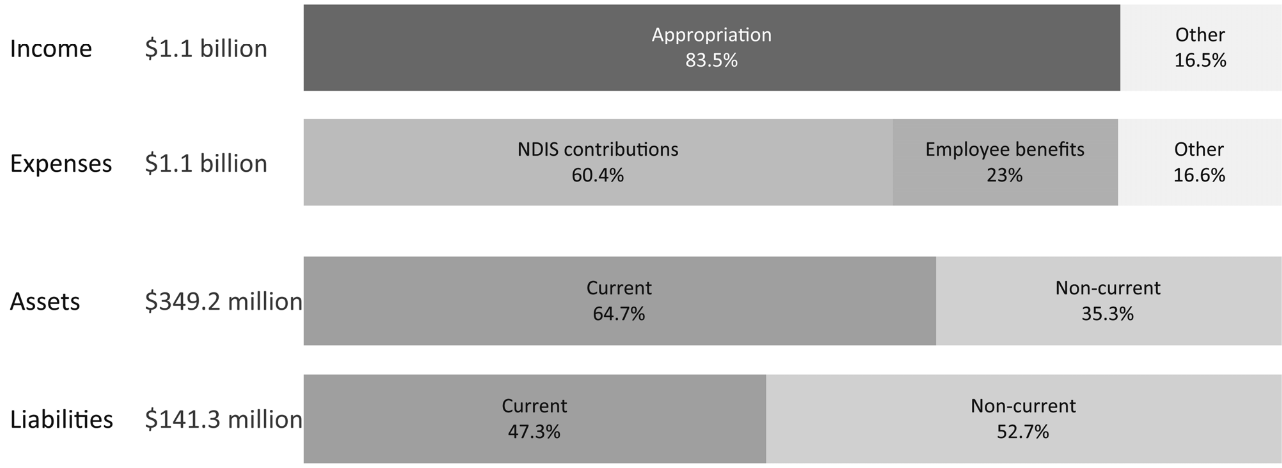
COVID-19 outlook for HomeStart

COVID-19 will continue to impact HomeStart's operations in 2021-22. HomeStart advised that expected key impacts may include the following:

- Weaker economic conditions will make it more difficult for some customers to service their loans and may result in an increase to the expected credit impairment.
- House and land packages represented a significant proportion of HomeStart's new lending in 2020-21, driven by Commonwealth Government stimulus programs (or policies). The demand for house and land packages is expected to carry over to 2021-22, but overall lending activity levels are expected to fall.
- HomeStart has the capability to conduct most of its operations remotely, including reviewing and approving new loan applications and discharging mortgages where they are repaid.

Department of Human Services (DHS)

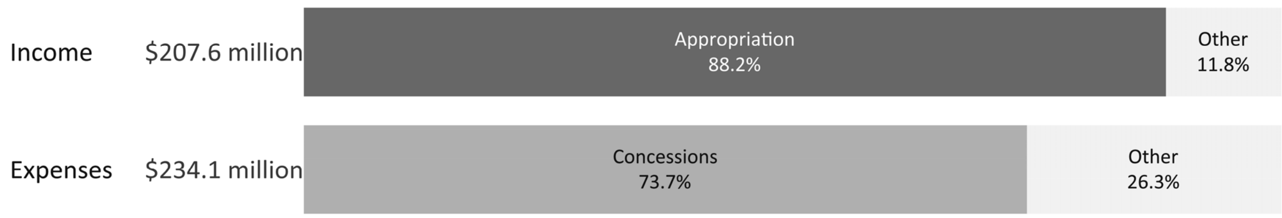
Financial statistics



2,618
Total FTEs

227,000
Households receiving a concession

Administered items



Significant events and transactions

- DHS transferred $26 million of Crown land to the Department for Environment and Water (DEW) as its dedicated use was revoked by the Minister for Environment and Water. The land was the site of the former Strathmont Centre.
- DHS performed a full site revaluation of its land and buildings in 2020-21, reporting a $13.2 million increase in the fair value of land and $15.9 million decrease in buildings across both controlled and administered property, plant and equipment and investment property.
- The Domiciliary Equipment Services (DES) unit within DHS closed in December 2020 after gradually winding down in 2020-21. DES donated $3.9 million of independent living equipment assets to clients as part of its closure, recorded as a loss on disposal of assets.

	— $6.2 million of funding was received from the Community and Jobs Support Fund to provide support to people impacted by COVID-19 restrictions. — DHS continued making additional concession payments as a result of the COVID-19 pandemic in 2020-21, including the cost of living concession boost ($3.7 million), international student support package ($2.8 million), paid pandemic leave scheme ($570 000) and residential relief grant scheme ($262 000). — Additional COVID-19 domestic violence support funding was received from the Commonwealth. $7 million was received in 2020-21, with $3.3 million of expenses incurred.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— Regular assessment of revenue contracts not performed. — Lack of post-upload check of payroll pay files.

Functional responsibility

DHS is an administrative unit established under the *Public Sector Act 2009.* It reports to the Minister for Human Services.

DHS's objective is to deliver strategies, programs and services that improve the wellbeing and safety of South Australians. It does this across its programs for communities, status of women, youth justice and disability.

DHS is also responsible for administering a number of funds and trusts on behalf of the Minister, including concession payments.

For more information about DHS's objectives and functions see note 1.2 of its financial report.

Scope of the audit

Audit of the financial report

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

Specific areas of attention in 2020-21:

- follow-up of issues raised in 2019-20
- compliance with governance frameworks
- fixed assets, including the revaluation of property, plant and equipment
- expenditure, including grant payments, concessions and supplies and services
- employee benefits expenses and liabilities
- revenue
- cash and general ledger
- client trust accounts.

The audit considered control processes performed by both DHS and Shared Services SA (SSSA).

We reviewed internal audit activities when designing and performing audit procedures. However, we did not rely on internal audit for the purpose of issuing our opinion.

Controls opinion

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

- National Disability Insurance Scheme (NDIS) expenditure
- deposit accounts and special deposit accounts held with the Treasurer.

Audit findings

Communicating our audit findings

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

Controls opinion findings

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

Other audit findings

Revenue

In 2020-21 DHS's revenue, excluding appropriation, totalled \$179.4 million (\$197.4 million).

Regular assessment of revenue contracts not performed

In 2019-20 two new accounting standards became applicable to DHS for the first time:

- AASB 15 *Revenue from Contracts with Customers*
- AASB 1058 *Income of Not-for-Profit Entities.*

Significant work was undertaken for the introduction of these standards in 2019-20 to identify how DHS's existing contracts should be treated. In our 2020-21 audit, we reviewed DHS's arrangements for the ongoing assessment of contracts, including how new or modified revenue contracts are identified, assessed and accounted for. We found that DHS had established processes for this, however they were not formally documented in policies/procedures and were not consistently implemented in 2020-21.

Given the appropriate accounting treatment depends on individual contracts, ongoing assessment of new or modified contracts is critical to ensuring that revenue is accurately recognised and disclosed.

We recommended that DHS document its assessment processes in policies and procedures to ensure they are consistently applied. We also recommended that DHS perform an urgent assessment for new or modified contracts to support revenue recognised in its 2020-21 financial report.

DHS responded that it had assessed all revenue contracts entered into for the period up to March 2021, however it acknowledged that its documentation was not up to date. DHS advised us that it had subsequently completed an assessment and documentation for the full financial year, and a detailed work instruction will be created for the ongoing assessment of contracts to ensure compliance with the accounting standards.

Payroll

In 2020-21 DHS's salaries and wages expense totalled $184.8 million ($201.9 million).

Lack of post-upload check for payroll pay files

We found that improvements could be made to reconciling payroll data between payroll systems.

DHS use the Kronos time recording system for its rostered employees. This represents over 1600 employees and approximately $5 million of payroll expenditure each pay period.

At the end of each pay period, DHS sends a pay file from Kronos to SSSA to be uploaded to the CHRIS payroll system for processing. We understand that DHS performs integrity checks over the Kronos pay file before it is sent to SSSA for upload, and a post-upload reconciliation of hours recorded against each pay code between Kronos and CHRIS for a sample of five employees.

However, there is no other post-pay reconciliation to ensure that all the data in the pay file has been completely and accurately transferred to CHRIS for processing. This may result in inaccurate payments to employees that are not identified.

We recommended that DHS consider implementing a reconciliation between the post-upload CHRIS and Kronos pay file data to ensure payments to employees are accurate.

DHS responded that a reconciliation of random timesheet import data from Kronos to timesheet data uploaded to CHRIS is done each period. Any errors identified are raised for correction immediately. DHS will explore whether bona fide reports can be generated for rostered employees on Kronos as an additional control.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2021 $million	2020 $million
Income		
Appropriations	908	945
Commonwealth-sourced grants and funding	107	102
SA Government grants, subsidies and transfers	28	41
Sales of goods and services	24	25
Fees and charges	14	19
Other revenues	6	10
Total income	1 087	1 142
Expenses		
NDIS contributions	656	612
Employee benefits expenses	250	284
Supplies and services	87	96
Grants and subsidies	79	81
Other expenses	15	13
Total expenses	1 087	1 086
Net result	-	56
Other comprehensive income	(9)	3
Total comprehensive result	(9)	59
Net cash provided by (used in) operating activities	7	(10)
Assets		
Current assets	226	218
Non-current assets	123	169
Total assets	349	387
Liabilities		
Current liabilities	67	71
Non-current liabilities	74	73
Total liabilities	141	144
Total equity	208	242

Statement of Comprehensive Income

Income

DHS’s main sources of income are appropriations of $908.1 million and Commonwealth grants of $106.6 million.

In 2020-21 total income decreased by $55.3 million to $1.1 billion, mainly due to decreases in appropriation ($37.3 million), fees and charges ($4.4 million), SA Government grants, subsidies and transfers ($13.1 million) and other income ($3.9 million), partially offset by increases in Commonwealth grants ($4.1 million).

Appropriations

Appropriations decreased by $37.3 million to $908.1 million in 2020-21. The decrease reflects the continuing transformation of DHS, as less expenditure was budgeted for in 2020-21 for employee benefits expenses, supplies and services, and grants and subsidies.

Commonwealth-sourced grants and funding

Commonwealth-sourced grants and funding increased from $102.5 million to $106.6 million in 2020-21. This increase is primarily due to a $4.3 million increase in COVID-19 domestic violence support payments. Additional funding in 2020-21 was provided to support initiatives including victim and survivor support packages and safety hubs, perpetrator behaviour change services (including the men's referral line), response services targeting vulnerable groups and community recovery initiatives.

Commonwealth funding for other programs remained relatively consistent, including DisabilityCare Australia Fund income of $75.2 million ($72.7 million) and Continuity of Support Programme income of $19.6 million ($22.1 million).

SA Government grants, subsidies and transfers

SA Government grants, subsidies and transfers decreased from $41.2 million to $28.1 million, mainly due to:

- a $10 million decrease in targeted voluntary separation package (TVSP) reimbursements from the Department of Treasury and Finance (DTF) contingency fund. In 2020-21 DHS recorded 30 TVSP payments compared to 153 in 2019-20
- a $9.4 million decrease in income from the National Education Reform Agreement due to timing differences in receipts from the Department for Education
- partially offset by a $5.9 million increase in the Community and Jobs Support Fund through DTF, which provided support for people significantly impacted by COVID-19 restrictions. Funding from the Community and Jobs Support Fund mainly supported the vulnerable South Australian support package provided by DHS (see 'Grants and subsidies' below for more information).

Sales of goods and services

Sales of goods and services decreased from $25.4 million to $23.6 million, mainly due to:

- a $5.2 million decrease in DES minor equipment and home modifications. DES was gradually wound down in 2020-21, with services ceasing in December 2020
- partially offset by a $1.3 million increase in screening check fees and a $1.4 million increase in interpreter and translator services.

Expenses

In 2020-21 total expenses remained consistent at $1.1 billion. Movements in expenses include increases in NDIS contributions ($44.2 million) and net loss on disposal of assets ($3.1 million), partially offset by decreases in employee benefits expenses ($33.2 million), supplies and services ($9 million) and grants and subsidies ($2.4 million).

NDIS contributions

NDIS contributions increased by $44.2 million to $656.2 million. Funding is paid to the National Disability Insurance Agency under a Commonwealth agreement.

NDIS expenditure comprises the fixed State contribution under the full scheme bilateral agreement, offset by adjustments including in-kind provision of services (such as the supported accommodation DHS continues to provide to disability clients). See the 'Further commentary on operations' section below for additional information.

Employee benefits expenses

Employee benefits expenses decreased by $33.2 million to $250.5 million in 2020-21. This is mainly due to:

- a $17 million decrease in salaries and wages, mainly due to a reduction in FTEs and a $4.8 million reversal of prior year accruals for the back-payment of overtime that was expected to be paid after a South Australian Employment Tribunal decision. This accrual was reversed in 2020-21 after an appeal was upheld. FTEs decreased from 2711 at 30 June 2020 to 2618 at 30 June 2021. There was also a large reduction in staff in June 2020 that contributed to the significant reduction in salaries and wages
- a $9.6 million decrease in TVSPs, as 30 employees received TVSPs in 2020-21 compared to 153 in 2019-20. In 2019-20 most TVSPs related to employees in the Accommodation Services and NDIS Reform and Services divisions. In 2020-21 TVSPs continued in Accommodation Services and also in Disability and Reform Services
- a $1.8 million decrease in long service leave expense, attributable to an increase in the Commonwealth Government bond rate (from 0.75% to 1.25%) used in the actuarial calculation of the long service leave liability, and a decrease in the number of long service leave entitlement days.

Supplies and services

In 2020-21 supplies and services expenses decreased by $9 million to $87.3 million, mainly due to:

- a $5.3 million decrease in accommodation expenses as a result of less office premises contracted from the Department for Infrastructure and Transport and premises being closed in 2020-21. This also resulted in lower utilities expenses
- a $3.5 million decrease in ICT charges also as a result of office closures, with fewer devices needed for monitoring and maintenance. There were also increased purchases in 2019-20 for out-of-warranty hardware.

Grants and subsidies

Grants and subsidies decreased by $2.4 million to $78.8 million in 2020-21. Notable movements in grant funding include:

- a $2.9 million decrease in home and community care/community connections, largely due to a $1.1 million decrease in Commonwealth-funded community passenger networks, which ceased in 2020-21
- a $3.2 million decrease in information, linkages and capacity building, as a grant was provided in 2019-20 for DHS to deliver projects in the community to support inclusion for people with disability.

These decreases were offset by:

- a $4.1 million increase in financial hardship programs relating to the vulnerable South Australians support package. This package includes financial guidance services and emergency relief programs to support people impacted by COVID-19 restrictions, such as temporary visa holders, recently unemployed people and small business owners with impacted businesses
- a $1.4 million increase in COVID-19 domestic violence support. This was a new program introduced towards the end of 2019-20, whereas 2020-21 includes a full year of services provided under this program (see the 'Commonwealth-sourced grants and funding' discussion above).

Statement of Financial Position

Assets

DHS's major assets include cash and cash equivalents of $151.3 million ($145.9 million), property, plant and equipment of $118.8 million ($162.3 million) and receivables of $72.3 million ($72.3 million).

Total assets decreased from $386.8 million to $349.2 million as at 30 June 2021, largely due to a $43.5 million decrease in property, plant and equipment. There has been significant movement in the property, plant and equipment balance in 2020-21 including:

- assets transferred to other entities ($26 million). This relates to Crown land that was transferred to DEW when the dedicated use of the land was revoked by the Minister for Environment and Water. The land transferred was the former Strathmont Centre site. The transfer was treated as an equity distribution to DEW
- $3.9 million of independent living equipment assets that were donated to clients as a result of DES's closure
- an independent revaluation of assets that resulted in a revaluation decrement for buildings ($15.7 million) and an increment for land ($6.2 million). A full site revaluation was performed in 2020-21 by a qualified valuer. The valuation varied using, for example, direct market comparisons for land and current replacement cost for specialised buildings
- additions of $6.2 million mainly to accommodation improvements for the Riverside building ($6.1 million). Fitout was provided free of charge and a corresponding accommodation incentive liability has also been recognised
- depreciation expense of $7.5 million.

Liabilities

Total liabilities decreased by $3.2 million to $141.3 million. This was largely due to:

- an $8.7 million decrease in employee benefits liabilities. Accrued salaries and wages decreased to $9 million from $13.5 million in 2019-20, as the previous year included $4.8 million of additional accruals for the back-payment of overtime that was expected to be paid after the South Australian Employment Tribunal decision. This accrual was reversed in 2020-21 after an appeal was upheld. The long service leave liability also decreased from $44.7 million to $39.8 million in 2020-21 due to reductions in the number of long service leave entitlement days, and an increase in the Commonwealth Government bond rate (from 0.75% to 1.25%) used in the actuarial calculation
- a $5.5 million increase in other liabilities, mainly as a result of additional accommodation incentives recognised in 2020-21 for the Riverside building.

Highlights of the financial report – administered items

	2021 $million	2020 $million
Income		
Appropriation	183	191
SA Government grants, subsidies and transfers	13	14
Client trust receipts	10	11
Other income	2	9
Total income	208	225
Expenses		
Grants and subsidies	207	208
Client trust payments	10	12
Other expenses	17	13
Total expenses	234	233
Net result	(26)	(8)
Other comprehensive income	7	-
Total comprehensive result	(19)	(8)
Assets		
Current assets	63	67
Non-current assets	28	24
Total assets	91	91
Liabilities		
Current liabilities	28	8
Total liabilities	28	8
Total equity	63	83

Statement of Administered Comprehensive Income

Administered expenses

Grants and subsidies of $206.6 million represent 88% of total administered expenses. This balance is largely made up of concession payments (84%).

Concessions

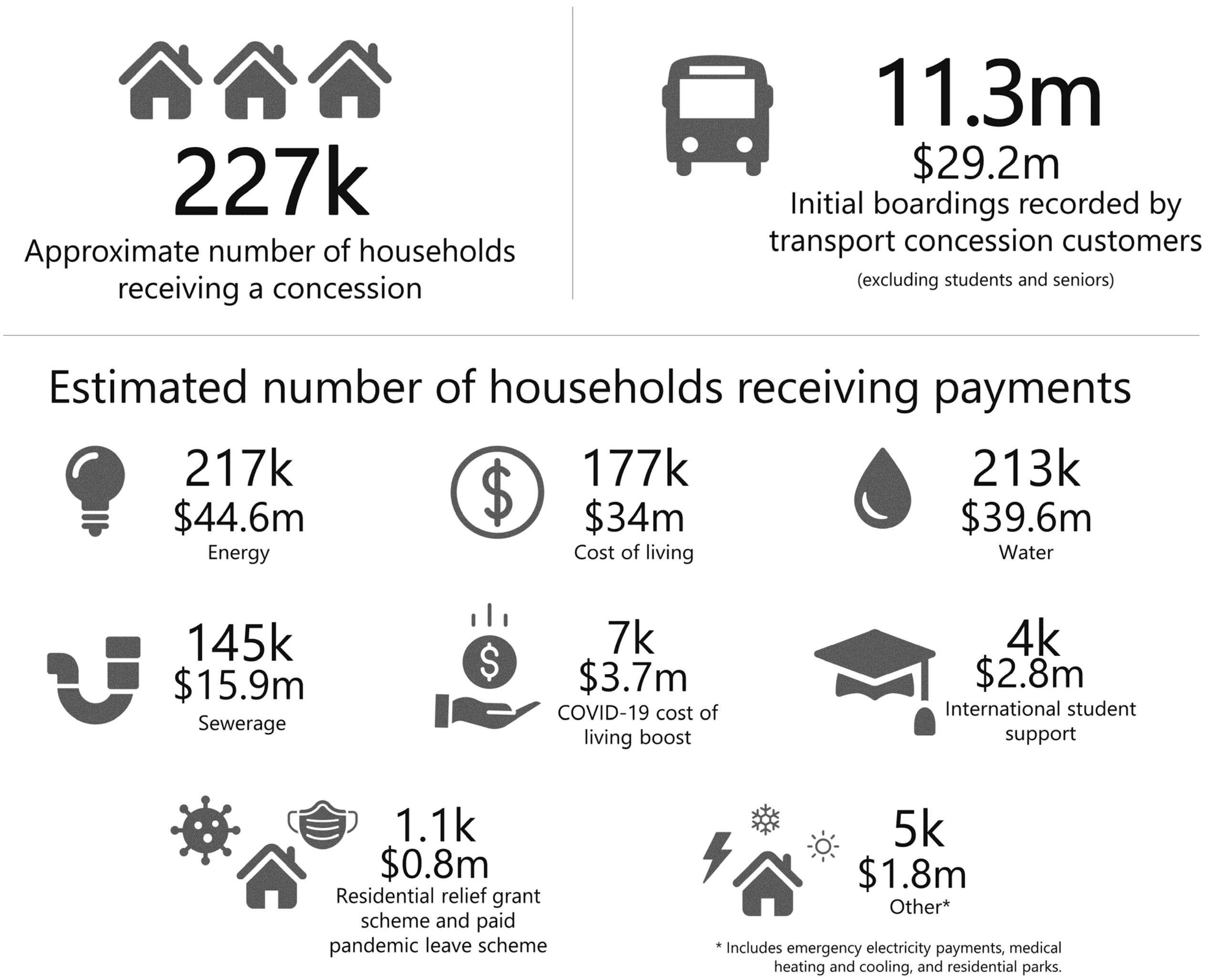
Concession payments decreased by $1.7 million to $172.5 million. This is largely due to:

- an $8.5 million decrease in cost of living concessions (COLC). As part of the SA Government's stimulus package in response to COVID-19, a $500 once-off boost payment was made to eligible people receiving JobSeeker payments. Over 19 000 household received the boost payment in 2019-20, totalling $9.6 million. In 2020-21, over 7000 households received the boost, totalling $3.7 million. In addition, the 2020-21 COLC payments were brought forward for households receiving JobSeeker to April 2020 (the COLC is an annual payment). The additional amount paid in 2019-20 for this was $3 million
- partially offset by:
  - a $2.9 million increase in water and sewerage concessions and a $2.8 million increase in energy concessions. A larger number of households received these type of concessions in 2020-21 compared to 2019-20

- a $1.3 million increase in concessions paid for the international student support package introduced in response to COVID-19, which provided emergency cash grants to international students residing in South Australia and experiencing financial hardship. 4254 payments were made in 2020-21, compared to 2917 in 2019-20
- an increase of $262 000 in residential rent relief grant payments, within other concessions. These grants are administered by DHS for eligible residential tenants who have experienced financial hardship such as loss of employment or a reduction in working hours/wages. Under this scheme landlords are paid the grant (of up to $1000) for eligible tenants where rental terms have been revised to provide rent relief. As at 30 June 2021, over 900 applications had been received, with 370 paid
- $570 000 of increased paid pandemic leave scheme payments, within other concessions. This scheme provides payments of up to $1500 for eligible workers who are required to quarantine (administered by the Commonwealth and reimbursed by DHS) and $300 for eligible people in a designated COVID-19 cluster required to self-isolate while waiting for test results (administered by DHS). Over 1000 applications were received in 2020-21, with approximately 700 paid.

The following chart highlights concession payments by number and value in 2020-21.

Concessions statistics



DHS advised us that approximately 227 000 households received an SA Government concession in 2020-21. Most of them received more than one concession type during the year and therefore one household may show up in more than one concession type in the above chart.

The number of households receiving a concession decreased from 230 000 in 2019-20. The decrease was mainly in households receiving the COLC payment (due to increased one-off activity in 2019-20 in response to COVID-19), while the number of households receiving energy, water and sewerage concessions increased.

Transport concessions decreased from $30.1 million to $29.2 million (3%) in 2020-21, however initial boardings recorded by transport concession customers decreased from 14.2 million to 11.3 million (20%). The payment made by DHS to the Department for Infrastructure and Transport is based on forecast boardings, which have not factored in the full impact of COVID-19 on public transport.

State Emergency Relief Fund (SERF)

The SERF is established by the *Emergency Management Act 2004* and used for money received by the Minister for the relief of people who have suffered injury, loss or damage as a result of a declared emergency or proclaimed situation. In 2019-20, the Cudlee Creek and Kangaroos Island bushfires were proclaimed situations.

The public appeal for donations ended on 31 July 2020. Receipts in 2020-21 totalled $123 000 (2019-20: $9 million), with payments totalling $3.3 million (2019-20: $5.8 million). The remaining balance of $102 000 will be used for future appeals.

Further commentary on operations

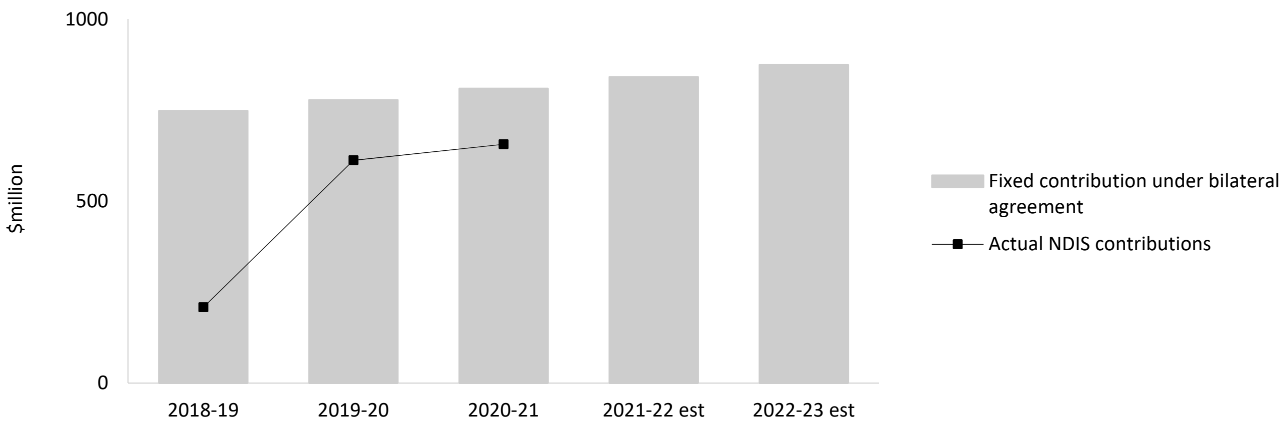
National Disability Insurance Scheme

The NDIS has been gradually rolled out across Australia since 2013. All eligible state-funded clients were transitioned to the NDIS by 30 June 2019. 2020-21 is the second complete year under the full-scheme bilateral agreement between the Commonwealth and SA Governments.

The objective of the full-scheme bilateral agreement is to improve the outcomes of people with a disability by supporting them through the NDIS, with the shared goal of increasing social and economic participation. The agreement involves agreed payments between the Commonwealth and SA Governments to fund the scheme.

The State's contribution to the NDIS in 2020-21 under the full-scheme bilateral agreement was $808.7 million ($777.7 million). There are various adjustments made to the fixed contribution, which in 2020-21 included in-kind service provision by the State of $151.4 million and transport subsidies of $1.1 million. This results in total net payments incurred of $656.2 million.

NDIS expenditure is expected to increase in 2021-22 as the fixed component of the full-scheme bilateral agreement increases to $840.9 million.



We assessed whether the internal controls for NDIS expenditure were suitably designed and operating effectively throughout the year. There were no significant findings from our review.

Disability and aged care reform

In 2017 the SA Government approved a number of significant changes to the way disability services will be provided in South Australia, in response to Commonwealth disability and aged care reform. These changes, along with the transition to the NDIS, have had a significant impact on DHS's operations, structure and finances in recent years.

In 2020-21 DHS continued its reform of disability services. Key aspects of this reform in 2020-21 are discussed below.

Domiciliary Equipment Services

DES provided rental equipment and home modification services. It managed the independent living equipment assets included in property, plant and equipment. DHS started transitioning out of providing DES in 2019-20, when DES was split into distinct areas to be either transferred to the non-government sector or closed. This transition concluded in December 2020.

As part of the closure of DES, $3.9 million of independent living equipment was donated to existing clients.

Sales of goods and services and other income have reduced in 2020-21 as a result of these services ceasing.

Accommodation services

DHS continues to provide accommodation services and has begun a range of strategic reforms to operate commercially under the NDIS.

In 2019-20 all remaining residents at the Highgate Park facility (the former Julia Farr Centre) were transitioned into community accommodation. After community consultation, it was decided to sell the Highgate site with the proceeds to be used by the Home for Incurables Trust to benefit people living with disability. As at 30 June 2021, this sale process had not commenced.

Machinery of government changes

A machinery of government change resulted in the State Recovery Office transferring from DHS to the Department of the Premier and Cabinet effective 1 July 2020. On transfer, DHS transferred $713 000 of net liabilities, mainly employee benefits for the nine transferring employees.

Independent Commissioner Against Corruption (ICAC)

Financial statistics	Net result:	$250 000
	Revenues from SA Government:	$13.9 million
	Number of FTEs:	64

Significant events and transactions

- A new Independent Commissioner Against Corruption was appointed and commenced their term from 2 September 2020.
- The Commissioner released four reports in 2020-21:
  - Looking Back 2020
  - ICAC University Integrity Survey 2020
  - Identify, Disclose and Manage: Conflicts of Interest in Public Administration
  - Evaluation of Practices, Policies and Procedures of the Department for Correctional Services.

Financial report opinion **Unmodified**

Functional responsibility

The Independent Commissioner Against Corruption (Commissioner) and the Office for Public Integrity (OPI) are established under the *Independent Commissioner Against Corruption Act 2012*.

The activities of both the Commissioner and the OPI are included in the financial report as they constitute a single entity, ICAC, for financial reporting purposes.

The Commissioner's primary functions are to identify and investigate corruption in public administration and prevent or minimise corruption, misconduct and maladministration in public administration through referral of potential issues, education and evaluating practices, policies and procedures.

The OPI's primary function is to receive and assess complaints and reports about public administration, corruption, misconduct and maladministration and to make recommendations for taking action on them.

Note 1.2 of ICAC's financial report further explains the Commissioner's and the OPI's objectives and functions.

Scope of the audit

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

Specific areas of audit attention in 2020-21 included:

- governance
- expenditure
- payroll
- cash
- general ledger processing.

Audit findings

Communicating our audit findings

We did not identify any audit findings that required a management letter to the Commissioner.

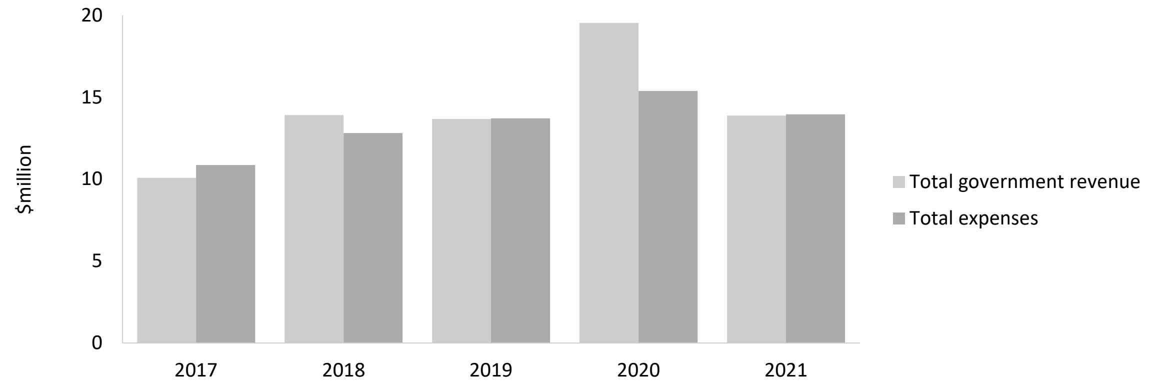
Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Income		
Revenues from SA Government	14	20
Total income	14	20
Expenses		
Employee benefits	8	10
Supplies and services	4	5
Other	2	1
Total expenses	14	16
Net result	-	4
Net cash provided by (used in) operating activities	-	6
Net cash provided by (used in) investing activities	-	(1)
Assets		
Current assets	11	11
Non-current assets	3	4
Total assets	14	15
Liabilities		
Current liabilities	2	2
Non-current liabilities	1	2
Total liabilities	3	4
Total equity	11	11

Statement of Comprehensive Income

The following chart shows ICAC's total expenses and government revenue over the past five years.



The chart shows that both expenses and government revenue decreased in 2021, a result of decreased activity. Further details are provided below.

Income

ICAC relies on revenues from the SA Government, which decreased by $5.7 million to $13.9 million mainly due to the additional capital funding of $4.4 million ICAC received in 2019-20 for an ICT corporate infrastructure refresh project and the fitout of public hearings accommodation.

Expenses

ICAC's expenses decreased by $1.4 million to $14 million.

Employee benefits expenses decreased by $999 000 mainly due to decreases in:

- salaries and wages of $613 000, as there were a number of positions not filled for the full financial year due to periods of extended leave without pay and extended position vacancies
- long service leave of $180 000, as the increase in the bond yield rate (1.25%, up from 0.75%) used to calculate the liability had net financial effect of decreasing the long service leave expense by $146 000.

Supplies and services decreased by $593 000 mainly due to decreased:

- ICT charges of $134 000 due to a decrease in network, software and hardware maintenance costs, less minor computer hardware purchases and the Department of the Premier and Cabinet (DPC) no longer charging for network services
- accommodation charges of $215 000 due to the less floor space being leased in 2020-21.

In addition, a loss of $186 000 was recognised on the devaluation of leasehold improvements as at 30 June 2021.

Statement of Financial Position

Assets

ICAC's assets decreased by $1 million to $14.1 million. This was mainly due to decreases in cash of $225 000, property, plant and equipment of $734 000 and intangible assets of $172 000.

The decrease in property, plant and equipment of $734 000 is due to depreciation and amortisation of $945 000 and the recognition of a revaluation decrement of $186 000 from the revaluation of leasehold improvements in 2020-21. These decreases were offset by acquisitions of $400 000.

The decrease in intangible assets of $172 000 was the amortisation expense.

For the movement in cash refer to 'Statement of Cash Flows' below.

Liabilities

ICAC's liabilities decreased by $1.3 million to $2.8 million. The major items causing this change were:

- payables decreasing by $313 000. As at 30 June 2020 there were payables for accommodation charges of $136 000 and legal expenses of $100 000, with no similar amounts outstanding as at 30 June 2021. In addition, employment on-costs decreased by $58 000 due to employment benefits liabilities decreasing as at 30 June 2021
- employee benefit liabilities decreasing by $655 000 to $1.9 million, mainly due to:
  - long service leave, down $515 000. The decrease in long service leave was due to termination payments, employees transferred to other agencies and the increase in the bond yield rate used to calculate long services leave liability from 0.75% to 1.25%. This had the net financial impact of reducing the liability by $146 000
  - annual leave, down $125 000 mainly due to staff movements to other agencies.

Statement of Cash Flows

Cash and cash equivalents at 30 June 2021 were $11.2 million ($11.4 million). Net cash provided by operating activities was $194 000, a decrease of $5.6 million from 2020. This was mainly due to decreases in revenues from the SA Government, down $5.7 million, and recoveries received, down $49 000, and an increase in employee benefits payments of $102 000, offset by a decrease in supplies and services payments, down $115 000.

Net cash used in investing activities was $400 000 for the purchase of property, plant and equipment.

Department for Infrastructure and Transport (DIT)

Financial statistics

Income	$2.8 billion	Appropriation 24% · Fees and charges 26% · Commonwealth 29% · Other 21%
Expenses	$2 billion	Employee benefits 9% · Supplies and services 46% · Depreciation 32% · Other 13%
Assets	$40.5 billion	Current 12% · Non-current 88%
Liabilities	$1.6 billion	Current 39% · Non-current 61%

2,024
Employees (excluding Rail Commissioner)

$1.4 billion
Capital expenditure

22,000 km
Roads managed

Administered items

Income	$1.1 billion	Vehicle registration related charges 92% · Other 8%
Expenses	$1 billion	Disbursed to third parties 92% · Other 8%

Significant events and transactions

- New contractors started providing bus and tram services from July 2020.
- The heavy rail service contract replaced previously internally provided services from 31 January 2021.
- Contracts were signed for the provision of road maintenance services under a new service provision model, with the new arrangements starting in November 2020.
- In July 2021 DIT awarded a contract with a single service provider for a fully outsourced facilities services delivery model. It will transition to the new arrangements by 1 December 2021.
- Service concession data assets valued at $284 million were recognised for the first time in line with AASB 1059 *Service Concession Arrangements: Grantors*.
- On 1 October 2020 responsibility for planning and land use services and several other areas transferred to the Attorney-General's Department – notes 1.4 and A3 of DIT's financial report provide more information.
- Network assets were revalued upwards by $525 million and land, buildings and facilities were revalued upwards by $115 million.

Financial report opinion	**Unmodified**
Controls opinion findings	— Improvements in the across government facilities services arrangements (AGFMA) were in progress. — Opportunities to improve asset management practices were noted. — Some infrastructure procurement, contract management and project delivery controls could improve. — Review of road maintenance contract procurement identified some procurement practices that could be improved. — Road maintenance contract management controls were still being implemented. — Passenger transport contract management practices are established, with some minor areas requiring attention.
Other audit findings	— Documentation to support a single source procurement could have been stronger. — Identified payroll controls need improvement. — Further action is required to enhance IT controls for selected systems.

Functional responsibility

DIT is an administrative unit established under the *Public Sector Act 2009* and is responsible for transport systems and services, infrastructure planning and provision, and strategic land use for South Australia.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- accounts payable
- payroll
- public transport contracts

- fees and charges, including motor vehicles, drivers licences and public transport
- income and expenditure for maintenance, property and building construction services
- accounts receivable
- bank reconciliation
- general ledger
- governance
- fixed assets, including capital works, road and rail network assets, and plant and equipment
- IT controls.

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

Controls opinion

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

- facilities maintenance services managed by DIT for other SA Government agencies
- asset management for selected road, marine and rail assets, and for the Adelaide Oval
- purchasing non-current assets, including procurement, contract management and project delivery
- construction on behalf of other SA Government agencies, including procurement, contract management and project management
- acquisition and disposal of land and buildings
- operating expenditure, including contract management for key operational contracts
- motor registration related revenue
- expenditure of Commonwealth money
- bank accounts.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Improvements in across government facilities management arrangements are in progress

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

AGFMA services comprise:

- mandated services, which include preventative maintenance, replacement/refurbishment maintenance, minor works less than $150 000 and breakdown maintenance
- non-mandated services carried out at the agency's discretion, which can include small construction works, property services (cleaning, security, waste management) and handyperson maintenance.

In 2020-21 these services amounted to $334 million and were provided by two facilities management (FM) providers:

- Spotless Pty Ltd (Spotless) for the central and northern Adelaide regions ($192 million)
- DIT's Facilities Services unit for the southern Adelaide region and country South Australia ($142 million), which operates under a services framework.

Both the outsourced contract and the services framework aim to provide a similar service to agencies.

DIT is responsible for administering the AGFMA. Its role as administrator includes providing IT support systems, auditing FM service provider performance, managing the outsourced contractor, helping agencies with the annual planning process, providing information to assist with legislative compliance, managing systems, payments, ongoing development and refinement of the AGFMA, and coordinating and resolving disputes.

Agencies are responsible for managing their designated locations, which includes portfolio and asset planning, specifying service needs and detailed statements of requirements, confirming the annual works program and budget, issuing work requests, verifying completion of work and FM service provider payment claims, and managing the funds allocated to works.

AGFMA reforms

In 2018-19, we conducted a comprehensive audit of the AGFMA that considered some of the fundamental elements of the Strategic Asset Management Framework. The framework was developed by DIT to act as a guide for managing SA Government buildings that aligns with the International Standard on asset management (ISO 55000).

We found that the AGFMA was not operating as intended, and in particular that:

- improvements in AGFMA governance were required
- asset data collection was insufficient
- asset condition monitoring was not adequately performed
- controls to ensure only qualified subcontractors are used were deficient
- key reconciliations, segregation of duties and subcontractor invoice checks could be improved.

Following an incident, the AGFMA was also subject to investigations by SafeWork SA and the Ombudsman in 2019. They resulted in DIT entering into an Enforceable Undertaking with SafeWork SA, and the Ombudsman making several recommendations, including DIT's Facilities Services unit performing site inspections for higher risk sites.

In response to our audit findings DIT advised us that it expected to complete an AGFMA improvement program by mid-2021.

In 2019-20 we reviewed the progress of the AGFMA improvement program and found that positive action by stakeholders was taken, but the AGFMA still needed significant improvement.

Our review in 2020-21 focused on DIT's progress to address the higher risk outstanding findings from the prior year. We noted that:

- the approved contract management plan (CMP) was updated to include a schedule of contract deliverables not detailed in the previous CMP. However, it did not provide clear references to procedures/activities performed to ensure FM service providers meet these obligations. Subsidiary controls to monitor service delivery, such as condition reporting and site inspections, were still in progress
- significant progress was made in executing service level agreement with participating agencies. In August 2021, DIT advised us that 21 of 23 agreements had been fully executed
- establishing asset hierarchies in agency asset management systems was still in progress. Last year we noted that only about 40% of participating agencies had established asset hierarchies, which detail the specific location of agency assets including site, building, level (floor) and room. Without this degree of specificity in asset information, FM service providers cannot provide a condition and lifecycle (expected replacement) assessment
- management controls to ensure subcontractors hold valid qualifications, licences and clearances were still being established. A framework for auditing subcontractor compliance going forward was completed in May 2021, however no audits occurred in 2020-21
- a project to develop condition reporting format, content and functionality in the SAMIS asset management system was completed in March 2021. Implementing the condition reports and training SAMIS users to run and access them was still in progress at the time of our audit
- in June 2020 the SA Government approved the funding of higher risk site inspections. DIT, in consultation with participating agencies, identified 652 higher risk sites for inspection and progressed them in 2020-21.

In response to our observations, DIT advised us that it:

- will review and apply a risk-based contract management approach, including subcontractor management, for the remaining contract term
- will correspond with agencies to finalise signing of the new service level agreements by December 2021 (for preparation of the new AGFMA contract)
- will continue to remind agencies of their responsibility to update, enter and provide asset hierarchies for assets serviced under the AGFMA
- has communicated with participating agencies about condition reporting and how reports can be run, or requested, from the FM service providers
- has completed the inspection and data capture program for the identified higher risk sites as recommended by the Ombudsman, at a cost of $4.9 million in 2020-21.

DIT has made significant progress to improve the AGFMA. This has included developing an updated/new AGFMA model, which is discussed further below.

New AGFMA model

In June 2020 the SA Government approved the establishment of a fully outsourced service delivery model for a future AGFMA. A single contract was awarded in July 2021, with the service provider to commence services on 1 December 2021. From July to November 2021 the existing AGFMA remains in place, with the new provider facilitating the transition to the new arrangements.

The new model retains many of the fundamentals of the current AGFMA, including that:

- DIT will remain as the central policy and contract management agency
- participating agencies are responsible for asset management
- the FM service provider will primarily be a work coordinator
- FM services provision and project work will largely be undertaken by appropriately qualified subcontractors, with a strong focus on local workforce and opportunity for South Australian small and medium enterprises
- it will continue to provide breakdown maintenance, preventative maintenance, asset replacement and refurbishment, planned small construction projects and handyman services.

Some changes under the new contractual arrangements are that:

- some FM services such as cleaning, waste management, hygiene security and gardening are excluded from the new arrangements
- DIT's Facilities Services unit will no longer provide FM services, with the new contractor providing these services
- the new contractor will provide the IT systems to facilitate the new arrangements. This will result in the SA Government decommissioning its work order processing (FAMIS and MACS) and asset management (SAMIS) systems.

Audit comment

It is important that DIT develops and implements strong contract management processes for the new AGFMA to ensure the SA Government achieves value for money. Doing so will require collaboration with participating agencies to ensure all parties have a clear understanding of their respective roles and responsibilities, and that DIT has a reliable process to monitor the performance of the State's new service provider.

Opportunities to improve asset management practices were noted

In 2020-21 we followed up DIT's progress in addressing the observations and recommendations we made in last year's audit.

In prior years we reviewed DIT's asset management practices and controls for road and marine infrastructure against aspects of ISO 55000. This included considering:

- governance and management frameworks
- levels of services and performance measures
- maintaining asset information and asset condition
- maintenance
- risk management.

We also sought to understand how asset management responsibilities for the Adelaide Oval were documented, undertaken and monitored to ensure that the responsibilities of all parties were met within the expected time frames.

Road asset management

DIT's road and structures network assets are valued at $26.9 billion as at 30 June 2021 and comprise the following assets:

- sealed roads
- the road corridor, which includes signs and safety barriers
- unsealed roads
- bridges and structures
- electrical assets, which include lighting and traffic signals
- data and systems, which include asset and traffic information.

In 2020-21 we followed up the findings from our 2019-20 review, which focused on DIT's management of sealed roads (pavements), bridges and structures.

We found that DIT had made progress to address last year's findings, including:

- implementing a new CMP procedure and template for use by the Transport Projects and Program Development Division
- approving CMPs for contracts that had missing or incomplete plans, and updating risks registers for contractual risks
- drafting a department-wide asset management policy, asset management strategy and levels of service, which were still to be approved at the time of our review
- updating some data in the asset management data system.

We noted, however, the following areas where improvement was needed:

- there was no documentation to evidence that bridges and structures condition inspections were scheduled based on criticality
- the condition rating scale in the bridge and structures asset management plan needed updating
- further improvements were needed for measuring and reporting some levels of service.

DIT responded that it has now adopted a new bridge management system, which will help to schedule bridge condition inspections, and it will update the bridges and structures asset management plan.

DIT advised us that it is continuing to improve its asset management system with the development of departmental-wide documents for its asset management strategy, levels of service and asset performance measures and indicators. These are progressing to incorporate changes to the 20-Year State Infrastructure Strategy and relevant Commonwealth Government initiatives. In addition, DIT noted that developing levels of service is an iterative process and supporting systems would need to be developed, which will take a relatively longer time to implement.

Marine asset management

DIT is responsible for managing marine assets with a written down value of $506 million as of 30 June 2021.

In 2020-21 we followed up the findings of our 2019-20 review, which focused on DIT's management of its jetties, including the Port Bonython Jetty. That jetty operates under indenture arrangements and is used by Santos Limited to support its business operations.

We noted that while DIT was improving its management of marine assets, its asset management practices were still being refined, developed and implemented. On 30 August 2021 we reported to the Chief Executive that improvements were still required to ensure that:

- marine asset condition monitoring is performed in line with approved frequencies
- the results of the condition assessments are recorded in the marine asset data system, including the date of the last condition inspection and the name of the assessor
- the required written reports and joint inspections with Santos are performed for the Port Bonython Jetty
- controls or treatments put in place to mitigate asset management risks are implemented and reflect the processes undertaken by DIT
- asset management plans define all desired levels of service and actual performance is monitored and reported on regularly
- customer expectations are integrated into levels of service and linked to performance measures in the revised asset management plans
- the asset management plans document how capability, user value and condition data will be used when planning and prioritising marine asset maintenance activities.

In its response DIT outlined action it has taken to resolve all the issues we raised.

Management of Adelaide Oval assets

Adelaide Oval assets are recognised in DIT's Statement of Financial Position as buildings and facilities. The fair value of the Adelaide Oval as of 30 June 2021 was $458 million.

Under the *Adelaide Oval Redevelopment and Management Act 2011* (the AORM Act), the Adelaide Oval core areas are leased from the Adelaide City Council to the Minister for Transport, Infrastructure and Local Government (the Minister), who must sublease them to the Adelaide Oval SMA Limited (AOSMA) until 2091. DIT helps the Minister to administer the related leases, licences and other requirements of the AORM Act.

Section 6 of the AORM Act directs AOSMA to establish a sinking fund for non-recurrent expenditure on the Adelaide Oval, and specifies that AOSMA must report to the Minister annually on the amount:

- contributed to and expended from the sinking fund for the previous financial year
- proposed to be paid into and out of the sinking fund for the current financial year.

The AORM Act specifies that the amount to be contributed to the sinking fund by AOSMA is subject to approval by the Treasurer annually and that the sinking fund is to be used only for non-recurrent expenditure associated with the sublease.

The Minister's sublease with AOSMA specifies that the non-recurrent expenditure from the sinking fund is to be used by AOSMA to maintain the Adelaide Oval to a standard 'at least appropriate to a world class multi-use facility'. DIT is responsible for ensuring that AOSMA meets its obligations under the sublease, which include managing, operating and maintaining the redeveloped Adelaide Oval.

— Asset management review of the Adelaide Oval

In 2020-21 we followed up the findings of our 2019-20 review. It had included an assessment of DIT's asset management policy and sought to understand how responsibilities for the management of the Adelaide Oval were documented, undertaken and monitored to ensure that the responsibilities of all parties were met within the expected time frames. This included the consideration of asset strategies and frameworks, risk management, work plans leases/licences, internal reporting and compliance with legislation related to the Adelaide Oval assets.

Last year we noted that while DIT had implemented a range of controls to manage key aspects of the sublease for the Adelaide Oval Core Area, it could take a more active role in these arrangements.

In 2020-21 we noted that while DIT had taken some action to address last year's findings, it remained heavily reliant on information from AOSMA. We considered that DIT's documented controls and review mechanisms could be further improved. Our main findings were as follows:

- DIT relied on written confirmation from AOSMA that key management plans required under the sublease exist. DIT did not obtain a copy of the documents or review their adequacy.
- While DIT performed an annual inspection of the Adelaide Oval, there was no documented inspection plan, and the results of the inspection were not documented.
- The consultant engaged by AOSMA to develop a long-term maintenance plan relied on visual inspection and review of existing documentation, and noted that they were not architects or structural engineers and that no specialist subcontractors were engaged to prepare the plan. We considered it would be prudent to plan periodical specialist inspections and reporting on the condition of the Adelaide Oval.
- The long-term asset maintenance plan identifies that the planned sinking fund balance is insufficient to pay projected expenditure for the period 2034 to 2050. We also note that the long-term asset maintenance plan does not cover the last 23 years of the lease.

DIT responded that while it was obtaining legal advice on the delineation of responsibilities, it:

- notes the existence and currency of the plans, but does not critically review them as the operational undertakings of the assets are the responsibility of AOSMA
- will review and investigate an annual inspection regime and associated reporting format
- will assess the asset information from a landlord's perspective to understand the design life, the necessary specialist inspections and reports required, and the timing of inspections.

In relation to the sinking fund, DIT responded that it reviews and endorses AOSMA's instructions to the consultant preparing the long-term asset management plan. DIT further noted that the AORM Act specifies that the Treasurer, after consultation with AOSMA, approves or determines the amount paid into the sinking fund, and it does not propose that the Minister is party to those negotiations.

Some infrastructure procurement, contract management and project delivery controls could improve

Construction work for DIT owned projects

The acquisition and delivery of infrastructure projects is a core component of DIT's operations that warrants a strong control environment. In 2020-21 DIT spent about $1.2 billion on constructing and purchasing assets.

Since 2015 there have been several reports from external consultants, DIT's internal audit and us identifying shortcomings and weaknesses in DIT controls. Over that time DIT has continued to reform and evolve its contract management, project management and project delivery processes. This has been covered in my previous reports.

In 2020-21 we noted that DIT continued its reform processes and had implemented a new comprehensive Program and Project Management Framework (PPMF). The PPMF aims to improve controls and address weaknesses identified in previous reviews mentioned. Many projects have transitioned to the PPMF, with the implementation of some aspects ongoing.

Our 2020-21 review focused on aspects of project management and delivery for a sample of three general building contracts and two alliance contracts. This included:

- contract management governance, the content of contract management plans, approvals and risk management processes
- the project governance framework, including governance structure, project meetings, project reporting, risk management, issues management and maintenance of decision and lessons learnt registers.

We found that for the projects we reviewed most processes were satisfactory, but noted:

- the absence of documented terms of reference for contract governance groups and that the contract governance group composition was not in line with the signed contract and the PPMF
- DIT had not engaged independent verifiers as required by the contracts.

DIT responded that it considered its existing practices were appropriate and that it will review the PPMF and contract documentation to ensure requirements are clearer.

Construction work on behalf of other SA Government agencies

In 2020-21 DIT spent about $661 million on construction work for other SA Government agencies. DIT is responsible for procurement, tender and contract management functions for this work.

In 2020-21 we reviewed a sample of procurements, focusing on acquisition planning, tender assessments, governance, agency and departmental approvals, and issues and risk management. We also followed up DIT's progress in addressing matters we raised in previous years.

In August 2021 we reported to DIT that it had addressed most of the matters we raised last year and that most procurement areas we tested for the projects we sampled were satisfactory. However, we identified that DIT has not documented its policy expectations for the development and approval of project management plans and post-sourcing reviews.

In September 2021 DIT responded that a policy on project management plans had now been documented and that a policy and procedure for post-sourcing reviews had been drafted.

Review of road maintenance contracts procurement identified some procurement practices that could be improved

Following a multi-stage tender process, in July 2020 the Commissioner of Highways awarded the following road maintenance contracts for a total of $5.1 billion (GST inclusive). The contracts are for seven years plus two extension periods of three years each

- Zone 1 – Adelaide Metropolitan and Statewide ITS assets – DM Roads
- Zone 2 – Regional South – Fulton Hogan Industries Pty Ltd
- Zone 3 – Regional North – DM Roads
- Zone 4 – Outback – South Australian Road Services Pty Ltd.

All previous road maintenance services provided by private contractors and DIT are now covered by the new contracts.

Our review assessed compliance with State Procurement Board policies and guidance and considered DIT's controls over governance, risk management, acquisitions plans, evaluation of submissions and tenders, negotiation, purchase and contract approvals and probity management. We did not review the project initiation or whether the procurement represented value for money.

We identified processes and practices that should be improved for future procurements, including that:

- the documentation of steering committee arrangements and responsibilities could have been improved
- a risk management plan was not prepared and there was no evidence that the risk register was regularly reviewed by the responsible project team or steering committee
- the probity plan did not consider some probity risks and probity assurance arrangements were not clearly defined, documented or agreed
- the assessment of risks for deviations to the approved expression of interest evaluation plan was not documented
- the revised evaluation criteria was released to tenderers prior to assessing the risk and impact of the deviations to the procurement and the procurement outcome
- advice provided by the financial advisor was not implemented, and the reason for this was not documented in the purchase recommendation.

DIT advised us that, in response to the new SA Government Procurement framework, it implemented a new procurement framework for goods and services on 1 July 2021. In addition, DIT is implementing a procurement compliance management framework that requires regular reviews of procurement and contract management practices, ensuring compliance with legislation and DIT policy.

In addition, DIT's response detailed action taken or planned to address to the specific findings. This included updating or reminding staff of policies and procedures.

Road maintenance contract management controls were still being implemented

As noted above, in July 2020 the Commissioner of Highways executed four road maintenance contracts for a total value up to $5.1 billion (GST inclusive) over a potential contract period of 13 years. After a transition period, the contractors started providing routine services in November 2020.

The new contract arrangements provide for DIT employees, who did not elect to transfer to a contractor to be made available to the contractors for the purpose of performing services. The cost of this workforce is deducted from the payments to the contractors.

In 2020-21 we performed a high-level review of DIT's contract management framework for the new road maintenance contracts, and considered contractor performance measurement and reporting, controls over contractor payments and the management of made-available employees.

We noted that DIT had established a framework for managing the road maintenance contracts, which includes:

- documenting contract management plans that provide an overview of how the each of the four road maintenance contracts will be managed
- appointing an experienced contract manager to oversee all four contracts
- implementing a new organisational structure to support the management contracts, with most positions filled
- developing an audit and assurance framework covering the contractors' responsibilities and performance
- developing detailed KPI reporting templates and issuing them to the contractors
- implementing monthly performance reporting by the contractors and developing maintenance defect registers
- documenting the general process for the review of contractor claims and developing processes to review payment claims for the lump sum portion of the payment claim.

In August 2021 we wrote to DIT to communicate the following findings:

- DIT had not yet implemented controls to monitor compliance with contractual obligations for any of the four contracts, increasing the risk of not achieving contract objectives, legal action and substandard asset performance.
- Identified contract risks were not rated and treatments to mitigate contractual risks were not documented from the start of the contracts, increasing the risk that DIT fails to identify, assess and actively manage contract risks, and the likelihood of contract failure.
- Contractors had not yet provided systems to support some processes required by the contracts, such as work order requests and reporting, potentially compromising some planned efficiencies.
- Some monthly internal contract management reporting was not prepared as set out in the CMP, increasing the risk that contractor performance is not effectively monitored.
- Personnel responsible for day-to-day contract management of the road maintenance contracts were not appointed timely and have not had the required State Procurement Board training.
- Some conditions precedent were not met within the time frames specified in the contracts.
- Some KPI statistics to monitor contractor performance were incomplete and a failure notice had not been issued – noting that the contract remains in a transition period where abatements and penalties do not yet apply and it provides discretion as to the issuing of failure notices.
- Processes to verify payment claims for work orders were not documented and some work orders were approved without the contractor providing the required information. This increases the risk that contractors are paid for services not performed, the quality of work performed is unsatisfactory, value for money is not achieved or other contract objectives are not achieved.

In its response, DIT has noted planned or completed action to address all the issues we raised.

Passenger transport contract management practices are established, with some minor areas needing attention

In 2020-21 new contracts commenced that:

- replaced existing bus passenger service contracts
- contracted private operators to provide tram and train passenger services, asset management and maintenance services.

In 2020-21 we performed a high-level review of DIT's contract management framework for the new public transport contracts and considered contractor performance measurement and reporting, controls over contractor payments and the management of made-available employees.

Bus and tram contracts

Since 2000, bus passenger transport services in Metropolitan Adelaide have been entirely provided by privately owned companies contracted by the Minister for Transport to operate those services. Tram services were previously provided by DIT.

In March 2020 the Minister awarded service contracts for the operation of Metropolitan Adelaide bus and tram services as follows:

- East West – Torrens Transit
- Hills – Keolis Downer
- North South and tram services – Torrens Connect
- Outer North – Torrens Transit
- Outer Northeast – Torrens Transit
- Outer South – Busways South Australia.

The total estimated value of the bus and tram service contracts is $3 billion (inclusive of GST) over a potential 10-year term to 30 June 2030. We note that while the SA Government has outsourced the operation of light rail and bus services, it has retained ownership of the bus and light rail assets. The operators started providing the services from July 2020.

The service contracts are 'gross cost' contracts with incentives for reducing the cost per passenger, increasing customer satisfaction and/or increasing patronage growth. The SA Government remains responsible under the terms of the contracts for setting the pricing, service levels and service location.

The key performance areas defined in the contracts are service reliability and timeliness, patronage, reporting, safety, customer satisfaction, service quality and asset presentation.

Each of the key performance areas are comprised of one or more KPIs that have threshold performance standards. If a contractor fails to reach the benchmark KPIs, depending on the severity or repetition of the breach, the KPI failure may result in reductions in the payments to the contractor, incurring demerit points or contract default. If defaults are not remedied, the contracts allow the Minister to operate step-in and/or termination rights.

The contractors are also required to develop, implement and report on an asset management plan and annual works programs in consultation with DIT.

Heavy rail service contract

In September 2020, the Rail Commissioner executed the Outsourced Rail Operations Agreement (OROA) with Keolis Downer Adelaide Pty Ltd (the operator) for heavy rail passenger transport services. The estimated value of the heavy rail contract is $2.1 billion over a potential 12-year term to February 2033.

The operator started providing heavy rail services from 31 January 2021.

The SA Government has retained ownership of the rail system infrastructure and assets, is responsible for setting pricing and receiving fares and determines the minimum level of service of the network.

The operator is required to perform all work required to maintain the rail assets to the SA Government's specified standards, and to operate trains and deliver services to the schedule and performance standards determined by the SA Government.

The KPIs outlined the OROA cover service reliability and timeliness, patronage growth, customer satisfaction, safety routine asset maintenance delivery and rolling stock reliability. Abatements, incurring demerit points or contract termination may result, depending on the severity and repetition of any failures.

A strategic asset management plan and asset management plans for each of the classes of heavy rail assets are provided by the operator. These plans outline that the operator is seeking ISO 55001 certification by June 2023. They were reviewed and approved by DIT prior to contract commencement on 31 January 2021.

Audit findings

In preparation for the provision of the new service contracts, a new organisation structure for the South Australian Public Transport Authority (a division of DIT) was approved in November 2020. The restructure created separate sections for contract management, asset management, safety, network planning, and operations and customer transformation.

We observed that DIT had established a sound contract governance framework for the contracts that includes:

- documenting contract management plans addressing most of the requirements of the State Procurement Board's contract management policy
- documenting detailed registers to manage and track contract obligations
- appointing experienced contract managers, and filling most positions required to support the management of the contracts
- holding and documenting required management meetings with contractors
- conducting internal reporting and review meetings and processes, and establishing risk registers
- documenting processes for the review of contractor claims.

Our review also identified some areas where contract management processes could be improved. These included that DIT:

- had not documented processes to ensure that the performance monitoring statistics provided by contractors are accurate

- had not implemented processes to ensure that the heavy rail operator complies with legislation or regulations, could improve operator risk management monitoring and had not assessed the risk of non-compliant insurance policies.

We also noted some things that suggested DIT was not completely prepared for the commencement of the heavy rail contract. These included:

- operator plans not being approved prior to the commencement of service delivery
- the contract management plan being approved three months after service delivery commenced
- some contract management positions were not filled.

We noted that the contracts, particularly the heavy rail services contract, contain a large volume of obligations and performance factors that need to be managed. We recognise the significant effort made to construct and implement governance and contractual management arrangements.

In response, DIT acknowledged our audit findings and detailed specific action taken or planned to address them.

Review of Basware users and delegations is incomplete

DIT uses the Basware system to create and approve purchase orders and make payments. In 2020-21 it processed $2.2 billion through Basware. System functionality includes assigning users with delegation limits for approving transactions.

We noted that certain manual payments were not being independently reviewed to ensure they were appropriately authorised.

DIT acknowledged this finding, noting that it had transitioned to a new version of Basware and was investigating the updated system functionally to generate suitable reporting to perform this review.

Highways Fund

Our review of the Highways Fund noted that the submission of a schedule setting out the program of works for 2020-21 was not authorised by the Minister before the start of the financial year as required by section 35(1) of the *Highways Act 1926*.

DIT's response advised us that the rescheduling of the 2020-21 State Budget due to COVID-19 caused delays in developing the 2020-21 program of works and that it will work to ensure all future programs are submitted to the Minister within the legislated time frames.

Other audit findings

Documentation to support a single-source procurement could have been stronger

The *State Procurement Act 2004* (now repealed) identified a procurement objective of ensuring probity, accountability and transparency in procurement operations. Key to achieving this is ensuring that decisions are supported by considered and documented reasoning that identifies whether:

- to undertake a competitive process
- a direct approach would achieve a value-for-money outcome, including a price comparable with the price that would be obtained in a competitive market

- comprehensive market research suggests there is a limited supply market
- there are persuasive reasons to deny the broader market an opportunity to compete for the work
- there are any actual or perceived conflicts of interest in the engagement.

In 2020-21 we reviewed the procurement of the heavy rail project director role. This role was specific to the procurement process for the heavy rail service contract. We focused on the nature and extent of documentation supporting the decision to apply a single-source procurement approach.

We found that the documentation supporting the decision to proceed with a single-source market approach could have been improved. Specifically, we noted that the acquisition plan:

- was approved one business day after the supplier submitted a quote
- did not explain the urgency in applying a direct market approach. We appreciate this was the first time heavy rail was to be outsourced and it was a major and complex procurement
- provided limited information on the capabilities identified as necessary for the role
- did not adequately explain why market research obtained 12 months prior to this procurement was considered sufficient
- did not identify, as a risk to be managed, the Chief Executive's past relationship with the service provider. We did not identify any actual conflict of interest in our audit of the procurement. Auditor-General's Report 9 of 2021 *Probity of the processes for the heavy rail service contract* provides further information.

In response, DIT accepted or noted our findings, and indicated action to improve its documentation for future procurements. In addition DIT:

- acknowledged that the delay between finalising the acquisition plan and receiving the quote was short
- highlighted the urgency of the procurement due to the time frame established to complete the heavy rail procurement
- commented that having a strict set of qualifications or experience for a procurement of this nature could unnecessarily or unintentionally preclude a suitably qualified and experienced professional
- explained the Chief Executive's industry knowledge and experience, and referred to the full explanation he provided to the Budget and Finance Committee on this matter
- emphasised that there was no actual conflict of interest, officers completing the procurement were aware of his prior professional relationship and it was regrettable that this was not included in the finalising documents.

Identified payroll controls need improvement

In 2020-21 DIT's employee benefits expenses amounted to $188 million, with related liabilities of $89 million.

Payroll processing services are provided by Shared Services SA in line with a service level determination. While Shared Services SA is responsible for the complete and accurate processing of the payroll data it receives, DIT is responsible for ensuring payroll transactions are valid, accurate and complete.

DIT's payroll verification process comprises a quarterly review of employee details and a monthly review of employee pay variations and leave variances between attendance records and the payroll system.

We found that:

- a significant number of reports were either not reviewed or were not reviewed promptly, with many of them overdue by more than 30 days
- DIT had not established an effective control to monitor and certify employee attendance. The absence of this control increases the risk that employees are paid for work not actually performed and that leave records in the payroll system are inaccurate.

DIT responded that it would:

- continue to ensure managers are aware of the importance of the accuracy and timely completion of reports, and review the reports to make their completion more efficient and user friendly. This included scheduling an internal audit in 2021-22 to review these processes
- reinforce the need to ensure attendance records are maintained, reviewed and evidenced, and investigate system enhancements to achieve approvals and compliance.

Further action is needed to improve IT controls for selected systems

We reviewed password management, user access management, patch management, change management, audit logging, and backup and disaster recovery management for the DIT systems used for:

- managing properties and leases (ProMIS)
- accounts payable, accounts receivable, general ledger and fixed assets (Masterpiece).

We identified shortcomings in the following aspects of DIT's information security controls:

- Some staff can perform multiple functions across the change management process, including developing, testing and migrating changes into the production environment (ProMIS and Masterpiece).
- Patching of software for security vulnerabilities could be improved (Masterpiece).
- Several privileged user accounts were identified that were no longer required (ProMIS).
- There was no review of privileged user logs for the application and operating systems, and no logging enabled at the database level (ProMIS).
- Disaster recovery procedures were in draft and no disaster recovery testing had been performed (ProMIS).
- Contractual arrangements for an independent agent to hold a copy of the application source code had not been established (ProMIS).

These matters increase the risk of unauthorised access and/or unauthorised changes to system environments. The associated impact would be the potential loss of sensitive data, unnecessary expense and disruption to operations.

DIT responded positively to our findings, indicating that it would consider password controls, review privileged users, review change management processes, complete disaster recovery planning and testing, and set up arrangements for an independent copy to be held by an independent agent.

Other audit commentary

Passenger transport services contracts

DIT is responsible for providing passenger transport services in South Australia.

In 2020-21 new contracts commenced that:

- replaced existing bus passenger service contracts
- contracted private operators to provide tram and train passenger services, asset management and maintenance services.

Under section 39 of the *Passenger Transport Act 1994* I am required to examine these contracts and submit a report to Parliament on the probity of the processes leading up to the awarding of them.

I completed my report on the bus and tram contracts in August 2020. These contracts were awarded by the Minister in March 2020 and the operators started providing services in July 2020.

I completed my report on the heavy rail contract in May 2021. This contract was executed by the Minister in September 2020 and the operator started providing services in January 2021.

In both reports we concluded that:

- we did not identify any specific probity matters that would suggest that the procurement process was compromised
- DIT designed and established processes for conducting the procurements that were consistent with sound probity principles
- in carrying out the processes, DIT maintained sufficient documentation consistent with appropriate standards for most areas of the procurements, other than for four specific areas
- the service contracts met the requirements of the *Passenger Transport Act 1994* and contained a broad range of contractual provisions that should help protect the State's interests.

We also noted that there were some departures for specific practices and procedures. They were not systemic or pervasive but did warrant consideration to improve processes for future procurements.

Adelaide Oval redevelopment

In September 2011 the AORM Act came into operation. Its primary purpose is to facilitate the redevelopment of the Adelaide Oval and to provide for the future care, control and management of it. DIT has the principal construction management role and responsibility for the redevelopment project.

The AORM Act also requires financial supervision of the project by the Auditor-General and provides for the Auditor-General to report to Parliament on specific financial matters associated with the redevelopment and the ongoing management of the Adelaide Oval. Six-monthly reports are provided to Parliament discharging the requirements of the AORM Act. The first Report was provided in February 2012 and the most recent Report, the nineteenth under the AORM Act, was provided in February 2021.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2021 $million	2020 $million
Income		
Appropriation	671	636
Fees and charges	725	721
Commonwealth-sourced grants and funding	796	292
Intra-government transfers	63	80
Sale of goods and services	194	181
Rental income	197	202
Grants and subsidies	66	65
Other income	52	47
Total income	2 763	2 224
Expenses		
Employee benefits expenses	188	225
Supplies and services	937	916
Depreciation and amortisation	653	622
Grants and subsidies	77	85
Surplus cash paid to the Department of Treasury and Finance (DTF)	114	101
Other expenses	59	68
Total expenses	2 028	2 017
Net result	735	206
Other comprehensive income		
Changes in revaluation surplus	721	6 114
Total comprehensive result	1 456	6 320
Net cash provided by (used in) operating activities	1 295	848
Net cash provided by (used in) investing activities	(1 150)	(965)
Net cash provided by (used in) financing activities	168	171
Assets		
Current assets	4 881	4 468
Non-current assets	35 631	34 582
Total assets	40 512	39 051

	2021 $million	2020 $million
Liabilities		
Current liabilities	619	441
Non-current liabilities	963	1 083
Total liabilities	1 582	1 525
Total equity	38 930	37 526

* Table may not add due to rounding.

The following chart shows the breadth and scale of DIT's activities, identifying 2020-21 operating expenses by activity and the value of fixed assets held to support these activities.

Activity

Roads and marine	$654m in operating expenses	$27.8b in fixed assets
SA Public Transport Authority	$628m in operating expenses	$3.6b in fixed assets
Across government services	$407m in operating expenses	$2.0b in fixed assets
Infrastructure planning and policy	$76m in operating expenses	$503m in fixed assets
Delivery of transport projects	$74m in operating expenses	$1.6b in fixed assets
Other activity	$189m in operating expenses	$3m in fixed assets

Note: The net loss or gain on the disposal of non-current assets is recognised by activity in the chart above.

Statement of Comprehensive Income

Income

Income totalled $2.8 billion. It includes appropriations of $671 million ($636 million) and SA Government grants, subsidies and transfers of $63 million ($80 million). DIT's revenue sources (excluding appropriation and intra-government transfers) are shown in the following chart, which demonstrates the importance of Commonwealth revenues (used largely for capital projects) and the significance of fees charged for motor registrations.

$2.03 billion in revenue

Fees and charges

$725m

$519m	Motor registrations
$73m	Driver's licence fees
$60m	Metrotickets

Commonwealth revenues

$796m

$114m	Gawler Rail Line Electrification
$127m	SA Rural Roads – Safety Packages
$59m	North-South Corridor – Pym St to Regency Rd
$40m	Overpass at Port Wakefield Road
$38m	Princes Highway Corridor
$36m	Joy Baluch Bridge
$34m	Regional Road Network Package
$33m	Portrush Road/ Magill Road

Other revenues

$509m

$161m	Office accommodation
$31m	Government employee housing
$148m	Maintenance services
$60m	Concessional passenger income

Total income increased by $540 million (24%) to $2.8 billion, due mainly to:

- Commonwealth-sourced funding increasing by $504 million. This funding is largely received to support major road and public transport capital projects. The scope and timing of capital projects varies from year to year
- appropriations income increasing by $35 million to $671 million. This included additional funding for COVID-19 impacts, the rail transformation program and the festival centre projects, offset by a reduction in funding from 2019-20 for projects including the Gawler line electrification, city tram extension, Main South Road duplication and the bus replacement program
- sales of goods and services increasing by $13 million to $194 million, due mainly to the increase in the FM services provided to other government agencies
- fees and charges increasing by $4 million to $725 million. While this increase was small, there were large variations in individual revenue lines, including:
  - motor registration charges increasing by $26 million (5%) due mainly to fee increases and growth in vehicle registrations
  - Metroticket income decreasing by $20 million (25%) due mainly to the impact of COVID-19 on public transport patronage
  - drivers licence fees increasing by $5 million (7%), compared to last year when revenue from these fees decreased by $9 million. These changes reflect drivers changing their preferences on licence renewal durations from year to year
  - some other fees and charges decreasing by about $7 million due mainly to the transfer of some planning and land use functions to the Attorney-General's Department during the year.

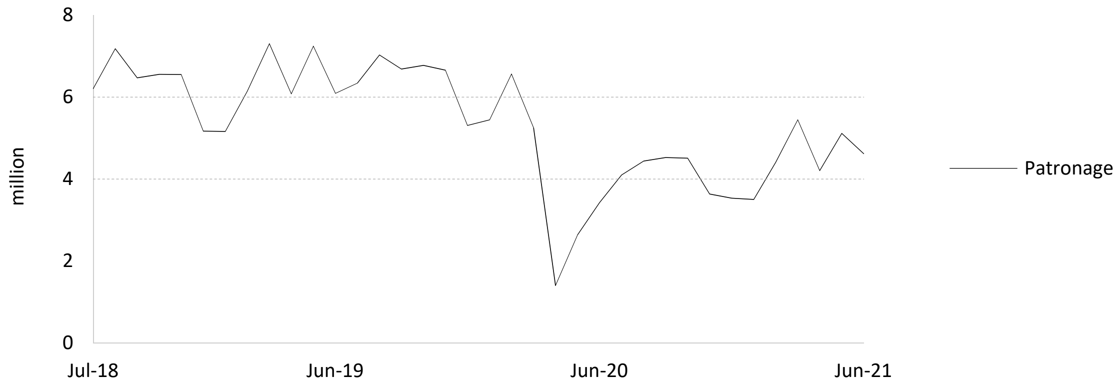
These increases were partially offset by:

- SA Government grants, subsidies and transfers decreasing by $17 million (22%) to $63 million, due mainly to the following movements:
  - a decrease in transfers from the SA Government contingency provisions of $24 million to $11 million. The funding provided in 2019-20 included $21 million to settle the city tram extension contract and $9 million for the Adelaide Festival Centre precinct. The 2020-21 amount related mainly to funding received for targeted voluntary separation packages
  - an increase in intra-government transfers of $7 million to $51 million for various projects and initiatives. For 2020-21 this included the Strzelecki Track project for $16 million and public transport cleaning due to COVID-19 of $10 million.

The impact of COVID-19 on patronage and Metroticket income

Over the past two years Metroticket income has decreased by $34 million (36%), reflecting the reduction in patronage due to COVID-19.

The chart below shows the reduction in patronage trends.

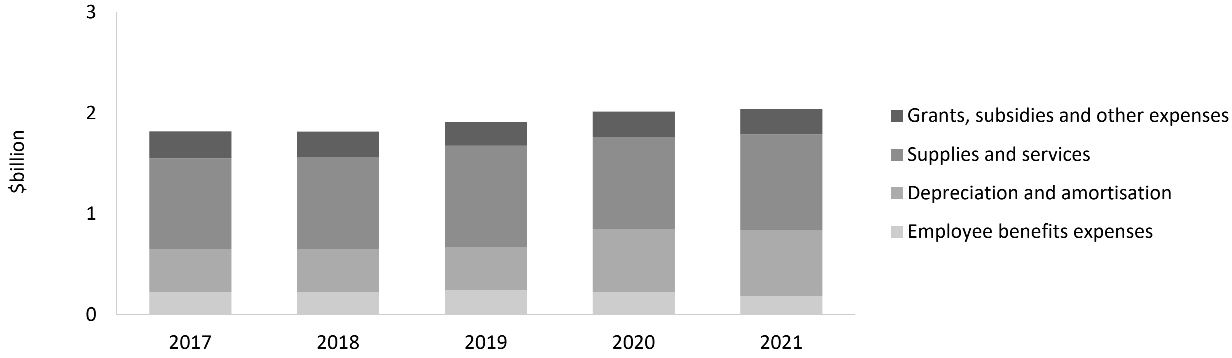


Patronage declined sharply in March and April 2020 (down about 77% in April), and while it has increased since then the 2020-21 patronage remained about 32% below 2018-19 levels.

The number of public transport boardings in 2018-19 was 76.2 million compared to 52.1 million in 2020-21.

Expenses

For the five years to 2021, a structural analysis of DIT's major expense items is shown in the following chart.



Expenses for the year totalled $2 billion ($2 billion) and are mainly attributable to:

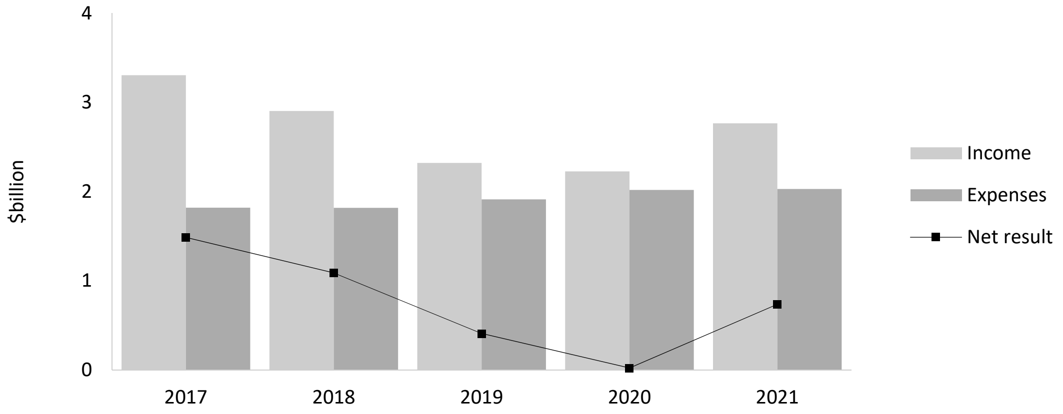
- supplies and services expenses of $937 million (46%), of which $339 million was for public transport service contract payments, $238 million was for operating costs of major infrastructure maintenance and other service contracts, $176 million was for property expenses and $43 million was for Rail Commissioner salary reimbursements
- depreciation and amortisation expense of $653 million (32%), of which $426 million was for network assets, $101 million was for right-of-use assets, $62 million was for buildings and facilities and $59 million was for plant and equipment
- employee benefits expenses of $188 million (9%)
- cash alignment transfers of $114 million (6%), reflecting the transfer of surplus cash to the Consolidated Account.

While total expenses remained consistent with last year, there were significant changes arising from DIT outsourcing the provision of services to private contractors, and the transfer of a number of functions to the Attorney-General's Department in October 2020. The more notable movements in expenditure were:

- depreciation and amortisation increasing by $31 million, due mainly to an increase in the depreciation of network assets of $34 million following revaluations upwards of assets in the prior year and the completion of major road construction works
- an increase in surplus cash paid to the Consolidated Account of $13 million to $114 million
- while supplies and services expenses showed a minor increase of $21 million (2%) to $937 million, there were the following significant changes:
  - public transport service contracts expenditure increased by $121 million due mainly to rail and tram services, previously provided by DIT, being contracted to private operators. The contracted rail services commenced in January 2021, while the tram services commenced in July 2020. In addition there was an increase in bus substitution services associated with the Gawler rail line project
  - Rail Commissioner salary reimbursement costs decreased by $28 million, due to the contracting out of rail and tram services
  - major infrastructure maintenance contracts expenditure increased by $12 million, following the outsourcing of major road maintenance infrastructure contracts for services previously provided by DIT, the impact of the new rail contracts and reductions in construction works performed for external entities
  - land administration fees decreased by $54 million to $20 million due to the transfer of this function to the Attorney-General's Department
  - a decrease in other service contracts expenditure of $17 million, also due mainly to the transfer of functions to the Attorney-General's Department
- employee benefits expenses decreasing by $37 million (16%) reflecting a reduction in the number employees, due mainly to the transfer of functions to the Attorney-General's Department, outsourcing the provision of services to private contractors and the impact of organisational restructures. DIT employees decreased from 2425 FTEs as at 30 June 2020 to 2024 FTEs as at 30 June 2021, a decrease of 401 FTEs.

Net result

The following chart shows DIT's income, expenses and net result for the five years to 2021.



In 2020-21 DIT recorded a net result of $735 million ($206 million). Significant factors in the movement of the net result over the past five years have been:

- the value of State and Commonwealth funding for major infrastructure projects recognised as income, which varies each year depending on the size, nature and timing of approved major capital work
- between 2017 and 2019, DIT received $1.2 billion following the wind up of the Motor Accident Commission. No money was received in 2020 and 2021.

Statement of Financial Position

DIT's total assets as at 30 June 2021 were $40.5 billion ($39 billion) and are discussed below.

DIT's liabilities amounted to $1.6 billion ($1.5 billion) and mainly comprised lease liabilities of $983 million ($1.1 billion), payables of $460 million ($259 million) and employee benefits of $89 million ($107 million). The movement in liabilities largely reflects:

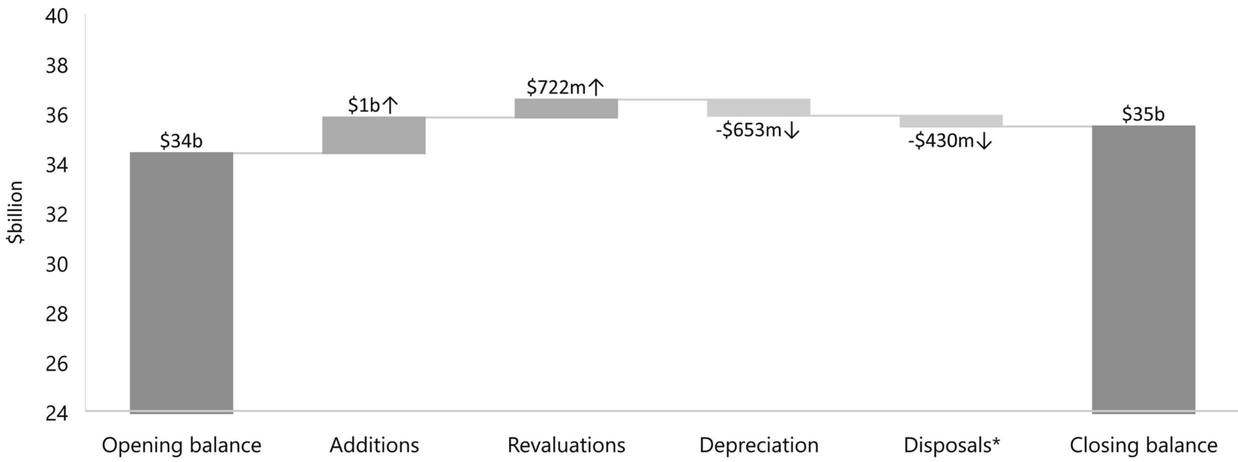
- an increase in payables of $201 million, which relate mainly to the increased level of construction projects
- a decrease in lease liabilities from lease repayments
- a decrease in employee benefits due to the transfer of employees to the Attorney-General's Department, the transfer of employees to private companies from outsourcing heavy rail, tram and road maintenance activities, and targeted employee separations.

Cash

DIT's cash amounted to $4.5 billion ($4.2 billion) and includes $4 billion ($3.7 billion) held in the Highways Fund established under the *Highways Act 1926*.

Fixed assets

DIT's fixed assets totalled $35.4 billion and include network assets of $29.6 billion ($28.5 billion), land, buildings and facilities of $3.4 billion ($3.4 billion), capital works in progress of $1.8 billion ($1.5 billion) and plant and equipment of $675 million ($655 million). The following chart shows the movement in fixed assets during the year.



* Disposals include assets transferred due to machinery of government changes, donated assets and assets transferred to held for sale.

Network assets

Network assets amounted to $29.6 billion ($28.5 billion) and represent 83% of total non-current assets. They comprise roads with a written down value of $23.9 billion (81%), structures with a written down value of $3 billion (10%) and rail and bus track assets with a written down value of $2.7 billion (9%).

The written down value of network assets increased by $1.1 billion to $29.6 billion. The main movements were:

- a net revaluation upwards of $525 million, comprising a $522 million increment for roads, a $5 million increment for structures and a $3 million decrement for rail and bus track assets
- the capitalisation of network projects totalling $989 million, comprising $681 million for roads, $149 million for structures and $159 million for rail and bus track assets
- depreciation expense of $426 million, comprising $291 million for roads, $59 million for structures and $76 million for rail and bus track assets.

For many years DIT has had the Treasurer's approval to value its road and structures assets using an internally developed revaluation methodology. The revaluation methodology and rates were last updated in 2019-20 and this was discussed in my Annual Report for that year. DIT's accounting policy is to review the methodology revaluation every five years, with intervening annual revaluations based on road component and structures unit rates provided by an independent external estimator each year.

Capital works in progress

The value of capital works in progress increased by $276 million to $1.8 billion. The major movements in capital works are shown in the following table.

Projects	Carrying amount 01.07.20 $million	Additions $million	Transfer to assets $million	Closing balance 30.06.21 $million
North-South Corridor Torrens to Darlington	11	36	1	46
North-South Corridor Darlington Upgrade	610	17	616	11
Gawler Line Electrification and Modernisation**	219	243	2	460
North-South Corridor Regency road to Pym street	104	110	-	214
Metropolitan intersection upgrade program*	42	128	22	148
Flinders Link – Tonsley line extension	102	35	137	-
Festival Plaza Precinct and carpark	53	56	-	108
Joy Baluch Bridge	12	46	-	58
Port Wakefield Road overpass	9	49	-	58
Road safety stimulus packages	6	176	6	176
Resealing and rehabilitation program	35	41	35	41
Princes Highway Upgrades	26	18	26	18

* Includes seven intersection upgrades: Cross and Fullarton Roads; Glen Osmond and Fullarton Roads, Goodwood, Springbank and Daws Roads; Grand Junction and Hampstead Roads; Main North, McIntyre and Kings Roads; Main North Road and Nottage Terrace; Portrush and Magill Roads; and Torrens Road Ovingham level crossing.

** Includes rail cars.

Land, buildings and facilities

Land, buildings and facilities decreased by $23 million to $3.4 billion, with the main movements due to:

- additions and transfers from capital works of $66 million for land and buildings, purchased mainly for infrastructure projects, and $14 million for right-of-use assets
- a $115 million upward revaluation, of which $47 million related to land and $68 million related to buildings, mainly for SA Government agency accommodation
- depreciation expense of $161 million, of which $99 million was for right-of-use assets and $62 million for buildings.

Plant and equipment

Plant and equipment totalled $675 million, an increase of $20 million from the previous year. The main movements for the year were:

- a $71 million revaluation upward, mainly for trams and trains
- asset additions and transfers from capital works in progress of $32 million, which included $22 million for the purchase of new buses
- disposals of $20 million
- depreciation expense of $62 million.

Statement of Cash Flows

Cash increased by $313 million to $4.5 billion.

Cash flows provided by operating activities increased by $447 million, due mainly to changes in the level of funding received from the Commonwealth and SA Governments. The level of government funding is impacted by the timing and scope of capital projects.

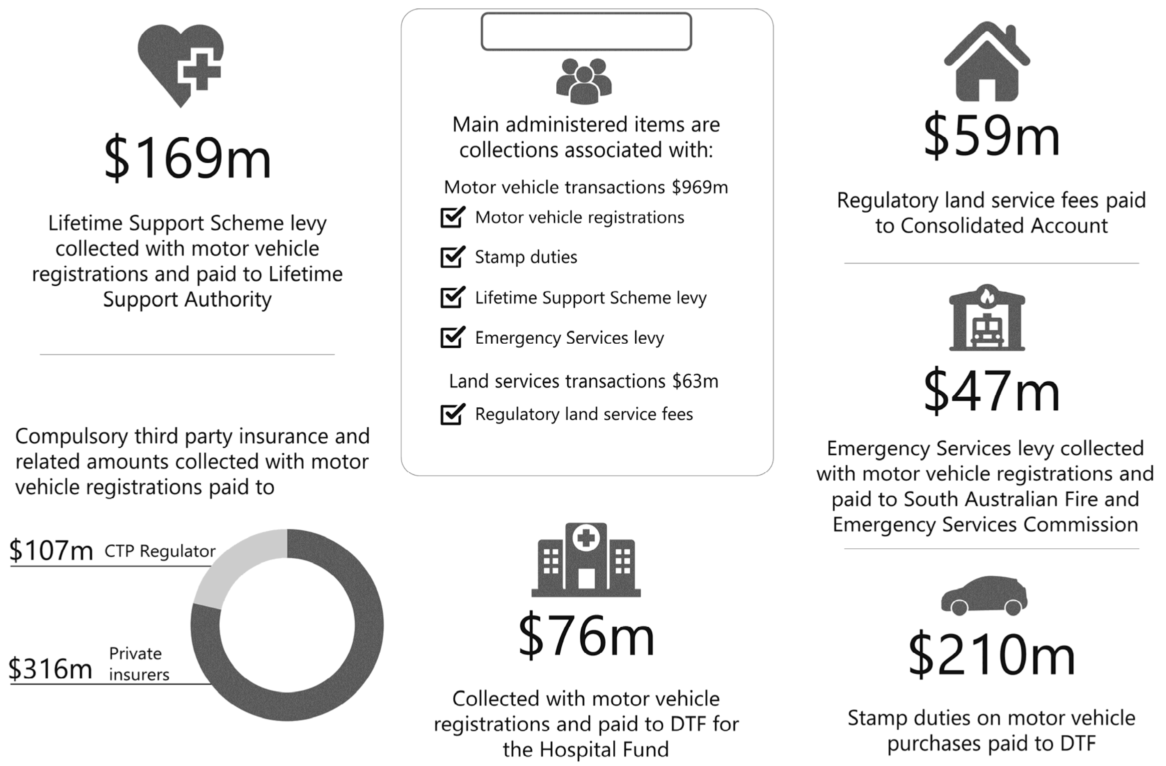
The cash used in investing activities increased by $185 million to $1.2 billion, reflecting the increased level of capital projects approved by government.

The net cash flows provided by financing activities decreased by $3 million to $168 million. Net cash flows provided by financing activities include an equity contribution from the SA Government under the Appropriation Act of $277 million ($277 million). These contributions are recognised in the Statement of Changes in Equity. This was offset mainly by the prepayment of lease liabilities of $127 million, primarily for office accommodation leases.

Administered items

DIT is responsible for managing a range of activities on behalf of the SA Government. These activities are identified as administered items and reported separately where, for example, DIT does not control them but is responsible for transferring amounts to other eligible beneficiaries. In 2020-21 DIT was responsible for administering the following activities.

Administered items 2020-21



The responsibility for some administered functions transferred to the Attorney-General's Department from 1 October 2020. The main impact on DIT's administered items were decreases in:

- regulatory land services fees collected of $161 million to $63 million
- land services commercialisation revenue of $26 million to $9 million, together with a $1.5 billion reduction in the unearned revenue liability balance for that transaction (see 'Land Services SA (LSSA)' below)

- planning regulatory fees of $21 million to $8 million, and a reduction of $19 million to $8 million in grants and subsidies expenditure associated with land planning activities.

DIT's remaining administered activity relates mainly to money collected for motor vehicle transactions which, other than stamp duties, increased slightly from last year. Stamp duties increased by $39 million to $210 million due to an uplift in new motor vehicle registrations and transfers of registrations from interstate.

Land Services SA (LSSA)

LSSA is the exclusive provider of land services

In 2017-18 LSSA, a private sector operator, entered into a 40-year contract with the State to provide land services to customers on behalf of the SA Government under a fee-for-service arrangement. Services to be provided include land titling, registration and valuation services.

Fee rates for land titling, property valuations and other land services are set by the SA Government under various legislation and the fees collected by LSSA are paid into the Consolidated Account.

The State received a $1.605 billion up-front payment from LSSA, comprising:

- $1.525 billion principally for the right to be the exclusive provider of land services, the right to use the State's land information assets and the right to use the State's software (the SAILIS system)
- $80 million for the exclusive right to negotiate to become the service provider for other State registries that the State decides to commercialise. This amount was received on the condition that, if the State does not progress with the commercialisation of the motor vehicle registry within three years or does not extend the existing land services contract by seven years, the $80 million is to be repaid with interest.

The Office of the Registrar-General and Office of the Valuer-General were a part of DTF at the time of the transaction. DTF received the upfront payment of $1.605 million. The land services commercialisation project was the subject of a separate report to Parliament in December 2018.[1]

Accounting for the up-front payment from LSSA

At the time the transaction occurred, land services functions were with DTF. The accounting treatment applied by DTF to the transaction in October 2017 was:

- cash of $1.6 billion
- unearned revenue of $1.5 billion
- financial liability of $80 million (for the right to negotiate for the other registries).

The rationale and assessment of this accounting approach is detailed in my 2018 Annual Report.[2] This noted that the accounting approach taken was to apply the concepts in AASB 1059 *Service Concession Arrangements: Grantors*, an accounting standard that was not mandatory until 30 June 2021 financial reports.

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1 Auditor-General's Report 12 of 2018 *Land services commercialisation project*.

2 Auditor-General's Report 5 of 2018 *Annual report for the year ended 30 June 2018, Part B: Agency audit reports,* page 461.

Impact on DIT's financial statements of the LSSA arrangements

The Office of the Registrar-General and Office of the Valuer-General transferred to DIT on 1 July 2018. At that time DIT recognised a $1.5 billion liability in its Statement of Administered Financial Position for unearned revenue and an intangible service concession software asset valued at $17 million in its own Statement of Financial Position.

The State's liability for LSSA's upfront payment of $80 million for the exclusive right to negotiate on other State registries was retained by DTF and was not recognised in DIT's financial statements.

In 2019-20 the State decided not to privatise the motor vehicle registry. Instead of repaying LSSA the $80 million with interest, the State elected to increase the contract by seven years. This resulted in DIT recognising an additional $80 million in unearned revenue liability in its administered financial statements that year.

Implementing AASB 1059

AASB 1059 became effective from 2020-21. It prescribes the accounting for certain arrangements in which an operator provides public services on behalf of a public sector grantor involving a service concession arrangement.

DIT assessed that the requirements of AASB 1059 apply to the LSSA arrangement and that certain assets that were precluded from recognition under AASB 138 *Intangible Assets* must now be valued and recognised. For the LSSA arrangements these were the service concession data assets, comprising the titling, registry and valuation database assets.

AASB 1059 mandates that service concession intangible assets are measured at current replacement cost. Because DIT has determined that the service concession data assets have indefinite lives, they are not depreciated.

DIT engaged an external independent expert to value the service concession data assets. The current replacement cost of service concession data was derived as a hypothetical exercise using numerous assumptions relating to availability of information, software and trained workforce, as well as estimates of the volume of transactions, documents and records, and unit rate processing/reproduction costs.

The main impact on DIT's financial statements was to:

- recognise the intangible service concession data asset of $284 million as at 1 July 2019, with the corresponding adjustment recognised as a prior period adjustment in equity
- revalue the intangible service concession data asset upward by $11 million to $295 million as at 1 July 2020.

On 1 October 2020 the responsibility for the LSSA arrangements transferred to the Attorney-General's Department, along with the related service concession assets and liabilities.

Impact of COVID-19

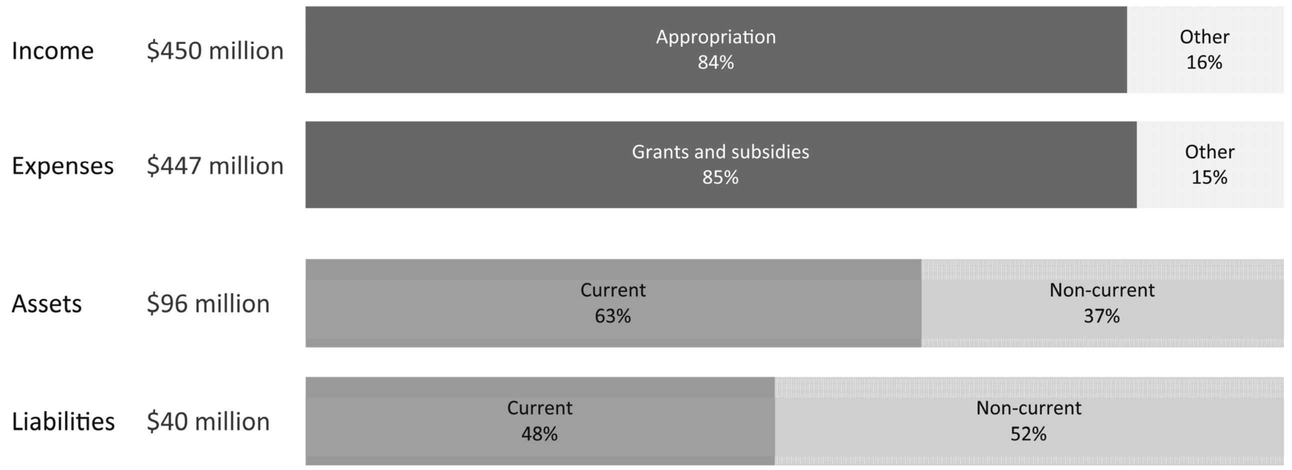
The main financial impacts of COVID-19 for DIT during the year included:

- a decrease in passenger transport revenue collected of $20 million in 2020-21, following a $14 million decrease in 2019-20, due to a decline in the patronage of public transport and the provision of free public transport to SA Health staff
- additional sanitising across the public transport network of $10 million.

In addition, since 2019-20 additional stimulus packages funded by the Commonwealth and SA Governments amounting to $205 million for various road safety, infrastructure and maintenance projects were approved, with the delivery of these works ongoing.

Department for Innovation and Skills (DIS)

Financial statistics



321
Total employees

Significant events and transactions

- DIS provided $231 million in total funding to TAFE SA to support the provision of vocational education and training (VET).
- DIS continued to implement the Skilling South Australia initiative, a $189 million partnership between the State and Commonwealth Governments that aims to create 20 800 new apprenticeships and traineeships over the four years from 2018 to 2022.
- DIS started implementing JobTrainer, a joint $145 million investment by the State and Commonwealth Governments in skills and training to support specific groups, including those affected by the COVID-19 pandemic.

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Other audit findings

- Nominal hours assigned to units of competency were not reviewed for reasonableness in the South Australian vocational education and training sector.
- Improvement is required in the independent review of grant payments made by data feed files.

Functional responsibility

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

Its main function is to drive economic growth and create jobs while supporting South Australia's economic transformation.

Full details of DIS's objectives are contained in note 1.2 of its financial report.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- expenditure, including funding to TAFE SA and private training providers, grants and accounts payable
- employee benefits and payroll processing
- revenue, including Commonwealth-sourced grants
- property, plant and equipment
- cash management, including bank reconciliations
- general ledger.

We also considered the work of DIS's internal audit in planning and conducting the audit.

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

There were no significant findings for our controls opinion work at DIS.

Other audit findings

Payments to TAFE SA and private training providers

DIS provided $231 million in total funding to TAFE SA to support the delivery of VET. It also provided $65 million in VET funding to other training providers.

Nominal hours assigned to units of competency were not reviewed for reasonableness in the South Australian vocational education and training sector

DIS makes subsidy payments to training providers based in part on the nominal number of hours allocated to each unit of competency. The nominal hours for nationally endorsed training packages are sourced from the Victorian Purchasing Guide (VPG).

For a number of years we have reported that DIS has not assessed whether the VPG hours were appropriate for use within the South Australian VET subsidy environment. We noted that DIS verifies the VPG nominal hours against the nominal hours contained within DIS's Enterprise Customer Relationship Management system. This is to confirm they are the same, not a review of whether they are appropriate.

In response to this matter previously, DIS advised us that additional resources would be needed to effectively implement our recommendations and that it would investigate alternative, cost effective solutions in the interim.

We found that no reviews were performed in 2020-21.

Without assessing whether the nominal hours determined in the VPG are appropriate for South Australia, there is a risk that DIS may be paying more (or less) than is appropriate for a given unit of competency.

DIS acknowledged the finding, noting that subsidy reviews are regularly performed on a case-by-case basis and that a broader review project had been initiated. DIS also advised us that a new National Partnership agreement seeks to introduce an activity-based nationally efficient price which, if implemented, will replace the need for a comprehensive state-based subsidy review.

Improvement is required in the independent review of grant payments made by feed file.

DIS provided $44 million in non-VET subsidy skills and employment grants.

Skills and Workforce Capability grants are paid in batches using data feed files uploaded to the Masterpiece accounts payable system. The feed file is either manually created or automatically generated and uploaded to a shared network folder accessible to DIS and Shared Services SA.

We found that unauthorised changes could be made to the feed file before it is uploaded to Masterpiece.

In addition, it was not clear who is responsible for ensuring that payments are authorised within approved delegations. We identified two instances where DIS officers approved grant payments for amounts above their payment authority.

Without appropriate checks over the grant payments process, unauthorised changes to payments may not be detected, resulting in overpayments. In addition, approving expenditure outside of delegated limits increases the risk of inappropriate payments being made and could result in a breach of the Treasurer's Instructions.

DIS advised us that it would ensure the approving officer forwards evidence to support the payment approval and the file total to Shared Services SA for processing in Masterpiece.

DIS has also reviewed its payment delegations framework for this area and will reinforce limits and the need to escalate payment authorisation to an appropriate level delegate.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Income		
Appropriations	379	413
Commonwealth-sourced grants and funding	35	23
SA Government grants, subsidies and transfers	29	10
Infrastructure recharge – TAFE SA	-	14
Other revenues	7	10
Total income	450	470
Expenses		
Grants and subsidies	379	365
Employee benefits expenses	40	43
Supplies, services and other expenses	25	44
Payments to Consolidated Account	3	20
Total expenses	447	472
Net result	3	(2)
Net cash provided by (used in) operating activities	13	(15)
Assets		
Current assets	60	45
Non-current assets	36	25
Total assets	96	70
Liabilities		
Current liabilities	19	17
Non-current	21	13
Total liabilities	40	30
Total equity	56	40

Statement of Comprehensive Income

Impact of COVID-19

DIS received additional funding and made increased grant and subsidy payments as a result of COVID-19. In particular it:

- received Commonwealth funding of $13.8 million for the commencement of the JobTrainer National Partnership Agreement to deliver additional training as the economy rebuilds. DIS also received $2.8 million from the State's Business and Jobs Support Fund. DIS advised it had spent $11.8 million as at 30 June 2021
- received once-off funding of $5 million from the Business and Jobs Support Fund to help eligible small and medium businesses to access professional services to improve and transform their business. DIS advised it had spent $2.7 million as at 30 June 2021
- received funding of $2.9 million from the State's Community and Jobs Support Fund to support the development and pilot of micro-credentialed training in priority sectors. DIS advised it had spent $2.7 million as at 30 June 2021.

Income

DIS is predominantly funded by appropriation, receiving $379 million ($413 million) representing 84% (88%) of its total income.

In addition, DIS received $35 million ($23 million) of Commonwealth-sourced grants and funding. The increase in this funding in 2020-21 reflects the commencement of the JobTrainer initiative, with the Commonwealth contributing $13.8 million in 2020-21. The balance of the funding relates to National Partnership revenue for the continuation of the Skilling Australians Fund.

Further, DIS received $29 million ($10 million) from SA Government grants, subsidies and transfers. This consisted mainly of:

- $10.3 million from the Business and Jobs Support Fund, of which $5 million is to support the small to medium enterprise Business Advisory Service Scheme and $2.8 million is for the commencement of the joint Commonwealth and State funded JobTrainer initiative
- $8.8 million from the Economic and Business Growth Fund, predominantly to fund a number of projects promoting economic growth in existing businesses and helping to develop new industries.

Expenses

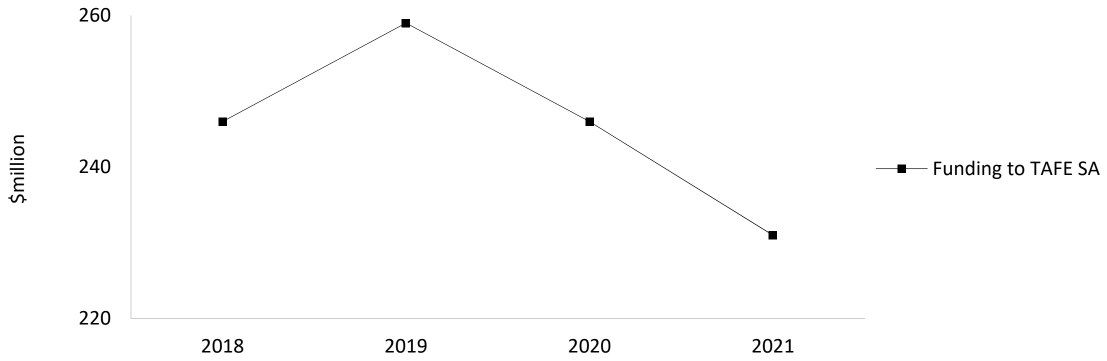
Total expenses for 2020-21 were $447 million ($472 million). The main expenses were grants and subsidies of $379 million ($365 million), employee benefits of $40 million ($43 million) and supplies and services of $18 million ($39 million), which collectively account for 98% (95%) of total expenses.

In 2019-20, DIS made payments to the Consolidated Account of $20 million. This amount was received by DIS from TAFE SA for the purchase of its campus infrastructure, with the cash returned to the Consolidated Account to offset the amounts provided to TAFE SA to purchase these assets from DIS. In 2020-21, DIS paid $2.6 million to the Consolidated Account associated with funds previously received for sites transferred to the Department for Education.

Grants and subsidies

Funding to TAFE SA

Grants and subsidies to TAFE SA totalled $231 million ($246 million) for 2020-21. The following chart shows that funding to TAFE SA increased by $13 million in 2018-19 before decreasing by $13 million in 2019-20 and a further $15 million in 2020-21.



The amounts shown in the chart include a number of elements. While, as discussed below, funding arrangements with TAFE SA have changed over recent years, funding generally covers specific course delivery, structural support, capital grant funding and other funding.

Prior to 2018-19, DIS also provided funding to TAFE SA for targeted voluntary separation package (TVSP) reimbursement. Since 2018-19, however, this funding is provided directly to TAFE SA from the Department of Treasury and Finance.

DIS is the predominant funder of TAFE SA as a purchaser of TAFE SA services.

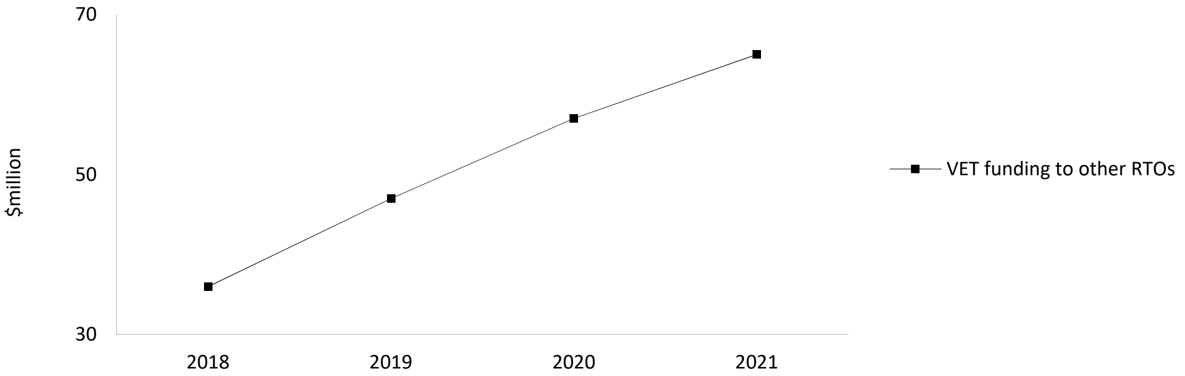
The 2019-20 memorandum of administrative arrangement (MoAA) differed to previous years as DIS agreed to provide a set level of funding to TAFE SA in monthly instalments. Previous MoAAs split funding between amounts linked to the completion of specific training and other, more general, categories of funding. The total funding provided to TAFE SA in 2019-20 was fixed, regardless of the actual number of training hours delivered.

In 2020-21 the initial MoAA for funding TAFE SA commenced in July 2020. It was similar to the 2019-20 MoAA in that TAFE SA received a set amount of non-recourse funding to be allocated over 12 months. However an adjustment would be made for 2020-21 if TAFE SA did not complete the required level of activity in certain areas.

Total funding provided under the main MoAA was $212 million, with a separate MoAA for capital funding of $19 million.

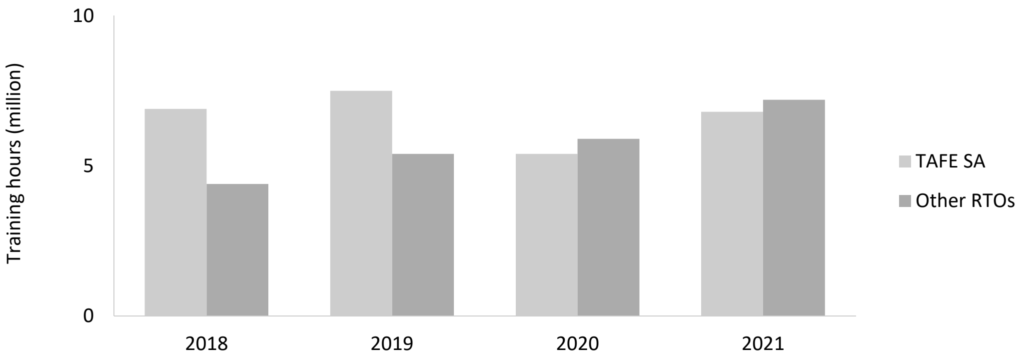
Other VET funding

DIS also provides VET funding to other registered training organisations (RTOs). The chart below shows the amounts provided for the last four years.



Funding to other RTOs has increased by $29 million since 2018, including an $8 million increase in 2021. The increases mainly reflect increased funding as a result of an increase in paid training hours from 4.4 million hours in 2017-18 to 7.2 million hours in 2020-21. Training subsidy prices have also increased over this time due to indexation and subsidy price reviews.

The following chart shows the number of training hours funded by DIS over the past four years, split between TAFE SA and other RTOs.



Source: Data on the number of specifically funded/allocated training hours was provided by DIS and is unaudited. This data only includes hours for TAFE SA for activities specified in the MoAA; other training is also included in the MoAA without being separately identified.

The chart shows that total funded training hours increased from 2018 to 2019 and then decreased from 2019 to 2020, reflecting decreased subsidised training payments, before increasing again in 2021.

There was an overall 2.7 million hour (24%) increase in funded training hours in 2020-21, with an increase in specific TAFE SA training hours of 1.4 million hours and an increase of 1.3 million training hours for other RTOs.

Other grants

Other major categories of grants include other skills and employment grants of $44 million ($24 million) and innovation and science grants of $28 million ($28 million). These grants generally include specific milestones or deliverables that are monitored by DIS.

Other skills and employment grants included payments of $29.7 million to businesses, groups and training providers under the Skilling South Australians scheme, associated with increasing opportunities for traineeships and apprenticeships.

Innovation and science grants included payments of:

- $4.7 million under two schemes to help small businesses affected by bushfires. One scheme is to help small businesses with costs associated with clean up, restoration and rebuilding. The other scheme supports small businesses that experience a significant loss of income
- $4.2 million to help fund the National Collaborative Research Infrastructure Strategy. This is a Commonwealth Government project that helps researchers access new national research infrastructure. The project is led by organisations including universities, publicly funded research organisations and private companies
- $7.6 million from the Research Commercialisation and Start-up Fund to support business collaboration with researchers and universities, commercialise products and support start-ups.

Employee benefits expenses

Employee benefits expenses decreased by $2.8 million to $40 million in 2020-21.

This decrease was mainly due to a reduction in TVSPs of $1.9 million. In 2020-21 there were two TVSPs paid compared to 23 in 2019-20.

Supplies and services

Supplies and services decreased by $20.9 million to $18 million in 2020-21.

This decrease was mainly due to a reduction in short-term lease expenses of $19 million. The reduction reflects the end-of-lease arrangements with Renewal SA for TAFE SA campus infrastructure, following the transfer of ownership from Renewal SA to TAFE SA effective from the end of October 2019.

Statement of Financial Position

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

	2021 $million	2020 $million
Assets		
Cash	50	35
Property, plant and equipment and intangibles	36	25
Liabilities		
Payables	13	12
Employee benefits	13	13
Financial liabilities	13	2

Cash increased by $15 million in 2020-21, mainly due to an increase in the Accrual Appropriation Excess Funds Account of $10 million. Spending of amounts in this account is subject to approval from the Treasurer.

DIS also received $3.8 million in capital contributions in 2020-21, partially offset by purchases of property, plant and equipment and intangibles of $2.5 million.

The $11 million increase in property, plant and equipment and intangibles in 2020-21 mainly reflects the transfer of assets and liabilities to DIS as a result of the dissolution of TechInSA at 30 June 2021.

Financial liabilities increased by $11 million in 2020-21 as a result of property leases associated with TechInSA, which also transferred to DIS on 30 June 2021.

The transfer of TechInSA assets and liabilities to DIS is further explained under 'Further commentary on operations' below.

Further commentary on operations

TechInSA

TechInSA was a separate entity and previously reported to the Minister for Innovation and Skills. Its objectives were to support early-stage technology commercialisation.

TechInSA was dissolved effective from 1 July 2021 and its assets and liabilities were transferred to DIS on 30 June 2021.

DIS received net assets totalling $9 million as a result of the transfer.

The major assets and liabilities transferred included:

- leased property, plant and equipment – $9 million
- property, plant and equipment – $6 million
- non-current assets held for sale – $3 million
- financial liabilities – $11 million.

Lifetime Support Authority of South Australia (LSA)

Financial statistics	Provision for future costs of current participants: $1.197 billion Lifetime Support Scheme Fund levy net of duty: $152 million Investments: $1.176 billion Net assets: ($22) million Number of FTEs: 81 Number of interim participants as at 30 June: 75 Number of lifetime participants as at 30 June: 199
Significant events and transactions	— The LSA made an operating loss of $270 million. — The provision for the future cost of caring for current participants increased by $590.8 million. In 2020-21 the LSA changed the basis of estimating the provision, adopting a risk free discount rate for the first time. — At 30 June 2021 the Lifetime Support Scheme (LSS) was partly unfunded, with net liabilities of $22 million. The LSS has a 92% probability of sufficiency, exceeding its minimum target of 75%. — The total number of participants increased from 231 to 274. — A new Chief Executive began in October 2020.
Financial report opinion	**Unmodified** An emphasis of matter was included in the financial report opinion relating to significant inherent uncertainty surrounding the estimate of the provision for participant treatment care and support services, because of the long-term nature of the provision and limited participant experience to date.
Controls opinion findings	No audit findings.

Functional responsibility

The LSA is established under the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013* (the LSS Act).

The LSA administers the Lifetime Support Scheme (LSS or the Scheme) and the LSS Fund established by the LSS Act to support people who suffer very serious injuries in motor vehicle accidents in South Australia, regardless of fault. A person can be accepted as an interim or lifetime Scheme participant depending on their eligibility under the LSS rules.

Lifetime Support Scheme Fund

Levies on motor vehicle registrations to pay for the Scheme expenses are collected by the Registrar of Motor Vehicles and paid into the LSS Fund. The LSA invests the levies with the Superannuation Funds Management Corporation of South Australia (Funds SA) until the funds are needed to pay for participant treatment, care and support and other costs of operating the Scheme.

Scope of the audit

Audit of the financial report

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

Specific areas of attention in 2020-21 included:

- expenditure related to participant treatment, care and support expenses
- provision for participant treatment, care and support services
- investment revenue
- payroll and other administrative expenses
- financial assets
- general ledger
- service level agreements with other SA Government agencies.

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

Controls opinion

We reviewed controls over bank accounts and the provision for participant treatment, care and support as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Auditor’s report on the financial report

The following is an extract from the Independent Auditor’s Report issued for the LSA’s 2020-21 financial report, which is unmodified but notes a significant inherent uncertainty relating to the provision for participant treatment, care and support services.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Lifetime Support Authority of South Australia as at 30 June 2021, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the Public Finance and Audit Act 1987 *and Australian Accounting Standards.*

Emphasis of matter – Significant inherent uncertainty – provision for participant treatment, care and support services

Without qualification to the opinion expressed above, attention is drawn to note 7.3 of the financial report. There is a significant inherent uncertainty surrounding the estimate of the provision for participant treatment, care and support services because of the long-term nature of the provision and limited participant experience to date.

Communicating our audit findings

We did not identify any audit findings to communicate in a management letter to the Chief Executive.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Income		
LSS Fund levy	168	161
Investment revenue	215	(11)
Total income	383	150
Expenses		
Participant treatment, care and support expenses	617	125
Duty on LSS Fund levy	17	16
Other	19	18
Total expenses	653	159
Net result from operating activities	(270)	(9)
Total comprehensive result	(270)	(9)
Net cash provided by operating activities	109	106
Net cash used in investing activities	116	97
Assets		
Current assets	5	12
Non-current assets	1 179	849
Total assets	1 184	861

	2021 $million	2020 $million
Liabilities		
Current liabilities	46	45
Non-current liabilities	1 160	568
Total liabilities	1 206	613
Total equity	(22)	248

Statement of Comprehensive Income

Net result

The LSA made a loss of $270 million ($8.9 million loss). Actual outcomes in 2020-21 were:

- the LSS Fund levy received was $5.2 million over the $163.3 million estimate
- actual LSS costs were $653.4 million, including a $590.8 million increase in the provision for participant treatment, care and support services
- an investment profit of $214.8 million ($10.2 million loss).

The LSA's net result depends significantly on the interdependence between the LSS Fund levy set before the start of the year and the movement in the provision for the cost of participant treatment, care and support services determined at the end of the year. Both the levy and the provision are determined using reports prepared by an independent actuary appointed by the LSA (see commentary under 'Liabilities' and 'Required fund contribution' below).

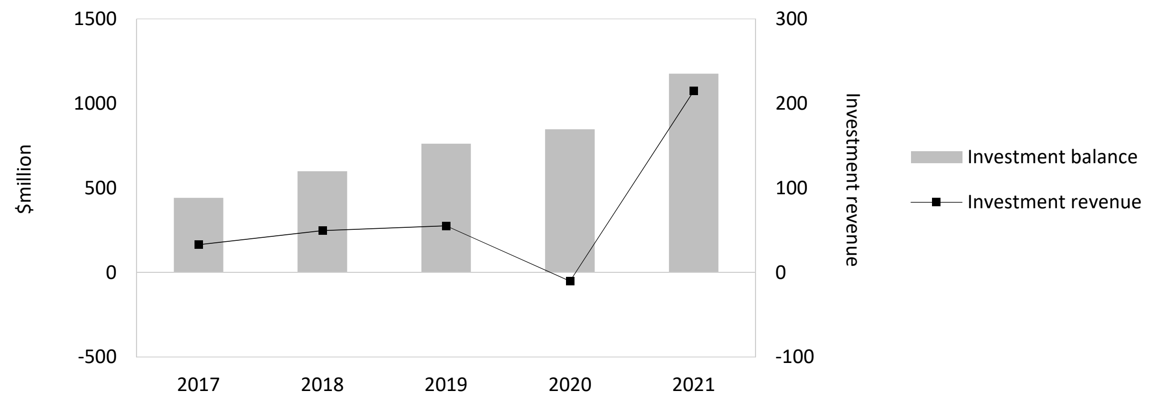
The $590.8 million increase in the provision for participant treatment, care and support services was mainly due to the adoption of a risk free discount rate in the calculation of the provision.

Income

The LSA's income of $383.4 million ($150.5 million) mainly comprised:

- $168.5 million ($160.7 million) of LSS Fund levy on South Australian motor vehicle registrations. No GST is payable on the levy
- a $214.8 million investment profit ($10.2 million investment loss). This reflected the strong investment returns from global financial markets. There were no changes in the LSS Fund investment strategy in 2020-21.

The following chart shows the revenues from investments and the investment balance over the five years to 2021.

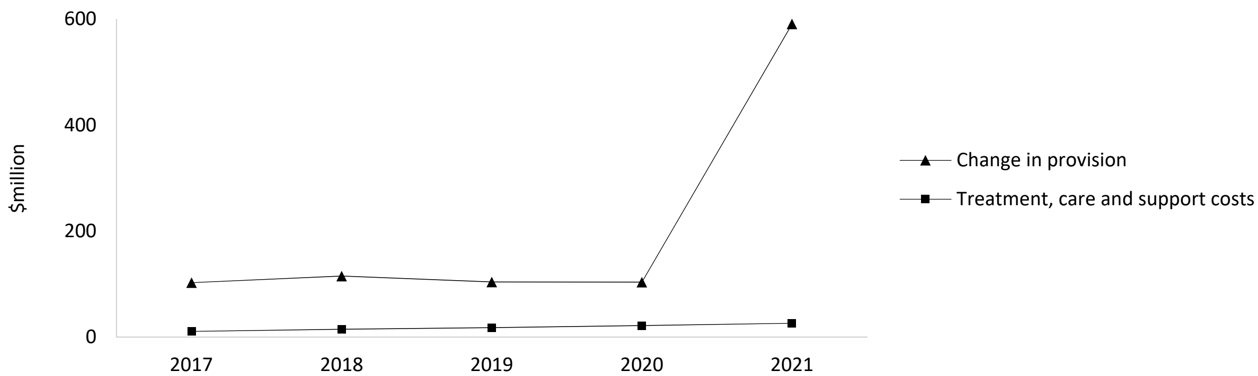


Expenses

The LSA's expenses of $653.4 million ($159.3 million) comprised:

- $616.8 million ($125.5 million) for participant treatment, care and support expenses, of which $590.8 million was the increase in the estimate of future expenses for participants injured in motor vehicle accidents up to 30 June 2021. The increase in 2021 was mainly due to the adoption of a risk free discount rate in the calculation of the provision
- $16.7 million ($15.9 million) paid to the SA Government for the 11% duty on the LSS Fund levy payable under the *Stamp Duties Act 1923*
- $2.9 million ($2.9 million) for premiums paid to reinsurers who provide cover for significantly larger than expected liabilities for estimated future participant care costs
- $17 million ($14.9 million) for general operating expenses, including $9.7 million ($8.3 million) for employee benefits, $3.3 million ($3.5 million) for service delivery and corporate expenses and $3.1 million ($2.6 million) for research, education and programs.

The following chart highlights the increasing costs of participant treatment, care and support and the continued increase in operational expenses that the LSA incurs in the ongoing administration of the Scheme. Note that participant treatment, care and support expenses include the expense recognised each year for the movement in the provision for participant treatment, care and support services. The significantly increased costs are the result of the movement in the provision of $590.8 million in 2021.



Statement of Financial Position

The LSA's financial position depends significantly on the value of its investments exceeding the provision for participant treatment, care and support services. Its net assets decreased by $270 million to -$21.9 million and reflect the net result from operations discussed under 'Net result' above.

Assets

The LSA's assets of $1.184 billion ($860.9 million) consist mainly of cash, investments and receivables. During the year additional funds totalling $114.5 million were invested with Funds SA.

Investments

At 30 June 2021 the LSA had $1.176 billion invested with Funds SA in line with the LSS Fund investment strategy approved by the LSA Board. This an increase of $329.3 million from 2019-20.

The LSA must maintain investments to fund its present and likely liabilities for participant treatment, care and support services. Its investment strategy takes into account its current risk appetite and the need to match investment returns to the long-term nature and timing of payments associated with the needs of Scheme participants.

The LSA's investments with Funds SA earned a nominal return of 23.7% in 2020-21 compared to its target of 6.25%. Investment returns reflect financial markets conditions. In 2020-21 investment returns were strong as a result of positive global financial markets. The following table shows the return from investments over the last five years.

	2017	2018	2019	2020	2021
Target investment return	6.25%	6.25%	6.25%	6.25%	6.25%
Actual investment return	9.4%	9.4%	8.2%	-1.0%	23.7%

Liabilities

The LSA's liabilities of $1.206 billion consist mainly of the provision for participant treatment, care and support services.

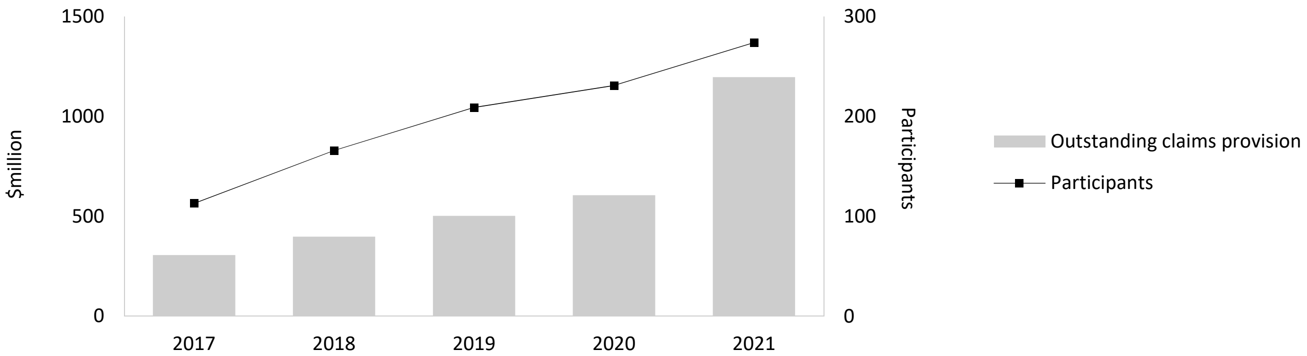
Provision for participant treatment, care and support services

The provision was estimated to be $1.197 billion at 30 June 2021, an increase of $590.8 million.

The main reason for the increase is the change in the economic basis for the current valuation from target investment return to risk free rates as the basis for discounting. The decision by LSA to move to risk free economic assumptions aligns its valuation basis to other lifetime care schemes such as the NSW Lifetime Care and Support Scheme and Queensland's National Injury Insurance Scheme, which have all now moved to risk free discount rates. It also prepares LSA for the change to AASB 17 *Insurance Contracts* in July 2023, which mandates the use of risk free discount rates.

The adoption of risk free discount rates increased the provision by $524.9 million. The remainder of the movement in the provision is a result of an additional year of participants entering the Scheme and other movements in assumptions. Note 7.3 of the LSA's financial report provides further details.

The following chart highlights the consistent growth in the outstanding claims provision up until 2020, followed by the significant increase in 2021 as a result of adopting risk free discount rates. The chart also shows the consistent growth in the total number of participants over the last five years.



The LSA appointed an independent actuary to estimate the liabilities of the Scheme, measured as the present value of the expected future payments for claims incurred up to 30 June 2021, including claims incurred but not yet reported. The LSA Board approved the valuation prepared by the actuary after also considering the report from a peer review actuary.

Information relating to the actuarial estimation is provided in note 7.3 of the LSA's financial report.

Significant inherent uncertainty in the provision

The LSA's actuary report refers to the continued significant inherent uncertainty surrounding the actuarial estimation and the uncertain drivers of the liability. These include sensitivities of the estimation to changes in future claims inflation, mortality risks and the future improvement of participants, along with the uncertain estimation of support requirements for participants. This further reinforces the long-term nature of the liabilities and volatility in the number of participants and their injury severity.

The effect of the change to risk free discount rates in 2020-21 evidences how the provision can change.

In estimating the liability at 30 June 2021, the actuary noted that the experience of the LSS is not yet sufficient to base material changes to long-term future assumptions. The actuary also noted that, due to the very long-term nature of the LSS, the actual experience in the short period since 1 July 2014 tells very little about what the long-term costs of the Scheme might be.

The actuary referred to the significant inherent uncertainty in the projected outcomes of future claim costs, particularly for long-term claims and the provision of attendant care benefits. The main areas of uncertainty identified were:

- the adequacy of benchmark packages for defining the lifetime care and support needs of participants
- future inflation levels for provision of services, especially increases in attendant care hourly rates
- future levels of returns on Commonwealth Bonds, which inform the discount rates applied
- the future severity of traumatic brain injury participants
- future life expectancy and changes to the types of support required leading up to end of life.

The sensitivity analysis in note 7.3 of the LSA's financial report illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars.

For example, a 1% increase in the mortality improvement assumption can increase the provision by $97.9 million and a 1% decrease in the discount rate can increase the provision by $300 million.

Note 7.3 of the LSA's financial report also indicates the time frame over which it must manage claims. The uninflated, undiscounted weighted mean term is 20.6 years.

Independent reviewing actuary

The LSA had the actuarial estimate reviewed by an independent reviewing actuary, who noted that the valuation results were reasonable in the circumstances and early development of the Scheme.

Having an independent reviewing actuary is prudent given the long-term purpose of the Scheme and the critical role actuarial expertise has in setting the levy annually and estimating the outcome at the end of each year.

The Scheme is not an insurance scheme

The LSA determined the provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and not AASB 1023 *General Insurance Contracts*. The latter is more prescriptive in the permitted choice of the discount rate (rate of investment return) to be adopted in deriving the present value of liabilities. The LSA is now using a discount rate consistent with AASB 1023. The discount rate used in 2021 was 2.6% compared to 6.25% in 2020. AASB 1023 also requires risk margins to be added to the central estimate of the liability, increasing the liability. The LSA has not applied a risk margin to its central estimate.

Fund assets adequacy

As at 30 June 2021 the fund assets adequacy for the LSS was 92% (81%), which is the probability that the Scheme will be able to meet its future payment obligations in a run-off situation, assuming a long-term investment return of 6.25%. The LSA Board targets Scheme assets to be in excess of Scheme liabilities by a margin that results in fund assets adequacy of at least 75%.

Current liabilities

At 30 June 2021 current liabilities exceeded current assets by $40.7 million. Most of the balance of current liabilities is the $38.8 million provision for participant treatment, care and support services. The LSA can access funds from its Funds SA investments if required.

Required fund contribution – LSS levy

The LSA must determine, before the beginning of each financial year, an amount it considers is required to be contributed to the LSS Fund to meet expenses for the period. This amount is to:

- fund the present and likely future liabilities for participants who enter the Scheme in the period
- meet payments from the LSS Fund that exceed previously provided amounts estimated
- pay stamp duties
- provide for other matters in connection with any LSA liability under the LSS Act, including paying for any past liability that would otherwise be unfunded.

That determination is made in line with a report from an independent actuary engaged by the LSA. The LSA must report its determination to the Minister for Health and Wellbeing before the beginning of each financial year.

The Minister must, on receiving the report and taking into account such matters (including matters not covered by the report) as the Minister thinks fit, and after consulting the Treasurer, determine an amount to be paid to the LSA for contribution to the LSS Fund for the relevant period (the required fund contribution).

If the Minister makes a determination that is inconsistent with the LSA's determination, the LSA must report that in its annual report.

Setting levies at an appropriate level is critical to the LSS. If break-even levies are charged each year and if all underlying assumptions used to set the levy eventuate, the LSS will always be fully funded. If the levy is set too low each year, liabilities will eventually exceed assets causing the LSS to be underfunded.

Annual contribution and levy

The estimated levy of $163.3 million including duty was required to cover the costs of operating the Scheme in 2020-21 and the probable liability increase at 30 June 2021.

The following table sets out the required fund contribution and levy for the past two years and for next year.

	2020	2021	2022
Required fund contribution:			
LSA recommended ($million)	159.9	163.3	174.9
Minister approved	Yes	Yes	Yes
Average levy ($)	106.68	108.50	113.32
Average increase per vehicle over previous year ($)	2.09	1.82	4.82

The actuary's estimates used to set the levy are, as with the estimated provision, sensitive to the number of LSS participants and the severity of their injuries. Small changes in these numbers can impact significantly on the estimates.

2021-22 levy

The estimated 2021-22 levy was based on an actuarial estimate at 31 December 2020.

Statement of Cash Flows

The Statement of Cash Flows reflects the investment of $114.5 million with Funds SA using the LSS Fund levy of $168.4 million. The LSA will use these investments to meet the costs of treatment, care and support services over the life of the Scheme participants.

Motor Accident Commission (MAC)

Financial statistics	Reinsurance asset and prepaid claims management expenses: $417 million Outstanding claims liability: $417 million Other financial assets: $134 million Other financial liabilities: $106 million Return of capital: $9 million MAC Fund assets exceeded the targeted solvency level by $10.4 million (101.9% of the targeted level).
Significant events and transactions	— 2020-21 saw a $140 million decrease in outstanding claims liability. — MAC paid $9.3 million to the Consolidated Account in June 2021 as a return of capital. — Premiums held by MAC since 2016 totalling $15.1 million were paid to the Department of Treasury and Finance in June 2021 for credit to the Compulsory Third Party Insurance Regulator. — MAC invested an additional $45 million of the $100 million deferred from the reinsurance arrangements with the National Indemnity Company (NICO) with local fund managers.
Financial report opinion	**Unmodified**
Controls opinion findings	A contract management plan does not exist for the NICO reinsurance arrangement.

Functional responsibility

MAC is established under the *Motor Accident Commission Act 1992* (MAC Act).

MAC's main functions up to 30 June 2019 were to promote road safety awareness and manage the run-off of claims against compulsory third party (CTP) insurance policies issued to motor vehicle users in South Australia before 1 July 2016.

From 1 July 2019:

- MAC is no longer responsible for promoting road safety awareness. These functions were transferred to South Australia Police and the Department for Infrastructure and Transport. MAC's sole responsibility is to oversee the reinsurance arrangements with NICO, as discussed below
- MAC's administration is performed by the South Australian Government Financing Authority (SAFA)
- the MAC Board is comprised of Department of Treasury and Finance staff.

Reinsurance of MAC's remaining outstanding claims liability

In December 2018 MAC entered into a reinsurance arrangement with NICO, a subsidiary of Berkshire Hathaway. Under the contract, NICO assumed responsibility for the settlement and management of MAC's remaining outstanding claims liability at 1 January 2019, which had a value of $756 million.

MAC agreed to pay NICO $718 million through a combination of an initial payment and subsequent arrangements for assuming this responsibility.

The only remaining amount to be paid to NICO under the reinsurance arrangement is the $113 million payment due to NICO in January 2024. This comprises $100 million retained by the State for five years to support local fund managers and $13 million in related interest that will be due to NICO.

This reinsurance arrangement reduces the State's risk as the cost of settling claims now lies with NICO. The reinsurance arrangement is designed to provide certainty to the State, subject only to satisfactory contract performance by NICO. Under the arrangement if claims settle for more than the amount estimated at 1 January 2019, the additional cost will be borne by NICO. In the same way, should NICO be able to settle claims more favourably than expected in the January 2019 valuation, it will benefit from the reduced cost.

As the contract with NICO is a reinsurance arrangement, meaning that claims are still in MAC's name, the outstanding claims will remain on MAC's statement of financial position until they are extinguished, with an offsetting reinsurance receivable. Therefore MAC will need to maintain oversight of the outstanding claims liability to ensure claims are being managed and settled appropriately by NICO.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- investment assets
- outstanding claims liability
- reinsurance asset
- return of capital
- return of premiums held.

Controls opinion

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

- management of MAC's deposit account with the Treasurer
- management of the NICO reinsurance contract.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chair of the MAC Board. The main finding and MAC's response is discussed below.

Controls opinion findings

A contract management plan does not exist for the NICO reinsurance arrangement

As discussed above, MAC has entered into a reinsurance arrangement with NICO, meaning claim liabilities remain in MAC's name and MAC has a responsibility to oversee the outstanding claims liability.

We reviewed MAC's processes to manage its contract with NICO and found that while SAFA performed some of the contract management activities for MAC, a contract management plan did not exist.

A contract management plan, clearly setting out how key contract risks and deliverables are being managed, reduces the risk that contract management steps could be delayed or overlooked.

In response MAC advised that it would develop a contract management plan by December 2021.

Interpretation and analysis of the financial report

Highlights of MAC's consolidated financial report

	2021 $million	2020 $million
Net investment returns and fees	7	9
Management expenses	-	(1)
Net result before market value movements	7	8
Investment market value movements	3	1
Total comprehensive result	10	9
Assets		
Current assets	261	332
Non-current assets	296	382
Total assets	557	714

	2021 $million	2020 $million
Liabilities		
Current liabilities	129	200
Non-current liabilities	415	502
Total liabilities	544	702
Equity	13	12

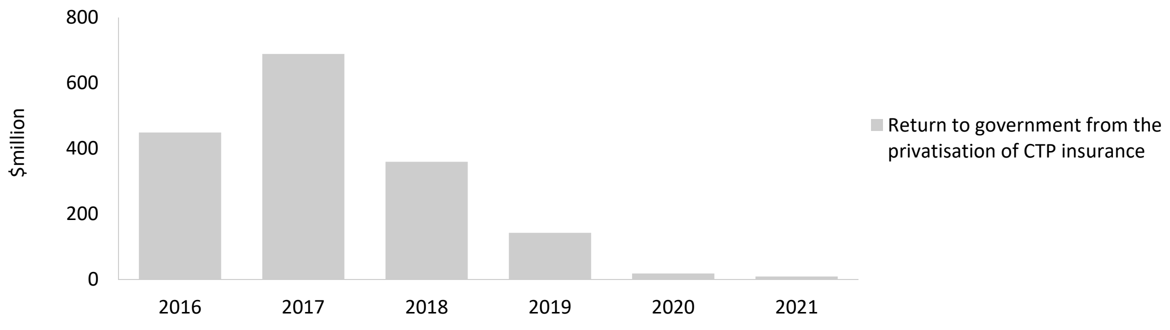
Return of capital

Section 26(2) of the MAC Act provides that the Treasurer can direct MAC to make payments out of surplus net assets of the MAC Fund. Since ceasing to be the sole CTP insurance provider for South Australia, MAC has returned surplus amounts to government each year. Payments were initially made to the Highways Fund, administered by the Department for Infrastructure and Transport, but payments in 2020 and 2021 were made to the Consolidated Account.

MAC made payments of $18.5 million in June 2020 and $9.3 million in June 2021 from the MAC Fund to the Consolidated Account, as approved by the Treasurer. These payments were made out of net assets in excess of the level required for sufficient solvency of the MAC Fund, and approved consistent with section 26(2) of the MAC Act.

As the 2019-20 and 2020-21 payments were made from MAC's surplus net assets, they were treated as a return of capital in the financial report and recorded as a reduction in MAC's assets and total equity. As such, these payments are not reflected in MAC's total comprehensive results for 2019-20 and 2020-21.

The following chart shows that a total of $1.7 billion has been returned to government by MAC in the last six years. The reinsurance arrangement with NICO discussed above means no more significant returns are expected.



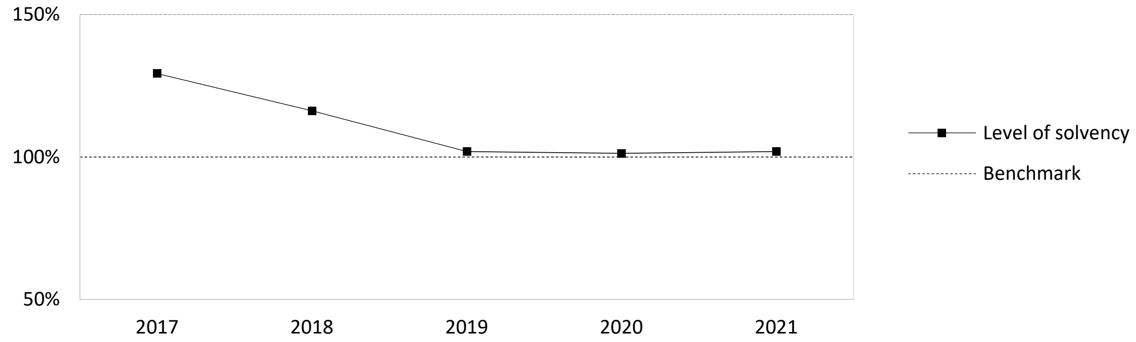
Solvency level is above the target level

Section 13A of the MAC Act requires MAC to seek to achieve and maintain a sufficient level of solvency for the MAC Fund using a formula determined by the Treasurer.

The formula issued by the Treasurer in December 2016 specifies that the MAC Fund will have a sufficient level of solvency if its assets exceed its liabilities. Full details are included in note 19 of MAC's financial report.

As at 30 June 2021 the target level of solvency was $544 million and total assets were $554 million, $10 million above the target level. This equates to 101.9% (101.3%) of the targeted solvency level.

The following chart shows the level of solvency achieved over the past five years.



The reinsurance arrangement with NICO now means that most of the risk associated with settling claims rests with NICO.

Outstanding claims liability

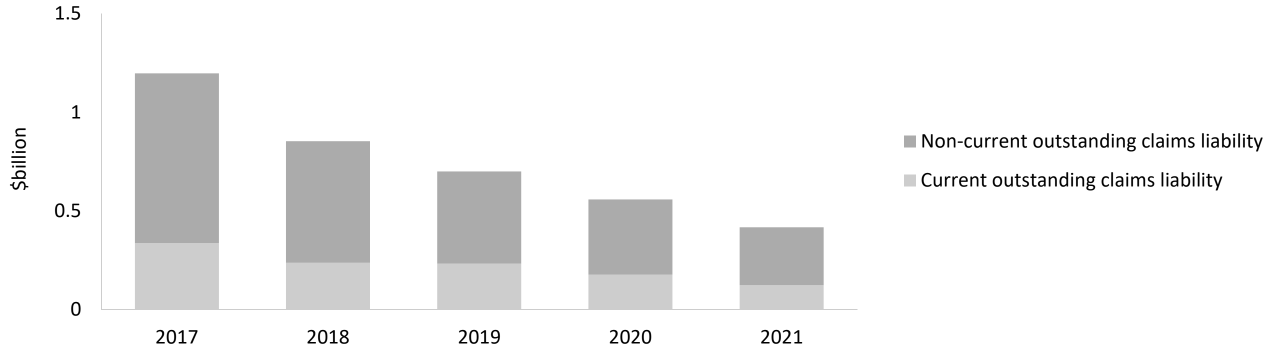
MAC's liability for outstanding claims is from the period before 1 July 2016, totalling $417 million at 30 June 2021. The liability covers claims reported but not yet paid, claims incurred but not yet reported, the anticipated costs of settling those claims and other insurance costs.

As noted above, while MAC has entered into a full reinsurance arrangement with NICO from 1 January 2019, it still remains legally liable for outstanding claims and the liability. This liability, along with the offsetting reinsurance asset, will continue to be valued and recognised in MAC's financial statements until they are extinguished.

Calculating the liability is an estimation process and a range of factors, including economic assumptions, affect it. As a result, professional actuaries need to perform the calculation and, for reporting purposes, detailed disclosure of the assumptions needs to be included in the notes of the financial report.

In 2020-21 MAC's independent actuary was Finity Consulting Pty Ltd (Finity), consistent with the previous year. Full details of the actuary's calculations and assumptions are provided in note 12 of MAC's financial report.

The following chart shows the outstanding claims liability for the five years to 2021, with the continuing decrease a reflection of the run-off process since 1 July 2017.



Factors considered by the actuary that impact the estimate of outstanding claims include:

- the number of claims incurred
- the length of time taken to settle the claim
- the average amount of claim payments
- the inflation and discount rates used.

The outstanding claims liability consists of the 'old scheme' for claims prior to 1 July 2013, and the 'new scheme' for claims from that date to 30 June 2016. Legislative reform from 1 July 2013 changed scheme entitlements and, as a result, the two schemes are considered separately by Finity.

The new scheme introduced thresholds for economic and non-economic loss and placed caps on legal fees. Compensation for non-economic loss under the new scheme is based on a severity of injury scale, with an indexed maximum cap on damages.

Examples of the potential impact of changes to these assumptions are included in MAC's financial report. Some are shown in the table below.

	Impact on provision %	Financial impact $million
Average size of attritional claims increases by 15% (old scheme)	2.1	9
Cost of attritional claims deteriorates by 5% per quarter over the next two years (new scheme)	8.0	33
Average size of large claims increases by 30% (new scheme)	14.2	59

The risk margin achieves 80% probability the provision is adequate

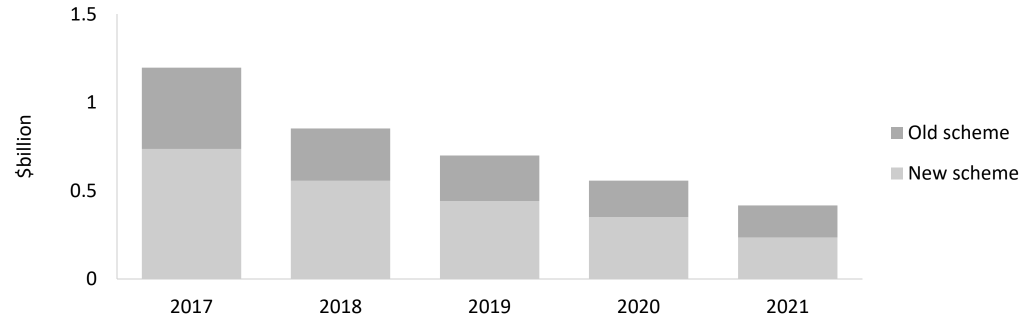
Also impacting on the outstanding claims liability calculation are the solvency requirements determined by the Treasurer under the MAC Act, which require a risk margin to be included in the provision to achieve an 80% probability the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority's nominated target of 75% probability, as set out in Prudential Standard CPS 320 *Actuarial and Related Matters*.

$142 million reduction in the outstanding claims liability

The $142 million decrease in the liability at 30 June 2021 was mainly due to:

- a $118 million decrease due to a reduced number of expected future claim payments. This reflects payments made to settle claims and changes to estimates of future payments based on claims experience
- an $18 million reduction in the risk margins, following claim payments and decreases in expected future claims
- offset by a $4 million reduction in the discount to present value due to claims being a year closer to expected settlement.

The chart below shows the proportion of outstanding claims for the old and new schemes for the last five years.



As at 30 June 2021, CTP claims under the new scheme represented 57% (63%) of the outstanding claims liability. Claim numbers and values have so far been lower than expected under the new scheme and the outstanding claims liability calculation has therefore been adjusted to reflect this.

While the higher proportion of new scheme claims has a role in reducing the outstanding claims liability, as expected after introducing scheme reform, there is a higher level of uncertainty about these claims due to the limited claims experience to date. Accordingly, MAC has included a higher risk margin for the new scheme compared to the risk margin applied to the older claims, increasing the estimated liability when calculating the outstanding claims liability.

Estimated timing of the settlement of claims

The estimated timing of payments to settle claims is shown in the following table.

Up to 1 year $million	2-4 years $million	5-9 years $million	10-14 years $million	15-19 years $million	Total $million
122	141	100	44	7	414

Reinsurance assets and prepaid claims handling expenses

As a result of the reinsurance arrangement entered into with NICO, MAC now also recognises reinsurance assets and prepaid claims handling expenses for an amount that offsets the balance of outstanding claims.

Given the nature of the arrangement with NICO, the reinsurance assets and prepaid claims handling expenses are revalued each year in the same way as the outstanding claims liability, as they fully offset it.

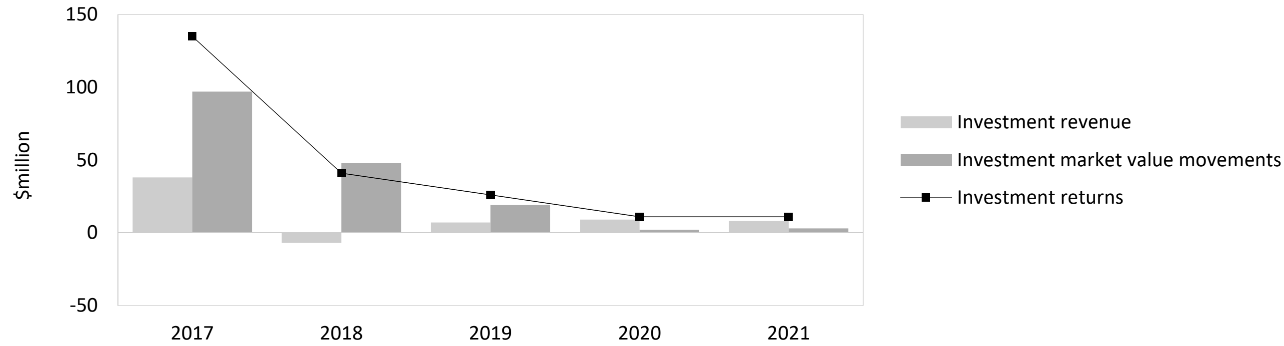
Statement of Comprehensive Income

Investment result

MAC uses the Superannuation Funds Management Corporation of South Australia, the SA Government's investment body, and two local fund managers to manage its investment portfolio. MAC holds investments in unit trusts with these fund managers. Its remaining investments mainly relate to the $100 million withheld from the NICO reinsurance arrangement that is scheduled to be paid to NICO in 2024.

MAC's investment returns this financial year resulted in a surplus of $11 million, the same as the previous year. The investment result is a combination of investment revenue and investment market value movements, offset by fund management fees and direct operating costs.

An analysis of MAC's investment result for the five years to 2021 is shown in the following chart.



In considering the impact of market movements on investments, it should be noted that the total invested has reduced significantly as a result of the reinsurance arrangement with NICO and associated payments.

Total comprehensive result

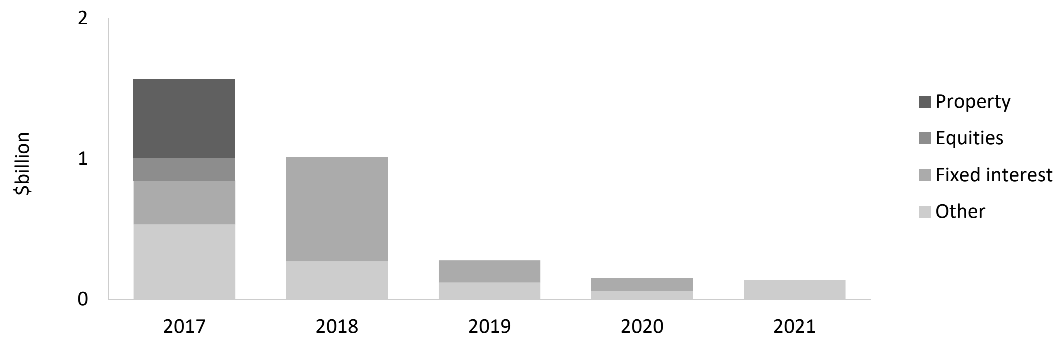
MAC's total comprehensive result for 2021 was a profit of $10 million compared to a $9 million profit in the previous year.

Statement of Financial Position

Investments

MAC does not directly hold investments in equities or term deposits but rather holds units in pooled investment portfolios.

For the five years to 2021 a structural analysis of investment assets (excluding cash) is shown in the following chart.

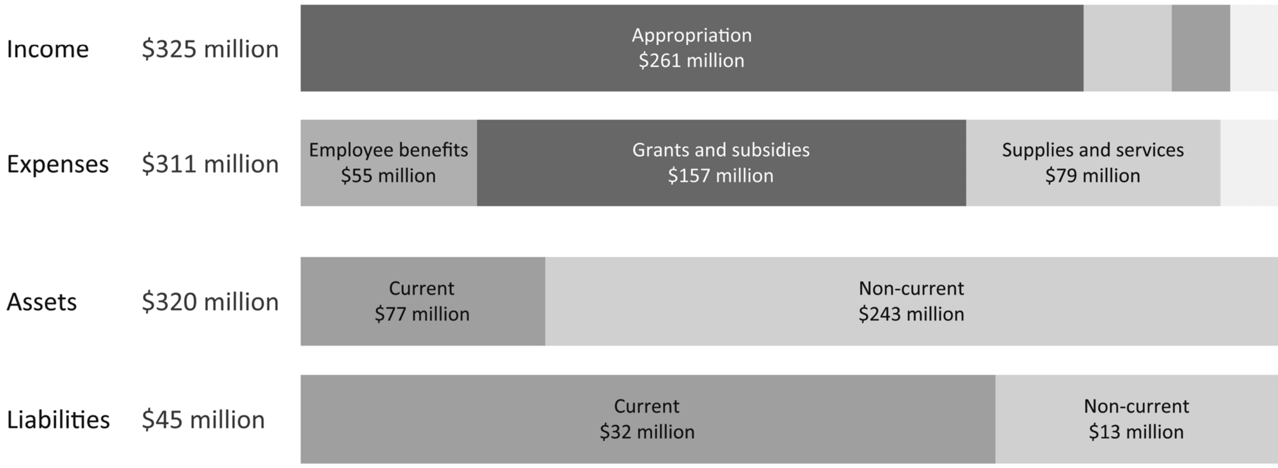


The chart shows a continued decrease in total investment assets, excluding cash, from $151 million in 2020 to $134 million in 2021. The decrease of $17 million in 2021 was principally due to:

- premiums held by MAC since 2016 totalling $15.1 million being paid to the Department of Treasury and Finance in June 2021 for credit to the Compulsory Third Party Insurance Regulator
- a $9.3 million return of capital
- offset by a $2.9 million increase in the market value of investments and the reinvestment of $2.8 million of fund distributions.

Department of the Premier and Cabinet (DPC)

Financial statistics



455
Total FTE employees

$19 million
Works in progress

$3 million
Resources provided free of charge

Administered items

Significant events and transactions

- From 1 July 2020, following the SA Government's approval to cease intra-government charging, DPC received additional appropriation for the provision of information and communication technology (ICT) services to other government agencies.
- As a result of administrative arrangements, responsibility for the State Recovery Office and Public Sector Innovation Lab transferred to DPC from the Department of Human Services and Office of the Commissioner for Public Sector Employment respectively, effective 1 July 2020.

Financial report opinion **Unmodified**

Controls opinion findings	No significant findings.

Functional responsibility

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

DPC's responsibilities include providing specialist policy advice, supporting the Cabinet process, leading implementation of the SA Government's strategic priorities and policy commitments, and providing a range of other government services. Further details are contained in note 1.2 of DPC's financial report.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- payroll
- accounts payable
- ICT revenue
- grants
- general ledger.

We also considered the work of DPC's internal auditors in planning and conducting the audit.

Controls opinion

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

Audit findings

Communicating our audit findings

There were no issues identified in our 2021 audit of DPC that needed to be communicated in a management letter.

Controls opinion findings

There were no significant findings from our controls opinion work at DPC.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2021 $million	2020 $million
Income		
Appropriation	261	201
Sale of goods and services	27	46
SA Government grants, subsidies and transfers	20	10
Commonwealth and other grants	7	3
Other income	10	12
Total income	325	272
Expenses		
Employee benefits expense	55	51
Grants and subsidies	157	143
Supplies and services	79	59
Cash returned to the Department of Treasury and Finance	-	30
Depreciation and amortisation	16	15
Other	4	3
Total expense	311	301
Net result	14	(29)
Other comprehensive income		
Changes in property, plant and equipment asset revaluation surplus	-	41
Total other comprehensive income	-	41
Total comprehensive result	14	12
Net cash provided by (used in) operating activities	33	(10)
Net cash provided by (used in) investing activities	(15)	(10)
Net cash provided by (used in) financing activities	-	(1)
Assets		
Current assets	77	57
Non-current assets	243	240
Total assets	320	297
Liabilities		
Current liabilities	32	22
Non-current liabilities	13	14
Total liabilities	45	36
Total equity	275	261

Statement of Comprehensive Income

Income

Total income for the year was $325 million, an increase of $53 million (20%) from the previous year.

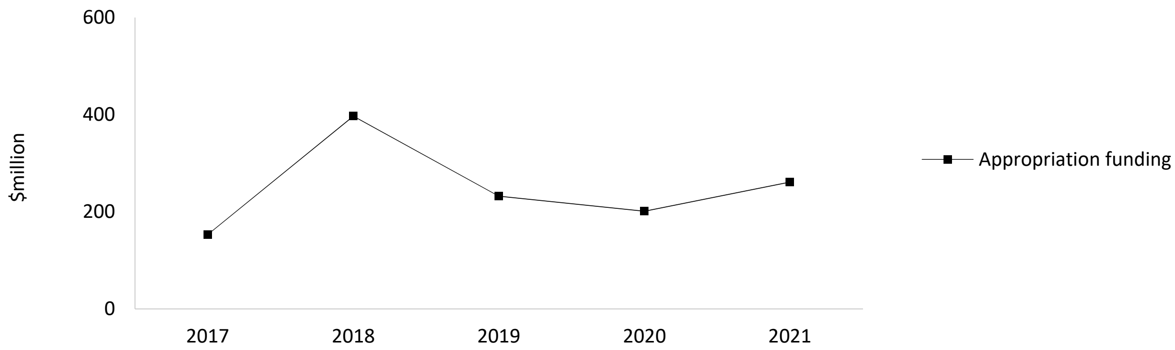
The main increase in 2020-21 was a $60 million increase in appropriation income, to $261 million. This reflects additional appropriation received as a result of SA Government approval to cease intra-government charging for the provision of ICT services to other government agencies and to instead fund DPC directly.

Appropriation funding

DPC's appropriation funding has varied markedly over the last five years, reflecting the different direct responsibilities it has had over that time.

Significant machinery of government changes have previously resulted in more direct responsibility within DPC for areas including minerals and energy, Services SA and Shared Services SA, most significantly in 2017-18.

The following chart shows the impacts of transfers into and out of DPC on appropriation funding for the five years to 2021.



The reduction in appropriation funding in 2018-19 reflects that responsibility for several areas transferred to other agencies from 1 July 2018, with DPC then taking on responsibility for Aboriginal Affairs and Reconciliation and Arts South Australia.

The increase in 2020-21 reflects the impact of the decision to directly fund DPC for the provision of ICT services to other government agencies discussed above.

Expenses

Total expenses for the year increased by $10 million (3%) to $311 million.

Employee benefits expense increased by $4 million (8%) and supplies and services by $20 million (34%).

The increase in employee benefits expense mainly reflects an increase in salaries and wages costs of $4 million. This increase reflects an increase in FTEs within DPC. The additional FTEs are associated with the State Recovery Office and Public Sector Innovation Lab, which transferred to DPC, and additional resourcing for cyber security and the Office for Data Analytics.

The increase in supplies and services is due to increased spending in a range of areas. The most significant were a $5 million increase in ICT charges, an $8 million increase in Microsoft licensing costs and a $3.6 million increase in contractor costs. All of these increases include significant amounts related to increased spending on cyber security under across-government arrangements.

Grants and subsidies increased by $14 million (10%) to $157 million.

The significant grant programs included:

- $97 million to major arts organisations to fund their operations
- $10 million to the Arts Recovery Fund

- $8 million to Local Economic Recovery
- $5 million to minor arts organisations
- $4 million for Aboriginal Affairs and Reconciliation grants
- $3 million for the Ageing Well initiative
- $3 million in multicultural grants.

The funding to major arts organisations mainly reflects annual funding to SA Government agencies. Out of the $157 million in total grant funding, $97 million (62%) was provided to the Libraries Board of South Australia, Adelaide Festival Centre Trust, Art Gallery Board, Museum Board, Adelaide Festival Corporation and South Australian Country Arts Trust.

Statement of Financial Position

Net assets increased by $13 million (5%) to $275 million.

DPC's cash and cash equivalents increased by $18 million to $63 million (40%) because the increases in revenue, mostly appropriation, were larger than the increases in expenses. This resulted in a net increase in cash from operating activities of $33 million, offset by $15 million in spending on property, plant and equipment and intangible assets.

Payables increased by $10 million in 2020-21 to $24 million. Most of the increase in this balance relates to trade payables, with the balance at 30 June 2021 including around $8 million in payables for capital projects.

Highlights of the financial report – administered items

	2021 $million	2020 $million
Administered income		
Appropriations	10	10
Commonwealth-sourced grants and funding	1	2
Total administered income	11	12
Administered expenses		
Grants and subsidies	2	2
Supplies and services	7	9
Cash returned to the Department of Treasury and Finance	-	2
Other	1	1
Total administered expenses	10	14
Net result	1	(2)
Net cash provided by (used in) operating activities	-	(4)
Assets		
Current assets	40	40
Total assets	40	40
Liabilities		
Current liabilities	1	2
Total liabilities	1	2
Net administered assets	39	38

Statement of Administered Comprehensive Income

Administered income fell by $1 million to $11 million (8%), mainly as a result of a $1 million decrease in funding from Commonwealth-sourced grants.

Statement of Financial Position

Administered current assets remained steady at $40 million in 2020-21.

Department of Primary Industries and Regions (PIRSA)

Financial statistics	Net result:	$64 million
	Appropriations:	$200.5 million
	Grants, subsidies and transfers revenue:	$62.4 million
	Grants and subsidies expense:	$56.4 million
	Number of FTEs:	831

Significant events and transactions

- Grants and subsidies expenditure of $56.4 million was significantly lower than the original budgeted amount of $162.5 million, largely due to timing differences between establishing grant programs and then making the payments.
- A special strategic business round of the Regional Growth Fund (RGF) occurred in 2020-21, with $25 million allocated by the SA Government. The aim of this round was to help fast track the recovery of regional economies as a result of the COVID-19 pandemic.
- Significant grant program expenditure in 2020-21 included marine scalefish fishery reform ($13.6 million), bushfire recovery and response ($7.7 million), the drought support package ($6.1 million) and RGF ($4 million).
- $23.6 million of temporary staff costs were incurred under professional and technical services in supplies and services, largely due to fruit fly biosecurity response activities.
- PIRSA received $1.7 million for the mobilisation of seasonal and regional workforces and $3.8 million for the seasonal workers regional quarantine facility. $6.4 million of expenditure has been incurred for these projects across supplies and services and grants and subsidies.

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Other audit findings

- RGF strategic business round grant assessment and approval deficiencies.
- PIRSA has not implemented an ongoing assessment of revenue contracts.
- Bona fide and leave return reports were not reviewed promptly.
- Implementation of the legislative compliance framework needs improvement.
- Enterprise risk management framework not yet implemented.

Functional responsibility

PIRSA is an administrative unit established under the *Public Sector Act 2009*. It reports to the Minister for Primary Industries and Regional Development.

PIRSA's objective is to grow primary industries and drive regional development in South Australia.

For more information about PIRSA's objectives and activities see note 1.2 of its financial report.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- governance frameworks
- revenue, including South Australian Research and Development Institute (SARDI) research grant revenue, and consultancies and services revenue. This included reviewing PIRSA's assessment and conclusions relating to the ongoing application of revenue accounting standards
- grant and subsidies expenditure, with emphasis on significant grant programs including the RGF, marine scalefish fishery reform and drought support programs
- supplies and services expenditure
- employee benefits expenses and liabilities
- cash and general ledger
- loans receivables and borrowings
- fixed assets, including leased assets
- other financial assets, including investments in shares
- follow-up of 2019-20 audit findings.

The audit considered control processes performed by both PIRSA and Shared Services SA.

We considered internal audit activities when planning and conducting the audit.

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

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

Other audit findings

Grants and subsidies expenses

Grants and subsidies expenses for the year were $56.4 million ($70 million), of which $4 million ($6.9 million) related to the RGF.

Regional Growth Fund strategic business round grant assessment and approval deficiencies

— *Background*

In 2019-20 the SA Government announced a special strategic business round (SBR) as part of round three of the RGF, with the aim to help fast track the recovery of regional economies impacted by COVID-19 by supporting 'shovel-ready' projects that drive new or enhanced economic activity.

The SBR was initially allocated $15 million of funding. $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.

We reviewed the application assessment and approval process for this grant program as it represents a significant commitment of funding from the SA Government.

In 2019-20 we reviewed the RGF round two competitive grant assessment process. We found that the list of approved projects in round two included two projects the panel assessed as uncompetitive (using the criteria it applied to all applications) and did not recommend. PIRSA advised us that these projects were approved by the former Minister using his discretion. We also found that information provided to the public on PIRSA's website described the approved projects listed as competitive projects, which we considered to not be fully transparent about the process. For further information refer to Auditor-General's Report 6 of 2021 *Update to the annual report for the year ended 30 June 2020*.

Strategic business round assessment process

The SBR had a different eligibility criteria and assessment process from previous RGF funding rounds. The additional eligibility criteria approved by the SA Government included the following:

- the project shows that it can start within three months and be completed in 24 months. This is referred to as being 'shovel-ready' to help fast track the recovery of regional economies after COVID-19
- the project has a minimum 50% co-contribution from the applicant.

PIRSA use an Assessment and Evaluation Plan (A&E Plan) and an assessment template to guide and document the assessment process.

We understand the stages used in the assessment process for the SBR were as follows:

- Stage 1: eligibility criteria assessment.
- Stage 2: PIRSA performs an initial assessment against primary and secondary criteria, with a score assigned to each criterion. The A&E Plan details the minimum score for an application to progress to stage 3.
- Stage 3: With joint input from PIRSA, other SA Government industry advisors and the South Australian Government Financing Authority (SAFA), this stage comprises a full assessment of financial viability and technical feasibility aspects to determine whether the project aligns with the RGF's key principles.
- Stage 4: full assessment packages for applications are provided to a cross-government panel. The panel assesses each project against the RGF criteria and makes recommendations to the Minister and the Economic and Infrastructure Cabinet Committee for approval.

Findings

Assessment process excluded previously used risk assessment stage

The A&E Plan and assessment template required risk assessments to be completed. We found from a sample of SBR applications that the completed assessment templates did not include the risk assessment. However, the panel report for the SBR included risk assessments as part of the assessment process undertaken.

The risk assessment stage not only prompts assessors to consider the potential risks, their consequences and ratings, it also requires consideration of the treatments required to mitigate the risks.

Given the scale and nature of the successful projects (which received higher funding amounts and are mostly construction-related projects) there could be increased levels of risk in meeting the SBR objective to provide stimulus and fast track regional economic recovery from COVID-19.

We acknowledge that certain aspects of the risk assessments are captured by SAFA's financial feasibility assessment. For example, in some instances SAFA identified risks that applicants may not be able to secure private funding to meet the co-contribution requirement, or that if planning and development approvals were not obtained it could cause delays in project commencement (and therefore the ability to commence within three months as specified in the SBR criteria). However, these comments from SAFA have not been captured in the previously used risk assessment template.

We were advised that PIRSA's assessment considers the eligibility and assessment criteria to determine which projects progress further, and the risk assessment is not part of this decision. The risks identified by SAFA are used to determine the conditions included in the funding deed.

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 RGF's SBR objectives.

- Assessment of criteria insufficient and inconsistent with information available

We reviewed the assessment templates for a sample of applications, focusing on the additional criteria approved for the SBR. We found that the assessment of criteria in some cases was insufficient and inconsistent with information available. For example:

- we identified three applications assessed as meeting the eligibility criteria, however the assessment template included comments indicating that without formal development or planning approvals being obtained, the projects' ability to commence within three months could be impacted. One assessment included comments that the assessor had doubts that development approval would be finalised within three months of commencing and that the project could be completed within 24 months, as it was a complex project. However it was still assessed as having met the criteria
- two of the application assessment templates used extracts copied directly from the application as the assessors' comments. This indicates the assessor took the applications at face value, with limited consideration for further investigation
- the five applications identified above required either bank loans, Commonwealth or private funding to meet the co-contribution requirements. There was no documentation that the assessors considered the ability of the applicants to secure this funding when assessing eligibility. Delays in obtaining financial approvals could also delay the commencement of the projects.

We acknowledge that SAFA considered these criteria further in the feasibility reviews (stage 3) and reported its findings to PIRSA for consideration if the project was approved for funding.

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.

- Strategic Business Round successful projects split into two tranches

All 228 applications received were assessed by PIRSA, with 13 being recommended for approval by the panel. All 13 recommended projects, totalling $9.4 million, were approved by the SA Government.

This was less than the $15 million original funding available. As there was unallocated funding, the SA Government subsequently approved the panel to consider 156 projects further. They included 16 projects that showed alignment with the assessment criteria but needed more information, and 140 that were originally deemed ineligible.

From this second tranche, the panel recommended an additional five projects seeking a combined total of $9.3 million for approval. We were advised by PIRSA that eight projects, to the value of $15.3 million, were approved in tranche two. Subsequent information we obtained revealed an additional project of $2 million, making a total of 22 projects ($26.6 million). Further details about the approval of tranche two projects are provided below.

- No evidence to support approval of grants in tranche two

We were advised by PIRSA that the 13 projects from tranche one were approved by the SA Government. We confirmed that there was evidence that the SA Government approved these 13 projects.

We were further advised by PIRSA that Cabinet notes would provide evidence of the approval of projects in tranche two. Our request for these documents from the Department of the Premier and Cabinet was denied.

We could not be provided with any other documentation to evidence the approval of tranche two projects. As a result, we have no evidence that the remaining nine projects were appropriately approved.

We understand that PIRSA has offered these grants and, in some cases, funding deeds have been executed.

- Transparency of information provided to the public

As outlined above, PIRSA provided us with a list of SBR successful applicants that indicated there were 13 successful projects in tranche one and eight in tranche two. We subsequently identified documentation for an additional project, making 22 in total.

We checked this information against the published information on PIRSA's website about successful projects of the SBR.

We found that one grantee included in PIRSA's internal records as being successful in tranche two was not listed on PIRSA's website. The twenty-second project referred to above was also not listed on the website.

Inconsistencies in published information and what is documented by the agency may be considered a lack of transparency.

- Delays in executing funding deeds

PIRSA advised us that the final approval for projects in the SBR occurred in November 2020. As noted above, we do not have evidence of approval for the additional projects in tranche two.

The memorandum of administrative arrangement between PIRSA and SAFA specifies that SAFA is responsible for drafting and executing funding deeds for the RGF grants.

PIRSA provided us with a list of executed funding deeds. As at 30 June 2021, only 12 projects had a formally executed funding deed. This includes projects across tranche one and tranche two, and the twenty-second project.

Nine projects remain that have not yet had a funding deed executed (one successful applicant has withdrawn).

The feasibility assessment performed by SAFA has shown that there were potential risks with planning approvals and co-contribution funding identified. We understand that this may add to the time required to obtain all relevant information and 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 project from the date they are formally notified as being successful.

— What we recommended

We recommended that PIRSA:

- ensure the established A&E plan is followed and risk assessments are included and documented in the evaluation process for future RGF rounds
- incorporate clear guidance into the A&E Plan or the assessment template to help assessors with how to assess specific requirements (eg 'shovel-ready')
- sufficiently document reasoning and the evaluation of criteria to promote transparency in the assessment process
- maintain adequate records to support decisions made regarding changes made part-way through a grant program
- ensure that appropriate grant approvals for successful projects are obtained and documented by the agency to support the projects selected to receive funding from this grant program
- ensure that the information published on PIRSA's website about successful projects is complete and accurate
- work with SAFA to ensure that all required information and documents are promptly obtained to avoid delays in executing funding deeds.

— PIRSA's response

PIRSA provided the following responses to our findings and recommendations:

- While the risk assessment summary template was not completed for the SBR, risks were identified though technical reports and deliberated on at assessment panel meetings. The assessment template has been reviewed and will be used for the next RGF round for risk considerations to be documented for panel consideration.

- The current process of documenting the evaluation of criteria will be reviewed to identify potential further improvements, ensuring adequate and transparent documentation is produced from the assessments.
- PIRSA will ensure that all future changes to processes or decisions during an assessment are documented, approved and communicated to the grants team.
- Previous RGF rounds were approved by the Minister for Primary Industries and Regional Development. As the SBR was a once-off stimulus package it was decided to seek approval through a Cabinet process. PIRSA considers that it has appropriate controls in place and has approved evidence on record of Cabinet submissions it provided to the Economic Growth Cabinet Committee.
- An officer has been assigned to ensure all successful projects are published on the PIRSA website. The website will be regularly updated for current approvals with executed deeds.
- PIRSA has started making changes to the RGF round four application process that will ensure additional information is obtained to use as budget milestones for the funding deeds drafted by SAFA. Getting this information up front should reduce delays in drafting the deeds. PIRSA will work with SAFA and provide assistance to successful applicants to accelerate the execution of funding deeds.

— *Further audit comment*

We were advised that the Cabinet submissions PIRSA referred to as evidence of approval for tranche two projects were later changed to Cabinet notes. We requested these Cabinet documents under Premier and Cabinet Circular PC047 *Disclosure of Cabinet documents to investigative agencies*, which allows the Auditor-General to request a Cabinet submission subject to certifying that it is required in the proper exercise of statutory functions. PC047 does not provide for access to Cabinet notes. The Department of the Premier and Cabinet declined our request for these documents on the basis that Cabinet notes do not contain approvals.

Revenue

PIRSA's revenue from grants, subsidies and transfers, Commonwealth grants (national partnership payments) and the sale of goods and services totalled $98.1 million in 2020-21 ($81.1 million).

PIRSA has not implemented an ongoing assessment of revenue contracts

In 2019-20, two new accounting standards became applicable to PIRSA for the first time:

- AASB 15 *Revenue from Contracts with Customers*
- AASB 1058 *Income of Not-for-Profit Entities*.

There are different requirements for revenue recognition, measurement and disclosure depending on which standard applies. Within individual standards, certain criteria must be met before revenue can be recognised and, if recognised, to determine whether it is at a point in time or over time.

In 2019-20 we wrote to PIRSA with our observations on its progress of implementing the new revenue accounting standards. We identified weaknesses for PIRSA to address, including that no control had been introduced to identify and assess new contracts or contract modifications. This is important as the accounting treatment for revenue depends on individual revenue agreements.

Our follow-up in 2020-21 found that a simplified process was designed, but not effectively implemented within PIRSA divisions.

Without adequate assessment of new or modified revenue contracts to determine how revenue should be treated under the accounting standards, revenue and associated balances and disclosures in the financial report may be inaccurate.

We recommended that PIRSA:

- assess any new or modified contracts for the 2020-21 financial year that were not previously assessed as a matter of priority, to support revenue recognition for its 30 June 2021 financial report
- develop a coordinated process to adequately identify and assess new or modified revenue contracts across all divisions and ensure it is implemented consistently
- provide sufficient training and resources to support the new process being implemented and build capability across its divisions
- update revenue recognition procedures once a control is established for ongoing assessment of contracts, as the current process may not apply to all contracts.

PIRSA responded advising that all new contracts above $10 000 between July and March 2021 were assessed by the finance team as an interim measure. The results of this confirmed the current revenue recognised. Material contracts from the remaining period, April to June 2021, will also be assessed.

PIRSA also advised us that its finance team will work with divisions to ensure a consistent approach is applied in implementing the agreed assessment process. The finance team will consider divisional revenue procedures and provide support to improve awareness of the revenue accounting standard.

Governance frameworks

Implementation of the legislative compliance framework needs improvement

For a number of years we have reported on PIRSA's ongoing challenges with implementing a comprehensive legislative compliance framework, including that the legislative compliance register was incomplete, there was no coordinated approach for identifying and reporting breaches of legislation, and there is no central record of breaches to enable this reporting.

In 2019-20, we reported that PIRSA was updating its legislative compliance framework. As part of our follow-up in 2020-21, we found that while the framework documentation has been approved, it is yet to be completely implemented throughout PIRSA. We were advised that this is due to a lack of resources.

Without a coordinated approach to monitoring and assessing compliance with legislation, breaches may not be identified or reported.

We recommended that PIRSA continue to update its legislative compliance register and document how divisions have assessed compliance. This central register can then be used to identify and report any breaches. We also recommended that PIRSA consider training and resourcing as part of the implementation strategy to ensure the framework is effectively implemented.

PIRSA responded that it will complete its central legislative compliance register, considering the legislation it is required to comply with. It will include information on breach reporting and internal assurance processes. PIRSA will also develop a training course and conduct sessions with divisions to promote understanding of the requirements.

Enterprise risk management framework not yet implemented

A risk management framework should provide for the ongoing monitoring and reassessment of risks to ensure that risk registers remain relevant and risks are effectively managed.

In 2019-20 we reported that PIRSA's risk management policy and procedure could be enhanced by including the process to add a new risk into the risk register or to reassess an existing risk.

PIRSA has since done a full review of its risk management processes and developed an Enterprise Risk Management Framework. However this framework, which will supersede the current risk management policy, has not yet been implemented.

Without a formal risk management framework, risk registers may be incomplete and may not reflect PIRSA's current risk profile. As a result PIRSA may not be effectively monitoring and managing all of its current risks, resulting in exposure to threats or events causing interruption to operations or impacting PIRSA's ability to achieve its objectives.

We made recommendations to PIRSA on how time frames and roles and responsibilities could be further clarified in the framework. We also recommended that PIRSA provide appropriate guidance to divisions for identifying risks, developing relevant treatment plans and for ongoing monitoring as part of the implementation of the framework.

PIRSA responded that the framework has been reviewed for further enhancements. Information sessions have been held with divisions to provide guidance on risk assessment and divisional risk registers have been updated. PIRSA executives and senior management participated in risk workshops in June 2021 to agree and assess top operational risks.

Payroll

Employee benefits expenses for the year were $87.4 million ($91.7 million).

Bona fide and leave return reports were not promptly reviewed

We identified instances where bona fide and leave return reports were not reviewed and approved in the time frames outlined in PIRSA's procedures.

This was raised as an issue with PIRSA in previous years. Previously PIRSA introduced monthly compliance reporting to executives on overdue reports to improve compliance. In 2020-21 this compliance reporting ceased, but was later recommenced.

As a result, we found a significant increase in the number of bona fide and leave return reports overdue for review or reviewed late.

If bona fide and leave return reports are not promptly reviewed and approved, payroll errors may not be identified and corrected and inappropriate payments may be made.

We recommended that PIRSA continue with the reintroduced compliance monitoring to reduce the number of reports reviewed late. PIRSA agreed with our recommendations.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2021 $million	2020 $million
Income		
Appropriation	200	145
Grants, subsidies and transfers	62	62
Sale of goods and services	18	15
Commonwealth revenues (National Partnership payments)	18	3
Other income	18	11
Total income	316	236
Expenses		
Employee benefits	87	92
Supplies and services	90	55
Grant and subsidies	56	70
Other expenses	19	10
Total expenses	252	227
Net result	64	9
Other comprehensive income	5	1
Total comprehensive income	69	10
Net cash provided by (used in) operating activities	69	16
Assets		
Current assets	236	164
Non-current assets	179	173
Total assets	415	337
Liabilities		
Current liabilities	54	45
Non-current liabilities	54	54
Total liabilities	108	99
Total equity	307	238

Statement of Comprehensive Income

Income

Appropriations

Appropriations from the SA Government increased by $55.8 million to $200.5 million largely due to additional funding received for fruit fly biosecurity response activities, marine scalefish licence buy-backs and additional funding for the RGF.

Grants, subsidies and transfers

Grants, subsidies and transfers revenue increased slightly by $144 000 to $62.4 million. The major components continue to be grants from industry ($34.6 million) and grants from the administered industry funds ($13.2 million).

Commonwealth grants (National Partnership payments)

Commonwealth revenues increased by $14.6 million to $18.1 million due to two new programs. $14.6 million was received for the horticultural netting infrastructure program and $3.5 million was received for the on-farm emergency water infrastructure rebate scheme. Expenses incurred under these schemes were $1.9 million and $3.4 million respectively.

Expenses

Employee benefits expenses

Employee benefits expenses decreased by $4.3 million to $87.4 million largely due to:

- a decrease in workers compensation expenses of $2.5 million due to the revaluation of the workers compensation liability. The liability is determined by a consulting actuary and has decreased largely due to the number of open seriously injured worker cases reducing
- a decrease in long service leave expense of $1.2 million, primarily due to decreases in the long service liability resulting from changes in the assumptions used by the actuary, including an increased government bond rate, up to 1.25% (0.75%), and a decrease in overall entitlement hours
- a decrease in targeted voluntary separation package (TVSP) expenses of $430 000. In 2019-20 TVSPs were paid/payable to 11 employees, mainly affecting the Corporate Services and SARDI divisions. In 2020-21, five TVSPs were paid/payable, mainly from SARDI.

Grants and subsidies expense

Total grants and subsidies decreased by $13.6 million to $56.4 million, mainly due to:

- a $12.5 million decrease in grant payments for bushfire recovery and response. Most bushfire recovery and response payments relating to the Cudlee Creek and Kangaroo Island bushfires were made in 2019-20
- a $6.1 million decrease in South Australian River Murray Sustainability (SARMS) grant payments as the program has ended, with residual project milestone payments made in 2020-21. From the original $265 million funding committed to SARMS, $2.3 million remains as leftover funding that has now been committed across 15 projects
- a $4.7 million decrease in the South East Forestry Partnership program. No payments were made in 2020-21 due to the timing of milestones. $1.4 million is expected to be paid in 2021-22 for outstanding milestones, with an additional $1.1 million allocated to the program not yet committed
- a $3.7 million decrease in the national water infrastructure development fund, as Commonwealth funding and associated expenses ceased in 2019-20

- a $2.8 million decrease in RGF grant payments. While additional RGF funding was allocated in 2020-21, due to the timing of grant payments the expenditure in 2020-21 mainly relates to prior funding rounds
- a $2 million decrease in grant payments made from the Regional Development Fund as this program winds down.

These decreases were partially offset by:

- a $13.4 million increase in the marine scalefish fishery reform expenditure for licences that were surrendered under the program
- a $5.3 million increase in other adverse event recovery programs, including the on-farm emergency water infrastructure rebate scheme and the drought support package
- a $1.9 million increase in the horticultural netting program. This is a new Commonwealth-funded initiative in 2020-21.

Bushfire recovery and response

Bushfire recovery and response expenses continued in 2020-21, with $7.7 million paid for emergency bushfire response in primary industries (ERPI) grants and other assistance grants made in response to eligible bushfire disaster events, including the Kangaroo Island and Cudlee Creek fires.

ERPI grants aim to help primary producers with immediate recovery costs, including disposing of deceased livestock and rebuilding or replacing damaged or destroyed farm infrastructure. To be eligible, primary producers must be located in a council area that has suffered direct damage from bushfire disasters in 2019-20. A maximum of $75 000 is claimable by eligible applicants.

ERPI grants are jointly funded through the State and Commonwealth Governments, with the Commonwealth contributing 80%. PIRSA received funding to support these grants in 2019-20 through the Governor's Appropriation Fund. No additional funding was received in 2020-21.

In total PIRSA has received 461 applications for ERPI grants. In 2019-20, 290 applications were approved for a total expense of $19.7 million. In 2020-21, 104 applications were approved and paid totalling $6.5 million. An additional $514 000 was paid to previous applicants who had not reached the funding cap.

Drought support package and on-farm emergency water infrastructure rebate scheme

In December 2019 the SA Government announced a $21 million drought support package to provide increased drought assistance to eligible primary producers experiencing hardship in response to the ongoing dry conditions in South Australia. The program includes financial assistance such as rebates for council rates, pastoral lease rent and on-farm water infrastructure, as well as providing supports such as mental health outreach services, rural financial counselling and grants to connect drought affected communities.

Grant expenditure incurred in 2020-21 under the drought support package totalled $6.1 million ($2.1 million).

The on-farm emergency water infrastructure rebate scheme is a jointly funded program by the Commonwealth and SA Governments. The SA Government's contribution is through the drought support package above. The $3.4 million ($2.1 million) of expenditure recognised in the financial report for on-farm emergency water infrastructure rebate scheme represents the portion of the grant expenditure funded by the Commonwealth (PIRSA received $3.5 million from the Commonwealth in 2020-21).

In 2020-21 PIRSA received 171 applications for on-farm emergency water infrastructure grants. 161 grants were approved for a total expense of $1.9 million. A further $4.9 million has been paid for 358 grants that were received in 2019-20 but not approved until 2020-21.

Other grant expenses included in the drought support package for 2020-21 include:

- $1.6 million of local council rebates, representing 444 approved applicants
- $611 000 for rural financial counsellors and an additional $100 000 for mental health outreach services
- $325 000 for community drought recovery grants.

Regional Growth Fund

The RGF was established in 2018-19. It includes $150 million available over 10 years to support regional South Australia. Its purpose is to unlock new economic activity in regional South Australia, deliver critical economic infrastructure to create direct benefit across regional industries and strengthen regional communities.

Funding is allocated for competitive grants, where applications are open for a set period and assessed against criteria, and strategic projects that are open all year for consideration by the Minister.

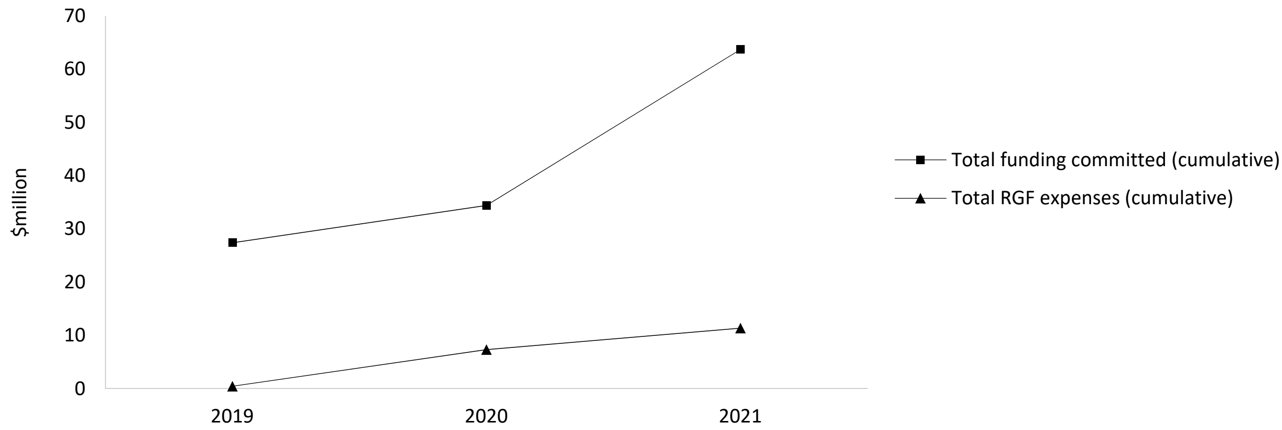
In 2020-21 the third round of RGF funding was brought forward and an additional $10 million of funding was added as part of the SBR (bringing the total allocated to the RGF to $160 million). The SBR aims to help fast track the recovery of regional economies impacted by COVID-19 by supporting shovel-ready projects that drive new or enhanced economic activity. Refer to discussion under 'Audit findings' for more information about the SBR.

Since the RGF's inception, PIRSA has committed to the following grant funding arrangements:

- round one (2018-19) – $27.4 million for 17 projects. Nine agreements totalling $4.2 million related to competitive grants and eight agreements totalling $23.2 million related to strategic projects
- round two (2019-20) – $6.9 million for 15 projects. 10 agreements totalling $4.4 million related to competitive grants and five agreements totalling $2.5 million related to strategic projects
- round three (2020-21) – $29.6 million for 26 projects. Three projects totalling $2.9 million related to the competitive round, 22 projects totalling $26.6 million related to the strategic business round, and one project for $75 000 related to other strategic projects.

Contract management for the RGF grant agreements is being administered by SAFA.

Total expenses for the RGF were $4 million ($6.9 million), as funds are not paid on approval but over time as project milestones are achieved. The graph below shows the total amount committed and expensed up to 30 June 2021 since the RGF was established.



Marine scalefish fishery reform (MSFR)

The MSFR commenced in 2019-20. A key component of it is the establishment of individual transferable quota for specific marine scalefish species. Of the $24.5 million reform package announced by the SA Government, $22 million was allocated to licence buy-backs under a voluntary licence surrender program that opened in May 2020.

Under the voluntary licence surrender program, net licences received $180 000 and line licences received $140 000.

PIRSA has received 135 surrender proposals (119 line and 16 net licences), with 34 subsequently being withdrawn by the applicants. As at 30 June 2021, 96 surrender deeds have been executed. 88 line licences have been surrendered totalling $12.3 million, and eight net licences totalling $1.4 million.

Total grant expenses under the MSFR (representing licence buy-backs) was $13.6 million in 2020-21 ($140 000 in 2019-20).

Supplies and services

Supplies and services expenses increased by $34.4 million to $89.6 million in 2020-21 largely due to:

- a $25.7 million increase in professional and technical services, due to a $5.3 million increase in contractors mainly relating to the seasonal workers regional quarantine facility, and an $18.2 million increase in temporary staff engaged mainly to help with the biosecurity response to manage fruit fly outbreaks throughout South Australia as part of the State's zero tolerance policy
- a $7 million increase in administrative and operating costs, including a $2.7 million increase in laboratory supplies and a $1.3 million increase in chemical purchases for use in the fruit fly biosecurity response, and a $2.4 million increase in fence material purchases as part of managing the dog fence rebuild project on behalf of the Dog Fence Board

- a $2.4 million increase in other vehicle and equipment operating and management costs, mainly relating to an increase in vehicle hire for the fruit fly response.

Transfers to Consolidated Account

Transfers to the Consolidated Account totalled $7.3 million in 2020-21 ($0 in 2019-20). PIRSA transferred $7 million of surplus cash to the Department of Treasury and Finance under the cash alignment policy and $293 000 for proceeds from the sale of land.

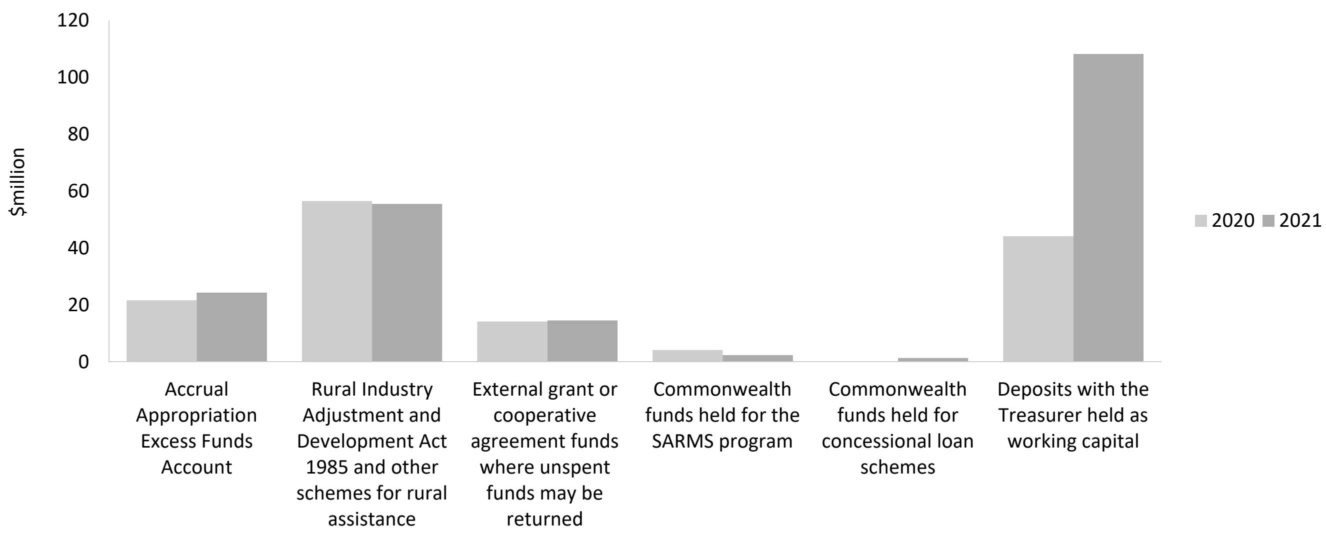
Statement of Financial Position

Assets

Total assets increased by $78.4 million to $415.1 million. This was primarily due to increases in cash, receivables and other financial assets as discussed below. Property, plant and equipment remained relatively consistent at $117.2 million ($118.9 million) with additions largely offset by depreciation and disposals.

Cash and cash equivalents

PIRSA held cash of $206.3 million ($140.7 million) at 30 June 2021. The main components of cash held are shown in the chart below.



The main increase in PIRSA's cash is amounts held as working capital, largely due to appropriation funded grant expenditure carried forward into 2021-22.

PIRSA's expenditure commitments, disclosed in note 9.1 of its financial report, show an increase of $11 million to $85.6 million in 2020-21. Most is to be paid within one year. The increase mainly relates to RGF strategic business round grant funding.

Receivables

Receivables increased by $14.7 million to $53.6 million in 2020-21, mainly due to a $13.3 million increase in loans to cooperatives (see 'Loans to cooperatives' below).

Other financial assets

Other financial assets increased by $4.8 million to $25.2 million in 2020-21. This balance relates to investments in shares for unlisted entities. The shares are revalued annually, with changes in fair value treated as other comprehensive income. As the shares are unlisted there is not a direct active market to determine their fair value. The valuation is performed by an independent valuer on a discounted cash flows basis and is subject to significant estimates and assumptions applied in this process.

Liabilities

Total liabilities increased by $9.7 million to $108.4 million. This increase was largely due to an $11.4 million increase in financial liabilities and a $5.2 million increase in payables, partially offset by a $3.3 million decrease in employee benefit liabilities and a $2.3 million decrease in contract liabilities.

Financial liabilities

Financial liabilities of $40.3 million mainly consist of indebtedness to the Treasurer of $38.4 million ($26.7 million). Borrowings from the Treasurer relate to loans to cooperatives of $24 million ($10.7 million) and Commonwealth concessional loan schemes of $14.4 million ($16 million).

Loans to cooperatives

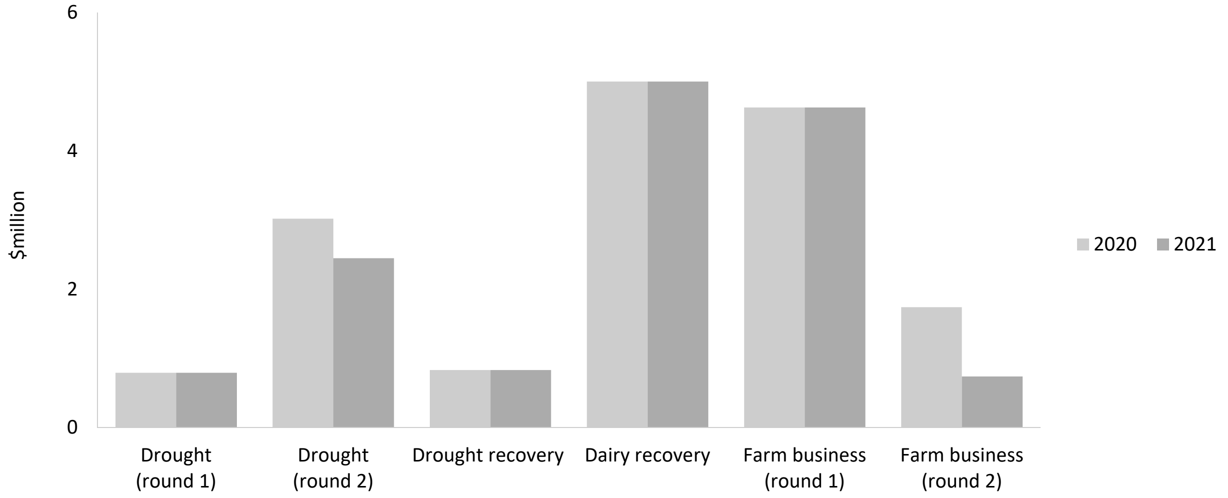
PIRSA administers loans to cooperatives provided by the SA Government. These are agreements between the Treasurer, PIRSA and approved loan applicants where the principal borrowed by PIRSA is on-lent to the approved loan applicant. Repayments of principal made by an approved loan applicant are returned to the Treasurer to reduce PIRSA's borrowings. Note 6.2 of PIRSA's financial report provides information about the loan structure.

The loans to cooperatives scheme supports cooperatives engaged in processing and storing primary products. Eligible projects include the acquisition of assets associated with processing and storing primary products.

In 2019-20 one new loan was approved under the loans to cooperatives scheme. The total approved amount was $28.6 million, with $10.7 million drawn down by 30 June 2020. In 2020-21 an additional $13.7 million was drawn down. This brings the total amount advanced to the loan recipient to $24.4 million. The remaining $4.2 million is expected to be paid in 2021-22. Repayment commenced in 2020-21, with $338 000 received.

Commonwealth concessional loans schemes

Commonwealth concessional loans schemes overall decreased by $1.6 million in 2020-21 as repayments were made. The chart below shows the components of the balance for each type of concessional loan scheme at 30 June.



Drought concessional loans were made available to applicants for debt refinancing, operating expenses and to meet the costs of drought recovery and readiness activities. Applications for round one of the scheme closed on 30 June 2015 and applications for round two of the scheme closed on 31 October 2016.

Drought recovery concessional loans were made available to applicants for new debt for planting and restocking activities or to refinance an existing drought concessional loan. This scheme closed on 31 October 2016.

Dairy recovery concessional loans were made available to dairy farm businesses affected by the May 2016 decision of Murray Goulburn and Fonterra to reduce farm gate milk prices. They were for debt restructuring or new debt, operating expenses and costs associated with productivity enhancement measures. This scheme closed on 31 October 2016.

Farm business concessional loans are made up of drought assistance concessional loans, dairy recovery concessional loans and business improvement concessional loans. Round one of this scheme commenced in December 2016 and closed on 30 June 2017 for drought assistance and dairy recovery concessional loans. Round two of the scheme included a new loan measure, business improvement concessional loans, in addition to continuing the drought assistance concessional loans and dairy recovery concessional loans. Round two of the scheme closed on 30 June 2018.

The Commonwealth Government paid funds for these loans schemes in advance in agreed amounts and these funds were held in a special deposit account until paid to approved applicants. When the loans schemes were closed to new applicants, PIRSA returned any additional funds to the Commonwealth.

Since 1 July 2018, farm business concessional loans applications have been made to the Commonwealth Government's single national administrator, the Regional Investment Corporation. PIRSA will continue to administer the existing loan agreements until the loan term ends or the loan is repaid/refinanced. As a result, no new drawdowns occurred for Commonwealth concessional loan schemes. PIRSA will now only receive repayments for existing loans that are then passed on to the Commonwealth.

As at 30 June 2021 there were no impaired loans and all amounts are expected to be repaid in line with the repayment schedules.

Administered items

PIRSA administers 19 funds that are reported in its administered financial report. The main administered revenues are industry contributions and aquaculture and fishing licence fees. These are then paid out as grants and subsidies to support promotion, research and development, and other activities to benefit the different groups that have paid the contributions.

Total fees and charges revenue, including industry contributions and aquaculture and fishing licences, was $31.4 million ($29.7 million) and grants and subsidies paid out during the year totalled $30.9 million ($29.4 million). The Fisheries Research and Development Fund paid $12 million ($12.8 million) to carry out research, exploration and experiments for the conservation and management of living resources found in waters.

PIRSA also received $5 million ($4.9 million) in appropriation from the SA Government for the administered activities. $4.7 million ($4.5 million) of this was used for payments to the South Australian Forestry Corporation for community service obligations including native forest management and fire protection.

PIRSA's administered assets consist mainly of land held under the Pastoral Land Management Fund ($54.1 million) and cash ($22.1 million).

Return to Work Corporation of South Australia (RTWSA)

Financial statistics	Total comprehensive result: ($418.9 million) Premium revenue: $533 million Net claims paid: $449 million Outstanding claims liability: $4.3 billion Net assets: ($348.7 million) The number of seriously injured claimants in the Return to Work Scheme as at 30 June 2021 was 732 (653), an increase of 12%. The average premium rate was 1.65% in 2020-21, which remained unchanged from the 2019-20 rate. Number of FTEs: 246
Significant events and transactions	— The provision for outstanding claims increased by $796.8 million. — The provision for outstanding claims was significantly impacted by the decision of the Full Court of the Supreme Court of South Australia in the case of *Return to Work Corporation of South Australia v Summerfield.* — RTWSA's net investment profit was $399 million. — RTWSA achieved a consolidated funding ratio of 91.9%, meaning that the Return to Work Scheme is not fully funded. — The Compensation Fund has net liabilities of $540.8 million as at 30 June 2021.
Financial report opinion	**Unmodified** An emphasis of matter was included in the financial report opinion relating to inherent uncertainty in the estimate of the outstanding claims liability and the funding ratio.
Controls opinion findings	No significant findings.

Functional responsibility

RTWSA was established under the *Return to Work Corporation of South Australia Act 1994* (RTWSA Act).

RTWSA administers the Return to Work Scheme (the Scheme) under the *Return to Work Act 2014* (RTW Act). The Scheme compensates injured workers and helps them return to work using premium and investment income from the Compensation Fund.

Legislative changes

Legislative changes have impacted significantly on the Scheme. The changes aim to get injured workers back to work more promptly and reduce the cost of the Scheme. This will lead to reductions in the Scheme's net claims and premium rates.

In December 2014 the RTW Act was proclaimed, with most provisions commencing on 1 July 2015 and some commencing earlier. The RTW Act replaced the *Workers Rehabilitation and Compensation Act 1986* on 1 July 2015.

The legislative changes separate claims into two categories:

- short-term claims for injured workers with less than 30% whole person impairment (WPI) – will receive income support for up to two years and treatment costs for up to three years. The legislation also introduces a new lump sum benefit for economic loss available to workers with a WPI of at least 5%
- serious injury claims for injured workers with 30% or higher WPI – will receive income support until retirement age, and treatment and other care costs for life.

The Scheme's focus is on getting short-term claimants back to work and, in the case of serious injury claimants, providing lifetime care.

Under transitional arrangements, claimants injured before 1 July 2015 with a WPI below 30% received income support until 30 June 2017, unless they exited the Scheme earlier.

Under previous legislation, a worker's income support was reduced by 10% at 13 weeks and a further 10% at 26 weeks, equating to 80% of their pre-injury earnings. Under current legislation, a worker's income support will not be reduced until 52 weeks, at which point it will be reduced to 80% of their pre-injury earnings. This means workers will receive more income support in their first year under current legislation.

The following table shows the percentage of claimants back at work at key intervals after the date of their injury.

Year	4 weeks	13 weeks	26 weeks	52 weeks
2014-15	75%	83%	86%	88%
2015-16	75%	83%	86%	88%
2016-17	75%	83%	87%	88%
2017-18	79%	87%	90%	93%
2018-19	80%	86%	89%	93%
2019-20	78%	83%	86%	91%
2020-21	76%	83%	87%	90%

Source: The data in this table was provided by RTWSA and is unaudited.

Overview of Return to Work Scheme

Employers must pay a premium to RTWSA based on remuneration provided to their workers. RTWSA invests the premium revenue until needed to pay compensation and other costs of operating the Scheme, including the claim management fees of two claims agents for managing workers compensation claims. Very small employers are not required to pay a premium, while self-insured employers must pay a fee instead of a premium.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- claims agent assurance framework
- premium income
- investments
- claims expenses
- actuarial estimates of outstanding claims liabilities
- determination of claims for workers compensation
- workers compensation payments, including income support, lump sums and medical costs
- claims management fees
- general operating expenditure
- payroll expenditure
- IT general controls.

We considered internal audit activities in designing and performing our audit procedures. We made use of the IT general controls work performed by internal audit.

Controls opinion

We reviewed controls over premium income, investments, claims expenses and outstanding claims liability as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report on RTWSA's 2020-21 financial report, which is unmodified but notes a significant inherent uncertainty relating to the outstanding claims provisions and funding ratio implications.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Return to Work Corporation of South Australia as at 30 June 2021, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the Public Finance and Audit Act 1987 *and Australian Accounting Standards.*

Emphasis of Matter – Inherent uncertainty – outstanding claims liability and funding ratio

Without qualification to the opinion expressed above, attention is drawn to notes 4, 10 and 11 of the financial report.

There is a significant uncertainty surrounding the financial impact of legislative reforms which will only become clearer as outstanding claims experience emerges in future financial periods. If in future years the actual cost of claims described in notes 10 and 11 are greater than the balances recorded in the financial statements, this will adversely impact the funding ratio described in note 6.

Communicating our audit findings

Our audit did not identify any matters that needed to be communicated to RTWSA.

Controls opinion findings

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

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Underwriting result		
Premium revenue from registered employers	533	519
Net claims paid	(449)	(445)
Increase in net outstanding claims liability	(788)	(258)
Claim management fees	(66)	(55)
Other underwriting expenses	(7)	(17)
Underwriting result	(777)	(256)
Net investment and other income		
Net investment profit (loss)	399	(2)
Other income	13	12
Net investment profit and other income	412	10

	2021 $million	2020 $million
Operating expenses		
Employee benefits expenses	(32)	(32)
Other expenses	(22)	(25)
Total operating expenses	(54)	(57)
Result from operating activities before tax equivalents	(419)	(303)
Total comprehensive result	(419)	(303)
Net cash provided by (used in) operating activities	76	59
Net cash provided by (used in) investing activities	(107)	12
Assets		
Investments	3 896	3 528
Other assets	86	76
Total assets	3 982	3 604
Liabilities		
Outstanding claims	4 301	3 505
Other liabilities	30	29
Total liabilities	4 331	3 534
Total equity	(349)	70

Statement of Comprehensive Income

Total comprehensive result

RTWSA's total comprehensive result depends significantly on:

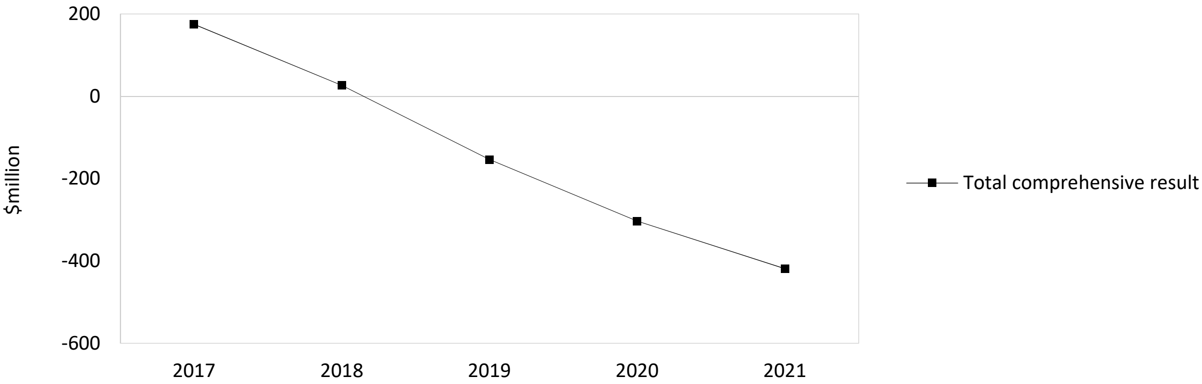
- premium rates being set before the start of the financial year with the aim of ensuring premium revenue and investment income will at least cover the cost of new claims incurred during the financial year and administrative costs. The premium setting process depends significantly on the actuarial estimate of the cost of new claims likely to be received in the coming year and other factors determined by RTWSA's Board of Management
- the actuarial estimate of the outstanding claims provision
- movements in the market value of its investments.

The total comprehensive result for the year was a loss of $418.9 million (loss of $303.3 million). The increase in the loss of $115.6 million was due mainly to a $523.6 million increase in the cost of claims, offset by an increase in net investment profit of $401.3 million.

Other factors impacting the result for the year were an increase in premium revenue of $14.6 million and an increase in claims management fee expenditure of $11.4 million.

In 2020-21 and 2019-20 the total comprehensive result did not include any tax equivalents required to be paid under Treasurer's Instruction 22 *Tax Equivalent Payments*. The RTWSA Act restricts the application of tax equivalents to financial years in which RTWSA makes a profit and achieves both a funding level of at least 100% (with its outstanding claims liabilities at a 75% probability of sufficiency) and a profit from insurance operations. Under the tax equivalents regime, the corporate tax rate (30%) is applied to the operating profit. In 2020-21 and 2019-20 RTWSA made a comprehensive loss and therefore was not required to pay any tax equivalents.

The following chart shows RTWSA’s total comprehensive result for the five years to 2021.



Since 2017 the comprehensive result has been steadily decreasing, with losses incurred since 2019. The decreases result from increases in the net outstanding claims liability in 2019, losses from investment activity in 2020 and a significant increase in the net outstanding claims liability in 2021.

Underwriting result

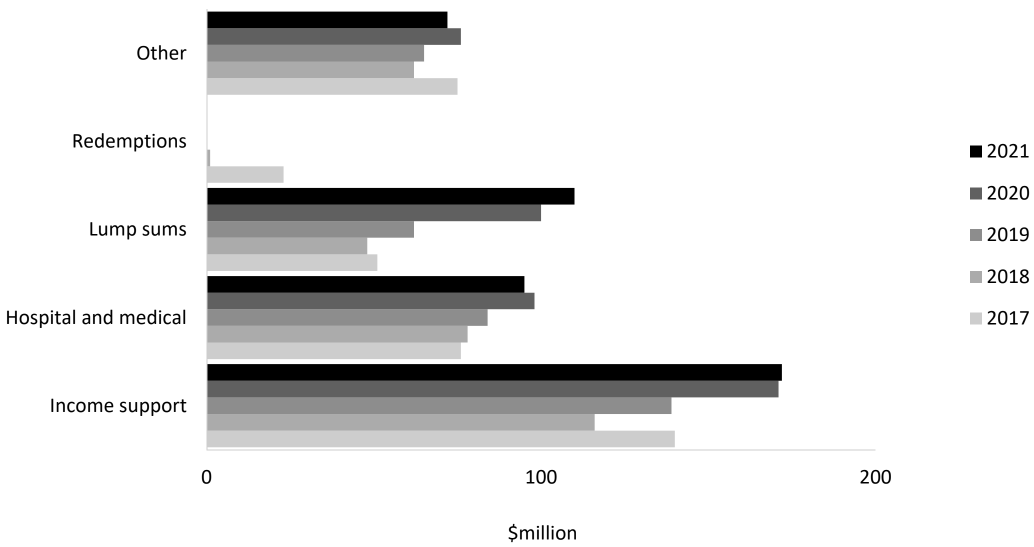
The underwriting result is essentially registered employer premium revenue less claims expense. Investment income does not form part of the underwriting result. AASB 1023 *General Insurance Contracts* requires the underwriting result to be shown separately in the Statement of Comprehensive Income to help show the extent to which underwriting activities rely on investment income for the payment of claims.

The underwriting result was a loss of $776.6 million, compared to a loss of $256.3 million in 2019-20. The $520.3 million downturn reflects a $523.6 million increase in the cost of claims, mainly as a result of:

- a $787.6 million increase in the net outstanding claims liability compared to a $258.3 million increase last year
- a $3.8 million increase in net claims payments compared to a $95.7 million increase last year.

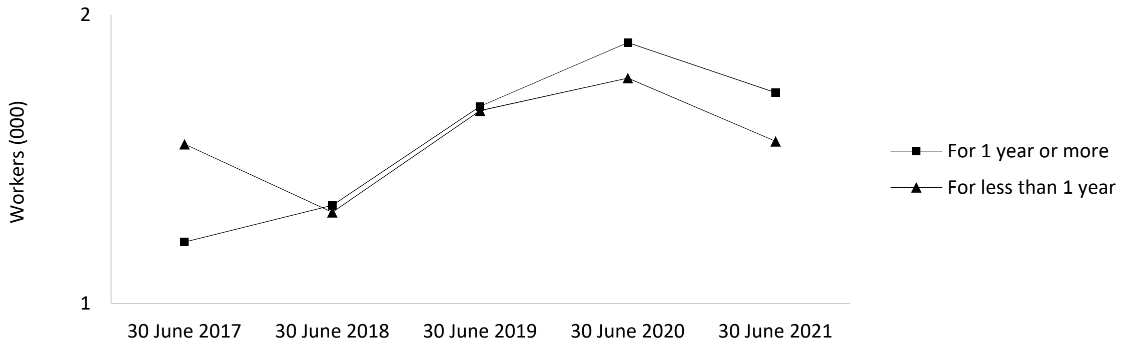
Claim payments

The following chart analyses claim payments for the five years to 2021.



The chart shows an increase in income support payments in 2021 ($1.3 million) following a significant increase in 2020 ($31.7 million). The 2020 increase was due mainly to an increase in the number of income support claims and longer durations for income support paid. In 2021, although there were slight reductions in new claims for income support and improved return to work outcomes when compared to 2020, income support payments followed the same trend. Lump sum payments increased by $9.5 million in 2021 as a result of the increase in economic loss lump sum payments under the RTW Act.

The change in the number of workers receiving income support for the five years to 2021 is reflected in the following chart.

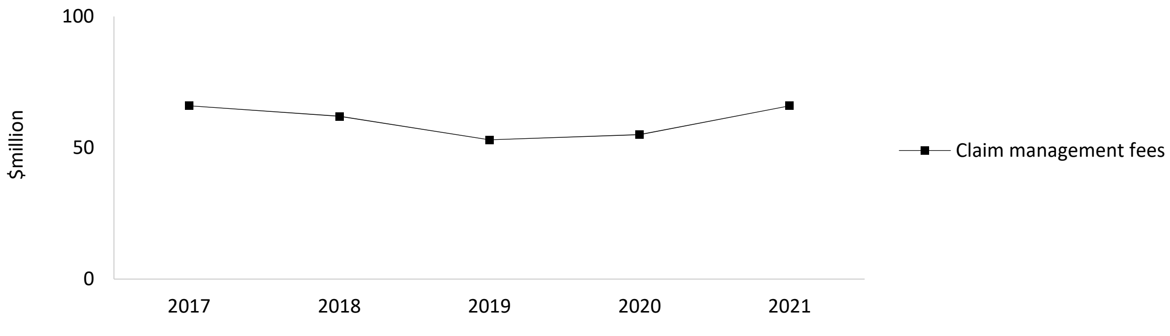


Source: The data in this chart was provided by RTWSA and is unaudited.

The chart shows that the number of workers receiving income support started an increasing trend from 2018. In 2021 the number of workers receiving income support for a year or more (long-term claims) decreased by 9.1%, and for less than a year decreased by 12.3%. This was mainly due to improvements in return to work outcomes in the last 12 months.

Claim management fees

The following chart shows claim management fees for the five years to 2021.



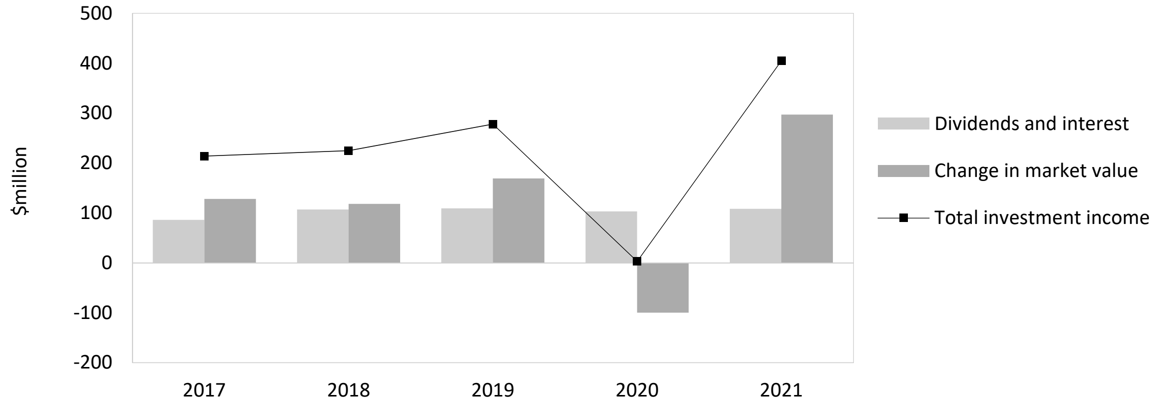
Claim management fees are paid to RTWSA's two claims agents for managing workers compensation claims.

Claim management fees decreased from 2017 to 2019, mainly because of the removal of additional payments to cover the extra costs incurred by the agents due to Scheme reform. In 2021, claim management fees increased by $11.4 million to $66.1 million, mainly as a result of an increase in base fee payments.

Investment profits

RTWSA’s investment profits have fluctuated significantly over recent years as a result of changes in the market values of its investments, which depend on financial market conditions and macroeconomic influences. In 2020-21 the strong performance of global equity markets had a significant impact on RTWSA’s investment returns.

The following chart shows RTWSA’s investment income for the five years to 2021.

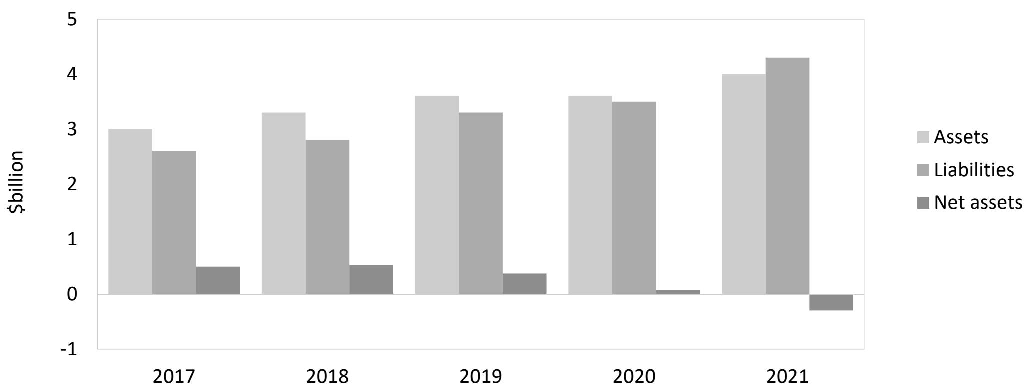


As shown, dividend and interest income has remained relatively stable over prior years with an increase in 2021 of $4.9 million. The market values of RTWSA’s investments increased significantly in 2021 as a result of strong global equity markets, with the value of investments held at the end of the year increasing by $177.5 million.

Statement of Financial Position

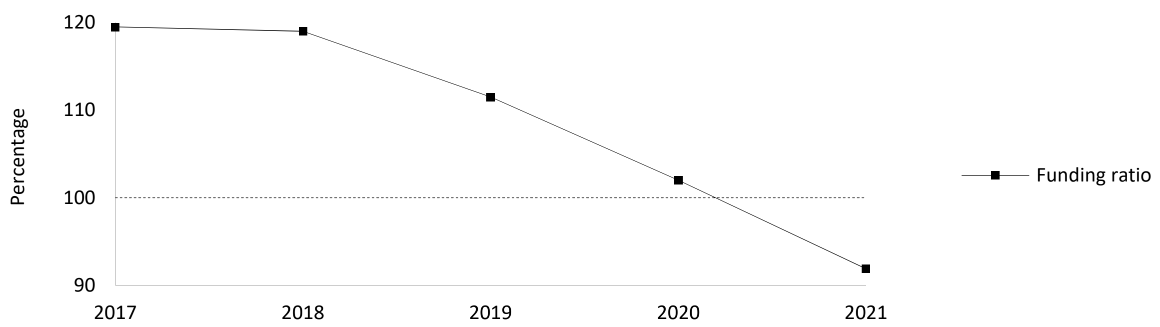
In 2021 there was a decrease in net assets of $418.9 million, due mainly to an increase in the provision for outstanding claims of $796.8 million to $4.301 billion as a result of an actuarial valuation. The other significant impact was investments, which increased in value by $368.5 million to $3.896 billion as a result of increases in the market values of investments of $177.5 million and the purchase of new investments of $105.4 million.

The following chart analyses RTWSA’s assets and liabilities for the five years to 2021.



The chart shows that RTWSA’s net asset position has continued to decrease since 2018 and the Scheme is currently not fully funded. The funding ratio (assets divided by liabilities) was 91.9% in 2020-21 compared to 102% in 2019-20.

The following chart shows the funding ratio decreasing over the last five years to 2021.



The Compensation Fund, which makes up the largest portion of the Scheme, has negative net assets of $540.8 million (see note 5 of RTWSA's financial report).

Liabilities

Outstanding claims – Compensation Fund

Outstanding claims for the Compensation Fund comprised 98% (97%) of RTWSA's liabilities. The outstanding claims liability covers expected future payments including those related to claims reported but not yet paid, incurred but not yet reported and incurred but under-reported.

The liability is determined by RTWSA's management and Board of Management considering and assessing a comprehensive actuarial review of claims exposures by an independent actuary. Information about the actuarial estimation of outstanding claims liabilities is provided in notes 4 and 10 of RTWSA's financial report.

RTWSA v Summerfield

On 11 March 2021 a decision was handed down by the Full Court of the Supreme Court of South Australia in the case of *Return to Work Corporation of South Australia v Summerfield* (Summerfield). This decision substantially differs from RTWSA's previously adopted position in relation to how key aspects of WPI assessments should be undertaken.

RTWSA has applied for special leave to appeal the Summerfield decision to the High Court of Australia.

If the Summerfield decision is upheld, the key consequences as they relate to the actuarial valuation work are that:

- assessed WPI scores will in some cases be higher, as a result of injuries being combined to determine the WPI score
- as a result of the higher WPI scores:
  - more claims will be assessed as serious injuries. Claims assessed as serious injuries will gain access to the legislated lifetime benefit package, and this will lead to higher claims costs than would otherwise have been incurred
  - some claims may also gain access to additional permanent impairment lump sums.

The RTWSA actuary has considered the outcome of the Summerfield case in determining the outstanding claims liability as at 30 June 2021.

Central estimate of outstanding claims liabilities

The central estimate of outstanding claims liabilities was $3.641 billion at 30 June 2021. The net outstanding claims provision was $4.157 billion at 30 June 2021, including a risk margin of $600.7 million intended to achieve a 75% probability of sufficiency.

The net liability for outstanding claims has increased from $3.365 billion at 30 June 2020. The $792.8 million increase can be mainly attributed to:

- a $146 million increase due to the inclusion of another year of claims
- a $165 million increase due to an increase in the number of serious injury claims
- a $27 million increase due to a more unfavourable claims experience for short-term injury claims
- a decrease of $13 million in the risk margin (pre-Summerfield), which decreased from 14.3% to 13.9% to allow for the increasing size of and maturity of claims accessing lumps sum and serious injury benefits
- a $117 million decrease due to changes in economic assumptions, principally led by an increase in discount rates
- additional costs of $584 million due to the Summerfield case.

The liability for long-term claims may extend for many years beyond the current year, causing the liability to grow. Long-term claims make up a greater proportion of total claims. This is reflected in the weighted average expected term to settlement of claims remaining at 15 years in 2021 (see note 10(a) of RTWSA's financial report).

Sensitivity to changes in key assumptions

The sensitivity analysis in note 10(f) of RTWSA's financial report illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars.

For example, a 1% decrease in the real discount rate would lead to an increase in the net outstanding claims provision of $916 million. There is also significant uncertainty regarding the serious injury claims cost arising from factors such as life expectancy, superimposed inflation and the ultimate number of claims. The actuary's sensitivity analysis suggests that changes to each of these assumptions could change the net outstanding claims provision in the order of $160 million to $540 million.

Impact of outstanding claims liability on funding ratio and premiums

As a result of legislative changes and RTWSA's initiatives to get claimants back to work sooner, the Scheme became fully funded for the first time in many years in 2014-15. The funding ratio (assets divided by liabilities) was 102% in 2019-20 and 91.9% in 2020-21.

RTWSA maintained the same average premium rate of 1.65% in 2019-20 and 2020-21.

Legislative reform and other developments affecting the uncertainty of the outstanding claims liability

The actuarial estimation is primarily based on the anticipated impact of new legislation. The impact will only become clearer as actual claims experience emerges under the legislation. Further, note 10 of RTWSA's financial report specifies the nature of a number of key uncertainties associated with the actuarial estimation and the sensitivities of the estimation to changes in key assumptions. Of particular note are the uncertain actual experience for short-term claims and serious injury claims and WPI assessments. The independent actuary noted the following:

- The outcome of Summerfield and the claim impacts if Summerfield is not successfully appealed – RTWSA is seeking to appeal the Summerfield decision in the High Court, and the outcome of this may not be known for 6-12 months. The impacts of not being successful with the appeal (or having the decision's impacts overturned by legislative change) are financially very significant.
- Legal precedent risk – risks here relate to the possibility of decisions that are unfavourable to the Scheme or the culture and behaviour of its participants. There are still many claims in dispute seeking to access higher levels of benefits than RTWSA has determined. Despite a number of 'key cases' having been resolved over recent years, there has not been any noticeable reduction in the number of disputes, and new avenues of challenge to the operation of WPI continue to emerge. This risk is likely to remain until a clear and decisive legal position is established as to how the Scheme should operate in practice.
- WPI assessments – under the RTW Act, there are significant differences between the compensation available to claims above the 30% WPI threshold and those below. This factor, combined with the lump sum for future economic loss payable to short-term claims, means there is pressure on WPI assessments. The Scheme will face significant financial consequences if this leads to more claims getting over the 30% WPI threshold. The robustness of the WPI assessment rules under the legislation is an important area of risk.
- Serious injury claim costs – these claims are entitled to benefits for life and key uncertainties include:
  - claim numbers – these include the impact of late emerging claimants, as well as the large number of outstanding serious injury application disputes and WPI disputes
  - life expectancy – the future life expectancy of serious injury claimants has a significant impact on future cost projections
  - cost escalation – the potential for future cost escalation in a number of medical, care and treatment related items.
- Claim durations for short-term claims – between 2018 and early 2020 there was a deterioration in claim durations – both more claims reaching the threshold to be counted as income support claims and longer durations on benefit due to slippage in return to work outcomes. Although these trends have reversed over the last 12 months it is not yet clear what return to work rates will be sustained over time.
- Outcomes for claims with current disputes – risks here include the possibility of decisions that are unfavourable to the Scheme, as well as the behavioural consequences of so many disputes remaining. Open dispute numbers remain high and more claims are moving into the later stages of the dispute resolution process.
- Hearing loss claim numbers – there has been unprecedented growth in hearing loss claim numbers in the last two years. If the upward pressure continues then further increases in costs are likely.
- Economic environment – there is considerable uncertainty in financial markets, and this has impacted the discount rates used to determine the valuation results.
- COVID-19 impacts – while the impacts on claim outcomes to date have been modest, there is still uncertainty about how COVID-19 will impact over time.

We note there are still key areas of the RTW Act being tested in the courts, and it is still not clear how many serious injury claims will ultimately emerge.

Audit approach to the estimate of outstanding claims liability

Due to the nature and significance of the Scheme estimate of outstanding claims liability, our audit approach included focused review of the Scheme actuary's projections by an independent professional actuary engaged by the Auditor-General. The nature and impact of the legislative changes continued to warrant a high level of audit scrutiny, particularly at the start of the new Scheme arrangements.

Our audit did not identify any issues or variations from expected practice that would suggest the estimate of outstanding claims liability is unreasonable or that the estimate for 30 June 2021 should be adjusted in any material way. The inherent uncertainty associated with the new Scheme arrangements, however, prevents the degree of certainty over the estimate that would warrant no comment or clarification to the audit opinion.

The key valuation uncertainties in this valuation are:

- the outcome of Summerfield
- uncertainty around the ultimate number of serious injury claims
- legal precedent risk
- high levels of disputes and delays in the dispute process
- the impact of COVID-19
- the increasing number of hearing loss claims
- the significant leverage effect due to the long tail nature of the serious injury claims.

The uncertainty in the Scheme has increased in the current valuation. We agree with the Scheme actuary's view that that the uncertainty in the Scheme valuation will remain high until a clear and robust legal definition of how the Scheme should operate is set in practice.

Probability of sufficiency

As disclosed in note 10 of RTWSA's financial report, the estimate of outstanding claims liability is determined by reference to a 75% probability that the provision for outstanding claims will be adequate. With the uncertainty of the Summerfield case, a large number of open disputes and the slow rate of dispute resolution, there is still considerable uncertainty in the Scheme. RTWSA has adopted the actuary's higher risk margin of 16.5% as at 30 June 2021 (14.3% in 2020), so that the net liability is adequately provided to around a 75% probability of sufficiency. RTWSA's performance statement, authorised by the Treasurer, requires it to estimate its claims liabilities using a risk margin with at least 65% probability of sufficiency for the net liability. The Australian Prudential Regulation Authority sets a minimum of 75% in Prudential Standard GPS 320 *Actuarial and Related Matters*. Public sector entities are not bound by this requirement, but the parameters adopted by RTWSA are consistent with the requirements of the standard.

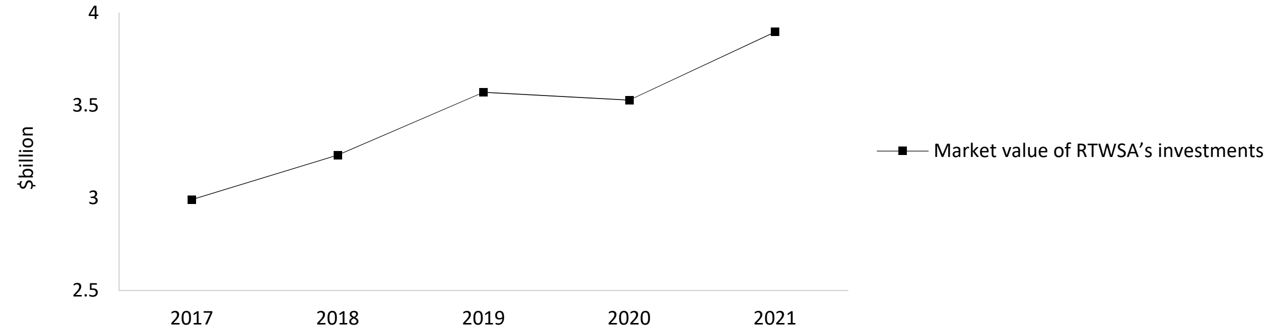
Investments

RTWSA's investment portfolio of \$3.896 billion (\$3.528 billion) mainly comprises investments in pooled funds, discrete mandate funds and fixed-term deposits. RTWSA has appointed the National Australia Bank to be custodian of the pooled funds and discrete mandate funds.

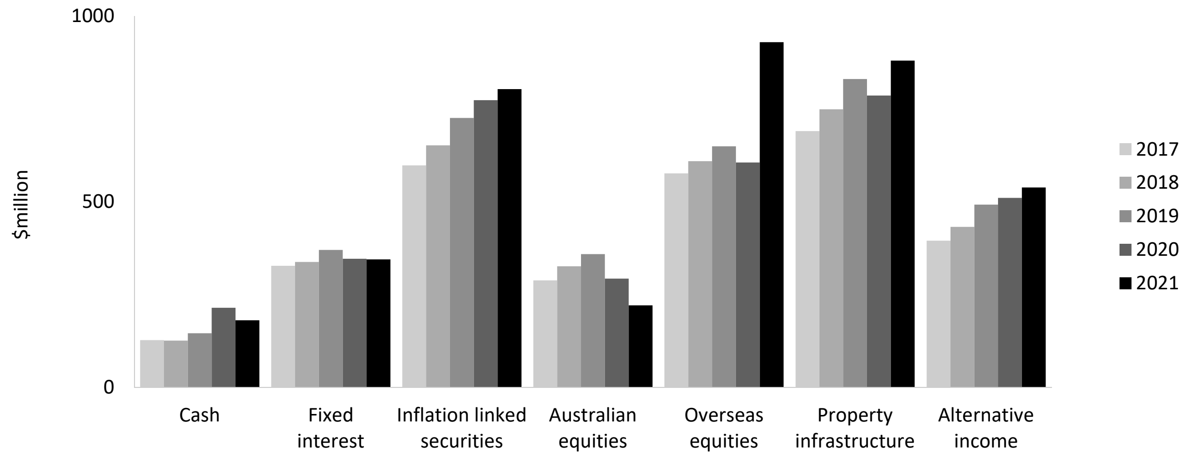
Investment decisions

RTWSA investment officers implement its investment strategy, which involves rebalancing the investment portfolio held in pooled funds, discrete mandate funds and fixed-term deposits to minimise risk and achieve target returns. The investment officers also receive expert advice on investment matters from an external consultant.

The following chart shows the market value of RTWSA's investments for the five years to 2021.



The following chart shows RTWSA's investments by asset class for the five years to 2021.



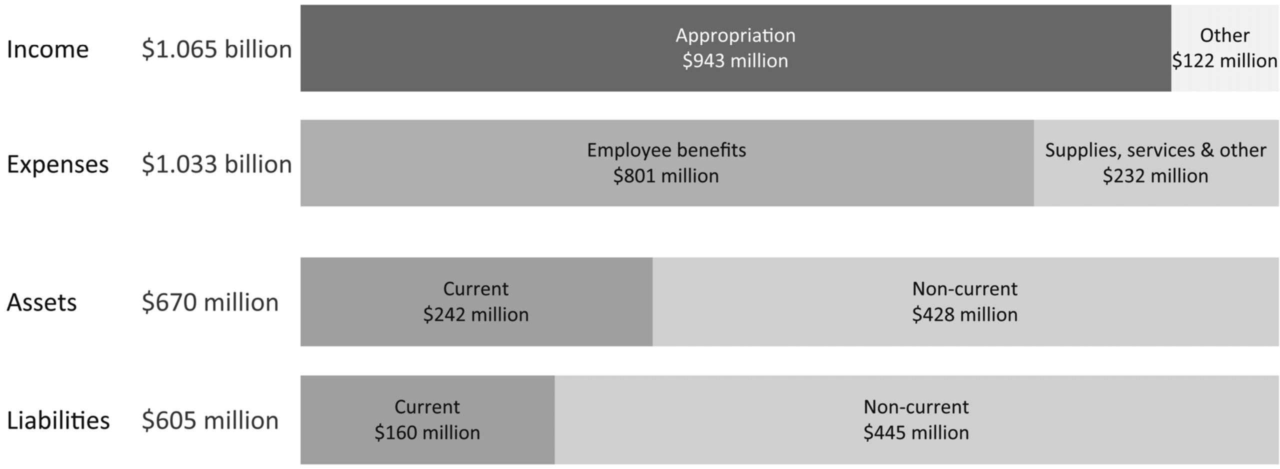
According to RTWSA, the return on investments measured in line with Australian Investment Performance Standards for the last five years to 2021 was as shown in the following table.

	2017	2018	2019	2020	2021
Return on investments	7.7%	7.5%	8.4%	0.0%	11.8%
RTWSA Board of Management approved targeted return	4.9%	4.6%	4.2%	2.2%	6.3%

The current long-term objective for the investment program is a return of CPI plus 2.5% as approved by RTWSA's Board of Management. Other than in 2020, the actual return on investments has exceeded these targets.

South Australia Police (SAPOL)

Financial statistics

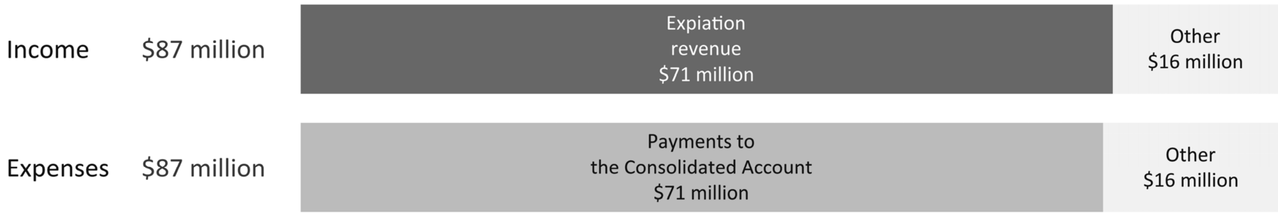


4,707.8
Police Act FTEs

1,165.5
Protective security officers and unsworn FTEs

$801 million
Total employee benefits expenses

Administered items



Significant events and transactions	— SAPOL continued to play a significant role in responding to the impacts of the COVID-19 pandemic in South Australia. This has resulted in unbudgeted increases to expenditure, particularly supplies and services expenses. — The South Australia Police Enterprise Agreement 2021 was approved in March 2021 and took effect on 1 January 2021. The Enterprise Agreement provides for 2% annual increases from 1 January 2021. — SAPOL procured key software to replace the Firearms Controls System. System design and development has started and is expected to be implemented by December 2022.
Financial report opinion	**Unmodified**

Controls opinion findings	The number of employees with an approved individual performance plan deteriorated.
Other audit findings	— Controls to ensure the accuracy of workers compensation and additional compensation claim payments could be improved. — There are opportunities to strengthen IT controls for the expiation notice system.

Functional responsibility

SAPOL is an administrative unit established under the *Public Sector Act 2009* and operates under a legislative framework prescribed by the *Police Act 1998*.

SAPOL's functions are to:

- uphold the law
- preserve the peace
- prevent crime
- assist the public in emergency situations
- coordinate and manage responses to emergencies
- regulate road use and prevent vehicle collisions.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- payroll
- workers compensation and additional compensation
- cash
- revenue from fees and charges
- expenditure
- fixed assets
- expiation revenue.

Controls opinion

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

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Commissioner of Police (the Commissioner). The main findings and SAPOL's responses are discussed below.

Controls opinion findings

The number of employees with an approved individual performance plan deteriorated

SAPOL implemented a performance management system, iEngage, in November 2019.

In August 2020, we wrote to the Commissioner noting that about 76% of SAPOL employees had an active individual performance plan (IPP). At the time, this represented a significant improvement from the 50% of employees who had an IPP in May 2019.

At March 2021, we noted that the percentage of active IPPs deteriorated to 70%, although we recognised that all the staff who did not have an active IPP in 2019-20 did have one in iEngage.

We appreciate the demand on SAPOL because of their responsibilities in response to COVID-19. Without an active IPP, however, employees may be unaware of the performance standards for their position, whether they are reaching them and how their performance could improve.

SAPOL implemented a new performance management system and framework in November 2019. While acknowledging the impact of COVID-19 in its response to our finding, SAPOL noted that an IT system error that resulted in inaccurate reporting of the status of IPPs, had also contributed to the deterioration of active IPPs. SAPOL advised that it is working with its IT provider to resolve the error and improve system reporting.

Other audit findings

Controls to ensure the accuracy of workers compensation and additional compensation claim payments could be improved

As at 30 June 2021 provisions for workers compensation and additional compensation totalled $163 million.

We reviewed SAPOL's controls over the processing of claim payments for both workers compensation and additional compensation and noted:

- the need to document a procedure for reconciling each claimant's income support calculation to the payroll system after each pay run. The reconciliation is important for ensuring the completeness and accuracy of claim payments
- the income support calculator, used by SAPOL to recalculate fortnightly claim payments, needs to be updated to recognise additional compensation earnings and certain leave codes. Until this occurs, SAPOL is dependent on manual adjustments to recalculate claims, increasing the risk of calculation error.

SAPOL responded that it has:

- drafted two new standard operating procedures covering the income support calculator to payroll system reconciliation, and expects the new procedures to be implemented by September 2021
- engaged an expert to review and update the income support calculator to incorporate pay and leave codes for additional compensation claimants. Testing has been completed and SAPOL is consulting with Shared Services SA. SAPOL anticipates completion by December 2021.

Opportunities to strengthen IT controls for the expiation notice system

The expiation notice system is used by SAPOL to adjudicate and issue expiation notices associated with road traffic and other infringements. We reviewed the IT general controls supporting it and noted the following:

- SAPOL's active directory password configuration settings did not meet the minimum requirements established in the Australian Government Information Security Manual (ISM). While the ISM is not mandatory for SA Government agencies, we consider it to be a best practice framework and encourage agencies to strive towards it
- SAPOL does have formal processes to identify, assess and apply security patches for the expiation notice system. Patches can be issued by the system provider/developer to address existing issues and provide fixes. Where security patches are not identified or applied, the risk of the integrity of the application or its underlying data being compromised increases.

SAPOL responded that:

- it would review and update its password policies in 2021-22 as part of its 2021-2023 Cyber Security Strategy
- an established patch management process exists within SAPOL. These practices and decisions will be formally documented by September 2021.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2021 $million	2020 $million
Income		
Appropriation	943	839
Intra-government transfers	81	108
Fees and charges	26	23
Other revenues	14	17
Total income	1 065	987
Expenses		
Employee benefits	801	836
Supplies and services	186	159
Other expenses	46	46
Total expenses	1 033	1 041
Net result	32	(54)
Total comprehensive result	32	(54)

	2021 $million	2020 $million
Net cash provided by (used in) operating activities	56	44
Assets		
Current assets	242	217
Non-current assets	428	439
Total assets	670	655
Liabilities		
Current liabilities	160	178
Non-current liabilities	445	445
Total liabilities	605	623
Total equity	65	33

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income increased by $77 million in 2021 to $1.065 billion. This increase is largely attributable to a $104 million increase to appropriation funding and a $3 million increase in fees and charges, offset by a $26.7 million decrease in intra-government transfers and a $3 million decrease in other revenues.

SAPOL receives appropriation funding based on annual budgeted expenditure, less estimated revenues from fees and charges and other sources. The increase in appropriation funding for 2021 reflects budgeted increases in operating expenditure associated with SAPOL's COVID-19 responsibilities.

Fees and charges increased by $3 million to $26.5 million ($23.4 million) due to the following:

- Firearms licence and registration fees increased by $1.3 million due to the number of firearms licences that were renewed for longer terms than the historical trend. There was also a 1.9% indexation of licence fees.
- Protective Security Services income increased by $898 000, due primarily to a new contract for protective security services and increased casual patrols due to COVID-19.
- Escort revenue increased by $515 000, mainly for escorting equipment for wind farms.

Intra-government transfers decreased by $26.7 million to $81.1 million. This was due mainly to a $28.1 million decrease in other contingency funding received from the Department of Treasury and Finance. In 2019-20 contingency funding of $28.1 million was received to cover salary and allowance increases, including backpay. These increases were approved under the *SA Police Interim Administrative Arrangement* signed in October 2019 for employees covered by the *SA Police Enterprise Agreement 2016*. The backpay was processed in 2020. No further additional funding was required for the current year.

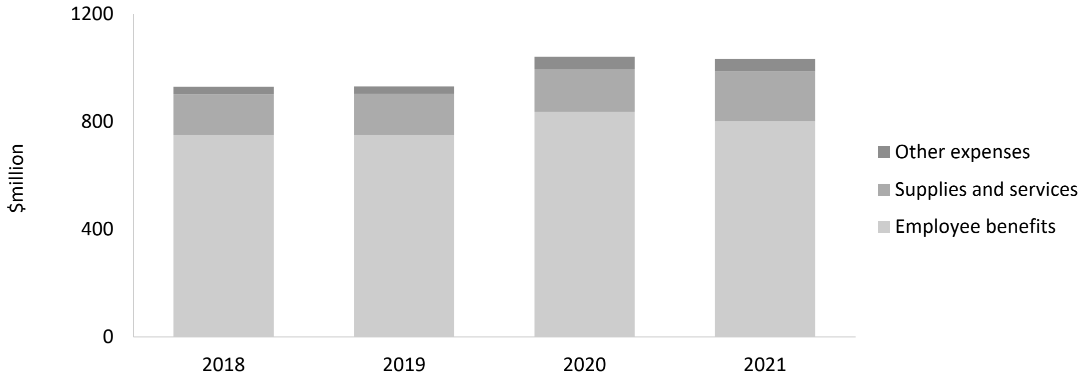
Other income decreased by $3 million to $14 million, largely driven by:

- a $1 million decrease in employee benefits recoveries due to a refund received in the prior year from RevenueSA for overpaid payroll tax

- a $1.1 million decrease in employee benefits recoveries from non-SA Government. In 2021 a joint task force between SAPOL, the Australian Federal Police and the Australian Criminal Intelligence Commission was suspended
- a $1.2 million decrease in goods and services recoveries, reflecting the once-off nature of certain recoveries recognised in the prior year.

Expenses

The following chart shows SAPOL's main expense items for the four years to 2021.



Total expenses decreased by $8.2 million to $1.03 billion in 2021, driven by a $35 million decrease in employee benefits expenses that was partially offset by a $27.1 million increase in supplies and services.

SAPOL has estimated that the additional policing required in response to COVID-19 increased its salaries and wages expense by about $17.9 million for 2021. Understanding the decrease in employee benefits expense requires an appreciation of the significant events impacting the expense for 2020.

In October 2019 the SA Police Interim Administrative Arrangement was signed, effectively extending the existing South Australia Police Enterprise Agreement 2016 to 30 June 2020. The existing enterprise agreement provided for a salary increase from 1 July 2018, with a further increase from 1 July 2019 approved in the interim agreement. The average salary increase was about 2.5% per annum. SAPOL was required to backpay eligible employees a total of $20 million. Salary and wages and related on-costs for 2020 included amounts attributable to this backpay.

The new South Australia Police Enterprise Agreement 2021 was approved in March 2021, resulting in a 2% average salary increase from 1 January 2021.

The decrease in employee benefits expenses was also impacted by the following:

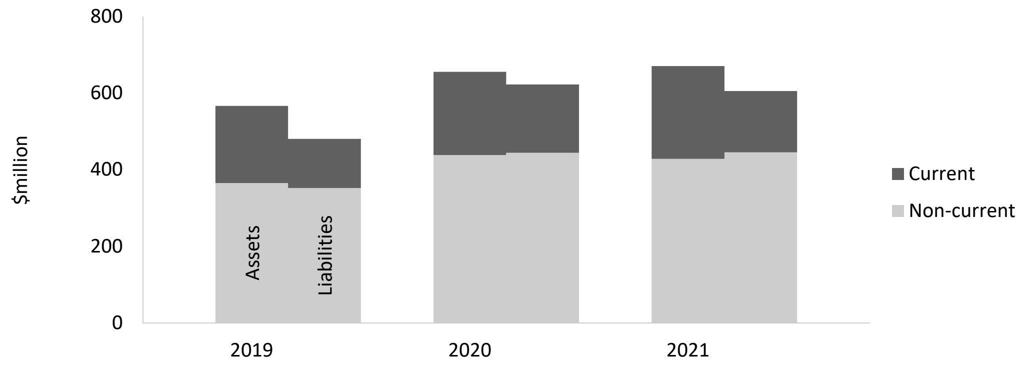
- a $12.6 million decrease in workers compensation expenses and a $13 million decrease in additional compensation expenses. These expenses are impacted by movements in the respective provisions. In 2021 the workers compensation provision was remeasured upwards by $25.8 million, which is $12.6 million less than the 2020 remeasurement expense. Similarly the additional compensation remeasurement for 2021 of $2.4 million was $13 million lower than the 2020 remeasurement. See 'Workers compensation provision' and 'Additional compensation provision' below for more information
- a $9.8 million decrease in police service leave expense. 2020 expenses included a lump sum accrual of 28 days leave for a large number of eligible employees

- a $7 million increase in long service leave expenses. Movements in long service leave expense are impacted by relative movements in the long service leave liability each year. The long service leave liability decreased by $13.1 million in 2020, and by a further $5.8 million in 2021. The difference between these movements explains the $7 million comparative increase in the long service leave expense for 2021.

The $27.1 million increase in supplies and services was due largely to COVID-19 related expenditure. Costs associated with the use of temporary agency staff increased by $8.5 million, while accommodation costs increased by $6.2 million to support employees working on border controls. Border control infrastructure included ATCO huts, marquees, generators, lighting and furniture. Cleaning costs increased by $2.4 million.

Statement of Financial Position

A structural analysis of assets and liabilities for the four years to 2021 is shown in the following chart.



Assets

Current assets increased by $25.5 million, driven by a $24.2 million increase in cash and cash equivalents and a $1.7 million increase in non-current assets classified as held for sale.

The increase in cash and cash equivalents included a $10.9 million increase in the Accrual Appropriation Excess Fund Account. Funds held in this account can be accessed with the Treasurer's approval in a financial year when cash requirements exceed the appropriation provided for the cost of items including employee related liabilities. The SAPOL operating account also saw a $13.3 million increase as a result of delays in spending on capital projects.

The increase in non-current assets classified as held for sale of $1.7 million relates primarily to the Stirling Police Station.

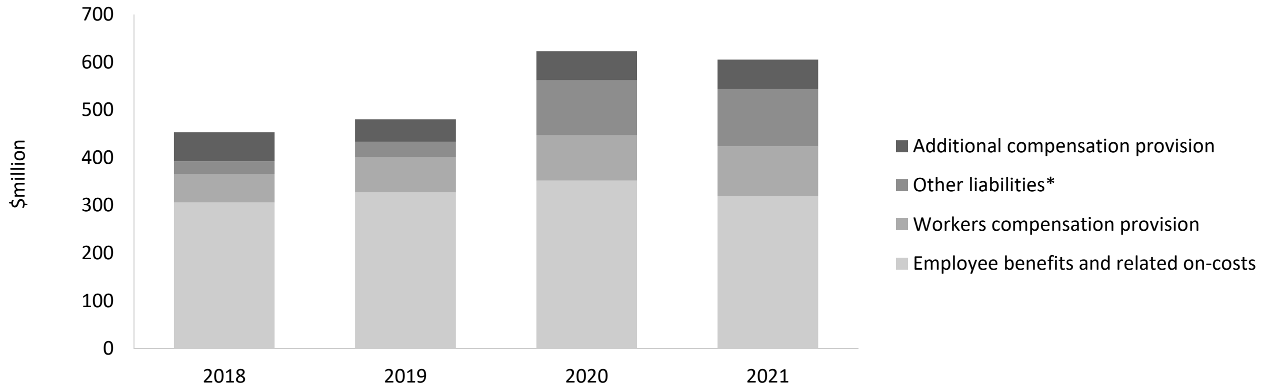
Non-current assets decreased by $10.9 million to $428 million due mainly to a decrease in property, plant and equipment of $14.2 million (excluding right-of-use assets), offset by a $3.3 million increase in intangible assets.

The decrease in property, plant and equipment (excluding right-of-use assets) reflects depreciation and amortisation expense of $21.2 million and the reclassification of $1.7 million of land held for sale (see above), partially offset by additions to capital works in progress of $9 million. Capital additions are made up of various projects, with the largest additions relating to the purchase of specialised vehicles of $1.4 million, a $1.5 million upgrade to the Police Operations Centre at Thebarton and a $754 000 upgrade to the police headquarters.

The increase in intangibles is due primarily to additions of $10 million to capital works in progress, offset by amortisation of expense of $7 million. Additions relate to Project Shield, the South Australian Government Radio Network and replacing the firearms control system.

Liabilities

The significance of employee-related liabilities to total liabilities is shown in the following chart.



* Other liabilities include lease liabilities recognised for the first time.

Total liabilities decreased by $17.3 million to $605 million, a decrease of 2.8%.

The decrease is largely attributable to:

- a $25.8 million decrease in employee benefits liabilities, explained further below
- partially offset by an $8 million increase in the provisions for workers compensation, explained further below.

Employee benefits liabilities

Employee benefits liabilities decreased by $25.8 million due mainly to an $18.9 million decrease in accrued salaries and wages, reflecting the timing of salary and wage payments, and a $5.8 million decrease in long service leave liabilities.

The decrease in long service leave liabilities is attributable to the impact of changes in the actuarial assumption used to calculate the liability of $9.6 million, partially offset by the impact of salary rate increases and changes in leave balances as employees take leave.

Workers compensation provision

The workers compensation provision increased by $8 million to $102.7 million following a 1.3% increase in seriously injured worker (SIW) claims and a 25.5% increase to non-SIW claims.

The increase in non-SIW claims is due primarily to a 71.3% increase in income support benefits, with higher than average claim payments and more claimants on income support payments. SAPOL has seen an increase in income support payments as a result of increased psychological injuries claimed, resulting in longer term absences. Psychological injuries claims can result in long periods of incapacity and are difficult to find suitable alternative duties for, which in turn impacts return to work rates. COVID-19 has also presented uncertainty and has the potential for indirect impacts such as increased work stress, leading to more claims.

There is a significant degree of uncertainty associated with estimating future claim and expense payments. The liability is impacted by agency claim experience relative to other agencies, average claim sizes and other economic and actuarial assumptions.

Additional compensation provision

The additional compensation provision increased marginally to $61.1 million, reflecting a $2.4 million increase in the provision as a result of remeasurement by the consulting actuary, largely offset by claim payments of $2.2 million.

Administered items

Expiation fees

Expiation fees are collected by SAPOL on behalf of the SA Government. SAPOL treats the collection of expiation revenue under the *Expiation of Offences Act 1996* as an administered item and pays the revenue to the Consolidated Account. Expiation fees collected increased by $7.3 million to $71 million, marginally lower than the original budgeted amount of $74 million.

Total expiation revenue for 2021 was impacted by COVID-19, which has resulted in fewer vehicles on the roads, and the temporary suspension of red light camera expiation notices during the year.

In October 2020, the Supreme Court of South Australia quashed an appellant's conviction under rule 60 of the *Australian Road Rules.* The Court concluded that SAPOL had not tested a road traffic photographic detection device in line with the relevant provisions of the Road Traffic (Miscellaneous) Regulations 2014. As a result of the judgement, expiation notices issued from red light cameras prior to October 2020 but not yet paid at the time of Court ruling, were withdrawn. The value of expiation notices withdrawn totalled $3.05 million. Issuing expiation notices captured by fixed red light cameras was suspended. While a manual testing solution was implemented in October 2020, in late January 2021 SAPOL implemented a technical solution to its testing procedures to comply with the Regulations.

The impacts of COVID-19 and the temporary suspension of fixed red light camera notices were offset by increases in expiation income as a result of CPI indexation, and the introduction by the Department of Primary Industries and Regions (PIRSA) of a zero tolerance approach to fruit fly offences effective 1 July 2019. Fruit fly expiation notices totalled $926 000 for 2021. Historically, verbal cautions were issued at fruit fly roadblocks. Due to the fruit fly outbreak experienced in the State, PIRSA implemented a zero tolerance approach and, as a result, SAPOL has been processing PIRSA issued expiation notices where fruit is detected in line with the *Plant Health Act 2009.*

Victims of Crime levy

SAPOL collects money associated with the *Victims of Crime Act 2001* from the expiation of offences included on expiation notices issued by police officers and other authorised officers. The *Victims of Crime Act 2001* provides for paying compensation to people who suffer injury as a result of criminal acts and recovering the money from offenders. SAPOL collects money and remits it to a special interest bearing deposit account managed by the Attorney-General's Department.

In 2020-21 Victims of Crime levy income received and paid to the Attorney-General's Department totalled $12.6 million, which was less than the original budgeted amount of $13.2 million. As the Victims of Crime levy is paid on expiation notices, the impact of COVID-19 and the Supreme Court judgement on expiation fee revenue contributed to reduced Victims of Crime levy income being collected compared to budget. The shortfall is partially offset by an increase in the Victims of Crime levy from $60 to $90 on 1 January 2021.

Further commentary on operations

Staffing

SAPOL employed the following active FTEs by category as at 30 June for the past two years.

	2021 FTEs*	2020 FTEs*
Police Act 1998 employees	4 707.8	4 701.0
Unsworn employees	980.0	964.0
Protective Security	185.5	134.0
Total	5 873.3	5 799.0

* FTE data was supplied by SAPOL and is unaudited.

COVID-19 impacts

On 22 March 2020 the Commissioner declared a major emergency under the *Emergency Management Act 2004* (the EM Act) to reduce the spread of COVID-19 within South Australia. Under section 14 of the EM Act, the person holding or acting in the position of Commissioner is appointed as the State Coordinator for declared emergencies. A major emergency declaration under section 23 of the EM Act gave the Commissioner, as State Coordinator, and any authorised officers broad powers to manage and coordinate the response to, and recovery from, the outbreak of COVID-19 within South Australia. Under section 19 of the EM Act, SAPOL is the coordinating agency for all emergencies, unless a different body or organisation is deemed the coordinating agency due to an emergency of a specific kind.

SAPOL continued to play the following significant role in responding to the impacts of COVID-19 in South Australia during the year:

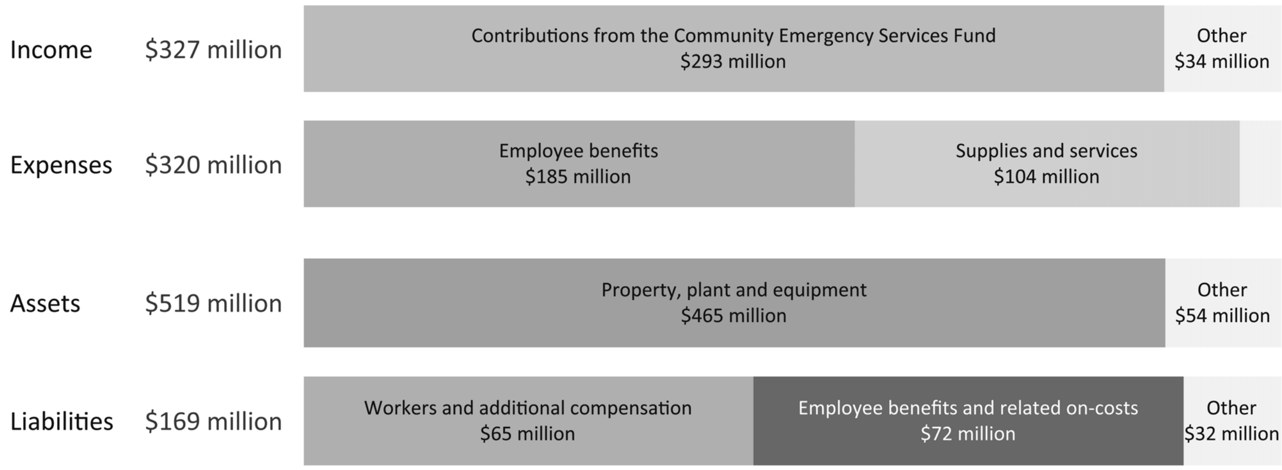
- up to 13% of all operational police personnel on any given day were diverted from normal duties to supporting the State Coordinator
- additional police resourcing and the redirection of resourcing required to respond to COVID-19, driven by operational requirements including:
  - additional police resources required to staff the Police Operations Centre
  - providing executive support to SA Health and liaison officers to the State Control Centre
  - establishing and maintaining checkpoints at State borders and at the Adelaide Airport
  - checking compliance with restrictions on non-essential business, public activities and gatherings

  - providing a policing and security overlay at hotels used by SA Health for supervised quarantine
  - maintaining an online platform to manage cross-border travel applications and establishing staffing to support the Central Assessment Unit that administers approvals
  - centrally organising the above activities in a dedicated Police Operations Centre
- establishing a Business Continuity Executive Management Group that meets regularly and collates information daily to permit the staffing of COVID-19 functions while ensuring the delivery of essential policing services across the State. It also makes recommendations to the Commissioner, including to cancel or cap leave to meet service delivery requirements. As at 30 June 2021, SAPOL had lifted limits on leave with the exception that only 14% of its sworn workforce in each business unit may be on leave at any point in time
- incurring additional unbudgeted COVID-19 expenditure in employee benefits and supplies and services. SAPOL estimates that its response to COVID-19 impacts during the year increased salaries and wages expense by $17.9 million and supplies and services expenses by $29.8 million. Supplies and services expenses increased due to additional cleaning and the increase in travel and accommodation costs associated with border control. Temporary agency staff were engaged to assist with continual service delivery
- delaying a number of capital projects because staff were reallocated to COVID-19 duties
- due to the high level of concern about community transmission in November, closing police stations with the exception of 24/7 stations fitted with protective screens during the lockdown. SAPOL also temporarily suspended static and block random breath test operations during this period.

COVID-19 will continue to impact SAPOL's operations in 2021-22. The expected impacts are difficult to quantify and are influenced by the timing of South Australia returning to business as usual. Key expected impacts are additional employee benefits expenses and supplies and services expenses associated with responding to the pandemic and maintaining a safe work environment.

South Australian Fire and Emergency Services Commission (SAFECOM)

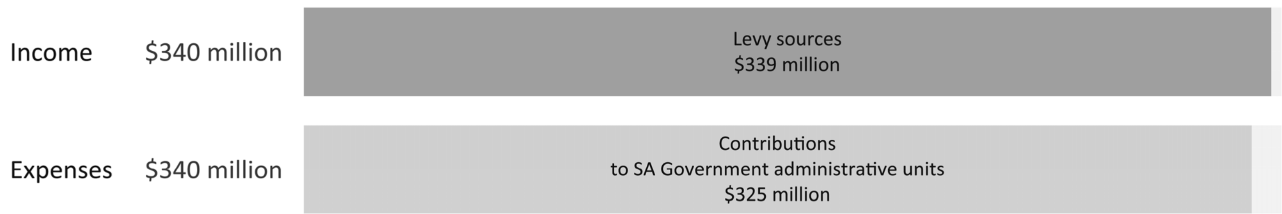
Financial statistics



1,404
Total employees

15,150
Total volunteers

Administered items



Significant events and transactions

- A new purpose-built Emergency Services Command Centre is under construction by a private company. The project is managed by the Department for Infrastructure and Transport. Practical completion and occupation is scheduled for November 2021.
- The sector progressed recommendations and actions related to the independent review into the 2019-20 bushfires. $6.8 million of $60.5 million allocated over six financial years to 2024-25 has been spent to progress actions. We were advised that all actions recommended to be completed before the next bushfire season were completed.
- There was a $25 million reduction in contributions from the Community Emergency Services Fund for the South Australian Country Fire Service, after receiving an additional $19 million in once-off funding for extraordinary bushfires in 2019-20.

	— There was a $12 million increase in funding for the South Australian Metropolitan Fire Service from the Community Emergency Services Fund for productivity and efficiency increases in the 2017 enterprise bargaining agreement, budget measures and capital carryovers. — Total workers compensation liabilities reduced by $8 million due to a reduction in the number of known and incurred by not yet reported claims, and a reduction in the average claim size and cost. — $37 million of capital work in progress assets became operational during the year, including $24 million of new vehicles and $10 million in new or refurbished buildings. A further $39 million of purchased assets were progressing to installation.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— Further work is required to ensure that asset management practices are adequate across the sector and consistent with best practice. — The emergency services sector does not have a current, documented strategic IT plan or a specific IT risk management plan. — Evidence to support the completion of capital works/receipt of goods prior to payment was not retained. — Bona fide certificates and leave return reports were not reviewed promptly.

Functional responsibility

SAFECOM is established by the *Fire and Emergency Services Act 2005*, which also defines the emergency services sector (the sector) as:

- SAFECOM
- South Australian Country Fire Service (SACFS)
- South Australian Metropolitan Fire Service (SAMFS)
- South Australian State Emergency Service (SASES).

SAFECOM's legislative functions include the development of strategic and policy frameworks across the sector, review and consultation roles. They also include responsibility for corporate governance across the emergency services sector. SAFECOM also provides for the effective allocation of sector resources and has a leadership role from a strategic perspective in statewide emergency management.

SAFECOM administers the Community Emergency Services Fund (the Fund), the main source of funding for all emergency services sector organisations (ESOs).

Scope of the audit

Audit of the financial report

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

The audit included access to systems and information maintained by SAFECOM and the ESOs to conduct relevant financial transaction and control compliance tests.

Specific areas of audit attention in 2020-21 included:

- income
- expenditure
- payroll, including workers compensation
- cash and cash equivalents
- non-current assets
- leases and right-of-use assets
- asset management
- governance, planning and reporting
- legal compliance (including legislative changes)
- financial accounting
- volunteer accounting
- the Fund
- follow-up of the independent review into bushfires
- review of arrangements for the new emergency services command centre.

We considered internal audit activities when planning and conducting the audit.

We made use of the work performed by internal audit in relation to financial management compliance programs.

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

There were no significant findings for our controls opinion work at SAFECOM.

Other audit findings

Asset management

SAFECOM and ESOs are responsible for managing $468 million of consolidated non-current assets as at 30 June 2021.

These assets include $169 million of vehicles, representing fire-fighting appliances, communication trucks and other logistical appliances, and $134 million of mostly purpose-built buildings such as SAMFS fire stations, SACFS brigade sites and SASES unit facilities built and operated across the sector. Supporting this vital infrastructure are supporting systems and assets such as communication and computer equipment, protective assets including uniforms/breathing apparatus and various equipment to respond to emergencies and protect staff, volunteers, life and property in South Australia.

The sector's assets are strategically decentralised over the State and are critical to achieving emergency response objectives. The unexpected failure of assets supporting emergency response actions at critical times could impact on the ability of agencies to respond to emergency situations. It is important that sector asset management is adequate and moves towards best practice.

The Department for Infrastructure and Transport (DIT) has developed a Strategic Asset Management Framework (SAMF) as guidance for managing SA Government buildings, using asset management practices that are appropriate to them and that align with a recognised best practice approach – the International Standard on asset management (ISO 55000). While the framework focuses on buildings, the requirements and concepts in ISO 55000 are equally applicable to vehicles and other important asset categories to optimise the value of an organisation's assets.

The results of our 2019-20 audit revealed that the emergency services sector did not have an established asset management policy, framework or plans consistent with the DIT SAMF. While various asset management activities were responsibly undertaken, such as procurement, forward planning, breakdown maintenance and individual asset activities, an overall strategy and sector asset management plan did not exist.

We recommended that the sector conduct a gap analysis of its asset management practices and develop appropriate strategies and documentation to optimise assets, including an asset management policy, framework and plans. In response, SAFECOM recognised the importance of sound asset management practices and acknowledged that substantial work is required to develop these documents within SAFECOM and each agency.

We reviewed the progress made in our 2020-21 audit and found that the sector had progressed its asset management activities.

A draft SAFECOM SAMF was prepared and gaps in existing strategic asset management were considered as part of an expected next steps work program. We reviewed the draft SAMF and found that it provides a context for strategic asset management, sets out expectations and concepts for asset management and anticipates further development across the sector. We are also aware that agency asset management systems, plans and activities are in development to strengthen asset management towards best practice.

While the draft SAFECOM SAMF states that asset management strategies will be developed, it does not provide any detail on how this is expected to occur or provide guidance on how strategy development will be formulated. These actions need to align with planning, monitoring and reporting across organisations and at strategic or operational/agency levels. The draft SAMF also has sections that are yet to be developed and that need to be further considered before being finalised and approved.

We also identified that a formal gap analysis between existing asset management practices and ISO 55000 across all agencies still needs to be fully completed. We acknowledge that some analysis and consideration of gaps was undertaken while preparing the draft SAMF and assessing existing asset management practices.

We recommended that SAFECOM and the ESOs build on the work already done to:

- complete the gap analysis against ISO 55000
- develop project work plans, responsibilities and time frames for improving asset management
- complete the SAMF for approval
- develop an asset management policy, or align existing policies with the SAMF
- develop an overall strategic asset management plan for the sector
- develop agency or asset class asset management plans
- integrate risk management, monitoring and reporting into the Board, standing committees and leadership forums
- consider existing internal capability and develop appropriate training programs for staff to successfully move towards asset management best practice, and manage necessary change management programs.

In response, SAFECOM advised us that an asset management action plan with time frames was developed to address our recommendations. It further advised that:

- the sector will consider engaging a consultant to perform an asset management gap analysis
- the draft SAMF and sector asset management policy will be progressed and considered by Executive later in 2021
- asset management plans are being progressed by agencies
- the sector has established a Strategic Asset Management Working Group to provide governance oversight and have a continuous improvement focus. The group will report to the Board and the Risk and Performance Committee.

Information technology – strategic and risk management plans

Premier and Cabinet Circular PC030 *Protective Security in the Government of South Australia* and the South Australian Protective Security Framework (SAPSF) detail the protective security policy requirements for the SA Government. It is the responsibility of the accountable authority to ensure their agency has the appropriate protective security policies and procedures in place to implement the requirements of the SAPSF and educate staff on their application.

We found that the sector does not have a current, documented IT strategic plan or IT risk management plan.

While other plans and sector risk registers exist and are used in the ESOs and central IT support teams, it is important that IT specific, focused plans be developed, implemented, monitored and reported on to ensure IT systems are effective and support agency objectives, and that risks are managed.

We recommended that an IT strategic plan and IT risk management plan be developed, and approved, and that appropriate governance arrangements formalised to monitor the achievement of the plans.

SAFECOM acknowledged the need for an IT strategic plan but advised us that it could not deliver this within its existing resources and/or capability base. An external provider could deliver an IT strategic plan, and SAFECOM will prepare a business case to evaluate the benefit, cost and risk associated with this. The business case will determine if funding can be sourced to develop the plan externally or whether a scaled-down IT strategy will be produced internally.

SAFECOM also agreed that an IT risk management plan should be developed and will progress this in 2021-22.

SAFECOM advised that both the IT strategic plan and IT risk management plan will incorporate appropriate governance and oversight arrangements.

Capital works in progress and assets

We identified a lack of retained evidence to support the completion of works/receipt of goods prior to payment.

In discussions with SAFECOM and the ESOs, we are aware that visual inspections at sites may occur where possible. However, where this is relied on to verify receipt of goods or assets, adequate records should be kept or created to ensure the agency has received value before payment is certified and disbursed.

We recommended that management retain evidence to support that works are completed or goods received prior to approval and payment to vendors.

SAFECOM advised us that there is a practical reliance on volunteers providing assurance of goods received, coupled with regional headquarters verifying purchases prior to payment. For larger cost acquisitions that are required from overseas and moved through Australian for fit-out, photographic evidence is generally provided by appropriate delegates prior to the approval of invoices.

For vehicles, a visual inspection is performed and possession records maintained before payment for a stage of fit-out is made. Greater capture of these documents will be obtained through asset management roles and programs currently embedded within the SACFS.

Bona fide and leave returns not reviewed promptly

SAFECOM's bona fide and leave returns procedure requires each payment delegate to review and certify fortnightly bona fide certificates and leave return reports within one month of the pay period to which they relate. Certification of these reports provides SAFECOM with assurance that:

- only valid employees are paid
- employees are paid in line with the terms of their employment
- all leave taken is recorded in the payroll system and therefore deducted from the employee's remaining leave balance.

The results of our audit revealed that, across SAFECOM, SACFS and SASES, 36 bona fide certificates from a sample of 232 (18%) and 31 leave reports from a sample of 107 (29%) were not reviewed. None of the 107 leave return reports had been reviewed within the one month policy time frame. Further, our review of SAMFS leave return reports identified an average approval time of 57 days. We have raised these issues with the sector previously.

We recommended that these reports be reviewed promptly as required and within the prescribed time frames.

In response, SAFECOM advised us that it will continue to reinforce to managers the importance of certifying bona fide certificates and leave reports in line with policies and procedures.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated emergency services sector

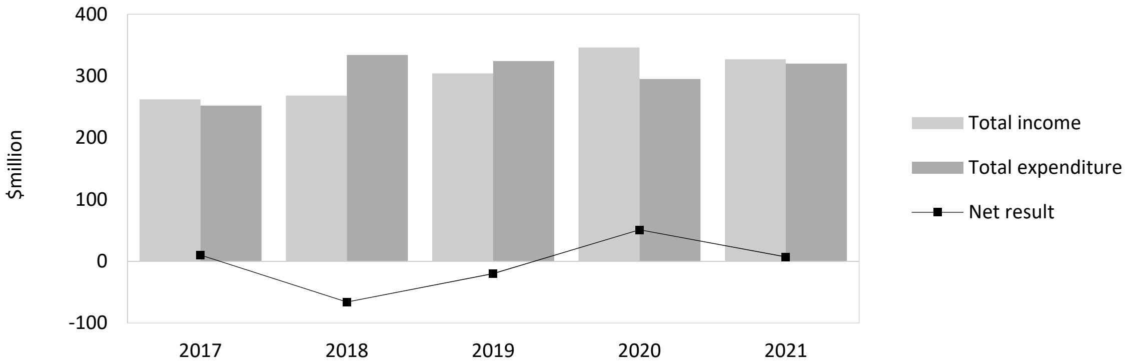
	2021 $million	2020 $million
Income		
Contributions from the Fund	293	303
Other income	34	43
Total income	327	346
Expenses		
Employee benefits	185	155
Supplies and services	104	109
Depreciation and amortisation	27	25
Other expenses	4	6
Total expenses	320	295
Net result	7	51
Other comprehensive income	-	71
Total comprehensive result	7	122
Net cash provided by (used in) operating activities	35	35
Net cash provided by (used in) investing activities	(31)	(30)

	2021 $million	2020 $million
Assets		
Current assets	51	54
Non-current assets	468	448
Total assets	519	502
Liabilities		
Current liabilities	61	51
Non-current liabilities	108	108
Total liabilities	169	159
Total equity	350	343

Statement of Comprehensive Income

Net result

The following chart shows the total income, total expenses and consolidated net result for the past five years. It illustrates that total contributions from the Fund and other income have largely been sufficient to meet total expenses.



The reduced $7 million ($51 million) net result in 2021 is mainly due to a decrease in contributions from the Fund coupled with an increase in employee benefit related expenses, which are all explained further below. The net result surpluses in the last two years follow net result shortfalls in 2019 and 2018, with both due mainly to the increase in the workers compensation and additional compensation provisions, both of which have a non-cash impact on the net result.

Fluctuations in net result are normal for the emergency services sector based on funding models, and can be impacted by the level of activity due to emergency situations in a reporting cycle.

Income

The main source of revenue for the consolidated sector is contributions from the Fund of $293 million ($303 million), which account for 90% of total income.

In 2021, total income decreased by $19 million to $327 million due mainly to:

- a $25 million reduction in contributions from the Fund for the SACFS after receiving an additional $19 million in once-off funding for extraordinary bushfires in 2019-20

- a $3 million decrease in fees and charges, mostly as a result of SAMFS industrial action related to non-reporting of fire alarm attendances and incident cost recoveries
- offset by a $12 million increase in funding for the SAMFS for productivity and efficiency increases within the 2017 enterprise bargaining agreement, budget measures and capital carryovers.

In addition, while SA Government grants, subsidies and transfers only decreased by $2 million, significant differences in total income received from these sources were experienced by SAFECOM, SASES and SAMFS as follows:

- SAFECOM received an additional $7 million in SA Government grants, subsidies and transfers, predominantly for:
  - a $4 million cash injection
  - a $2 million recovery from SA Health for the activation of the State Emergency Information Call Centre Capability.
- The SASES received an additional $3 million in intra-government transfers for 38 volunteers employed to support COVID-19 programs and $2 million in additional transfers for capital programs.
- The SAMFS's income from SA Government grants, subsidies and transfers reduced by $13 million to $4 million in 2020-21. In 2019-20 funding was provided for extraordinary bushfire costs, 2017 enterprise bargaining agreement costs and a cash injection.

Expenses

Total expenses increased by $25 million to $320 million mainly as a result of a $30 million increase in employee benefits expenses, partially offset by a $6 million decrease in supplies and services.

Employee benefits expenses

Employee benefits expenses of $185 million ($155 million) represent 58% of total expenses. In 2020-21, employee benefits expenses increased by $30 million due mainly to the impact of changes in workers compensation expenses.

Workers compensation expenses have reduced in each of the past two years due to workers compensation provisions being remeasured by an independent actuary. The resulting negative expense adjustment in 2020-21 of $1.2 million was lower than the negative expense reduction of $24 million in 2019-20. The movements in the workers compensation provision are explained under 'Statement of Financial Position' below.

Salaries and wages for the consolidated sector increased marginally by $2 million, mainly as a result of a $2 million increase in SASES salaries and wages as a result of employing 38 SASES volunteers to support COVID-19 and bushfire patrol activities.

The employment of an additional 14 FTEs across the remainder of the sector also contributed to increased salaries and wages. See commentary under 'Further commentary on operations' below for an explanation of this increase in FTEs.

The number of employees whose normal remuneration is equal to or greater than the base executive remuneration level requiring disclosure this year was 230 (219). The aggregate remuneration paid or payable for those employees was $41 million ($39 million). The increase largely reflects an additional 20 (40) SAMFS officers now included in the disclosure who fell below the minimum band in 2020, offset mostly by a reduction of 10 SACFS staff earning greater than the minimum band.

Supplies and services expenses

Supplies and services expenses across the sector decreased by $6 million to $104 million. This is due mainly to SACFS costs in responding to extraordinary bushfires in 2019-20 not being experienced to the same level of response in 2020-21, including:

- an $8 million decrease in aerial firefighting expenses
- a $3 million decrease in operational costs
- a $2 million decrease in vehicle expenses.

These decreases were offset by the following increases in supplies and services expenditure:

- a $4 million increase in communication costs
- a $1 million increase in new uniforms and protective clothing
- a $1 million increase in accommodation.

Statement of Financial Position

Assets

Property, plant and equipment assets increased by $20 million during the year to $465 million and represent 90% of total assets. The main asset classes held are land ($83 million), buildings ($134 million) and vehicles ($169 million) which account for 83% of property, plant and equipment.

The increase in assets of $20 million is mostly related to a $9 million increase in SACFS vehicles and SACFS right-of-use plant and equipment, including a leased SACFS water filtration plant to improve water quality and minimise the environmental impacts of water used in fighting bushfires, which were recognised for the first time in 2020-21 and also totalled $9 million.

Liabilities

Total liabilities increased by $10 million to $169 million.

Current liabilities of $61 million exceeded current assets of $51 million at balance date.

Cash and cash equivalents totalling $40 million are sufficient to meet current payables of $24 million. SAFECOM is funded through the Fund to meet expected cash flows for its current program delivery.

Payables

Total payables increased by $8 million due to an increase in accrued expenses of $8 million to $17 million, mostly related to $6 million of SACFS accrued expenses at balance date due to GST receivables, building maintenance, contractor fees and training courses.

Financial liabilities

Total financial liabilities increased by $8 million due to the first-time recognition of SACFS plant and equipment leases in 2020-21 for a leased SACFS water filtration plant to improve water quality and minimise the environmental impacts of water used in fighting bushfires.

Provisions

Total provisions decreased by $8 million due to a decrease in the workers compensation provision of $11 million, offset by a $3 million increase in the additional compensation provision.

The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2021. This includes a component for firefighter presumptive cancer compensation arrangements and other workers compensation, provided by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment.

The decrease in the workers compensation liability in 2021 was impacted by:

- an observed reduction in the number of known and incurred but not reported seriously injured cancer claims
- a reduction in the average claim size for non-seriously injured workers and average claim cost
- offset slightly by a decrease in the government bond rate used to discount expected future cash flows.

There is a significant degree of uncertainty associated with estimating future claim and expense payments. The liability is impacted by agency claim experience, average claim sizes and other economic and actuarial assumptions.

Statement of Cash Flows

Net cash provided by operating activities remained stable at $35 million ($35 million). Both cash generated from operations and cash used in operations decreased by $4 million.

The following table summarises the consolidated sector's net cash flows for the five years to 2021.

	2017 $million	2018 $million	2019 $million	2020 $million	2021 $million
Net cash flows					
Operating	32	23	38	35	35
Investing	(26)	(29)	(27)	(30)	(30)
Financing	-	-	-	(2)	(2)
Change in cash	6	(6)	11	3	3
Cash at 30 June	29	23	34	37	40

Highlights of the financial report – SAFECOM

	2021 $million	2020 $million
Income		
Contributions from the Fund	18	14
Other income	11	5
Total income	29	19
Expenses		
Employee benefits	9	9
Supplies and services	13	8
Other expenses	3	4
Total expenses	25	21
Net result	4	(2)
Total comprehensive result	4	(2)
Net cash provided by (used in) operating activities	8	(3)
Assets		
Current assets	12	6
Non-current assets	3	4
Total assets	15	10
Liabilities		
Current liabilities	4	3
Non-current liabilities	3	3
Total liabilities	7	6
Total equity	8	4

Statement of Comprehensive Income

Income

The main source of funds for SAFECOM is revenue from the Fund of $18 million ($14 million), which accounts for 62% of revenues. SA Government grants, subsidies and transfers increased by $7 million to $9 million, mostly due to intra-government transfers of $5 million related to a cash injection ($4 million) and COVID-19 support from SA Health for running the State Emergency Information Call Centre Capability ($3 million).

Expenses

Supplies and services expenses increased by $5 million to $13 million ($8 million). The increase in expenditure predominantly relates to assisting SA Health with COVID-19 responses for running the State Emergency Information Call Centre Capability ($2 million), and emergency alert related expenditure ($2 million).

Employee benefits totalled $9 million ($9 million) or 36% of total expenses.

Highlights of the financial report – administered items

	2021 $million	2020 $million
Income		
Revenues from levy sources	339	329
Other revenues	1	1
Total income	340	330
Expenses		
Contributions to SA Government administrative units	325	335
Grants and subsidies	6	3
Other expenses	9	8
Total expenses	340	346
Net result and total comprehensive result	-	(16)
Net cash provided by (used in) operating activities	(1)	(18)
Assets		
Current assets	15	15
Total assets	15	15
Liabilities		
Current liabilities	1	1
Total liabilities	1	1
Total equity	14	14

Community Emergency Services Fund

Contributions, by way of levies, are made by all land owners (including State and Local Governments) for fixed and mobile property to fund the provision of emergency services. Levies are collected in line with the *Emergency Services Funding Act 1998*. They are set to cover the budgeted emergency services expenditure for the coming financial year.

The levy on fixed properties is collected by RevenueSA and applies to capital values adjusted for location and land use. The levy on mobile properties is collected by DIT using the vehicle registration system. Once collected, these levies are paid into the Fund.

In addition, the SA Government has made direct contributions to the Fund in the form of remissions of levies (both fixed and mobile property) and concession subsidy payments through the Department of Human Services for eligible people.

The costs of collecting levies and expenses relating to administration are also met from the Fund.

Statement of Administered Comprehensive Income

For the year ended 30 June 2021 the Fund's net result was a deficit of $196 000 (deficit of $16 million).

Administered income

Levies and other revenues are collected in line with the *Emergency Services Funding Act 1998* to fund the budget of SA Government administrative units, grants and subsidies to various bodies and other payments approved by the Minister for providing emergency services. Emergency services levies increased by $11 million to $339 million.

The increase in levy revenue and changes in remissions are shown in the table below.

	2017 $million	2018 $million	2019 $million	2020 $million	2021 $million
Fixed property collections	219	221	146	155	164
Fixed property remissions*	25	25	119	119	119
Mobile collections	43	44	44	45	47
Mobile remissions*	3	3	4	4	3
Government concessions	6	6	6	6	6
	296	300	320	329	339

* Remissions are provided by the SA Government.

The net increase in receipts to the Fund reflects growth in the base expenditure and new initiatives, including funding for improvements to the Alert SA system, improved firefighting capacity and the SAMFS enterprise bargaining agreement.

Administered expenses

The following table shows the contributions made by the Fund to SA Government entities over the past five years.

	2017 $million	2018 $million	2019 $million	2020 $million	2021 $million
SAMFS	137	139	148	152	164
SACFS	76	77	93	113	88
South Australia Police	21	22	22	23	23
SASES	20	20	21	23	23
SAFECOM	12	15	18	14	18
Other SA Government entities	6	6	7	10	9
	272	279	309	335	325

Over the period shown contributions paid increased by $53 million, with most of the increase being received by the SAMFS ($27 million), SACFS ($12 million) and SAFECOM ($6 million).

In 2021, contributions to SA Government entities decreased by $10 million to $325 million, a 3% decrease. The decrease in expenditure was mainly due to a $25 million decrease in SACFS funding related to one-off funding for 2019-20 extraordinary bushfires, offset by an increase in SAMFS funding of $12 million.

Grants and subsidies totalling $6 million were paid to Surf Life Saving South Australia, Volunteer Marine Rescue and Shark Beach Patrol. This is an increase in grants of $4 million from 2019-20, mostly for Surf Life Saving South Australia which received $4 million ($1 million).

Other expenses included $7 million paid to RevenueSA for collection costs under the *Emergency Services Funding Act 1998* for administering the collection of fixed property levies. DIT was also paid $1 million in collection costs for collecting the mobile property levies.

Statement of Administered Financial Position

Net assets for the Fund at 30 June 2021 were stable at $14 million ($14 million).

At 30 June 2021, current assets totalled $15 million ($15 million), predominately comprising cash and cash equivalents of $13 million.

Further commentary on operations

Staffing

SAFECOM and the ESOs employed the following active FTEs as at 30 June for the past two years.

	2020 FTEs	2021 FTEs
SAFECOM	73	72
SAMFS	1 044	1 046
SACFS	167	180
SASES	68	106
Total	1 352	1 404

The increase of 38 SASES FTEs is mainly to support COVID-19 and bushfire patrol activities.

Volunteers

The SACFS and SASES had the following active volunteers as at 30 June for the past two years.

	*2020 FTEs	*2021 FTEs
SACFS	13 452	13 450
SASES	1 595	1 700
Total	15 047	15 150

* Volunteer data was supplied by SAFECOM and is unaudited.

Response to the 2019-20 bushfires

Independent bushfire review (Keelty Report)

In the summer of 2019-20, bushfires devastated many parts of South Australia and resulted in the loss of three lives.

The SA Government asked for an independent review, with support from various experts, to investigate South Australia's preparedness for dealing with significant bushfire activity and what could be done to mitigate the impact of bushfires on our communities in the future.

The review and resultant independent bushfire report was finalised in June 2020 and found that across the emergency services sector the response was remarkable given the conditions faced were the worst on record.

The report made 15 recommendations and listed 27 actions to complete prior to the 2021-22 bushfire season.

SA Government response

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

In total, the SA Government announced that $97.5 million in funding would be provided up to 2024-25 to help achieve these outcomes, including $37 million to the Department for Environment and Water and $60.5 million to the emergency services sector as follows:

- SAFECOM – $26.3 million
- SACFS – $22.3 million
- SAMFS – $11.5 million
- SASES – $400 000.

Update on recommended actions

As at September 2021, we were advised that all 27 immediate action items planned to be completed before the 2021-22 bushfire season were complete.

Work has started on implementing the longer-term actions, many of which require further engagement across agencies, volunteers, and the community. Some of the longer-term actions also align to recommendations from the Royal Commission into National Natural Disaster Arrangements.

Ten of 42 longer term-term actions were complete as at September 2021.

Financial activity to related to agreed actions

Of the $60.5 million to be provided to the emergency services sector up to 2024-25 to progress agreed actions from the report, the following table summarises financial activity to 30 June 2021 for expenditure programs and assets purchased.

	Funding $000	Purchases $000
SAFECOM	11 513	3 613
SACFS	3 977	1 737
SAMFS	2 000	1 331
SASES	162	164
Total sector	17 652	6 845

The impact of COVID-19 and health-related restrictions on business and the community has impacted on some capital and human resource programs within the sector.

The $10.9 million difference between agreed funding and expenditure/assets purchased mostly relates to impacts on the following measures, which relate to recommendations and actions in the report and have been accepted by the SA Government.

	Funding $000	Purchases $000
SAFECOM:		
National Partnership on Disaster Risk Reduction strategies	6 680	345
Roll-on of automatic vehicle location technology	1 800	419
SACFS:		
Fire truck safety system retrofit	1 303	375
Regional staffing enhancements	900	32
SAMFS:		
Replacement of heavy urban appliances	2 000	1 331

For further commentary refer to Part A of this Report under the heading 'Response to the 2019-20 bushfires'.

COVID-19 impact

Note 1.4 of SAFECOM's financial report details the impact the COVID-19 pandemic has had on the operation of the emergency services sector and its outlook.

The key impacts were:

- additional expenditure to keep personnel safe while maintaining service delivery to the community
- additional expenditure to support the South Australian response to COVID-19
- reduced capital expenditure due to supplier business restrictions
- increased expected credit losses on fees and charges resulting from the impacts of COVID-19 on businesses.

Note 9.5 of SAFECOM's financial report summarises the COVID-19 outlook for the emergency services sector and expected impacts if unfavourable health outcomes are experienced.

South Australian Government Financing Authority (SAFA)

Financial statistics	Profit before income tax equivalents:	$147 million
	Total loans on issue:	$32.2 billion
	Total bonds, notes and debentures on issue:	$26.1 billion
	Outstanding insurance claims:	$642 million
	Fleet vehicles (including held for sale):	$197 million
	Number of fleet vehicles (including held for sale):	7009
Significant events and transactions	— SAFA paid a $16 million dividend in June 2021. — SAFA paid $21 million in income tax equivalents in June 2021.	
Financial report opinion	**Unmodified**	
Controls opinion findings	No significant findings.	

Functional responsibility

SAFA, a body corporate, was established under the *Government Financing Authority Act 1982* (SAFA Act).

SAFA is the central borrowing authority for the State, and is responsible for managing most of the State's debt and for implementing the SA Government's debt management policy as determined by the Treasurer.

Under section 15 of the SAFA Act, SAFA's liabilities are guaranteed by the Treasurer.

SAFA also administers the SA Government's:

- insurance and risk management arrangements through its insurance division, trading as SAicorp
- passenger and light commercial vehicle fleet operations through Fleet SA.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- cash
- financing
- treasury
- insurance
- general ledger
- IT general controls.

We considered the work of internal audit in planning and conducting the audit.

We specifically considered the work performed by SAFA's compliance unit and internal audit function for elements of our program, in particular:

- quarterly reporting by SAFA's compliance unit
- internal audit's reviews of treasury operations, the fraud risk management framework and interest rate and foreign exchange risk management.

Controls opinion

We reviewed controls over SAFA's borrowings, investments, outstanding claims liability, interest expense, guarantees and indemnities, reinsurance process and bank accounts as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

No significant matters were identified by our audit that needed to be communicated to the General Manager.

Controls opinion findings

There were no significant findings for our controls opinion work at SAFA.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2021 $million	2020 $million
Interest revenue	743	905
Interest expense	(759)	(909)
Net interest revenue	(16)	(4)

	2021 $million	2020 $million
Net gain (loss) on financial instruments and derivatives	143	31
Leasing and hire revenue	52	53
Insurance premium revenue	64	60
Recoveries	(1)	39
Other income (including net gain on sale of property, plant and equipment)	15	7
Vehicle operating costs (including depreciation and impairment)	(31)	(33)
Insurance claims	(32)	(232)
Other expenses	(48)	(38)
Profit (Loss) before income tax equivalents	147	(117)
Income tax equivalent expense	(44)	-
Profit (Loss) after income tax equivalents	103	(117)
Other comprehensive income	-	-
Total comprehensive income	103	(117)
Assets		
Cash, short-term assets and investments	7 512	7 047
Loans	32 171	28 241
Derivatives receivable	297	189
Property, plant and equipment (including held for sale)	197	188
Other assets	75	85
Total assets	40 252	35 750
Liabilities		
Deposits and short-term borrowings	12 713	11 293
Bonds, notes and debentures	26 055	23 121
Outstanding claims	642	730
Derivatives payable	375	254
Payables and other liabilities	85	56
Total liabilities	39 870	35 454
Total equity	382	296

* Table may not add due to rounding.

Statement of Comprehensive Income

Interest revenue and expense

Interest revenue and expense are recognised on a market value accounting basis and accrued in line with the terms and conditions of the underlying financial instruments. Interest revenue decreased by $162 million or 18%, with a corresponding decrease in interest expense of $150 million or 17%.

The decrease in interest revenue and expense is mainly due to lower interest rates in 2020-21. These rates reflect the general fall in interest rates across financial instruments in 2020-21, with official interest rates at historical lows in Australia and other countries. Interest revenue and expense were also impacted by the timing of maturities and settlements for financial instruments, including derivatives.

Net gain on financial instruments and derivatives

SAFA's 2020-21 operating result includes a net gain of $143 million on financial instruments and derivatives. This gain represents the profit to SAFA from movements in the prices of financial instruments and derivatives it held, mostly as a result of changes in market rates.

SAFA's risk management approach is discussed further under 'Business risk management' below.

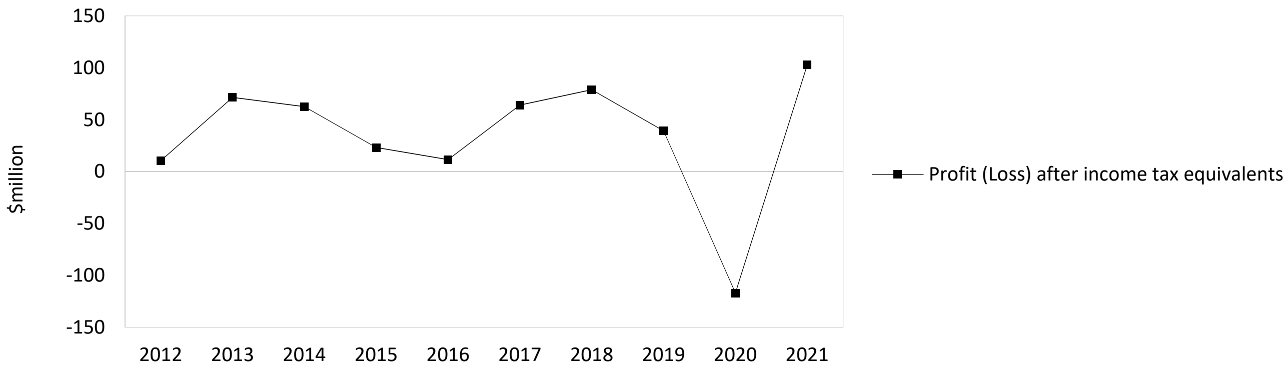
Leasing and hire revenue

Leasing and hire revenue reflects the fees charged to other government agencies for leasing fleet vehicles. This amount remained steady at $52 million in 2020-21.

Profit (Loss)

SAFA's profit before income tax equivalents was $147 million. It is required to pay the Treasurer an income tax equivalent on its profit, calculated by applying a tax rate of 30% to profit before tax.

The 10-year trend in SAFA's profit or loss after income tax equivalent expense is shown in the following chart.



The chart highlights the volatility in SAFA's results, which mainly comes from the financial performance of its insurance activities.

The 2021 profit after income tax equivalents of $103 million is primarily attributable to a profit on SAFA's insurance activities of $98 million and fleet activities of $20 million, offset by a loss on treasury activities of $15 million, as explained in note 3 of SAFA's financial report.

The loss for the year from treasury activities is mainly the result of unfavourable market movements, particularly in relation to the liquidity portfolio assets which maintained a significant balance in 2020-21.

Insurance activity impact on profit (loss)

SAFA's insurance activities are designated into four funds (Fund 1, Fund 2, Fund 3 and Fund 4). Its result after income tax equivalents is, in net terms, only affected by Fund 1 and Fund 4 results, as SAFA is indemnified by the Treasurer against any operating profit or loss arising from the activities of Funds 2 and 3.

Fund 2 is used to fund liabilities arising from insurable incidents that:

- occurred before 1 July 1994
- involve claims under the building warranty indemnity reinsurance arrangements up to 30 June 2013

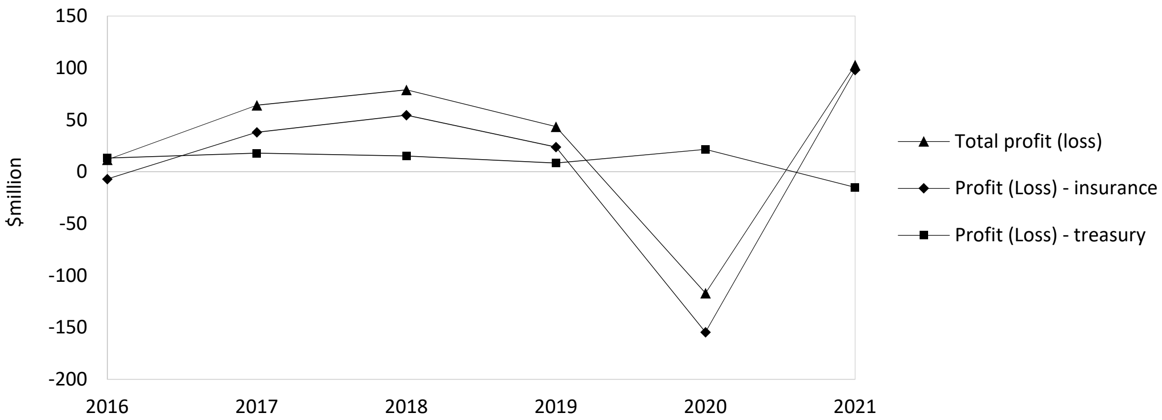
- involve the former State Government Insurance Commission residual claims and workers compensation claims previously managed by the former South Australian Asset Management Corporation
- are historical workers compensation and asbestos claims previously managed by other SA Government entities.

Fund 3 is used to fund liabilities arising from claims under the building indemnity insurance scheme effective from 1 July 2013.

Fund 4 is used to manage liabilities for the SA Government's participation in the National Redress Scheme for Institutional Child Sexual Abuse. It is discussed further under 'National Redress Scheme for Institutional Child Sexual Abuse' below.

All of SAFA's remaining insurance activities are funded through Fund 1.

The impact of SAFA's insurance activities on its profit or loss after income tax equivalent expense is highlighted in the following chart.



SAFA's insurance activities reported a 2020-21 profit after tax of $98 million (loss after tax of $155 million). The increase in the insurance profit reflects:

- a $105.6 million increase in income, which is due mainly to a $140.3 million increase in net gains on insurance investments with the Superannuation Funds Management Corporation of South Australia, offset by a $39 million decrease in recoveries
- a $189 million decrease in expenses, which is due mainly to a $198 million decrease in insurance claim expenses. Insurance claims expenses were at a 10-year high of $232.1 million in 2019-20. This was mainly the result of the $162.5 million increase in Fund 1 outstanding claims liabilities in 2019-20, mostly due to claims associated with property destroyed or damaged in the December 2019 bushfires and business interruption claims arising from the COVID-19 restrictions implemented in South Australia
- offset by a $42 million increase in income tax equivalents in 2020-21 as insurance operations made a profit, compared to a loss in 2019-20 on which no tax or tax asset is incurred.

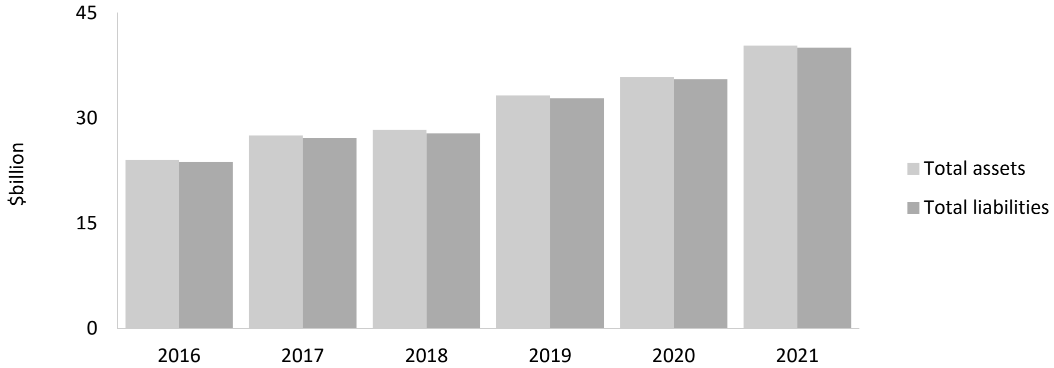
These changes highlight the inherent volatility of insurance activities and the impact on SAFA's financial performance.

Commercial insurance cover often does not cover business interruption as a result of restrictions imposed during a declared pandemic event. However, the scope of SAFA's insurance coverage provides for cover in the event that businesses are impacted by regulatory orders to close or restrict operations, like the restrictions on gatherings and events of different types in response to COVID-19.

Statement of Financial Position

Assets and liabilities

A structural analysis of assets and liabilities for the six years to 2021 is shown in the following chart.



In 2016 and 2018 there was a gradual increase in SAFA's borrowings, with assets increasing by a corresponding amount.

In 2017, there was a significant increase in SAFA's total assets and liabilities. This is mainly due to increases in investment assets ($2.9 billion) and bonds, notes and debentures liabilities ($2.8 billion). These increases are primarily attributable to changes in SAFA's liquidity policy. SAFA sought to increase its liquidity to ensure greater alignment with market best practice and regulator and rating agencies' guidelines. To increase the amount of liquid funds available, new select line bonds were issued, with the proceeds placed in investments.

In 2019 and 2020 there were further significant increases in SAFA's liabilities of $4.9 billion and $2.7 billion respectively, with total assets increasing by corresponding amounts. The increases were mainly the result of increases in loans to the Treasurer to meet funding requirements and to fund the Consolidated Account deficit for those years.

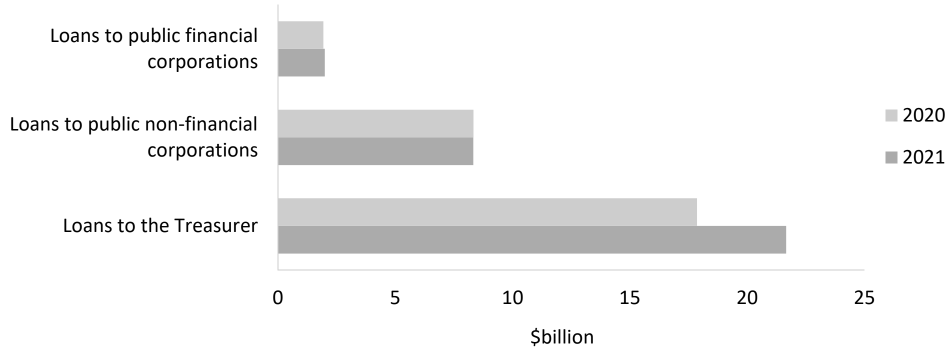
In 2021 there was a further $4.4 billion increase in SAFA's total liabilities, with total assets increasing by $4.5 billion. This main increase in assets was an increase in loans ($3.9 billion), mainly to the Treasurer, with corresponding liability increases in bonds, notes and debentures ($2.9 billion) and deposits and short-term borrowings ($1.4 billion).

Loans to government agencies

Total assets include loans of $32.2 billion, comprising SAFA's loans to the Treasurer to fund accumulated Consolidated Account deficits and loans to other public authorities.

At 30 June 2021 SAFA's loans to the Treasurer totalled $21.7 billion, an increase of $3.8 billion since 30 June 2020. The Treasurer also has funds on deposit with SAFA totalling $9.7 billion ($8.8 billion) as at 30 June 2021.

The chart below shows SAFA's current and prior year government sector loan composition.



There was a current year increase in loans to the Treasurer and to public financial corporations of $3.8 billion and $66 million respectively, while loans to public non-financial corporations decreased by $11 million. The increase in loans to the Treasurer was primarily to fund the $4.05 billion deficit in the Consolidated Account for 2020-21.

The main loans to public non-financial corporations were to the South Australian Water Corporation (SA Water), the Adelaide Venue Management Corporation and the Urban Renewal Authority.

Capital and distributions

At 30 June 2021 SAFA's capital reserves were represented by its retained earnings, which stood at $382 million ($296 million). A $16 million ($4 million) dividend distribution was made to the Treasurer in 2020-21.

This dividend payment was made under section 12(2) of the SAFA Act, which states that any surplus of funds remaining after SAFA's costs have been met in any financial year must be paid into the general revenue of the State or otherwise dealt with as the Treasurer determines. The Treasurer approved SAFA's 2020-21 interim dividend payment in June 2021.

Statement of Cash Flows

SAFA's cash position fluctuates in line with the net effects of its various operating, investing and financing activities. Cash balances have been maintained in line with liquidity requirements.

Further commentary on operations

SAFA Advisory Board

The SAFA Act provides that SAFA is constituted of the Under Treasurer and establishes the South Australian Government Financing Authority Advisory Board (the Advisory Board). The Advisory Board comprises up to seven members, one of whom is the Under Treasurer who is also Presiding Member.

The SAFA Act allows the Under Treasurer to request advice from the Advisory Board and consider any advice given. The Advisory Board can provide advice, as it sees fit, to the Treasurer or SAFA. SAFA's annual report must include details of any advice from the Advisory Board that the Treasurer or SAFA has decided not to follow and the reason for that decision. There were no occasions in 2020-21 when the advice of the Advisory Board was not followed.

Business risk management

Operational risk management

SAFA has a number of mechanisms to manage operational risks, including:

- an annual risk assessment facilitated by the contracted internal auditors addressing changes to SAFA's operating environment and the financial markets it transacts with. This assessment is used to determine the scope of the internal audit program
- a policy manual that details parameters within which SAFA pursues its core objectives, including dealings with financial markets, reporting requirements and managing assets and liabilities. This manual is reviewed annually and subject to the Treasurer's approval
- a central procedures manual that provides a high-level summary of the actions that SAFA expects to be maintained within its treasury, insurance, fleet and operational support units. The procedures manual is also subject to annual review
- the compliance unit performing daily, weekly, monthly and quarterly reviews to ensure compliance with policy requirements. The compliance unit's work is reviewed and tested by SAFA's contracted internal auditor
- a Risk and Performance Committee comprising three independent members appointed by the Under Treasurer.

SAFA's treasury portfolio structure

To help manage SAFA's treasury function and its associated risks, the assets and liabilities on its balance sheet are separated into distinct portfolios. The portfolio structure and related procedures contribute to transparency of operations, risk identification and management and performance measurement and reporting.

SAFA's portfolio structure consists of:

- SAFA's principal portfolios
- the Treasurer's cost of funds portfolio
- client asset/liability management portfolios.

SAFA's principal portfolios

SAFA maintains the following principal portfolios:

- funding
- liquidity
- foreign exchange hedging service.

The funding portfolio contains all of SAFA's term loans to clients, around $10.6 billion in assets. Its major function is to provide funding to clients on a defined maturity and rate basis.

The liquidity portfolio contains:

- all of SAFA's liquid assets and the funding that supports them
- deposits of excess cash from clients
- transactions relating to the cash loan to the Treasurer
- the Treasurer's deposit with SAFA.

The liquidity portfolio holds liabilities, assets and hedging instruments (including derivatives). It is run on the basis that mismatches between assets and liabilities are managed within risk parameters, with assets of $16.3 billion at 30 June 2021. These parameters are managed on a daily basis within the guidelines stipulated in the policy manual.

The foreign exchange hedging service portfolio covers all transactions associated with the service SAFA provides to public sector clients relating to the hedging of foreign currency exposures, mainly associated with purchases and sales of goods and services. The portfolio had a net asset position of -$43 500 at 30 June 2021.

Any profits or losses from the operations of the principal portfolios are recorded in SAFA's Statement of Comprehensive Income.

Treasurer's cost of funds portfolio

The Treasurer's cost of funds portfolio is the primary portfolio for the Treasurer. It contains liabilities and assets managed against a benchmark range. The main management task for this portfolio is to minimise interest rate risk within the portfolio relative to the policy benchmark range set by the Treasurer. The net expenses of this portfolio are borne by the Treasurer.

There are transactions in the Treasurer's cost of funds portfolio that are not measured and reported against the benchmark range, such as Royal Adelaide Hospital transactions out to 2033. The interest rate exposure on these Royal Adelaide Hospital transactions is managed by fixing the interest rate for a defined term.

Client asset/liability management portfolios

The client asset/liability management portfolios do not reside on SAFA's Statement of Financial Position and only impact on SAFA's profit and loss through fee income received. This includes SA Water's Financial Bureau Services Agreement.

SA Water manages its own debt. SAFA's role is to develop and document, in conjunction with SA Water and within strict policy guidelines, a risk management strategy for SA Water's exposures. The strategy must have regard to the likely impact of interest rate exposures on SA Water's results, an assessment of SA Water's ability to carry interest rate risk and SA Water's regulatory framework.

The Treasurer also makes loans directly to government entities and other bodies, including loans by the Treasurer to government departments and statutory authorities. SAFA administers these loans on behalf of the Treasurer. Since 2017-18 this has included administering the Future Jobs Fund and the Economic Investment Fund, which were established as a result of the 2016-17 State Budget. The activities of these Funds are recognised in the Treasurer's statements and are listed as loans to the Treasurer in SAFA's financial statements.

General market risk management

SAFA is the State's central borrowing authority and manages most of the State's debt. It lends funds raised from financial markets to a number of South Australian public sector clients, including the Treasurer who borrows on behalf of public sector agencies to support their operational requirements.

SAFA's Risk Appetite Statement indicates it performs its treasury, insurance, fleet and commercial advisory functions to protect the interests of its owners and clients and to protect its reputation as a provider of services consistent with its strategic direction.

SAFA has a structured approach to risk management. It performs its treasury and commercial advisory functions with a moderate risk appetite and its insurance and fleet functions with a low risk appetite.

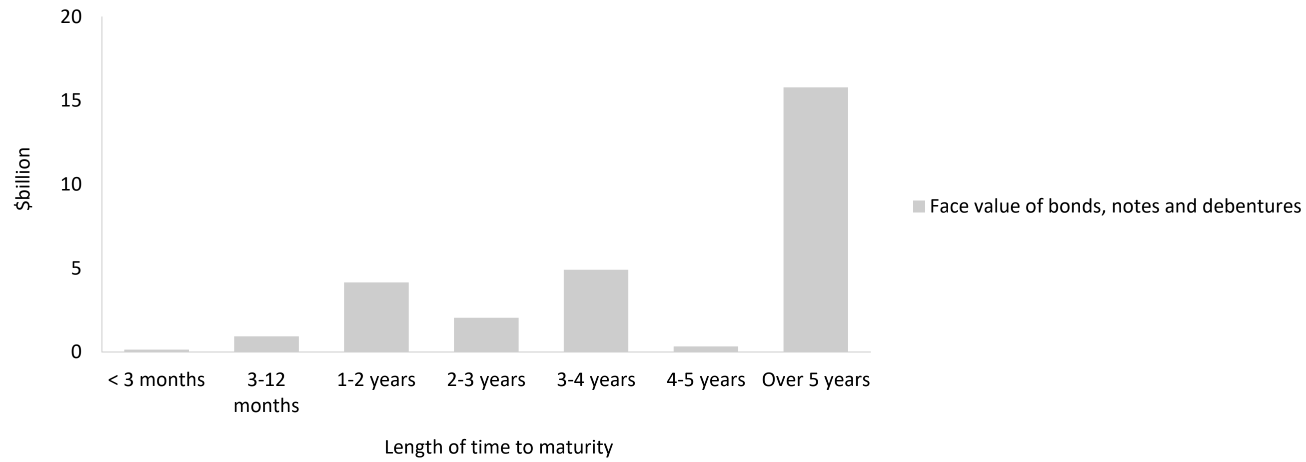
A moderate risk appetite approach for SAFA means that it is prepared to accept exposure to risk within pre-defined limits or parameters.

Funding risk management

SAFA raises funds from domestic and international financial markets to support the SA Government's budgetary funding requirements.

Funding risk refers to the prospect of SAFA either being unable to raise funds when required, or only being able to raise funds at a higher cost. Accordingly, SAFA's objective for funding risk is to ensure that it is not exposed to a significant refinancing or funding risk within any financial year. Guidelines for funding risk are set by the Under Treasurer.

A maturity profile of the undiscounted principal and interest repayment amounts for SAFA's bonds, notes and debentures as at 30 June 2021 is presented in the following chart. Bonds, notes and debentures include SAFA's core funding issue of select lines and floating rate notes.



The chart illustrates that SAFA's principal and interest repayments vary each year for the next four years. From 2027, SAFA will have $15.8 billion of principal and interest repayments.

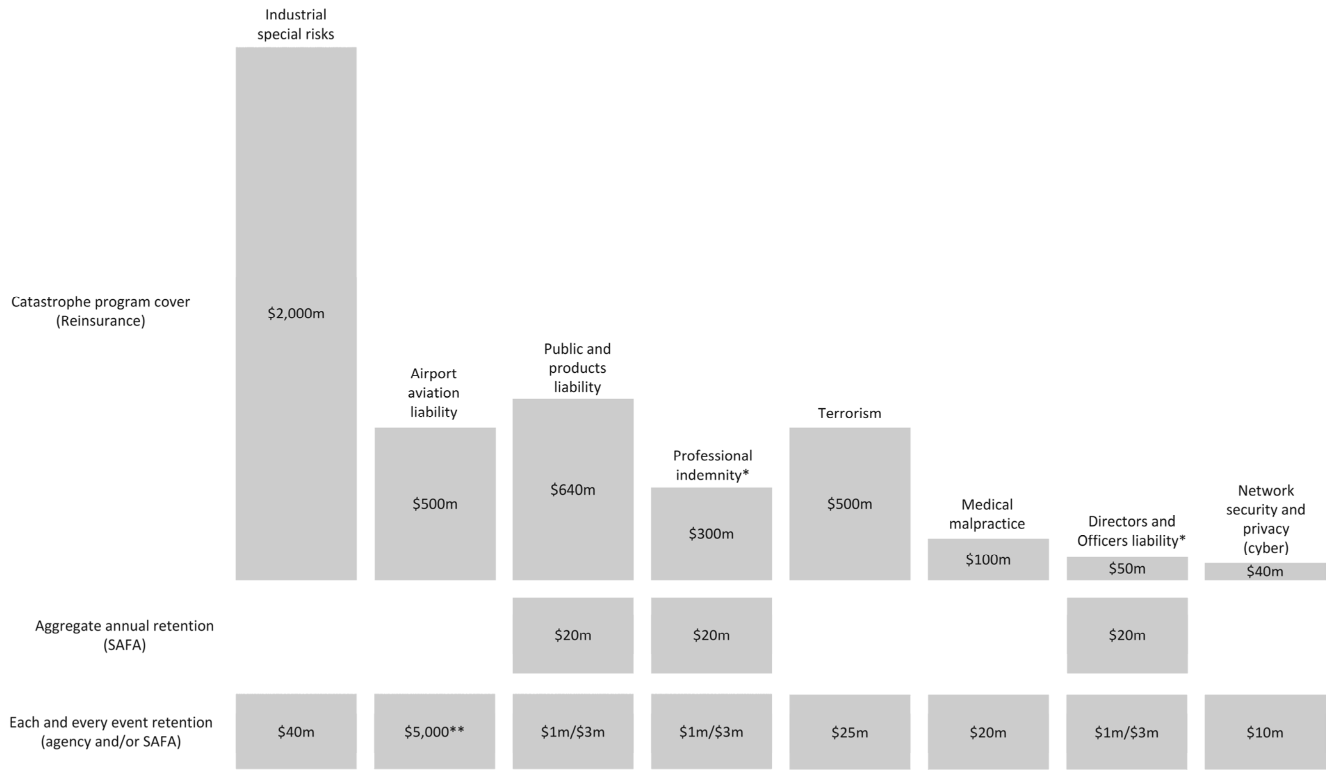
The chart does not include expectations for the SA Government's early refinancing or future financing requirements.

Catastrophe reinsurance program

The SA Government is fundamentally a self-insurer. However, to protect the State's finances against a very large loss or claim or a series of large losses or claims in a year, a commercial catastrophe reinsurance program is placed in the international insurance market. SAFA claimed under this reinsurance program for the first time in 2019-20, as a result of the December 2019 bushfires.

The reinsurance program is renewed annually and then approved by the Treasurer after consideration by the Advisory Board.

The structure of SAFA's catastrophe reinsurance program for 2020-21 is shown in the following diagram.



* Full insurance placement could not be completed at acceptable/affordable terms for this insurance class.

** Other than damage to aircraft which is $20 000.

SAFA's catastrophe reinsurance premium expense for 2020-21 was $13.5 million ($9.8 million), an increase of 38%. This increased cost was mainly a result of the insurance market raising profitability and/or withdrawing from writing unprofitable classes of insurance. The resulting decrease in insurer capacity drove increases in premiums and deductibles and also placed pressure on the breadth of policy coverage available. In general, in the current market, insurers are far more selective of the risks they are prepared to underwrite.

SAFA reviews its coverage levels annually. While various factors influence its final choice of cover, key drivers in this evaluation are the market's willingness to accept risk for SAFA's preferred coverage, and SAFA's internal value-for-money assessments of the prevailing insurance market.

School loans scheme

In the 2016-17 State Budget the SA Government established a new $250 million low interest loan scheme to help non-government schools upgrade infrastructure and facilities.

Loans of between $500 000 and $10 million per school were made available over five years, with loan terms up to 15 years. All non-government schools were eligible to apply and access was granted based on highest need, taking into account a school's socio economic status score. Priority was given to projects that invest in science, technology, engineering and maths, as well as early years facilities.

Since the scheme's inception there have been six funding rounds.

The first loan was drawn down under the scheme in February 2017.

Total funds advanced to non-government schools as at 30 June 2021 were $102.6 million, made up of $89.7 million (face value) in loans and $1.5 million in overdraft facilities. As at 30 June 2021, $11.4 million had been paid back.

The total value of approved school loans at 30 June 2021 was $116.1 million, with $13.5 million not yet drawn down.

In the 2020-21 State Budget the SA Government announced a new $300 million low interest loan scheme to help non-government schools upgrade infrastructure and facilities. Since the new scheme was established there has been one funding round.

As at 30 June 2021 no loans were approved under the new scheme.

SA Venture Capital Fund

In June 2017 Cabinet approved the establishment of the $50 million SA Venture Capital Fund (the Fund) as a notional fund within SAFA's Statement of Financial Position.

The objective of the Fund is to help early-stage South Australian companies attract private sources of co-investment from national and international investors.

Since March 2020 the Fund has been managed by Artesian Venture Partners.

Investments from the Fund are required to meet a range of criteria, including requirements for assets and staff to be located in South Australia within 12 months of the initial investment date.

In 2020-21 there were two new investments made from the Fund totalling $1.3 million.

As at 30 June 2021, investments in five companies had been made from the Fund totalling $11.2 million.

National Redress Scheme for Institutional Child Sexual Abuse

In May 2018 the SA Government approved South Australia's participation in the National Redress Scheme for Institutional Child Sexual Abuse (the Scheme) and for SAFA to administer all payments associated with this. In June 2018 the Premier signed an Intergovernmental Agreement confirming South Australia's participation.

The start date for the Scheme was 1 February 2019 and it will accept applications until 30 June 2027.

The Treasurer approved the transfer of $146.4 million from the Victims of Crime Fund to SAFA in June 2018 to meet the cost of paying claims made under the Scheme. Any funds not paid under the Scheme will be returned to the Victims of Crime Fund following closure of the Scheme.

The Scheme is administered through a separate fund, Fund 4. The Scheme's outstanding claims liability is calculated by an external actuary who considered:

- the number of applications for which the SA Government will have full or partial liability
- the average monetary payment for Scheme applications
- other relevant Scheme payments, including counselling, legal and administration costs
- the expected payment pattern and impact of discounting.

As at 30 June 2021 the outstanding claims liability for Fund 4 was $122.9 million ($138.1 million).

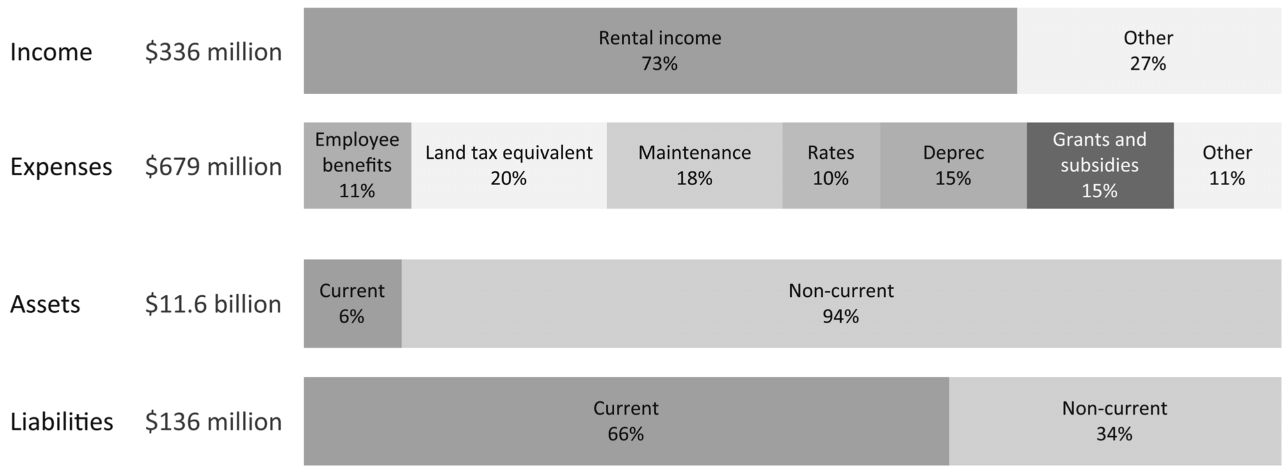
While the current estimate of claims is below the level of funding provided, the estimate is subject to change because the Scheme is open until 2027.

There were 429 (258) Scheme applications as at 30 June 2021.

In 2020-21 redress payments totalling $17.3 million were made to 171 applicants.

South Australian Housing Trust (SAHT)

Financial statistics



778
FTEs

$7.1 billion
Value of rental property

$343 million
Net deficit

Significant events and transactions

- Following a procurement process, the SAHT entered into new contracts for the provision of homelessness services with non-government providers at a total value of $103 million for a two-year term, with two extension options of two years each for an additional $201 million.
- The SAHT reclassified $1.8 billion of community housing properties as service concession assets as a result of implementing AASB 1059 *Service Concession Arrangements: Grantors.*

Financial report opinion

Unmodified

Controls opinion findings

The SAHT does not comply with an approved variation to Treasurer's Instruction 8 *Financial Authorisations* (TI 8) for contract variation requests for maintenance orders.

Functional responsibility

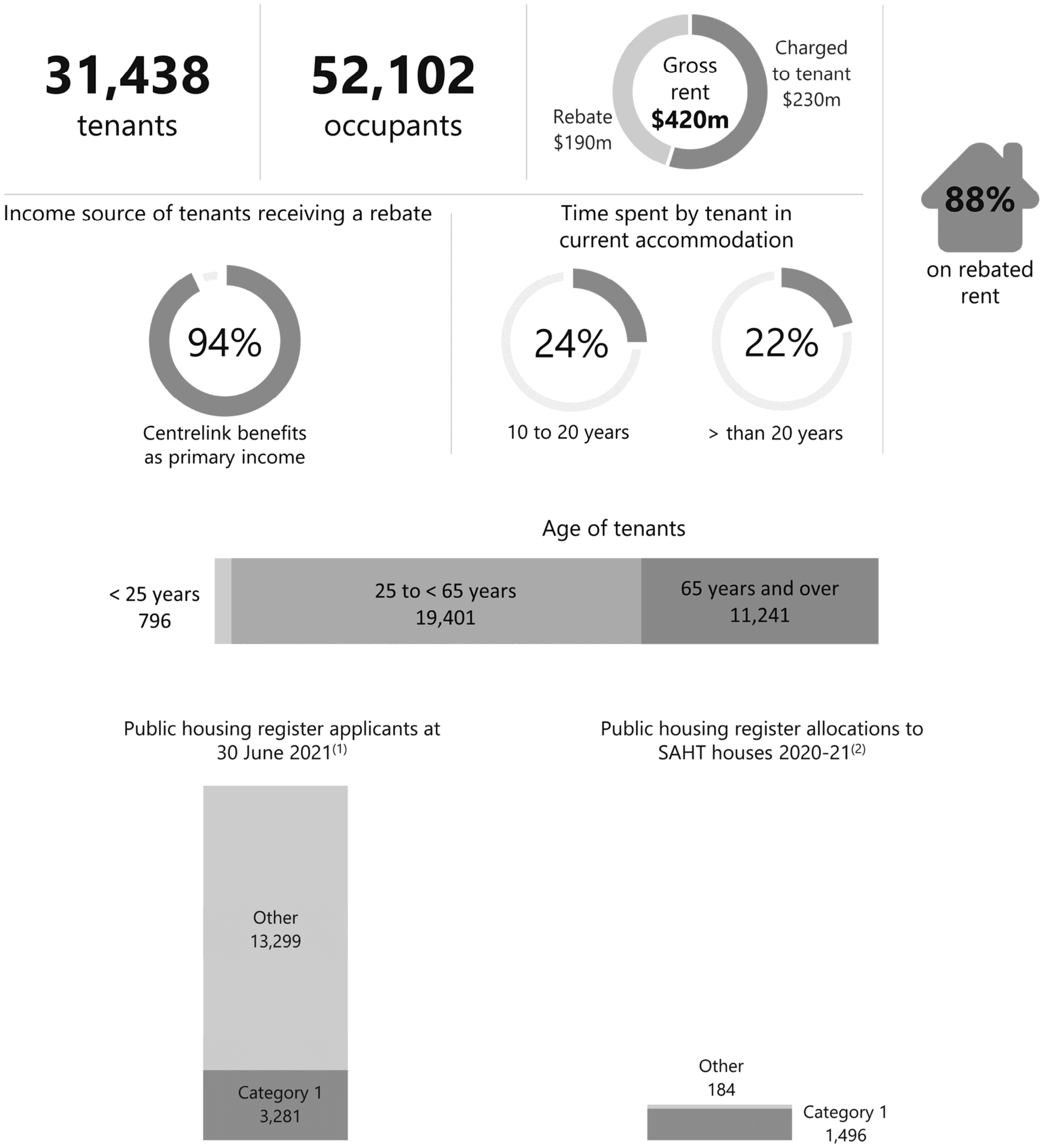
The SAHT is established by the *South Australian Housing Trust Act 1995* (SAHT Act).

The functions of the SAHT include:

- the construction, purchase, ownership and management of houses and units for tenant occupation
- managing SAHT tenancies and housing grant programs.

Snapshot of SAHT operations

The SAHT's public housing operations (excluding SAHT housing managed by community housing providers (CHPs)) are summarised below.

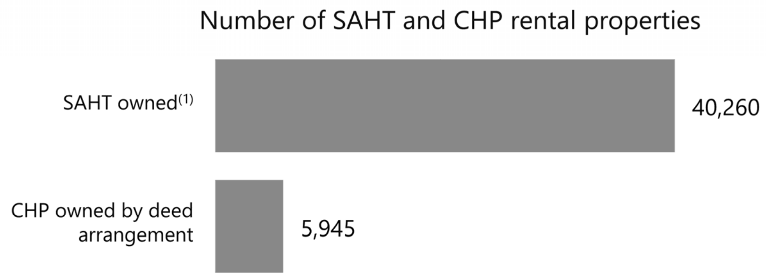


Category 1 applicants are people with urgent housing need and long-term barriers to accessing or maintaining private housing options.

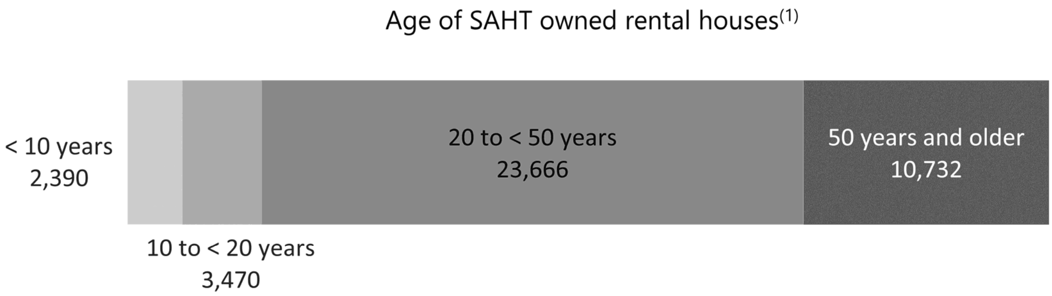
(1) Excludes tenants requesting a transfer to another property.
(2) Excludes tenants transferring between properties.

Property, plant and equipment

$10.85b



(1) Includes unlettable properties and SAHT owned properties managed by either the SAHT or CHPs.



(1) The age of 2 rental houses is unknown.

All data included in the snapshot of SAHT operations was provided by the SAHT and is unaudited except for the value of rental income, rebates and property, plant and equipment.

Scope of the audit

Audit of the financial report

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

Specific areas of attention in 2020-21:

- revenue, including rent, recoveries and debt write-offs
- accounts payable
- payroll
- maintenance expense
- council and water rates
- fixed assets, including rental properties and capital works
- grants to specialist homelessness service providers
- house sales
- general ledger
- IT general controls.

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

Controls opinion

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

- rental income
- asset management including:
  - land
  - buildings and improvements
  - assets under arrangement, including service concession assets
- the receipt, expenditure and investment of money through the SAHT Operating Account.

Audit findings

Communicating our audit findings

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

Controls opinion findings

The SAHT is not approving contract variation requests for maintenance orders in line with an approved variation to Treasurer's Instruction 8 *Financial Authorisations*

The SAHT has engaged five multi-trade contractors (MTCs) to maintain its properties at a cost of about $115 million a year.

We noted that the SAHT is automatically approving MTC contract variation requests for maintenance orders in excess of $1000, contrary to the Treasurer's approved variation to TI 8.

The Treasurer has approved a variation to TI 8 that enables MTCs to perform additional work on existing orders up to a value of $1000 per maintenance order without obtaining the SAHT's pre-approval, provided certain conditions are met. Under the TI 8 variation, the SAHT must continue to pre-approve any order variations above $1000.

The SAHT can program the Connect property management system to automatically approve any order variation up to an approved threshold.

We noted, however, that the automatic approval limit set in Connect was $5000 and not $1000. This has resulted in the automatic approval of order variations in excess of the Treasurer's approved variation limit.

The SAHT reviews a daily report of order variations that have been automatically approved by Connect to ensure the additional works are reasonable and justified. However, this review occurs after MTCs are notified of the order variation approval. If the SAHT considers the additional works are not reasonable or justified, it may be too late to rescind the approvals, resulting in the SAHT being obliged to pay for the work.

The SAHT responded that to comply with the TI 8 variation it would have to review and pre-approve an additional 79 000 to 89 000 transactions annually.

In the short term, and as an interim control, the SAHT has advised us that it will introduce testing of a sample of variations between $1000 and $5000. If there are trends identified where the MTCs are performing maintenance work that is not justified or does not present value for money, the SAHT will escalate it to the MTCs and, where appropriate will use the contract terms to manage it. These proposed changes do not result in compliance with the Treasurer's approved variation to TI 8.

In the longer term, the SAHT will review options for variation approval processes to meet TI 8 to ensure appropriate authorisation of variations for additional work.

Other audit findings

IT general control review of the Connect system

The SAHT successfully went live with its Connect system in April 2020, replacing its ageing legacy IT systems. Connect is now the SAHT's core system for managing properties and tenancies.

In 2020-21 we reviewed password management, user access management, privileged user access, audit logging, change management, patch management, backup and disaster recovery management for Connect.

We recommended the following improvements to controls in the Connect environment to reduce the risk of unauthorised changes or malicious activity:

- develop a policy for reviewing audit logs that record all key activity occurring in Connect
- improve processes to ensure all changes to the Connect application are documented, approved and tested
- improve processes to ensure employee access to Connect is removed promptly on their termination
- establish a user access management review policy for periodically reviewing and checking the appropriateness of users and their assigned roles within the Connect environment.

The SAHT accepted all of our recommendations.

Other comments

Our Housing Future 2020-2030 housing and homelessness strategy

The National Housing and Homelessness Agreement sets out Commonwealth funding to be provided to the States. It requires the States to have a publicly available housing strategy indicating projected housing demand and outlining reforms and initiatives to meet this need, as well as a publicly available homelessness strategy that addresses priority areas of need.

In December 2019 the SA Government released the Our Housing Future 2020-2030 housing and homelessness strategy. This is a whole of government, whole of state 10-year strategy aimed at transforming the South Australian housing system. The SAHT led its development and will play a significant role in its delivery. The strategy contains 33 actions, which are a mix of short, medium, long-term and ongoing actions. The SAHT is the lead on 26 of the actions, which include:

- improving the sustainability of the social housing system by introducing a system-wide strategic asset management approach, including strategic asset disposal and investment
- building up to 1000 affordable houses.

In August 2021, the SAHT Board received a report advising that 12 of the 33 actions were complete and 21 were on track.

The SAHT's asset management practices continue to improve

The SAHT is responsible for managing property valued at $10.8 billion.

Since 2018-19 we have reviewed the SAHT's asset management practices and controls against aspects of the International Standard on asset management (ISO 55000) and have noted the SAHT's commitment to applying best practice principles to asset management.

In November 2018, the SAHT Board approved an asset management policy describing its asset management and reporting principles and a Strategic Asset Management Methodology (SAMM). The SAMM contains asset management objectives to guide the asset planning process for creating and maintaining a public housing portfolio that will achieve its organisational objectives. Development of the SAMM was guided by ISO 55000 and the Strategic Asset Management Framework published by the Department for Infrastructure and Transport.

In 2018-19 and 2019-20 we noted that the SAHT could improve its asset management in the following ways:

- developing and documenting a plan to meet its targeted 'competent' level of asset management maturity, as defined by ISO 55000. A 'competent' level of maturity is where an organisation can demonstrate it systematically and consistently achieves the relevant requirements set out in ISO 55000
- determining time frames for achieving each of the asset management objectives in the SAMM and developing KPIs and reporting to measure progress. The SAHT had implemented this process for some, but not all, of its asset management objectives
- completing its assessment of the condition of its housing stock. These condition assessments are important for informing the SAHT's future maintenance and asset management plans
- providing the SAHT Board with regular reporting on the progress of its capital works and sales program against non-financial targets, in addition to its financial targets.

Our follow-up in 2020-21 indicated that the SAHT has addressed these matters by making the following improvements to its asset management.

Improved asset management planning

The SAHT has developed an Asset Management Action Plan to meet its targeted 'competent' level of asset management maturity by 2025. As part of this plan, the SAHT replaced the SAMM with a Strategic Asset Management Framework and an Asset Management Strategy that has clearer objectives and KPIs to meet its organisational objectives.

Strategic Asset Management Framework

In July 2020 the SAHT Board approved the Strategic Asset Management Framework 2020-2030, which:

- aligns the SAHT's asset management objectives with the organisational objectives in its Strategic Plan 2020-2025 and, in turn, aligns these objectives with those in the Our Housing Future 2020-2030 strategy
- requires the production of five-year regional asset management plans to inform decisions on retention, divestment, investment and development at a regional level. These regional plans are required to be supported by annual investment plans containing program and project targets for measuring progress. They comprise an investment plan for maintenance and an investment plan for development and strategic divestment
- details governance groups and reporting requirements to ensure asset management activities meet organisational objectives
- provides a structure to annually review the performance of the asset management system, including the use of the ISO 55001 self-assessment questionnaire.

Assets transferred to CHPs to manage properties and tenancies on behalf of the SAHT are also monitored through the Strategic Asset Management Framework's governance structure and reporting requirements to ensure accountability. CHPs have their own asset management and investment plans to ensure they meet their contractual obligations for maintaining and developing SAHT properties.

Asset Management Strategy

In December 2020 the SAHT Board approved an interim Asset Management Strategy to guide the SAHT's capital programs over the next five years. It includes KPIs with time frames to monitor the effectiveness of project and program actions and is used to inform the development of regional asset management plans. The SAHT engaged a consultant to conduct a housing need and demand analysis to inform the Asset Management Strategy and KPIs. A final 10-year Asset Management Strategy, to 2030 ,will be implemented after completion in 2021-22 of the SAHT's financial sustainability and performance frameworks and other related strategies.

The SAHT expects the implementation and monitoring of the Asset Management Strategy and the regional asset management plans to complete the actions in the Asset Management Action Plan, ensuring the SAHT meets its targeted 'competent' level of asset management maturity competence before 2025.

Improved data on the condition of the SAHT's housing stock

The SAHT completed its assessment of the condition of its housing stock in 2020-21. It has started using the condition assessments to inform its future maintenance and asset management plans. The condition assessment program, which began in February 2018, was conducted by a contractor who inspected every SAHT property. The assessments will be updated on an ongoing basis over five years.

Improved reporting on asset management to the SAHT Board

Since May 2020, the SAHT Board has received a range of reports on asset management including quarterly reporting on progress in achieving:

- the Our Housing Future strategy

- financial and non-financial targets for the capital and sales programs
- financial and non-financial targets for the maintenance and development of properties under the CHP programs.

We noted that the SAHT had set financial and non-financial targets for its 2020-21 capital program and was reporting progress against them to the SAHT Board. The SAHT intends to prepare updated regional asset management plans and annual investment plans by December 2021.

Internal auditing of asset management

The SAHT has started performing internal audits of aspects of its asset management processes. In 2020-21, it performed an internal audit of its CHP contract management processes and as a result intends to improve its:

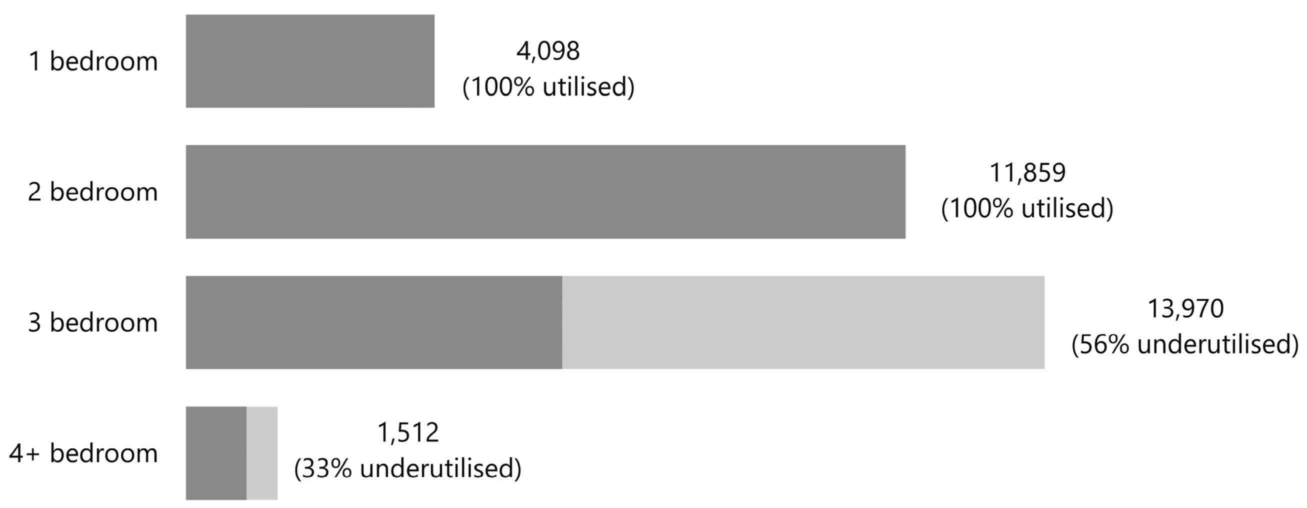
- contract management plans for the maintenance and development of properties under the CHP programs
- reporting to the SAHT Board to show if CHPs have complied with their contractual obligation to return properties to the SAHT at the end of each development project of equal value to those transferred to them for development.

Underutilisation of SAHT properties (excludes CHP properties)

A key focus of the SAHT's asset planning is to reconfigure its housing stock through its renewal programs to better match the needs of its tenants.

About 26% of the SAHT's tenanted houses are underutilised. This means the number of bedrooms exceeds the number the household needs by two or more and reflects an oversupply of three bedroom houses (56% underutilised) and a shortage of smaller houses (100% utilised). A key focus of the SAHT's asset management strategy is to replace its three bedroom houses with one or two bedroom properties.

Utilisation of tenanted properties[1]



[1] Properties are defined as underutilised where the number of bedrooms exceeds the number that the household needs by two or more.

All data included in the above table was provided by the SAHT and is unaudited.

Transfer of property and tenancy management to CHPs

The Our Housing Future 2020-2030 strategy replaced the Renewing Ours Streets and Suburbs (ROSAS) initiative. ROSAS was implemented by the former SA Government to rejuvenate older SAHT homes and improve the supply of affordable housing for rent or purchase while stimulating the construction sector. The ROSAS initiative included transferring responsibility for property and tenancy management for over 5000 SAHT properties to CHPs by 2018. This occurred in two tranches. The first tranche of 1086 SAHT properties (then valued at about $184 million) transferred to two CHPs in October 2015. The second tranche of 4003 SAHT properties (then valued at about $1.1 billion) transferred to five CHPs in September 2017. A further 47 properties transferred in March 2018 (then valued at about $13 million).

The SAHT has applied a concurrent lease and deed model to these transfers. The leases for the first tranche had a three-year term that expired on 23 October 2018. The term was extended for 20 years. The leases for both the first and second tranches now have 20-year terms and require the CHPs to implement a stock renewal program.

An objective of the CHP transfers is to create better quality social housing stock through:

- rents increasing by the amount of Commonwealth rent assistance to fund housing stock improvements – CHP tenants are eligible for Commonwealth rent assistance whereas SAHT tenants are not
- CHPs using their additional rental income to improve the quality of housing stock by implementing a stock renewal program and increasing programmed maintenance.

All CHPs have established plans to support the stock renewal program. The SAHT retains the title to these properties and the CHPs must also comply with the SAHT's tenancy conditions, ensuring the conditions of transferred tenants remain the same. Due to the lease and deed arrangements, the housing stock remains recognised in the SAHT's Statement of Financial Performance, classified as service concession assets.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2021 $million	2020 $million
Income		
Rental income	246	249
SA Government grants, subsidies and transfers	25	16
Other	65	48
Total income	336	313

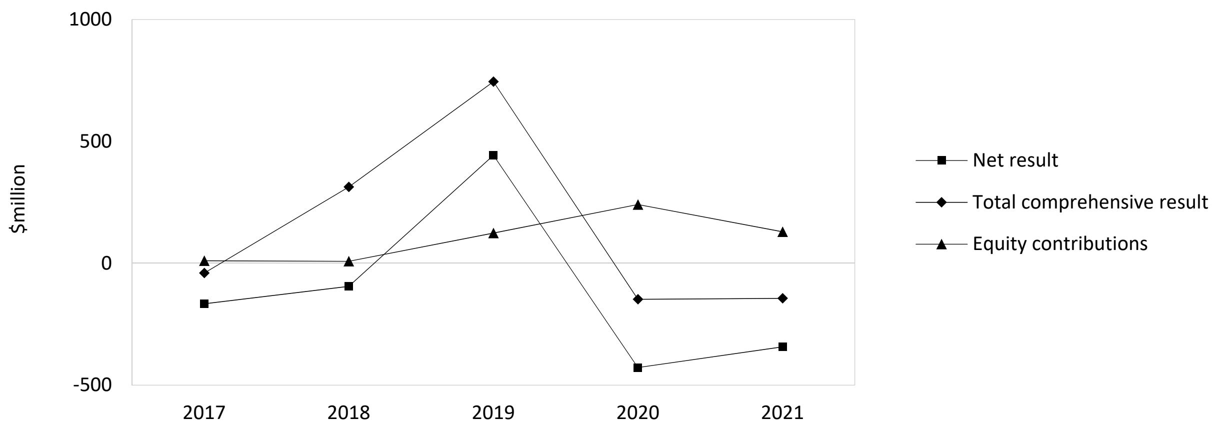
	2021 $million	2020 $million
Expenses		
Employee benefits expenses	78	77
Maintenance	119	107
Council rates and water rates	71	76
Land tax equivalent	139	214
Depreciation and amortisation	99	93
Grants and subsidies	100	99
Other expenses	73	76
Total expenses	679	742
Net result	(343)	(428)
Other comprehensive income	206	280
Total comprehensive result	(137)	(148)
Net cash provided by (used in) operating activities	(492)	(175)
Net cash used in investing activities	(34)	(20)
Net cash provided by financing activities	127	241
Assets		
Current assets	680	1 071
Non-current assets	10 917	10 719
Total assets	11 597	11 790
Liabilities		
Current liabilities	90	300
Non-current liabilities	46	21
Total liabilities	136	321
Total equity	11 461	11 469

* Table may not add due to rounding.

Statement of Comprehensive Income

Total comprehensive result and equity contributions

A structural analysis of the SAHT's comprehensive result and equity contributions for the five years to 2021 is presented in the following chart.



The chart shows deficits in the net result for the past two years. These deficits are partially offset by changes in the value of property, plant and equipment, which for 2021 resulted in a total comprehensive result (deficit) of $137 million.

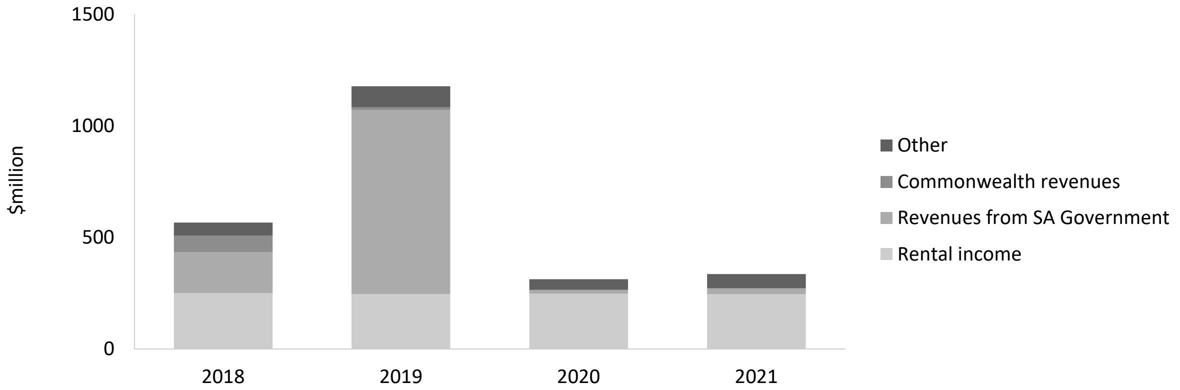
The deficits in net result and total comprehensive results for the past two years are impacted by the SA Government's changed funding arrangements for the SAHT. Since 2019 the SAHT is funded primarily through equity contributions instead of grants. Equity contributions are not recognised as income in the Statement of Comprehensive Income. In 2021 the SA Government provided an equity contribution of $129 million ($241 million).

The total comprehensive result improved by $11 million to a $137 million deficit in 2021, reflecting:

- an $86 million improvement in the net result after income tax equivalent, which moved from a deficit of $428 million to a deficit of $343 million. The main reason for the improvement was a $75 million drop in land tax expense due mainly to lower land tax rates set by RevenueSA
- a $74 million reduction in other comprehensive income due to a reduction in the upward revaluation for total property, plant and equipment.

Income

A structural analysis of the SAHT's income for the four years to 2021 is presented in the following chart.



The chart shows the dramatic changes in the SAHT's funding arrangements from 2019.

In 2021 revenues from SA Government increased by $10 million to $25 million, due mainly to a $4 million increase in general purpose grants and a $5 million capital grant. The capital grant was mainly for upgrading public housing at the Holbrook's site in Brooklyn Park to house homeless people with complex behaviours.

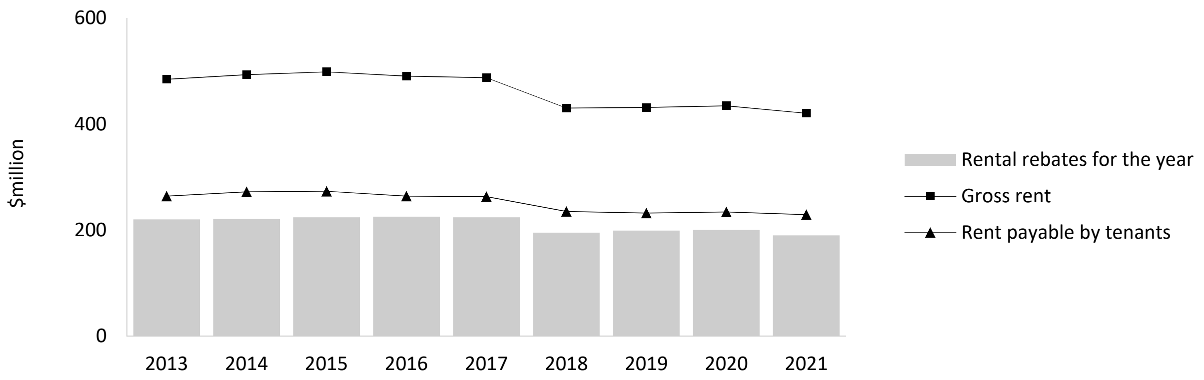
Other movements in total income for 2021 included:

- a net gain from disposal of assets of $19 million ($7 million). Proceeds from selling properties support the SAHT's financial viability strategy and its housing renewal and capital programs. Proceeds were $108 million ($95 million), while the net book value of assets disposed was $89 million ($88 million). This represents a profit margin of 21% (8%). The improved profit margin was due mainly to improved market conditions
- a $17 million recovery of GST incurred in prior periods as a result of the Australian Taxation Office advising the SAHT that the supply of accommodation to eligible tenants with a disability is a GST-free supply and that the SAHT can claim GST input tax credits for GST incurred on historic costs from September 2016.

Rental operations

Information provided by the SAHT records that 88% (88%) of tenants pay reduced (rebated) rent. The amount of rent rebates depends on each tenant's circumstances, with rent payable charged at 25% of household income or market rent, whichever is lower. From 1 July 2021 the limit changed to 30% for tenants with moderate household income. Moderate income is based on average weekly earnings data published by the Australian Bureau of Statistics. The SAHT estimates that 500 to 1000 tenants will be impacted and will generate $1 to $2 million per annum in additional revenue.

The trend of rents and rebates is illustrated in the following chart.



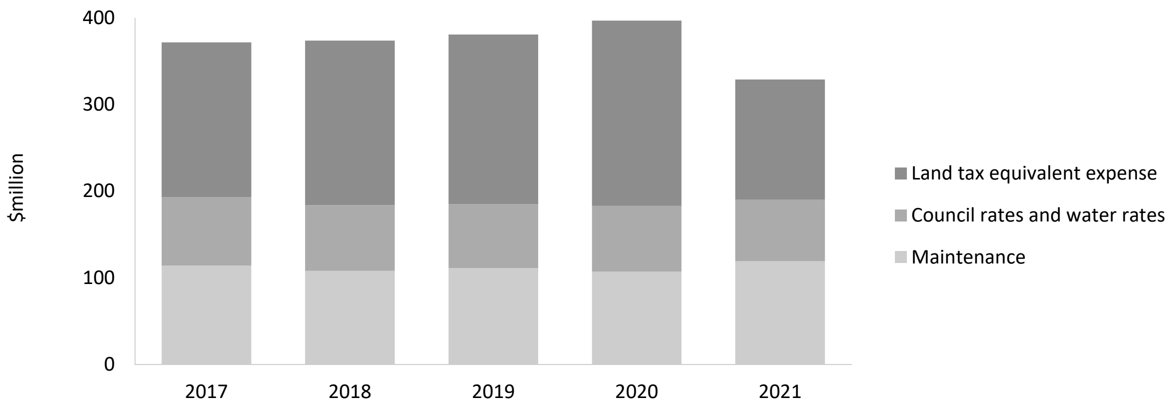
The chart highlights that gross rents, rental rebates and rent payable by tenants dropped in 2018 after responsibility for tenancy management of over 5000 properties was transferred to the community housing sector between 2016 and 2018. The rent on these properties is retained by the community housing sector.

In 2021 gross rent (market rent) decreased by $14 million to $420 million ($434 million), while rebates reduced by $9 million to $190 million ($200 million). Rebates as a percentage of gross rent were 45% (46%). The decrease in gross rent is due to reduced housing stock available for tenanting, as a result of house sales or housing availability during periods of maintenance or redevelopment.

The SAHT advised that in 2021 its housing stock (excluding SAHT owned properties managed by CHPs) reduced from 35 419 to 34 900, a fall of 519 properties. The fall includes 252 rental properties sold and 250 properties transferred to CHPs for the Oaklands Park Renewal Project.

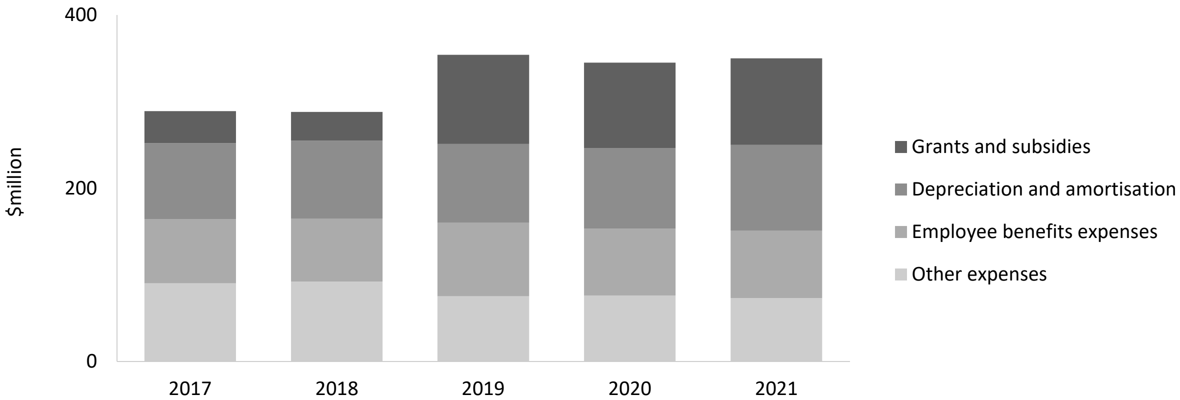
Expenses

Major property expenses for the five years to 2021 are shown in the following chart.



Other than land tax equivalents, major property expenses have remained relatively constant over the last five years. The land tax equivalent increased by $18 million in 2020 following increases in land values. The $75 million decrease in land tax equivalents for 2021 reflects a reduction in land tax rates set by RevenueSA. The SAHT is responsible for the land tax equivalent paid on properties owned by the SAHT but managed by CHPs. The SAHT is not responsible for council and water rates on these properties. Charges paid by the SAHT are driven by changes in the value of properties and rates charged by local government and the South Australian Water Corporation.

Other major expense items for the five years to 2021 are shown in the following chart.



The chart shows a large increase in expenses in 2019 when responsibility for paying grants to specialist homelessness service providers transferred to the SAHT. In 2021 these grants were $71 million ($68 million).

In 2021 total expenses reduced by $63 million to $679 million, due mainly to the following movements:

- land tax equivalents expense decreasing by $75 million to $139 million, due mainly to reductions in land tax rates set by RevenueSA
- a $5 million decrease in water rates, reflecting lower prices charged by the South Australian Water Corporation and lower water usage charges
- supplies and services expenses decreasing by $4 million to $43 million, due mainly to reduced office accommodation and travel expenses
- maintenance expense increasing by $12 million to $119 million, mainly reflecting more maintenance work performed and a change to SAHT's processes for collecting data to estimate more precisely the value of outstanding maintenance orders completed but not yet invoiced by contractors at 30 June 2021
- impairment expenses increasing by $4 million to $25 million, mainly because asset write-offs increased by $2 million to $15 million due to property demolitions relating to the SAHT's housing renewal programs.

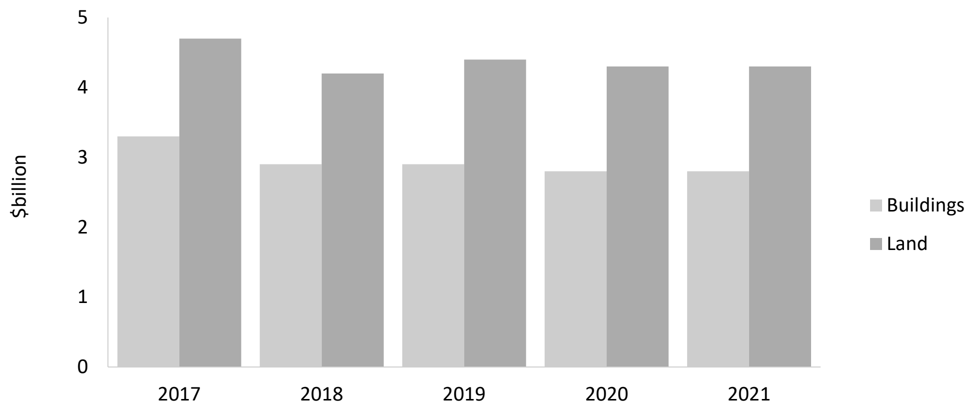
Statement of Financial Position

The SAHT's financial position is dominated by its significant property assets and cash balance. Its current assets of $680 million ($1.07 billion) were significantly higher than its current liabilities of $90 million ($300 million).

Rental properties

The SAHT's rental properties are estimated to be worth $7.1 billion ($7.1 billion) and comprise 66% (67%) of the SAHT's property, plant and equipment of $10.8 billion ($10.7 billion).

The following chart shows the movements in the value of the SAHT's rental properties over the past five years.



The chart shows that the value of rental properties has remained relatively constant despite a fall in the number of properties over the same period. The value is being maintained mainly through upward revaluations of individual properties and capital upgrades. The SAHT advised us that in 2021 its housing stock reduced from 35 419 to 34 900, a fall of 519 properties (1.5%), yet the value of its rental properties (valued at 1 July 2020) decreased by only $11 million (0.2%).

The large reduction in the value of rental properties in 2018 was due mainly to the transfer of property and tenancy management of 4050 public housing properties to the community housing sector. This followed the first tranche of CHP property transfers in 2016.

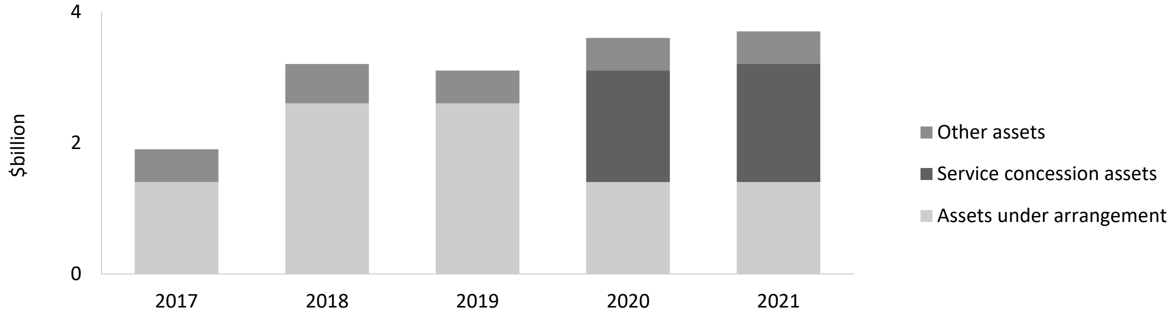
These properties are now classified as assets under arrangement and service concession assets included in the commentary under 'Other property, plant and equipment' below.

In 2021 the value of rental properties decreased by $11 million to $7.1 billion. This reflects an upward revaluation of land and buildings of $94 million and additions of $101 million, including completed capital works and maintenance upgrades. These impacts were more than offset by transfers to other asset categories of $128 million (mainly to capital works in progress) and to assets held for sale of $3 million, disposals of $19 million and depreciation expense of $57 million.

The SAHT revalues most land and buildings annually using the Valuer-General's values. Because of the timing of the update of the Valuer-General's database and the SAHT's financial reporting obligations, reported values lag current market values. The values for 2021 were issued by the Valuer-General as at 1 July 2020. This policy has been consistently applied and reflects the practicality of valuing a very large housing stock. The Valuer-General has published a notice in The South Australian Government Gazette advising that the average percentage change in site values is 0.9% as at 1 July 2020 for 2020-21 and 7% as at 1 July 2021 for 2021-22.

Other property, plant and equipment (excluding rental properties)

The following chart shows the value of the SAHT's other property, plant and equipment assets over the past five years.



The SAHT's other property, plant and equipment rose sharply in 2018, due mainly to assets under arrangement increasing by $1.1 billion to $2.6 billion as a result of the transfer of the responsibility for property and tenancy management of 4050 properties to the community housing sector. These properties were no longer classified as rental properties. In 2021, as a result of implementing AASB 1059 *Service Concession Arrangements: Grantors*, the SAHT reclassified certain community housing properties totalling $1.8 billion as service concession assets and restated the 2020 comparative as $1.7 billion.

In 2021 the SAHT's other property, plant and equipment increased by $183 million, due mainly to following movements:

- service concession assets increasing by $87 million to $1.8 billion following upward revaluations of land and buildings of $26 million, partially offset by depreciation expense of $13 million. These assets are revalued in the same manner as rental properties using the Valuer-General's values. The balance of the increase mainly relates to transfers in from other asset categories (principally on completion of capital works)
- remote indigenous leased properties increasing by $54 million to $275 million following upward revaluations of $71 million, partially offset by depreciation expense of $11 million. These properties are revalued at their depreciated replacement cost because they have no observable market due to their remoteness. They were revalued in October 2020 and previously revalued in October 2017. The upward revaluation mainly reflects the increasing cost of replacing (building) houses in remote areas
- assets under arrangement increasing by $10 million to $1.4 billion following upward revaluations of land and buildings of $22 million, offset by depreciation expense of $11 million. These assets are revalued in the same manner as rental properties using the Valuer-General's values
- capital works in progress increasing by $4 million to $129 million. This reflects additional works of $113 million ($92 million) and properties transferred in from other asset categories for development of $62 million ($56 million), partially offset by works completed of $171 million ($209 million) mainly under SAHT's housing renewal programs
- vacant land of $66 million ($67 million).

Intangible assets

Intangible assets increased by $2 million to $35 million due to the capitalisation of $7 million in development costs relating mainly to developing the next phase of the Connect system, partially offset by $4 million in amortisation costs.

Current assets

Current assets decreased by $390 million to $680 million due mainly to a $399 million decrease in cash and deposits with the South Australian Government Financing Authority, partially offset by a $9 million increase in receivables to $33 million. The decrease in cash is explained further under 'Statement of Cash Flows' below.

Liabilities

Total liabilities decreased by $186 million to $136 million due mainly to land tax payable reducing by $215 million. The land tax assessment notice for 2020 was received on 30 June 2020 and not paid until the following year. Land tax for 2021 was paid in 2021. This decrease was partially offset by an increase of $30 million in lease liabilities relating to certain accommodation leases that met, for the first time, the requirements for recognition.

Statement of Cash Flows

In 2021 the SAHT recorded a cash decrease of $399 million compared to the $45 million increase for the previous year. This reduction in cash was due mainly to:

- net cash used in operating activities of $492 million ($175 million), which included land tax equivalents payments of $354 million ($49 million), noting that the land tax assessment notice for 2020 was received on 30 June 2020 and paid in 2021
- net cash used in investing activities of $34 million ($20 million), which included purchases of property, plant and equipment of $27 million ($5 million) mainly relating to capital expenditure on properties
- net cash provided by financing activities of $127 million ($241 million), which included equity contributions of $129 million ($241 million) from the SA Government.

COVID-19 impacts

Key impacts of the COVID-19 pandemic on the SAHT's operations in 2021 were:

- a COVID-19 Relief Call Centre was set up to provide, among other things, advice on short-term accommodation options for people unable to self-quarantine or self-isolate
- emergency accommodation was provided for people rough sleeping and required to self-isolate
- funding was provided to specialist homelessness service providers to case manage rough sleepers self-isolating in emergency accommodation to transition to longer term sustainable housing
- accommodation and transport was provided for indigenous community members required to quarantine before returning to remote communities.

COVID-19 will continue to impact on the SAHT's operations in 2022:

- The COVID-19 Relief Call Centre will continue to operate until it is no longer required.
- The SAHT will continue to support the transition of rough sleepers self-isolating in emergency accommodation to longer term sustainable housing.

Further commentary on operations

Implementing the homelessness alliance model

On 1 July 2021 the SAHT implemented the homelessness alliance model as a new way of helping the homeless.

Before this, the SAHT had contracted with a large number of non-government service providers to deliver Specialist Homelessness Services (SHS) and Domestic and Family Violence (DFV) services at a cost of about $70 million a year. The main objective of these services was to help the homeless find accommodation. Most of the service providers had not been exposed to a competitive tender since 2010 and had their service contracts continually extended for short terms.

In July and August 2020 the SAHT Board approved a proposed alliance model to reform SHS and DFV services. The model requires service providers to join together to form five alliances, consisting of two metropolitan Adelaide and two country alliances, combined with a statewide DFV services alliance.

The SAHT anticipates that the alliance model will have the following benefits:

- alignment and common understanding of reform objectives and goals by all stakeholders
- the promoting of collaboration between government and service providers to improve service outcomes
- longer term outcomes-based contracts for all contractors to evolve their service offerings
- flexibility to adapt to changes in service outcomes or priorities
- performance measures (KPIs) that drive desired behaviours to achieve reform outcomes, which are targeted through relevant and measurable metrics and adaptable over time
- efficient and agile use of available resources to deliver value for money
- improved data collection, analysis and reporting to capture the right data for measuring outcomes, provide transparency within the system, share learnings to optimise the delivery model and inform decision-making.

In November 2020 the SAHT released tenders for the supply of homelessness services under the alliance model. The tender excluded about $20 million of the $70 million of homelessness services provided annually, including highly specific services not suited to an alliance model. Respondents were required to detail in their tender submissions how their alliance would use a specified amount of funding to reform the delivery of SHS and DFV services, achieving the expected benefits of the alliance model.

After evaluating the tender submissions, the SAHT contracted five alliances to deliver homelessness services for an initial two-year period commencing 1 July 2021 at a cost of $103 million, with two extension options of two years each for an additional $201 million.

The SAHT has established an Alliance System Steering Group comprising senior representation from the SAHT and from each alliance to work collaboratively towards achieving the expected benefits of the alliance model.

South Australian Tourism Commission (SATC)

Financial statistics	Net result:	$6.1 million
	Total appropriation:	$67.2 million
	Net assets:	$25.6 million
	Number of FTEs:	113

Significant events and transactions

— The COVID-19 pandemic has significantly impacted the South Australian tourism industry and SATC's operations.

— The Superloop Adelaide 500 motor sport race for 2020-21 did not proceed and will no longer be held. SATC advised us that net funding received from the SA Government for the race will be redirected to support new major events from 2021-22.

— SATC received grants of $10 million from the Department of Treasury and Finance (DTF) to implement the Tourism Industry Development Fund (TIDF) to stimulate private sector investment in new and improved accommodation, and the development of tourism products and experiences across regional South Australia. SATC will receive a further $10 million in 2021-22. At 30 June 2021, SATC had approved $10.1 million of applications from tourism operators for grants to fund their projects, of which $206 000 had been paid.

Financial report opinion **Unmodified**

Functional responsibility

SATC is established by the *South Australian Tourism Commission Act 1993* and is a body corporate.

SATC's functions include promoting South Australia as a tourist destination and further developing and improving the State's tourism industry. It aims to achieve this by:

- ensuring a coordinated approach to promoting South Australia
- attracting, developing, owning and supporting major and strategic tourism events
- developing tourism resources to maintain and preserve South Australia's environmental and cultural heritage.

Scope of the audit

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

Specific areas of audit attention in 2020-21 included:

- income from sponsorships
- employee benefits expenses
- expenditure on events, advertising and industry assistance
- general ledger processing.

In addition some services, including accounts payable and payroll processing, were undertaken by Shared Services SA and were reviewed as part of our audit of Shared Services SA.

Audit findings

Communicating our audit findings

No significant matters were identified by the audit.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2021 $million	2020 $million
Income		
Appropriation	67	89
SA Government grants, subsidies and transfers	21	1
Other	6	24
Total income	94	114
Expenses		
Employee benefits expenses	13	14
Advertising and promotion	32	32
Industry assistance	23	17
Event operations	11	40
Other	9	9
Total expenses	88	111
Net result	6	2
Other comprehensive income	(7)	-
Total comprehensive result	(1)	2
Net cash provided by operating activities	12	5

	2021 $million	2020 $million
Assets		
Current assets	34	23
Non-current assets	8	21
Total assets	42	45
Liabilities		
Current liabilities	9	10
Non-current liabilities	7	9
Total liabilities	17	19
Total equity	26	26

* Table may not add due to rounding.

Statement of Comprehensive Income

The level and timing of SATC's financial activities vary from year to year depending on the planned mix of marketing, destination development and events supported, and the extent to which specific identified opportunities are funded. The main events managed by SATC are the Superloop Adelaide 500 motor sport race (now ceased), Santos Tour Down Under cycling race, biennial Bridgestone World Solar Challenge, National Pharmacies Christmas Pageant and Tasting Australia food and beverage festival.

SATC's financial activities were significantly impacted in 2020-21 by:

- COVID-19
- the cessation of the Superloop Adelaide 500.

Keys impacts from COVID-19 in 2020-21, detailed in note 1.6 of SATC's financial report, include:

- the cancellation or postponement of certain events, including the 2021 Bridgestone World Solar Challenge
- the delivery of managed events under COVID-19 restrictions, such as the Santos Tour Down Under, which was run as a smaller domestic event, and the National Pharmacies Christmas Pageant, which was held as a twilight stadium show
- the redirection of tourism marketing activities in line with travel restrictions and border closures, including the reallocation of international marketing funding to activities targeted at interstate and intrastate visitation
- the reallocation of resources to provide support programs to South Australian tourism businesses affected by the pandemic. This includes the implementation of the Great State Voucher campaign aimed at supporting the local tourism industry by reimbursing the costs of vouchers provided by participating hotels and tour operators to their customers.

Key impacts of the cessation of the Superloop Adelaide 500 reflected in SATC's financial report include:

- a $6.7 million write-down of motor sport infrastructure assets to $2.5 million, and their subsequent reclassification as non-current assets held for sale under current assets. The write-down was recorded against the asset revaluation surplus and presented under other comprehensive expense

- a $690 000 provision created to cover unsettled claims resulting from contracts that were terminated
- a $9.1 million reduction in event entry fees, licence fees and sales income, and a $2.5 million reduction in sponsorship and participation income
- an $18.3 million reduction in event operations expense, and a $2.4 million reduction in advertising and promotion expenses. Event operations expense included payments to settle contracts that were terminated. These payments are subject to confidentiality arrangements.

For further details refer to 'Further commentary on operations' below.

Income

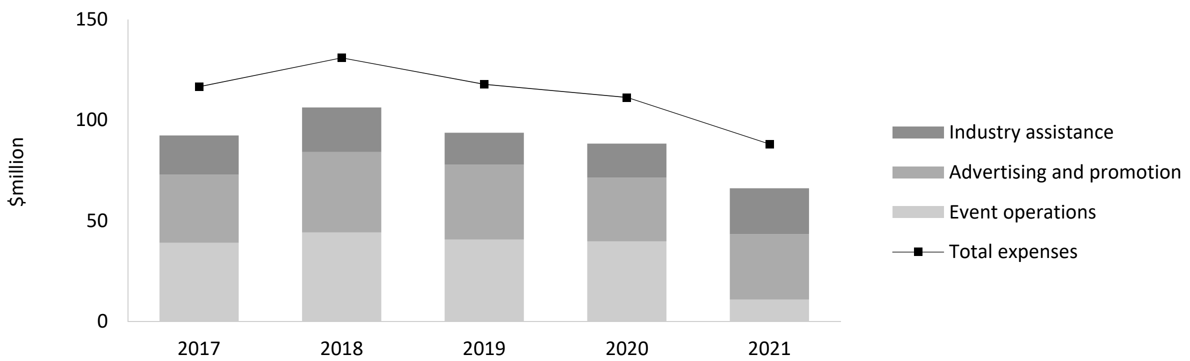
SATC's major revenue source for funding its operations are appropriations and grants from the SA Government.

Income for the year fell by $19.6 million to $94.1 million:

- Appropriations decreased by $22 million to $67.2 million. This decrease largely reflects a change in the funding approach for marketing costs, which are now funded as a grant through the Jobs and Economic Growth Fund ($10 million decrease), and a net reduction in major events sponsorship of $5.1 million.
- Event entry fees, licence fees and sales decreased by $11.1 million to $844 000, while sponsorship and participation income decreased by $5.7 million to $5.3 million. These decreases were due mainly to the cessation of the Superloop Adelaide 500 and reduced revenue from the Santos Tour Down Under, which ran as a smaller domestic event because of the COVID-19 pandemic. The decreases were partially offset by revenue from the Tasting Australia food and beverage festival, which was held in 2020-21 but not in 2019-20.
- SA Government grants increased by $19.8 million to $20.5 million. SATC received $10.4 million from DTF's Jobs and Economic Growth Fund mainly for marketing activities. A further $10 million was received from DTF's COVID-19 Support Fund to implement the TIDF. The TIDF was established to stimulate private sector investment in new and improved accommodation and the development of tourism products and experiences across regional South Australia. For further details on the TIDF refer to 'Further commentary on operations' below.

Expenses

The following chart shows a structural analysis of the main expense items for the five years to 2021.

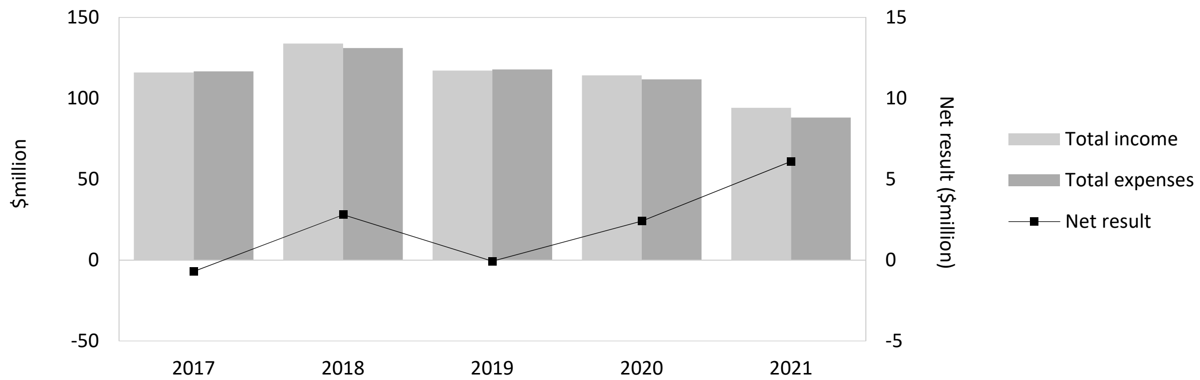


Total expenses decreased by $23.3 million to $88.1 million in 2020-21:

- Event operations expenses decreased by $29 million to $10.8 million due mainly to the cessation of the Superloop Adelaide 500 and the reduced scale of the Santos Tour Down Under. The decreases were partially offset by expenses incurred for Tasting Australia, which was held in 2020-21 but not in 2019-20. For further details of these new events refer to 'Further commentary on operations' below.
- Industry assistance increased by $5.9 million to $22.8 million due mainly to the Great State Voucher campaign and the Illuminate Adelaide event implemented in 2020-21.
- Advertising and promotion expenses increased by $848 000 to $32.5 million due mainly to marketing initiatives in response to COVID-19, including marketing the Great State Voucher campaign.

Net result

The following chart shows total income, total expenses and the net result for the five years to 2021.



The chart shows that total income exceeded total expenses by $6.1 million in 2020-21. This net result reflects SA Government grants received from DTF's Jobs and Economic Growth Fund and COVID-19 Support Fund but not yet spent, particularly unspent TIDF money. For further details refer to 'Further commentary on operations' below.

Statement of Financial Position

Current and non-current assets

At 30 June 2021 current assets were $34.4 million ($23.3 million), exceeding current liabilities of $9.4 million ($9.6 million).

For current assets:

- cash held increased by $10.3 million to $29.7 million. The increase in cash from operations mainly reflects SA Government grants received from DTF's COVID-19 Support Fund for the TIDF but not yet spent
- motor sport infrastructure assets were revalued downwards by $6.7 million to $2.5 million and reclassified as current assets
- receivables reduced by $1.7 million to $2.2 million due mainly to the cessation of the Superloop Adelaide 500.

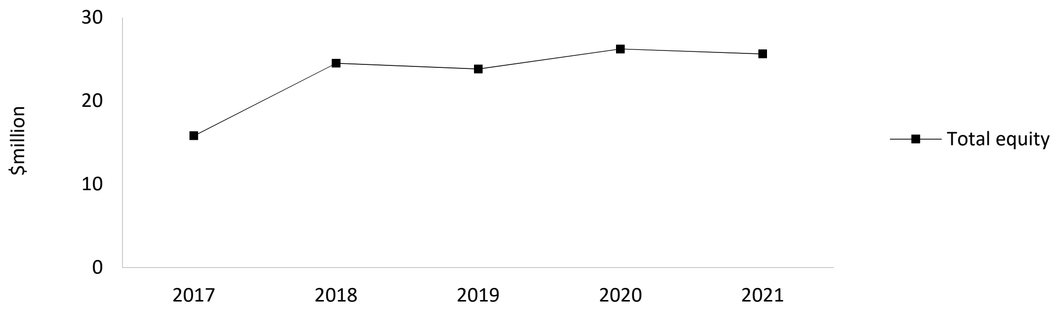
Non-current assets of $8.1 million ($21.5 million) at 30 June 2021 consisted of plant and equipment. The $13.4 million decrease in plant and equipment mainly reflects the $6.7 million write-down of motor sport infrastructure assets and their subsequent reclassification to current assets held for sale.

Current and non-current liabilities

Current and non-current liabilities decreased by $1.7 million to $16.9 million at 30 June 2021, mainly reflecting the reduction in SATC's financial lease liability for accommodation and motor vehicle leases as lease payments are incurred. SATC also created a $690 000 provision to cover unsettled claims resulting from contracts that were terminated when the Superloop Adelaide 500 was cancelled.

Equity (net assets)

The following chart shows total equity as at 30 June for the past five years.



Total equity (net assets) decreased marginally to $25.6 million in 2020-21, with the $6.7 million write-down of motor sport infrastructure assets against the asset revaluation surplus largely offset by the net result of $6.1 million.

Further commentary on operations

Impact of COVID-19

COVID-19 has significantly impacted the South Australian tourism industry and SATC's operations. The impact is expected to continue into 2021-22. The future key impacts are unquantifiable and largely dependent on the severity and duration of public health restrictions and border closures. SATC launched intrastate and interstate marketing activities to drive visitation to the regions and plans to expand these campaigns with each stage of recovery, addressing new markets as they become available.

Cessation of the Superloop Adelaide 500 motor sport race

The SATC Board, after consulting the Premier, approved the cessation of the Superloop Adelaide 500. On 29 October 2020 SATC announced that the race would not proceed in 2021, and that the State's contract with Supercars would not be renewed for future years. The State's sanction agreement with Supercars, the owners of the V8 International Supercar Championship series, was contracted to the end of the 2021 event. The announcement provided reasons for cancelling the event, which included the high level of uncertainty created by COVID-19 about the ability to hold the event in 2021, and the long-term decline in the event's core motor sport fan base. SATC considered it was no longer in a position to deliver a sustainable and successful future for the event.

SATC advised us that net funding received from the SA Government for the Superloop Adelaide 500 will be redirected to support new major events from 2021-22. Some of the new major events secured include the A Day at The Drive tennis event, the Adelaide International Women's Tennis Association 500 and the Australian Baseball League 2021 Hub. Due to the ongoing impacts of COVID-19, some planned new major events were cancelled including the 2020 International Motofest, the 2021 Adelaide International (tennis) and the 2021 ISPS Handa Women's Australian Open (golf).

Tourism Industry Development Fund

On 13 September 2020 the Premier announced the establishment of the TIDF. It was established to provide grant funding to private businesses in South Australia to stimulate investment in new and improved regional accommodation and the development of quality tourism products and experiences. The TIDF will be open for 2020-21 and 2021-22 to provide grants of between $20 000 and $500 000 to applicants for tourism projects, with a maximum of 30% total SA Government funding committed to the total project value.

In 2020-21 SATC received $10 million to establish the TIDF and it will receive a further $10 million in 2021-22.

SATC and the South Australian Government Financing Authority (SAFA) have entered a memorandum of administrative arrangements for the TIDF which requires that:

- SATC assesses applications from businesses for grants from the TIDF to confirm their tourism project is within the scope of the TIDF and is a priority
- SAFA performs a financial review of the applications before SATC's approval
- SAFA prepares a draft grant deed, detailing the grant conditions, for approval by SATC and arranges the execution of the grant deed between the Treasurer and the grantee
- SAFA administers the grant deed and pays the grantee when they meet the grant conditions, such as milestones. SAFA is reimbursed by SATC from the TIDF.

At 30 June 2021:

- SATC had approved grants totalling $10.1 million and had sent approval letters to the successful applicants
- SATC had provided $206 000 from the TIDF to reimburse SAFA for grants paid to recipients
- a further $2.5 million was committed to be paid to SAFA as reimbursement to grant recipients who had entered grant deeds before 30 June 2021
- SATC and SAFA were in the process of drafting and executing deeds for grants totalling $7.5 million.

The time required to finalise deed arrangements varies depending on the complexity of the project and funding conditions. The deed drafting process includes, among other things, negotiating milestones with the grant applicant and preparing the deed by the Crown Solicitor's Office.

South Australian Water Corporation (SA Water)

Financial statistics

Water and sewer rates and charges:	$1.04 billion
Community service obligations:	$132.4 million
Borrowing costs:	$298.7 million
Profit before income tax:	$99.2 million
Infrastructure, plant and equipment:	$13.8 billion
Borrowings:	$7.1 billion
Net assets:	$5.1 billion
Number of FTEs:	1556

Significant events and transactions

— SA Water's profit before tax decreased by $216 million (69%) to $99 million, due mainly to an average of 12% reduction in water and sewerage prices.

— SA Water's system infrastructure assets were revalued upwards by $434 million.

— Work neared completion on the Zero Cost Energy Future (ZCEF) program, with $130 million spent in 2020-21 to bring the total spent so far to $353 million. SA Water estimates that a further $15 million of spending is required to complete the project.

— ZCEF assets, including assets not yet in use, were revalued downwards by $18 million. They are valued using an income approach and the revaluation reflected movements in the price of energy.

— Work continued on the Northern Adelaide Irrigation Scheme ($155.6 million project budget) and the Murray Bridge Wastewater Treatment Plant relocation project ($53.5 million project budget). Both projects are nearing completion.

— SA Water entered into two new contracts for the provision of Adelaide metropolitan service delivery. Over their life, including extension options, these contracts have an estimated total contract value of $1.162 billion.

— A new regulatory period (2020-24) commenced, reducing the total revenue SA Water can recover for drinking water and sewerage retail services by about 16% and 4% respectively over the next four years.

Financial report opinion — **Unmodified**

Controls opinion findings	— The frequency with which SA Water plans to perform condition-based inspections for level 2 assets needed to be documented. — Requests to change maintenance plans could be processed faster.
Other audit findings	— Documentation supporting negotiations for the Adelaide service delivery contracts could have been improved. — The regular review of access to the accounts payable system did not include all users. — Responsibility for managing some open risks needs to be reassigned. — Controls to manage some risks were not recorded in the risk management system.

Functional responsibility

SA Water is established under the *South Australian Water Corporation Act 1994*. It is responsible to the Minister for Environment and Water.

SA Water's primary functions are to provide services for the storage, treatment and supply of water and removal and treatment of wastewater.

The *Public Corporations Act 1993* applies to SA Water and requires a charter and performance statement to be prepared by the Minister and the Treasurer after consultation with SA Water.

SA Water is a for-profit entity under Accounting Policy Framework II *General Purpose Financial Statements Framework*, APS 2.4.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- revenue raising, collection, receipting and banking
- operating and capital expenditure
- payroll
- financial accounting
- non-current asset recording, valuation and depreciation

- borrowing and finance leases
- governance arrangements
- general IT controls.

We also considered the work of SA Water's internal auditors in planning and conducting the audit.

Controls opinion

We reviewed controls over the purchase of non-financial assets, management of water and sewerage assets and the sale of goods and services (water and sewerage revenue) as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Management of water and sewerage assets

The frequency with which SA Water plans to perform condition-based inspections for level 2 assets needed to be documented

We noted the need for SA Water to document how frequently it expects condition inspections to be performed for level 2 assets. Level 2 assets include major pipelines, water trunk mains and reticulation mains, bores, earth bank storages, water storage tanks, wet well pump stations, wastewater mains, gravity mains and wastewater ancillary and mechanical/electrical equipment.

SA Water responded that it would update its documentation to include condition assessment techniques for all asset types and communicate this information across the business.

Requests to change maintenance plans could be processed faster

We found 66 maintenance change requests (MCRs) there were unactioned for more than three months.

Technicians in the field cannot change maintenance plans in the system SA Water uses, but must submit an MCR to the SA Water Reliability Team. We were advised that this central control is designed to ensure asset maintenance plans remain consistent across the organisation for the same asset type/model.

Delays in updating maintenance plans increase the risk that planned maintenance does not reflect the work required.

In its response SA Water noted the large number of MCRs it receives annually (over 700) and advised that it is currently developing a framework document to ensure all MCRs are reviewed promptly, according to risk.

Other audit findings

Documentation supporting negotiations for the Adelaide service delivery contracts could have been improved

While noting the extensive negotiation planning that occurred, including an approved negotiated outcomes report detailing the effect of the negotiations on the contract, we found that SA Water did not develop an overall negotiation plan for the Adelaide service delivery contracts.

The Adelaide service delivery contracts are initially for 10 years, totalling $1.1 billion, and are key operational contracts with complex servicing requirements.

It is good practice for a negotiation plan to be developed and approved before negotiations start. It ensures that there is a clear objective for the negotiation and that negotiation priorities and strategies are understood. SA Water's procurement and contract management procedure notes the importance of a documented negotiation plan, where required.

We recommended that for future large and complex procurements, SA Water should document and approve an overall negotiation plan before negotiations start. We also recommended that its procurement and contract management procedure clarify the minimum circumstances in which a negotiation plan is required.

While asserting that its process and documentation is sound, SA Water responded that it will consider whether an overall negotiation plan should be documented and approved before negotiations start for future large and complex procurements, to manage risks effectively. SA Water also committed to reviewing its procurement and contract management procedure in relation to negotiation planning and making changes, as necessary, to clarify the minimum circumstances in which a negotiation plan is required.

The regular review of access to the accounts payable system did not include all users

We noted that SA Water's six-monthly review of access to the Ellipse accounts payable system did not include the 981 users with finance/supply chain access. We were advised by SA Water staff that the access profiles for these users are not regularly reviewed because they are considered low risk.

In response to our finding SA Water agreed to implement an annual review of system access for this user group.

Responsibility for managing some open risks needs to be reassigned

We identified a small number of risks recorded in the SAAM risk management system that were assigned to risk owners and coordinators who were no longer employed by SA Water, or had no assigned risk owner or coordinator.

A risk owner is responsible for managing the risk and reporting and escalating significant risks to the Chief Executive.

The risk coordinator is responsible for:

- informing the risk owner of changes to risks
- quarterly reviews of risks and treatment actions with the risk owner

- monitoring and updating risks for quarterly reporting to the Governance, Finance and Risk Committee
- monitoring and updating significant changes to the risk rating and related incidents.

We recommended SA Water regularly review SAAM and ensure all open risks are allocated to current positions within its organisation structure.

SA Water replied that its risk profile had recently been reviewed and updated in SAAM, with all new risks allocated to current employees. It will incorporate automated rules and workflows to address when risks need to be reassigned in SAAM.

Controls to manage some risks not recorded in the risk management system

SA Water's SAAM risk management system records risks and mitigating controls. Our review of the information recorded in SAAM in November 2020 found that eight of the 73 active risks recorded did not identify the controls established by SA Water to manage the risk. Of these, two were rated as high risk, two were medium risk, three had no risk rating and one was rated as a low risk.

SA Water's risk management framework procedure states that it is mandatory for active risks to have controls recorded in SAAM.

SA Water responded that its new risk and resilience framework includes this responsibility for all risk and controls owners, and governance and reporting structures enforce the regular review of all SAAM risk controls and actions. In addition, the Risk & Resilience team has oversight of all controls in SAAM and will periodically review key controls.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2021 $million	2020 $million
Income		
Water and sewer rates and charges	1 041	1 246
Community service obligations	132	169
Other	181	191
Total income	1 354	1 606
Expenses		
Depreciation and amortisation expense	355	362
Borrowing costs	299	318
Operational and service contracts	205	226
Employee benefits expenses	139	140
Other expenses	256	244
Total expenses	1 254	1 290
Net profit before income tax equivalents expense	99	316
Income tax expense	26	93
Net profit after income tax equivalents expense	73	223
Other comprehensive income (net of tax)	309	(807)
Total comprehensive result	382	(584)

	2021 $million	2020 $million
Net cash inflows (outflows) from operating activities	445	518
Assets		
Current assets	222	249
Non-current assets	14 195	13 618
Total assets	14 416	13 866
Liabilities		
Current liabilities	309	271
Non-current liabilities	9 002	8 801
Total liabilities	9 311	9 072
Total equity	5 106	4 794

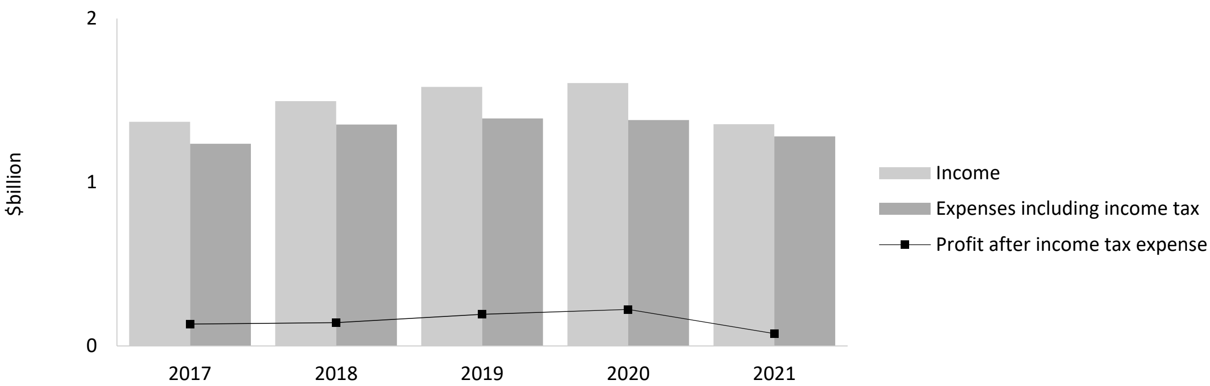
* Table may not add due to rounding.

Statement of Comprehensive Income

Operating result

SA Water's profit after income tax equivalents expense (income tax) decreased by $150 million to $73 million.

The following chart shows the income, expenses (including income tax) and profit after income tax for the five years to 2021.

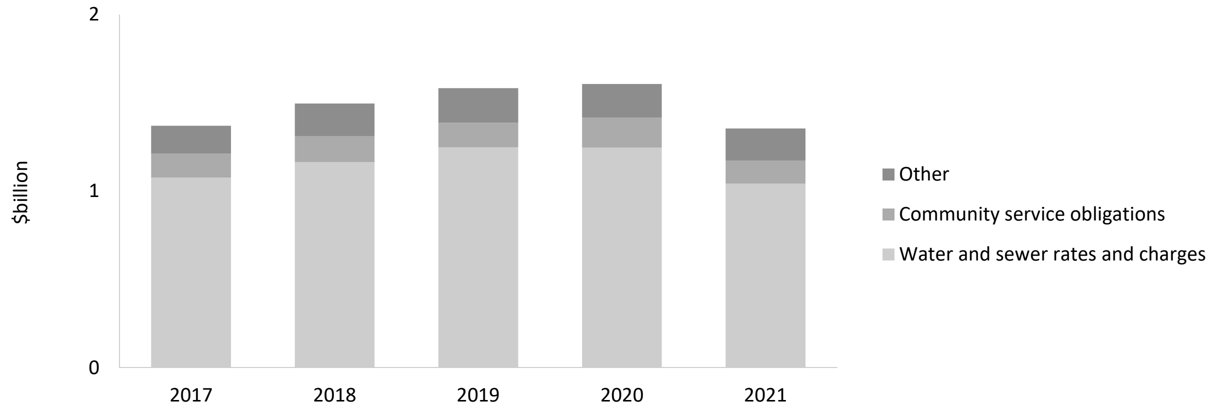


Since 2014 the Essential Services Commission of South Australia (ESCOSA) has regulated the revenue that SA Water can earn from providing drinking water and sewerage retail services. ESCOSA determines the revenue (not price) that SA Water may derive from these services, with SA Water setting annual water and sewerage charges to achieve the revenue limits determined by ESCOSA, and ESCOSA monitoring SA Water's performance. Further information on ESCOSA's role in making revenue determinations is provided under 'Further commentary on operations' below.

The chart above shows the gradual increase in SA Water's profit after income tax over the second regulatory period, which finished in 2020. In 2021 SA Water's income decreased by $252 million, only partially offset by a $36 million decrease in expenses. Information on these movements is provided below.

Income

The following chart shows the main sources of income for SA Water for the five years to 2021.



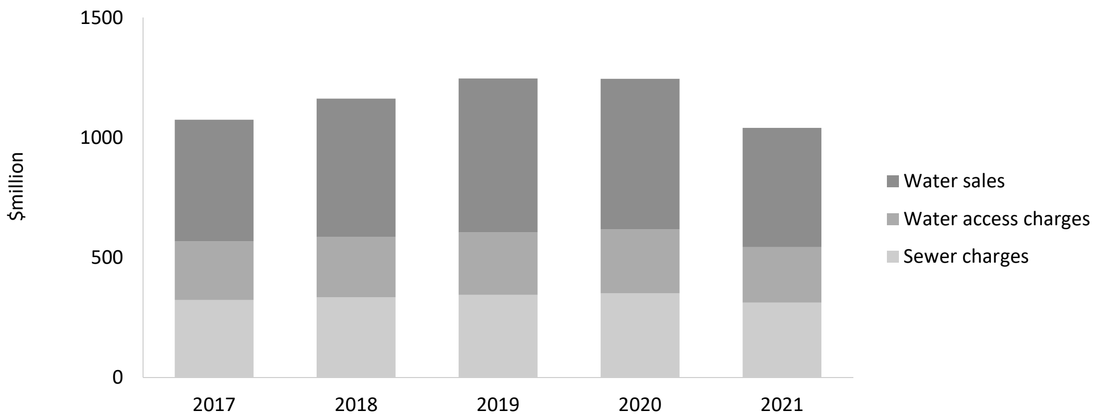
The chart shows total income generally increasing to 2020, largely reflecting increases in income from water and sewer rates and charges. In 2021 total income decreased by $252 million, driven by a reduction in income from water and sewer rates and charges of $205 million, a $37 million decrease in community service obligation income and a $10 million decrease in all other income.

Water and sewer rates and charges

The major source of SA Water's income is water and sewer rates and charges. These mainly comprise:

- sewer charges, mainly set on property values
- water access charges, mainly set at a fixed amount
- water sales, charged by volume of water used.

The following chart shows these components for the past five years.



Water and sewer rates and charges revenue is affected by changes in prices charged and water consumption. Prior to 2020 these had increased steadily due to increased demand for water and rate increases. Water consumption reduced slightly in 2020 and 2021.

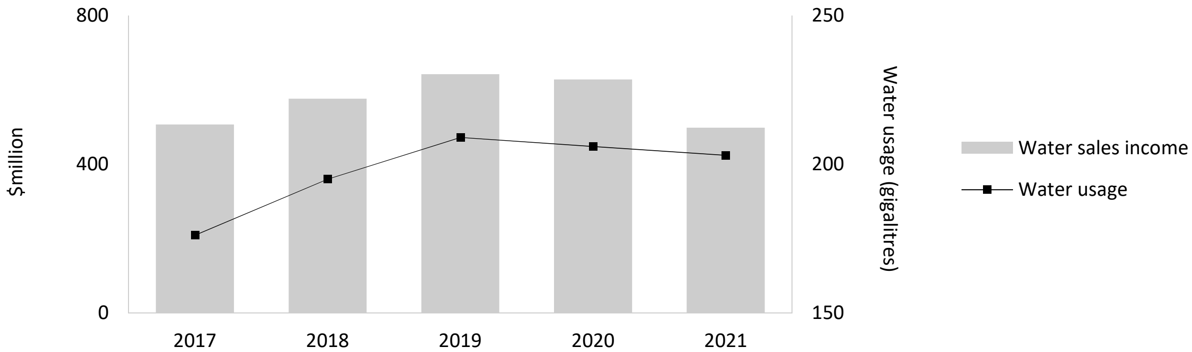
The SA Water Final Regulatory Determination 2020 (Final Determination) established significant reductions in total revenue that SA Water may recover in the four-year period starting 1 July 2020.

The Final Determination resulted in reductions of 16% ($494 million) and 4% ($54 million) for drinking water and sewerage retail services respectively, as compared to the amounts determined for the previous regulatory period (2016-2020). ESCOSA reported that this revenue reduction was driven primarily by lower market-based debt and equity financing costs (through the regulated rate of return).

For 2021, these revenue reductions resulted in an average 12% reduction in water and sewer rates, and are the key driver in the decrease in water and sewer rates and charges. Further information on ESCOSA's role in making revenue determinations is provided under 'Further commentary on operations' below.

Water sales are also impacted by the demand for water, which for 2021 resulted in a $9 million decrease water sales income.

The following chart shows water usage and water sales income.



In 2018 water usage increased to 195 gigalitres, and increased again in 2019 to 209 gigalitres. Both increases reflected hotter and drier weather conditions. In 2021 demand reduced by 3.1 gigalitres to 203 gigalitres.

The factors affecting water and sewer prices are discussed further under 'Further commentary on operations' below.

Community service obligations (CSOs)

SA Water is required to provide a number of non-commercial services to the community on behalf of the SA Government. The SA Government provides SA Water with CSO funding to compensate it for these activities. CSO revenue decreased by $37 million to $132 million in 2021, due mainly to the cessation of the Water for Fodder program.

CSOs are to compensate SA Water for:

- the shortfall in the recovery of costs associated with country water and sewer services (due to the requirement for statewide pricing) – SA Water received $108 million ($108 million) for this CSO
- the provision of water and sewer exemptions and concessions to certain properties, including charities and public schools – SA Water received $17.3 million ($19.9 million) for this CSO
- other payments such as the administration of the Pensioner Concession Scheme, South Australian Government Radio Network and emergency functional services, and maintaining water and sewerage services in remote communities.

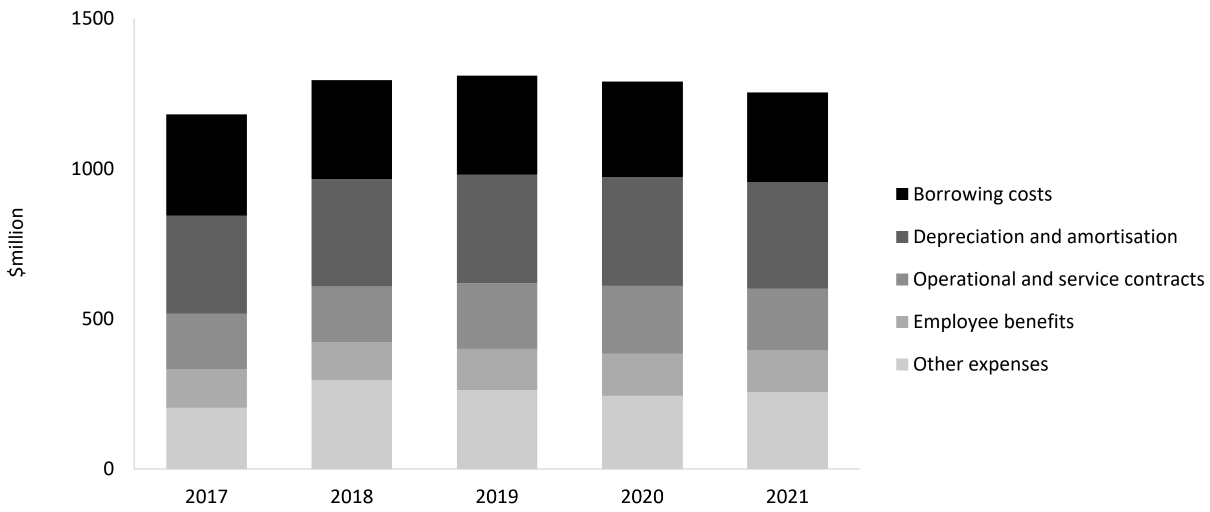
CSOs are provided under SA Water's financial ownership framework, which is agreed with the Department of Treasury and Finance.

Other income

Income from all other sources decreased by $10 million to $181 million and comprises income from a range of sources, including contributed assets and recoverable works – which can vary from year to year depending on economic conditions and government initiatives – and gains on the disposal of infrastructure and other assets.

Expenses

The following chart analyses SA Water's main expense items, excluding income tax expense, for the five years to 2021.



Since 2017 employee benefits expenses have increased by $11 million, and operational and service contracts expenses have increased by $20 million. Both increases are impacted by relevant inflationary factors and are reflective of the contractual nature of these expenses.

Borrowing costs are impacted by both the size of SA Water's debt and movements in interest rates. Since 2017, while SA Water's total borrowings have increased by $699 million, borrowing costs have decreased by $38 million.

Other expenses include a range of expenses including services and supplies, costs associated with recoverable works – which can vary from year to year depending on government initiatives – asset write-offs and revaluation decrements, and electricity charges. Electricity charges increased by $19 million to $62 million in 2018, due mainly to the removal of electricity charges from the Allwater service delivery contract. Since that date SA Water has looked for methods to manage energy price risk, culminating in the July 2018 decision to purchase and install approximately 152 megawatts of solar photo-voltaic generation and 35 megawatt hours of energy storage – SA Water's ZCEF program.

In 2021 total expenses decreased by $36 million to $1.25 billion. The major contributing components were:

- a decrease in electricity charges of $34 million, driven by significant reductions in average energy prices ($35 per MWh in 2020-21 compared to $54 per MWh in 2019-20). There also was a decrease in charges to run the Adelaide Desalination Plant (ADP) for the Water for Fodder program which ceased in 2020
- a reduction in borrowing costs of $18.9 million due mainly to lower market interest rates
- a $7.1 million decrease in depreciation and amortisation expenses, comprising a $15 million decrease in depreciation on system infrastructure, partially offset by a $7.3 million increase in amortisation of intangible assets. The decrease in system infrastructure depreciation was driven by the revaluation downwards of these assets in 2020, while the increase in intangible asset amortisation reflects $40 million in asset additions in the prior year
- a $30 million decrease in costs associated with the South Australian Riverland Floodplains Integrated Infrastructure Program (SARFIIP). Costs incurred by SA Water for the SARFIIP are reimbursed by the Department for Environment and Water (DEW) and recognised as operational and service contracts expenses
- an $18 million revaluation downwards of the ZCEF assets to $346 million, against completed costs of $364 million
- site restoration costs of $18 million for the Cobdogla pits, other water and wastewater decommissioning and fire preparedness at SA Water sites
- higher DEW water planning and management fees of $12.2 million. SA Water is required to contribute to DEW each year of the current regulatory period to support water planning and management activities.

Adelaide Desalination Plant

The ADP was a major construction undertaking that commenced in 2008-09. The objective of the project was to construct and operate infrastructure that obtains and treats seawater to produce drinking quality water.

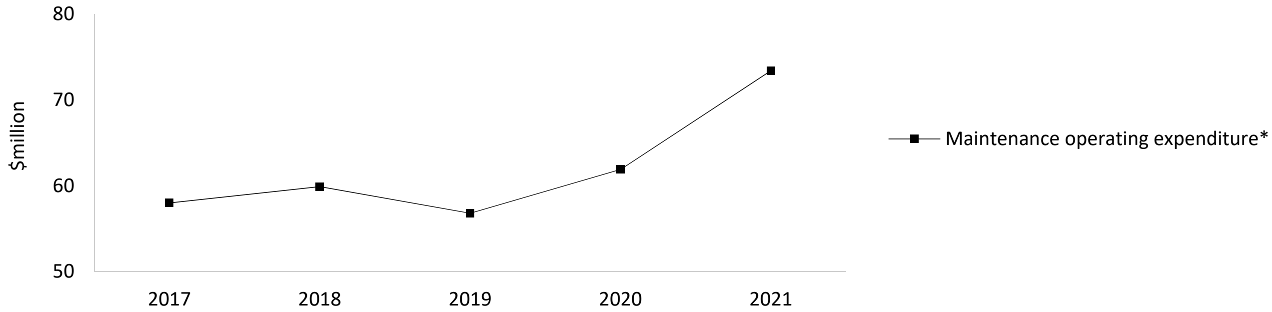
SA Water’s major costs for the ADP are:

- operation and maintenance of the desalination plant (O&M contract). The O&M contract is for 20 years from 2012. In 2021 contract expenditure for operating the plant was $17.7 million ($25.5 million). Water produced by the plant decreased by approximately 35 gigalitres to 5.3 gigalitres (40 gigalitres). The decrease in production for 2021 largely reflected the cessation of the Water for Fodder program. The O&M contract has a significant fixed component that does not vary based on water produced by the plant
- power to operate the desalination plant. As part of the approval for the ADP, a commitment was made that renewable energy would be used to produce the desalinated water and transfer it to the distribution network. From June 2020, SA Water started procuring black energy, renewable energy certificates and Australian carbon credit units from the wholesale market to meet its renewable energy obligations for the ADP. In 2021 expenditure for operational power (including relevant used renewable energy certificates) was $6.6 million ($32.1 million). This decrease reflects the cessation of the Water for Fodder program.

The total depreciation expense (including intangible assets) for the ADP was $47 million ($49 million) in 2020-21.

SA Water maintenance expenditure

The following chart shows SA Water's routine maintenance and repairs expenditure on water and sewerage assets since 2017.



*   Data on maintenance expenditure by year was provided by SA Water and is unaudited.

SA Water's routine maintenance and repairs expenditure, including pipe maintenance, increased by $11.5 million to $73.4 million in 2021. There are a number of factors that affect the level of maintenance, including the nature of the pipe being maintained (metropolitan versus country infrastructure), location, age and reason for maintenance. SA Water also has capital expenditure to renew its network, which is described further below.

Pipe bursts data

Maintenance includes the costs of responding to pipe failures, or bursts. The number of bursts over the last five years, with data provided by SA Water and unaudited, is shown in the table below.

	2016-17 Number	2017-18 Number	2018-19 Number	2019-20 Number	2020-21 Number
Reported pipe bursts:					
Metropolitan	1 689	1 693	2 026	1 801	1 831
Country	1 968	2 168	2 020	1 867	1 780
Total	3 657	3 861	4 046	3 668	3 611

For the time frame shown, the number of water and sewer pipe bursts has remained relatively constant, with an increase in metropolitan burst rates in 2018-19 and a decrease to 2020-21, due mainly to climactic factors.

The Bureau of Meteorology's *National performance report 2019-20: urban water utilities* reports that SA Water's water main burst rates ranked fifth lowest among 15 large urban water utilities.

When the data on the number of bursts is considered with the pipe maintenance costs, there has not been a significant increase in maintenance costs due to pipe bursts, which is consistent with SA Water's analysis that the number of bursts is in line with longer-term trends.

Other comprehensive income

Other comprehensive income includes gains and losses on the revaluation of property, plant and infrastructure and available-for-sale financial assets. In 2021 other comprehensive income showed a gain of $309 million ($807 million loss), principally due to the upwards revaluation of infrastructure assets. This is discussed further in the next section.

Statement of Financial Position

SA Water's financial position is dominated by non-current water and sewer infrastructure assets and related borrowings and tax liabilities. Since 2016 total assets have increased by $326 million, reflecting net revaluations increments and additions to water and sewer infrastructure, offset by depreciation.

Total assets

System infrastructure assets are operationally and financially significant to SA Water, representing $12.4 billion (97%) of the $14.4 billion in total assets.

In 2021 total assets increased by $550 million from the previous year. Significant movements affecting assets during the year were:

- the upward revaluation of infrastructure assets and land of $439 million
- the acquisition of system infrastructure, plant and equipment and intangibles of $512 million (including water and sewer pipe network renewal and the new ZCEF assets)
- depreciation and amortisation charges of $354 million.

An income approach is used to value system infrastructure assets

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

In 2020 SA Water changed from a cost approach to an income approach for valuing its system infrastructure assets. When using an income approach, SA Water measures the fair value of its system infrastructure by estimating the net future cash flows generated by the use of these assets, discounted to present value using a weighted average cost of capital.

SA Water aligns its approach to determining the future cash flows with the methodology applied by ESCOSA. In addition to the cash flows for regulated assets under this approach, SA Water's fair value calculations include estimated cash flows from non-regulated assets, which are not included in ESCOSA's methodology.

The fair value of system infrastructure assets is determined by calculating the total value of all SA Water assets that contribute to the generation of future cash flows and then deducting asset classes that have been valued using the market or cost approach.

System infrastructure asset valuation is sensitive to changes in assumptions

The discounted cash flow model SA Water uses to determine the fair value of system infrastructure assets 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

- the perpetual nominal growth rate used to estimate the future growth in net cash flows, which is based on long-term inflation estimates
- estimates of future capital expenditure using the ESCOSA final capital expenditure determination as a basis.

The table below demonstrates the sensitivity of the calculation and the impact that small changes in these variables has when estimating the fair value of SA Water's system infrastructure. This sensitivity information is presented in note 13 of SA Water's financial report.

Discount rate	Rate applied %	If higher by +0.1%	If lower by -0.1%
Nominal post-tax rate	4.09%	4.19%	3.99%
Calculated fair value of infrastructure, plant and equipment ($billion)	13.773	12.895	14.772
Resulting change ($million)		(878)	1 000

Perpetual nominal growth rate	Rate applied %	If higher by +0.1%	If lower by -0.1%
Nominal post-tax rate	2.50%	2.60%	2.40%
Calculated fair value of infrastructure, plant and equipment ($billion)	13.773	14.693	12.961
Resulting change ($million)		920	(811)

Sustainable capital expenditure	Value applied	If higher by $10 million	If lower by $10 million
Nominal post-tax value ($million)	385.7	395.7	375.7
Calculated fair value of infrastructure, plant and equipment ($billion)	13.773	13.374	14.172
Resulting change ($million)		(399)	399

The initial valuation of system infrastructure assets using the income approach in 2020 applied a nominal post-tax rate of 4.45%, resulting in a valuation of $12.04 billion. In 2021 a nominal post-tax rate of 4.09% was used, contributing to a revaluation upwards of $434 million.

The following data provides an overview of water and sewer infrastructure assets for 2021.

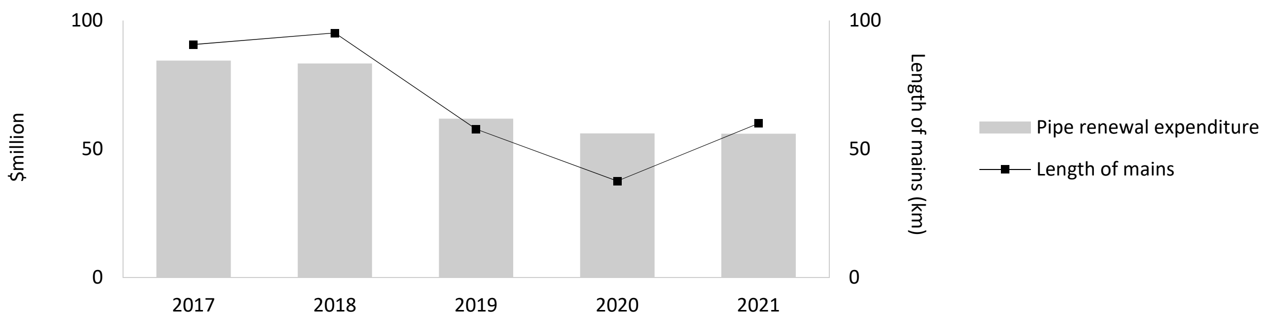
Water	Assets*	Value
Water customer connections	802,850	$700m
Pipes	27,174km	$4.0b
Water treatment plants	38	$713m
Dams/Weirs	36	$606m
Desalination plants	5	$1.3b

Sewerage	Assets*	Value
Customer wastewater connections	631,552	$665m
Wastewater mains	9,142km	$2.0b
Treatment plants	32	$1.2b

* Data on assets provided by SA Water and unaudited.

Renewal of the water and sewer pipe networks

The following chart shows SA Water's pipe network renewal expenditure (based on data provided by SA Water) for both water and sewer pipes, which includes major projects for each year and the length, in kilometres of mains replaced, of water reticulation pipes only.



The chart shows that pipe renewals increased in 2017 and 2018, due to an initiative to replace water mains. Pipe renewal expenditure has remained at a consistent level since 2019.

Zero Cost Energy Future (Renewable Energy) Assets

The scope of SA Water's ZCEF project includes the installation of 152 MW of solar photovoltaic and 35 MWh of storage, and a control and analytics system to be located on or adjacent to approximately 33 of SA Water's high electricity usage sites. On completion, the project aims to achieve zero net electricity operating costs. The project will likely be fully completed later in 2021.

When approved, the project had an estimated pay-back period of 8.3 years based on an estimated wholesale electricity of $60/MWh. Current and estimated future reductions in average energy prices will likely extend the payback period to around 12 years.

ESCOSA informed SA Water that capital costs associated with the ZCEF project could not be included in the Final Determination. This was because, in ESCOSA's view, water and sewerage users were not adequately protected from the risks and benefits of the program not being realised. By treating the program as an unregulated activity, ESCOSA removed from its final determination of revenue all costs of the program and all future savings that SA Water expects to receive from it. All risks and benefits from the ZCEF program will therefore accrue to SA Water and the SA Government. Final drinking water and sewerage retail service revenues for the current regulatory period do not reflect the expected future savings, or costs, arising from the ZCEF program.

Once completed, the total cost for the ZCEF project is estimated at $368 million. As at 30 June 2021, capital expenditure of $353 million had been recognised as completed assets or work in progress.

SA Water has elected to value its ZCEF assets using the income approach through a discounted cash flow model. The inputs used for the cash flows are largely derived on the capacity output of ZCEF based on estimated energy prices over the 29-year life of the assets.

The revaluation using the income approach resulted in a valuation of $346 million against a carrying value of $364 million, representing a revaluation downwards of $18 million. This is recognised as other expenses in the Statement of Comprehensive Income.

Liabilities

Total liabilities increased by $239 million, impacted by:

- increased borrowings of $107 million to fund capital expenditure and dividends
- increases in deferred tax liabilities of $117 million, mainly as a result of temporary differences in the recognition amounts recognised directly through equity, including revaluations upwards of system infrastructure assets
- an increase in trade creditors of $28 million, mainly reflecting accruals for capital projects, including the ZCEF project, and payables associated with the cessation of the Allwater Alliance.

Current assets and liabilities

At 30 June 2021 current liabilities amounted to $309 million, exceeding current assets of $222 million by $86 million. While such a deficiency in working capital can be of concern, SA Water has a strong cash flow position from operating activities and access to sufficient borrowing facilities with the South Australian Government Financing Authority (SAFA), which would enable all of its current liabilities to be met. A large component of current liabilities is payables, comprising 65% (61%) of the balance, which includes obligations for capital purchases.

Statement of Cash Flows

While cash decreased marginally to $3.9 million, SA Water's cash position is subject to significant changes associated with its operating, investing and financing activities. Factors affecting cash flows include:

- receipts from customers of $1.3 billion, largely reflecting water and sewerage charges
- investment in the construction and purchase of infrastructure, plant and equipment and intangible assets. In 2021 investing payments for assets amounted to $454 million ($576 million), representing the number of large infrastructure projects, including the ZCEF program
- payment of a cash dividend to the SA Government of $82 million ($228 million)
- an increase in SA Water's financing requirements, with cash inflows from net borrowings totalling $107 million ($305 million).

Further commentary on operations

Financial ownership framework, charter and performance statement

SA Water operates under a financial ownership framework, charter and performance statement, all approved by the Treasurer and Minister.

The performance statement defines the contribution to the SA Government in terms of dividends, repayment of capital, income tax equivalents and other rates and taxes. The key financial performance measures agreed to in the performance statement are set out in the following table.

Performance measure	Target 2020-21	Actual results 2020-21
Profit ($million)	69.4	99.2
Tax expense ($million)	21.4	25.7
Dividend ($million)	49.7	82.1
Total contribution ($million)	71.1	107.8
Gearing ratio (%)*	51.0	50.0

* Total interest bearing debt (including borrowings and lease liabilities) divided by total assets.

SA Water's actual total contribution of $107.8 million ($320.7 million) was $36.7 million above the performance statement target. Profit of $99.2 million ($315.7 million) was $29.8 million above the performance statement target. SA Water's performance targets were significantly reduced for 2021 in response to the budgeted impacts of ESCOSA's Final Determination – see comments under 'Water and sewer rates and charges' below.

The dividend target of $49.7 million ($179 million) was calculated at 100% of profit in line with SA Government requirements for government businesses.

The performance statement and financial ownership framework includes CSO payments from the SA Government to support non-commercial services and requires SA Water to maintain a gearing ratio of at least 45%. For 2021 a target gearing ratio of 51% was specified.

The following table summarises movements in the major items influencing borrowings.

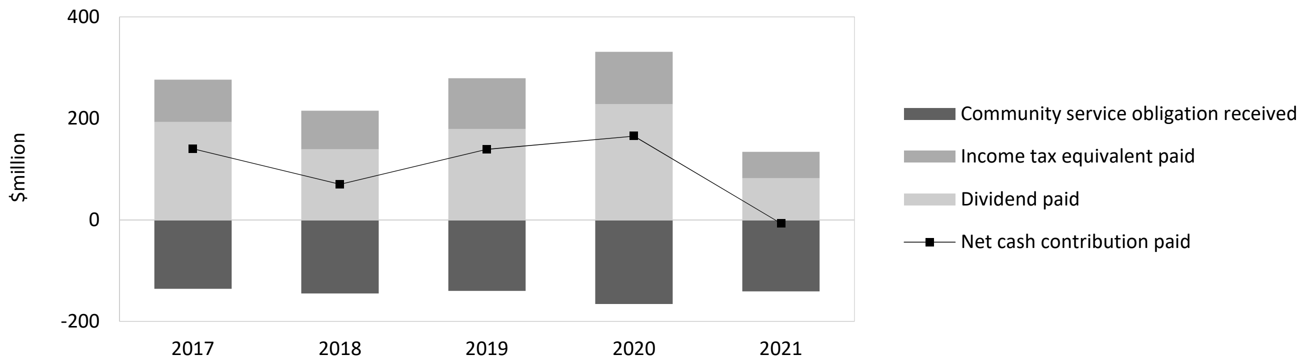
	2017 $million	2018 $million	2019 $million	2020 $million	2021 $million
Net cash inflows from operating activities	395	487	476	518	445
Net cash outflows from investing activities	(290)	(413)	(527)	(576)	(454)
Surplus (Shortfall in) cash from operations after investing activities	105	74	(51)	(58)	(11)
Dividend payments to owners	(193)	(139)	(179)	(228)	(82)
Surplus (Shortfall in) funds to pay for dividends and investing activities	(88)	(65)	(230)	(286)	(93)
Net increase in borrowings	95	66	221	305	107

Net borrowings increased by $107 million in 2021, reflecting the new debt required to pay for dividends and investing activities.

In September 2020, the Treasurer approved a core debt limit of $8.163 billion for SA Water, an increase of $1.13 billion from the previously approved debt limit of $7.037 billion. The approved working capital facility limit with SAFA as at 30 June 2021 is $150 million.

The 2021 performance statement included a decision to maintain SA Water's debt to asset ratio of at least 45% and specifically a target of 51% in 2021. As discussed, the actual debt to asset ratio was 50%.

A structural analysis of SA Water's cash contributions to the SA Government (dividends and income tax equivalent) and CSO funding provided by the SA Government for the five years to 2021 is shown in the following chart.



The chart shows the amount of money returned to the SA Government through income tax equivalent and dividend payments reducing significantly in 2021, resulting in a net $7 million contribution from the SA Government.

Comparison with other water utilities

SA Water is required to maintain a debt to asset ratio of at least 45%. This requirement is designed to ensure debt is in line with other interstate water utilities. At 30 June 2021 SA Water had a debt to asset ratio of 50%.

The table below shows SA Water's 2021 gearing ratio and the gearing ratios for four major water utilities from around Australia as at 30 June 2020.

	SA Water (2021)	Sydney Water	Melbourne Water	Water Corporation WA	Yarra Valley Water
Gearing ratio	50%	58%	51%	33%	55%

SA Water's revised gearing ratio is similar to those of Melbourne Water, Yarra Valley Water in Victoria and Sydney Water. Gearing ratios have been impacted by the introduction of AASB 16 *Leases* for all entities.

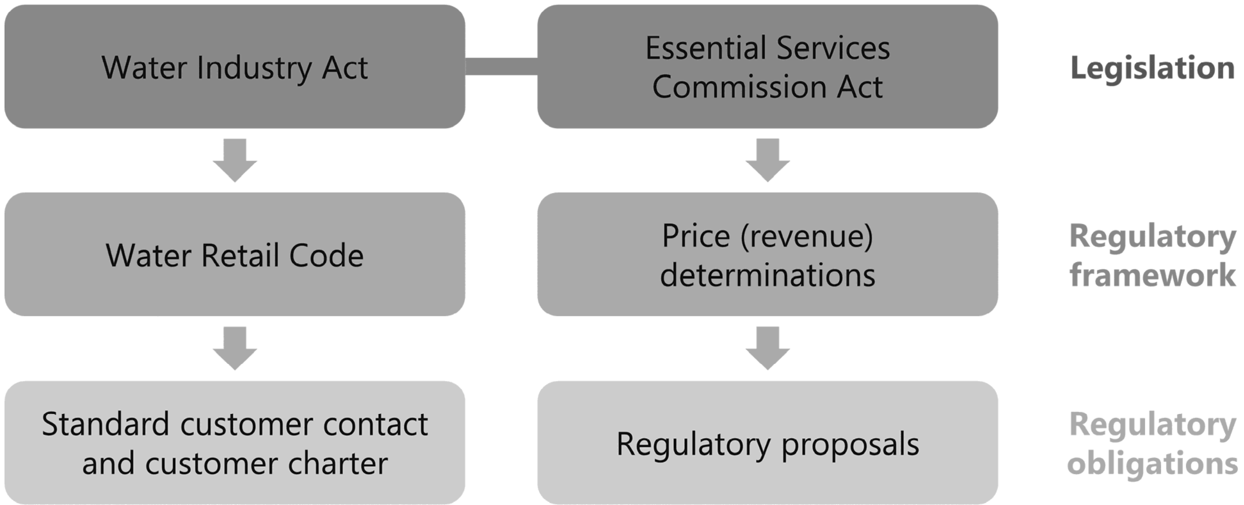
Water and sewer rates and charges

Essential Services Commission of South Australia

Under the *Water Industry Act 2012* (the WI Act) ESCOSA is appointed as the independent economic regulator for the South Australian water industry. ESCOSA commenced its role as regulator on 1 January 2013. SA Water operates within the requirements of the WI Act by holding a licence, and continuing to provide water supply and sewerage services.

Under the WI Act, ESCOSA is responsible for making price determinations. In making them, the WI Act requires ESCOSA to comply with the requirements of any pricing order issued by the Treasurer under the WI Act.

Legislation and regulatory framework



Pricing orders

Under the WI Act, the Treasurer has issued a number of pricing orders since September 2012. They have specified that ESCOSA is to determine the revenue (not price) that may be derived from the provision of drinking water and sewerage retail services (separately).

Both the first regulatory period (1 July 2013 to 30 June 2016) and the second regulatory period (1 July 2016 to 30 June 2020) included the requirement that ESCOSA adopt specified values for SA Water's retail water and sewerage Regulated Asset Bases (RABs), at $7.77 billion and $3.58 billion respectively, as at 1 July 2013 (in December 2012 dollars).

In May 2020 the Treasurer issued a pricing order which stated that from the regulatory period commencing 1 July 2020, the reduced RAB for the provision of drinking water retail services was to be set at $7.25 billion as at 1 July 2013 (in December 2012 dollars). This decrease in the RAB reflected the outcomes of an independent inquiry into South Australian water prices, the *Abridged Advice – Final Report of the SA Inquiry into Water Prices.*

The inquiry recommended that the Treasurer consider its findings that:

- the value of the opening RAB originally established in the Second Pricing Order in May 2013 was not reasonable, and should be changed
- there is a wide range of credible values, but it is difficult to support a June 2013 asset value higher than $7.25 billion (in December 2012 dollars).

ESCOSA considers the RAB when determining the revenue for water and sewerage services. We provide no opinion on the amount of the RAB set by the Treasurer. The RAB is rolled forward each year based on regulatory principles to adjust for net capital additions, disposals and depreciation.

The RAB differs from the value of assets reported in SA Water's financial report. The total RAB assets as at 1 July 2013 specified in the pricing order were $10.83 billion in December 2012 dollars (comprising $7.25 billion for water services and $3.58 billion for sewerage services). This compared to SA Water's total assets at 30 June 2013 of $13.8 billion.

The first regulatory period (1 July 2013 to 30 June 2016) had a 190 gigalitre drinking water demand forecast for each year. For the second regulatory period (1 July 2016 to 30 June 2020), the demand forecast was set each year ranging from 190.1 gigalitres for 2016-17 to 194.5 gigalitres for 2019-20.

The current regulatory period that commenced on 1 July 2020 has a 194 gigalitre drinking water demand forecast for the first year, increasing each year to 195.5 gigalitres in the final year, 2024.

ESCOSA determinations

In June 2020 ESCOSA released the final regulatory determination to apply to SA Water for the period 1 July 2020 to 30 June 2024. This establishes the total revenue that SA Water can recover in this four-year period, based on an RAB of $7.25 billion as at July 2013, for the provision of drinking water retail services and other allowable expenditure.

This latest determination sets SA Water's maximum allowable revenue for drinking water retail services at $2.54 billion over the four years (averaging $635 million p.a.) and $1.22 billion for sewerage retail services (averaging $304 million p.a.). These amounts are based on December 2018 dollars. In present value terms, these figures represent a reduction in SA Water's drinking water and sewerage retail service revenues of about 16% and 4% respectively, over the next four years.

ESCOSA's revenue determinations set four-year total revenue caps for water and sewerage services. Both caps are subject to a demand adjustment mechanism if actual water sales or sewerage connections are materially different to forecasts. ESCOSA monitors compliance with these caps, but any adjustments allowed under the regulatory framework, including any demand adjustments required, are assessed at the end of the regulatory period. Allowable revenue was exceeded in the regulatory period that ended on 30 June 2020, leading to an adjustment of $37 million being reflected in the 2020 to 2024 revenue determination.

ESCOSA reported that the revenue reductions in the Final Determination for 2020 to 2024 were driven primarily by lower market-based debt and equity financing costs (through the regulated rate of return).

On ESCOSA's analysis, the revenue outcomes will provide SA Water with sufficient revenue to fund efficient operations, finance prudent investments on a long-term basis and meet the health, safety, environmental and customer service standards that will apply to SA Water over the next four years.

SA Water pricing

SA Water sets annual water and sewerage charges to achieve the revenue limits determined by ESCOSA, with ESCOSA then monitoring SA Water's performance.

SA Water prices vary according to customer type. The charges for water for residential customers for the five years to 2021-22 are detailed below.

Residential water charges	2017-18 $	2018-19 $	2019-20 $	2020-21 $	2021-22 $
First tier: first 0.3288 kL* per day	2.32/kL	2.36/kL	2.39/kL	1.95/kL	1.97/kL
Second tier: from 0.3288 kL* to 1.4247 kL per day	3.31/kL	3.37/kL	3.41/kL	2.78/kL	2.81/kL
Third tier: over 1.4247 kL per day	3.58/kL	3.65/kL	3.70/kL	3.01/kL	3.04/kL
Annual residential water supply charge per year	292.40	297.80	301.60	271.40	274.40

* 0.3836 kL from 2020-21.

ESCOSA set maximum levels of revenue for drinking water and sewerage services across the regulatory period (1 July 2016 to 30 June 2020) of $3.12 billion and $1.3 billion respectively. Prices rose in line with inflation for the remaining years of the second regulatory period.

Residential water use charges for 2021, the first year of the current four-year regulatory period, decreased by 18.7%. Residential water use charges for 2021-22 will increase by 1.1%.

Regulatory accounting statements

SA Water is required to submit regulatory accounting statements to ESCOSA. Under Water Industry Guideline 2 *Water regulatory information requirements for major retailers*, issued under section 8 of the *Essential Services Commission Act 2002*, ESCOSA has specified requirements for major retailers for the collection, allocation, recording and reporting to ESCOSA of regulated business data. Under Guideline 2, SA Water is required to submit special purpose financial statements.

Impact of COVID-19

SA Water has assessed the financial impact of the COVID-19 pandemic on its operations as immaterial. Importantly, it concluded that there was insufficient evidence to support an increase in its allowance for doubtful debts due to COVID-19.

Superannuation sector overview

South Australian public sector superannuation

The SA Government and its controlled entities contribute to defined benefit and defined contribution superannuation schemes for their employees.

Defined benefit schemes provide post-employment benefits to members as defined by the relevant scheme rules. The main defined benefit schemes are now closed to new members.

Defined contribution schemes are post-employment benefit schemes under which the employer pays fixed contributions into a fund. The amount of benefits payable to members depends on a number of factors such as the amount of member and employer contributions, investment earnings and fees charged to the member's account.

The Auditor-General audits the following South Australian public sector superannuation schemes.

Scheme	Type	Membership/Beneficiaries
South Australian Superannuation Scheme (SASS)	Hybrid (defined benefit and defined contribution)	*Pension Scheme* SA Government employees who elected to contribute to SASS before 30 May 1986 *Lump Sum Scheme* SA Government employees who elected to contribute to SASS after 1 July 1988 and before 4 May 1994
Police Superannuation Scheme (Police Super)	Defined benefit	South Australian police officers who commenced employment with South Australia Police on or before 31 May 1990
Southern State Superannuation Scheme (Triple S)	Defined contribution	SA Government employees from 1 July 1995
South Australian Ambulance Service Superannuation Scheme (Ambulance Super)	Hybrid (defined benefit and defined contribution)	Employees of the SA Ambulance Service Inc
Super SA Retirement Investment Fund (SSARIF)	Mixed (income stream and defined contribution)	SA Government employees who have retired, or are nearing retirement age, or have ceased employment with the SA Government
Parliamentary Superannuation Scheme (Parliamentary Super)	Hybrid (defined benefit and defined contribution)	Members of Parliament
Super SA Select (Select)	Defined contribution	SA Government employees wishing to join a taxed scheme
Judges' Pensions Scheme (JPS)	Defined benefit	South Australian judges
Governors' Pensions Scheme (GPS)	Defined benefit	Former Governors of the State

Many schemes offer insurance services to their members, which may include income protection, death, and total and permanent disability. Members of schemes not offering insurance, such as Select and SSARIF, may access insurance benefits by membership of Triple S or SSARIF's flexible rollover product.

All public sector superannuation schemes are exempt public sector superannuation schemes, which are superannuation schemes that are not regulated by the Australian Prudential Regulatory Authority (APRA) under Schedule 1AA of the Superannuation Industry (Supervision) Regulations 1994. Exempt public sector superannuation schemes have unique attributes that include, but are not limited to, the following:

- concessional contributions (ie contributions before tax) plus earnings may be released from the age of 55 (or 50 for Police Super members), on termination of South Australian public sector employment. This does not require permanent retirement
- non-concessional contributions plus earnings may be released irrespective of age on terminating South Australian public sector employment
- a member's preservation age will generally remain at age 55 (or 50 for Police Super members) and not increase to age 60
- due to their exempt status, the schemes are not regulated by APRA. However, for statutory purposes, the schemes report to APRA under an agreement between the Commonwealth and State Governments.

A number of South Australian public sector superannuation schemes are also constitutionally protected (ie Triple S, SASS, Parliamentary Super, JPS, GPS, Police Super). As a result, these schemes have the following unique attributes:

- concessional contributions are not taxed on receipt into the scheme, and therefore there is no requirement to deduct the 15% contributions tax
- there is no tax payable on contributions or earnings until the member leaves the scheme. This includes tax on fund income
- there are no annual concessional contribution caps, but a lifetime concessional contribution cap is in place
- annual non-concessional caps do apply to members of the constitutionally protected fund, however any tax payable levied by the ATO is against the member.

Administration and funds management

The following table shows the entities responsible for administering (ie receipting contributions and paying benefits) each of the public sector superannuation schemes.

Scheme	Entity responsible for administration
SASS, Triple S, SSARIF, Ambulance Super	South Australian Superannuation Board
Parliamentary Super	South Australian Parliamentary Superannuation Board
JPS, GPS	Legislation is committed to the Treasurer
Select	Southern Select Super Corporation
Police Super	Police Superannuation Board

Except for Police Super, the Department of Treasury and Finance – State Superannuation Office (Super SA) provides outsourced administration services to the schemes. The Police Super Office, an administrative unit of South Australia Police, provides administration services to Police Super.

The Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for investing and managing the superannuation schemes' funds in line with the *Superannuation Funds Management Corporation of South Australia Act 1995*.

COVID-19 Early Release of Superannuation Scheme

On 22 March 2020, the Australian Government announced the COVID-19 Early Release of Superannuation Scheme (ERS) as a temporary measure to support economic recovery and those significantly financially affected by COVID-19. The ERS allows eligible individuals to access up to $10 000 of their superannuation in both the 2019-20 and 2020-21 financial years.

For the year ended 30 June 2021, a total of $61 million in member benefits under the ERS was paid out to around 6900 scheme members from the Triple S, SSARIF, Ambulance Super and Select schemes. This is an increase of $15 million (30%) from the member benefits paid out under the ERS in 2019-20.

Investments and related performance

In 2020-21, market performance was up compared to 2019-20, as governments (domestic and international) implemented economic stimulus packages and COVID-19 vaccination rollouts progressed.

As at 30 June 2021, the superannuation schemes had $38.3 billion ($31.6 billion) in investments. The fair value of assets increased by 21% or $6.6 billion.

The increase in the fair value of total investment assets reflects strong investment returns from significant growth in market performance.

Net investment income in 2020-21 increased by $6.9 billion (270%). International equities was the highest performing asset class in 2020-21, with a positive return of 37.1%.

Reported investment expenses decreased in 2020-21 due to Funds SA changing its accounting policy for the recognition and disclosure of expenses incurred in the investment of assets under management. In 2019-20, Funds SA included all directly paid and indirectly incurred investment expenses for each asset class. In 2020-21, however, Funds SA only reported expenses directly paid by each asset class – not indirect expenses.

As a result the reported investment expenses for individual superannuation schemes are lower than was previously the case, with a corresponding decrease in the net change in investments measured at fair value. There was no overall net impact from this change in approach.

The following table summarises the rates of return advised by Funds SA for the balanced and growth options for tax exempt (ie constitutionally protected) schemes.

	2019 %	2020 %	2021 %
Balanced	8.1	(0.3)	21.9
Growth (closed in February 2021)	8.1	(0.7)	-
High Growth (transitioned from Growth in February 2021)	-	-	24.8

Transition from growth to high growth investment option

In August 2020, Super SA and Funds SA reviewed their default investment option (balanced). This resulted in the level of growth assets in the balanced investment option increasing from 65% to 75%.

As a result of this change, changes were also made to the strategic asset allocation approach for the growth investment option. These changes, combined with changes in investment markets, resulted in the closure of the growth option for investors on 3 February 2021. Investors can now elect to invest in a high growth option instead.

Further details are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

Surplus (Deficit) of net assets to member benefits liabilities

The SA Government controls and funds a number of defined benefit superannuation schemes designed to provide employees with pensions or defined lump sum benefits on retirement. Except for JPS and GPS, these schemes are now closed to new members.

As at 30 June 2021, the total deficit of net assets to member benefits liabilities was $3.3 billion ($4.6 billion). This is represented as shown in the table below.

	Net assets available for member benefits		Member benefits liabilities		Total equity over (under) funded	
	2020	2021	2020	2021	2020	2021
	$million	$million	$million	$million	$million	$million
SASS	4 620	5 285	8 979	8 766	(4 359)	(3 481)
Police Super	1 941	2 383	2 250	2 328	(309)	55
Parliamentary Super (1)	207	243	193	190	14	(53)
Ambulance Super (1)	206	237	188	198	13	(36)
JPS	269	323	247	254	22	70
GPS	3	3	2	2	1	1
Total	7 246	8 474	11 859	11 738	(4 618)	(3 266)

(1) Amounts included relate only to the defined benefit portion of the schemes.

The total unfunded member benefits liabilities (deficit of net assets to member benefits liabilities) were calculated in line with AASB 1056 *Superannuation Entities*.

Different liability balances are reported under separate accounting standards

The terms of these defined benefit schemes create an obligation for the SA Government to pay future benefits to scheme members. The SA Government estimates a $10.1 billion liability at 30 June 2021 for unfunded superannuation benefits in the 2021-22 State Budget (refer 2021-22 Budget Paper 3 *Budget Statement*, page 57). This figure is significantly larger than the accumulated deficit of net assets to accrued benefits of $3.3 billion identified above.

This variance is due mainly to the different discount rates used to calculate accrued member benefits liabilities under AASB 1056, and the rate required under AASB 119 *Employee Benefits*. While both standards require measurement of the present value of expected future benefit payments, superannuation schemes are required to use a market-determined, risk-adjusted discount rate appropriate to the scheme. The schemes apply discount rates ranging from 6% to 7% p.a.

For the purposes of the State Budget and whole of government financial reporting, the SA Government's unfunded superannuation liability is measured in line with AASB 119, which requires the use of a risk free discount rate reflecting the market yields on Commonwealth Government bonds. The discount rate at the time of the 2021-22 State Budget was 1.9% p.a. (refer 2021-22 Budget Paper 3 *Budget Statement*, page 59). The lower discount rate results in a higher present value liability calculation.

Catch-up funding cash payments continue

A program began in 1994-95 to fully fund all employer superannuation liabilities. The 2020-21 State Budget reported that the SA Government was on target to meet its commitment to have the defined benefit schemes fully funded by 2034 (refer 2020-21 Budget Paper 3 *Budget Statement*, page 57).

The past service liability contribution for 2020-21 was $500 million ($456 million). The purpose of this contribution is to catch up the shortage of funding for employment in years prior to the full funding policy. The past service contribution is affected by a number of factors including the long-term earnings rate on superannuation assets. Where investment performance exceeds the assumed rate, it is possible to reduce the level of past service payments required to fully fund superannuation liabilities by 2034. Additional contributions are needed to compensate for reduced earnings to remain on target.

South Australian Superannuation Board (SASB)

Financial statistics	Administration expense:	$33 million
	Total comprehensive result:	$4.4 million
	General reserve:	$7 million

Significant events and transactions

— Super SA upgraded its general ledger system, with the new general ledger commencing from 1 April 2021.

— Parliament passed the Statutes Amendment (Fund Selection and Other Superannuation Matters) Bill 2020 on 4 May 2021, which was assented to on 20 May 2021. This will amend the *Southern State Superannuation Act 2009* and the *Superannuation Act 1988*, and allow Triple S superannuation scheme members to direct employer contributions to a fund of their choice. Super SA will make the administrative and system changes needed to bring fund selection into effect for members in the first half of 2022.

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Functional responsibility

SASB was established by the *Superannuation Act 1988* (the Super Act).

SASB is responsible to the Treasurer for administering the following superannuation schemes:

- South Australian Superannuation Scheme (SASS) under the Super Act
- Southern State Superannuation Scheme (Triple S) under the *Southern State Superannuation Act 2009*
- Super SA Retirement Investment Fund (SSARIF) under the Southern State Superannuation Regulations 2009

- South Australian Ambulance Service Superannuation Scheme (Ambulance Super) under the Super Act.

SASB's administration of these schemes involves maintaining:

- accounts in the names of all members
- employer contribution accounts
- proper accounts for each financial year on receiving contributions and paying benefits.

The Department of Treasury and Finance (DTF) – State Superannuation Office (Super SA) provides services to administer the schemes.

The Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for investing and managing the schemes' funds under the above legislation and the *Superannuation Funds Management Corporation of South Australia Act 1995*.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- general ledger upgrade
- review of ICT general controls for the core superannuation management system
- investment valuations
- measurement of accrued benefits and current funding position.

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

Controls opinion

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

Audit findings

Communicating our audit findings

No significant matters were identified by the audit.

Controls opinion findings

We did not identify any significant matters from our controls opinion work at SASB.

Interpretation and analysis of the financial report

SASB's financial report reflects its administration role in that:

- revenue is mainly to reimburse DTF fees from the superannuation schemes
- expenses relate mainly to fees paid to DTF to administer the superannuation schemes.

Highlights of the financial report

	2021 $million	2020 $million
Income and expenses		
Total income	37.5	29.4
Total expenses	33.1	28.0
Total comprehensive result	4.4	1.4
Net cash provided by (used in) operating activities	(2.7)	2.2
Assets		
Cash and cash equivalents	1.7	4.4
Receivables	11.2	0.6
Total assets	12.9	5.0
Total liabilities	5.3	1.8
Total equity	7.6	3.2

Impact of COVID-19

In response to the COVID-19 pandemic, the Australian Government introduced an Early Release of Superannuation Scheme (ERS). This required SASB to implement processes to allow for applications to be processed in a very short time frame, which involved implementing new business practices and redirecting internal resources.

The terms of the ERS provided for early release of amounts up to $10 000 per member in both 2019-20 and 2020-21.

For 2020-21, SASB oversaw the processing of around 6900 applications and the payment of around $61 million from various superannuation schemes under the ERS. This is an increase of $15 million (30%) from the member benefits of $46 million paid out under the ERS in 2019-20.

Statement of Comprehensive Income

The total comprehensive result for the year was a profit of $4.4 million ($1.4 million). This result mainly reflects:

- revenue from recoveries of administration fees of $37.4 million ($29.4 million). These are the administration fees charged to the superannuation schemes administered by SASB. They are set by SASB to recover the costs of its operations from the schemes and amounts received are paid to DTF as a reimbursement of actual costs incurred in operating SASB

- administration expenses of $33.1 million ($28 million). This amount is paid to DTF for administrative services, which also includes the reimbursement of $2.5 million in strategic project costs.

The increase in revenue from recoveries of administration fees of $8 million (27%) reflects the increased costs incurred by SASB from administering the superannuation schemes in 2020-21. The increase reflects that SASB is undertaking a range of reforms to its operations, including preparations for the introduction of choice of fund legislative changes.

Statement of Financial Position

The main movement in the Statement of Financial Position was a $10.6 million increase in receivables, mainly reflecting administration fees recoverable in 2020-21. This increase is partially offset by:

- a $2.6 million decrease in cash and cash equivalents
- a $3.6 million increase in payables, mostly associated with a $2.6 million increase in payables to DTF for administration fees and $1.3 million in strategic project expenses also payable to DTF.

General reserve

SASB has established a general reserve to:

- account for under and over spending on office expenditure
- provide for future project expenditure
- provide funding for the triennial SASB election.

In 2020-21, SASB transferred $4.4 million from retained earnings to the general reserve due to its positive operating result for the period.

South Australian Superannuation Scheme (SASS)

Financial statistics	Member benefit liabilities:	$8.8 billion
	Net assets available for member benefits:	$5.3 billion
	Defined benefits underfunded:	$3.5 billion
	Past service liability funding:	$416 million
	Benefits paid and payable:	
	Defined benefit scheme	$765 million
	Defined contribution scheme	$78 million
	Number of members:	
	Pension Scheme	14 296
	Lump Sum Scheme	2 508
	Total	16 804
Significant events and transactions	Changes in investments measured at fair value for 2020-21 were $1.1 billion, reflecting significantly higher investment performance in 2020-21.	
Financial report opinion	**Unmodified**	
Controls opinion findings	No audit findings.	

Functional responsibility

SASS was established by the *Superannuation Act 1988*.

SASS provides superannuation benefits for people employed by the SA Government and other prescribed people and makes provisions for their families.

SASS is divided into two segments – the Pension Scheme and the Lump Sum Scheme.

The Pension Scheme is the superannuation scheme for SA Government employees who elected to contribute to SASS before 30 May 1986. Contributors to it are entitled to a pension based benefit.

The Lump Sum Scheme is the superannuation scheme for SA Government employees who elected to contribute to SASS after 1 July 1988 and up to 3 May 1994. Contributors to it are entitled to a lump sum based benefit.

Scope of the audit

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

Specific areas of audit attention in 2020-21 included:

- investment valuations
- measurement of accrued benefits and current funding position.

We also reviewed controls over:

- contributions revenue
- benefit payments
- cash management
- maintenance of member accounts.

The investment and management of SASS's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

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

Controls opinion

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

Audit findings

Communicating our audit findings

There were no audit findings identified in our audit of SASS.

Impact of COVID-19

Investment performance

In 2019-20, global investment markets were volatile as a result of uncertainty arising from the COVID-19 pandemic and its significant impact on global economies. As a result, investment performance was reduced in 2019-20, with lower or negative returns across all asset classes and investment options.

In 2020-21, markets have significantly grown as governments (domestic and international) implemented economic stimulus packages and COVID-19 vaccination rollouts progressed, resulting in positive and strong returns across all investment options.

COVID-19 Early Release of Superannuation Scheme (ERS)

On 22 March 2020, the Australian Government announced the ERS as a temporary measure to support economic recovery and those significantly financially affected by COVID-19. The ERS allows eligible individuals to access up to $10 000 of their superannuation in both the 2019-20 and 2020-21 financial years.

The ERS only applied to SASS in a limited way. SASS's rules do not generally allow for early access to defined benefit superannuation amounts on hardship grounds. SASS members were only able to access amounts from any rollover accounts under the ERS.

In 2020-21, no payments were made from Lump Sum Scheme member benefits under the ERS.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Assets		
Investments	5 282	4 612
Other assets	16	35
Total assets	5 298	4 647
Liabilities		
Benefits payable and other current liabilities	13	27
Total liabilities	13	27
Net asset available to pay benefits	5 285	4 620
Member benefits		
Defined benefit member liabilities	8 166	8 425
Defined contribution member liabilities	600	554
Total member liabilities	8 766	8 979
Equity		
Defined benefits that are over (under) funded	(3 481)	(4 359)
Total equity	(3 481)	(4 359)
Revenue		
Changes in investments measured at fair value	1 057	(22)
Total revenue	1 057	(22)
Expenses		
Investment expenses	18	34
Higher education expense	9	9
Administration expenses	8	4
Total expenses	35	47
Result from superannuation activities	1 022	(69)
Net change in defined member benefits liabilities	(31)	67
Allocation to defined contribution member accounts	(113)	4
Operating result	878	2

	2021 $million	2020 $million
Changes in member benefits		
Net contributions	486	464
Benefits to members (paid and payable)	(843)	(857)
Net cash flows from operating activities	(14)	(13)
Net cash flows from investing activities	369	432
Net cash flows from financing activities	(374)	(396)

Statement of Financial Position

Investments

Total investments increased by $670 million to $5.282 billion, mainly due to strong investment returns.

Member benefits liabilities

SASS is a defined benefit superannuation scheme. It is comprised of the old scheme whose members are entitled to a pension benefit payment and the new scheme whose members are entitled to a lump sum benefit payment.

The table below shows the net assets available for member benefits, member benefits liabilities and the resulting excess of liabilities over net assets.

	2020 $million	2021 $million
Net assets available for member benefits	4 620	5 285
Member benefits liabilities	8 979	8 766
Over (Under) funded member benefits liabilities	(4 359)	(3 481)

The $8.8 billion in member benefits liabilities comprises of $8.2 billion (93%) for the defined benefit liability and $600 million (7%) for the defined contribution liability.

Total unfunded member benefits liabilities decreased by $878 million to $3.5 billion. This was largely due to:

- the increase in total investments of $670 million
- the $1.1 billion of changes in investments measured at fair value in 2020-21
- the actuarial calculation of the liability and the effect of the past service liability funding of $416 million
- the overall decline in member numbers, which is consistent with the ageing membership demographic and SASS's closure to new members since May 1986 (old scheme) and May 1994 (new scheme).

As mentioned in the 'Superannuation sector overview' section of this Report, the SA Government has committed to fully fund the defined benefit superannuation schemes by 30 June 2034.

The demographic assumptions of the 2019 triennial actuarial review were applied to the calculation of the 2021 member benefits liabilities. The following assumptions were used:

- discount rate 6.5% (6.5%)
- long-term salary inflation 2.5% (2.5%)
- long-term CPI factor 2% (2%).

Vested benefits

Vested benefits are the benefits members are entitled to had their membership been terminated at reporting date. The vested benefits as at 30 June 2021 were $8.9 billion ($9.1 billion) as disclosed in note 4 of SASS's financial report.

Income Statement

Investment revenue

Total revenue increased significantly to $1.1 billion as a result of significantly higher earnings from changes in investments measured at fair value.

Overall investment performance was significantly higher than 2019-20, with many categories meeting their benchmarks and experiencing positive returns this year. In 2020-21, overall returns increased across most investment categories. The highest movements were for the Australian equities and international equities asset classes.

Further details on investment returns are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

Expenses

Investment expenses decreased by $16 million to $18 million. This is mainly a result of a change in the way that Funds SA reports investment expenses. Previously indirect expenses were included, with a corresponding amount included in the net change in investments measured at fair value. For 2020-21, this is no longer the case, with only direct investment expenses recognised. There is no net impact from this change, but it is noticeable in the reduction in separately identified investment expenses.

Statement of Changes in Member Benefits

Contribution revenue

Details of contribution revenue and membership statistics, supplied by Super SA, are presented in the following table.

	2020 $million	2021 $million
Contributions for past service liability	383	416
Contributions by employers	31	27
Public authority employer contributions	37	32
Contributions by members	12	11
Transfers from other superannuation entities	1	-
Total	464	486

	2019 Number	2020 Number	2021 Number
Pension Scheme	15 081	14 714	14 296
Lump Sum Scheme	3 151	2 816	2 508
Total	18 232	17 530	16 804

Net contributions increased by $22 million (5%) to $486 million, mainly due to:

- an increase of $33 million (9%) in contributions for the past service liability
- partially offset by a decrease of $11 million (13%) in total contributions by employers and employees.

Past service liability contributions represent funding from both the SA Government (since 1994) and public sector employers to meet accrued superannuation liabilities. The SA Government expects to fully fund its liabilities by 30 June 2034. During the year the SA Government transferred $416 million ($378 million) into the South Australian Superannuation Scheme Contribution Account for past service liability funding. Public sector employers contributed $194 000 ($5 million).

The reduction in employer contributions is indicative of a closed scheme where the number of active members is decreasing due to retirements.

Benefits to members

Benefits to members expense comprises the benefits paid and the change in the liability for accrued benefits. Benefits expense can fluctuate significantly due to changing assumptions in the calculation of the estimated liability for accrued benefits. In 2020-21 the assumptions used varied to reflect the market movements, resulting in a small decrease in benefits to members of $14 million (2%) to $843 million this year. This decrease is represented across both pension and lump sum members and reflects a decrease in member numbers, consistent with last year, offset by the indexation of pensions based on CPI.

An annual actuarial assessment of the defined benefit members liabilities is required by AASB 1056 *Superannuation Entities*. Details of the liability are provided under 'Statement of Financial Position' above.

Further commentary on operations

Funding of benefit payments

Benefit payments are funded from a number of sources that have remained relatively consistent. Over half of the benefit payments are funded from the South Australian Superannuation Scheme – Employer Account.

The South Australian Superannuation Fund (the Fund) portion of a benefit is fully funded. Member contributions are deposited into the Fund and, on payment of a benefit, a proportion of the amount is charged against the Fund. The amount charged is determined by legislation and regulation.

There are numerous arrangements covering the funding of the employer liability for accrued superannuation benefits. Depending on the employer's arrangement with the South Australian Superannuation Board they may either:

- make provisions for superannuation liabilities in their own accounts and pay for benefits as they emerge
- contribute fortnightly to employer contribution accounts managed by Funds SA, in this way funding their accruing liability
- make cash contributions to the Treasurer, which are invested with Funds SA.

Note 1(d) of SASS's financial report provides details of the various funding arrangements.

Although a portion of the total superannuation liability is currently unfunded, members' entitlements to benefits must be paid out of the Consolidated Account, or a special deposit account established for that purpose.

Membership statistics for the last three years, provided by Super SA, are shown in the following table.

Pension Scheme	2019 Number	2020 Number	2021 Number
Contributory	307	213	159
Preserved	245	210	176
Superannuants	14 529	14 291	13 961
Total	15 081	14 714	14 296

Lump Sum Scheme	2019 Number	2020 Number	2021 Number
Contributory	2 148	1 883	1 662
Preserved	1 003	933	846
Total	3 151	2 816	2 508

Total number of members	2019 Number	2020 Number	2021 Number
Contributory	2 455	2 096	1 821
Preserved	1 248	1 143	1 022
Superannuants	14 529	14 291	13 961
Total	18 232	17 530	16 804

Southern State Superannuation Scheme (Triple S)

Financial statistics	Net contribution revenue:	$1.8 billion
	Member benefits liabilities:	$23.1 billion
	Net assets available for member benefits:	$23.4 billion
	Benefits paid and payable:	$1.5 billion
	Number of members:	175 920

Significant events and transactions

- Net changes in investments measured at fair value for 2020-21 were $4.1 billion, reflecting significantly higher investment performance in 2020-21.
- Early release of superannuation scheme payments totalling $59.4 million were paid out to around 6800 members in 2020-21, an increase of $14.2 million (31%) from payments in 2019-20.

Financial report opinion

Unmodified

Controls opinion findings

No audit findings.

Functional responsibility

Triple S was established on 1 July 1995 by the *Southern State Superannuation Act 1994* and is continued under the *Southern State Superannuation Act 2009*.

Triple S is a defined contribution scheme that provides superannuation and other products and services for the benefit of people employed, or who have ceased employment, with the SA Government.

Scope of the audit

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

Specific areas of audit attention in 2020-21 included:

- ICT general controls for the core superannuation management system
- investment valuations.

We also reviewed controls over:

- contributions revenue
- benefit payments
- cash management
- maintenance of member accounts
- reconciling superannuation data from the superannuation administration systems to the general ledger.

The investment and management of Triple S's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

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

Controls opinion

We reviewed controls over Triple S's bank accounts as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

There were no audit findings identified in our audit of Triple S.

Impact of COVID-19

Investment performance

In 2019-20, global investment markets were volatile as a result of uncertainty arising from the COVID-19 pandemic and its significant impact on global economies. As a result, investment performance was reduced in 2019-20, with lower or negative returns across all asset classes and investment options.

In 2020-21, markets have significantly grown as governments (domestic and international) implemented economic stimulus packages and COVID-19 vaccination rollouts progressed, resulting in positive and strong returns across all investment options.

Early Release of Superannuation Scheme

On 22 March 2020, the Australian Government announced the Early Release of Superannuation Scheme (ERS) as a temporary measure to support economic recovery and those significantly financially affected by COVID-19. The ERS allows eligible individuals to access up to $10 000 of their superannuation in both the 2019-20 and 2020-21 financial years.

For the year ended 30 June 2021, a total of $59.4 million in member benefits under the ERS was paid out to around 6800 Triple S scheme members. This reflects an increase of $14.2 million (31%) from the $45.2 million paid out in 2019-20.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Assets		
Investments	23 396	19 114
Other assets	85	39
Total assets	23 481	19 153
Liabilities		
Benefits payable	42	42
Insurance liabilities and payables	28	21
Total liabilities	70	63
Net assets available for member benefits	23 411	19 090
Member benefits		
Member benefit liabilities	23 100	18 935
Total net assets	311	155
Total equity	311	155
Revenue		
Changes in investments measured at fair value	4 116	(20)
Total revenue	4 116	(20)
Expenses		
Investment expenses	73	99
Other expenses	28	18
Total expenses	101	117
Result from superannuation activities	4 015	(137)
Insurance activities	1	(3)
Net benefits allocated to members accounts	(3 858)	88
Operating result	158	(52)
Changes in member benefits		
Net contributions	1 830	1 863
Benefits to members (paid and payable)	(1 517)	(1 561)
Net cash flows from operating activities	(19)	(22)
Net cash flows from investing activities	(248)	(250)
Net cash flows from financing activities	281	251

Statement of Financial Position

The accumulative nature of Triple S (a defined contribution scheme) means that member benefits liabilities are fully funded.

Net assets available for member benefits

Net assets available to pay member benefits increased by $4.3 billion (23%) to $23.4 billion. This increase reflects the accumulative nature of Triple S, where the increases reflect the total of contributions received and net investment income less benefits paid and other expenses. In 2020-21, the actual return on investments was significantly higher, reflecting significantly improved investment market performance.

Income Statement

Revenue

Total revenue increased by $4.1 billion as a result of significantly higher earnings from net changes in investments measured at fair value.

Overall investment performance was significantly higher than 2019-20, with many categories meeting their benchmarks and experiencing positive returns this year. In 2020-21, overall returns increased across most investment categories. The highest movements were for the diversified strategies growth, Australian equities and international equities asset classes.

Further details on investment returns are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

Expenses

Total expenses of $101 million were $16 million less than in 2019-20. This reduction reflects a $26 million decrease in investment expenses, mainly because of a change in the way that Funds SA reports investment expenses. Previously indirect expenses were included, with a corresponding amount included in the net change in investments measured at fair value. For 2020-21, this is no longer the case, with only direct investment expenses recognised. There is no net impact from this change, but it is noticeable in the reduction in separately identified investment expenses.

Statement of Changes in Member Benefits

Net contribution revenue

Total contributions decreased by $33 million (2%) to $1.83 billion. In 2020-21, the amount contributed by employers increased, offset by larger decreases in member contributions and transfers from other superannuation entities. The overall decrease reflects changes in discretionary contributions of transfers, which are decisions made by an individual member, while compulsory employer contributions increased.

Details of contribution revenue and membership statistics, supplied by Super SA, are provided in the following table.

	2021 $million	2020 $million
Contributions by employers	1 257	1 204
Contributions by members	105	109
Transfers from other superannuation entities	467	549
Government co-contributions	1	1
Total	1 830	1 863

	2021 Number	2020 Number
Contributory members	30 920	30 949
Non-contributory members	92 290	98 531
Preserved members	51 961	48 159
Spouses	749	710
Total	175 920	178 349

Active members of Triple S (including spouse members) can elect to make contributions.

Employers are required to make contributions for active eligible contributory and non-contributory members of Triple S.

In 2020-21 overall member numbers were down slightly (1%). This was due to a marginal decrease in contributory members and a small decrease in non-contributory (6%) member numbers, offset by a larger increase in preserved (8%) and spouse (5%) member numbers.

Benefits paid and payable

Benefits paid and payable to members decreased by $44 million (3%) to $1.5 billion, mainly due to an overall reduction of 2429 in member numbers.

The movement in benefits paid and payable over recent years is shown in the following table.

	2018 $billion	2019 $billion	2020 $billion	2021 $billion
Benefits paid and payable	1.3	1.4	1.6	1.5

Statement of Cash Flows

The analysis of cash flows shows that Triple S maintained a $22 million balance of funds on hand at 30 June 2021 ($7 million at 30 June 2020). Amounts not used to pay benefits and other expenses are transferred to Funds SA for investment, which is reflected in the cash flows from investing and financing activities.

Super SA Retirement Investment Fund (SSARIF)

Financial statistics	Net contributions revenue:	$1.1 billion
	Member benefits liabilities:	$6.2 billion
	Net assets available for member benefits:	$6.2 billion
	Benefits paid and payable:	$873 million
	Number of members:	18 904

Significant events and transactions

— Changes in investments measured at fair value for 2020-21 were $912 million, reflecting significantly higher investment performance in 2020-21.

— Early release of superannuation scheme payments totalling $945 000 were paid out to around 100 members in 2020-21, reflecting an increase of $114 000 (14%) in payments from 2019-20.

Financial report opinion

Unmodified

Controls opinion findings

No findings.

Functional responsibility

SSARIF continues in existence under the *Southern State Superannuation Act 2009*.

SSARIF provides investment services and other products and services for the benefit of people who have retired, are reaching retirement age or have ceased employment with the SA Government.

Scope of the audit

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

Specific areas of audit attention in 2020-21 included:

- ICT general controls for the core superannuation management system
- investment valuations.

We also reviewed controls over:

- contributions revenue
- benefit payments
- cash management
- maintenance of member accounts.

The investment and management of SSARIF's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

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

Controls opinion

We reviewed controls over SSARIF's bank account as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

There were no audit findings identified in our audit of SSARIF.

Impact of COVID-19

Investment performance

In 2019-20, global investment markets were volatile as a result of uncertainty arising from the COVID-19 pandemic and its significant impact on global economies. As a result, investment performance was reduced in 2019-20, with lower or negative returns across all asset classes and investment options.

In 2020-21, markets have significantly grown as governments (domestic and international) implemented economic stimulus packages and COVID-19 vaccination rollouts progressed, resulting in positive and strong returns across all investment options.

Early Release of Superannuation Scheme (ERS)

On 22 March 2020, the Australian Government announced the ERS as a temporary measure to support economic recovery and those significantly financially affected by COVID-19. The ERS allows eligible individuals to access up to $10 000 of their superannuation in both the 2019-20 and 2020-21 financial years.

For the year ended 30 June 2021, a total of $945 000 in member benefits under the ERS was paid out to around 100 SSARIF members. This reflects an increase of $114 000 (14%) from the $831 000 paid out under the ERS in 2019-20.

Interpretation and analysis of the financial report

SSARIF comprises transactions for the Super SA Income Stream Product (Income Stream) and the Flexible Rollover product.

Highlights of the financial report

	2021 $million	2020 $million
Assets		
Investments	6 247	5 163
Other assets	40	39
Total assets	6 287	5 202
Liabilities		
Benefits payable	9	11
Other liabilities	75	31
Total liabilities	84	42
Net assets available for member benefits	6 203	5 160
Member benefits		
Income Stream member liabilities	4 464	3 746
Flexible Rollover product member liabilities	1 687	1 402
Total member liabilities	6 151	5 148
Total equity	52	12
Revenue		
Changes in investments measured at fair value	912	(32)
Other revenue	14	8
Total revenue	926	(24)
Expenses		
Investment expenses	19	26
Other expenses	4	4
Total expenses	23	30
Result from superannuation activities	903	(54)
Net benefits allocated to members accounts	(818)	32
Income tax expenses	43	(12)
Operating result	42	(10)
Changes in member benefits		
Net contributions	1 059	1 243
Benefits to members (paid and payable)	(873)	(958)
Net cash flows from operating activities	(1)	7
Net cash flows from investing activities	(193)	(266)
Net cash flows from financing activities	189	272

Statement of Financial Position

Net assets available to pay member benefits increased by $1 billion (20%) to $6.2 billion. This is principally the result of investment returns and additional funds invested. It is indicative of the accumulative nature of SSARIF, where the increases reflect the total of contributions received and net investment income less benefits paid and other expenses. The accumulative nature of SSARIF also means that it is fully funded.

Income Statement

Revenue

Total revenue increased by $950 million as a result of significantly higher earnings from changes in investments measured at fair value.

Overall investment performance was significantly higher than 2019-20, with many categories meeting their benchmarks and experiencing positive returns this year. In 2020-21, overall returns increased across most investment categories. The highest movements were for the Australian equities, international equities and diversified strategies income asset classes.

Further details on investment returns are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

Expenses

Total expenses decreased to $23 million ($30 million). This reduction largely reflects a $7 million decrease in investment expenses, mainly because of a change in the way that Funds SA reports investment expenses. Previously indirect expenses were included, with a corresponding amount included in the net change in investments measured at fair value. For 2020-21, this is no longer the case, with only direct investment expenses recognised. There is no net impact from this change, but it is noticeable in the reduction in separately identified investment expenses.

Statement of Changes in Member Benefits

Total contributions decreased by $184 million (15%) to $1.1 billion mainly due to:

- a decrease of $204 million in rollovers from other schemes
- offset by a decrease of $14 million in income tax expense on rollovers and an increase of $5 million in member contributions.

Contributions to SSARIF are all voluntary and are therefore open to fluctuation.

Benefits paid or payable to members decreased by $85 million (9%) to $873 million due to:

- a decrease of $53 million (9%) in payments from Income Stream
- a decrease of $32 million (9%) in payments from the Flexible Rollover product.

The decrease in benefits paid and payable is likely due to a combination of member reluctance to crystallise benefits during periods of market uncertainty arising from COVID-19 and strong returns members are currently earning in the fund. The decrease in benefits paid and payable may also be due to fewer members leaving the fund and claiming their benefits in 2020-21. This is reflected by the overall increase in the number of members of SSARIF. In 2020-21, there were 1092 (6%) more members.

Total benefits available to members ultimately depend on the investment strategy and investment performance, with no guarantee of return provided by the SA Government.

Statement of Cash Flows

The net cash from operating activities decreased by $8 million as a result of decreased income tax revenue. The movement in tax balances reflects the strong performance of Australian and global markets in 2020-21 and was driven mainly by the recognition of trust distribution income, the realisation of capital gains and losses, and the movement in unrealised capital gains and losses.

The net flows from investing activities increased by $73 million, mainly due to increased receipts from Funds SA from the sale of investments being offset by a smaller increase in payments to Funds SA for the purchase of investments.

The net flows from financing activities decreased by $83 million, mainly due to decreased net transfers from other superannuation entities, offset by decreased payments for Income Stream, the Flexible Rollover product and contributions tax.

Further commentary on operations

Membership statistics, provided by Super SA, and total investments for the last four years are provided in the following table.

	2018 Number	2019 Number	2020 Number	2021 Number
Flexible Rollover product	5 291	5 819	6 352	6 782
Income Stream	9 814	10 686	11 460	12 122
Total	15 105	16 505	17 812	18 904
	$million	$million	$million	$million
Total investments	4 363	4 947	5 163	6 247

Superannuation Funds Management Corporation of South Australia (Funds SA)

Financial statistics

Net surplus:	$2 million
Number of FTEs:	58
Funds under management:	$41.2 billion
Net income of assets under management:	$7.1 billion

Significant events and transactions

— Funds under management increased by $7.1 billion (20.9%) during the year. This is largely attributable to $3.9 billion of unrealised gains and $2.3 billion of realised gains.

— Overall performance rebounded from the impacts of the COVID-19 pandemic last year. Most investment options and asset classes made a strong return in 2020-21.

— Funds SA transitioned to a new custodian, Northern Trust, on 1 October 2021. Northern Trust acts as the custodian of funds under management, and is responsible for asset security, valuation and fund accounting.

— The significant increase in funds under management contributed to a 42.4% increase in administration fee revenue compared to last year.

— Funds SA has been expanding its workforce, with FTEs increasing from 50 to 58 (16%) during the year and a corresponding increase in salaries and wages expense. An expansion to the office lease occurred in 2020-21 to accommodate this growth.

— Funds SA has also been pursuing a number of information and data technology projects as part of its digital strategy. This lead to a significant increase in IT and contractor expenses.

Financial report opinion **Unmodified**

Functional responsibility

Funds SA is a statutory authority established by the *Superannuation Funds Management Corporation of South Australia Act 1995* (the SFMCSA Act).

Funds SA's main function is to invest and manage the public sector superannuation funds, nominated funds of approved authorities and other funds (funds under management) under strategies it formulates. Details of Funds SA's objectives and functions are provided in note 1.2 of its financial report.

Restrictions on operations

Under section 21(1) of the SFMCSA Act, Funds SA is subject to the direction and control of the Minister. However, a ministerial direction must not be given for an investment decision, dealing with property or the exercise of a voting right.

Funds SA has broad powers over the investment of funds under management. It cannot, however, borrow money or obtain any other form of financial accommodation unless authorised to do so by the Regulations under the SFMCSA Act or by the Minister. In addition, the Regulations impose restrictions so that Funds SA cannot invest in real property outside the State or enter into derivative transactions (eg futures contracts, forward contracts and swaps) without the Minister's authority. The Minister has provided authority for Funds SA to enter into such investments.

Structure

Funds SA staff operate across distinct business groups being investment, operations, corporate engagement, people and organisational performance, governance, risk and compliance, and business services. This structure is complemented by extensive use of external fund management firms. Funds SA employs a 'manager of managers' approach, using fund managers for all investment types. A single custodian entity is used for the assets managed by most of those fund managers. The custodian is responsible for holding, valuing and accounting for the assets. Each fund manager and the custodian is appointed under an agreement that dictates the scope for investment, fees and reporting requirements.

In October 2020 Funds SA transitioned to a new custodian, Northern Trust. This was originally scheduled for 2019-20 but was delayed due to the impacts of COVID-19. As part of the agreement with Northern Trust, outsourced services include client unit pricing, private equity administration and general ledger functions. Funds SA remains responsible for developing investment strategies.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- investment policy and strategy approval and compliance
- investment allocation and redemption

- investment income and valuation
- custodial and fund management activities
- fund administration expenses
- corporate assets and expenditure.

We considered internal audit activities when planning and conducting the audit.

Controls opinion

We reviewed controls over investment assets under management and deposit accounts as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

Our audit found that overall the controls established by Funds SA were satisfactory. Our findings were low risk and were communicated verbally to management.

Controls opinion findings

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

Other audit findings

Overall the findings were low risk and Funds SA responded that it will take action to address them.

Interpretation and analysis of the financial report

Highlights of the financial report

Funds SA	2021 $million	2020 $million
Total income	19.8	14.0
Total expenses	17.8	13.9
Net surplus (deficit) and total comprehensive result	2.0	0.1
Net cash provided by (used in) operating activities	5.1	(2.8)
Total assets	17.1	13.9
Total liabilities	6.2	5.0
Total equity	10.9	8.9

Funds under management	2021 $billion	2020 $billion
Net income	7.1	(0.3)
Net assets	41.2	34.1

Statement of Comprehensive Income

Funds SA's operating result for the year was a net surplus of $2 million ($135 000).

Administration fee revenue, representing fees charged for services provided to Funds SA clients, increased by $5.9 million (42.4%). This was due in part to a significant increase in funds under management, which is the basis for calculating the administration fee, plus an increase in the rate charged (from 0.045% to 0.06%) for all asset classes other than cash, passive listed equity and fixed interest.

Funds SA sets its administration fee annually under a cost recovery policy to cover budgeted corporate expenditure.

Expenses increased by $4 million (28.6%) mainly as a result of an increase in supplies and services, up $2.6 million, employee benefits costs, up $1.1 million, and depreciation, up $300 000.

The increase in supplies and services was mainly due to increases in:

- information technology expenses, up $1.7 million, relating to the continuing implementation of Funds SA's digital strategy and investment data and technology projects
- contractors and temporary staff, up $556 000, due to additional contractors being hired for projects mainly related to investment data and technology
- human resources expenses, up $291 000, for recruitment costs incurred in hiring additional staff.

These increases were partially offset by decreases in travel and accommodation, down $293 000, due to ongoing COVID-19 travel restrictions.

The increase in employee benefits costs was due mainly to increased salaries and wages, up $1.1 million, as a result of hiring additional staff. This is in line with Funds SA's strategic plan to build capacity and strengthen its capabilities to execute its strategic initiatives.

The increase in depreciation is due to the expansion of Funds SA's leased office premises recognised as a right-of-use asset and additional leasehold improvements capitalised in 2020-21.

Further commentary on operations

Funds under management

Funds SA responsibilities

As mentioned, Funds SA exists to invest and manage the public sector superannuation funds, funds of eligible superannuation schemes and nominated funds of approved authorities.

To do this, Funds SA has established a range of different investment options and tailored multi-sector strategies it offers to its clients. These investment options and strategies comprise a mix of differing strategic asset allocations to meet its clients' investment objectives, differing time horizons and levels of acceptable risks.

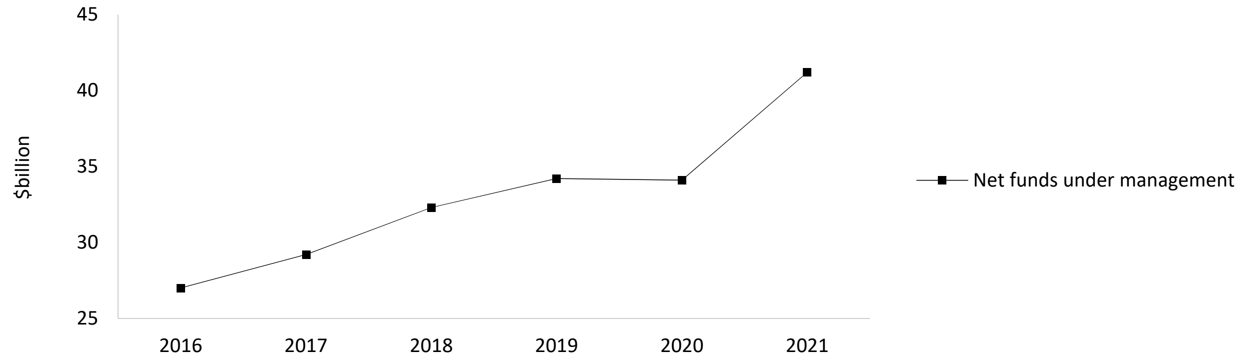
Funds SA is responsible for managing the investment portfolios it has established in line with asset allocations and investment performance reporting agreed with its clients.

Investor responsibilities

The public sector superannuation funds, eligible superannuation schemes and approved authorities work collaboratively with Funds SA to design investment strategies that meet their investment needs. They deposit funds with Funds SA throughout the financial year to acquire units in an investment option, which in turn holds units in each of the asset classes that make up that investment option. They receive investment performance reporting as they require to meet their responsibilities for their invested funds.

Funds under management increased significantly in 2020-21

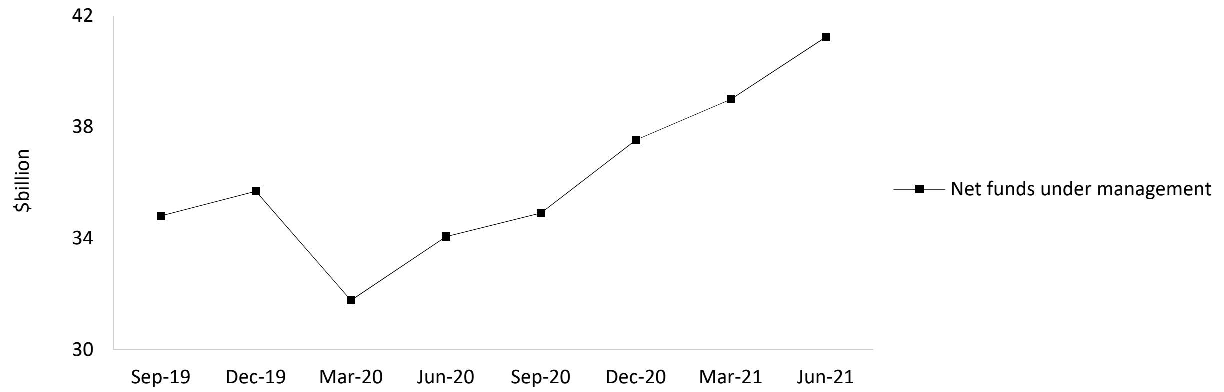
The following chart shows the net funds under management as at 30 June over the past six years.



The total funds under management had a significant increase from $34.1 billion to $41.2 billion at 30 June 2021. This was largely due to the $7.1 billion net investment income, with net investor activity (applications less redemptions) totalling $7.7 million.

The increase is due to strong returns on funds under management (see 'Income from investments' below). The overall increase in performance shows a significant rebound from the loss of $273.9 million recorded in 2019-20.

2019-20 saw volatile movements, largely as a result of the impact of COVID-19 on global economic markets. The following chart shows how funds under management fluctuated over each quarter for the past two years. The steep decline in March 2020 can be contrasted to the steady increase in each subsequent quarter.



Entities investing with Funds SA at 30 June 2021

The following table sets out the entities investing with Funds SA, the investment options used and funds under management at 30 June 2021.

Investor/Fund	Investment option	Funds under management $million
Superannuation funds		
South Australian Superannuation Board:		
South Australian Superannuation Scheme:		
South Australian Superannuation Scheme – Employer Contribution Accounts	Defined benefit strategy	2 953
South Australian Superannuation Fund – Old Scheme Division	Defined benefit strategy	1 730
South Australian Superannuation Fund – New Scheme Division	Various	599
Southern State Superannuation Scheme:		
Southern State Superannuation Fund	Various	23 396
Super SA Retirement Investment Fund	Various	6 247
South Australian Ambulance Service Superannuation Scheme	Balanced taxable	321
Police Superannuation Board:		
Police Superannuation Scheme	Defined benefit strategy	2 381
South Australian Parliamentary Superannuation Board:		
Parliamentary Superannuation Scheme	Various	290
Trustee of the SA Metropolitan Fire Service Superannuation Scheme:		
SA Metropolitan Fire Service Superannuation Scheme	Various	523
Other superannuation schemes	Various	360
Approved authorities for the purpose of investing with Funds SA		
South Australian Government Financing Authority	Various	837
Motor Accident Commission	Capital defensive tax exempt	28
Lifetime Support Authority of South Australia	Lifetime Support Authority strategy	1 176
Other authorities	Various	389

Asset allocation

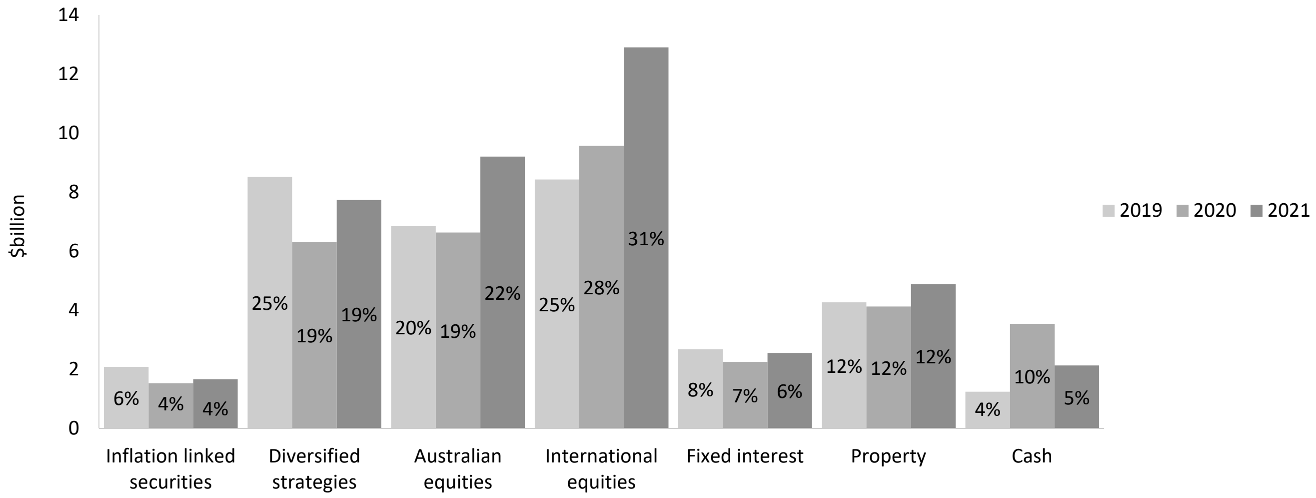
An investment policy drives decisions about how funds will be invested. Section 7 of the SFMCSA Act provides that Funds SA's objective in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for:

- the need to maintain the risks relating to investment at an acceptable level
- the need for liquidity in the funds
- any other matters that are prescribed by regulation.

Underpinning the investment policy and decision-making is an understanding of the financial risks facing Funds SA. One of the key strategies Funds SA uses in managing its financial risk is to diversify its funds under management into 20 asset classes.

Funds SA continually monitors investment performance during the year and makes adjustments to investment subclass holdings as required.

The holding of each asset class (excluding the socially responsible investment class, which only represents 0.4% (0.4%) of the total funds under management) as a percentage of total funds under management at 30 June for the last three financial years is shown in the following chart. The asset classes include both taxed and untaxed funds where applicable.



The chart shows the changes in asset class value and percentage holdings over the year. Movements are due to a combination of investment returns, investor switches and investment strategy asset allocation changes.

The international equities and Australian equities tax exempt asset classes increased in value and percentage holdings due to very strong returns and additional investments made during the year. International equities recorded a return of 37.1% and Australian equities returned 29.4%, a significant improvement from prior year returns of 6% and -5.9% respectively. The very high returns in equity assets are attributed to improved global economic activity and recovery relating to COVID-19 vaccine rollouts and government fiscal policies.

Diversified strategies (including both growth and income) asset classes remained steady in their percentage holdings but increased in value due to positive returns. The diversified strategies growth tax exempt fund recorded a 23.8% return and diversified strategies income recorded an 8.3% return. These are significant turnarounds from the prior year returns of -1.2% and -5.6% respectively. The diversified strategies growth asset class improvement was a result of recovering from write-downs of asset values previously impacted by COVID-19.

The value of fixed interest assets increased while the percentage holdings decreased. Returns on fixed interest assets decreased from the prior year. Short-term fixed interest had a positive return in both 2019-20 (3.3%) and 2020-21 (1%), but long-term fixed interest recorded a -2% return in 2020-21 compared to 5.2% in 2019-20. The negative return was caused by market bond yields increasing, which reduced the value of the fixed rate bonds that Funds SA held.

Inflation linked securities tax exempt fund recorded an improved return of 5.7% (3.5%), with its total value increasing and percentage holdings remaining steady.

Property assets percentage holdings remained steady with an increase in value due to a 10.8% return. This is a significant increase from the prior year return of -4.5%. It was due to improved valuations in listed property trusts and demand for property assets in the industrial sector.

Cash holdings significantly decreased in value and percentage holdings in 2020-21. This is due to significant activity in 2019-20 when there was an increase in investor switches between investment options, mostly redeeming from the balanced and growth investment options and transferring into the cash investment option. Most of these redemptions and transfers occurred in March 2020 when there was a large decline in market performance due to the impacts of COVID-19. In addition, other investment options increased their cash allocation to maintain liquidity. In 2020-21 there was a negative movement out of the cash investment option. This is due to a combination of cash returns plummeting in 2020-21 to 0.1%, down from 1% in 2019-20, and investors returning to other investment options.

The primarily long-term nature of investment strategies means funds under management are exposed to periodic rises and falls in financial markets.

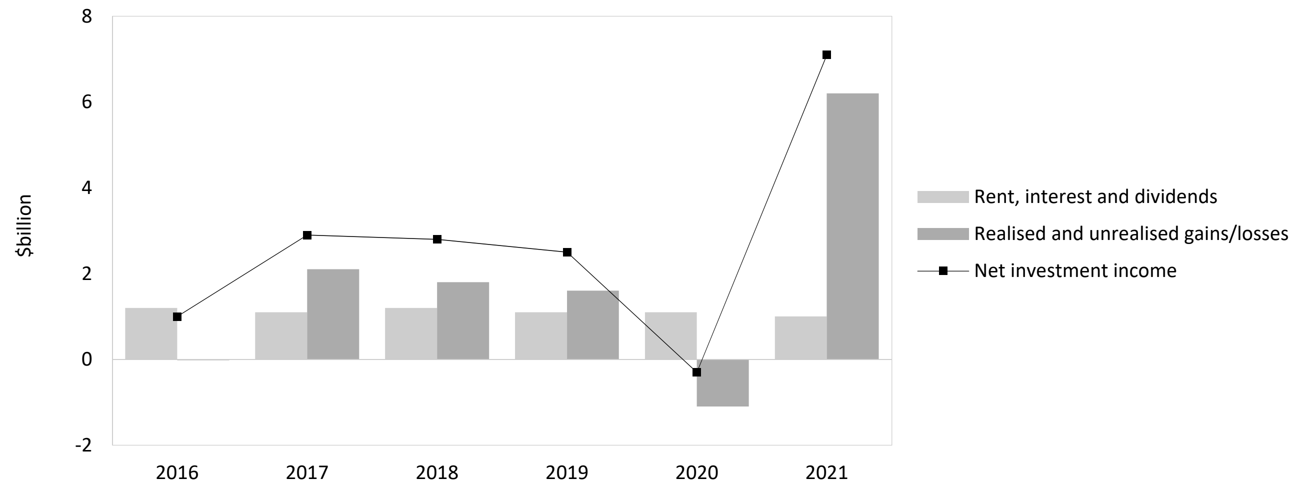
Income from investments

Net income from investment activities comprises income from rent, interest and dividends, and realised and unrealised gains and losses from investment valuations, less expenses incurred in the investment activity.

Net income from investment activities was a surplus of $7.1 billion (deficit of $273.9 million). Income comprised rent, interest and dividends of $1 billion ($1.1 billion), realised gains of $2.3 billion ($272.7 million) and unrealised gains of $3.9 billion ($1.5 billion loss), reduced by investment expenses of $148.4 million ($103.4 million).

Schedule 1 of Funds SA’s financial report provides full details of income earned from investment activities for each asset class.

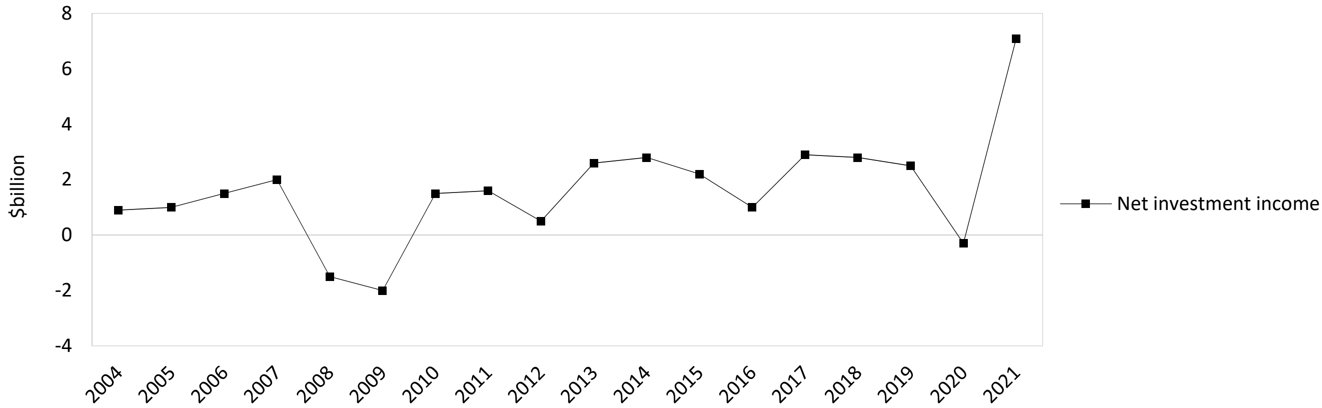
An analysis of the investment result for funds under management for the six years to 2021 is shown in the following chart.



As can be seen, rent, interest and dividends income remained consistent with previous years. In 2020-21, there was a significant increase in the value of investment assets leading to unrealised gains of $3.9 billion, in combination with significant realised gains of $2.3 billion. These gains are significantly higher than recent prior year results. This is the nature of long-term investments, where there may be volatility in the short term.

Funds SA's investment strategies are developed in line with the time horizon for each investment option. Each one carries a different level of acceptable risk. Negative returns may occur during the investment horizon. For example, the balanced option has a risk of negative returns in four to six years out of 20. There is more information about each investment option's return in 2020-21 under 'Investment option performance' below.

The chart below shows the long-term performance of total funds under management.



2019-20 resulted in an overall negative result for net investment income for the first time since 2009, when the effects of the Global Financial Crisis resulted in significant losses. In 2020-21 the result shows a significant rebound over and above prior results.

Income by asset class

The following table shows a structural analysis of net income earned for the five years to 2021, highlighting the varying performance of the major investment asset classes. It should be noted that the magnitude of net income earned from investment activities in each year is a function of not only the performance of financial markets, especially equities, but also the size of total assets invested in those markets.

	2017 $million	2018 $million	2019 $million	2020 $million	2021 $million
Inflation linked funds	57	81	147	55	84
Property	313	439	370	(179)	459
Australian equities	835	849	577	(470)	2 077
International equities	1 073	933	620	444	3 471
Fixed interest	4	72	224	106	(17)
Diversified strategies	566	417	533	(249)	1 015
Cash/Socially responsible/Other	50	34	31	19	37
Total net income	2 898	2 825	2 502	(274)	7 126
Total value of assets invested as at 30 June	29 246	32 321	34 179	34 096	41 230

All asset classes had an increase in net income for 2020-21 except fixed interest.

The earlier chart showing asset class holdings indicated that Funds SA's investment strategy is weighted towards international equities, which returned the largest net income result. The table above also shows a large increase in income for Australian equities and diversified strategies, reflecting their respective market performance during the year and proportion of percentage holdings.

Income from property also increased significantly in 2020-21, but reflects its lower percentage holdings overall. The improvement stems from unrealised gains after revaluing upwards from prior year write-downs.

Income from fixed interest has reduced even further to negative for long-term fixed interest impacted by historic low interest rates.

The volatile nature of these investments will cause their returns to fluctuate from year to year in line with prevailing economic conditions.

Investment expenses

In 2020-21 investment expenses totalled $148.4 million. Funds SA changed its accounting policy for investment expenditure relating to indirect expenses for pooled unit investments in 2020-21. The investment expenses now represent only those expenses incurred directly by the fund. As a result the prior year expenses of $195 million were restated to $103.4 million. The indirect investment expenses are captured as part of unrealised gains/losses through the revaluation of the unit price of Funds SA's pooled investments.

Direct investment expenses increased by $45 million in 2020-21 mainly as a result of higher performance fees.

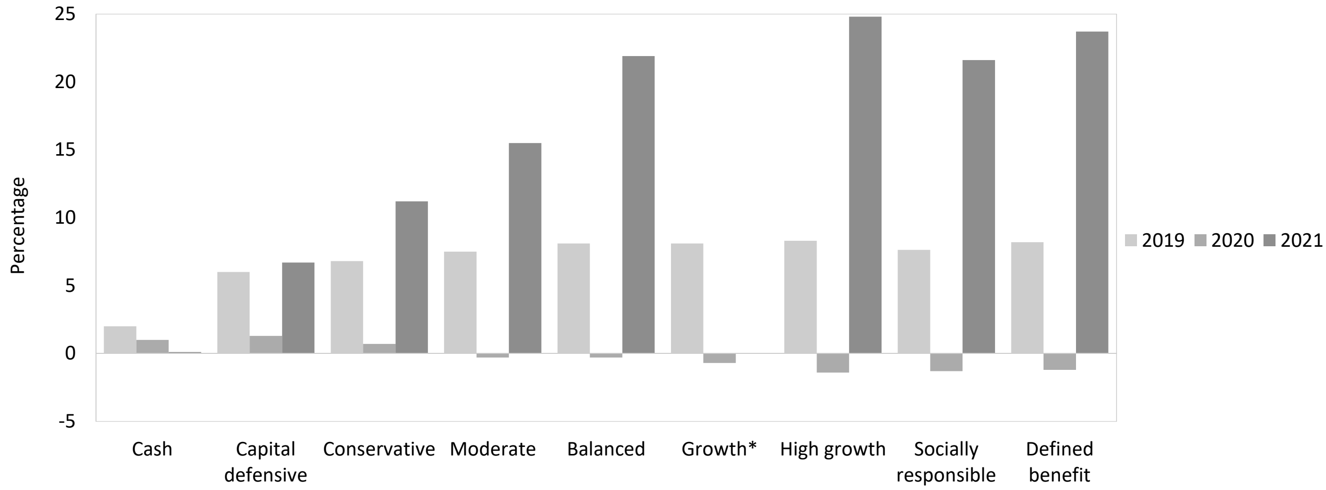
Investment expenses reported in Schedule 1 of Funds SA's financial report are 0.39% (0.30%) of average funds under management.

Year	Investment expenses $million	Average funds under management $billion
2020	103.4	34.5
2021	148.4	37.6

Funds SA's indirect cost ratio (incorporating indirect costs not accounted for in the financial report) for the balanced tax exempt fund in 2020-21 was provided by Funds SA as 0.82% and is unaudited.

Investment option performance

The chart below shows the returns for Funds SA's tax exempt investment options and multi-sector strategies as at 30 June for the past three years.



* In 2020-21 the growth option was merged with the high growth option, as the strategic asset allocations of these options had become aligned.

The chart shows the significant increase in returns for 2020-21 (except cash). Most investment options and multi-sector strategies achieved significantly higher returns than the previous year, ranging in return from 0.1% for cash to 24.8% for high growth. The returns of each investment option and multi-sector strategy reflect the performance of the underlying asset classes.

The table below shows Funds SA's percentage return for each of the past 10 years for the balanced tax exempt fund, which represents over 45% of total funds under management. These figures were provided by Funds SA and are unaudited.

	10 years	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	% p.a.	%	%	%	%	%	%	%	%	%	%
Balanced	9.3	3.1	14.7	13.8	9.4	3.9	11.0	9.5	8.1	(0.3)	21.9

Funds SA's balanced investment option holds 75% allocated to growth assets. This is comparable to what Chant West categorises as a growth fund with 61-80% allocated to growth assets. The performance of the balanced tax exempt fund for 2020-21 was ahead of the median return of 18% for growth funds as surveyed by Chant West. Funds SA's performance over 10 years appears ahead of the median return of 8.6%, however once adjusted for tax is slightly below at 8.4%.

Asset class performance against benchmark

The performance against target benchmarks for certain asset classes for 2020-21 and for the three years ended 2020-21 is shown in the following table. These figures were provided by Funds SA and are unaudited.

	1 year Actual %	1 year Benchmark %	3 years Actual %	3 years Benchmark %
Cash	0.1	0.1	1.0	1.0
Short-term fixed interest	1.0	0.7	3.1	2.7
Long-term fixed interest	(2.0)	(2.6)	4.5	4.8
Inflation linked securities tax exempt	5.7	4.4	5.7	4.3
Diversified strategies income	8.3	5.3	2.5	4.9
Property tax exempt	10.8	8.3	5.0	4.2

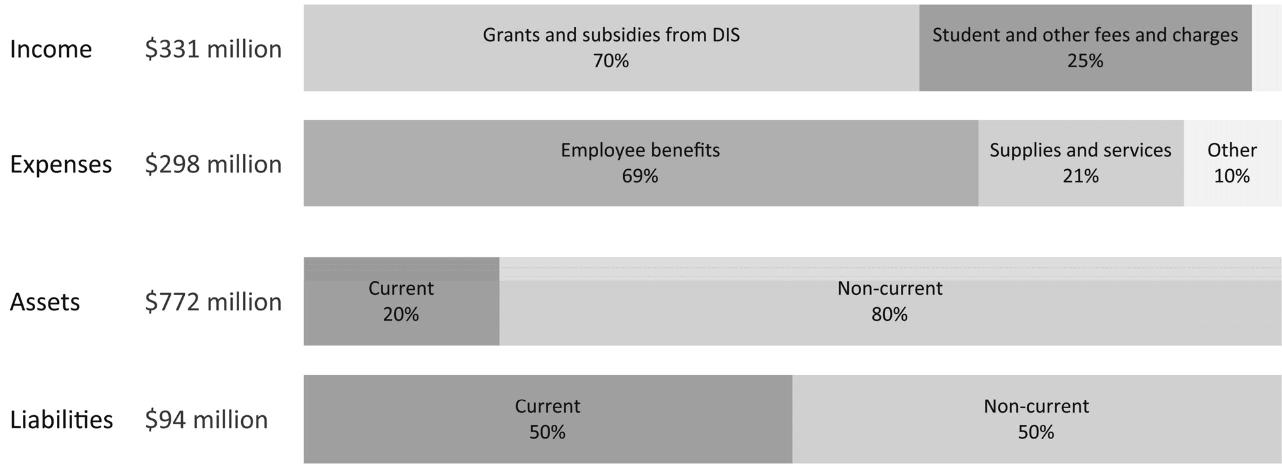
	1 year Actual %	1 year Benchmark %	3 years Actual %	3 years Benchmark %
Australian equities tax exempt	29.4	28.5	10.1	9.8
International equities tax exempt	37.1	29.8	16.2	13.7
Diversified strategies growth tax exempt	23.8	4.1	10.0	5.0
Inflation linked securities taxable	4.1	4.3	3.8	3.8
Property taxable	10.8	8.3	4.9	4.2
Australian equities taxable	29.6	28.5	10.2	9.8
International equities taxable	36.6	29.1	16.0	13.6
Diversified strategies growth taxable	28.2	4.1	11.4	5.0
Socially responsible investment	25.4	22.8	10.0	10.6

The performance of asset classes against benchmark for 2020-21 varied depending on the asset class, with all asset classes except inflation linked securities taxable exceeding the benchmark. Across a three-year time horizon asset classes performed closer to the benchmark. The international equities and diversified strategies growth asset classes had the strongest relative performance against the benchmark for one year and three years. Diversified strategies income has the weakest performance when comparing to the three-year benchmark.

Funds SA established additional asset classes for Australian passive equities and international passive equities in 2019-20 and 2020-21. They have not been included in the table above as there has not been sufficient activity for comparison.

TAFE SA

Financial statistics



1,945
Total FTEs*

13.7 million
Number of registered training hours commenced

* Including casuals and hourly paid instructors.

Significant events and transactions

- TAFE SA received $231 million in funding from the Department for Innovation and Skills (DIS) to support the provision of vocational education and training (VET).
- 2020-21 is the first full year that TAFE SA has owned land and buildings for its campuses which transferred, mainly from the Urban Renewal Authority (URA), on 31 October 2019.

Financial report opinion

Unmodified

Controls opinion findings

- TAFE SA should continue work to mature and formalise its asset management framework.
- TAFE SA will need to determine its asset management information and data requirements and approach in conjunction with the incoming facilities management services provider.

Other audit findings

Some hourly paid instructors continue to start working before signing a letter of offer.

Functional responsibility

TAFE SA is established under the *TAFE SA Act 2012* and is a statutory corporation to which the provisions of the *Public Corporations Act 1993* (other than section 35) apply.

The TAFE SA Board is responsible to the Minister for Education.

TAFE SA's main function is to provide technical and further education.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- expenditure and accounts payable
- payroll processing
- revenue, including funding from DIS, student revenue and accounts receivable
- cash
- property, plant and equipment
- general ledger and reconciliations.

The work of TAFE SA's internal auditors was considered in planning and conducting the audit.

We made use of the work performed by internal audit in forming our conclusion on the controls opinion review of TAFE SA's management of land and buildings.

Controls opinion

We reviewed controls over bank accounts and the management of land and buildings as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

We communicated our audit findings, including some that were raised in prior years, in a management letter to the Chair of the TAFE SA Board. The main matters raised and TAFE SA's responses are detailed below.

Controls opinion findings

Asset management framework and information

Campuses and property assets valued at around $620 million transferred to TAFE SA from the URA and DIS in late 2019.

TAFE SA's internal auditors reviewed its strategy for managing assets in 2020-21. The scope of this work included the approach across the asset lifecycle and the processes that would be required in future.

The significant findings were:

- a need for TAFE SA to continue to develop an overarching Asset Management Strategy (AMS). This should consider how the digital, property and environment strategies interact. In addition, TAFE SA should clearly identify what classes of assets will be covered by the AMS
- further work is needed to ensure the strategic asset management framework is aligned with TAFE SA's broader risk management framework
- additional work is required to complete the strategic asset management framework – with a particular focus on the strategic elements of asset management
- a need to identify asset management information and data requirements, recognising that the existing systems used to capture this information will be decommissioned. TAFE SA will need to work with the incoming facilities management service provider under the Across Government Facilities Management Arrangements to ensure its information and data needs are met.

TAFE SA responses to these matters were that:

- its AMS will be described in the asset management policy and the strategic asset management plan that TAFE SA will finalise by the end of October 2021
- it was in the process of developing a clear risk profile for its assets, including objectives and service levels, to be completed by the end of October 2021
- appropriate focus will be placed on the strategic elements of its strategic asset management framework
- its Capital Maintenance Group endorsed a business case for a software asset management system, which included scope to consider whether it could be expanded to capture whole of portfolio assets information and data. It is expected this process will be completed by the end of December 2021.

Other audit findings

Payroll

Total salaries and wages expenses for TAFE SA employees were $170 million (including annual leave), of which around $5 million was paid to hourly paid instructors (HPIs).

Some hourly paid instructors continue to start working without signing a letter of offer

We have reported for a number of years that contracts for HPIs were being signed after the HPI started working with TAFE SA. In 2020-21, TAFE SA's system records indicate that around 94% (74%) of its 605 HPIs accepted contracts before starting work.

TAFE SA's prior responses to this matter have reinforced its very low tolerance for HPIs commencing work without a contract.

TAFE SA's policies require a contract to be in place before an HPI commences, in part to ensure there is a clear agreement on contract arrangements.

The absence of a signed employment contract increases the risk of HPIs not understanding their responsibilities as TAFE SA employees and TAFE SA are not complying with its enterprise agreement.

TAFE SA responded that the non-complying managers have been advised that TAFE SA will have no tolerance for not ensuring a signed contract is in place before an HPI commences work. A weekly report is provided to managers to identify HPIs who have not signed their contract. In addition, HPIs who have not signed a contract will be instructed not to attend the workplace.

TAFE SA is implementing a system driven solution to support this process, which is expected to be available from 1 January 2022.

Interpretation and analysis of the financial report

Highlights of the financial report

	2021 $million	2020 $million
Income		
Grants and subsidies from DIS	231	246
Student and other fees and charges	83	81
SA Government transfers	5	11
Other income	12	10
Total income	331	348
Expenses		
Employee benefits	206	227
Supplies and services	62	78
Depreciation and amortisation	26	19
Other expenses	4	5
Total expenses	298	329
Total comprehensive result	33	19
Net cash provided by operating activities	63	96
Assets		
Current assets	153	95
Non-current assets	619	636
Total assets	772	731
Liabilities		
Current liabilities	47	39
Non-current liabilities	47	47
Total liabilities	94	86
Total equity	678	645

TAFE SA’s governance arrangements

TAFE SA’s governance arrangements involve both the Minister for Education and the Minister for Innovation and Skills.

Since 2017-18, TAFE SA has reported to the Minister for Education, the principle representative of the SA Government as TAFE SA's owner. TAFE SA's performance agreement and charter are agreed with the Minister for Education.

TAFE SA also has a key relationship with the Minister for Innovation and Skills as the purchaser of VET services.

In practice, this means:

- TAFE SA reports to the Minister for Education about its total operations and the Minister for Education is responsible for approving key governance documents, including the annual performance agreement and TAFE SA's charter
- TAFE SA works closely with DIS and the Minister for Innovation and Skills to deliver VET training and help to meet policy objectives in relation to VET
- TAFE SA is mainly funded by DIS.

Continued changes to TAFE SA funding

TAFE SA's funding arrangements with DIS have continued to change over recent years.

In 2019-20 the main memorandum of administrative arrangement (MoAA) for funding TAFE SA provided for a set level of funding. In prior years, the MoAA had specifically provided for some individual VET outcomes, as well as a lower level of set funding. While the 2019-20 MoAA continued to set targets for VET training provision, specific funds were not paid based on individual VET outcomes, with the set funding level directly provided across 2019-20.

In 2020-21 an amended MoAA for funding TAFE SA, which commenced in July 2020, was signed in May 2021. This MoAA was similar to the 2019-20 MoAA, with TAFE SA receiving a set amount of non-recourse funding to be allocated over 12 months. The MoAA did provide, however, for an adjustment to be made where TAFE SA did not complete the required level of activity in certain areas.

While the funding arrangements have changed, TAFE SA continued to record, monitor and report to DIS on individual VET outcomes.

TAFE SA's reliance on DIS funding is discussed further below.

Statement of Comprehensive Income

Income

Funding from the Department for Innovation and Skills

TAFE SA's main income source is funding from DIS. Total funding from DIS was $231 million ($246 million).

DIS funding continued to account for 70% of TAFE SA's total income in 2020-21 and is made up of the following components, as identified by TAFE SA.

	2021 $million	2020 $million
Funding for specific course delivery outlined in the MoAA	154	128
Other funding	58	102
Excess staff funding	-	1
Capital funding	19	15
Total income	231	246

As discussed under 'TAFE SA's governance arrangements' above, the 2020-21 MoAA provided for TAFE SA to be paid a set amount. This amount was transferred from DIS in monthly instalments.

While the MoAA contained subsidised targeted training activity and other specific course delivery expectations, the amount paid to TAFE SA each month did not vary according to the training outcomes achieved, which had been the case prior to 2019-20. As discussed above, however, the 2020-21 MoAA provided for an adjustment to be made where TAFE SA did not complete the required level of activity in certain areas.

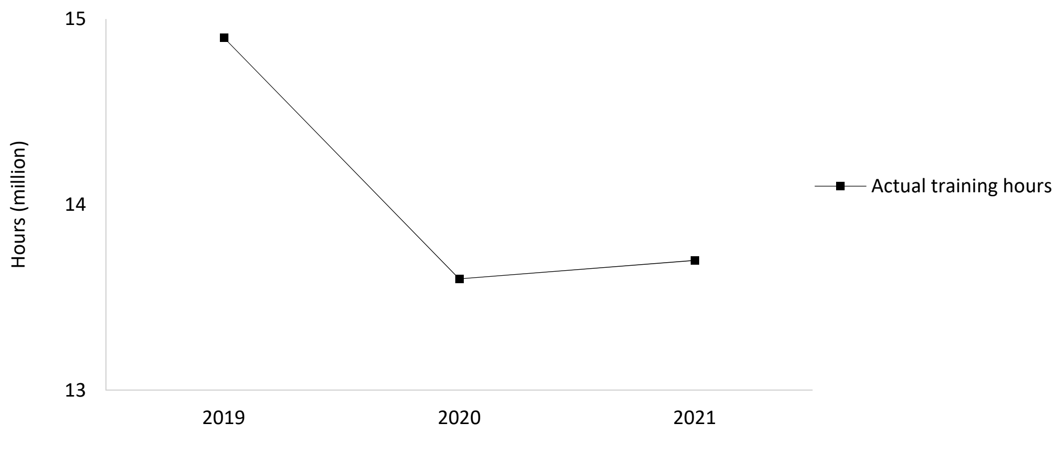
The MoAA provided for up to $215 million in 2020-21, with TAFE SA receiving $212 million.

As shown in the table above, TAFE SA continued to separately identify funding for direct course delivery, in line with MoAA categories, and other funding from DIS, although the MoAA no longer makes this distinction.

The 2020-21 MoAA also did not include a specific target for the number of subsidised training hours to be delivered by TAFE SA. As with the approach to funding as a whole, the inclusion of specific training hours targets within MoAAs for TAFE SA has changed over recent years, with no expected number of training hours to be delivered identified since 2018-19.

Funding that TAFE SA identified as being for direct VET course delivery from DIS increased by $26 million, reflecting an increase in training hours delivered in 2020-21.

The following chart shows the total training hours delivered by TAFE SA over the last three years.



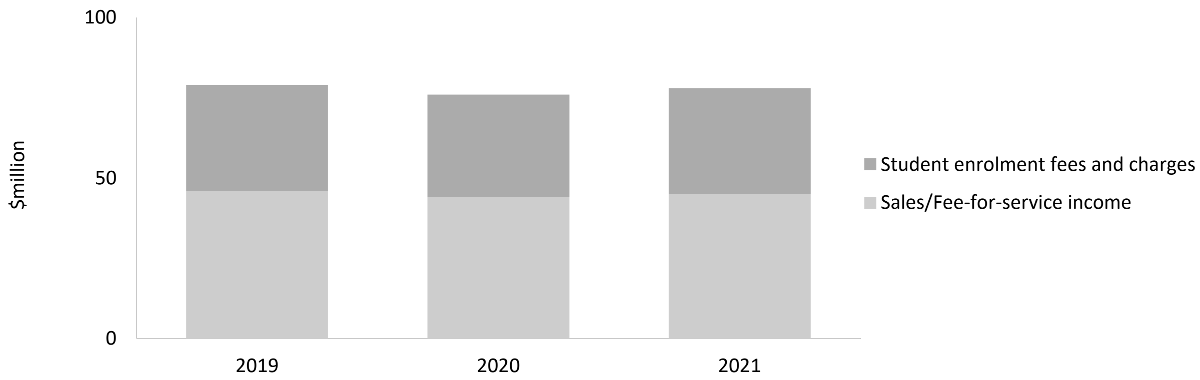
*   Training hours data provided by TAFE SA and unaudited.

The chart shows that total registered training hours increased slightly in 2020-21 after a decrease in 2019-20. Total registered training hours commenced in 2020-21 were 13.7 million hours compared to a budgeted delivery of 13.2 million hours.

Student and other fees and charges

Student and other fees and charges totalled $83 million ($81 million) and make up 25% (23%) of TAFE SA's total income.

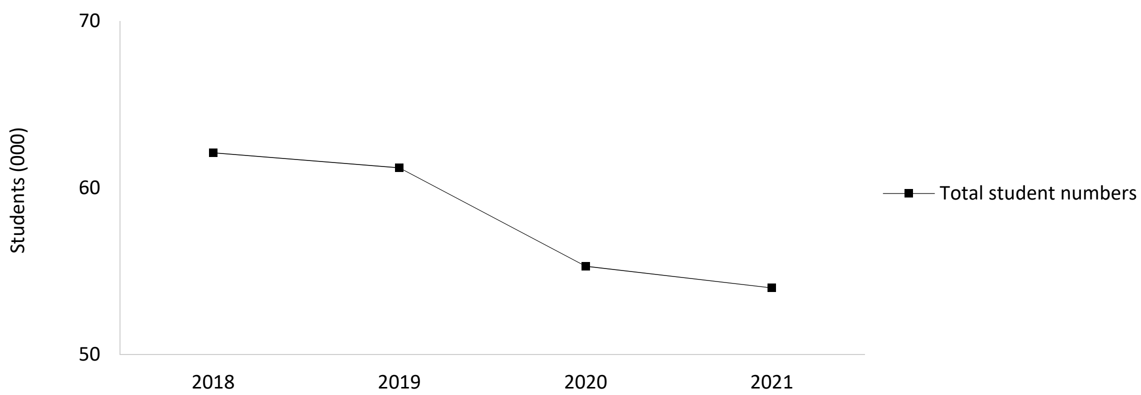
The main components of student and other fees and charges for the past three years are shown in the following chart.



The chart illustrates that sales/fee-for-service income and student enrolment fees and charges have remained steady over this period.

Total sales/fee-for-service income for 2020-21 was $45 million ($44 million), of which $25 million ($23 million) was received from the Commonwealth Government for the Adult Migrant English and Skills for Education and Employment programs.

TAFE SA's total student numbers have decreased over the last four years to around 54 000 in 2020-21, as shown in the following chart.



Source: Number of students data provided by TAFE SA and unaudited.

Expenses

TAFE SA's total expenses reduced by $31 million or 9% in 2020-21. This included a $21 million reduction in employee benefits expenses and a $16 million reduction in supplies and services, offset by an increase in depreciation and amortisation of $7 million.

Employee benefits

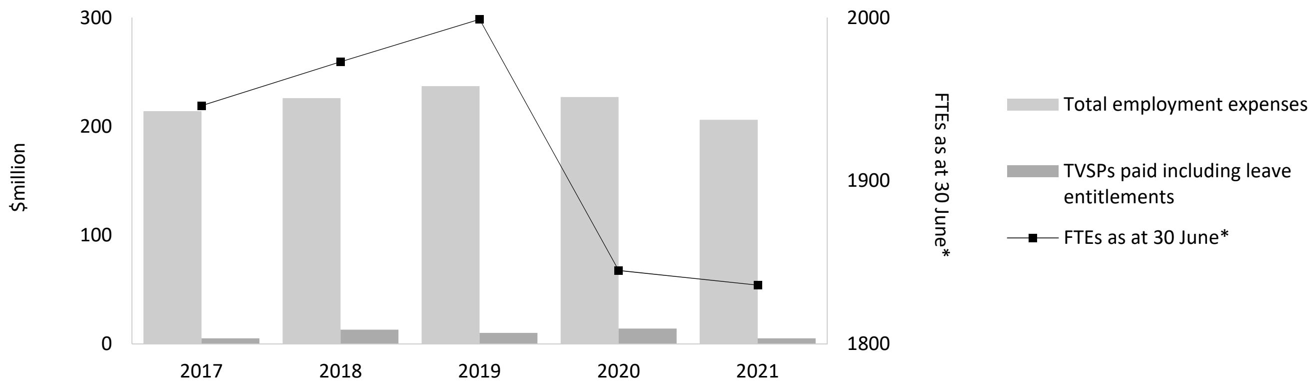
Employee benefits are TAFE SA's main expense, accounting for 69% (69%) of total expenses.

Employee benefits expenses decreased by $21 million or 9% to $206 million in 2020-21. This was mainly due to:

- a decrease in salaries and wages and annual leave of $13 million, reflecting a decrease in FTEs and a reduction in annual leave costs
- a decrease in targeted voluntary separation payments (TVSPs) of $7 million as a result of fewer staff taking a TVSP.

Employee benefits expenses included payments of TVSPs and related leave of $5 million ($14 million) to 47 (112) staff.

The following chart shows total employment expenses, TVSP payments and FTE staff for the last five years.



* FTE data sourced from TAFE SA and unaudited.

TAFE SA has paid 421 TVSPs over this period including 47 in 2020-21.

When excluding TVSPs, the chart shows that total employment expenses increased between 2017 and 2019, before decreasing in 2020 and 2021.

This analysis shows that FTEs and total employment expenses have fallen over the last five years. Salaried FTEs are at their lowest level in five years, decreasing from 1845 as at 30 June 2020 to 1836 this year. FTEs as at 30 June 2021 are comprised as follows, based on data from TAFE SA.

	2021 FTEs	2020 FTEs
TAFE SA Act	981	990
Public Sector Act	845	844
Excess staff	10	11
HPIs	68	44
Casuals	41	16

Supplies and services

Overall supplies and services expenses were $62 million, a decrease of $16 million or 21% from 2019-20.

The main factor in this decrease was a $14 million reduction in short-term leasing expenses, reflecting that 2019-20 included four months of lease costs for TAFE SA sites before they transferred to TAFE SA ownership at the end of October 2019.

Depreciation and amortisation expenses

Depreciation and amortisation expenses increased by $7 million to $26 million in 2020-21, reflecting TAFE SA's first full year of owning campus assets and infrastructure previously owned by the URA and DIS.

Statement of Financial Position

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

	2021 $million	2020 $million
Assets		
Cash and cash equivalents	137	81
Receivables and contract assets	15	14
Property, plant and equipment	612	629
Liabilities		
Payables	25	16
Employee benefits	61	62

Assets

Cash

The increase in TAFE SA's cash balance mainly reflects a net cash inflow from operating activities of $63 million, partially offset by purchases of property, plant, equipment and intangibles of $7 million. The increase in cash also reflects that TAFE SA's accrued expenses, amounts yet to be paid, increased by $9 million in 2020-21.

Receivables

Receivables of $13 million ($10 million) as at 30 June 2021 include amounts owing from the Commonwealth Government of $3 million ($3 million) under the VET student loans schemes and Adult Migrant English Program. In addition, $3 million ($1 million) in GST is recoverable from the ATO, and prepayments increased from $2 million to $4 million mainly for ICT expenses.

Property, plant and equipment

Property, plant and equipment decreased by $17 million to $612 million as at 30 June 2021.

Campus assets owned by the URA with a value of $601 million and other associated infrastructure assets with a value of $20 million, previously owned by DIS, transferred to TAFE SA mainly on 31 October 2019.

The $17 million reduction in the value of these assets is predominantly due to depreciation expenses of $23 million, offset by additions of $6 million.

As the asset owner, TAFE SA is now responsible for developing asset management plans for these assets based on its future plans. These services were previously provided or supported by the former asset owners.

Liabilities

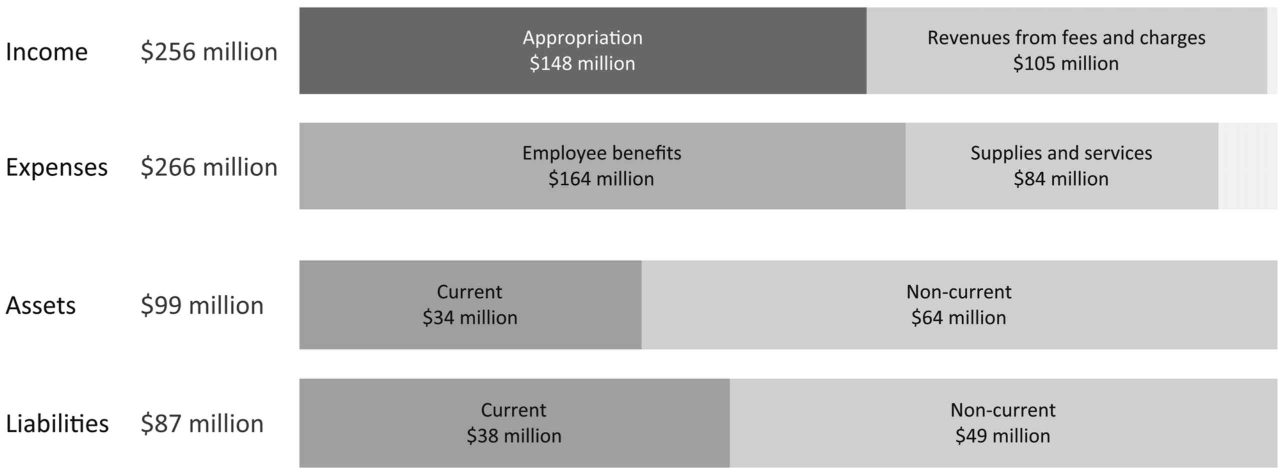
Payables increased by $9 million in 2020-21 to $25 million. This increase reflects:

- an amount of $2.7 million payable to DIS as TAFE SA did not meet some activity targets
- payables associated with property, plant and equipment of $2.2 million
- TVSP expenses of $1.4 million.

Employee benefits overall reduced by $1 million. The overall reduction mainly reflects a reduction in long service leave liabilities due to an increase in the discount rate used to value the outstanding liability.

Department of Treasury and Finance (DTF)

Financial statistics



1,566
Number of FTEs

Administered items

Significant events and transactions

- DTF has paid $205 million in grants/payments in responding to the COVID-19 pandemic, including grants for small business ($76 million) and private hospital viability payments ($55 million).
- The Parliamentary Network Support Group transferred from the Department for Infrastructure and Transport (DIT) on 1 October 2020. This resulted in the transfer of net controlled assets of $638 000.
- The State Procurement Board was abolished on 1 July 2021. On 30 June 2021 the Board's assets and liabilities were vested in the Treasurer, to be administered by DTF. This resulted in the transfer of net administered assets of $1.4 million.

Financial report opinion	**Unmodified**	
Controls opinion findings	—	Key payroll and accounts payable control processes at Shared Services SA (SSSA) could be strengthened.
	—	Access controls and some other aspects of IT general controls could be improved for some of SSSA's main IT systems.
	—	Consolidated Account appropriation payment, journal coding and monthly control processes could be strengthened.
Other audit findings	—	RevenueSA Online (RIO) user access controls could be improved.
	—	Reviews of South Australian Integrated Land Information System (SAILIS) to RIO data had not been performed since April 2020.

Functional responsibility

DTF is an administrative unit established under the *Public Sector Act 2009* and is responsible to the Treasurer.

On 1 October 2020 the Parliamentary Network Support Group transferred from DIT to DTF.

DTF administers a range of activities on behalf of the Treasurer, including transactions on behalf of the SA Government for the Consolidated Account.

Notes 1.2 and 12.1 of DTF's financial report provide details of its functions and an overview of its administered activities.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. It also considered the work of DTF's internal auditors.

Specific areas of attention in 2020-21:

- taxation revenue
- payroll

- expenditure
- procurement
- general ledger maintenance and reconciliation
- receipting and banking
- round two of the small business grant program
- local government infrastructure partnership program
- House of Assembly global allowance scheme
- IT general controls.

Financing and insurance services

Commentary on these activities is included under the section titled 'South Australian Government Financing Authority (SAFA)' in this Report.

Superannuation services

Commentary on these activities is included under the section titled 'South Australian Superannuation Board' in this Report.

Public finances

We review various aspects of the public finances. The results will be reported in a separate Auditor-General's Report on the State Finances. The Treasurer's statements for the year ended 30 June 2021 will be published on the Auditor-General's Department website after this Annual Report is tabled in Parliament.

Controls opinion

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

- Commonwealth Government revenue
- taxation revenue – payroll tax
- taxation revenue – stamp duty – conveyances on sale of property
- Treasurer's guarantees and indemnities
- unfunded superannuation liability
- SSSA – accounts payable and payroll functions
- Treasurer's statements A, F, G and I
- a sample of whole of government procurements.

Audit findings

Communicating our audit findings

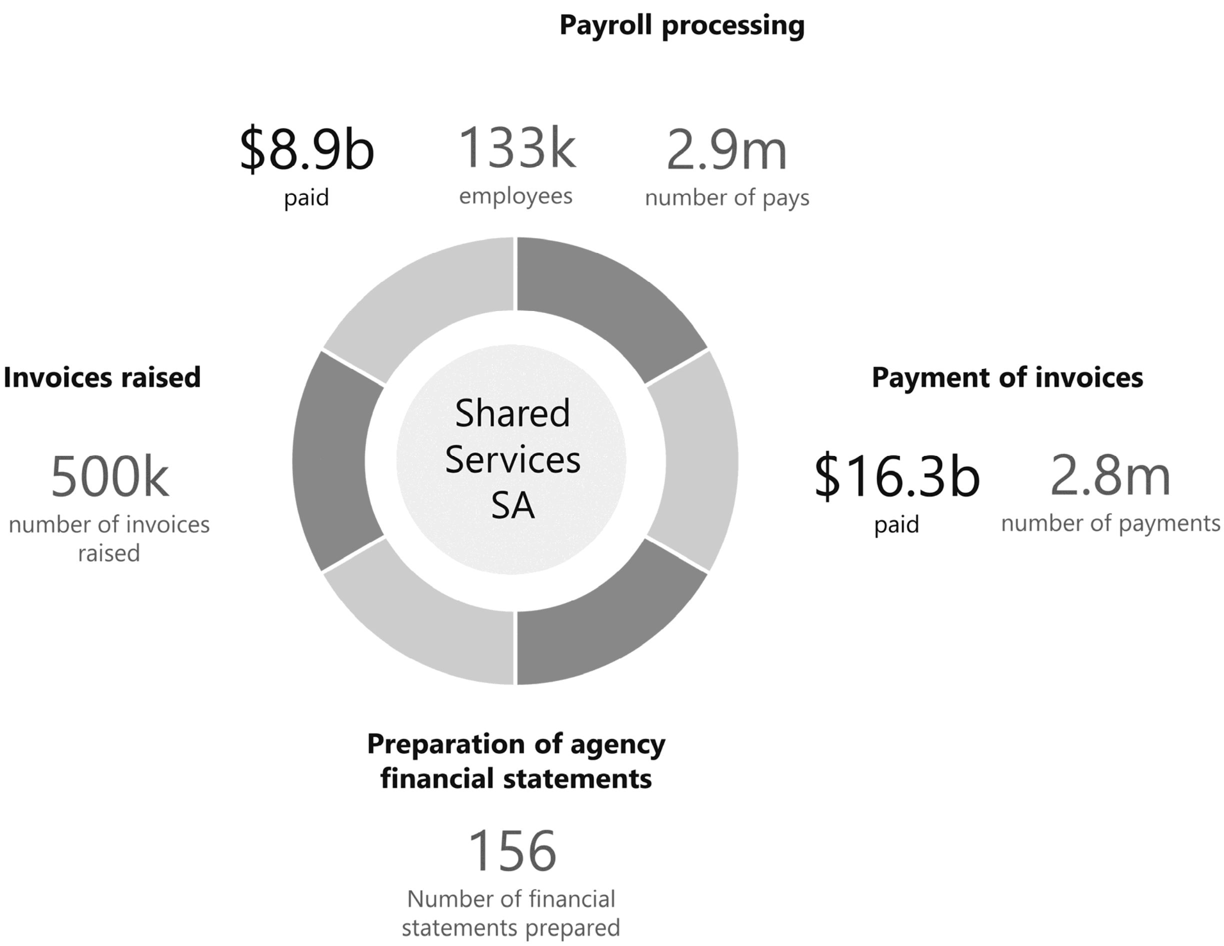
We communicated our audit findings in management letters to the Chief Executive. The main findings and DTF's responses are discussed below.

Controls opinion findings

SSSA – financial systems and transaction processing controls

SSSA processes financial transactions on behalf of a large number of SA Government agencies under service level determinations. SSSA processing includes accounts payable, accounts receivable, payroll, general ledger processing and financial accounting.

The table below provides statistics for the services provided by SSSA.



Each year SSSA processes approximately 2.9 million employee pays using the Chris21 and VALEO payroll systems.

In addition, SSSA processes around 2.8 million accounts payable transactions.

In addition to the payroll systems mentioned above, the main IT systems used by SSSA are:

- Readsoft – for scanning invoices
- Basware – payment processing – current generation (CG) and new generation (NG)
- Masterpiece – accounts receivable, accounts payable and general ledger
- CommBiz – banking software used to process payments.

Payroll

SSSA payroll functions include:

- maintaining employee data
- processing, calculating and disbursing payroll
- identifying and managing salary overpayments
- calculating targeted voluntary separation package (TVSP) and termination payments.

Most SA Government payroll is processed through Chris21, with VALEO used for the Department for Education’s payroll.

The significant matter we identified through our payroll review and communicated to DTF and SSSA is detailed below.

— *Final sign-off of some pay runs was not recorded before authorisation to pay was given*

SSSA uses a checklist for each pay run to ensure reports, processes and tasks have occurred. Activities are signed off electronically on the checklist when completed. Completion is verified by a second officer and this is designed to happen before pay is disbursed, to ensure all the steps have been completed.

We noted instances where the sign-off to ensure all tasks associated with payroll processing had been completed did not occur until after the pay was released for payment. This increases the risk that not all the required tasks were completed, which could lead to inaccurate payments to employees being made.

SSSA responded that staff had been reminded of their responsibility to ensure that all requirements of the checklist are completed in the correct sequence under the documented procedures.

SSSA also advised us that a new automated checklist will be introduced that will validate that all reports have been actioned before closing off each checklist item.

Accounts payable

SSSA processes payments on behalf of SA Government agencies. We annually review key controls over the SSSA processing environment and the main matter we identified in 2020-21 is detailed below.

— *Some invoices were paid more than once*

SSSA made a number of duplicate payments that were not identified by its internal controls.

SSSA has a system by which Readsoft matches the vendor’s Australian Business Number (ABN) on the invoice with the corresponding record in the accounts payable masterfile. SSSA is responsible for ensuring that the vendor details have been correctly matched or applying the correct vendor details in cases where they have not been clearly identified.

SSSA also performs a validity check on the vendor’s ABN before creating any new vendors.

Although these processes were in place, we understand the causes of the duplicate payments were:

- the Basware vendor data not agreeing with the invoice

- the duplicate invoice having the same ABN but different vendor codes and bank details to the original invoice.

SSSA responded that staff have been reminded of the importance of proper checking. In addition, a report is being developed to enable improved identification and prompt correction of invoices where a mismatch has occurred.

SSSA is also piloting a revised approach to improve the quality of the vendor creation process to help reduce the likelihood of duplicate payments.

IT general controls

Given the importance of SSSA's systems to SA Government transaction processing, we review IT general controls each year.

— *Basware*

SSSA operated two versions of Basware in 2020-21 – the version that has been in place for some years, referred to as Basware CG, and a newer version, Basware NG. Basware NG is a cloud-based version of the software and SSSA clients have been transferring to it from Basware CG throughout 2020-21.

Basware CG

We identified the following issues:

- two privileged user accounts were no longer required and should be removed
- improvement was needed in the process to remove user access when staff leave, as we found a number of terminated employees with active user accounts
- outstanding issues from 2019-20, including SSSA not maintaining an audit log of activities at the database or operating system level and not performing any disaster recovery testing for the SA Health and SA Government environments since September 2016 and 2014 respectively.

We acknowledge that SSSA is transferring to Basware NG and suggested that it continue to consider our findings as part of that process.

SSSA responded that:

- privileged user access has been removed for the users we highlighted, as has user access for terminated staff
- SSSA will continue to work with the Department of the Premier and Cabinet's ICT team to further enhance current controls over user access
- it is progressing a project to implement a new software-as-a-service version of Basware, and each outstanding risk will be considered in this implementation.

Basware NG

We found that SSSA has not been provided with any evidence to confirm that business continuity and disaster recovery planning tests had occurred for the Basware NG environment.

SSSA responded that Basware is required to provide the State with Tier 4 disaster recovery services for the Basware NG environment and that data is continuously copied onto a secondary platform in a separate location. SSSA had also sought formal documentation of the standard testing undertaken by the hosting service provider.

SSSA also noted its intention to conduct a comprehensive disaster recovery test of the Basware NG environment once clients have transferred across.

— *Masterpiece*

We identified the following issues:

- insufficient review of access to locations where payment files are stored on the network before being processed
- improvement required in disaster recovery processes as they do not reflect revised arrangements
- weaknesses in patching and upgrade processes.

SSSA responded that:

- it agreed there was a risk associated with the rare use of the type of access to payment file locations we identified. However, as access of that type is minimal and the process to identify it requires a manual review of user access logs in full, SSSA does not consider the risk warrants the administrative overhead required to implement the manual review process
- a full disaster recovery test was undertaken in December 2020. After considering the test results, SSSA will update the current Masterpiece disaster recovery plan, including a clear definition of roles and responsibilities for the various recovery activities
- SSSA has a quarterly meeting with the vendor that includes the vendor providing details of all significant patches available. Delays in patching have been caused by a range of matters, including the disaster recovery test, but would be addressed by April 2021.

— *CommBiz*

We identified instances where users had access they no longer needed within the CommBiz environment.

SSSA responded that it had removed the access of the users we identified. It also advised that business units would be reminded of the importance of removing user access to systems when no longer required.

— *Chris21*

We identified the following issues:

- Chris21 application source code changes were not lodged with the escrow agent as required after any major change
- a number of privileged user accounts were no longer required and the access should be removed.

SSSA responded that:

- it would immediately request Frontier, the software vendor, to provide evidence that it has submitted source code to the nominated escrow agent as required by the contract. This requirement will also be included in Frontier's quarterly performance reporting
- it has quarterly contract performance meetings with the vendor. Included in the performance reporting are details of internal user access reviews and the appropriateness of the current access. SSSA also engages a third party every two years to review the vendor's ICT security environment, which includes the management of privileged user access.

Consolidated Account activities review findings

We review Consolidated Account activities as part of our annual audits. Since 1 July 2019 the Consolidated Account activities recorded through the central general ledger have been administered on DTF's behalf by SAFA.

— *Administered appropriation paid to DIT exceeded the prescribed limit in the Appropriations Act*

We noted that appropriation paid to DIT exceeded the limit prescribed in the Appropriations Act by $339 000.

SAFA was aware of the breach and was in the process of:

- seeking $142 000 of additional appropriation authority through the Governor's Appropriation Fund
- seeking a refund of the remaining $197 000 overpayment from DIT.

SAFA advised us that it will ensure appropriation payments are within prescribed limits before being paid.

SAFA also advised us that any appropriation payment requests received without the required approvals will be returned to the Budget and Performance branch account manager to request the appropriate authorisation.

— *Inadequate review of journals processed to the central general ledger*

We noted instances where central general ledger journals contained errors that were not identified when checked before processing. These included:

- journals to record July to November 2020 and January 2021 appropriation payments to DIT totalling $57.66 million
- journals to record Special Acts payments for October 2020 and January to April 2021 totalling $6.98 million.

SAFA responded that there was a change in responsibility for the review of journals in 2020-21, but that knowledge of Consolidated Account operations is building within the team and will help to identify journal coding errors before processing. It also pointed out that coding errors are identified internally at the end of the year as part of preparing the Treasurer's statements, and are corrected then.

— *Central general ledger monthly control processes were not performed promptly*

We noted that some monthly central general ledger control processes were not performed promptly for April and May 2021.

In response SAFA acknowledged that recent changes to staffing in the SAFA team had impacted these processes. A review of key deliverables and dates will be undertaken by the team once the 2020-21 year-end activities were completed.

Other audit findings

Periodic review of user access privileges is not being performed for the RIO application

We noted that in 2020-21 DTF reviewed RIO user access privileges. However, user access changes identified in the review were yet to be made due to resources being prioritised to the land tax reform project.

We recommended that DTF:

- regularly reviews RIO user access privileges, including access assigned to sensitive functions within the RIO application
- ensures that required changes identified in the reviews are made promptly.

DTF responded that it accepted our recommendations and will implement them in 2021-22.

Reviews of SAILIS to RIO data have not been performed since April 2020

The RIO application is used to perform land tax and Emergency Services levy assessments based on the property and ownership data uploaded from the SAILIS land management system.

DTF has developed a reconciliation application that compares data between SAILIS and RIO and generates weekly valuation comparison and ownership comparison reports that detail any discrepancies.

We noted that no reviews were performed after April 2020, due to a change in the SAILIS platform that prevents the reports being run.

DTF responded that it will work with Land Services SA to reinstate the reviews.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items*

	2021 $million	2020 $million
Income		
Appropriation	148	150
Fees and charges	105	101
Other income	3	12
Total income	256	263

	2021 $million	2020 $million
Expenses		
Employee benefits expenses	164	162
Supplies and services	84	86
Other expenses	19	16
Total expenses	266	264
Net result	(10)	(1)
Other comprehensive income		
Changes in revaluation surplus	1	-
Total comprehensive result	(9)	(1)
Assets		
Current assets	34	39
Non-current assets	64	68
Total assets	99	107
Liabilities		
Current liabilities	38	36
Non-current liabilities	49	50
Total liabilities	87	86
Total equity	12	21

* Totals may not add due to rounding.

Statement of Comprehensive Income (controlled items)

Income

Income decreased by $7 million to $256 million in 2021 mainly due to:

- an $8 million decrease in other income mostly due to:
  - a $4.9 million donated asset received from DIT (then the Department of Planning, Transport and Infrastructure) in 2019-20, relating to an office fitout at Port Adelaide
  - a $2.1 million decrease in revenue from the recovery of the cost of laptops in 2020-21. DTF took a lead role in a whole of government initiative to secure the supply of laptops to support business continuity by remote working during the COVID-19 pandemic
- a $1.3 million decrease in appropriations
- offset by a $3.4 million increase in revenue from fees and charges, mostly as a result of increased cost recovery from the South Australian Superannuation Board.

Expenses

Expenses increased by $2 million to $266 million in 2021 mainly due to:

- a $1.9 million increase in surplus cash transferred to the Consolidated Account
- a $1.9 million increase in other expenses, mostly due to the donation of a $1.4 million internally developed electronic rostering and timesheet system to the Department for Health and Wellbeing (DHW)
- a $2.4 million decrease in supplies and services expenses, mostly due to a $2.9 million decrease in general administration and consumables and a $1.7 million decrease in legal costs, offset by a $2.2 million increase in ICT expenses.

Statement of Financial Position (controlled items)

Assets

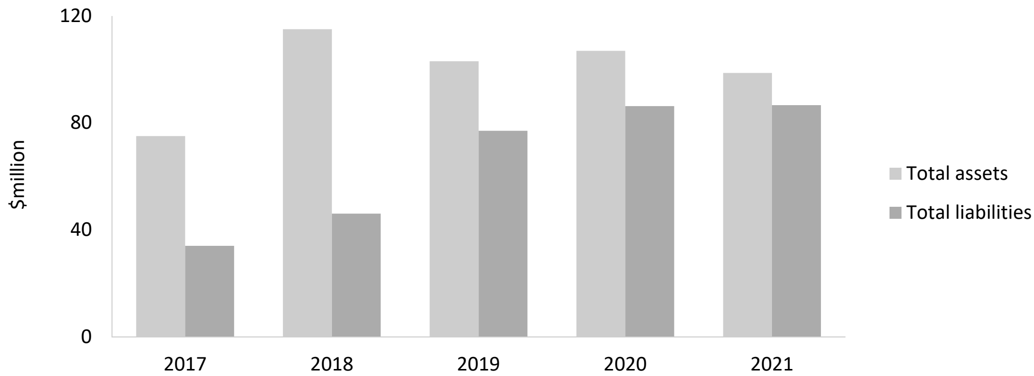
Total assets decreased by $8 million to $99 million in 2021 due mainly to:

- a $10 million decrease in cash
- a $4.6 million decrease in intangible assets, mostly due to:
  - $3.3 million being recognised for new software, developed mainly for RevenueSA (land tax reform, RIO and RevenueSA online phase 2 and payroll tax waiver) and the South Australian Employment Tribunal (case management system)
  - a $1.4 million internally developed electronic rostering and timesheet system donated to DHW
  - the $1.1 million derecognition of externally acquired software
  - $5.5 million in amortisation expense
- a $5.9 million increase in receivables, reflecting:
  - a $4.9 million increase in accrued revenues, primarily relating to services provided to the South Australian Superannuation Board
  - a $2.7 million increase in prepayments, primarily relating to software licences for Masterpiece, T-Recs and the financial reporting model
  - a $2.5 million decrease in trade receivables
- a $1.3 million increase in property, plant and equipment, mostly due to:
  - an $827 000 increment on the revaluation of land, buildings and fitouts
  - $667 000 of property, plant and equipment transferred through administrative restructure
  - $2.9 million in additional work in progress recognised in 2020-21, mainly relating to building fitouts
  - partially offset by $4.1 million in depreciation expense.

Liabilities

Total liabilities remained steady at $87 million in 2021.

The following chart shows DTF's asset and liability balances since 2017.



Assets have increased over the last five years, primarily reflecting the development of software for RevenueSA and the South Australian Superannuation Board, the transfer of SafeWork SA and its properties to DTF in 2018 and building fitouts.

Statement of Cash Flows

DTF's cash position as at 30 June 2021 was $14 million, a decrease of $10 million, which included the return of $7.6 million in surplus cash to the Consolidated Account.

Highlights of the financial report – administered items*

The administered financial statements mainly reflect DTF's transactions on behalf of the SA Government for the Consolidated Account. The Consolidated Account result for 2021 is reported in the Treasurer's statements (published on the Auditor-General's Department website).

	2021 $million	2020 $million
Income		
Taxation	4 312	3 892
Commonwealth revenues	8 960	9 342
Appropriation	2 419	2 478
Other revenues	1 336	1 377
Total income	17 027	17 089
Expenses		
Payments to SA Government	12 021	11 318
Grants, subsidies and transfers	4 101	4 216
Other expenses	948	842
Total expenses	17 070	16 376
Net result and total comprehensive result	(43)	714
Assets		
Current assets	2 534	2 014
Non-current assets	231	240
Total assets	2 765	2 254
Liabilities		
Current liabilities	1 501	699
Non-current liabilities	490	738
Total liabilities	1 991	1 437
Total equity	774	816

* Table may not add due to rounding.

Statement of Comprehensive Income (administered items)

Administered revenue

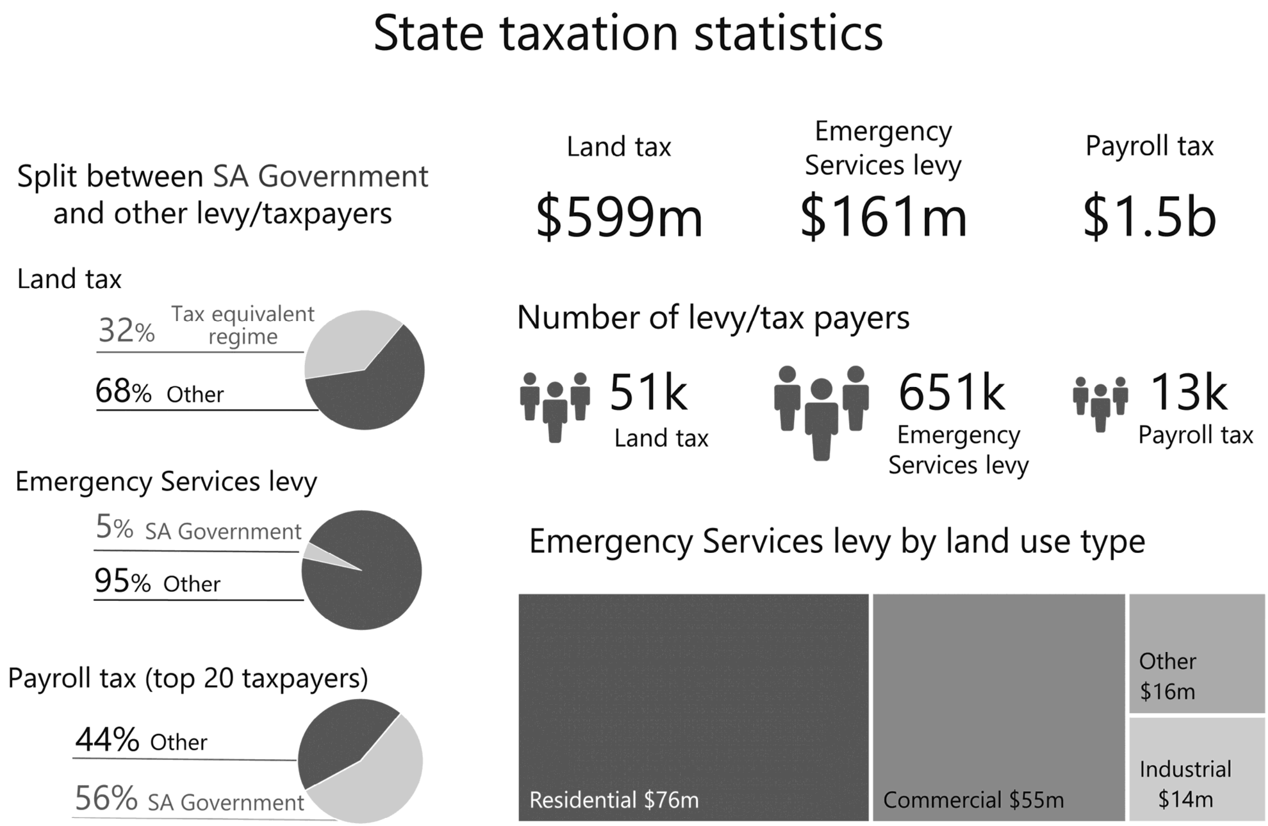
Taxation revenue increased by $420 million to $4.3 billion in 2020-21, due mostly to:

- increases of $217 million in stamp duties on property sale conveyances, $88 million in land tax, $61 million in payroll tax, $38 million in stamp duty on motor vehicle registrations, $13 million in betting operations tax and $10 million in Emergency Services levies

- a decrease of $32 million in income tax equivalents paid by SA Government agencies.

The following table of State taxation statistics shows that SA Government agencies paid:

- 32% of land tax but only 5% of the Emergency Services levy in 2020-21
- 56% of payroll tax collected by RevenueSA from the top 20 taxpayers in 2020-21.



Commonwealth revenue decreased by $383 million to $8.96 billion in 2020-21, comprising mainly a $510 million decrease in GST revenue grants offset by a $128 million increase in funding received under the Inter-Governmental Agreement on Federal Financial Relations (IGAFFR).

Commonwealth funding received in the current and prior years for various infrastructure and capital projects is recorded initially as unearned revenue and then recognised as expenditure on the projects as incurred. In 2020-21 grant revenue received from the Commonwealth for capital projects and recognised as unearned revenue was $267 million and grant revenue recognised in 2020-21 for capital works completed was $507 million.

Appropriation from the Consolidated Account decreased by $59 million to $2.4 billion in 2020-21, reflecting decreased funding for DTF's administered activities.

Other revenue decreased by $41 million to $1.3 billion in 2020-21, due mostly to:

- a $217 million decrease in revenue that recognised the transfer in 2019-20 of the State's emergency electricity generator assets from the Department for Energy and Mining to the Treasurer on 30 June 2020, before their transfer to the State Owned Generators Leasing Company Pty Ltd on the same day

- a $133 million decrease in dividends from SA Government agencies due mainly to decreases of $146 million from the South Australian Water Corporation and $9 million from the Motor Accident Commission, offset by increases of $12 million from SAFA and $7 million from the Public Trustee
- an $80 million decrease in revenue for the write-off of a payable in 2019-20 associated with the Land Services SA commercialisation agreement. Under the agreement the State was liable to repay $80 million if further decisions about other State registries were not taken or the State did not exercise an option to extend the term of the agreement. In December 2019 the SA Government decided not to proceed with the further commercialisation of State registries and opted to extend the term of the agreement by seven years
- a $58 million decrease in grants and contributions due mainly to a decrease of $81 million in funding to the Treasury and Finance Administered Items account, offset by an increase of $31 million in funding to the administered items on behalf of the Consolidated Account
- a $50 million decrease in interest revenues mainly due to lower interest rates in 2020-21
- a $15 million decrease in guarantee fees
- a $463 million increase in the return of surplus cash from agencies to the Consolidated Account
- a $48 million increase in revenue from the return of hospital viability payments.

Administered expenses

Administered expenses increased by $694 million to $17.1 billion in 2021, mainly due to:

- a $703 million increase in payments to the SA Government mostly due to:
  - a $271 million increase in the transfer of revenue received on behalf of the Consolidated Account
  - a $405 million transfer of surplus cash to the Consolidated Account
- a $49 million increase in employee benefits expenses, mostly due to a $48 million increase in payments to the Police Superannuation Scheme and the South Australia Superannuation Fund to support funding of the defined benefit liability of the schemes
- a $61 million increase in other expenses due mostly to a $44 million increase in refunds and remissions, a $13 million decrease in the value of the Treasurer's investment in the State Owned Generators Leasing Co Pty Ltd and a $2 million increase in payments to the Commonwealth
- a $114 million decrease in grants, subsidies and transfers mostly due to:
  - a $365 million decrease in recurrent grants, subsidies and transfers due mainly to the transfer of decreased recurrent funding from the Commonwealth under the IGAFFR to relevant SA Government agencies
  - a $178 million decrease in equity capital contributions to SA Government agencies
  - a $76 million decrease in grants/payments in response to COVID-19
  - a $535 million increase in capital grants, subsidies and transfers due mainly to the transfer of increased capital funding from the Commonwealth under the IGAFFR to relevant SA Government agencies.

Administered net assets

Net assets changed from $816 million in 2020 to $774 million in 2021. This was due to:

- administered assets increasing by $512 million due mainly to:
  - a $500 million increase in cash, mostly due to a $499 million increase in deposits with the Treasurer
  - a $20 million increase in receivables, mostly due to an increase in a receivable of $20 million from the Commonwealth for funding for capital works projects already completed by DIT
- administered liabilities increasing by $554 million due mainly to:
  - an $803 million increase in payables, mostly due to an $837 million increase in revenues collected but not yet paid into the Consolidated Account, offset by a $35 million decrease in accrued expenses
  - a $247 million decrease in other liabilities, mostly due to decreases in unearned Commonwealth revenue for capital projects for DIT and DHW ($240 million) and unearned revenue of $7 million relating to the novation of Urban Renewal Authority loans to the Treasurer as part of the process of TAFE SA buying its campus assets from the Urban Renewal Authority.

Further commentary on operations

Commonwealth Government funding arrangements

The IGAFFR is the framework for the Commonwealth's financial relations with the States and Territories. It provides for the following types of Commonwealth payments:

- general revenue assistance, including the ongoing provision of GST payments, to be used by the States and Territories for any purpose
- national specific purpose payments to be spent in the key service delivery sectors agreed to between the Commonwealth and the States. Each national specific purpose payment is linked to a national agreement that contains objectives, outcomes, outputs and performance indicators, and clarifies the roles and responsibilities of each jurisdiction
- national partnership payments to support the delivery of specified outputs or projects, to facilitate reforms or to reward those jurisdictions that deliver on nationally significant reforms.

Under the IGAFFR all Commonwealth funding, with the exception of funding under the National Health Reform Agreement, is provided to DTF, which distributes funds to agencies. The Treasurer has established a special deposit account to receive and disburse money paid to the State for the national specific purpose payment purposes listed in Schedule F of the IGAFFR and the national partnership payment purposes listed in Schedule G.

The balance of the IGAFFR account at 30 June 2021 was $151 million ($34 million). This represents funds that DTF is yet to transfer to other agencies.

Commonwealth funding, presented on a cash basis, was provided in 2021 for the purposes shown in the following table. The Commonwealth provided $8.63 billion to DTF and $1.61 billion directly to the health sector. Of this Commonwealth funding, 59% related to GST revenue grants of $6.04 billion that can be used for any purpose, whereas most of the remaining Commonwealth funding is for specific purposes.

$10.2 billion in total Commonwealth funding

$8.63b paid to DTF and $1.61b paid to the health sector

$6.04b
GST payments

$1.61b
Health

$1.52b
Education

$577m
Infrastructure

$83m
Community services

$174m
Affordable housing

$52m
Environment

$179m
Other funding

Education

$854m
Private school funding

$608m
Public school funding

$29m
Early childhood education

Health

$1.56b
Total National Health Reform payments

$27m
Proton beam therapy facility

Community Services

$75m
DisabilityCare Australia

Infrastructure

$540m
Infrastructure Investment Program

Source: Australian Government GovTeams report as at 30 June 2021.

Economic stimulus programs

COVID-19 Support Fund

In response to COVID-19, the SA Government established the Business and Jobs Support Fund and the Community and Jobs Support Fund to support businesses, jobs and community organisations.

In the 2021-22 State Budget the SA Government announced that the funds were combined to create the COVID-19 Support Fund.

Expenditure totalling $147 million ($223 million) was made from the fund in 2021, including grants under round two of the small business grants program totalling $76 million ($187 million for round one in 2020) to around 8400 businesses (18 300 businesses for round one in 2020).

Further rounds of the small business grants program were announced for businesses impacted by lockdowns and trading restrictions in July and August 2021.

Local Government Infrastructure Partnership Program

In October 2020 the SA Government announced the Local Government Infrastructure Partnership Program to help local government accelerate spending on community infrastructure projects that:

- contribute to the future economic growth of the region
- support the SA Government's Growth State agenda
- improve local infrastructure facilities for businesses and community organisations to enable them to grow in the future
- upgrade key community facilities.

Under the program, the SA Government will provide grants to councils for up to 50% of the cost of approved infrastructure projects. Councils will fund the remaining 50% either through their own reserves or borrowings. Infrastructure projects can include other funding partners, including the Commonwealth Government and/or local businesses.

Applications for grants closed on 29 January 2021. They were assessed by a panel of staff from the Office of Local Government and DTF.

The program was fully subscribed, with $106.9 million in grants approved for 57 projects across 58 local councils.

Grant payments will be made to local councils in line with key project milestones and as agreed with local councils in grant agreements.

As at 30 June 2021 no payments had been made.

Private hospital viability payments

In March 2020 the Commonwealth, States and Territories entered into the National Partnership Agreement on COVID-19 Response. The objective of the agreement is to provide financial assistance for the additional costs incurred by State health services in responding to the COVID-19 outbreak and efforts to minimise the spread of COVID-19.

Part of the agreement addresses funding arrangements between the States and private hospitals.

Under the agreement, the Commonwealth provides funding to enable private hospitals to maintain capacity for responding to State or Commonwealth public health requirements for both COVID-19 and non-COVID-19 activities, and to support their viability to resume normal operations at the end of the COVID-19 pandemic.

Hospital viability payments totalling $56 million ($89 million) were made in 2021, comprising payments to hospitals of $7.2 million ($69 million) and payments to DHW of $48.3 million ($19.9 million) for funding not required by private hospitals to be returned to the Commonwealth. These amounts are retained by DHW but deducted from future Commonwealth funding for COVID-19 associated costs.

University sector overview

Overview

The Auditor-General audits the State's three public universities:

- Flinders University
- University of Adelaide
- University of South Australia.

The universities advance learning and knowledge in South Australia by providing university education and conducting research activities.

Sector summary

Financial statistics

The following table shows key financial statistics for the three universities.

	2020 $million	2019 $million
Australian Government financial assistance	1 321	1 254
Fees and charges revenue	588	598
Employee related expenses	1 321	1 282
Assets	5 261	5 164
Liabilities	1 412	1 424

	2020 Number	2019 Number
FTEs	8 702	8 513
Students (EFTSLs)	66 342	64 045

Financial report opinions

We issued unmodified audit opinions for each university's financial report.

Controls opinion

All three universities are public authorities for the purpose of the *Public Finance and Audit Act 1987* and are included in work we perform to support our controls opinion.

We applied the controls opinion criteria described in Part B of this Report to identify areas of review at the universities and consequently assessed selected controls over:

- payroll and buildings and improvements for the University of Adelaide
- buildings and improvements for the University of South Australia
- buildings and improvements for Flinders University.

Our controls opinion is discussed in Part B of this Report.

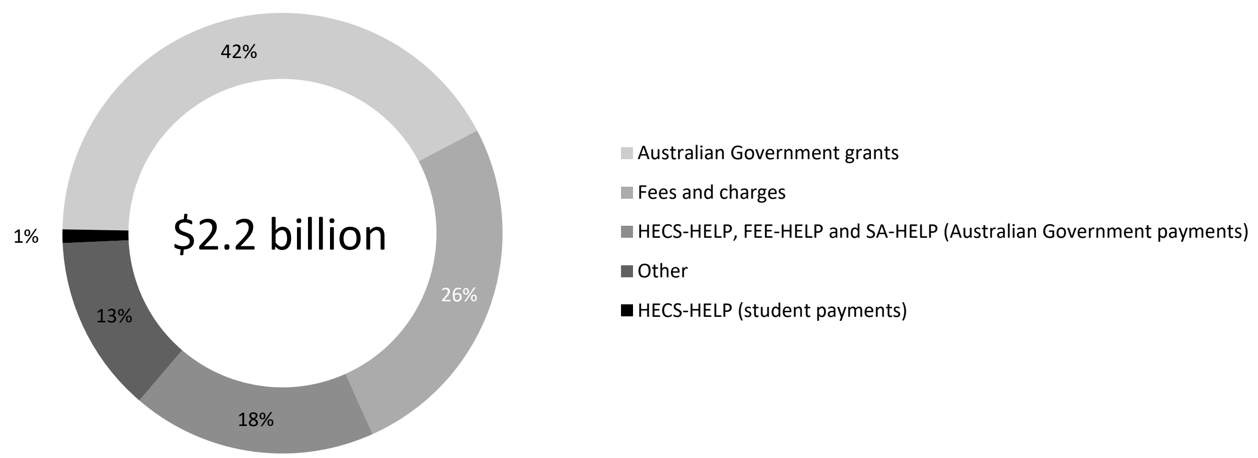
Other matters

Our financial statement audits review the control environments for all significant balances for each university. Matters arising from these reviews are disclosed in each university's commentary under 'Communicating our audit findings'.

Key financial statistics

Income

Total income for the three universities was $2.2 billion in 2020. The sources of income are shown in the following chart.



Overall income remained steady for the university sector as a whole in 2020.

Australian Government grants and payments

The universities are highly dependent on Australian Government financial assistance. This amounted to 60% of their total income in 2020. It comprises the Commonwealth Grants Scheme, Higher Education Loan Program (HELP) income, research grants and other funding.

Further information is provided in the commentary for each university under 'Statement of Comprehensive Income'.

Fees and charges

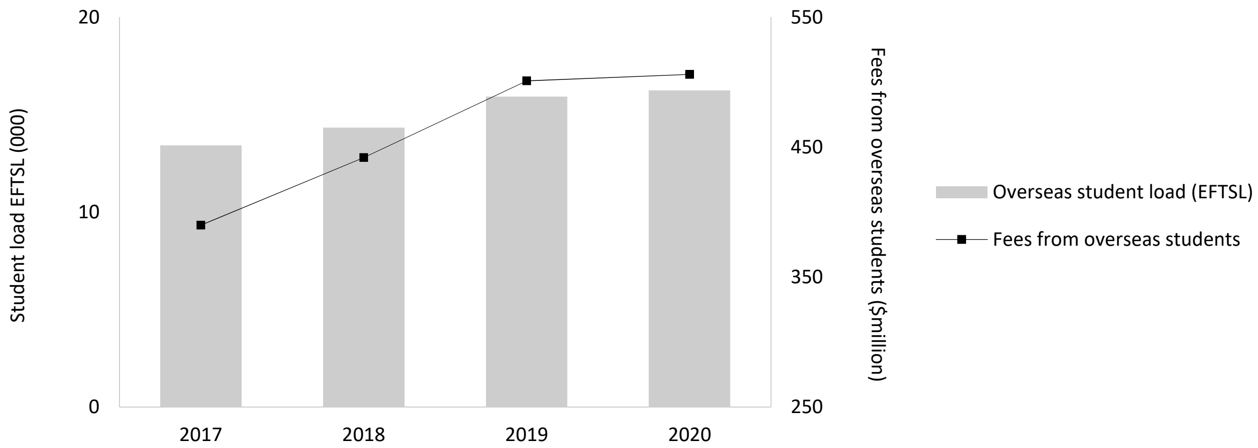
In the last four years, fees and charges across the universities increased by 22%, from $483 million in 2017 to $588 million in 2020. The main driver of this increase has been fees and charges generated from overseas students.

The following table shows that total student loads have increased by 9% over the last four years, with the sources of students changing to 76% domestic (75%) and 24% overseas (25%) in 2020.

	2017 Number	2018 Number	2019 Number	2020 Number
Domestic students	47 192	47 468	48 118	50 095
Overseas students	13 422	14 333	15 927	16 247
Total students	60 614	61 801	64 045	66 342

Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from data provided by the three universities and are unaudited.

Revenue from fees and charges from overseas students increased by 30% over the last four years to $506 million in 2020. The number of overseas students increased by 21% over this time.



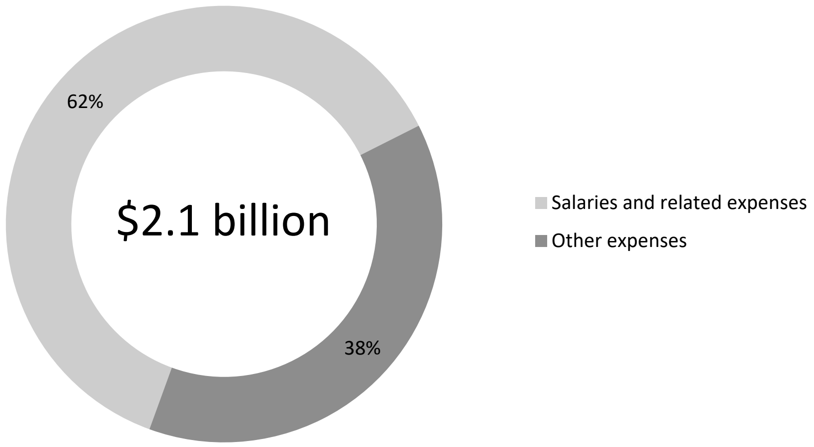
Source: Student numbers, which are based on EFTSL, were obtained from data provided by the three universities and are unaudited.

Fees and charges from overseas students remained steady in 2020, reflecting that plans to further grow this area of revenue were impacted by COVID-19 and the related travel restrictions that prevented new overseas students from travelling to Australia. 2020 fees and charges largely reflect amounts from continuing students, and those studying online. This revenue source will likely be impacted further should travel restrictions continue and new overseas students not be able to travel to Australia to study onshore.

Overseas students studying in South Australia come from a variety of countries. While the proportion from each country differs for each university, the main two countries of origin are China and India.

Expenditure

Total expenditure for the three universities was $2.1 billion in 2020. The sources of expenditure are shown in the following chart.



Employee related expenses

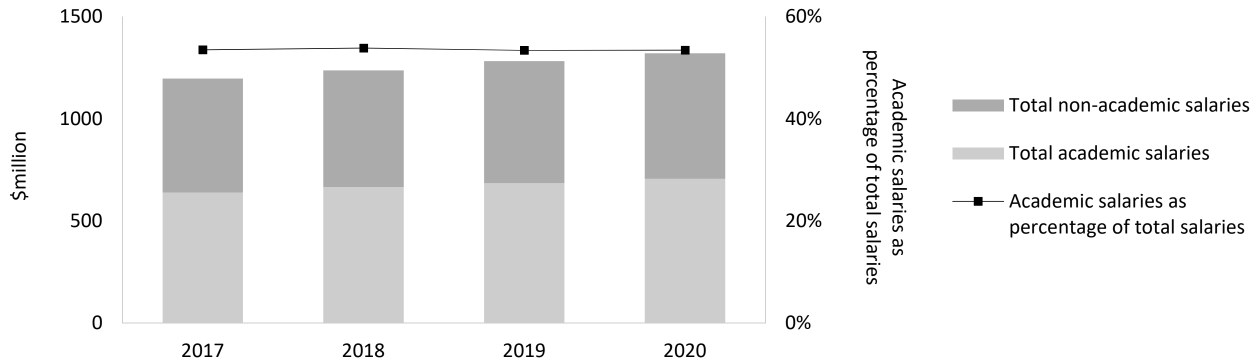
In the last four years, employee related expenses across the universities increased by 10% from $1.2 billion in 2017 to $1.3 billion in 2020.

The following table shows total staff numbers for all three universities, based on FTEs.

	2017 FTEs	2018 FTEs	2019 FTEs	2020 FTEs
Academic	3 681	3 721	3 692	3 786
Non-academic	4 705	4 796	4 821	4 916
Total FTEs	8 386	8 517	8 513	8 702
Percentage of academic staff	44%	44%	43%	44%

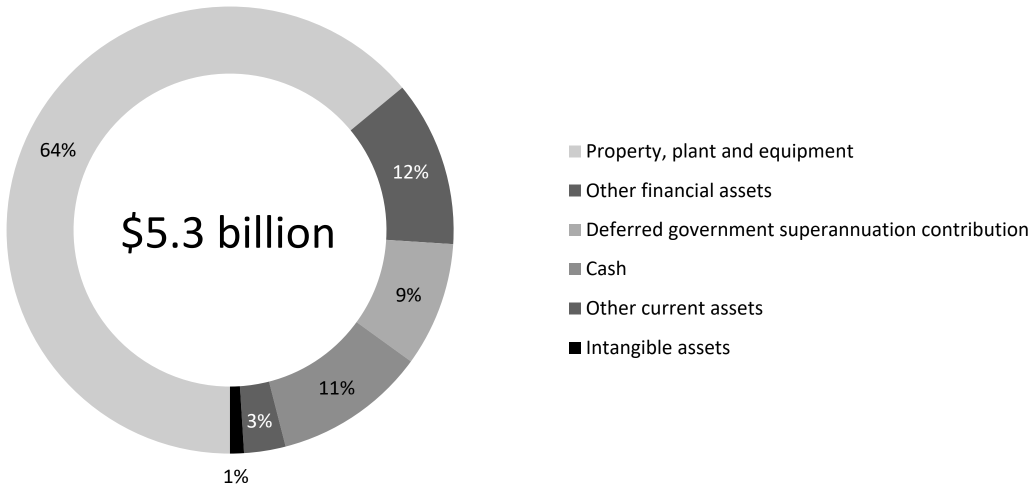
Source: Staff numbers, which are based on FTEs, were obtained from data provided by the three universities and are unaudited.

The following chart shows academic salaries as a percentage of total salaries. The percentage has remained steady since 2017.



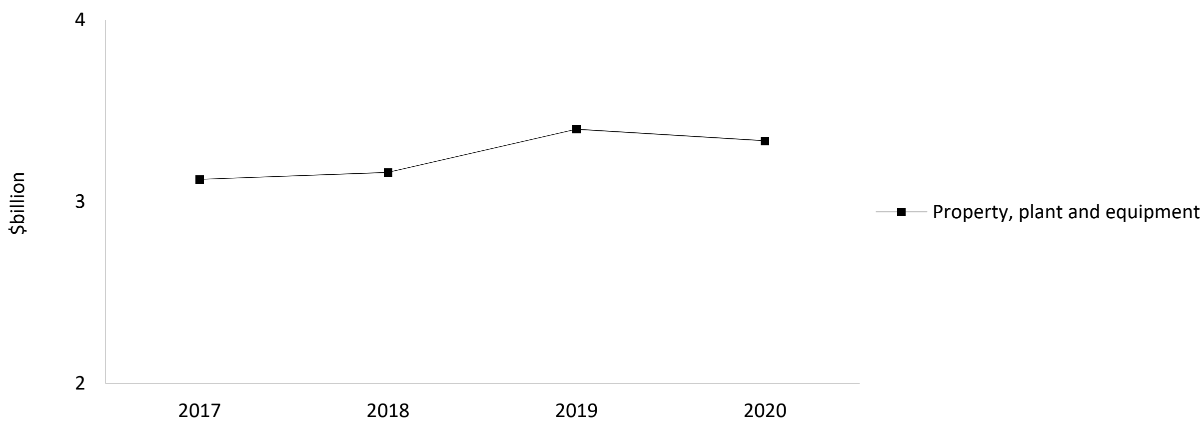
Assets

Total assets for the three universities were $5.3 billion in 2020. The categories of assets are shown in the following chart.



Property, plant and equipment

Property, plant and equipment totals $3.3 billion, which is 64% of the total value of assets held by the three universities. It primarily consists of $2.6 billion (77%) of buildings and infrastructure and $458 million (14%) of land. The following chart shows the value of property, plant and equipment over the last four years.



In 2019 all three universities revalued their land, buildings and infrastructure, in line with their normal approach of revaluing every three years. This resulted in a collective net revaluation gain across the universities of $166 million.

In 2019 the three universities also recognised right-of-use assets of $84 million for the first time as a result of the implementation of revised lease accounting requirements.

Further information on individual property, plant and equipment balances is provided in the commentary for each university under 'Statement of Financial Position'.

Deferred government superannuation contribution

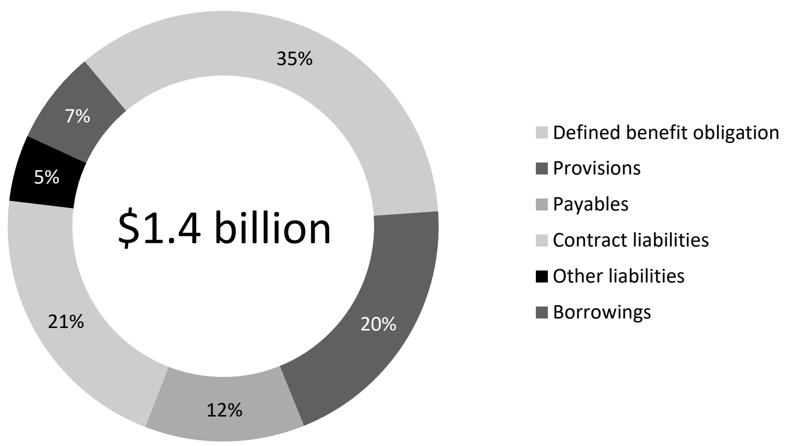
A number of present and former employees of the three universities, and their predecessor institutions, are members of State managed superannuation schemes. Under current arrangements the Commonwealth Government funds the universities on an emerging cost basis.

The defined benefit obligations of all three universities totalled $494 million, with a corresponding receivable of the same value being recognised from the Commonwealth Government. The receivables represent 9% of total assets held by the three universities.

For information on the individual schemes refer to the 2020 financial report for each university.

Liabilities

Total liabilities for the three universities were $1.4 billion in 2020. The categories of liabilities are shown in the following chart.



Defined benefit obligation

Defined benefit obligations total $494 million, 35% of the liabilities held by the three universities, and are offset by deferred government contributions as explained under 'Deferred government superannuation contribution' above.

Contract liabilities

Contract liabilities total $301 million, 21% of the liabilities held by the three universities. They were recognised for the first time in 2019 to implement new accounting requirements in AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income for not for profit entities.*

Provisions

Provisions total $277 million, 20% of the liabilities held by the three universities. They primarily comprise $155 million in long service leave liabilities and $63 million in annual leave liabilities.

Emerging issues

COVID-19

All three universities had notes to their financial reports explaining the impact of COVID-19 on their 2020 operations.

Travel bans on international arrivals, which began in early 2020 and then became more widespread, limited the number of international students who were able to attend university campuses to commence or continue their studies in 2020. This impacted all three universities as they all generate significant revenue from international students – a total of $506 million in 2020 – as discussed above.

While many continuing students were able to continue to study as they were in Australia or could work online, some chose to defer the resumption of their studies.

The impact of the travel bans is more pronounced for new overseas students, as those wanting to study in person have in some cases deferred starting their studies and in other cases have chosen to go to other countries to study. While Australia has travel bans in place, some of the key competitive markets for university education – the United Kingdom, United States and Canada – do not.

The exact impact of COVID-19 on South Australian universities is not yet clear. Revenue from international students will certainly reduce as a result of travel bans, but it is not clear how long the restrictions will last and what level of continuing take-up there may be for other study options, such as commencing study online from their home country and transitioning to campus study later.

Extended reductions in international student numbers will increase the impact of reduced revenues for all three universities, with each considering its own response to the impact on operations.

Support for students and universities

As we reported last year, all three universities have put in place support for students impacted by COVID-19, targeted to international students and other students suffering particular hardship.

The SA Government also assisted the university sector, providing direct assistance to support students and indirect assistance through deferred payments of payroll tax. It also provided ongoing support to trial bringing international students back to South Australia in a managed way.

In July 2020, the Commonwealth Government also announced changes to support the university sector nationally, including:

- starting to grant student visas outside of Australia again, which was previously suspended
- allowing online study outside of Australia, with an Australian university, to count towards Australian study requirements for a post-study work visa
- free additional visa applications for students unable to complete their study within their original visa time frame as a result of COVID-19.

Further changes to Commonwealth funding arrangements

As noted earlier, the South Australian university sector receives 60% of its funding from the Commonwealth Government, meaning changes to those funding arrangements can significantly impact the sector.

We have previously reported that the Commonwealth Government announced changes to university funding, with a cap on student numbers and new processes in place to provide for funding growth.

On 19 October 2020, the Australian Parliament passed legislation for the Job-ready Graduates package of reforms to higher education. This package includes a range of changes to university funding for 2021, including changing the amounts the Commonwealth Government contributes to some courses. This will reduce the cost of some courses to students (paying either up front or through HECS-HELP) while increasing the cost of other courses in areas where there is deemed to be limited demand or an over-supply of students, with reduced job availability.

The proposed changes also include different levels of funding increases in Commonwealth Grant Scheme places depending on whether universities are in regional areas, high-growth metropolitan areas or low-growth metropolitan areas.

The impact of these proposed changes on South Australian universities will depend on the mix of students each university has and their numbers.

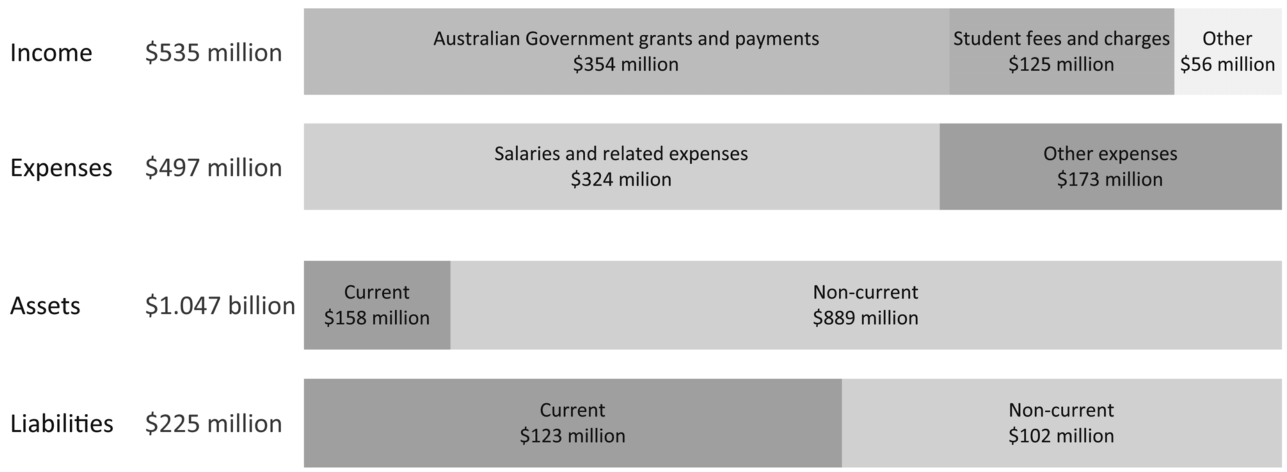
On 6 October 2020, the Commonwealth Government announced a Research Package which will result in further funding to universities across Australia, including the three in South Australia.

The package includes:

- an additional $1 billion in the research funding program to be delivered through the Research Support Program
- $40 million over four years to create a Strategic University Reform Fund
- $157 million over three years for a research infrastructure investment plan
- a scoping study for a university research commercialisation scheme
- $20 million over four years to establish a Centre for Augmented Reasoning at the University of Adelaide.

Flinders University (Flinders)

Financial statistics



2,029 Total employees

17,553 Students (EFTSL)

$448 million Buildings

Significant events and transactions	Flinders progressed its strategic plan to develop Flinders Village with the release of plans for the Health Research Medical Building.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.

Functional responsibility

Flinders is established by the *Flinders University Act 1966*.

The functions of Flinders include establishing and providing educational facilities and courses of study at a university standard, and generally disseminating knowledge and promoting scholarship.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020 included:

- corporate governance
- Commonwealth financial assistance
- research grants, student fees and other revenue
- accounts receivable
- cash, investments and borrowings
- property, plant and equipment, including building management
- payroll
- expenditure
- accounts payable
- general ledger.

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

The audits of Flinders controlled entities for the year ended 31 December 2020 were carried out by private accounting firms.

Controls opinion

We reviewed controls over buildings and improvements as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

There were no issues identified in our 2020 audit of Flinders that needed to be communicated in a management letter.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $million	2019 $million
Income		
Australian Government grants	236	234
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	112	107
HECS-HELP (student payments)	6	8
Fees and charges	125	126
Other	56	56
Total income	535	531

	2020 $million	2019 $million
Expenses		
Employee related expenses	324	322
Other expenses	173	184
Total expenses	497	506
Operating result	38	25
Net cash provided by (used in) operating activities	97	52
Net cash provided by (used in) investing activities	(36)	(24)
Assets		
Current assets	158	119
Non-current assets	889	864
Total assets	1 047	983
Liabilities		
Current liabilities	123	113
Non-current liabilities	102	93
Total liabilities	225	206
Total equity	822	777

Income Statement

Income

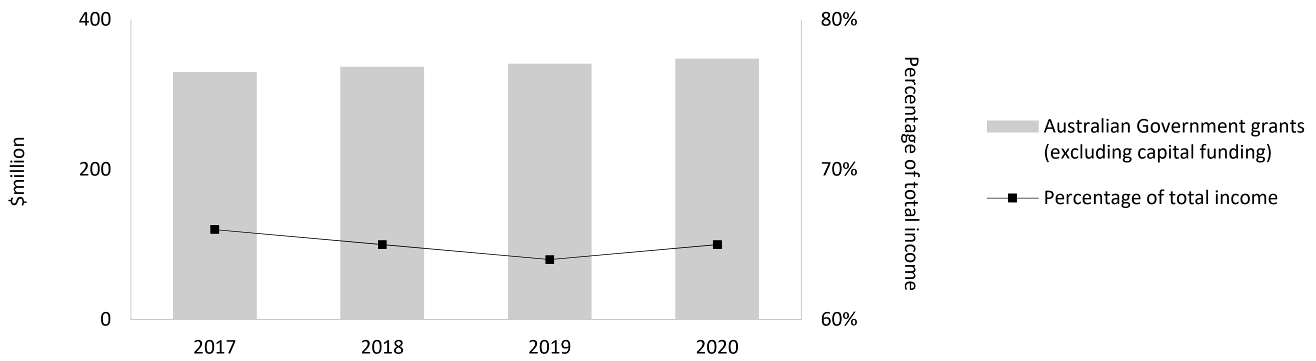
Flinders' income increased by $4 million (1%) in 2020, with increases in fees from overseas students, investment gains and Australian Government grants.

Australian Government grants and payments

The total Australian Government financial assistance Flinders received in 2020 increased by $7 million to $348 million.

The chart below shows Australian Government grants and payments, excluding capital funding as this is not necessarily comparable from year to year. It shows that the proportion of non-capital Australian Government grants and payments to total income had trended progressively lower in prior years, with a slight increase in 2020.

The increase in 2020 reflects the modest 2.2% growth in Australian Government grants for domestic students for the year, reflecting the growth in domestic student numbers.

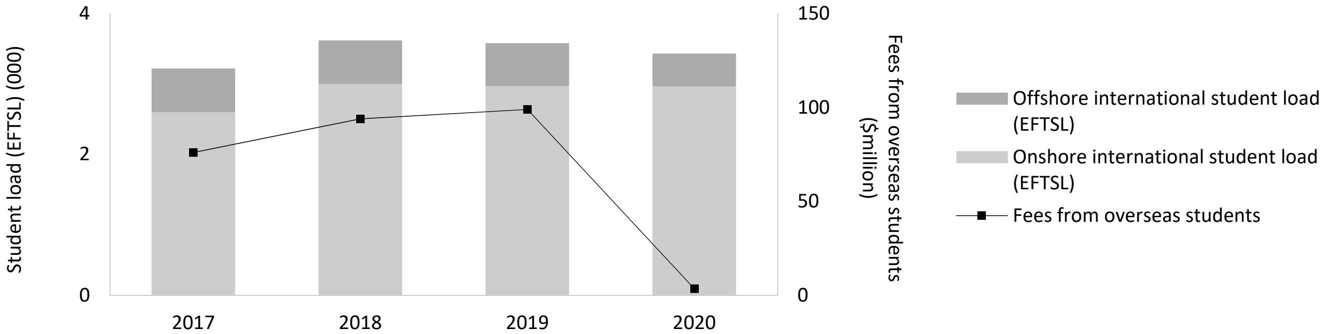


Australian Government grants and payments include the following major items:

- $112 million in Higher Education Loan Program (HELP) funding including HECS-HELP. In 2020 HECS-HELP funding increased by $2 million (2%) to $95 million, primarily due to Commonwealth supported places increasing slightly and price indexation
- $57 million in Australian Government funding for research activities, including competitive research grant programs and research infrastructure grants. Funding for 2020 increased by $3 million due to an increase in contract research
- $153 million in Commonwealth Grants Scheme funding for Commonwealth supported student places.

Fees and charges

The following chart shows fees from overseas students together with international student numbers.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from statistics published by Flinders and are unaudited.

Fees from overseas students increased by $4 million (4%) to $102 million primarily due to increases in course prices, partially offset by a 4% reduction in international student numbers.

The following table shows that total student loads increased by 1% over the last four years, with a slight increase in domestic students and a 6% increase in overseas students during that time, noting a small drop in overseas student numbers in 2020 due to the impact of the COVID-19 pandemic.

	2017 Number	2018 Number	2019 Number	2020 Number
Domestic students	14 081	14 022	13 877	14 121
Overseas students	3 250	3 661	3 581	3 432
Total students (EFTSL)	17 331	17 683	17 458	17 553

Source: Student load data is sourced from statistics published by Flinders and is unaudited.

Investment income

Net investment income decreased by $6 million to $13 million due to decreases in the value of investments.

Investment returns can be volatile, with the varying impact affecting the overall operating result.

Expenses

Total expenses decreased by $9 million (2%). This was primarily due to a $12 million (67%) decrease in other expenses and repairs and maintenance, partially offset by an increase of $2 million in employee related expenses.

Employee related expenses

Employee related expenses increased by $2 million and totalled $324 million in 2020. Increases in academic salaries of $6 million were offset by a $4 million decrease in non-academic salaries.

	2017 $million	2018 $million	2019 $million	2020 $million
Employee related expenses	310	322	322	324

The following table shows total staff numbers for Flinders based on FTEs. The total number of FTEs has been relatively constant for the last four years, with a reduction in academic staff in 2019 offset by an increase in non-academic staff. The table also shows the percentage of academic staff over the four years, which has fluctuated slightly but returned to a similar level to 2017.

	2017 FTEs	2018 FTEs	2019 FTEs	2020 FTEs
Academic	827	880	832	868
Non-academic	1 091	1 115	1 173	1 161
Total FTEs	1 918	1 995	2 005	2 029
Percentage of academic staff	43%	44%	42%	43%

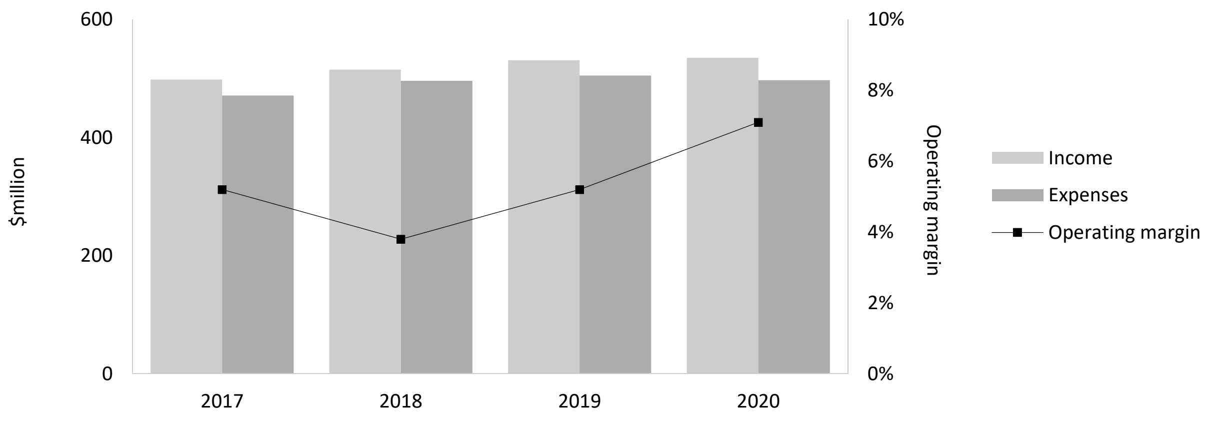
Source: Staff numbers, which are based on FTEs, were obtained from statistics published by Flinders and are unaudited.

While Flinders has been impacted by COVID-19, it has not needed to run any staff redundancy programs. This is explained further under the heading 'Impact of COVID-19' below.

Operating result

The operating surplus was $38 million, $13 million higher than 2019. This increase reflects the net impact of the $4 million increase in revenue explained above, combined with the $9 million decrease in expenditure in 2020.

The following chart shows the operating income, operating expenses and operating margin (the operating result for the year divided by total income) for the four years to 2020.



Flinders' operating margin has improved with the improved operating results in the last two years.

Statement of Financial Position

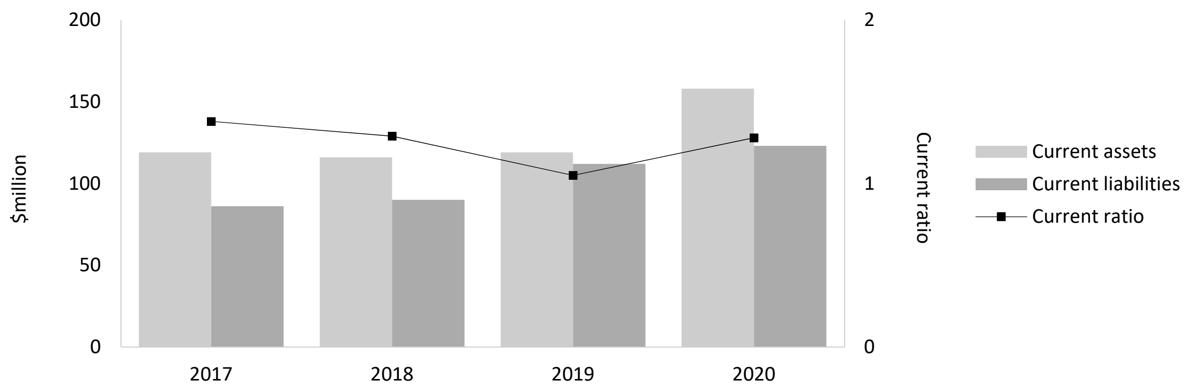
Flinders' consolidated net assets as at 31 December 2020 totalled $822 million ($777 million), an increase of $45 million.

Assets

Current assets

Flinders' cash and current financial assets (term deposits) increased by $59 million to $125 million, primarily due to a reduction in expenditure and planned capital maintenance.

The following chart shows Flinders' current assets and liabilities. The current ratio remains positive, with Flinders' current assets exceeding current liabilities by $35 million. The improved ratio for 2020 is due to the reduced expenditure, which resulted in a higher cash balance. The chart shows a slight decline in the current ratio between 2016 and 2019. This reflects significant self-funded investments in infrastructure projects, with a larger dip in 2019 due to the first-time recognition of contract liabilities in 2019 as a result of new revenue accounting requirements.



Property, plant and equipment

The main item of Flinders' Statement of Financial Position is property, plant and equipment, representing 62% of total assets. The carrying value of property, plant and equipment increased by $21 million to $649 million mainly due to:

- asset additions of $55 million
- a $2 million reversal of a revaluation increment previously recognised in equity
- offset by $32 million in depreciation charges.

Liabilities

Flinders' liabilities increased by $19 million to $225 million. The major items contributing to this were a $12 million increase in trade and other payables and $4 million increase in leases recognised as borrowings.

Statement of Cash Flows

Cash flows from operating activities increased by $45 million to $97 million. Cash inflows for Australian Commonwealth grants increased by $10 million and the reduction in expenditure resulted in a decrease of $28 million in payments to suppliers. Total cash and cash equivalents increased by $60 million to $125 million due to other financial assets being transferred to cash and the reduction in expenditure mentioned above.

Further commentary on operations

Impact of COVID-19

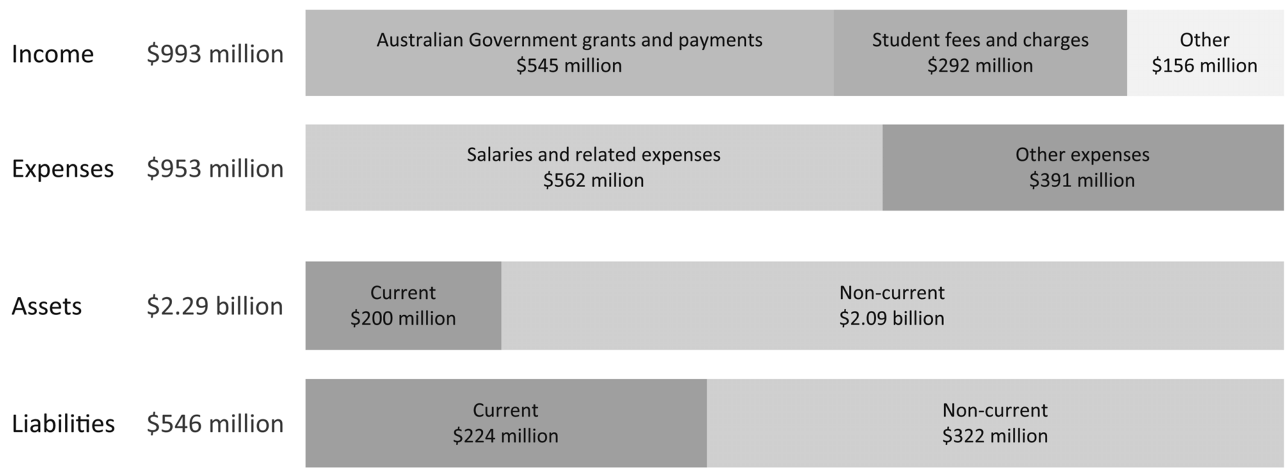
Flinders, in common with the university sector around Australia, continues to be impacted by COVID-19.

Flinders’ financial report includes a note explaining that there were some steps taken to contain costs in 2020, but that the overall operating result remained positive. Flinders also made payments to affected students to support their wellbeing in 2020.

As travel restrictions continue to restrict new international students travelling to Australia to study onshore, there will potentially be an ongoing impact to Flinders’ revenue.

University of Adelaide (Uni Adelaide)

Financial statistics



3,900
Total employees

23,021
Students (EFTSL)

$1.2 billion
Buildings

Significant events and transactions

- Uni Adelaide received $20.8 million from the Commonwealth Department of Health to establish the South Australian immunoGENomics Cancer Institute (SAiGENCI). This funding will largely be spent in future years.
- Uni Adelaide introduced a range of operational, strategic and capital cost savings initiatives in 2020 in response to the COVID-19 pandemic. This included student support packages and a voluntary separation scheme for the early termination of employees.
- Peter Høj AC was appointed as Vice Chancellor and President from 8 February 2021.

Financial report opinion

Unmodified

Controls opinion findings

- Asset management guidelines and strategy were not finalised and asset management plans for critical building assets were in draft.

	— Weaknesses in monitoring contractor performance for unplanned maintenance. — Uni Adelaide's central record of prescribed positions was incomplete and inaccurate. — Weaknesses in bona fide monitoring and leave recording controls. — 30% of staff did not participate in a formal employee performance assessment in 2020.
Other audit findings	Weaknesses in processes to ensure Uni Adelaide purchasing processes are consistently followed.

Functional responsibility

Uni Adelaide is established by the *University of Adelaide Act 1971*.

Uni Adelaide's primary objective is advancing learning and knowledge, which it achieves by providing university education and conducting research activities.

Scope of the audit

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

Specific areas of audit attention in 2020 included:

- corporate governance
- ICT
- Commonwealth financial assistance
- cash, investments and borrowings
- property, plant and equipment
- payroll
- accounts payable
- general ledger and financial accounting.

We reviewed internal audit activities in planning and conducting our audit. We made use of the work performed by internal audit over Uni Adelaide's ICT control environment.

Controls opinion

We reviewed controls over payroll and buildings and improvements as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the interim Vice-Chancellor and President. The main findings and Uni Adelaide's responses are discussed below.

Controls opinion findings

Buildings and improvements

Uni Adelaide owns land and buildings valued at more than $1.4 billion. Our audit considered controls in place to manage these assets.

Asset management guidelines and strategy were not finalised and asset management plans for critical building assets were in draft

In 2019 we noted that Uni Adelaide had not finalised key documents to support its asset management system, including its asset management strategy and related guidelines. In our 2020 audit, these documents were still not finalised.

We also found that asset management plans for 53 buildings that Uni Adelaide identified as high and medium priority critical assets were in draft. Asset management plans help inform decisions about maintenance and other critical work. Where they are not in place, there is an increased risk that Uni Adelaide's critical building assets are not managed as cost-effectively or appropriately as would otherwise be the case.

Uni Adelaide responded that it would finalise and implement the asset management strategy, guidelines and asset management plans in 2021.

Weaknesses in monitoring contractor performance for unplanned maintenance

We found that Uni Adelaide relies mainly on data supplied by its contractor for unplanned maintenance work. Relying on data from the contractor without having an independent process to confirm its accuracy increases the risk that contractor performance is not properly managed.

Uni Adelaide responded that it would conduct independent checks of contractor work for unplanned maintenance from March 2021.

Payroll

Uni Adelaide employed more than 3900 FTEs in 2020, with employee expenses of over $560 million – 59% of its total costs. Given the significance of these costs we review payroll processes and controls annually.

Uni Adelaide's central record of prescribed positions was incomplete and inaccurate

We found that Uni Adelaide's central record of prescribed positions, those that require a working with children check, was incomplete and inaccurate. We found:

- examples of positions identified as prescribed that were not included in the central record
- examples of inaccurate data recorded in the central record, including instances where data about the commencement or expiry dates of working with children checks was incorrect.

Without complete and reliable data, Uni Adelaide's ability to centrally report, track and manage the risks of legal compliance with child protection legislation is reduced.

Uni Adelaide responded that it would look to improve recording processes in this area.

Weaknesses in bona fide monitoring and leave recording controls

Last year we identified weaknesses in the processes to monitor leave taken and the design of the newly implemented bona fide reports. Uni Adelaide advised that it considered its approach was sufficient, with compensating controls in place, and that the control environment would not be amended. Our 2020 audit confirmed that the risks around confirming the accuracy of employee leave balances and key payments made to employees, remained.

Uni Adelaide responded that it considered its revised processes, including automatic scheduling of academic leave, were appropriate given its assessment of this risk.

30% of staff did not participate in a formal employee performance assessment in 2020

We found that 30% of Uni Adelaide's staff did not participate in a formal employee performance assessment in 2020. This could impact its ability to achieve its strategic priorities.

Uni Adelaide responded that declines in 2020 participation rates were caused by the impact of the COVID-19 pandemic on its staff and the rapid transition to remote working.

Other audit findings

Weaknesses in processes to ensure Uni Adelaide purchasing processes are consistently followed

Uni Adelaide has established processes for purchasing to manage the risks associated with expenditure. This includes requiring purchase orders to be used for certain types of expenditure and establishing preferred supplier contracts with a range of vendors.

We found that between January and August 2020, $38 million of expenditure that should have been supported by purchase orders was not. Of this amount, we also noted that around $32 million was spent with non-preferred suppliers.

Where purchase orders are not used when required, there is an increased risk of unnecessary or unauthorised expenditure occurring, due to the lack of prior approval.

Uni Adelaide responded that it would continue to reinforce to staff the importance of using purchase orders and ensuring that preferred suppliers are used.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated

	2020 $million	2019 $million
Revenue		
Australian Government grants	401	375
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	135	122
HECS-HELP (student payments)	9	9
Fees and charges (course and non-course)	292	302
Other	156	183
Total revenue	993	991
Expenses		
Salaries and related expenses	562	544
Other expenses	391	406
Total expenses	953	950
Operating result	40	41
Other comprehensive income	14	145
Total comprehensive income	54	186
Net cash provided by (used in) operating activities	145	90
Net cash provided by (used in) investing activities	(17)	(69)
Net cash provided by (used in) financing activities	(40)	(21)
Assets		
Current assets	200	140
Non-current assets	2 090	2 112
Total assets	2 290	2 252
Liabilities		
Current liabilities	224	241
Non-current liabilities	322	321
Total liabilities	546	562
Total equity	1 744	1 690

Statement of Comprehensive Income

Revenue

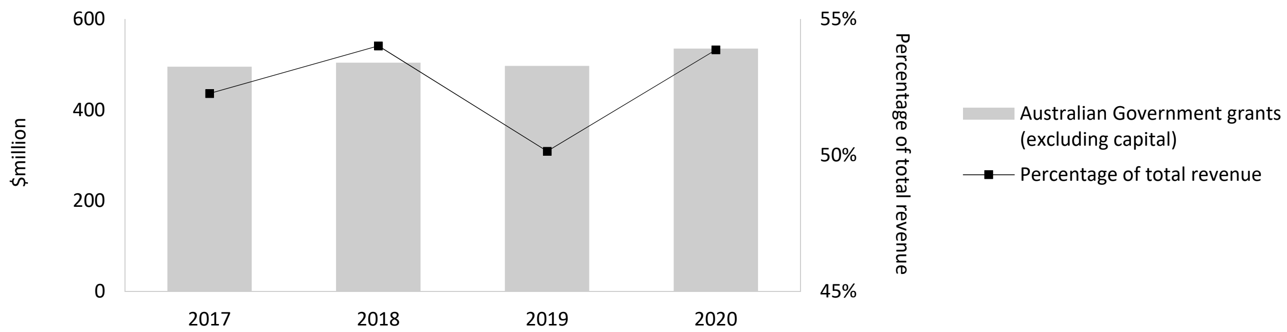
2020 revenue totalled $993 million, in line with 2019.

Australian Government grants and payments

Total Australian Government financial assistance received by Uni Adelaide in 2020 increased by $38.5 million to $536 million.

The following chart shows Australian Government grants and payments, excluding capital funding as this is not necessarily comparable from year-to-year.

It shows that there was an increase in the proportion of non-capital Australian Government grants and payments to total income in 2020, up from 50% in 2019 to 54%. The relative increase in Australian Government grants is mainly as a result of decreased investment and specialist services and trading revenue.



In 2020, Australian Government grants and payments included the following major items:

- $174 million in Commonwealth Grants Scheme funding for Commonwealth supported student places, a marginal increase compared to 2019
- $135 million in Higher Education Loan Program (HELP) funding, which included funding for HECS-HELP. In 2020 HECS-HELP rose by $7.4 million (6.8%) to $116 million.

Fees and charges

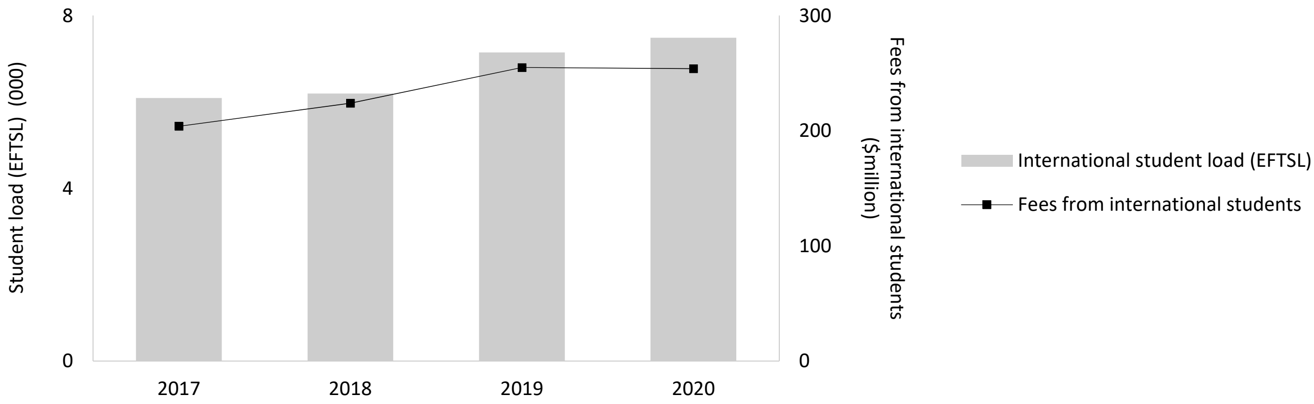
Fees and charges (course and non-course) decreased by $9 million (3%) to $292 million in 2020. This decrease is mainly attributable to a $3 million decrease in student fees and a $3 million decrease in other fees and charges. Overall student fees fell despite an increase in student numbers, reflecting fee reductions due to the impact of COVID-19 travel bans on overseas students.

The following table shows that the 2020 student load rose by 3.8% year-on-year. The composition of students has changed over the four years shown, with the proportion of international student numbers increasing by 3.7%.

	2017 Number	2018 Number	2019 Number	2020 Number
Domestic students	15 050	14 946	15 033	15 534
International students	6 091	6 196	7 148	7 487
Total students (EFTSL)	21 141	21 142	22 181	23 021

Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from Uni Adelaide's annual report and are unaudited.

The following chart highlights that revenue received from international fee paying students was consistent over the last two years, after increases in earlier years.



Source: Student numbers, which are based on EFTSL, were obtained from Uni Adelaide’s annual report and are unaudited.

Fees from international students remained steady at $254 million in 2020. The lack of growth reflects the impact of COVID-19 on Uni Adelaide’s ability to grow its international student fee base in 2020.

Other revenue

Other revenue decreased by $27 million (14.7%) to $156 million. The major item causing this change was a decrease of $33 million in unrealised gains on Uni Adelaide’s investments, mainly due to volatile movements in investment markets in 2020.

Expenses

2020 expenditure totalled $953 million, a modest increase of $3 million compared to 2019. The small increase in expenditure mainly reflects rises in salaries and wages costs that were offset by operating expenditure reductions.

Employee related expenses

The $18 million increase in employee related expenses reflects that, while salaries and related costs remained steady, redundancy expenses increased by $16.8 million. The redundancy expenses reflect longer term savings measures introduced in response to COVID-19.

The following table shows total staff numbers, based on FTEs. It shows an increase in total FTEs in 2020, although salary costs remain steady, as explained above. Total FTEs will fall in 2021 as the redundancies funded in 2020 take effect in 2021.

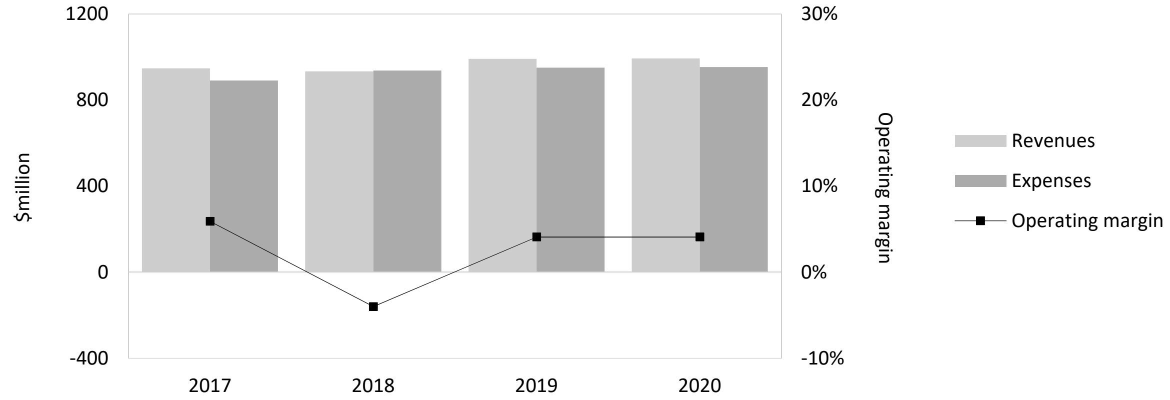
	2017 FTEs	2018 FTEs	2019 FTEs	2020 FTEs
Academic	1 732	1 710	1 717	1 757
Non-academic	2 141	2 170	2 116	2 176
Total FTEs	3 873	3 880	3 833	3 933
Percentage of academic staff	45%	44%	45%	45%

Source: Staff numbers, which are based on FTEs, were obtained from Uni Adelaide’s annual report and are unaudited.

Operating result

The 2020 consolidated operating result was a surplus of $40 million compared to a $41 million surplus in 2019. The steady result is explained by the movements in revenues and expenses explained above.

The following chart shows the operating revenues, operating expenses and operating margin (the operating result for the year divided by total income) for the four years to 2020.



Uni Adelaide's operating margin declined sharply in 2018 due to unrealised negative returns on Endowment Fund investments. The decreased 2018 operating margin highlights the impact that fluctuations in financial investments can have on the operating result. Between 2019 and 2020 the operating margin remained steady, returning to levels just below those observed in 2017.

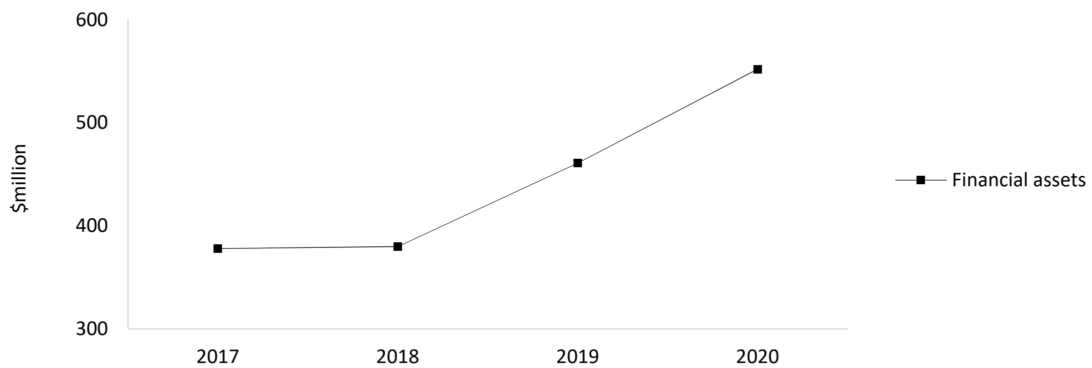
Statement of Financial Position

Uni Adelaide's consolidated net assets increased by $54 million to $1.744 billion as at 31 December 2020 ($1.69 billion).

Assets

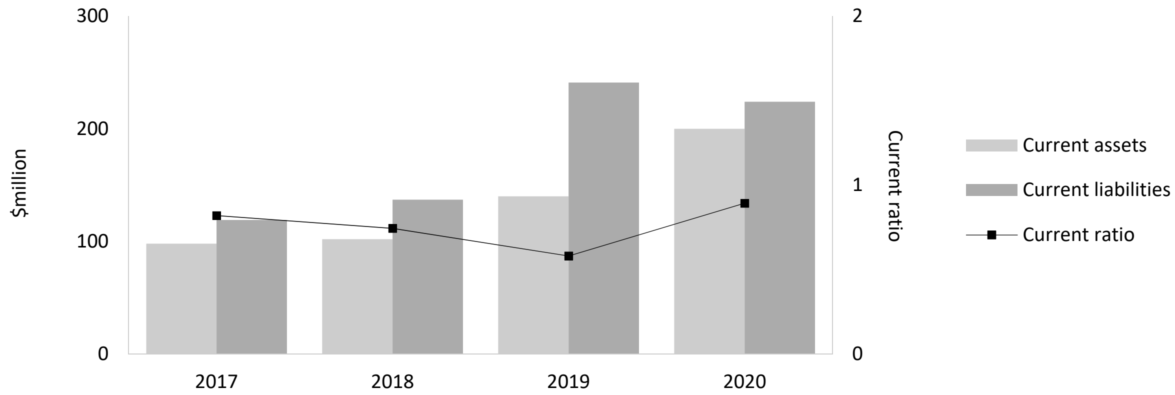
The value of Uni Adelaide's assets increased by $38 million (1.7%) in 2020. This modest increase was mainly the result of significant increases in cash and cash equivalents, offset by a decrease in Uni Adelaide's property, plant and equipment balance.

Uni Adelaide has significant financial asset holdings, totalling $552 million. The chart below shows the value of cash and other financial assets for the last four years.



Uni Adelaide's 2020 financial asset holdings growth was mainly driven by an $88 million rise in cash and cash equivalents. This was mainly attributable to reductions in operational and capital works expenditure and the recognition of $20.8 million from the Commonwealth Department of Health to establish SAiGENCI. This funding was recognised on receipt in line with accounting rules and will be spent in future years.

As at 31 December 2020, current assets were $24 million less than current liabilities. The following chart shows Uni Adelaide's current assets, current liabilities and current ratio for the four years to 2020.



Liabilities

Uni Adelaide's liabilities decreased by $16 million (2.8%). The main factor impacting this decrease was a decline in accounts payable and borrowings, offset by increases in contract liabilities, provisions and the recognition of $22.8 million in voluntary support scheme employee termination packages unpaid as at 31 December 2020.

Statement of Cash Flows

Cash and cash equivalents at 31 December 2020 totalled $126.2 million ($38 million).

Net cash flows provided by operating activities increased by $55 million, mainly due to:

- increases in Australian Government financial assistance of $51 million
- decreases in students fee revenue of $24 million
- decreases in goods and services expenditure of $50 million
- increases in salary and related expenditure of $17 million.

Cash flows used in investing activities decreased by $53 million due mainly to decreased payments for financial assets, in part reflecting increased holdings of cash reserves.

Further commentary on operations

Impact of COVID-19

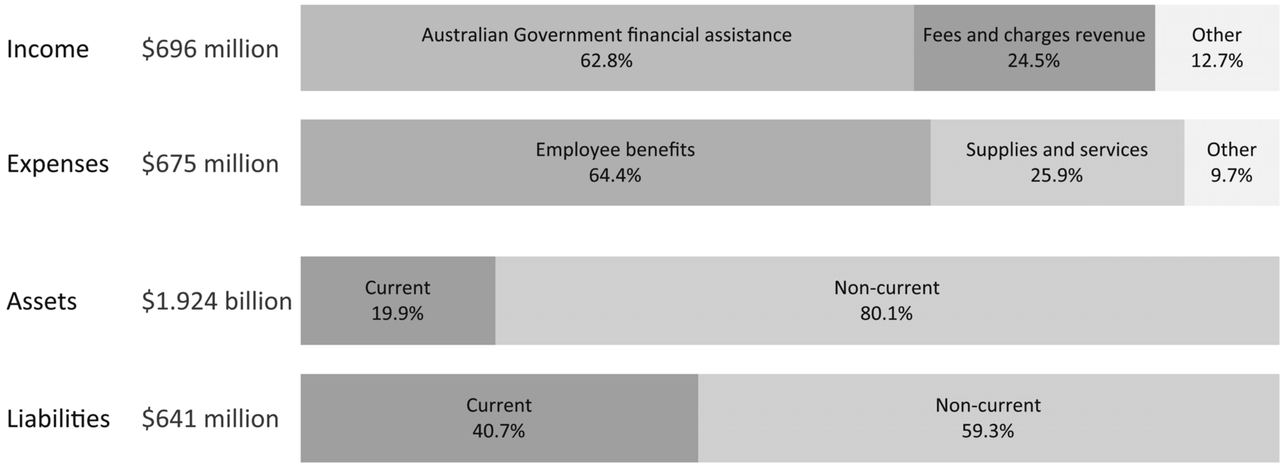
Uni Adelaide, like with the university sector around Australia, continues to be impacted by COVID-19.

Uni Adelaide's financial report includes a note highlighting the steps taken to manage this impact in 2020, including implementing savings measures that reduced capital and operational spending. While international student fee revenue was maintained in 2020, this was below the originally budgeted increase.

As travel restrictions continue to restrict new international students travelling to Australia to study onshore, Uni Adelaide anticipates further savings will be necessary. In July 2021 Uni Adelaide announced further plans to reduce expenditure, including potential reductions in staff numbers.

University of South Australia (UniSA)

Financial statistics



2,740 Total FTEs

25,768 Students (EFTSL)

$830 million Buildings

Significant events and transactions	— Employee related expenses increased by $19 million (4.6%) to $435 million in 2020 mainly due to separation and Early Retirement Scheme payments to more than 100 UniSA staff. — UniSA introduced a range of operational cost savings initiatives in 2020 in response to the COVID-19 pandemic. This included providing student support packages.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— No review of some casual employee timesheets. — No review of system delegations for managing casual staff.

Functional responsibility

UniSA is established under the *University of South Australia Act 1990*.

UniSA's main functions are to provide tertiary education programs, preserve, extend and disseminate knowledge through teaching, research, scholarship and consultancy, and to provide educational programs for the benefit of the wider community or the enhancement of its cultural life.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020 included:

- payroll
- expenditure
- Commonwealth financial assistance
- student fees and other revenue
- consultancy and research revenue
- cash management
- property, plant and equipment
- information technology.

The audits of UniSA's controlled entities for the year ended 31 December 2020 were carried out by a private accounting firm.

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

Controls opinion

We reviewed controls over buildings and improvements as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Vice Chancellor and President. The main findings and UniSA's responses are discussed below.

Controls opinion findings

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

Other audit findings

Payroll

UniSA employed more than 2700 staff in 2020, with employee expenses of more than $435 million – 64% of its costs. Employee benefit liabilities are around $117 million. As a result, we review payroll processes each year.

No review of some casual employee timesheets

UniSA paid around $40 million in 2020 for about 3300 casual staff. Some of these staff have timesheets that are pre-filled with information about work hours already recorded in the Casual Administration System. We previously identified that these pre-filled timesheets for casual employees were not reviewed before payment.

In 2018 UniSA completed an internal audit of the casual employee payroll process and made several recommendations to improve processes and controls, including those for monitoring and reporting. These changes were not implemented in 2019.

In 2020 we found UniSA had continued to improve its system. It was progressing towards having all timesheets, including those that are pre-filled, being forwarded to approvers for checking and endorsement before being processed. At the time of our audit, however, we found that UniSA did not have an alternative control in place to compensate where pre-filled timesheets were not reviewed. Therefore, there was a risk that payments to casual employees could include payments for time not actually worked, as they are based on contracted hours and not actual time worked.

UniSA responded that the planned process changes were expected to be in place by September 2021.

No review of system delegations for managing casual staff

UniSA uses a software system, APPIAN, to manage casual employees, including approving contracts and changes in hours and allowances.

UniSA's Vice Chancellor authorisations provide some staff with the authority to perform employment related tasks, including those listed above.

For the last two years we have reported there was no review of APPIAN delegations to ensure they were consistent with the Vice Chancellor authorisations.

In 2020, the review between the delegations in APPIAN and the Vice Chancellor authorisations had not been finalised, as UniSA was investigating if this check could be automated. We again found instances of staff having authority in APPIAN that was not covered by the Vice Chancellor authorisations.

If delegations in APPIAN do not match the Vice Chancellor authorisations there is a risk that inappropriate or unauthorised changes could be made and an increased risk of incorrect payments to casual staff.

UniSA responded that it was updating APPIAN processes to improve the accuracy of user authorities so that they match the current Vice Chancellor authorisations. This work is expected to be complete by September 2021.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $million	2019 $million
Income		
Australian Government grants	276	266
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	161	150
HECS-HELP (student payments)	11	10
Fees and charges	171	170
Other	77	90
Total income	696	686
Expenses		
Employee related expenses	435	416
Other expenses	240	248
Total expenses	675	664
Operating result before income tax	21	22
Net cash provided by (used in) operating activities	95	78
Net cash provided by (used in) investing activities	(16)	(31)
Assets		
Current assets	384	301
Non-current assets	1 540	1 605
Total assets	1 924	1 906
Liabilities		
Current liabilities	261	227
Non-current liabilities	380	429
Total liabilities	641	656
Total equity	1 283	1 250

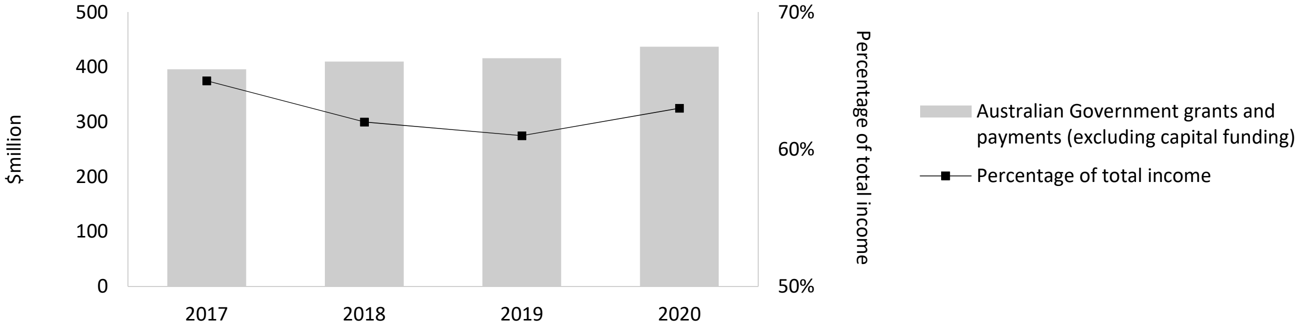
Statement of Comprehensive Income

Income

UniSA's total income increased by 1.5% in 2020.

Australian Government grants and payments

Total Australian Government financial assistance provided to UniSA (excluding capital funding as this is not necessarily comparable from year to year) is shown in the chart below. The chart shows that Australian Government financial assistance, excluding capital funding, continues to account for more than 60% of total income. There was also a 1.5% increase in the percentage of total income in 2020, reflecting decreases in other income sources.



Australian Government grants increased by $10 million in 2020 to $276 million, mainly due to:

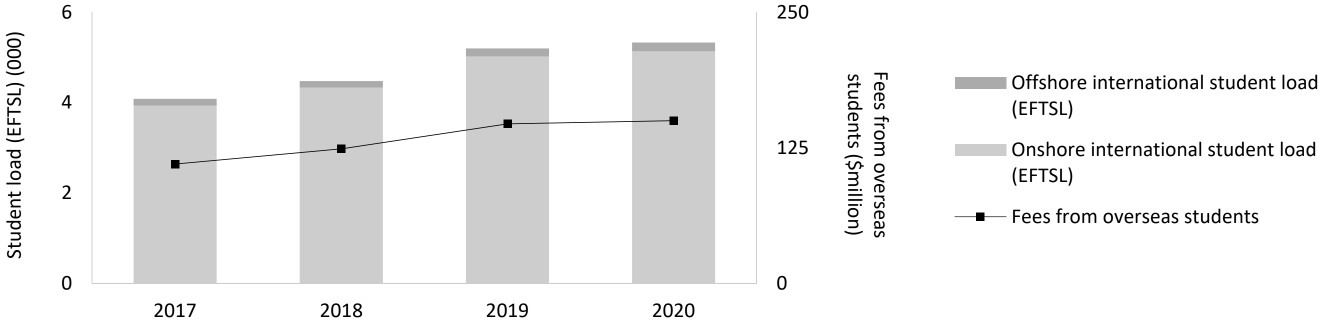
- a $4 million increase in the Commonwealth Grants Scheme funding
- a $4 million increase in other Australian Government assistance – non-capital funding
- a $1 million increase in Research Support Program funding
- a $1 million increase in Australian Research Council funding.

Fees and charges

Fees and charges increased by $1 million in 2020 to $171 million. This was mainly a result of a $3 million increase in fee-paying onshore overseas students, offset by small reductions in a number of other fee areas.

The main component of fees and charges is fee-paying overseas students (88%), which represents 22% of total revenue.

The following chart shows that the fee-paying overseas student load increased by 2.5% in 2020 despite COVID-19 travel bans impacting the ability of overseas students to travel to Australia to study. As explained further under the heading 'Impact of COVID-19', ongoing travel restrictions are expected to impact this area in future. The $3 million increase in fee revenue from international students reflects increases in both the number of international students and their corresponding student load (EFTSL).



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from UniSA's annual reports and are unaudited.

The table below shows the 5.6% increase in student load (EFTSL) in 2020.

	2017 Number	2018 Number	2019 Number	2020 Number
Domestic students	18 061	18 500	19 208	20 440
Overseas students	4 081	4 476	5 198	5 328
Total students (EFTSL)	22 142	22 976	24 406	25 768

Source: Student numbers, which are based on EFTSL, were obtained from UniSA's annual reports and are unaudited.

Other revenue

Other revenue decreased by $13 million to $77 million in 2020 largely from:

- a $3 million decrease in state and local government financial assistance, mainly as a result of reduced research funding
- a $3 million decrease in donations and bequests received, mainly as 2019 included a final significant contribution to Pridham Hall
- a $6 million decrease in other fees and charges revenue due to an overall decrease in student related activities and the impact of a one-off $2 million receipt in 2019 associated with the City West child care centre
- a $3 million decrease in other income, mainly reflecting that 2019 included the receipt of insurance claim proceeds associated with a fire at the Mawson Lakes campus in preceding years
- offset by a $3 million increase in investment income, mainly due to a $5 million increase in dividends received from Education Australia Limited, offset by reduced interest income from lower interest rates.

Expenses

Total expenses increased by $11 million (1.6%) to $675 million in 2020.

The split between employee expenses (64%) and other expenses (36%) changed marginally, reflecting higher employee related costs in 2020.

Employee expenses

UniSA's main expense is employee related expenses, which increased by $19 million (4.6%) to $435 million in 2020. This was mainly due to separation and Early Retirement Scheme costs incurred in 2020.

The following table shows the breakdown of total staff numbers between academic and non-academic staff, based on FTEs, since 2017. There was a small increase in overall staff numbers in 2020. Staff numbers will drop in early 2021 as some of the Early Retirement Scheme participants separate from UniSA.

	2017 FTEs	2018 FTEs	2019 FTEs	2020 FTEs
Academic	1 122	1 131	1 143	1 161
Non-academic	1 473	1 511	1 532	1 579
Total FTEs	2 595	2 642	2 675	2 740
Percentage of academic staff	43%	43%	43%	42%

Source: Staff numbers, which are based on FTEs, were obtained from UniSA's annual report and are unaudited.

Other expenses

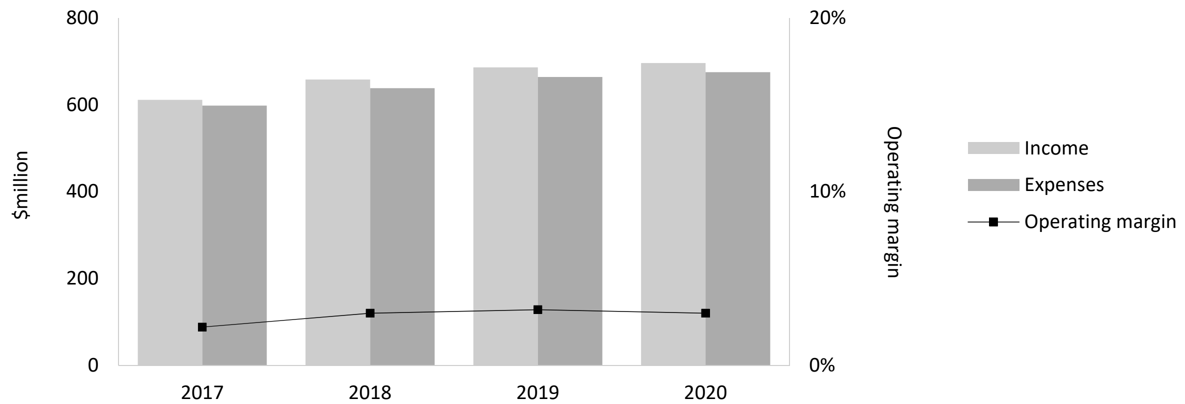
Other expenses decreased by $8 million to $240 million in 2020. The main components of this change were:

- an $11 million decrease in overall international ($8 million) and domestic ($3 million) travel
- a $3 million decrease in conference and staff training costs
- a $2 million decrease in refreshments and entertainment
- a $3 million decrease in utilities costs
- a $2 million decrease in advertising, marketing and promotion expenses
- offset by a $9 million increase in scholarships, grants and prizes – reflecting student hardship payments – and a $3 million increase in IT hardware and software costs.

Operating result

The consolidated operating result before income tax for the year was a surplus of $21 million ($22 million). As mentioned in the analysis above, the decrease is mainly due to an increase in total revenue of $10 million offset by an increase in total expenditure of $11 million.

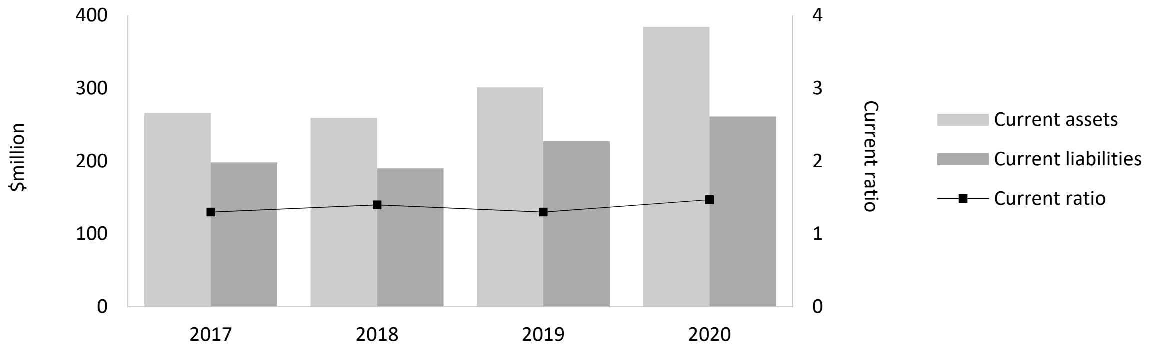
The following chart shows the movement in income, expenses and the operating margin (the operating result for the year divided by total income) for the last four years. The operating margin decreased marginally in 2020.



Statement of Financial Position

UniSA's net assets at 31 December 2020 were $1.283 billion ($1.25 billion).

The following chart shows that UniSA's current ratio has remained relatively stable since 2017. As at 31 December 2020 the current ratio increased marginally, with current assets exceeding current liabilities by $123 million.



Assets

Cash and cash equivalents

As at 31 December 2020 UniSA's cash and cash equivalents totalled $303 million compared to $227 million in 2019. The $76 million increase in cash holdings is largely due to:

- a $12 million decrease in expenditure and payments to suppliers, reflecting savings initiatives
- the timing of early retirement scheme payments to employees, with around $19 million of costs to be paid in 2021
- a $28 million decrease in spending on property, plant and equipment, as significant construction of major new buildings was completed in prior years.

Property, plant and equipment

The main component of UniSA's Statement of Financial Position is property, plant and equipment, representing 58% of total assets. The carrying value of property, plant and equipment decreased by $28 million to $1.109 billion due mainly to:

- depreciation changes of $42 million
- partially offset by asset additions of $16 million.

Liabilities

UniSA's liabilities decreased by $15 million to $641 million in 2020. The significant movements were:

- defined benefit superannuation obligations, which decreased by $47 million to $380 million as a result of decreases in benefit payments to members and changes in the assumptions used to value these obligations. The value is calculated by actuaries and the liability amount is offset by a matching asset for UniSA
- a $12 million increase in trade and other payables
- a $20 million increase in provisions, reflecting the amounts to be paid for the Early Retirement Scheme and leave liabilities.

Statement of Cash Flows

Net cash flows provided by operating activities increased by $17 million to $95 million due mainly to a $44 million decrease in payments to suppliers and employees, offset by overall reductions in receipts.

Net cash used in investing activities increased by $15 million as a result of decreased payments for property, plant and equipment, reflecting the completion of major capital works in previous years.

Further commentary on operations

Impact of COVID-19

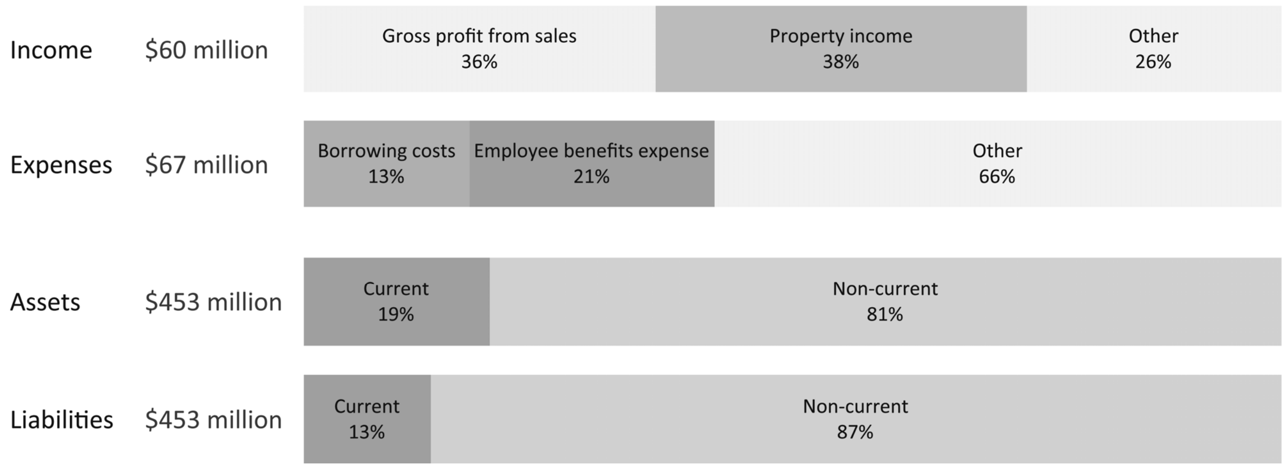
UniSA, in common with the university sector around Australia, continues to be impacted by COVID-19.

UniSA's financial report includes a note explaining that there were some steps taken to contain costs in 2020, but that the overall operating result remained the same between years.

As travel restrictions continue to restrict new international students travelling to Australia to study onshore, there will potentially be an ongoing impact on UniSA's revenue.

Urban Renewal Authority (URA)

Financial statistics



125
Total employees

$59 million
SA Government equity contributions

$7 million
Loss before income tax equivalent

Significant events and transactions	The URA purchased $81 million of land in Oakden, Prospect and Forestville for future development.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.

Functional responsibility

The URA is established by the *Urban Renewal Act 1995* (URA Act).

The URA is responsible for leading and coordinating urban renewal activity to ensure future housing needs are met through better planned, affordable and vibrant mixed use (residential and commercial) urban developments located near transport, employment, education and other services.

The URA's functions in the URA Act include:

- developing residential, commercial and industrial land in the public interest, particularly for urban renewal purposes
- facilitating public and private investment, undertaking development activities that are attractive to potential investors and participating in the development of the State

- managing the orderly development of areas through the management and release of land
- holding land and other property to be made available as appropriate for commercial, industrial, residential or other purposes.

The URA's trading name is Renewal SA. It is a for-profit entity under section 6(a) of the Treasurer's Instructions (Accounting Policy Statements).

Urban renewal program

The URA conducts its urban renewal program through a series of development projects. Its major projects are currently Lot Fourteen, Playford Alive, Tonsley Park, Woodville West and Bowden. A separate business plan is prepared for each project and progress against the plan is monitored. Refer to 'Major development projects' below for further discussion of these projects.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2020-21 included:

- corporate governance
- project, procurement and contract management
- land sales
- property income
- payroll
- capital and operating expenditure
- inventory.

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

Controls opinion

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

- inventories, including land held for sale and development projects
- managing the Renewal SA Operating Account.

Audit findings

Communicating our audit findings

No significant matters were identified by the audit.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2021 $million	2020 $million
Income		
Sales	69	63
Cost of sales	(48)	(36)
Revenues from SA Government	7	6
Property income	23	45
Gain from changes in value of non-current assets	4	-
Other revenues	5	3
Total income	60	81
Expenses		
Employee benefits expenses	14	15
Operating expenditure, depreciation and amortisation, other expenses	44	53
Borrowing costs	9	89
Loss from changes in the value of non-current assets/provision for development expenditure	-	37
Total expense	67	193
Profit (Loss) before income tax equivalent	(7)	(112)
Total comprehensive result	(7)	(112)
Net cash provided by (used in) operating activities	(128)	(220)
Net cash provided by (used in) investing activities	(3)	662
Net cash provided by (used in) financing activities	132	(451)
Assets		
Current assets	88	94
Non-current assets	365	269
Total assets	453	363
Liabilities		
Current liabilities	60	301
Non-current liabilities	394	113
Total liabilities	453	414
Total equity	-	(51)

* Table may not add due to rounding.

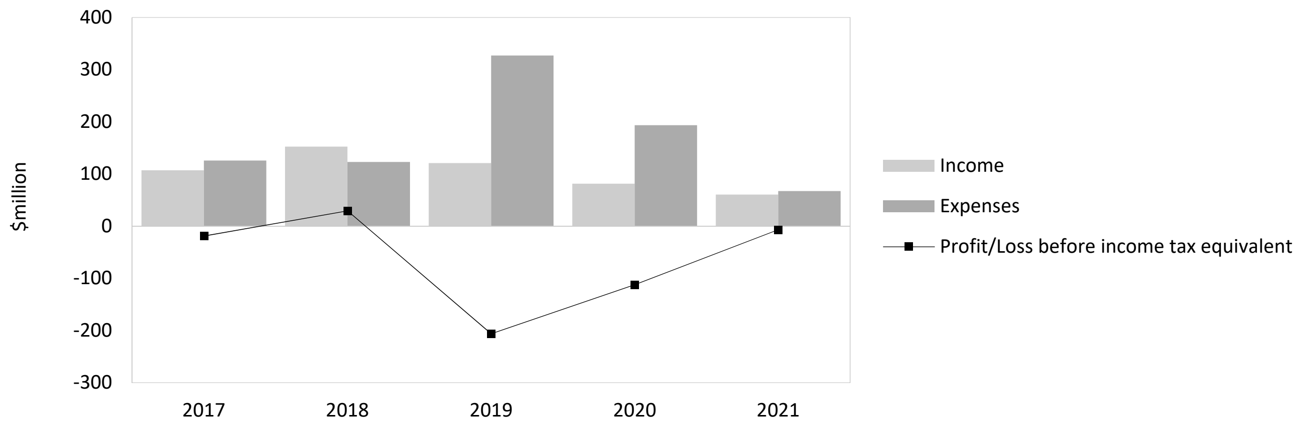
Statement of Comprehensive Income

The Treasurer has classified the URA as a for-profit entity. It has made a profit once in the last five years.

The URA's capacity to generate profits is significantly influenced by a range of matters, including government policy. Key elements are discussed in the commentary below.

Profit (Loss) before income tax equivalent

The following chart shows the income, expenses and profit (loss) before income tax equivalent for the five years to 2021.



The URA's loss before income tax equivalent for 2020-21 was significantly lower than its 2019-20 loss. The 2019-20 loss was driven by $69 million in additional borrowing costs following the early repayment of debt and the SA Government's decision to lease the Adelaide Railway Station to the Minister for Infrastructure and Transport at no cost.

The nature of the URA's business means that its profit (loss) before income tax equivalent is influenced by movements in the value of its inventory and investment property. Losses in 2016-17 and 2018-19 were driven by write-downs in the values of development projects (inventories). These write-downs reflected reduced sales forecasts and, in 2018-19, the SA Government's decision to replace project capital grants with equity contributions. Unlike grants, equity contributions are not recognised as income and cannot be included as future income for projects when measuring their net realisable value.

The URA's loss before income tax equivalent was $112 million in 2019-20 and fell to $7 million in 2020-21. The reduction in loss of $106 million was mainly due to the following movements:

- $80 million less in borrowing costs
- changes in the value of non-current assets moving from a $37 million loss to a $4 million gain
- $23 million less in property income resulting mainly from a smaller portfolio of investment properties.

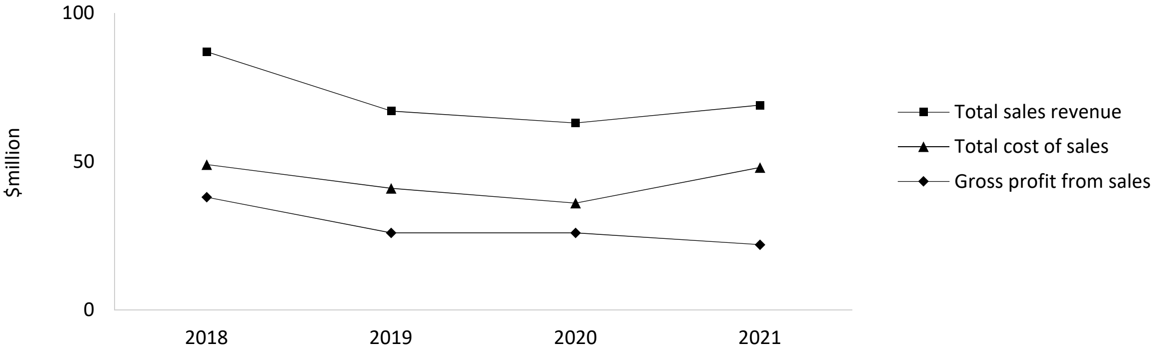
The following is a more detailed analysis of the income and expenses that resulted in the 2020-21 loss.

Income

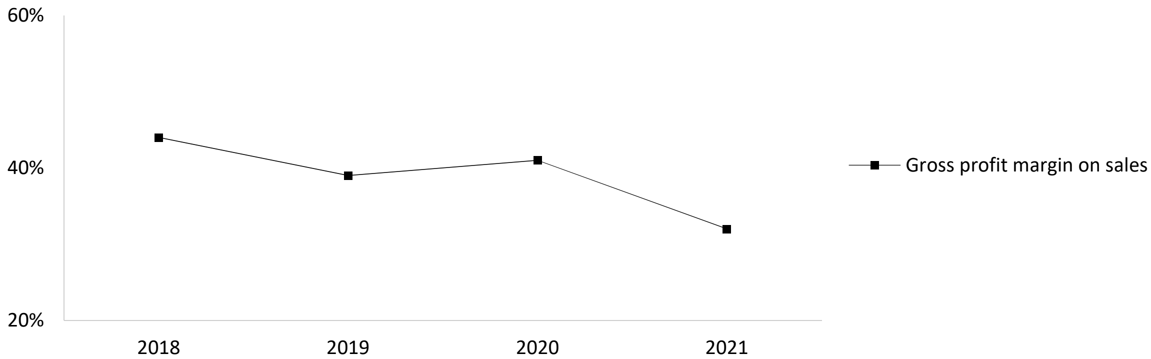
Total income decreased by $21 million to $60 million, due mainly to a $23 million decrease in property income following the sale of property back to TAFE SA in 2019-20. The URA also provided rent relief of $1.2 million ($1.6 million) to private sector tenants of its properties who were impacted by COVID-19 restrictions. This rent relief was funded from the SA Government's Business and Jobs Support Fund.

The URA's gross profit from sales reduced by $5 million. Sales increased by $7 million to $69 million, while cost of sales increased by $11 million to $48 million.

The following chart shows total land sales and cost of sales for the four years to 2021.



The gross profit margin on sales shown in the chart below is an important driver of the URA's profitability and is influenced by market prices for land and the costs of acquisition and development. Gross profit margins on sales dropped in 2020-21 after being relatively constant in the three preceding years. In 2020-21 there was a greater proportion of sales from development projects that have lower profit margins and a smaller proportion of sales of industrial and undeveloped properties that have higher profit margins. Many developed allotments sold were carried at their net realisable value based on their likely sales price, whereas many of the industrial and undeveloped properties were carried at cost, resulting in lower gross profit margins on the developed allotments. The SA Government sometimes requires the URA to undertake development projects that are not purely commercial in nature and that consequently have a net realisable value below their cost.



Expenses

Expenses were $67 million ($193 million). The decrease in expenses of $126 million reflected the following key movements:

- an $80 million decrease in borrowing costs. In 2019-20, additional borrowing costs of $69 million were incurred to compensate the Treasurer for the market value of debt that was repaid early. This debt financed the initial purchase of TAFE SA properties in 2016-17. The lower balance of borrowings throughout 2020-21 compared to the prior year also resulted in reduced interest and guarantee fee expenses
- changes in the value of non-current assets improved from a $37 million loss to a $4 million gain. In 2019-20, investment property values were written down by $27 million following revised leasing arrangements for areas of the Adelaide Railway Station occupied by the Department for Infrastructure and Transport on behalf of the Minister for Infrastructure and Transport
- a $9 million decrease in operating expenses, largely driven by a reduction in land tax following a decrease in land tax rates charged by RevenueSA.

Further information on changes in the value of inventories and investment properties is provided under 'Assets' below.

Dividend

Under section 26 of the URA Act, the URA is required to recommend to the Minister whether a dividend will be paid each financial year. Due to the operating loss, the URA paid no dividend in 2020-21.

The URA is also required to declare a dividend of 100% of the after tax profit relating to the Adelaide Station and Environs Redevelopment (ASER) site under the requirements of the Cabinet decision to transfer the site to the URA effective 30 June 2013. The Minister approved an ASER dividend payment of $1.2 million for 2020-21.

Statement of Financial Position

The URA's total liabilities of $453 million, mainly comprising South Australian Government Financing Authority (SAFA) borrowings of $401 million, equal its total assets of $453 million. Total assets include investment properties and inventories worth $405 million.

The URA moved from a net liability position of $51 million to a net asset position of $75 000. This $51 million improvement in its financial position was due mainly to an equity contribution of $59 million from the SA Government, partially offset by the $7 million loss before income tax equivalent and the $1.2 million ASER dividend payment.

The major movements of the Statement of Financial Position are discussed below.

Assets

Total assets were $453 million ($363 million). The $90 million increase in total assets is mainly attributable to increases in inventories of $84 million and investment properties of $6 million.

Investment properties

Investment properties increased by $6 million to $84 million, due mainly to capitalised expenses net of capitalised grants of $4 million and gains of $2 million in the fair value of the properties.

Inventories

The URA's primary activities involve holding and developing land inventory for sale. The value of inventory at 30 June 2021 was $321 million ($237 million). The $84 million increase in inventory reflected:

- inventory additions comprising:
  - $50 million ($29 million) in capitalised development costs including direct materials, salaries, land tax and borrowing costs where those costs are directly attributable to land currently under development. These costs are then expensed as part of cost of sales when inventories are sold

- $81 million ($0) in land purchases at Oakden, Prospect and Forestville for future development
- the $5 million ($5 million) reversal of past write-downs of inventory to net realisable value

- inventory reductions mainly comprising:
  - $48 million ($36 million) of inventory sold and included in cost of sales
  - $3 million ($6 million) of write-downs of inventory to net realisable value.

Inventory valuations and write-downs

In line with AASB 102 *Inventories,* the URA recognises inventory at the lower of its cost and net realisable value. The measurement of the net realisable value of inventories depends on their intended use. The URA has grouped its inventories into the following two classes:

- Land held for sale requiring low capital investment. The URA intends to release this land for sale based on market conditions. As at 30 June 2021 the value of land in this class was $165 million ($179 million). The reduction was due mainly to land sales, particularly the former Caroma site and commercial properties at Edinburgh Parks and Technology Park.
- Development projects requiring significant capital investment over extended periods of time before the land can be sold. These projects may be initiated by the SA Government, which provides community service obligation (CSO) funds to partly support the costs for these projects. From 2019-20 funding for capital works on the Lot Fourteen, Bowden and Tonsley projects is provided to the URA as an equity contribution. In prior years all CSO funding was provided as a grant. While CSO grants for capital works have mainly discontinued, they are still provided by the SA Government for the operating costs of managing these projects and to fund capital works for some projects. As at 30 June 2021 the development projects were valued at $156 million ($57 million). The increase in development projects for 2020-21 largely reflects the purchase of land at Oakden, Prospect and Forestville and capital expenditure for Lot Fourteen.

The following table shows the inventory and investment property write-downs and reversals that have occurred over the last five years.

Inventory	2017 $million	2018 $million	Write-downs (reversals) 2019 $million	2020 $million	2021 $million	Carrying amount 30.06.21 $million	Land area 30.06.20 Hectares	Land area 30.06.21 Hectares
Development projects:								
Tonsley	(2)	(1)	40	1	-	29	41	38
Playford Alive	-	-	(8)	(3)	-	16	306	301
Bowden	(3)	(1)	21	2	2	0	10	9
Woodville West	0.5	(5)	(1)	(2)	(2)	4	2	1
Lot Fourteen	-	-	63	-	-	28	6	6
Other land	-	-	-	-	-	81	-	58
Land held for sale	7	3	(1)	-	(2)	165	2 892	2 866
Total inventory	2	(4)	114	1	(2)	321	3 257	3 279
Investment property	18	1	6	28	(2)	84	114	114
Total inventory and investment property	21	(2)	120	29	(4)	405	3 372	3 393
Lot Fourteen provision for future development expenditure (movement)	-	-	100	(73)	(27)	-	n/a	n/a

Note: Table may not add due to rounding.

The table highlights the impact of the URA's sales forecasts and capitalisation policy on the carrying amount of long-term development projects and their net realisable value. Significant land tax and other holding costs are included in the determination of their net realisable value. Longer development periods result in higher holding costs and lower net realisable value. This is particularly evident for Playford Alive, where the development costs for this project are expected to end in 2025-26. The project, which currently has a land area of 301 hectares, has a carrying amount of $16 million. This is due to the level of investment required to make the project saleable and the extended period over which revenue is expected to be realised.

The table also highlights the impact of the URA's purchase of 58 hectares of land in Oakden, Forestville and Prospect for $81 million, which has been classified as a development project because the URA intends to develop the land over an extended period rather than resell it in its current state.

The development project write-downs and reversals relate mostly to changes in the URA's cash flow models used to determine the net realisable value of development projects. Importantly, these changes included reductions in revenue forecasts that occur when the URA reassesses the likely outcomes of its business strategies for these projects. The revised revenue forecasts take into account the prevailing challenging market conditions and the extent to which the conditions are expected to continue into the future. In response, the URA modifies its business strategies for some development projects to lower future costs. However, if it considers that its revised strategies will be insufficient to fully recover the past costs of some projects, it writes them down. If there is clear evidence that conditions have improved, it reverses the write-downs.

The large $114 million net write-down of development projects in 2018-19 mainly resulted from the SA Government's revised arrangements for funding the URA's development projects. From 2019-20 funding for capital works on the Lot Fourteen, Bowden and Tonsley projects is provided to the URA as an equity contribution rather than as CSO grants. In line with AASB 102, the URA removed these amounts from the net realisable value calculations for these projects, resulting in significant write-downs. This also resulted in the URA recognising, in 2018-19, a provision for future development expenditure on the Lot Fourteen project of $100 million. This liability was measured in line with AASB 137 *Provisions and Contingent Liabilities and Contingent Assets* and represented the URA's best estimate of its future obligations arising from the Development Master Plan and budget for the site approved by the SA Government. The provision was extinguished in 2020-21 as a result of recording capital expenditure on Lot Fourteen against the provision since the provision's inception. A further $28 million of capital expenditure made after the provision's extinguishment was capitalised and recorded as development project inventory.

In 2019-20 and 2020-21, the URA processed write-downs and reversed some previous write-downs for its development projects based on changed business strategies, updated estimates of sales and capital expenditures, and the re-timing of project cash flows. The net impact was a net write-down of $1 million in 2019-20 and a net reversal of $2 million in 2020-21.

Inventory is valued at the lower of cost and net realisable value

AASB 102 requires that the value of inventory be measured at the lower of cost and net realisable value. Cost represents the actual cost of acquiring or constructing inventories, while net realisable value represents the estimated proceeds that will be received from the sale of the inventories less any selling costs and remaining estimated construction costs.

The URA initially measures the carrying value of its inventories at their actual cost. At the end of each financial year, it estimates the net realisable value of the inventories for comparison to their carrying values. Inventory carrying values are written down when they exceed their net realisable values. However, when inventory net realisable values exceed their carrying values the URA does not, and is not required to by AASB 102, disclose their net realisable value. The URA's inventories have a carrying amount of $321 million ($237 million). If they were all measured at their net realisable value, the URA's financial position would be significantly improved. The URA advised that land held for sale (currently recognised at $165 million) has an estimated fair value of $435 million. Importantly, this fair value was estimated using independent valuations obtained over a three-year period, with some being three years old.

Measuring net realisable value involves estimating

The URA is obliged to make a series of estimates when valuing inventories. Accordingly, inventory valuations can change from year to year because of changes that influence these estimates.

Measuring the net realisable value of land held for sale is determined by the URA using independent valuations of current market value less estimated selling costs. Measuring the net realisable value of large development projects is more complex. For these projects, the URA determines net realisable value by estimating the future net cash flows of the projects (before interest) and discounting the cash flows back to present values.

The estimated cash flows are based on the amount and timing of sales and development costs, which for some projects extend many years into the future. The URA estimates when the development of each land parcel under current strategies will be completed and its market price once developed, and also estimates the development costs taking into account inflation. Changes to market conditions, policies or project strategies can also change the net realisable value of projects.

Liabilities

Total liabilities increased by $39 million to $453 million and reflected:

- liability increases mainly comprising:
  - a $75 million increase in SAFA borrowings. Borrowings of $401 million ($326 million) comprise 89% (79%) of total liabilities. Borrowings are primarily required to fund property purchases, capital development costs for inventories and operating expenditure. Refer to 'Borrowings and gearing' below for further commentary on debt management
- liability decreases mainly comprising:
  - the extinguishment of the remaining $27 million in the provision for future development expenditure, as a result of capital expenditure incurred on the Lot Fourteen project. In 2018-19 the URA created a $100 million provision for future development expenditure and added a further $8 million to the provision in 2019-20, reflecting its best estimate of its obligations for the Lot Fourteen development
  - a $4 million decrease in payables, largely associated with lower accrued payables for the Lot Fourteen project compared to the prior year
  - a $3 million decrease in lease liabilities, mainly reflecting the payment of rent for a multi-storey car park on Lot Fourteen and for office accommodation leased by the URA. Both lease liabilities were recognised for the time first in line with AASB 16 *Leases*.

Statement of Cash Flows

Cash and cash equivalents increased by $1 million to $12 million following large movements in cash flows from operating and financing activities.

Net cash used in operating activities improved by $92 million to $128 million, largely reflecting:

- a decrease in interest payments of $83 million. In 2019-20 there was a $69 million market rate adjustment (classified as a borrowing cost) resulting from the novation of fixed rate debt assumed by the Treasurer as part of the arrangements for the sale of TAFE SA properties. The lower balance of borrowings throughout 2020-21 compared to the prior year also resulted in reduced interest and guarantee fee payments
- a $59 million decrease in payments to the Australian Taxation Office for GST. Proceeds of $661 million received in 2019-20 from the TAFE SA properties sale included GST of $60 million
- a $21 million decrease in receipts from tenants, mainly following the sale of TAFE SA properties
- a $57 million increase in payments for land purchases and development due mainly to $81 million of land purchases in Oakden, Prospect and Forestville, partially offset by reduced development project payments.

Net cash used in investing activities was $3 million, a $665 million turnaround from the net cash provided by investing activities of $662 million in 2019-20. Proceeds of $661 million were received in 2019-20 from the sale of TAFE SA properties.

Net cash provided by financing activities was $132 million, a $584 million turnaround from the net cash used by financing activities of $451 million in 2019-20 largely reflecting:

- net proceeds from borrowings of $75 million, a $652 million turnaround from the net repayment of borrowings of $577 million in 2019-20
- equity contributions from the SA Government decreasing by $69 million to $59 million.

Further commentary on operations

The URA's strategic and business plans

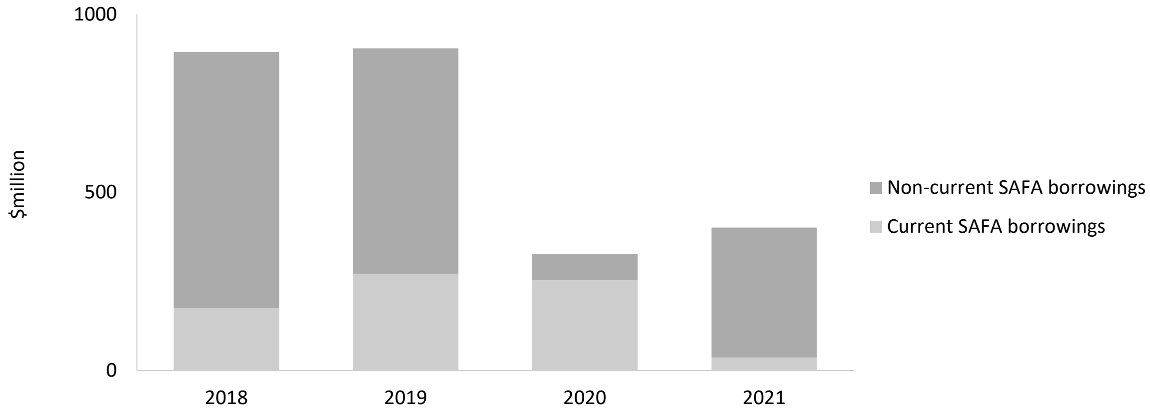
Section 16 (2)(a) of the URA Act requires the URA Board to ensure, as far as practicable, that appropriate strategic and operation plans and targets are established for the URA.

In September 2020 the URA Board approved the URA Strategic Plan for 2020-23 and noted the URA Business Plan for 2020-21. The URA Board receives regular reporting of progress against the goals and measures in these plans. The URA Board also noted the annual business plans for each of the URA's major development projects.

Borrowings, equity contributions and gearing

The URA borrows from SAFA to fund land developments and operating expenditure. The URA's current business model requires a level of up-front investment in projects that result in an accumulation of borrowings, until such time as sufficient revenues are realised to progressively retire the loan.

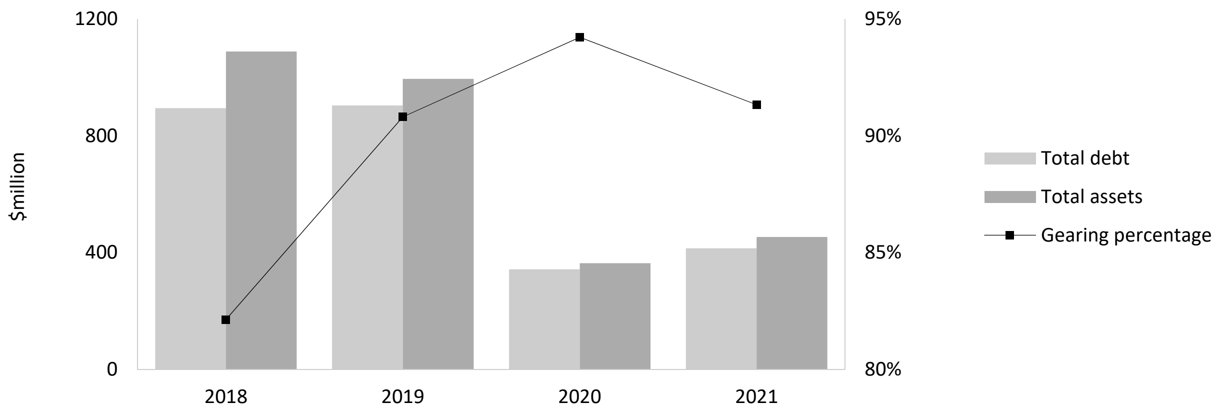
The chart below shows the value of borrowing since 2018.



The URA borrowed $400 million in 2016-17 to partly fund the purchase of TAFE SA properties from the former Department of State Development for $619 million (including $24 million stamp duty). The SA Government provided an equity contribution of $219 million to fund the difference. The URA sold the properties to TAFE SA in November 2019 at its carrying book value for $601 million and used some of the proceeds to repay borrowings. The URA was not required to repay the $219 million equity contribution.

The URA's borrowings from SAFA at 30 June 2021 increased by $75 million to $401 million, primarily to fund property purchases in Oaken, Forestville and Prospect and to fund Lot Fourteen capital development costs.

The chart below shows the trend in the URA's gearing ratio, measured as total debt (loans and lease liabilities) divided by total assets.



A higher gearing ratio in the private sector normally indicates a higher financial risk for lenders and investors, whereas for the URA its entire debt is guaranteed by the SA Government. Gearing as at 30 June 2021 was 91.3% (94.2%). Under the Financial Ownership Framework the Treasurer and the Minister approved that gearing for the URA be under 90% and that, if exceeded, gearing be returned below 90% within a reasonable period. The Treasurer also approved a Performance Statement for the URA for 2020-21 that sets gearing targets of 92.2% for 2020-21 and 90.7% for 2021-22.

Debt management and financial sustainability

The URA adopts a core debt management facility approach, consistent with other public non-financial corporations. This requires approval by the Minister and Treasurer of an annual debt ceiling.

In June 2020 the Treasurer approved the URA's debt limit ceiling of $510 million for 2020-21, which includes a core debt facility of $460 million and an overdraft facility of $50 million. The URA's borrowings from SAFA at 30 June 2021 were $401 million.

Status of major development projects

Lot Fourteen

In March 2018, the former Royal Adelaide Hospital site (renamed Lot Fourteen) was transferred to the URA from the then Department for Health and Ageing for $0 consideration.

Cabinet approved a now publicly available Development Master Plan for Lot Fourteen in December 2019 requiring Lot Fourteen to be developed into an Innovation and Commercialisation Precinct that will include:

- the Innovation Centre
- the International School of Culinary Excellence
- Hospitality and Tourism
- the National Aboriginal Art and Cultures Gallery
- Space Mission Control
- the Space Discovery Centre.

The Development Master Plan only relates to the URA's component of the broader project comprising mainly demolition works, refurbishment of heritage buildings and delivery of infrastructure and public realm works. Only the estimated costs and revenues for delivering the Development Master Plan are reflected in the URA's project budget. Construction and ownership models for the Innovation Centre, the International School of Culinary Excellence, Hospitality and Tourism, and the National Aboriginal Art and Cultures Gallery will be considered separately by the SA Government. Their estimated construction costs and revenues are not included in the URA's project budget.

In February 2019, given the scale and complexity of the project across several government agencies, Cabinet approved a new project management and governance structure for the development of the Lot Fourteen project and precinct. 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 the Department of the Premier and Cabinet (DPC). The State Project Lead reports to the project sponsor (the 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. In addition to the URA those agencies are:

- DPC
- Department for Innovation and Skills
- TAFE SA
- Defence SA
- Arts South Australia
- Department for Trade and Investment
- Department of Treasury and Finance.

A Lot Fourteen Strategic Steering Committee, comprising members from some of the above agencies and chaired by the State Project Lead, helps coordinate and monitor the progress of the project.

In May 2019, the Premier provided a Ministerial Direction to the URA to implement any instructions issued by the State Project Lead within specified boundaries. In February 2020 the Chief Executive of DPC issued a Governance and Operational Protocol clarifying the governance and operational protocols between the URA and DPC for delivery of 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 URA expects it will complete its capital component of the project by 2024-25 with sales ending in 2027-28, and estimates its capital expenditure will be $337 million over the life of the project.

The URA's costs will be partially funded through the sale or lease of allotments, with the balance funded by the SA Government. The URA currently owns the Lot Fourteen land and redeveloped allotments and intends to sell some through long-term ground leases.

Lot Fourteen inventory is valued at $28 million ($0). Lot Fourteen capital expenditure was $55 million ($81 million) in 2020-21, while CSO funding received from the SA Government to fund the operating costs of managing the project was $1 million ($3 million). The capital expenditure of $55 million included $27 million that was recorded against and extinguished the remaining balance of the provision for future development expenditure.

Playford Alive

The Playford Alive project was approved by Cabinet in February 2006. The project involves renewing the suburbs of Davoren Park and Smithfield Plains and developing land at Munno Para, Munno Para Downs, Andrews Farm and Penfield. The URA delivers the renewal areas of the project for the South Australian Housing Trust (SAHT) and develops the greenfield component of the project in its own right. The URA expects that capital expenditure on the project will end in 2027-28, with sales and other costs continuing beyond this time.

Playford Alive inventory is valued at $16 million ($14 million). Income from inventory sales was $15 million ($6 million), while capital expenditure was $12 million ($7 million).

Tonsley Park

In December 2009, the SA Government approved the purchase of the former Mitsubishi Motors Tonsley Park manufacturing site at Clovelly Park. The URA is developing the site into a precinct that supports knowledge-intensive industries helping the economic growth of southern Adelaide. Land is also being developed and sold from the site. The URA expects the final year of significant capital expenditure on the project will be in 2023-24, with sales continuing until 2027-28.

Tonsley Park inventory is valued at $29 million ($27 million). Income from inventory sales was $4 million ($2 million), while capital expenditure was $5 million ($8 million).

Woodville West

The Woodville West medium density residential development commenced in 2009 following Cabinet approval for the then Department for Communities and Social Inclusion to demolish outdated SAHT owned dwellings and create new dwellings. The project was transferred to the URA in April 2012.

The Woodville West project was substantially completed in 2020-21. The remaining inventory is valued at $4 million ($8 million). Income from inventory sales was $11 million ($4 million), while capital expenditure was $20 000.

Bowden

Bowden is a higher density urban infill project expected to house approximately 3500 residents in over 2400 dwellings, and has a substantial commercial and retail component. The URA manages land development, remediation, infrastructure works, community engagement and marketing, with the private sector purchasing vacant developed land for building construction. The URA expects the final year of significant capital expenditure on the project will be in 2029-30, with sales continuing until 2030-31.

Bowden inventory is valued at $0 million ($8 million) after a $2 million write-down due to the re-timing of sales to the later years of the project and increased capital expenditure. Income from inventory sales was $9 million ($3 million), while capital expenditure was $3 million ($4 million).

Annexure – Agencies we audit whose financial statements will be published on the Auditor-General's Department website

The *Public Finance and Audit Act 1987* (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. The PFAA also allows me to publish other documents on that website. This includes 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 the agencies I audit on the Auditor-General's Department website (www.audit.sa.gov.au).

A.1 Agency financial statements included in this Annual Report to be published immediately after it is tabled

The following agencies are included in Part C and their financial statements will be published on our website immediately after this Annual Report is tabled.

Adelaide Festival Centre Trust
Adelaide Oval SMA Limited
Adelaide Venue Management Corporation
Attorney-General's Department
Auditor-General's Department
Barossa Hills Fleurieu Local Health Network Incorporated
Central Adelaide Local Health Network Incorporated
Child Protection – Department for
Correctional Services – Department for
Courts Administration Authority
Education – Department for
Energy and Mining – Department for
Environment and Water – Department for
Environment Protection Authority
Eyre and Far North Local Health Network Incorporated
Flinders and Upper North Local Health Network Incorporated
Flinders University
Health and Wellbeing – Department for
HomeStart Finance
Human Services – Department of
Independent Commissioner Against Corruption
Infrastructure and Transport – Department for
Innovation and Skills – Department for
Lifetime Support Authority of South Australia
Limestone Coast Local Health Network Incorporated

Motor Accident Commission
Northern Adelaide Local Health Network Incorporated
Premier and Cabinet – Department of the
Primary Industries and Regions – Department of
Public Trustee
Return to Work Corporation of South Australia
Riverland Mallee Coorong Local Health Network Incorporated
SA Ambulance Service Inc
South Australia Police
South Australian Fire and Emergency Services Commission
South Australian Government Financing Authority
South Australian Housing Trust
South Australian Superannuation Board
South Australian Superannuation Scheme
South Australian Tourism Commission
South Australian Water Corporation
Southern Adelaide Local Health Network Incorporated
Southern State Superannuation Scheme
Super SA Retirement Investment Fund
Superannuation Funds Management Corporation of South Australia
TAFE SA
Treasury and Finance – Department of
Treasurer's statements
University of Adelaide
University of South Australia
Urban Renewal Authority
Wellbeing SA
Women's and Children's Health Network Incorporated
Yorke and Northern Local Health Network Incorporated

A.2 Agency financial statements not in this Annual Report and to be published after the audit is completed

The financial statements of the following agencies that are not included in Part C of my Annual Report will be published on our website as soon as reasonably practicable after their audit is completed.

Aboriginal Lands Trust
Adelaide Cemeteries Authority
Adelaide Festival Corporation
Adelaide Film Festival
Agents Indemnity Fund
Alinytjara Wilurara Natural Resources Management Board
Art Gallery Board
Australian Children's Performing Arts Company
Australian Energy Market Commission

Board of the Botanic Gardens and State Herbarium
Carrick Hill Trust
Coast Protection Board
Commission on Excellence and Innovation in Health
Construction Industry Training Board
CTP Regulator
Dairy Authority of South Australia
Defence SA
Distribution Lessor Corporation
Dog and Cat Management Board
Dog Fence Board
Electoral Commission of South Australia
Essential Services Commission of South Australia
Eyre Peninsula Landscape Board
Generation Lessor Corporation
Governors' Pensions Scheme
Green Adelaide Board
Health Services Charitable Gifts Board
Hills Fleurieu Landscape Board
History Trust of South Australia
House of Assembly
Independent Gaming Corporation Ltd
Industry Advocate
Infrastructure SA
International Koala Centre of Excellence
Joint Parliamentary Service Council
Judges' Pensions Scheme
Judicial Conduct Commissioner
Kangaroo Island Landscape Board
Legal Services Commission
Legislative Council
Libraries Board of South Australia
Limestone Coast Landscape Board
Local Government Finance Authority of South Australia
Lotteries Commission of South Australia
Mamungari Conservation Park Co-management Board
Minister for Primary Industries and Regional Development – Adelaide Hills Wine Industry Fund
Minister for Primary Industries and Regional Development – Barossa Wine Industry Fund
Minister for Primary Industries and Regional Development – Citrus Growers Fund
Minister for Primary Industries and Regional Development – Clare Valley Wine Industry Fund
Minister for Primary Industries and Regional Development – Eyre Peninsula Grain Growers Rail Fund
Minister for Primary Industries and Regional Development – Grain Industry Fund
Minister for Primary Industries and Regional Development – Grain Industry Research and Development Fund

Minister for Primary Industries and Regional Development – Langhorne Creek Wine Industry Fund
Minister for Primary Industries and Regional Development – McLaren Vale Wine Industry Fund
Minister for Primary Industries and Regional Development – Riverland Wine Industry Fund
Minister for Primary Industries and Regional Development – South Australian Apiary Industry Fund
Minister for Primary Industries and Regional Development – South Australian Cattle Industry Fund
Minister for Primary Industries and Regional Development – South Australian Grape Growers Industry Fund
Minister for Primary Industries and Regional Development – South Australian Pig Industry Fund
Minister for Primary Industries and Regional Development – South Australian Sheep Industry Fund
Murraylands and Riverland Landscape Board
Museum Board
Native Vegetation Fund
Northern and Yorke Landscape Board
Office for Recreation, Sport and Racing
Office of Green Industries SA
Office of the Commissioner for Public Sector Employment
Office of the National Rail Safety Regulator
Office of the South Australian Productivity Commission
Outback Communities Authority
Parliamentary Superannuation Scheme
Planning and Development Fund
Police Superannuation Scheme
Professional Standards Council
Rail Commissioner
Residential Tenancies Fund
Retail Shop Leases Fund
Rural Industry Adjustment and Development Fund
SACE Board of South Australia
Second-hand Vehicles Compensation Fund
Small Business Commissioner
South Australian Ambulance Service Superannuation Scheme
South Australian Arid Lands Landscape Board
South Australian Country Arts Trust
South Australian Country Fire Service
South Australian Film Corporation
South Australian Forestry Corporation
South Australian Local Government Grants Commission
South Australian Metropolitan Fire Service
South Australian State Emergency Service
South Eastern Water Conservation and Drainage Board
State Opera of South Australia

State Owned Generators Leasing Co Pty Ltd
State Planning Commission
State Procurement Board
State Theatre Company of South Australia
Stormwater Management Authority
StudyAdelaide
Super SA Select Fund
Teachers Registration Board of South Australia
TechInSA
Trade and Investment – Department for
Transmission Lessor Corporation
West Beach Trust

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