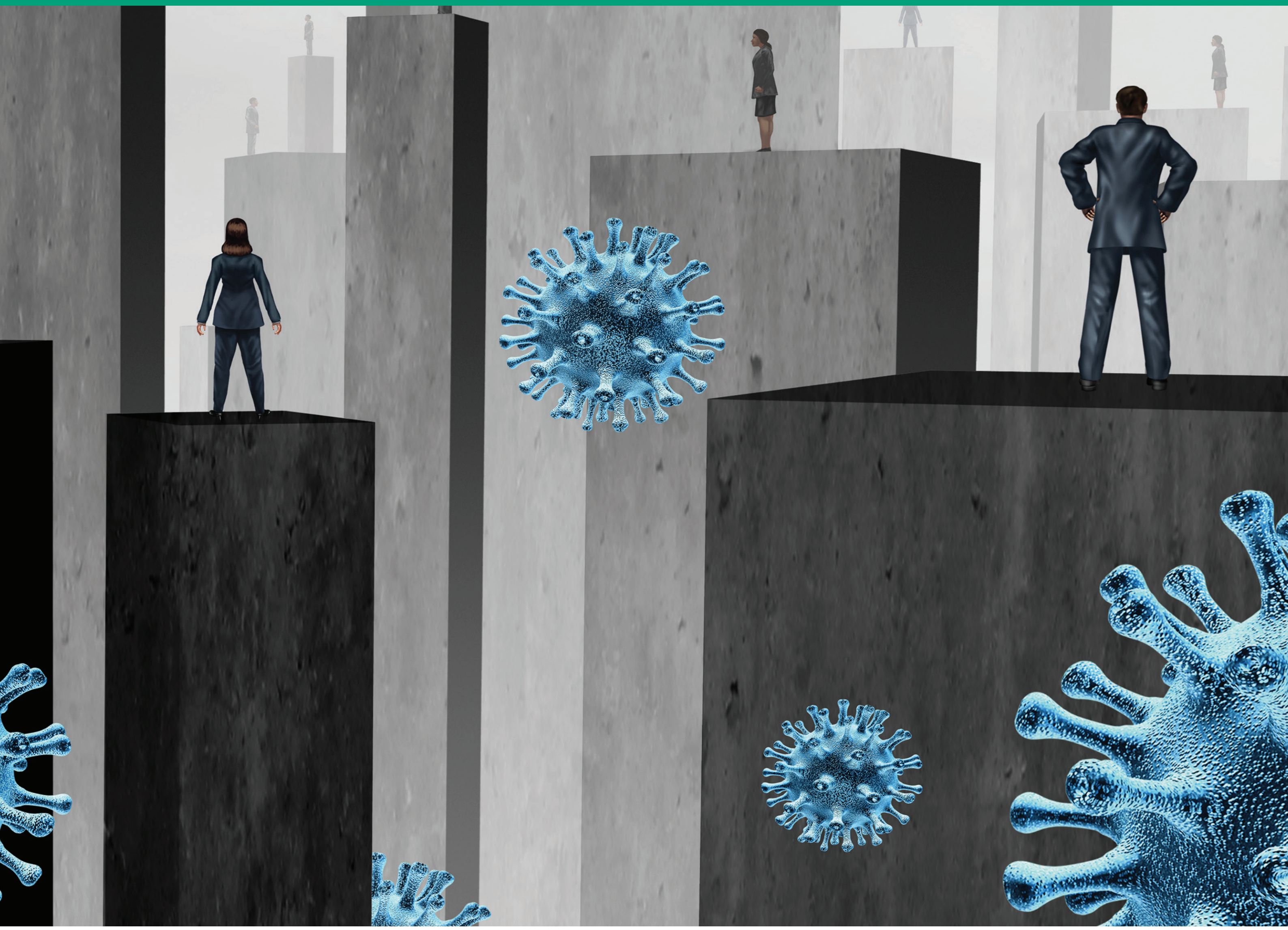
Report of the Auditor-General

Auditor-General's Department

Report 13 of 2020

Annual report
for the year ended 30 June 2020
Part C: Agency audit reports



Government of South Australia

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Annual Report
for the year ended 30 June 2020
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Tabled in the House of Assembly and ordered to be published, 13 October 2020

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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 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 at the end of Part A: *Executive summary*. 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 a modified opinion is expressed. In extreme cases it may not be possible 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.

Of the agencies included in this Report, a modified opinion was expressed on the financial report of the University of South Australia. This modification is for the 2018 comparative information in the current year's financial report.

In addition, 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 2020.

Financial reporting

Increased attention to disclosures is required

Developments in accounting standard requirements and the increased level of complexity and subjectivity involved means a greater focus is needed on financial statement disclosures. Disclosures require knowledge and consideration of the entity, its operations and its transactions. Thought and judgement must be applied to determine how to best meet the disclosure objectives of the accounting standards, rather than relying on only those elements specifically highlighted within a standard or included in a model set of financial statements.

Accounting standard requirements are not straightforward. Judgements need to be made in each area and these will differ between entities.

Some of the areas where judgements may be needed include the following:

- Significant accounting policies – descriptions of the accounting policies adopted by the entity relevant to understanding the line items on the face of the financial statements and the basis of the entity's accounting policies.
- Judgements and reasons – judgements made in the process of applying accounting policies and management decisions and reasons for the policies selected and decisions made.
- Assumptions/Models/Inputs – includes disclosures of material information relevant to the calculation of items in the financial statements, such as possible ranges of values, discount rates, effective interest rates and growth rates.
- Sources of estimation uncertainty and sensitivity analysis disclosures – disclosures to help users understand the underlying measurement variability of an item in the financial statements.
- Descriptions of internal processes – disclosures such as risk management policies and practices.

Historically, there has been heavy reliance by preparers in the SA public sector on the model financial statements developed by the Department of Treasury and Finance (DTF). Any model will not and cannot address all the possible scenarios or cater for all transactions and events that may occur, and disclosures must be tailored to suit the specific circumstances of each entity. Disclosures also tend to be prepared very late in the audit process. This leads to higher risk in that there may be limited time to assess them and address any issues or differences of opinion relating to disclosures.

Increased attention is required by preparers to adequately consider disclosures, determine what is necessary and conclude on the best way to meet the requirements. Ideally this analysis would be made available for review by my staff, together with draft disclosures, early in the financial statement preparation process and if needed before draft financial statements are submitted for audit.

This is particularly relevant when applying new accounting standards. Preparers need to pay closer attention to prominent disclosures of key estimates and judgements made in determining accounting policies and applied in determining the amounts reported in the financial statements.

Impact of new accounting standards on 2019-20 financial reports

The following new accounting standards were applicable for the first time in 30 June 2020 financial reports (31 December 2019 for calendar year reports):

- AASB 16 *Leases*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 1058 *Income of Not-for-profit Entities.*

They represent the biggest change in accounting standards since Australian International Financial Reporting Standards were implemented in 2005 and required a significant investment of time by financial statement preparers. In some cases, new systems needed to be implemented to ensure reliable information was available to achieve compliance.

Implementation of the new lease accounting standard

Impact of the new leasing standard: AASB 16 *Leases*

The main impact of AASB 16 on the SA Government is an increase in liabilities and the recognition of associated right-of-use assets for across-government office accommodation leased by the Department for Planning, Transport and Infrastructure (DPTI) and various operational leases held by the Department for Correctional Services, South Australia Police, Courts Administration Authority, Department for Education and Attorney-General's Department. Most of the liability increase relates to office accommodation held by DPTI ($1 billion as at 1 July 2019).

Most agency financial statements will include leases for motor vehicles with the South Australian Government Financing Authority (SAFA), however these relate to assets owned by the SA Government and will be eliminated on consolidation. As further outlined below, most agencies are not considered to have leases for office accommodation as the arrangements with DPTI are not considered to meet the definitional requirements contained in AASB 16.

Accounting for leases under AASB 16 also impacts the expense profile, as while the depreciation charge is typically consistent year on year, the interest expense reduces over the life of the lease as lease payments are made. This results in total expense reducing as an individual lease matures.

While there is no impact on overall cash flow, principal repayments are recognised in the cash flow statement as financing cash flows while interest continues to be recognised in operating cash flows.

Key decisions need to be made earlier

There is a high level of judgement and estimation involved in accounting for leases under AASB 16, and a number of decisions to be made about which options will be taken. In last year's report I expressed concerns about the status of implementation, and I urged agencies to act early to resolve any remaining challenges.

In their 2018-19 financial reports, agencies disclosed the expected impact of AASB 16 on their 2019-20 statements. Based on analysis and interpretation of the standard to intra-government arrangements at that time for most agencies this impact included office accommodation and motor vehicles as well as various other operational leases with external parties. As key leasing agencies, the Treasurer tasked DPTI and SAFA (Fleet SA), among other lessor agencies, with responsibility for calculating and providing information to lessee agencies to account for their leases under the new standard.

While initial conclusions were that these arrangements met the definition of a lease, in my 2018-19 Report, I recommended this conclusion be revisited for office accommodation provided by DPTI. This was in light of Premier and Cabinet Circular PC018 *Government Office Accommodation Framework* (PC018) and conclusions reached in other States.

In addition, at the time of last year's Report, a number of issues remained outstanding in relation to the lease calculations provided to agencies by DPTI for office accommodation. This was indicated in agency financial statements and highlighted in Part A of my Report, and included:

- accounting for non-lease components
- clarifying lease terms
- clarifying the treatment of contractual rent increases.

In response, DTF established a working group to address these issues together with a range of other implementation issues. The result of those deliberations was a conclusion that Memorandums of Administrative Arrangements with DPTI for office accommodation within the scope of PC018 do not meet the definition of leases for accounting purposes. Cabinet, via a Minister, has the ability to relocate agencies at any time and therefore most agencies will not include leases for office accommodation in their financial statements.

While the outstanding issues were resolved prior to year end, a number of key decisions about the application of AASB 16 were not finalised until the last quarter of the financial year, resulting in significant time pressures for all staff involved in finalising, reviewing and auditing the data for inclusion in financial statements. Time pressures inherently increase the possibility of errors.

This was an undesirable outcome and demonstrates the need for key agencies to determine a clear plan and communicate with other agencies throughout the implementation process to ensure timely resolution of issues in the future.

Despite lease accounting moving to business as usual there is no time to be complacent

While DTF's policy to recognise right-of-use assets at cost provides some relief, accounting for changes in the lease liability for altered lease arrangements or changes in judgement is extremely complex. It requires consideration of when changes should be taken into account, whether certain changes should be accounted for as part of an existing lease or as a new lease, and whether application of a revised discount rate is appropriate.

Accurately accounting for leases in line with the standard also requires timely capture of data for any changes to ensure decisions are properly informed. Further, while agencies applied a practical expedient on transition that allowed for classification of existing arrangements not to be reconsidered, any changes to those arrangements will trigger a need to reassess whether the definition of lease is met.

It is critical that agencies have strong policies and processes established to adequately capture information and account for changes to lease arrangements in line with the requirements. Lessor agencies must also ensure that adequate time and communication is provided for lessee agencies and auditors to ensure any differences of opinion are identified and resolved well before the preparation of financial statements.

Concessionary leases remain off balance sheet

Despite the Australian Accounting Standards Board's (AASB's) earlier intention to require concessionary leases to be accounted at fair value, an exemption remains in place on 30 June 2020 allowing these leases to be held at cost (which for many will be $0). The AASB is considering the issue as part of its Public Sector Fair Value Project and they may have to be valued at some time in the future.

As an interim measure, the nature and extent of concessionary leases are required to be disclosed by lessees to provide users with an indication of their importance to an entity's operations. The SA Government is involved in a number of concessionary leases as both lessee and lessor and should monitor the information needs of financial statement preparers to meet the reporting requirements.

Implementation of new revenue standards

The main source of revenue to the SA Government is Commonwealth grants, followed by state-imposed taxes and charges for goods and services. The most significant impact of the new revenue standards stems from receiving grants for construction or acquisition of assets. Under the new standards, these can be recognised over time as the asset is constructed. Under previous accounting standards they had to be recognised as revenue on receipt.

Commonwealth grants

DTF has conducted a project to determine how to account for Commonwealth grants in line with the new revenue standards, and in particular which revenue standard was appropriate for various types of grants. While the new standards aim to better align revenue recognition with the timing of related expenditure, this can only be achieved where certain requirements are met and the AASB acknowledged that the result would not solve all the perceived problems. That is, some revenue received by not-for-profit entities will continue to be recognised on receipt, particularly where the only condition in the grant was time-based.

In determining which revenue standard was applicable, DTF considered whether the Commonwealth has the power to purchase goods or services related to Commonwealth grants. It concluded that where the Commonwealth does not have this power under section 51 of the Constitution, it cannot be a customer for the purposes of AASB 15. In those cases, the funding is considered 'financial assistance' to the State and would be recognised according to AASB 1058. The Commonwealth will only have the power to purchase goods and services where it is making what it describes as 'Commonwealth own-purpose expenditure' or COPE.

The vast majority of funding received from the Commonwealth is made through the Intergovernmental Agreement on Federal Financial Relations (IAFFR). It provides for:

- 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
- National Health Reform funding
- 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.

DTF concluded that the Commonwealth's expenditure under the IAFFR is financial assistance to the State and therefore most funding from the Commonwealth will be accounted for according to AASB 1058.

As outlined in last year's report, DTF has concluded that the Crown has ultimate responsibility for meeting obligations contained in Commonwealth funding agreements, and accordingly the principal in the arrangement. This means that the Crown, primarily through DTF administered items, will recognise any outstanding contract assets or liabilities in its financial report.

Contract liabilities and impact of transition elections

Most agencies will not recognise any liability for Commonwealth grants as they receive the funds through a separate transaction with the Crown, generally with no performance obligations or other conditions attached.

Based on the conclusions reached about accounting for Commonwealth grants, most of the State's liability at any given balance date is expected to reflect unspent funding from grants provided for acquiring or constructing assets, which will be recognised as revenue and assets as constructed. Most of these funds relate to infrastructure projects delivered by DPTI. The amount of the liability (or receivable) will fluctuate depending on the timing of receipt of the funds from the Commonwealth compared to expenditure on the related infrastructure projects.

The standards provide several options for accounting on transition. DTF mandated through the Treasurer's Instructions (Accounting Policy Statements) (TI (APS)) adoption of the modified retrospective approach on transition, and precluded application of the completed contracts practical expedient. This necessitated reassessment of all contracts in place on transition to determine the value of any outstanding obligations at 1 July 2019, regardless of whether revenue had already been the recognised under existing standards. The result was the recognition of an $865 million liability at 1 July 2019 for unspent funding from capital grants, in line with the new standards. This adjustment was made against retained earnings in DTF's Statement of Administered Financial Position for the year ended 30 June 2020.

Despite recognising a liability on transition, comparatives will not be restated. This combination of approaches resulted in the re-recognition of the $312 million in revenue recognised in 2018-19. Further, there will be limited comparability of revenue between the two years reported. This has been addressed through disclosures in the notes to DTF's administered financial statements for the year ended 30 June 2020, which effectively restate what the 2019-20 figures would have been had the new standards not been adopted.

Majority of volunteer services provided remain off the books

While not a new requirement, AASB 1058 more clearly addresses accounting for volunteer services.

The previous standard required that revenue from volunteer services would only be recognised if the services would have been purchased had they not been donated. AASB 1058 allows recognition regardless, provided the fair value of the services can be reliably measured.

For SA Government agencies, this option has been removed by the TI (APS). Volunteer services are prominent in emergency services, education and health. While some agencies were able to reliably measure the value of the services provided, most could not reliably determine what proportion would have been purchased had they not been donated. Accordingly, volunteer services generally remain unrecognised in financial statements. It is important to note that the recognition of volunteer services would not impact the net result, as an equivalent expense would be recorded to recognise the use of those services.

However, it is important that financial statements reflect their reliance on volunteer services. Affected agencies have provided disclosures in their financial statements clarifying the level of reliance on these volunteers and confirming that the services have not been recognised.

Limited arrangements in scope of AASB 1059

AASB 1059 *Service Concession Arrangements: Grantors* must be applied to next year's financial statements, including comparatives, with adjustment being made to 1 July 2019 opening balances where necessary.

DTF has undertaken work in 2019-20 to confirm which contractual arrangements fall within the scope of AASB 1059.

The TI (APS) requires agencies to obtain approval before accounting for an arrangement as a service concession arrangement in line with AASB 1059. At 30 June 2020, only two existing 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.

Details of the potential impact of these arrangements being in scope are included in the financial statements of the South Australian Housing Trust and DPTI, respectively.

We will work with affected agencies with a view to resolving any outstanding issues in early 2021.

Valuation of non-current assets must be obtained and provided to us earlier

Asset valuations are a normal part of the ongoing cycle of work necessary to prepare financial statements that comply with accounting standards and the Treasurer's Instructions (Accounting Policy Framework). It is well accepted that there are significant complexities involved in asset valuations which require a considerable amount of judgement and often interpretation of the accounting standards.

It is critical that asset valuations be independently reviewed by management to ensure that appropriate methodologies, judgements and assumptions were used and that the valuations appear to be complete before being subject to audit.

A completed asset valuation should:

- identify assets or asset classes valued
- have an approved valuation methodology
- support all key inputs, assumptions and estimates
- analyse changes in inputs and assumptions (particularly for interim revaluations)
- contain a depreciation or amortisation methodology (including componentisation), assessment of useful lives and residual values
- be independently reviewed by management.

Given the level of complexity and judgement, it follows that the audit of valuation reports often requires consultation with both the agency and the valuer, and enough time is needed for any issues identified to be adequately resolved.

This requires valuations to be completed well before the end of the financial year, and ideally would allow the audit of those balances to be completed prior to draft financial statements being submitted for audit. In my view entities should perform valuations, provided they are not based on volatile market data, before 31 May in any year.

Valuations are predictable and easy to plan for and should be anticipated and managed accordingly. Despite clear expectations being set by my office in our audit strategy letters, a number of agencies did not obtain valuation reports in the expected time frame causing unnecessary time pressures and increasing the risk of delays in finalising financial statements for inclusion in this Report.

We will work with agencies to improve future processes to ensure timely valuations are obtained with sufficient time for audit and resolution of any issues.

Adelaide Festival Centre Trust (AFCT)

Financial statistics	Net result:	$137 000
	Revenues from SA Government:	$20 million
	Revenues from sales of goods and services:	$16 million
	Net assets:	$22 million
	Number of FTEs:	137
	Ticketed attendances:	342 144
	Total attendances:	681 294

Significant events and transactions

- The AFCT was significantly impacted by COVID-19 in 2019-20 with a 42% decrease in revenues from the sale of goods and services.
- Construction work on the redevelopment of Her Majesty's Theatre was principally complete as at 30 June 2020. Work in progress at that date is $64.6 million, and $61.6 million has been drawn down from the approved $62 million loan facility.
- The AFCT recognised a $94 million right-of-use asset and lease liability for the Adelaide Festival Centre complex as a result of the introduction of AASB 16 *Leases*.

Financial report opinion

Unmodified

Audit findings

- Evidence of cash payments not maintained.
- Event make sheets could not be located.
- Recommendations from 2018-19 IT general controls review not fully implemented.
- Breaches of Treasurer's Instruction 12 *Government Purchase Cards and Stored Value Cards*.

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 also operates 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 2019-20 included:

- revenue from theatre services, box office, and food and beverage
- BASS ticketing system including review over IT general controls
- salaries and wages
- procurement and expenditure on supplies and services
- fixed assets.

Audit findings

Communicating our audit findings

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

Expenditure

Evidence of cash payments not maintained

We found that the AFCT did not retain evidence of cash payments made to and received by artists. This increases the risk that cash may be misappropriated and not used for the purpose intended.

In response the AFCT advised that it would review future contracts to ensure that no cash is required.

BASS revenue

Event make sheets not located

The independent review of event make sheets, which are used to create events in BASS, ensures event details have been accurately recorded in BASS. For the sample we tested, the AFCT could not provide us with two event make sheets to confirm the independent review was performed. This increases the risk that event details are not in line with contract requirements.

In response the AFCT advised that it would develop a procedure for the client services team to create soft copies of make sheets so that they are electronically filed.

IT general controls review of BASS system

Follow-up of 2018-19 recommendations

Our review found that of the 16 issues raised in our 2018-19 report only seven had been resolved. Weaknesses in IT general controls increase the risk of inappropriate access to IT systems and security of data. There is also potential non-compliance with the South Australian Cyber Security Framework.

In response the AFCT advised that all outstanding recommendations would be completed by December 2020.

Purchase cards

We reviewed the management and use of purchase cards by the AFCT and identified instances where Treasurer's Instruction 12 *Government Purchase Cards and Stored Value Cards* (TI 12) was not complied with. These included:

- a transaction that exceeded the $10 000 limit allowed by TI 12.7.5
- a credit card statement that was not certified by the user and for which supporting documentation was not attached as required by TI 12.7.7
- a credit card issued to an employee who did not have the appropriate expenditure delegation in line with TI 12.5.1.

These issues increase the risk of:

- inappropriate expenditure
- non-compliance with the Treasurer's Instructions and weaknesses in controls that may not be identified in a timely manner to prevent or detect errors or fraud.

In response the AFCT advised that:

- all transaction limits have been reviewed and adjusted as required and the credit card request template has been updated to indicate that transaction limits cannot exceed the lower of the person's financial delegation or $10 000
- the exit checklist will be updated to include the requirement to ask for receipts.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Income		
Sales of goods and services	16	28
Revenues from SA Government	20	24
Other income and interest	6	2
Total income	42	54
Expenses		
Employee benefits expenses	17	20
Other expenses	25	31
Total expenses	42	51
Net result	-	3
Net cash provided by (used in) operating activities	(12)	15
Assets		
Current assets	15	27
Non-current assets	171	53
Total assets	186	80
Liabilities		
Current liabilities	11	30
Non-current liabilities	153	29
Total liabilities	164	59
Total equity	22	21

Statement of Comprehensive Income

The AFCT recorded a net profit of $137 000 for 2020.

The AFCT was significantly financially impacted by the COVID-19 pandemic in 2020. Due to the significant number of performance and show cancellations, it experienced a 42% decrease in revenues.

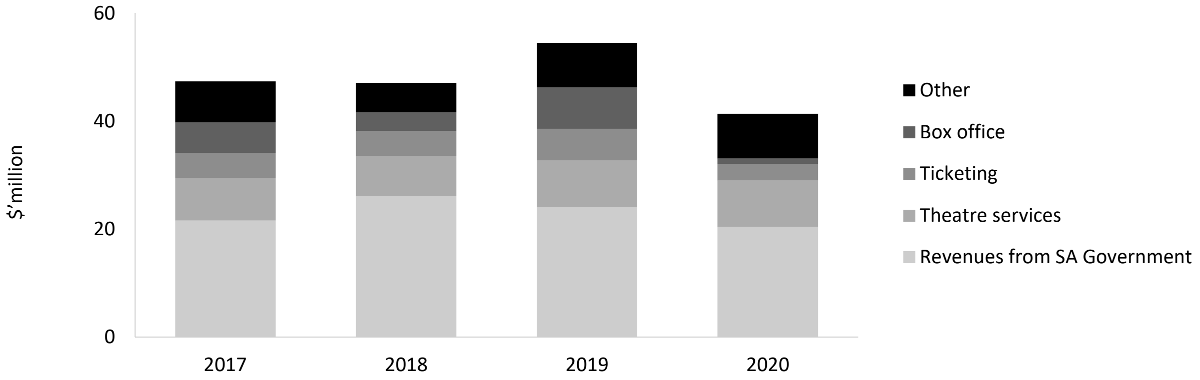
Key impacts, also detailed in note 1.3 of AFCT's financial report, were:

- the closure of the AFCT's theatres on 19 March 2020
- loss of revenue offset by a reduction in expenses
- insurance claims of $2.9 million to 30 June 2020 under the business disruption insurance policy with SAicorp
- reduced demand for theatre set builds for the AFCT scenery build workshops.

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 the AFCT's 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 2020 is presented in the following chart. Revenues from the SA Government are included in income for the purpose of this analysis.

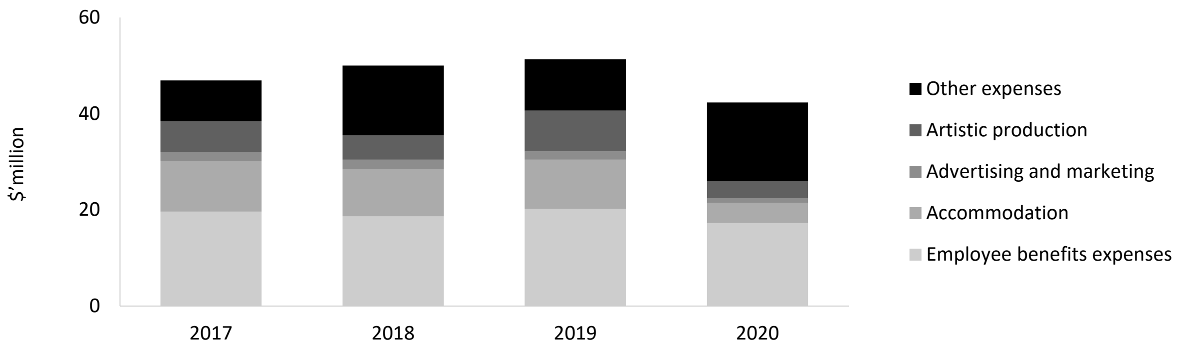


In 2020 the AFCT's income decreased by $12.1 million to $42.4 million due mainly to a decrease in sales of goods and services of $11.7 million and a $3.9 million decrease in revenues from the SA Government. The decrease in sales of goods and services is a direct result of the impact of COVID-19 with decreases in ticketing of $2.8 million, box office of $7 million and catering and functions of $1.2 million. The main components of revenues from the SA Government were:

- operating base funding of $15 million ($17.1 million)
- HMT redevelopment funding of $3 million ($3.3 million) – made up of interest payable to the South Australian Government Financing Authority (SAFA), $2.7 million, and $360 000 in supplementation funding
- Adelaide Festival Centre redevelopment supplementation funding of $1.4 million ($1.1 million) for the closure of the car park
- capital grants of $0 ($2.2 million).

Expenses

An analysis of the AFCT's expenses for the four years to 2020 is presented in the following chart.



In 2020 the AFCT's expenses decreased by $9.2 million to $42.3 million. This was mainly due to decreases in employee benefit expenses of $3 million, accommodation expenses of $6 million and artistic production costs of $5 million. The decreases in employee benefits expenses and artistic production costs are due to the impacts of COVID-19, while the decrease in accommodation expenses is offset by increases in depreciation and amortisation expenses and borrowing costs as a result of the introduction of AASB 16.

Statement of Financial Position

Current assets

The AFCT's current assets of $15.4 million ($27.1 million) include cash of $10 million ($23.7 million), of which $1.6 million ($10.2 million) is proceeds from ticket sales through BASS held in trust until distributed to promoters. Cash decreased as a result of the payment of invoices related to the redevelopment of HMT and a decrease in cash held in trust for promoters due to the closure of AFCT theatres.

Non-current assets

The AFCT's non-current assets of $170 million ($53.6 million) comprise:

- works of art of $9.6 million ($8.8 million)
- property, plant, equipment and intangible assets of $7.4 million ($8.4 million)
- right-of-use plant and equipment of $88.8 million ($0) being the Adelaide Festival Centre complex. This is due to the implementation of AASB 16
- capital works in progress of $64.6 million ($36.3 million). The increase of $28.3 million is a result of the HMT redevelopment.

Liabilities

The AFCT's liabilities increased by $104.3 million to $163.6 million due mainly to:

- borrowings increasing by $35.6 million as a result of the ongoing redevelopment of HMT
- lease liabilities of $91.3 million recognised as a result of the introduction of AASB 16
- trade payables decreasing by $12.5 million due mainly to the closure of AFCT theatres and less invoices payable to the Department of Planning, Transport and Infrastructure for the redevelopment of HMT
- amounts payable to promoters decreasing by $8.6 million due mainly to the closure of AFCT theatres.

Further commentary on operations

Redevelopment of Her Majesty's Theatre

In June 2016, the SA Government announced a $35 million redevelopment and expansion of HMT.

The upgrade will expand the existing auditorium to increase seating capacity from 970 to around 1500 seats, as well as provide a more spacious foyer, improved front-of-house amenities, and upgraded orchestral pit and technical facilities. It will allow the hosting of large-scale commercial touring productions within this historic theatre.

The SA Government was to provide funding of $32 million, with the remaining $3 million to be covered by the AFCT through a fundraising campaign by the Adelaide Festival Centre Trust Foundation (the Foundation).

As part of the redevelopment project, the Foundation purchased the property adjacent to HMT in 2016 for $2 million for the purpose of expanding HMT. This building will serve as new entrances and foyers on the western side of HMT. To facilitate the purchase, the AFCT took out a loan with SAFA. However, the loan was forgiven in 2016-17 at the drawn down amount of $1.33 million.

Additional unforeseen costs as well as new opportunities for the project were uncovered during the planning and design of the redevelopment. This included provision for an additional floor to allow a rooftop bar and gallery space.

Subsequently, on 22 June 2017, the SA Government announced in the 2017-18 State Budget additional funding of $31 million over three years to undertake further works within the upgrade and expansion of HMT. This brought the revised total capital cost of the project to $66 million. This initiative includes transferring the HMT and building from Arts South Australia to the AFCT from July 2017. Funding for the project will be provided by means of:

- a $62 million loan to the AFCT facilitated through SAFA. This will be an interest only loan for 10 years and will be drawn down as required. The interest will be subsidised by a grant from the SA Government
- $1.13 million already expended on the project in 2016-17, which will be capitalised and form part of the purchase of HMT in July 2017
- $3 million to be raised through a fundraising campaign by the Foundation.

HMT closed in March 2018. Major construction works commenced in April 2018 and were substantially completed in May 2020 with technical commissioning beginning. HMT tours and shows will begin in August 2020.

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 2019-20. The construction works have resulted in the closure of the car park, and restricted access to the Dunstan Playhouse, Space Theatre and the footbridge. Redevelopment work on the Festival Plaza is to be carried out from 2020 to 2022.

The Department of Treasury and Finance provided supplementary funding of $1.4 million in 2019-20 to replace lost car park revenue.

Impact of COVID-19

It is expected that COVID-19 will continue to significantly impact the AFCT in 2021. It reports that the key expected impacts are:

- the reduction in sales of goods and services relating to theatre operations as social distancing requirements in theatres may make shows unviable for promoters, with a corresponding reduction in supplies and services and employment expenditure
- in-house events (Adelaide Guitar Festival 2020 and OzAsia Festival 2020) having reduced expenditure as products will be delivered online
- ongoing business disruption insurance claims through its insurer, SAicorp.

Note 10.3 of the AFCT's financial report explains the key expected impacts.

Adelaide Oval SMA Limited (AOSMA)

Financial statistics

Net assets:	$8.6 million
Loss from trading activities:	$3.1 million
Net contributions from the South Australian National Football League (SANFL) and the South Australian Cricket Association (SACA):	$4.7 million
Money collected as agent on behalf of the SANFL, SACA and the Commercial Operations Trust (COT):	$22.4 million

Significant events and transactions

— Since 31 October 2019 the global COVID-19 outbreak has impacted AOSMA's financial performance. The full extent of this impact is not known at this stage. In March 2020 the Treasurer provided AOSMA with some immediate financial relief including ex gratia relief of $1 million for payment of the annual sublease fee; a waiver of $3 million payable to the sinking fund for 2020-21; and deferral of interest payments on the Adelaide Oval Hotel loan.

— In line with the *Adelaide Oval Redevelopment and Management Act 2011*, AOSMA:

- paid $800 000 to the SA Government to sublease the Adelaide Oval Core Area
- paid $2.9 million into the sinking find for non-recurrent expenditure associated with the sublease.

— Work on the Adelaide Oval Hotel commenced offsite in July 2019, with construction onsite commencing in October 2019. The hotel is due to open on 25 September 2020.

— On 31 July 2019 AOSMA granted a sub-sublease of the hotel area to Commercial Operations Hotel Pty Ltd (COHT), trustee for the Commercial Operations Hotel Trust. COHT is responsible for developing and managing the hotel and is a jointly controlled entity of the SANFL and SACA. COHT has contracted AOSMA to provide services to COHT as required to operate the hotel.

Financial report opinion	**Unmodified**
Audit findings	No financial management compliance program used in 2018-19.

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. The Minister has subleased this area to AOSMA until 2091.

AOSMA also provides various services as agent on behalf of the SANFL, SACA, the Commercial Operations Trust (COT) 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 and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report.

For the year ended 31 October 2019 specific areas of audit attention included:

- governance
- revenue
- expenditure
- payroll
- cash
- fixed assets
- 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 financial management compliance program used in 2018-19

AOSMA did not use a financial management compliance program in 2018-19 as required by its corporate governance framework. Although a financial management compliance tool that could be rolled out annually was developed by AOSMA's internal auditors in 2016, it has not been used since 2017. As a result, AOSMA may fail to detect non-compliance with key financial controls.

AOSMA responded that the financial management compliance tool developed by its internal auditors did not suit its business environment. Although the tool was not used in 2018-19, AOSMA noted that a legislative compliance review was performed and presented to the Finance Committee.

AOSMA is updating its systems and processes and a revised compliance program will be developed in 2021.

Control of access to the Delphi system needs to improve

The Delphi system is used by AOSMA to manage functions and events, including the charging for goods and services provided. Our review of Delphi access identified users with access to the system that was inconsistent with their role, including staff with unnecessary access to change pricing data.

In May 2019 AOSMA implemented a system access review policy, which requires six-monthly reviews of system access for all business-critical systems, including Delphi. AOSMA could not provide us with evidence that these reviews were occurring for Delphi.

Ensuring staff access to Delphi is consistent with their role is important in ensuring only valid transactions are processed and all system changes are appropriate.

AOSMA responded that Delphi is currently being replaced and that it will review staff user access as part of the new system implementation.

Improvement required to point of sale system pricing data review processes

AOSMA uses the NCR point of sale system to record stock and process sales. Our testing identified that improvements are required to the NCR pricing data review processes performed by AOSMA staff. For example, we identified instances where some soft drink prices in the pricing book approved by the Chief Executive Officer did not match the soft drink prices charged to corporate and function and event clients throughout the year. These errors were not identified in the reviews performed by AOSMA staff. As a result, incorrect prices were charged to these clients.

AOSMA responded that the existing point of sale system is currently being integrated with the inventory module of its new finance and sales system. The new system will be the central source for all AOSMA pricing. Prices will not be replicated manually in other systems, eliminating manual entry errors. Controls over loading and amending prices in the new system will be developed as part of the implementation project.

Use of open food and beverage categories in the point of sale system

We noted that staff can manually enter food and beverage prices into NCR at the point of sale, rather than using prices pre-programmed into the system. These entries do not automatically record an inventory decrement in the system and this must be entered manually by AOSMA staff. We were advised that these open categories are required in the point of sale system for custom products offered to corporate and function and event clients.

The use of these open categories for recording sales bypasses the controls built into NCR, increasing the risk that prices may be entered incorrectly and revenue lost by AOSMA. Their use can also impact the accuracy of recorded inventory.

AOSMA responded that functionality of the new point of sale system to process custom products will be explored as part of the implementation project, along with the setting of appropriate controls.

Interpretation and analysis of the financial report

Highlights of the financial report

	Year ended 31.10.19 $'million	Year ended 31.10.18 $'million
Trading activities		
Income	67	78
Expenses	(70)	(75)
Profit (Loss) from trading activities	(3)	3
Stakeholder contributions		
Contributions from the SANFL and SACA	13	10
Contributions to the SANFL and SACA	(8)	(9)
Net contributions	5	1
Trading result after net contributions from stakeholders	2	4
SA Government related items		
SA Government grants and other contributions	-	1
Lease to Minister	(1)	(1)
Acquisition of capital assets for the SA Government	-	(1)
Total comprehensive result	1	3
Net cash provided by (used in) operating activities	1	3
Assets		
Current assets	26	22
Non-current assets	18	21
Total assets	44	43
Liabilities		
Current liabilities	21	21
Non-current liabilities	14	14
Total liabilities	35	35
Total equity	9	8

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, COT, Australian Football League (AFL), Cricket Australia (CA), football clubs and various other promoters.

Trading activities

AOSMA reported a trading loss before stakeholder contributions of $3.1 million in the 12 months to 31 October 2019 compared to a trading profit before stakeholder contributions of $2.9 million in the previous year, a deterioration of $6 million. This decline is due to an $11.1 million reduction in income from trading activities, with expenses from trading activities only decreasing by $5.1 million over the same period.

AOSMA reported trading income of $67 million ($78.1 million). This $11.1 million decrease is due mainly to:

- lower contributions from major events due to a different mix of events and the cancellation of the Metallica concert in October 2019
- lower crowd numbers for both football and cricket throughout the year
- AOSMA ceasing catering services at Monarto Zoo and Titanium Arena in 2018-19.

Trading expenses decreased by $5.1 million to $70.1 million ($75.2 million) due mainly to a reduction in:

- raw materials and consumables used of $2.9 million
- employee benefits expenses of $1.3 million
- other expenses of $900 000.

The decreases in expenses are closely tied to the lower revenue identified above.

Stakeholder contributions

Net contributions to AOSMA from SANFL and SACA were $4.7 million ($600 000). Under various agreements, AOSMA contributed $8.1 million of its trading income to the SANFL and SACA, while the SANFL and SACA contributed $12.8 million to AOSMA to support its operations. The $8.1 million contributed to the SANFL and SACA was in addition to $22.4 million collected and distributed by AOSMA to the SANFL, SACA 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 paid $800 000 ($600 000) to the SA Government to sublease the Adelaide Oval Core Area in line with the *Adelaide Oval Redevelopment and Management Act 2011.*

Statement of Financial Position

Current assets increased by $3.6 million to $25.4 million as at 31 October 2019. This was largely due to:

- a $4.6 million increase in receivables, which at reporting date included a $4.9 million receivable from COHT for Adelaide Oval Hotel costs paid by AOSMA. For more information on the Adelaide Oval Hotel refer 'Further commentary on operations' below
- a $900 000 decrease in cash, reflecting AOSMA's use of cash to pay initial construction costs for the Adelaide Oval Hotel build on behalf of COHT, prior to the funds from the Treasurer becoming available from 2 December 2019. As at 31 October 2019 AOSMA had a $0 cash at bank balance.

Non-current assets, comprised of property, plant and equipment and computer software, decreased by $3.2 million to $18.3 million, largely reflecting $3.4 million in depreciation and amortisation expenses.

There were no significant movements in AOSMA's liability balances during the year.

As at 31 October 2019 AOSMA recognised accumulated losses of $1 million. Based on the circumstances that existed at 31 October 2019, AOSMA was satisfied that it remained financially secure largely because of its promoter's agreement with the SANFL and SACA. This agreement offers AOSMA financial protection, with the SANFL and SACA required to equally fund AOSMA if it enters into financial difficulty. If either party is not in a position to do this, the other is required to fund the other's contribution

Money collected on behalf of other parties

AOSMA collects money as agent on behalf of the SANFL, SACA, 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 2019, AOSMA collected:

- $22.4 million on behalf of the SANFL, SACA and COT. This amount is disclosed as related party transactions in note 17 of AOSMA's financial report
- $10.3 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 2019. 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

AOSMA made a contribution of $2.9 million to the sinking fund in 2018-19. This amount was based on the updated 50-year forecast of expenditure provided by the project consultant. It was approved by the Treasurer. Payments totalling $212 000 were made out of the sinking fund in 2018-19 and $162 000 in interest income was received (refer note 3 of AOSMA's financial report). The balance of the sinking fund as at 31 October 2019 was $9.6 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. Rent was not payable for the lease period before 1 July 2015. AOSMA is required to pay the annual sublease fee by 31 July each year. In July 2019 AOSMA paid $800 000. 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.

Commercial Operations Trust

COT is a jointly controlled entity of the SANFL and SACA established in 2015-16 and appointed as trustee 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 administered by AOSMA as agent for COT for the year were $1.1 million. 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 and Titanium Arena (although catering at Titanium Arena ceased from 1 July 2019). AOSMA was previously responsible for these catering services.

Adelaide Oval Hotel

On 30 June 2019 the Minister consented to AOSMA undertaking a hotel development at the Adelaide Oval.

The Adelaide Oval Hotel is being developed and managed by COHT, trustee of the Commercial Operations Hotel Trust (the Trust), under a sub-sublease and licence agreement with AOSMA. COHT is a jointly controlled entity of the SANFL and SACA. An annual lease fee of $600 000 (indexed) will be payable by COHT to AOSMA when the hotel is in operation.

A construction contract was entered into by COHT and Built Environs Pty Ltd on 1 July 2019 for the construction of a 138-room hotel with a contract sum of $38 million plus contingencies. Work offsite commenced in July 2019, with construction onsite commencing in October 2019. The hotel is due to open on 25 September 2020.

To finance the hotel build, AOSMA entered a facility agreement with the Treasurer on 7 August 2019, then entered a loan agreement with COHT to on-lend these funds. Under the facility agreement with the Treasurer, funding for the hotel build is only available from 2 December 2019 and drawdowns will only occur when certain hotel build milestones are achieved.

AOSMA is contracted under an operations and services agreement to provide services to COHT as required to operate a hotel.

On 1 July 2020 the Trust changed its name to Adelaide Oval Hotel Trust. On 13 July 2020 COHT changed its name to Adelaide Oval Hotel Pty Ltd.

COVID-19 impact

AOSMA's financial report is for the 12 months to 31 October 2019 and therefore results reported were not impacted by the outbreak of the COVID-19 pandemic. COVID-19 has had a significant impact on AOSMA's operations in 2019-20, particularly its revenue streams. These impacts will be reflected in AOSMA's 2019-20 financial report.

On 20 March 2020 the Chairman of the AOSMA Board requested SA Government assistance in response to the impacts of COVID-19.

On 31 March 2020 the Treasurer responded advising that the following measures were approved to assist AOSMA:

- ex gratia relief of $1 million to pay the special annual sublease fee to the SA Government under the *Adelaide Oval Redevelopment and Management Act 2011*
- a $0 contribution required to the sinking fund in the 2020-21 financial year (a waiver of $3 million payable in October 2020)
- interest on the Adelaide Oval Hotel loan deferred for the period to 30 September 2020 and capitalised over the remaining life of the loan.

This financial support will be provided to AOSMA from the SA Government's Community and Jobs Support Fund.

The Treasurer did not approve AOSMA's request to reduce the interest rate on the Adelaide Oval Hotel loan.

Adelaide Venue Management Corporation (AVMC)

Financial statistics

Income from trading activities:	$51.2 million
Profit from trading activities:	$3.4 million
Loss from property management activities:	$36.1 million
Net loss:	$32.7 million
Number of FTEs:	169

The following information on the number of events held and patrons attending these events was provided by the AVMC and is unaudited.

	2020 Number	2019 Number
Adelaide Entertainment Centre:		
Events	61	110
Patrons	261 120	313 000
Coopers Stadium:		
Events	15	18
Patrons	153 600	191 000
Adelaide Convention Centre:		
Events/Functions	539	774
Patrons	292 524	355 000

Significant events and transactions

COVID-19 has had a significant financial and operational impact on the AVMC since February 2020 causing the closure of all three venues and the cancellation of many booked events and functions.

Financial report opinion

Unmodified

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 2019-20 included:

- revenue from events, 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

	2020 $'million	2019 $'million
Trading activities		
Expenses	48	54
Income	51	66
Profit (Loss) from trading activities	3	12
Property management activities		
Expenses	61	62
Income	25	25
Profit (Loss) from property management activities	(36)	(37)
Net profit (loss)	(33)	(25)
Net cash provided by (used in) operating activities	-	9
Net cash provided by (used in) investing activities	(8)	(7)
Net cash provided by (used in) financing activities	(2)	(2)

	2020 $'million	2019 $'million
Assets		
Current assets	22	36
Non-current assets	612	628
Total assets	634	664
Liabilities		
Current liabilities	11	21
Non-current liabilities	402	388
Total liabilities	413	409
Total equity	221	255

Statement of Comprehensive Income

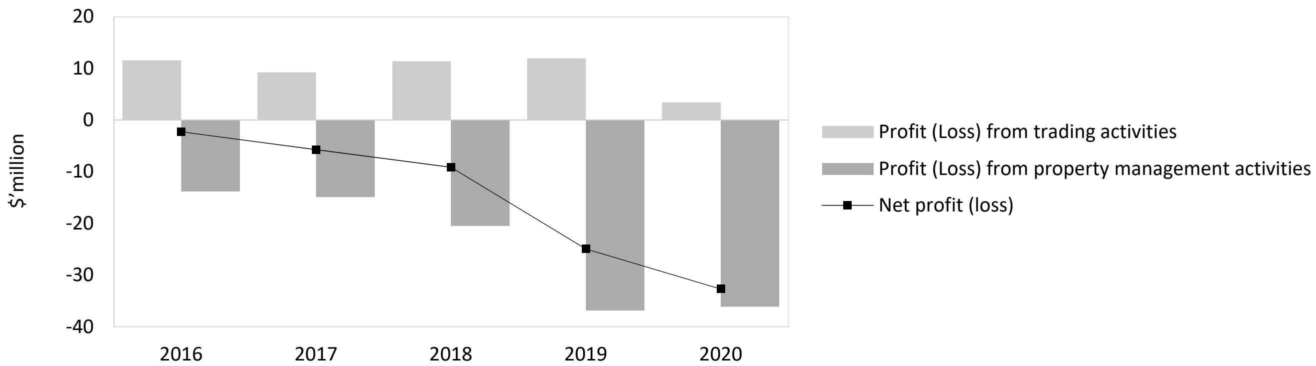
The AVMC recorded a net loss of $32.7 million for 2020.

The AVMC was significantly financially impacted by the COVID-19 pandemic in 2020. Due to substantial event and function cancellations, it experienced a 22% decrease in revenues.

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

- the cancellation of a substantial number of event bookings
- the AVMC activating 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
- the AVMC repurposing its venues when restrictions were initially enforced, to supply community catering organisations that provide meals to vulnerable South Australians. The AVMC supplied more than 250 000 meals to these organisations.

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 2020.



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

For the years 2016 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.

The net loss for 2019-20 increased by $7.8 million to $32.7 million. The profit from trading activities decreased by $8.5 million to $3.4 million and the loss from property management activities decreased by $741 000 to $36.1 million.

Profit from trading activities

The AVMC's income from trading activities totalled $51.2 million, a decrease of $14.8 million from 2019. Income from trading activities mainly comprised catering revenue ($25.3 million) and venue hire revenue ($8.1 million).

Expenses from trading activities amounted to $47.8 million, a decrease of $6.3 million from 2019. Expenses from trading activities mainly comprised employee benefits expenses ($28.4 million) and supplies and services expenses ($13.7 million).

Loss on property management activities

Expenses from property management activities were $61.3 million and mainly comprised depreciation ($29.4 million) and borrowing costs ($19.5 million).

The AVMC received $24.4 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 94% of total assets. The carrying value of property, plant and equipment is $597 million, which includes land and buildings of $576 million and plant and equipment of $18.2 million. The AVMC's main assets are the Adelaide Convention Centre and the Adelaide Entertainment Centre buildings.

Liabilities as at 30 June 2020 totalled $413.8 million and mainly comprised financial liabilities of $393.6 million and payables of $3.7 million. The AVMC has fully drawn down its approved borrowing limit of $382.3 million from the SA Government.

Current liabilities at 30 June 2020 were $11 million ($21 million). The reduction compared to last year includes the effects on contract liabilities of COVID-19. Contract liabilities decreased during the financial year, due to:

- existing event cancellation
- deferral of invoicing for future events due to the uncertainty of whether the event could be held under current government restrictions
- a significant reduction in new, short lead event bookings.

This resulted in significantly fewer instalment payments on future events being raised prior to the end of the financial year in comparison to the same time last year. Revenue totalling $9 million was recognised in 2019-20 that was included in contract liabilities at 1 July 2019.

Statement of Cash Flows

Cash and cash equivalents were $34 million ($43 million) as at 30 June 2020. The reduction compared to last year includes the effects of COVID-19 and the related item, contract liabilities, explained above.

The AVMC had no net cash inflow from operating activities for the year while cash used in investing activities was $8 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

The AVMC administers, but does not control, gross box office receipts from its ticketing agency. These receipts are held in separate event funds bank accounts. 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 $9.7 million and administered expenses were $18.5 million. The balance of funds held in trust as at 30 June 2020 was $2.3 million.

Contingent assets

The AVMC has disclosed a contingent asset of an estimated $6 million representing an insurance claim for business interruption lodged with its insurer, SAicorp. The indemnity period will cover a reasonable period, which is to be determined. This will, in turn, continue to affect the AVMC's financial results.

Further commentary on operations

Impact of COVID-19

It is expected that COVID-19 will continue to significantly impact the AVMC in 2021. It reports that it is constantly assessing and planning for its ability to hold future events.

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

- the ongoing uncertainty about the severity and/or duration of the COVID-19 pandemic
- related government restrictions
- significant lead times on some event types resulting in a delay in the AVMC returning to normal operational levels
- the uncertain economic climate and lack of consumer confidence, which may result in a change in spending patterns for clients and patrons.

The AVMC is insured for business interruption through its captive insurer, SAicorp. The indemnity period for this insurance is to be determined. The AVMC intends to claim for lost profits on a quarterly basis throughout the indemnity period.

Note 10.5 of the AVMC's financial report explains the key expected impacts.

Attorney-General's Department (AGD)

Financial statistics

Employee benefits expenses:	$135.4 million
Net result:	$20.7 million
Appropriation:	$99.4 million
Number of FTEs (includes administered):	1201.9
Administered income:	
Taxation revenue	$184.6 million
Fines and related fees	$95.2 million
Revenues from appropriations	$64.2 million
SA Government Radio Network	$34.3 million
Victims of Crime levies	$25.5 million
Administered expenses:	
Payments to Consolidated Account	$267.3 million
Grants and subsidies	$46.6 million

Significant events and transactions

- AGD moved to the new GPO Exchange building, 10 Franklin Street, in October 2019.
- $25.6 million of assets were donated from the Department of Planning, Transport and Infrastructure (DPTI) for the GPO Exchange fitout. $21.8 million was capitalised as leasehold improvements while $3.8 million was expensed.
- Taxation revenue was down $84.5 million, mainly due to lower gaming machine revenue collected due to COVID-19 business closures/restrictions. As a result, payments to the Consolidated Account were also down $85.7 million.
- An increase in Commonwealth revenues of $2.3 million helped the legal assistance sector to respond to increased demand due to COVID-19.
- Liquor licensing fee revenue reduced by around $2.5 million due to temporary relief provided to the industry.
- Outstanding fines and related payments decreased by $35.5 million in 2020 after increasing since 2014 when fines were consolidated into AGD.

Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— Bona fide and leave return reports were not reviewed promptly. — Time attendance records were not completed and reviewed promptly. — Business processes at Consumer and Business Services need to improve, in particular: • general ledger reconciliations to subsidiary systems were not prepared and reviewed promptly • no evidence was retained that the fees uploaded into the revenue collection system, LOGIC, agreed to the revised approved fees • lack of segregation of duties in access granted to the Bonds Management System (BMS) • bonds lodged and manually refunded within 31 days were not independently reviewed • no procedure to manage unclaimed bonds liability • the bonds refunds EFT payment file was not restricted. — Fines Enforcement and Recovery Unit performance management guidelines used to manage debt collection partners did not reflect current business practices. — IT general controls weaknesses exist in the LOGIC and BMS systems.

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 2019-20 included:

- general ledger
- cash and debtors
- payroll and employee entitlements
- revenue
- taxation receipts
- statutory funds
- Crown Solicitor's Trust Account
- financial accounting and reporting
- financial management performance
- IT general controls over the births, deaths and marriages system, Promadis.

We also performed the following extended audits reviews:

- AGD procurement processes
- SA Government Radio Network (SAGRN) contract management
- Fines Enforcement and Recovery Unit (FERU) – debt partners contract management
- FERU – management of the civil debt recovery process.

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

Payroll

Employee benefits expenses for both controlled and administered activities totalled $146.4 million for 2019-20, while employee benefits liabilities totalled $48.9 million as at 30 June 2020.

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.

In 2019-20 AGD's bona fide and leave return reports were reviewed and certified through its online self-service application. We identified instances where these reports were reviewed by an administrative officer but the manager had not certified them as required.

We noted that the Consumer and Business Services, Projects and Technology and Crown Solicitor's Office (CSO) 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 that:

- the business units identified have commenced action to improve controls processes and ensure that outstanding leave return reports are approved
- Human Resources will identify the responsible areas, remind managers of their responsibilities and receive regular updates on outstanding bona fide and leave return reports
- a reminder will be sent to all managers about the need to promptly review and approve bona fide and leave return reports
- business units with bona fide and leave returns outstanding greater than two weeks will be instructed to action and approve these reports.

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 for the most material pay points for the period between 2 March 2019 and 28 February 2020 identified:

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

The CSO 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 responded that:

- a reminder will be sent to all managers about the need to promptly complete and approve time records and leave requests

- CSO will determine the areas that are not regularly meeting the required time frames and whether target monitoring is necessary. Target monitoring has achieved success in other business units
- CSO will also remind its managers of the need to promptly complete and approve time records and leave requests.

General ledger

Delegations not updated

General ledger journals are required to be approved by staff with delegated authority in line with AGD's general ledger delegations.

Our review of the delegations identified that they did not include the authorised delegates of the Office of the Small Business Commissioner (OSBC) which was transferred to AGD on 1 July 2019. We could not confirm that the OSBC journal was approved by an authorised delegate.

AGD responded that OSBC general ledger delegations were approved on 28 May 2020.

Consumer and Business Services (CBS)

In 2019-20 licence and regulatory fees collected through the Liquor, Occupational, Gaming, Investigations and Complaints (LOGIC) revenue collection system totalled $31.6 million and the total collected for gaming and taxation revenue was $184.6 million. Total fees collected for issuing birth, death and marriage certificates through the Promadis revenue collection system were $6.3 million.

Our audit of CBS identified that:

- the Promadis to general ledger reconciliation, which ensures that all revenue has been journalled accurately in the general ledger, was not performed promptly. The Births, Deaths and Marriages Registrar advised that delays in completing and reviewing the reconciliations were due to the turnover of staff in the team leader position. A similar issue has been raised in previous years
- the LOGIC to general ledger reconciliation, which ensures revenue receipted in LOGIC is completely and accurately reflected in the general ledger, had not been prepared or reviewed promptly. Our review of the February 2020 reconciliation identified that no explanations were documented for any variances identified
- the LOGIC to general ledger reconciliation procedure had been prepared but it was not approved and did not specify the responsible officer and time frame for steps in the reconciliation process
- no evidence was retained of the check performed on the first business day of the new financial year to ensure that the fees uploaded into LOGIC agreed to the revised fees approved by Parliament. We also noted that the procedure for this did not specify that the officer reviewing the uploaded fees should be independent of the officer who performed the upload process.

CBS advised that:

- system improvements for the monthly Promadis to general ledger reconciliations have been implemented to streamline the process. Additional staff have been trained to mitigate staff absence and turnover

- CBS has promptly completed all LOGIC to general ledger reconciliations since April 2020. CBS will include commentary to explain variances identified in the reconciliation and in journals posted to rectify them. This will be reflected in the procedure
- CBS will ensure uploaded fees to LOGIC agree to the fees approved by Parliament with the review completed by a staff member independent of the uploading process. The procedure has been updated and will be in practice for the 2020-21 financial year.

Residential Tenancies Fund (RTF)

As at 30 June 2020 total bonds lodged with the RTF were $219.5 million.

Lack of segregation of duties

Our review of the December 2019 BMS user listing identified that the Bonds Administrator had two log-in credentials, one as an administrator and the other as a client services user. These roles in BMS provide the Bonds Administrator with access to lodge and refund bonds during times of high volume. However, there is no independent review of transactions processed by the Bonds Administrator.

CBS advised that it has removed the Bonds Administrator's client services user login.

Manual bonds lodged and refunded within 31 days

The residential bond refund procedures note that BMS will not allow refunds to be processed within three days of lodgement. They also confirm that refunds cannot be completed within 31 days of an online bond lodgement. We understand that where a refund is required prior to the 31 day threshold for a bond lodged online, a manual refund form can be processed in BMS.

Our review of bond lodgements and refunds processed manually in BMS, for the period 1 July 2019 to 31 January 2020, found 127 instances where bonds were lodged and then refunded within 31 days. We were advised that when this happens, the processing officer is required to obtain evidence to support the reason for the early bond refund. We found that there was no independent review of the evidence retained to ensure action taken was appropriate.

We also noted the refund procedures did not include:

- the circumstances in which bonds will be refunded within 31 days
- the requirement to retain evidence to support the payment of early manual bond refunds
- an independent review of all early bond refunds.

Without an independent review and sufficient investigation of bonds lodged and refunded within 31 days the risk of financial loss and fraud increases.

CBS responded that it had updated its standard operating procedure to include examples and details of evidence required.

Residential Tenancies Fund bank reconciliation reconciling items not cleared promptly

Our review of the February 2020 RTF bank reconciliation identified 118 reconciling items for transactions that were recognised in the bank statements but not in BMS. Of these items, 18 related to 2018-19 and were currently under investigation.

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

CBS advised that it had allocated a resource to ensure that all outstanding items from 2018-19 and 2019-20 will be cleared by 31 December 2020. CBS is exploring the transfer of the finance function of the bonds role into the finance, governance and reporting team in CBS to ensure a sustainable solution can be implemented.

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 still did not outline how CBS will manage and reduce this liability. Our review of the procedure in 2019-20 noted that it had not been amended.

We note that as at March 2020 unclaimed bonds totalled $11 million, an increase of 17% from $9.4 million as at 30 June 2019.

We understand that CBS established a project team in response to this issue to research what its interstate counterparties were doing and consider feasible options.

CBS advised that it had scoped the business requirements for developing an unclaimed bonds system to address this issue. The implementation of this system is subject to funding and will be the subject of ongoing discussion between CBS and AGD.

Bond refunds EFT file not restricted

In previous years we have identified that the EFT payment file containing bond refunds can be modified between the time it is created and when payment is released. In response CBS agreed to develop a monitoring and reporting procedure to identify instances where the EFT payment file is modified. CBS was looking at automating the daily EFT payment file upload to CommBiz, eliminating the need for staff access to the EFT payment file.

Our review this year noted that:

- CBS had investigated automating the EFT payment file upload process but technical issues require further investigation
- the EFT payment file is not read only and is accessible to all users with permission to the shared drive where the file is saved
- several users with read and write capabilities should not have access to the EFT payment file
- senior team members compare the EFT report from BMS to details uploaded in CommBiz as part of the end-of-day banking process to identify any unauthorised changes to the EFT payment file. Evidence of this review has only been retained since January 2020.

CBS advised 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 payment file is saved has been completed and staff access has been limited to read only where access is not needed for their daily role. Procedures have been updated and staff have been educated.

Bonds Management System user access review

AGD's procedure for modifying users in BMS requires the Bonds Administrator to facilitate the monthly review of BMS user access. We were only provided with the reviews performed in July and November 2019 and found:

- they did not include evidence of the manager's review
- the BMS user listing does not include the level of user access for each user and the functions that each user's role can perform. Therefore, the reviewer cannot assess whether the user has the correct level of access to perform their role.

CBS advised that it will ensure that the user access file is modified to identify user access types. The user listing will be reviewed monthly by the manager and confirmation emails will be retained as evidence. The procedure will be updated and staff will be reminded about the correct process.

Fines Enforcement and Recovery Unit

As at 30 June 2020, the balance of outstanding debt managed by the FERU was $409.4 million.

Interim audit

Our review of the FERU operations identified that:

- its write-off and waiver procedures required update for debts that are reduced due to the completion of a Community Services Arrangement (CSA) or Approved Training Program (ATP) to specify:
  - the documentation required to evidence completion of a CSA or ATP
  - the delegations required to process the conversion of time served to monetary amounts
  - the independent review process performed by the Data Integrity Team when reviewing the Daily Adjustments Audit Report for these debts
- a waiver was processed with inadequate documentation. The Team Leader's approval was not documented in a minute and uploaded to the Recovery Management System
- there are no specific policies and procedures for the collection of civil (State) debt as the FERU applies the policies and procedures for the collection of fines and pecuniary sums. Also there were no guidelines to help the FERU to decide whether or not to collect debt on behalf of a government agency.

The FERU advised that:

- the write-off and waiver procedures have been updated to clarify the operational delegations for completed CSAs and ATPs. It has also updated the work instructions for checking the Daily Adjustments Audit Report to include checking adjustments against confirmation of a completed CSA or ATP
- the procedures and work instructions for checking the Daily Adjustments Audit Report have been updated to upload the waiver minutes to the Recovery Management System and review the approval of waivers when reviewing the Daily Adjustments Audit Report

- it will update its policies and procedures to specify that they are also applicable to the collection of civil (State) debt. It will also document guidelines and criteria outlining what needs to be considered when deciding whether to collect debt on behalf of a government agency.

Debt partners contract management review

In 2016 the Attorney-General entered into debt collection deeds (deeds) with two debt collection companies (debt partners). During the year the deeds were extended for another two years, to 1 September 2021.

The contracts are managed by the FERU.

In 2019-20 we reviewed the debt partners contract arrangement. Our review of the performance management guidelines for them identified that:

- they did not reflect current business practice, and in particular the frequency of debt partner balanced scorecard reporting and who is required to prepare it
- the balanced scorecard reporting in Schedule 5 of the deeds is the same reporting as required in Schedule 4 of the deeds. This is not clearly documented in the guidelines.

We also noted that two of the four guidelines that support the contract management plan were not finalised. The plan details the FERU's mechanisms for managing the debt partners and the contractual arrangements in the deeds.

The FERU advised that it had reviewed and updated its contract management framework (including all of the guidelines) to reflect current practice. The amended framework has been sent to both debt partners for their agreement to the amendment and to subsequently agree to a variation of the deeds.

IT general controls review

CBS revenue system (LOGIC)

LOGIC is the system primarily used by CBS to process liquor licences, gaming tax and occupational licences. In 2018-19, we reviewed the IT general controls that are applied to LOGIC.

In 2019-20 we followed up what action CBS had taken to remediate the weaknesses we identified. We found that the following weaknesses had not been addressed:

- logs are not periodically reviewed across the LOGIC environment for appropriateness of audit logging and do not capture individual user details
- the application vendor still has permanent access to the application and database production environment
- there are no regular reviews of external users with access to LOGIC.

AGD responded that:

- it will ensure that audit logs of privileged user activities are securely maintained/restricted and capture the individual user details, and logs are periodically reviewed across the LOGIC environment for appropriateness

- the risk of the application vendor having permanent access to the application and database production environment is considered acceptable by CBS-ICT in consultation with AGD-ICT Services. It is not feasible to change the current arrangements due to business requirements and the ability to respond to system configurations and enhancements. CBS-ICT and AGD-ICT Services will determine if the recommendation to monitor the activity of the vendor can be implemented
- CBS-ICT has implemented a formal process to regularly review external users with access to LOGIC, with a review conducted in March 2020 and the next review scheduled for October 2020.

Births, deaths and marriages revenue system (Promadis)

Promadis is the revenue system used by CBS.

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, backup and disaster recovery management.

Our review confirmed that AGD generally maintains strong management controls over aspects of its Promadis system environment.

We did identify control weaknesses in audit log monitoring and the change management process. These weaknesses increase the potential for unauthorised changes or malicious activity within the Promadis environment going undetected.

AGD responded positively to our findings and agreed to take appropriate action, expected to be completed by the end of June 2021.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2020 $'million	2019 $'million
Income		
Appropriation	99	96
Revenue from fees and charges	87	83
Donated assets	26	-
Recoveries	10	11
Other	13	17
Total income	235	207
Expenses		
Employee benefits expenses	135	147
Supplies and services	61	58
Other	18	16
Total expenses	214	221
Net result	21	(14)
Total comprehensive result	21	(14)
Net cash provided by (used in) operating activities	3	-

	2020 $'million	2019 $'million
Assets		
Current assets	41	39
Non-current assets	40	21
Total assets	81	60
Liabilities		
Current liabilities	29	27
Non-current liabilities	35	36
Total liabilities	64	63
Total equity	17	(3)

Statement of Comprehensive Income

Income

AGD collected $86.8 million ($83 million) in fees and charges and received $99.4 million ($96.3 million) in appropriation in 2019-20. This represents 79% (86%) of total income. Fees and charges collected in 2019-20 mainly comprise $38.1 million of licence and regulatory fees, $25.1 million of legal services fees and $13.2 million of network services fees.

The increase in total income of $27.2 million is mainly due to:

- donated assets of $25.6 million received from DPTI for transferring the GPO Exchange fitout to AGD, of which $21.8 million was capitalised
- fees and charges, up $3.8 million, with licence and regulatory fees up $3.6 million mainly due to the indexation of licence fees and rates and the full year recognition of labour hire licences of $1.3 million
- appropriation, up $3.1 million mainly due to additional appropriation of $2.7 million received as most annual liquor licence fees were waived as a result of COVID-19
- Commonwealth sourced grants and funding, up $2.7 million as AGD received additional legal assistance funding of $2.3 million for COVID-19 and $292 000 for bushfire support.

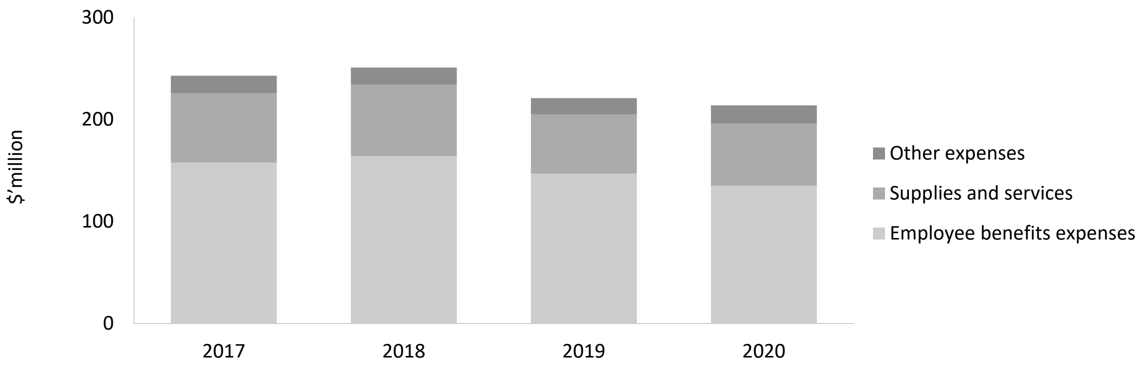
These increases were offset by decreases in:

- intra-government transfers, down $6.1 million, due to lower recoveries from the Department of Treasury and Finance (DTF) for targeted voluntary separation packages (TVSPs) paid in 2019-20
- recoveries, down $1.7 million, mainly due to the lower recoveries for the South Australian Employment Tribunal which transferred to DTF in October 2018
- other income, down $844 000, due to lower recoveries by CBS from gaming venues due to COVID-19 restrictions. Also in 2018-19, $400 000 was recovered for work associated with the National Redress Scheme.

Expenses

In 2019-20 total expenses decreased by $7.2 million to $214.2 million. This is mainly due to a decrease in employee benefits expenses of $11.8 million, offset by an increase in supplies and services of $3.3 million and depreciation and amortisation expense of $1.1 million.

The following chart analyses the main expense items for AGD for the four years to 2020.



Expenses have decreased by $38 million from 2018 mainly due to the transfer of SafeWork SA to DTF from 1 July 2018 and the transfer of the South Australian Employment Tribunal to DTF from 1 October 2018.

Employee benefits expenses total $135.4 million and represent 63.2% of total expenditure. They decreased by $11.8 million as salaries and wages were down $1.9 million, TVSPs were down $4.9 million and long service leave was down $5.3 million. The decrease in:

- salaries and wages was mainly due to the full year effect of the transfer of South Australian Employment Tribunal employees to DTF from 1 October 2018
- TVSP payments was because 20 employees took TVSPs in 2019-20 compared to 75 in 2018-19
- long service leave was due to the decrease in the Commonwealth bond yield rate to 0.75% (1.25%) and salary inflation rate to 2.5% (4%) that were used to calculate the long service leave liability.

Supplies and services expense is dominated by accommodation charges of $23.8 million ($19.8 million) and ICT expenses of $16.6 million ($16.6 million), representing 66% (63%) of total supplies and services.

Supplies and services increased by $3.3 million mainly due to increased accommodation charges of $4 million. This increase includes $3.8 million of donated assets that were expensed due to not meeting the capitalisation threshold.

Statement of Financial Position

Assets

Total assets increased by $20.5 million to $80.7 million. The increase was mainly due to:

- receivables, up $3.9 million as the outstanding recovery from administered CBS funds was $3.5 million in 2019-20 compared to $989 000 in 2018-19
- property, plant and equipment, up by $20.9 million mainly due to $21.8 million of donated assets being transferred from DPTI for the GPO Exchange fitout. There were also purchases of $3.3 million and the recognition of $1.2 million of right-of-use assets on application of Accounting Standard AASB 16 *Leases*. These increases were offset by depreciation of $4 million.

These increases were offset by decreases to:

- intangible assets of $1.9 million as additions of $1.7 million were offset by amortisation of $3.6 million
- cash of $2.4 million. Refer to commentary under 'Statement of Cash Flows' below for further explanation of the decrease in cash.

Liabilities

Liabilities increased by $111 000 to $63.7 million. This was mainly due to:

- payables, up $1.6 million as accrued expenses increased by $1.5 million mainly due to accommodation and related costs
- employee benefits liability, down $2 million as a result of:
  - long service leave, down $2.1 million due to the decrease in the Commonwealth bond yield rate to 0.75% (1.25%) and salary inflation rate to 2.5% (4%) that were used to calculate the liability
  - accrued salaries and wages, down $897 000 as the 2018-19 balance included accrued TVSPs that were paid in 2019-20
  - annual leave, up $930 000 due to less leave being taken in 2019-20
- financial liabilities, up $864 000 representing lease liabilities that were recognised on implementation of AASB 16.

Statement of Cash Flows

Cash held at 30 June 2020 was $24.6 million, a decrease of $2.4 million over the previous year. The decrease was due to:

- $309 000 used in financing activities relating to repayment of leases, compared to $7.8 million provided by financing activities in 2018-19. In 2018-19, $4.9 million was received from restructuring activities and $2.9 million from lease incentives
- $5 million used in investing activities, which was $211 000 more than last year as purchases of property, plant and equipment were up $283 000, offset by purchases of intangible assets being down $72 000
- net cash provided by operating activities of $2.9 million, an increase of $2.8 million from last year. The main components of this improvement were:

- a decrease in cash generated from operations of $8.6 million mainly due to fees and charges, down $10 million, recoveries, down $2.5 million and intra-government transfers, down $6.1 million. These were offset by increases in appropriation, up $7.3 million, receipts from Commonwealth sourced grants and funding, up $2.9 million, and grants and subsidies, up $716 000
- a decrease in cash used in operations of $11.4 million mainly due to employee benefits payments, down $7.5 million and payments for supplies and services, down $3.7 million.

Highlights of the financial statements – administered items

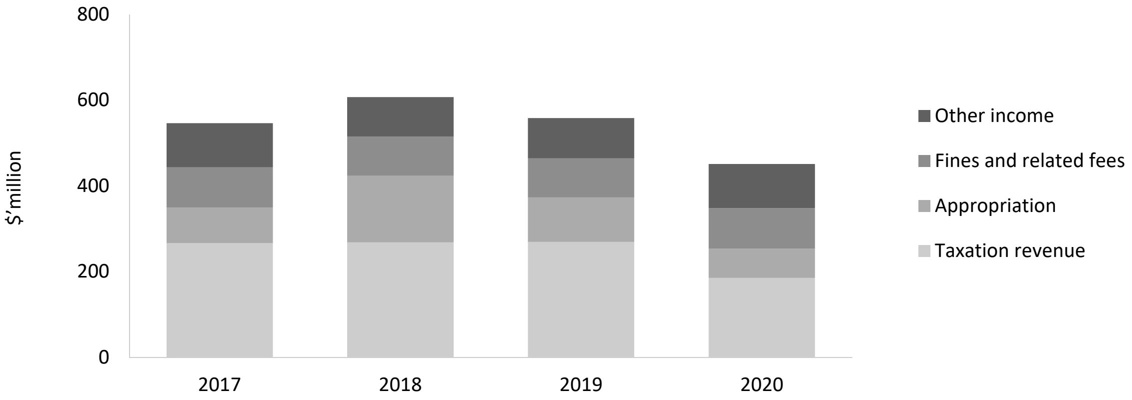
AGD's administered items are identified in note A1.1 to the administered financial statements.

	2020 $'million	2019 $'million
Income		
Taxation revenue	185	269
Fines and related fees	95	91
Appropriation	64	102
SA Government Radio Network	34	34
Victims of Crime levies	26	23
Other	47	38
Total income	451	557
Expenses		
Payments to Consolidated Account	267	353
Grants and subsidies	47	62
Victims of Crime payments	24	25
SA Government Radio Network	22	21
Other	67	74
Total expenses	427	535
Net result	24	22
Total comprehensive result	24	22
Net cash provided by (used in) operating activities	24	36
Assets		
Current assets	372	338
Non-current assets	91	89
Total assets	463	427
Liabilities		
Current liabilities	55	44
Non-current liabilities	2	2
Total liabilities	57	46
Total equity	406	381

Statement of Administered Comprehensive Income

Income

The following chart analyses the main sources of AGD's administered income for the four years to 2020.



Taxation revenue ($184.6 million) represents 41% of total administered income, with fines and related fees ($95.2 million), appropriation ($64.2 million), SAGRN fees ($34.3 million) and Victims of Crime (VOC) levies ($25.5 million) accounting for a further 49% of the total.

Total administered income decreased by $106.8 million to $450.8 million ($557.6 million). The main components of this decrease were:

- taxation revenue, down by $84.5 million, as gaming machine taxation revenue was not collected during COVID-19 trading restrictions. The tax is collected on behalf of the SA Government under the *Gaming Machines Act 1992*
- appropriation, down $37.9 million as:
  - in 2018-19 an additional appropriation of $22.9 million was received for the 2019-20 State contribution to the Legal Services Commission
  - in 2019-20 funding decreased by $18 million for the SAGRN upgrade project as the project nears completion
- recoveries and other income, down $102 000 due to:
  - recovery of State Rescue Helicopter Services charges, down $498 000
  - an increase in confiscation of profits of $2.2 million due to more confiscation recoveries this year, with one large deposit of $1.2 million
  - a decrease in gaming machine trading round revenue of $1.6 million as no trading rounds were held in 2019-20.

These decreases were offset by increases in:

- fines and related fees of $3.9 million due to increased fines and penalties collected of $3 million and fees charged $928 000
- VOC levies of $2.4 million due to higher recoveries by the FERU
- interest revenue of $4.9 million as $6.2 million in interest earned in 2018-19 and 2019-20 on the funds held by the South Australian Government Financing Authority (SAFA) for the National Redress Scheme, offset by lower interest earned on other accounts due to lower interest rates.

Expenses

Total administered expenses decreased by $108.4 million to $426.8 million. Payments to the Consolidated Account of $267.3 million (mainly for gaming machine taxation) and grants and subsidies of $46.6 million, principally paid to the Independent Commissioner Against Corruption and Office for Public Integrity and Legal Services Commission, are AGD's largest administered expenses and represent 74% of total expenditure.

The decrease in total expenses is mainly due to:

- payments to the Consolidated Account, down $85.7 million, mainly due to reduced gaming machine taxation revenue collected in 2019-20
- grants and subsidies payments, down $15.8 million. This is due to the decrease in funding paid to the Legal Services Commission as the 2019-20 State contribution of $22.9 million was paid in June 2019. This was offset by an increase in funding paid to the Independent Commissioner Against Corruption and Office of Public Integrity of $5.9 million and funding paid to the Office of the Small Business Commissioner (OSBC) of $1.9 million. The OSBC transferred from the Department for Innovation and Skills from 1 July 2019
- State Rescue Helicopter Services charges, down $12.7 million as this amount only reflects the variable charges. Variables charges are dependent on the number of flying hours and the amount of rescue missions the leased fleet was used for. They include all costs including fuel, maintenance and flight charges. Last year costs also included standing charges which represent the lease costs to operate and manage the State Rescue Helicopter Service. The standing charge is now reflected in the right-of-use plant and equipment of $16.1 million brought to account on application of AASB 16
- net loss of non-current assets, down $7.6 million, due to the disposal of SAGRN assets in 2018-19.

These decreases were offset by an increase in depreciation and amortisation expense of $13.5 million, mainly due to the recognition of depreciation for right-of-use assets of $13 million.

Statement of Administered Financial Position

Total assets increased by $36.5 million to $463.3 million. This was mainly a result of increases in cash and cash equivalents, $5.5 million, receivables, $29 million and property, plant and equipment, $1.9 million.

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

Receivables increased by $29 million mainly due to:

- gaming machine taxation revenue of $23 million to be returned from DTF
- an accrual of $6.2 million for the 2018-19 and 2019-20 interest earned on the funds held by SAFA for the National Redress Scheme.

The major administered asset is the SAGRN. There is a major project underway to upgrade the SAGRN which resulted in additions to work in progress of $5.6 million, offset by depreciation of $7.6 million. During the year $11.2 million worth of assets were transferred from work in progress to being fully operational.

In addition, due to the implementation of AASB 16 *Leases*, $17.2 million of right-of use assets and $13 million of depreciation were recognised. $4.3 million of lease liabilities were also recognised.

Payables increased by $2.2 million mainly due to an increase in Native Title payables of $6 million, offset by a reduction in payables for SAGRN charges of $2.4 million and gaming machine trading round disbursements of $1.2 million.

Other liabilities of $40.1 million ($34.3 million) represent 70% (76%) of total liabilities and are primarily made up of amounts owing to DTF for gaming machine taxation, fines and other receipts.

Statement of Administered Cash Flows

Overall cash and cash equivalents increased by $5.5 million to $313.5 million.

In 2019-20 net cash provided by operating activities was $24 million, a decrease of $12.4 million from the previous year. This reflects a decrease in cash generated from operations of $136.2 million and a decrease in cash used in operations of $123.9 million compared with the previous year. The major components of these changes to cash flows were decreases in:

- taxation receipts, $112.6 million
- fines and related fees, $2.5 million
- appropriations, $35.3 million
- payments to Consolidated Account, $91.3 million
- grant payments, $17.4 million
- other payments, $15 million.

The decreases to taxation receipts and payments to Consolidated Account included the impact of COVID-19 trading restrictions.

They were offset by increases to:

- VOC levies received, $2.4 million
- intra-government transfers received, $1.4 million
- other receipts, $11.1 million.

There was an increase in cash used in financing activities of $12.5 million due to the recognition of the repayment of leases of $12.9 million upon application of AASB 16.

Further commentary on operations

Fines Enforcement and Recovery Unit

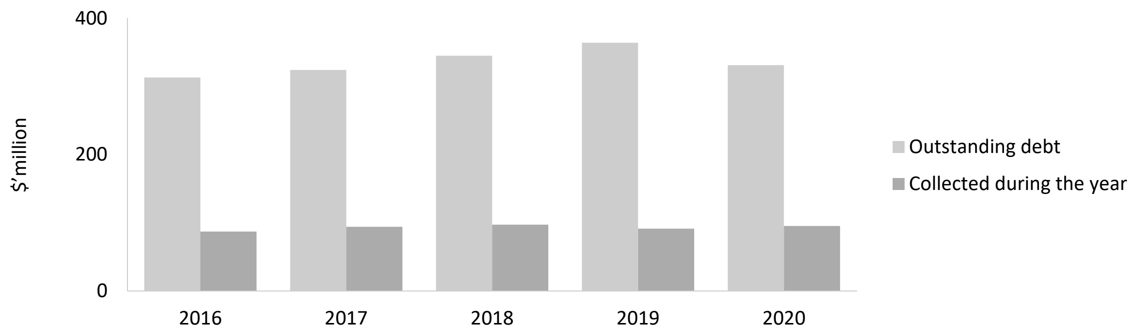
The FERU collects outstanding fines and related payments (suitor amounts and fees and charges associated with overdue amounts). It performs this function for court fines, expiation fees (including overdue local government amounts referred) and other outstanding amounts, including VOC levies and third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

As at 30 June 2020, the balance of debt managed by the FERU was $409.4 million ($444.9 million), which includes $31.6 million that is not yet due. This comprises:

- fines – $215.4 million ($240.7 million)
- VOC levies – $78.7 million ($80.6 million)
- FERU fees – $115.3 million ($123.6 million).

$125.4 million ($148.2 million) of the debt relates to court penalties, while $284 million ($296.7 million) relates to expiation notices.

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



The chart highlights that while outstanding debts increased up to 2019 and decreased in 2020, the level of collections since the FERU was established increased in 2016, 2017 and 2018, remained steady in 2019 and increased again in 2020. 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 (amongst 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 2019-20 fines lodged with the FERU totalled $190.4 million ($194.5 million). Total collections of $108.9 million ($103.9 million), including VOC amounts, included $97.3 million ($92.3 million) collected on behalf of the SA Government and $13.5 million ($11.6 million) on behalf of non-government entities, including local government councils.

In 2016-17 the FERU engaged a panel of external debt collectors to help collect outstanding amounts, particularly those that were more difficult to recover. Previously this service was provided by one debt collection agency. The total outstanding amounts collected by debt collection agencies is $21.1 million, with $16.3 million collected from 2016-17 to 2018-19.

Of the $409.4 million ($444.9 million) in total outstanding debt and related payments, $352.1 million ($378.2 million) is under active management, with $111.1 million ($98.4 million) subject to payment arrangements, $31.6 million ($30.2 million) subject to arrangements prior to fines being overdue and $43.8 million ($45.6 million) not owed to the State. $45.3 million ($38.2 million) of fines were referred to debt collection agencies in 2019-20.

The $409.4 million ($444.9 million) outstanding comprises:

- expiations, $151.6 million ($163.2 million)
- VOC levies, $78.7 million ($80.6 million)
- pecuniary sums, $63.8 million ($77.5 million)
- FERU fees, $115.3 million ($123.6 million).

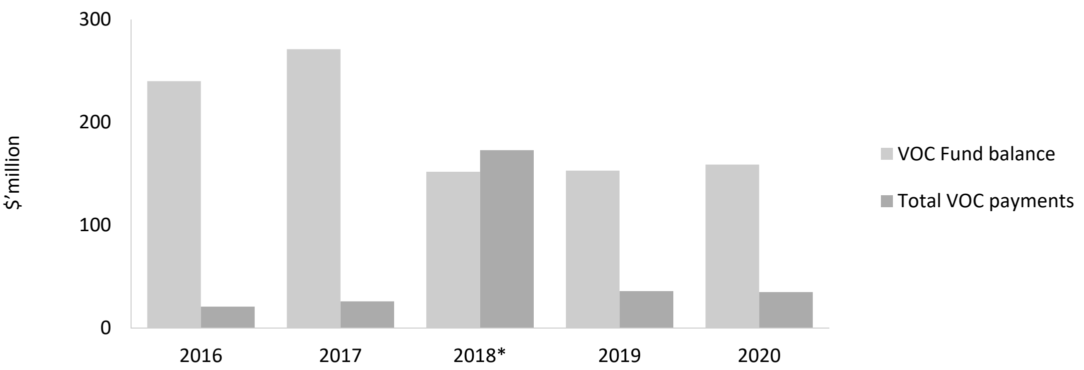
From May 2019 the FERU began to recover State debt on behalf of other government agencies. Total debt referred to the FERU amounted to $5.8 million of which $1.9 million has been collected and $1.6 million is subject to payment arrangements. $1.8 million was paid to government agencies.

Victims of Crime 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 2020 was $158.7 million ($153.2 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 $108 000, 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 $854 000 ($992 000).

- Outstanding amounts at 30 June 2020 were $84.1 million ($86.1 million). $10.3 million ($10 million) of this amount is the subject of a judgement and is being actively managed. The remaining $73.8 million ($76.1 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 not been prosecuted as yet.

A further $5 million ($2.8 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 VOC income for 2019-20 was $46.6 million ($36.9 million) and included VOC levies of $25.5 million ($23.1 million) and revenues from the SA Government of $9.1 million ($8.9 million).

Payments from Victims of Crime Fund

Total VOC expenses for 2019-20 were $35 million ($35.8 million) and included:

- victims compensation and legal payments of $24.2 million ($24.9 million)
- grants of $6.3 million ($6.1 million)
- legal and other costs incurred in the administration of the VOC Fund of $4.5 million ($4.9 million).

The net result for the VOC Fund in 2019-20 was an increase of $5.5 million.

Taxation

Taxation revenue for 2019-20 totalled $184.6 million ($269.1 million). This mainly comprises gaming machine taxes totalling $184.4 million ($269 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 operations 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.

There was no trading round in 2019-20. 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 2020.

	2017 Number	2018 Number	2019 Number	2020 Number
Machines installed as at 30 June	12 210	12 142	12 130	11 638

	2017 $'million	2018 $'million	2019 $'million	2020 $'million
Turnover	7 595	7 576	7 651	5 753
Amount won	6 915	6 894	6 969	5 241
Net gambling revenue	680	682	682	511
Tax	265	268	269	185

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 the 2019-20 operations, the audit of the IGC is complete and an unmodified Independent Auditor's Report was issued for its 2019-20 financial report.

Residential Tenancies Fund

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 (which undertakes the functions previously performed by the Residential Tenancies Tribunal).

Security bonds received by the Commissioner in 2019-20 increased by $109 000 to $105.7 million ($105.6 million). Security bonds refunded for 2019-20 increased by $652 000 to $94.4 million ($93.7 million).

The value of bonds held as at 30 June 2020 was $219.5 million ($208.3 million) and the value of unclaimed bonds was $11 million ($9.4 million).

Investment funds totalling $267.4 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 $9.2 million in 2019-20 mainly due to additional funds lodged of $6 million and investment income of $3.7 million.

Impact of COVID-19

The key impacts of the COVID-19 on AGD operations in 2019-20 were:

- an increase in Commonwealth revenues of $4.5 million to help the legal sector respond to increases in demand due to COVID-19. $2.3 million was provided to AGD
- a reduction in liquor licensing fee revenue (approximately $2.5 million) due to temporary fee relief granted to the industry
- a reduction in gaming machine taxation revenue of $84.7 million due to business closures/restrictions which commenced on 23 March 2020
- a gaming machine trading round planned for 2019-20 that did not proceed due to trading restrictions. In 2018-19 $1.6 million of revenue was recognised from gaming machine trading rounds
- the CSO providing legal services valued at approximately $900 000 for COVID-19 matters
- a reduction of annual leave taken by employees, contributing to the increase in the annual leave liability.

The continued key impacts of the COVID-19 pandemic for AGD will be:

- a reduction in liquor licensing fee revenue (approximately $1 million in 2020-21) due to temporary fee relief provided to the industry
- continued provision of legal advices by the CSO on COVID-19 matters
- a further increase in annual leave liability should the reduction in annual leave taken continue
- a continued reduction in gaming machine taxation revenue due to business closures/restrictions
- possible lower fines and related fees revenue due to the continuing reduced ability of debtors to pay.

Public Trustee

Financial statistics	Profit before income tax equivalents:	$5.6 million
	Fees and charges revenue:	$22.6 million
	Number of FTEs:	177.4
	Number of estates under administration:	7636
	Total value of trust funds under administration:	$1.7 billion

Significant events and transactions

- Net operating result for the Australian Shares common fund decreased by $5.6 million, for the Overseas common fund decreased by $15.7 million and for the Property common fund decreased by $16.6 million. These losses occurred because the COVID-19 pandemic had a significant impact on investment market performance in 2019-20.
- The Acting Public Trustee was permanently appointed.
- From 1 July 2019 will making and enduring power of attorney services were only provided to concession card holders.
- From 1 July 2019 the Public Trustee ceased to accept money from public investors and these services will be phased out by 30 June 2021. The Public Trustee will remain 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 proposed amalgamation of the Office of the Public Advocate with the Public Trustee was not approved by Parliament.
- An additional $6 million was invested in the Public Trustee by the Residential Tenancies Fund.
- Implementation of AASB 16 *Leases* resulted in the recognition of right-of-use assets of $22.6 million, depreciation of $12.3 million and lease liabilities of $15 million.

Financial report opinion

Unmodified

Controls opinion findings	— Formulas used to check investment transactions do not comply with internal investment guidelines. — Formulas in the investment and monitoring spreadsheets are not locked. — Delegations in the Customer Investment Tool do not comply with Public Trustee operational delegations. — Standard Investment Strategies buy/sell applications are not checked for authorisation by an appropriate delegate prior to processing. — Reconciliation of investment distributions to ensure they are properly allocated to client accounts occurs prior to distribution instead of after distribution to client accounts.
Other audit findings	— Administration and audit fees are not charged to personal estate clients, with accounts opened after the annual charging program is run. — Verification of goods and services received by clients is not performed. — The review to ensure that money received is receipted to the correct client account was not performed within specific time frames. — A register of negotiated capital commissions is not maintained. — Lack of segregation of duties for the HiPortfolio development and production environment. HiPortfolio is the system used to record client transactions including revenue, expenses and assets.

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 2019-20 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

Issues with the formulas used to check investment transactions

Buy and sell transactions for internally managed common funds are required to comply with the investment rules listed in the Public Trustee approved investment guidelines.

Before entering into buy/sell transactions, Funds Administration staff check that each transaction complies with the investment guidelines by inputting the transaction details into a Daily Compliance spreadsheet. This spreadsheet contains complex formulas based on the investment rules.

Our review of the accuracy of the formulas in the Daily Compliance spreadsheet for the Cash common fund identified that at the time of our audit:

- the formulas for a number of investment rules were not included in the spreadsheet

- the modified duration cell was not updated monthly. This cell ensures that the modified duration of the cash common fund does not exceed one year
- a number of investment rules were checked manually.

The Public Trustee advised that until its new investment compliance system, which will replace the Daily Compliance spreadsheets, is implemented, Funds Administration will ensure that the existing cell for the modified duration is updated monthly.

Due to the planned implementation of the investment compliance system by 30 June 2020, the subsequent retirement of the Daily Compliance spreadsheet and the spreadsheet's complexity, Public Trustee advised that it will not update it for the other issues we found. By updating the spreadsheet, it felt there was a high risk of corrupting existing rules.

Formulas in investment monitoring and reporting spreadsheets not locked

We identified that formulas in the Common Fund Financial Statements spreadsheet, the Daily Compliance spreadsheet and the Standard Investment Strategies (SIS) Asset Allocation spreadsheet were not locked with password protection to prevent unauthorised changes. However, we noted the Daily Compliance and SIS Asset Allocations Report spreadsheets were password protected and restricted to staff in Funds Administration.

The Public Trustee advised that:

- the Common Fund Financial Statements spreadsheet will be updated to password protect the pricing cells. These monthly spreadsheets were expected to be retired by 30 June 2020 when a new system was expected to be in place
- password protecting cells in the Daily Compliance spreadsheet would prevent updating it for new securities. Therefore, it would not be practical to make changes to this spreadsheet, which was expected to be retired by 30 June 2020
- Funds Administration would investigate the feasibility of password protecting cells within the SIS Asset Allocation Report spreadsheet.

Delegations in Customer Investment Tool (CIT) model do not comply with the Public Trustee operational delegations

The CIT model is a web based application used by Personal Estates and Trusts to determine the appropriate investments strategy for client money. It recommends the appropriate level of investments in the Public Trustee standard investment strategies, taking into account each client's personal and financial circumstances.

The Public Trustee's procedures state that authorisation is required if Personal Estate Officers depart for the SIS buy/sell recommendation by the CIT model. The CIT model determines the appropriate delegate (officer classification) based on the total value of funds available for investment and whether the Personal Estate Officer accepts or departs from the CIT recommendation.

We identified an instance where the CIT recommendation provided by the CIT model was not followed and the CIT model did not allocate the correct delegate. Therefore, the SIS buy/sell application was approved by an unauthorised delegate. We were advised that the delegations in the CIT model require updating for situations where the CIT model recommendation is not followed.

The Public Trustee responded that the failure of the CIT module to allocate the correct delegate is a system defect and has been logged with the software supplier to investigate the issue. Any system changes to fix the issue will be tested before going live.

SIS buy/sell applications are not checked for authorisation by an appropriate delegate prior to processing

Public Trustee procedures require Personal Estate Officers preparing CIT models to obtain authorisation in line with operational delegations. On approval, the delegated officer will sign the SIS buy/sell application form and record their classification level and name next to their signature. This allows the Funds Administrator to check that the form has been authorised by an appropriate delegate before processing the transaction.

Where the approver has not recorded their classification on the application form, the Funds Accounting Officer uses the signature list that shows the Personal Estate Officer names, their classification level and signatures. During the audit, the signatory list could not be located and we could not confirm that the forms without the approver's classification or name were correctly authorised. Funds Administration staff were unaware that a signature listing is maintained by the Customer Financial Services Team and could have been used to verify signatures.

The Public Trustee advised that Funds Administration would remind Personal Estate Officers to include their name and classification details on application forms to enable a correct determination of their approval level. Funds Administration will also obtain a copy of the signatories from the Customer Financial Services Team.

Review of trust distributions

Twice a year the Public Trustee pays distributions to clients who invest in its common funds. The total distributable amount is determined by Funds Administration and the distribution is then allocated to clients based on their total unit holdings recorded in the investment registry system. These distributions are then transferred to client accounts by a journal entry.

In 2018-19 we identified that a reconciliation was not performed to ensure that each client's distribution in the investment registry was accurately posted into the client's account. The Public Trustee responded that it would establish a reconciliation to check that all client distributions in the investments registry had been accurately and completely posted in client accounts.

In 2019-20 we confirmed that this reconciliation had been implemented for the June 2019 and December 2019 trust distributions. However, the reconciliation was performed before the distributions were posted to client accounts as this allows for the correction of any potential errors. We acknowledge that there have been no instances of data transfer errors between the investment registry system and client accounts.

We also noted that during the upload of the distribution data to client accounts, a text file is created by the investment registry system and saved into a restricted folder. However, the text file itself is not restricted to prevent any unauthorised changes and is not read only. We were advised by the Senior System Analyst that the text file cannot be restricted to read only as the officer uploading the file to client accounts requires full access to perform this task. Therefore, the risk of inappropriate changes made to the text file cannot be mitigated by a system control.

The Public Trustee advised that:

- the reconciliation implemented in 2019-20 ensures that data from the investment registry system is appropriately populated for all customers in the client account journals. There is a higher risk of error in this process compared to importing data into the investment registry system and client accounts as these are automatic processes without input of data
- the reconciliation is performed for each distribution journal, to ensure that the total amount of distributions is posted into client accounts. This reconciliation will be expanded to also confirm that the total number of journal lines imported from the investment registry matches the number of client accounts distributions posted
- Funds Administration will review a sample of distributions for each journal, to ensure that the distribution from the investment registry system has been correctly posted to the client account. They will test approximately 20 customers for each journal.

Other audit findings

Estates

Completeness of administration and audit fee revenue

Administration and audit fees are charged annually on 1 July and in advance on personal estates under the administration of the Public Trustee. The fees program is run in August. We identified that the administration and audit fee is not charged for personal estate clients with accounts opened after the annual distribution and audit fees program is run. This also applies to trusts and deceased estate files.

We also noted that the Personal Estates Client Files Annual Checklist does not include a check to verify that administration and audit fees have been completely and accurately charged to clients.

The Public Trustee advised that management will:

- seek legal advice to determine if the legislation/regulations allows for the collection of audit and administration fees from customers on a pro rata basis
- determine the administrative processes required to collect fees on a pro rata basis
- consider the following options:
  - make no change to the current method of charging for administration and audit fees, in the event that it is administratively prohibitive to collect the pro rata fees
  - amend the current procedure to charge pro rata administration and audit fees at the time of reallocating the client from the New Estates team to a Maintenance team
  - consider system options available to automate the collection of pro rata administration and audit fees.

Receipt verification reports (RVRs) are not reviewed and returned

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 2018-19 and previous years we identified that RVRs were not returned to revenue officers within the specified time frames. In response the Public Trustee advised that an electronic version of verifying receipts would be implemented which would include a record of RVRs reviewed by estate officers. The electronic RVR system went live 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. We discussed the results with senior Public Trustee staff and it was agreed that while 100% compliance with the time frames is ideal, this may be impractical. We suggested that implementing a financial threshold for the review of receipts may achieve compliance with specified time frames.

The Public Trustee advised that it would investigate other alternatives to ensure compliance with Procedure, such as performing a risk analysis over receipts to identify if a financial threshold would help eliminate outstanding RVRs. It will also review whether the time frames in the procedure are practical and reflect current business practices.

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. The Independent Commissioner Against Corruption (ICAC) also recommended that the Public Trustee check the legitimacy of requesting payments. ICAC suggested that estate officers check supporting documentation on file and contact vendors to confirm the amount owing. This could identify circumstances in which documents might have been falsified.

We note that this issue was raised by internal audit in 2019-20 following its 2018-19 Trust Administration Audit.

The Public Trustee responded, for both the external and internal audit finding, that:

- the Manager, Personal Estates would conduct a risk assessment of the process to determine if it is practical and useful to implement sampling or consider alternative mechanisms to verify the receipts of goods and services
- management would investigate a process and implement sampling for categories of high risk payments to be checked for validity
- management would employ a risk-based approach and request a declaration to be completed and signed for goods and services received and to confirm that the goods/services are used for the benefit of the beneficiary.

Our follow-up in 2019-20 found that the Public Trustee had not re-implemented a sample check of invoices to verify that goods and services had been received by clients. It had sought feedback from operational staff to establish effective procedural controls for the receipt and delivery of goods purchased, verification of purchase requests by third parties, and confirmation of legitimacy of invoices submitted. A risk assessment had also been conducted and the risk was assessed as low based on historical frequency of instances of supplies fraud or misdirected goods and financial risk to the Public Trustee. A proposal to undertake annual sampling was being considered by management.

The Public Trustee advised that the Trust branch had implemented a new procedure in February 2020, applying a risk-based approach to verifying that customer goods and services are received following an order. This applies to goods and services valued over $2500 (with certain exclusions) and they are verified by a written declaration. The Personal Estates Branch will employ a similar risk-based approach and request that a declaration be completed and signed by customers or their support people for goods over a specified amount.

Register of negotiated capital commissions is not maintained

The Public Trustee charges commissions and/or fees for administering deceased estates and trusts. It charges a capital commission that is calculated based on a percentage applied to the gross value of the estate.

Capital commission can be negotiated if a client requests it. Capital commission reductions are approved in line with Public Trustee operational delegations before making changes to the estates. Its procedure for this requires the Public Trustee to maintain a register of negotiated commissions even in instances where an estate does not eventuate. We found that no register was maintained.

The Public Trustee advised that it has changed its practices for the acquisition of new estate service customers and is no longer pursuing new business through the negotiation of reduced fees and charges. There are still occasions where the ability to agree reduced fees is necessary. Management will maintain a register of negotiated commissions, perform an annual review of the register and review the administration of fees, commission and charges policy and delegations to reflect current practices.

Information technology controls – HiPortfolio

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

Lack of segregation of duties for development and production environment

In previous years we have identified a lack of segregation of duties applied to developer accounts. We identified that two users had the ability to develop system changes to HiPortfolio and then migrate these changes to the production environment. These users also had access to perform administrative functions in the HiPortfolio production environment.

The Public Trustee responded that access rights, including those of privileged user accounts, were reviewed monthly and the current ICT environment did not allow for practical separation of duties in HiPortfolio.

Our follow-up in 2019-20 identified that the Public Trustee:

- had generated reports showing the accounts with excessive access, but these reports were not reviewed
- had not established a control to monitor the activities of accounts with excessive access to mitigate the risk of unauthorised changes being processed
- in 2017-18 had performed a monthly review of audit logs for key Public Trustee systems to identify any unauthorised or inappropriate changes to key systems. However, this check is no longer performed.

The Public Trustee responded that:

- HiPortfolio is a vendor supplied and supported application, therefore upgrades and changes to it are provided by the vendor
- neither ICT or business staff can make changes to the application. Only the packages and patches provided by the vendor can be migrated to production. No data or configuration changes can be migrated
- ICT only allocates access to the HiPortfolio network folders that allow users to run the HiPortfolio application. Customer Financial Services create user IDs and assign the level of access
- ICT will generate a list of officers who have access to the HiPortfolio production network drive to run HiPortfolio and forward the list to the Manager Customer Financial Services for review and feedback. This task was to be completed by 30 June 2020.

Independent Commissioner Against Corruption evaluation

In 2017-18 ICAC evaluated the operations of the Public Trustee and the *Evaluation of the Practices, Policies and Procedures of the Public Trustee* report was tabled in Parliament on 26 September 2017. There were a number of recommendations made that the Public Trustee actioned in 2017-18 and 2018-19.

In 2019-20 an internal audit was performed to assess what activities management had undertaken and to validate the actions completed by the Public Trustee to address the 19 recommendations from the ICAC report. It was found that 18 recommendations had been completed and one recommendation had been partially completed. This has since been addressed by the Public Trustee. Internal audit was satisfied with the actions taken to address the issues.

Interpretation and analysis of the financial report

Highlights of the corporate financial report

	2020 $'million	2019 $'million
Income		
Fees and charges	23	24
Community service obligation	5	4
Other revenues	4	3
Total income	32	31
Expenses		
Employee benefits	17	18
Supplies and services	6	7
Other expenses	3	1
Total expenses	26	26
Net result before income tax equivalents	6	5
Income tax equivalent	2	2
Net result after income tax equivalents and total comprehensive result	4	3
Net cash provided by (used in) operating activities	4	5

	2020 $'million	2019 $'million
Assets		
Current assets	13	10
Non-current assets	34	25
Total assets	47	35
Liabilities		
Current liabilities	6	5
Non-current liabilities	18	5
Total liabilities	24	10
Total equity	23	25

Statement of Comprehensive Income

Income

The Public Trustee's main source of income is fees and charges, which principally comprise commissions from managing estates and management fees for investing in common funds. In 2019-20 fees and charges income decreased by $1.1 million to $22.6 million.

Common fund management fees are set at 1% p.a. (charged monthly) in line with the *Public Trustee Act 1995*, based on the level of funds invested. These fees increased by $189 000 as the average funds under management in common funds increased from $1.065 billion to $1.091 billion in 2019-20.

Commissions and fees and charges decreased by $1.3 million, 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 decrease is primarily due to decreased estates revenue of $1.3 million.

Personal estate commissions increased by $26 000 and deceased estates and trusts commissions decreased by $964 000. The number of personal estates administered increased by 1.35% and the number of deceased estates and trusts increased by 2.25%. The lower deceased and trusts commissions were impacted by the ability to market property for sale, therefore resulting in reduced capital commissions.

Financial market movements in 2019-20 resulted in unrealised losses on financial assets of $1.5 million compared to an unrealised gain of $1 million in 2018-19. The decrease is due to the negative impact of COVID-19 on investment returns in 2020, and is mainly due to decreased returns from investments in Australian shares of $1.1 million and Australian listed property of $800 000.

In 2019-20 the Public Trustee received $5.2 million of community service obligations funding, up from $4.3 million in 2018-19. The funding is to compensate the Public Trustee for providing non-commercial services to the South Australian community on behalf of the SA Government. In 2019-20 additional funding of $590 000 was received for will making and enduring power of attorney writing services as these are now only offered to concession card holders.

In 2019-20 $2.5 million of depreciation was written back. The extension of the accommodation lease resulted in a revised useful life of leasehold improvements from 10 years to 20 years in line with the lease extension.

Other income decreased by $42 000 as:

- in 2018-19 the Public Trustee recovered $444 000 from the Department of Treasury and Finance for targeted voluntary separation packages (TVSPs) paid in that year
- the recoupment of salaries and on costs went down by $13 000 due to less transfers of long service leave from other government departments
- in 2019-20 there was a gain on lease modification of $532 000 due to a reduction in lease space.

Expenses

Employee benefits account for 63% of total expenses and decreased by $1.3 million to $16.9 million in 2019-20. The decrease is due to:

- the appointment of six temporary resources ending on 30 June 2019
- $444 000 of TVSPs paid in 2019
- long service leave going down by $908 000 due to the decrease in bond yield rates (0.75%, down from 1.25%) and the salary inflation rate (2.5%, down from 4%) used to calculate the liability.

Supplies and services decreased by $1.3 million to $5.7 million ($7 million). The decrease was mainly due to:

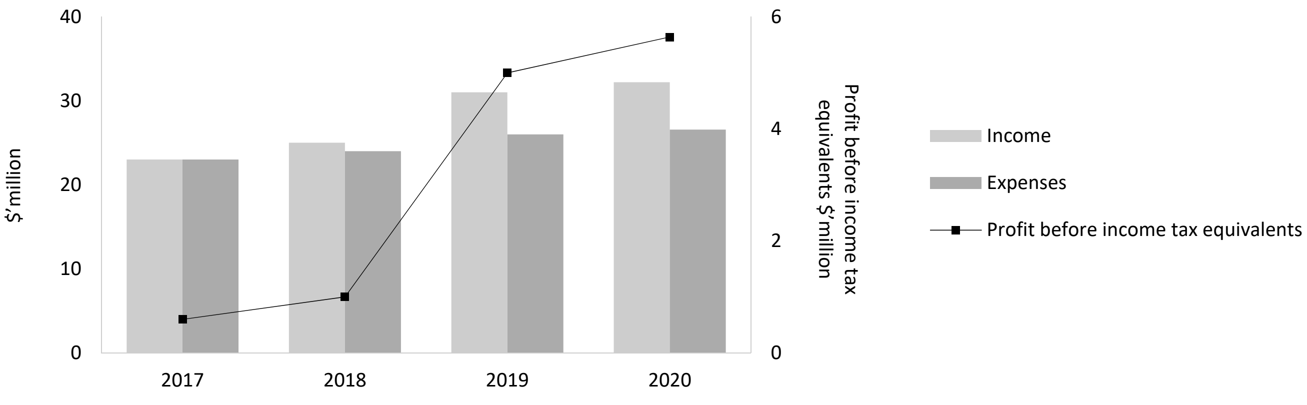
- operating lease expenses for accommodation of $2.2 million as these are now accounted for under AASB 16
- consultants, down $128 000, as there were no consultancies in 2019-20
- resources seconded from SA Government, down $187 000, as in previous years greater resources were seconded from the SA Government to clear the backlog of work within estate operations.

These decreases were offset by increases to accommodation costs, up $576 000, IT costs, up $148 000, and other supplies and services, up $437 000.

The application of AASB 16 resulted in the operating lease expense of $2.2 million included in supplies and services for the year ended 30 June 2019 being replaced with a depreciation expense of $1.2 million for the right-of-use assets and interest expenses of $325 000 for borrowing costs associated with financing the right-of-use assets and outgoings.

Net result

The following chart shows income, expenses and profit before income tax equivalents for the four years to 2020.



Profit before income tax equivalents of $5.6 million ($4.9 million) increased mainly due to a depreciation write-back of $2.5 million and an increase in community service obligations received of $928 000. These increases were offset by a $1.1 million decrease in fees and charges, an increase in depreciation and amortisation of $1.2 million and unrealised losses on financial assets of $1.5 million in 2019-20.

Statement of Financial Position

Assets

Financial assets of $19.2 million represent 41% of total assets. Financial assets decreased by $3.8 million, due to the transfer of $3 million to cash in line with the investment strategy and benchmark asset allocations. There were unrealised losses on financial assets of $1.5 million due to challenging investments markets associated with COVID-19, which were partially offset by an investment of $800 000 in Australian fixed interest from a term deposit that matured in September 2019.

Property, plant and equipment increased by $13.6 million mainly due to the recognition of $22.6 million of right-of-use assets and associated accumulated depreciation of $12.1 million on application of AASB 16.

Cash increased by $3.2 million. Refer to commentary under 'Statement of Cash Flows' below.

Liabilities

Financial liabilities of $15 million represents 62% of total liabilities and employee benefits of $5.9 million represent 24% of total liabilities.

Financial liabilities represent the remaining lease liability for accommodation and motor vehicles leases, now recognised under AASB 16.

The decrease in employee benefits of $801 000 is mainly due to:

- accrued salaries and wages, down $316 000, as the number of days accrued was five in 2019-20 compared to seven in 2018-19
- long service leave liability, down $615 000 due to the decrease in the bond yield rate (0.75%, down from 1.25%) and the salary inflation rate (2.5%, down from 4%) used to calculate the liability
- annual leave liability, up $135 000 due to less leave being taken.

Payables increased by $43 000. This was mainly due to an increase in trade payables of $104 000, offset by decreases in income tax equivalents payable of $32 000 and employee on-costs of $43 000.

Statement of Cash Flows

Cash and cash equivalents increased by $3.2 million to $12.3 million in 2020. The main factors contributing to this increase were:

- net cash provided by investing activities increased by $2.4 million. In 2019-20 $3 million was received from the sale/maturity of investments which was offset by an increase in the purchase of financial assets of $751 000

- net cash provided by operating activities decreasing by $557 000 as:
  - cash generated from operations was down $710 000 mainly due to cash inflows for fees and charges, down $493 000, and investment income and interest, down $571 000, offset by an increase in community services obligations, up $928 000
  - cash used in operations was down $153 000, due to payments for supplies and services, down $2.2 million, offset by employee benefits, up $345 000, tax equivalents payments, up $1.3 million, and interest paid, up $325 000
- net cash used in financing activities increasing by $61 000 as the dividend paid to the SA Government was down by $1.5 million, offset by an increase in lease liabilities paid of $1.6 million.

Interpretation and analysis of Statement of Trusts being Administered

The value of trust funds administered by the Public Trustee as at 30 June 2020 was $1.7 billion ($1.7 billion).

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

	2019 Number	2020 Number	2019 $'000	2020 $'000
Deceased estates	1 091	1 026	170 781	175 979
Trusts	1 250	1 258	133 821	134 651
Administration matters	320	317	41 220	40 417
Court award orders	777	769	439 244	428 606
Protected estates	3 748	3 828	382 705	382 166
Workers compensation awards	7	5	270	97
Power of attorney	285	280	57 991	65 178
Investors	214	153	439 151	440 037
	7 692	7 636	1 665 183	1 667 131

Of the total funds being administered, 64% (65%) were invested in the common funds with the remaining 36% (35%) represented by other estate assets.

The two largest categories of other estate assets are real estate assets of $364 million ($361 million) and superannuation of $154 million ($155 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 2019-20 totalled $1.08 billion, decreasing by $9.5 million from $1.09 billion in 2018-19.

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 2020 and 30 June 2019.

	Net operating result		Assets	
	2019	2020	2019	2020
Common fund	$'000	$'000	$'000	$'000
Cash	10 793	4 775	*505 024	468 188
Short-term Fixed Interest	966	1 157	64 064	65 882
Long-term Fixed Interest	2 869	2 486	104 938	107 039
Overseas Fixed Interest	1 700	663	60 003	60 644
Australian Shares	1 956	(3 636)	182 971	170 305
Overseas Shares	10 921	(4 779)	146 614	140 144
Property	8 339	(8 223)	118 092	108 787

* Includes $37 million ($88 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 2019-20 a further $6 million was invested in the Public Trustee from the Residential Tenancies Fund. The funds were received in February 2020, with $1.8 million invested in the Balanced SIS, $1.2 million in the Capital Stable SIS and the remaining retained in cash. The $6 million was allocated across the following common funds: Cash ($3.29 million), Short-term Fixed Interest ($460 000), Long-term Fixed Interest ($590 000), Overseas Fixed Interest ($360 000), Australian Shares ($440 000), Overseas Shares ($380 000) and Property ($480 000).

The investment of Residential Tenancies Fund money was approved by the Commissioner for Consumer and Business Services, 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 2020. These figures have been provided by the Public Trustee and are unaudited.

		1 year	3 years	5 years	7 years	10 years
Standard investment strategy		%	%	%	%	%
Cash	Performance	1.03	1.58	1.75	2.08	2.90
	Benchmark	-0.16	0.53	0.73	0.99	1.68

Standard investment strategy		1 year %	3 years %	5 years %	7 years %	10 years %
Capital stable	Performance	-0.02	2.45	3.03	3.96	4.79
	Benchmark	0.21	3.16	3.21	3.91	4.56
Balanced	Performance	-1.51	3.21	4.18	5.61	6.54
	Benchmark	-1.54	4.25	4.42	5.69	6.41
Growth	Performance	-2.27	3.75	4.93	6.71	7.67
	Benchmark	-2.40	4.72	5.00	6.64	7.33
Equities	Performance	-2.48	4.99	6.31	8.61	9.26
	Benchmark	-3.79	5.67	6.06	8.34	8.67

The Public Trustee's investment returns ranged from 1.03% for Cash to -2.48% for Equities, net of fees. The negative investment returns for Capital Stable, Balanced, Growth and Equities standard investment strategies reflect that 2019-20 was an extremely volatile period for financial markets, which was also reflected in its benchmarks. The spread of COVID-19 and its effects on the global economy were profound. After the challenging March period, markets staged a strong recovery in the June quarter. A number of significant government stimulus measures and cuts in interest rates helped restore confidence.

Cash, Balanced, Growth and Equities SIS each outperformed their benchmarks. The slight underperformance of the Capital Stable SIS can be attributed to a lower allocations to global government bonds by the Public Trustee compared to the benchmark. Global government bonds performed well as investors sought safe haven investments.

Net operating result

The operating result for the common funds was mixed in 2019-20 with four funds recording profits and three funds recording losses. 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	
	2019	2020	2019	2020
Common fund	$'000	$'000	%	%
Cash	10 793	4 775	2.86	2.04
Short-term Fixed Interest	966	1 157	2.65	2.91
Long-term Fixed Interest	2 869	2 486	3.93	3.49
Overseas Fixed Interest	1 700	663	4.05	2.14
Australian Shares	1 956	(3 636)	1.92	-1.04
Overseas Shares	10 921	(4 779)	9.49	-2.14
Property	8 339	(8 223)	8.94	-5.87

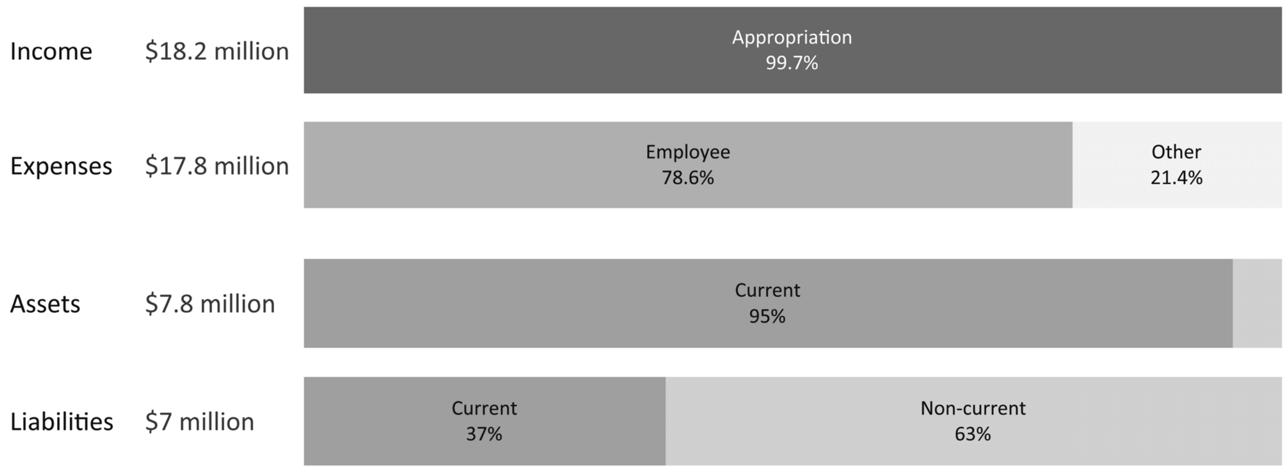
The net operating result for all funds decreased except for Short-term Fixed Interest. This reflects the relative market performance of different asset classes, with COVID-19 particularly affecting the Australian Shares, Overseas Shares and the Property common funds.

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

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

Auditor-General's Department

Financial statistics



129 Average FTEs

14 Number of reports

156 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*, the Governor, on the Treasurer's recommendation, 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

	2020 $'million	2019 $'million
Revenues from (Payments to) SA Government	18.2	17.6

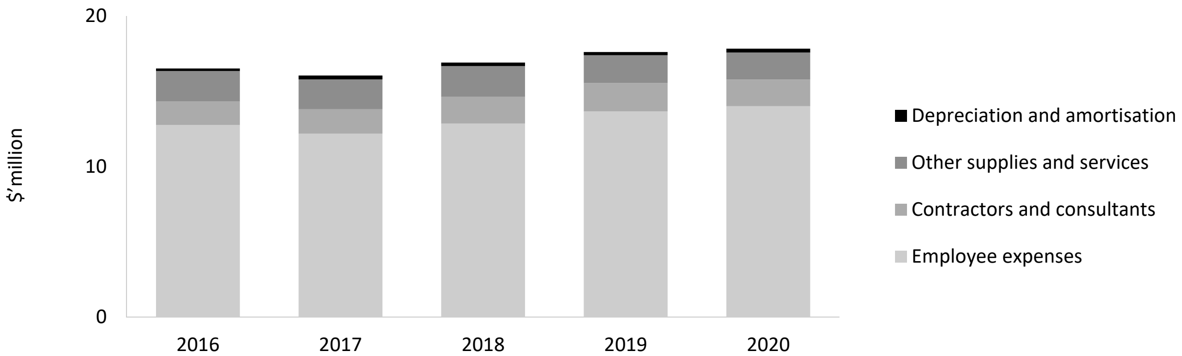
	2020 $'million	2019 $'million
Expenses		
Employee expenses	14.0	13.6
Supplies and services	3.5	3.7
Other expenses	0.3	0.2
Total expenses	17.8	17.5
Net result	0.4	0.1
Net cash provided by operating activities	1.0	1.3
Assets		
Current assets	7.4	6.7
Non-current assets	0.4	0.4
Total assets	7.8	7.1
Liabilities		
Current liabilities	2.6	2.3
Non-current liabilities	4.4	4.4
Total liabilities	7.0	6.7
Total equity	0.8	0.4

Statement of Comprehensive Income

Auditor-General's Department relies on SA Government appropriations as its major revenue source to fund its operations. The Department charges fees for our audits, as permitted by section 39 of the *Public Finance and Audit Act 1987*. Fees raised however are not retained nor controlled by the Department and are paid into the SA Government's Consolidated Account as they are received. Audit fees raised in 2019-20 totalled $15.7 million.

Expenses

The following chart shows a structural analysis of the main expense items for the five years to 2020.



Total expenses increased by $229 000 to $17.8 million in 2019-20 This was mainly due to an increase in employee expenses of $343 000 offset by a decrease in supplies and services of $157 000 and an increase of $43 000 in other expenses.

Department for Child Protection (DCP)

Financial statistics	Appropriation:	$568 million
	Total expenses:	$574 million
	Child protection services:	$286 million
	Number of FTEs:	2 188
	Number of children in care at 30 June 2020:	4 370

Significant events and transactions

From 1 July 2019, $5 million in Family Preservation Service contracts were transferred to the Department for Human Services.

Financial report opinion

Unmodified

Audit findings

- Kinship carer reviews need to be monitored to ensure they are performed before the deadline.
- Foster carer reviews need to be monitored to ensure they are performed on time.
- Reporting on foster carer review key performance indicators for service contracts needed to improve.
- Commercial care placements were not always promptly approved.
- Weaknesses in the IT controls over the Connected Client and Case Management system.

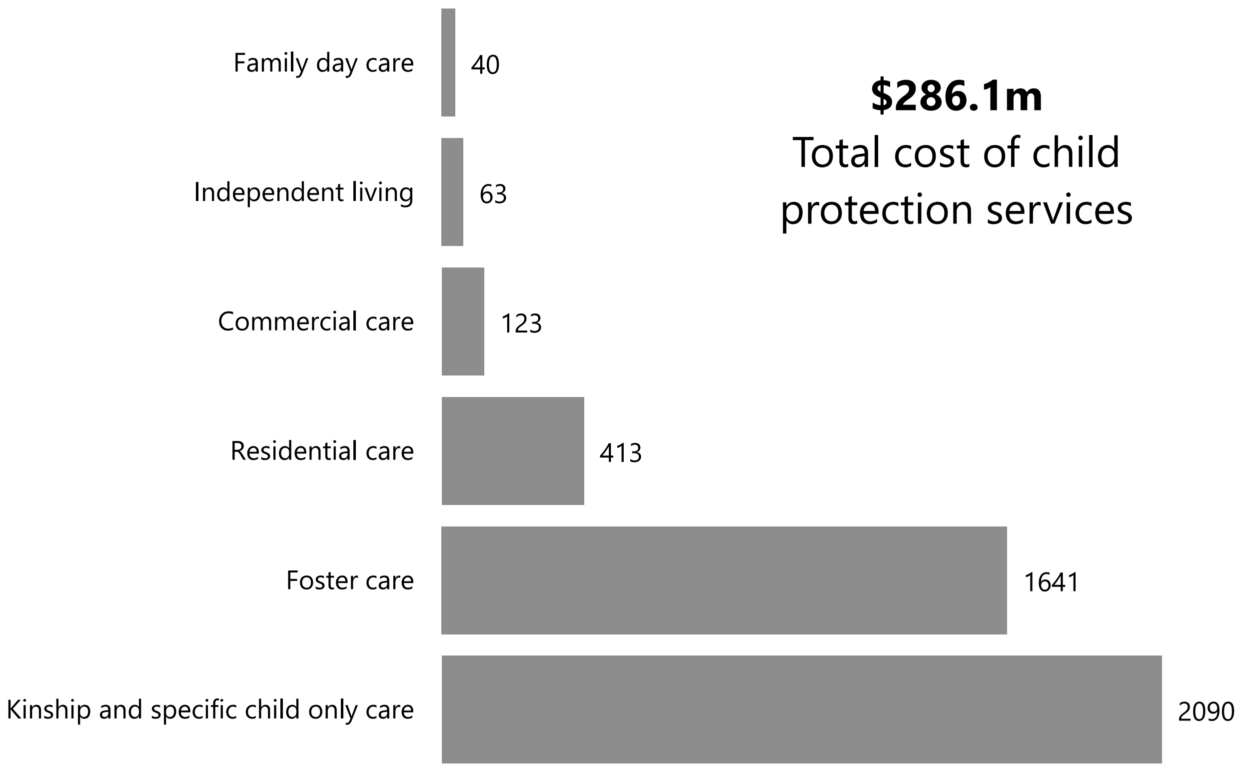
Functional responsibility

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

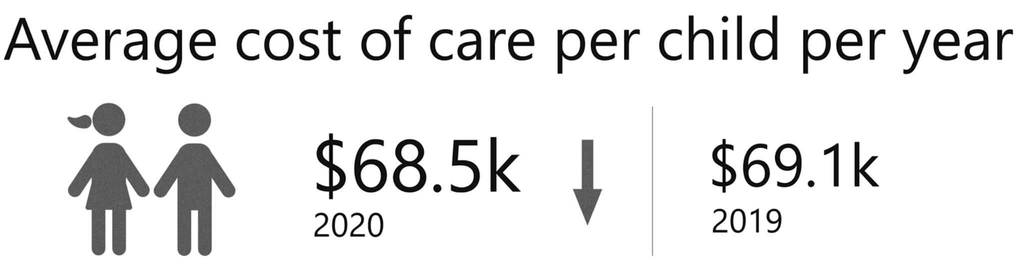
Functions

DCP's objective is to care for and protect children and young people who are at risk of abuse and neglect 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 2020.



Despite the rise in the number of children in care by 10% in 2020, the total cost of care only increased by 7%. In 2020 the average cost of care per year was $68 500 per child, down from $69 100 per child in 2019. The reduction in average cost is due to more children being able to be placed in foster and kinship care.



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 2019-20 included:

- expenditure including child protection services
- payroll
- property, plant and equipment
- general ledger
- governance
- carer reviews
- psychometric testing of residential care workers.

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

Carer reviews

The previous *Children's Protection Act 1993* required all approved foster carers to be regularly reviewed. The *Children and Young Persons (Safety) Act 2017* also requires this, but has expanded the scope to all approved carers, therefore including kinship and specific child only carers.

DCP's procedures specify these reviews must be conducted in the carer's home by either DCP or the supporting external provider.

We believe these reviews are an important mechanism for ensuring children are being cared for in a safe environment and issues being faced by carers are identified and resolved.

Monitoring kinship reviews to ensure they are performed before the deadline

According to DCP procedure, kinship and specific child only reviews must be conducted at least every two years. This became a requirement with the enactment of the *Children and Young Persons (Safety) Act 2017*. Therefore all kinship and specific child only carers who were approved before 22 October 2018 need to be reviewed before 19 December 2020.

As at 31 July 2020 only 137 of the required 475 kinship carer reviews had been completed by DCP, therefore continued focus is needed.

DCP responded that it believed it is on track to complete all reviews before the deadline.

Monitoring foster carer reviews to ensure they are performed on time

DCP procedures require foster carer reviews to be done annually. As at 5 June 2020 a Connected Client and Case Management System (C3MS) report showed:

- 357 reviews were in progress
- 19 reviews were completed on time
- 285 reviews were completed after the due date
- 153 reviews were overdue.

DCP informed us that this report is not accurate as it includes carers who are no longer active or have transferred to long-term guardianship. There is also sometimes a time lag between when the review is performed and when it is entered into C3MS.

We acknowledge that DCP has allocated additional resources to monitor carer reviews since May 2020. In our view, it is difficult for this to be efficient if there is no accurate report on the status of foster carer reviews.

DCP responded that it is developing a new report which should be in place by October 2020.

Reporting on foster carer review KPIs for service contracts

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

In May 2020 DCP advised us that reporting for this KPI was in development. In the absence of this report DCP is using reports from C3MS, which may not be completely accurate as outlined above.

DCP advised us that the new report, which will be in place by October 2020, will cover this and that in the meantime it is having quarterly discussions with the contracted service providers about their performance.

Commercial care

As at 30 June 2020 there were 123 children in commercial care, an increase of 20 children from 30 June 2019.

Commercial care is an expensive care option and DCP has said it is working towards reduced reliance on this form of care. It is important that controls are in place and working effectively to ensure the proposed placement of a child is appropriate and the projected cost impact is adequately considered.

Commercial care placements not always promptly approved

Before children are placed in commercial care or their placement is extended, approval should be obtained, which includes calculating the projected cumulated costs of the placement.

Between July and December 2019 we found a number of instances where commercial care approval memorandums were authorised a long time after placements had commenced and payments were made. We have noted this finding for several years and DCP has tried a number of changes to address the problem.

Significant changes were made to the process in December 2019 and we did not identify any late approvals after this date.

DCP advised that since the December 2019 changes, there has been some automation of controls to further strengthen the process.

Commercial care invoices paid without an appropriate review of rates

We reviewed a sample of commercial care invoices to check that they were appropriately reviewed to ensure the rates charged and hours of care were correct before payment.

We identified two invoices in a sample of 14 where the review of rates was not correctly performed. This increases the risk of DCP making payments for services not provided or being overcharged.

DCP advised that following staffing changes, they do not consider this to be a broader educational issue.

Weaknesses in IT controls for the Connected Client and Case Management System

C3MS is a significant system used by DCP to support its operations. It records investigations of child abuse or neglect, records case management of children in care and determines payments for carers.

Data in C3MS is sensitive given the personal nature of case information recorded, and tight controls are needed to properly secure and restrict access to this data to protect the privacy of clients.

We followed up the issues we identified in our 2019 review of IT controls over C3MS. We identified two main areas where controls could be improved:

- implementing a review of user access
- lack of review of audit logs.

In response, DCP accepted the recommendations in principle and committed to rectifying the issues.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Income		
Appropriation	568	532
Other	8	9
Total income	576	541

	2020 $’million	2019 $’million
Expenses		
Employee benefits expenses	218	227
Child protection services	286	268
Supplies and services	54	55
Other	16	8
Total expenses	574	558
Net result	2	(17)
Changes in revaluation surplus	2	1
Total comprehensive result	4	(16)
Net cash provided by operating activities	2	6
Assets		
Current assets	43	47
Non-current assets	43	38
Total assets	86	85
Liabilities		
Current liabilities	55	57
Non-current liabilities	52	53
Total liabilities	107	110
Total equity	(21)	(25)

Statement of Comprehensive Income

Income

DCP is predominantly funded by appropriation which accounts for 99% of total income. Appropriation from the SA Government was $568 million in 2020, an increase of 7% from 2019. DCP received additional funding for the expected increase in numbers of children in care.

Expenses

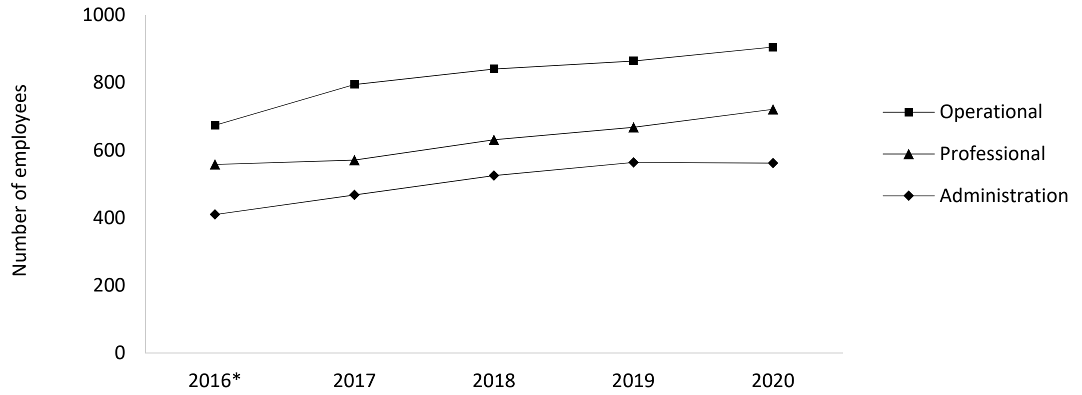
Employee benefits expenses

Employee benefits of $218 million accounted for 38% of total expenses in 2020. This was a decrease of $9 million from 2019 due to:

- a $5.6 million decrease in long service leave mainly because of changes in actuarial calculations. The salary inflation rate used decreased to 2.5% (4%) and the yield on long-term Commonwealth Government bonds decreased to 0.75% (1.25%)
- a $6.6 million decrease in workers compensation. The workers compensation provision is based on an actuarial assessment provided by a consulting actuary engaged through the Office of the Commissioner for the Public Sector
- a $3.9 million decrease in targeted voluntary separation packages from 61 in 2019 to seven in 2020
- offset by an increase of $7.2 million in salaries and wages. Staff FTEs are discussed below.

There are currently 2188 FTEs which is an increase of 92 FTEs since 2019, all in frontline positions (operational and professional).

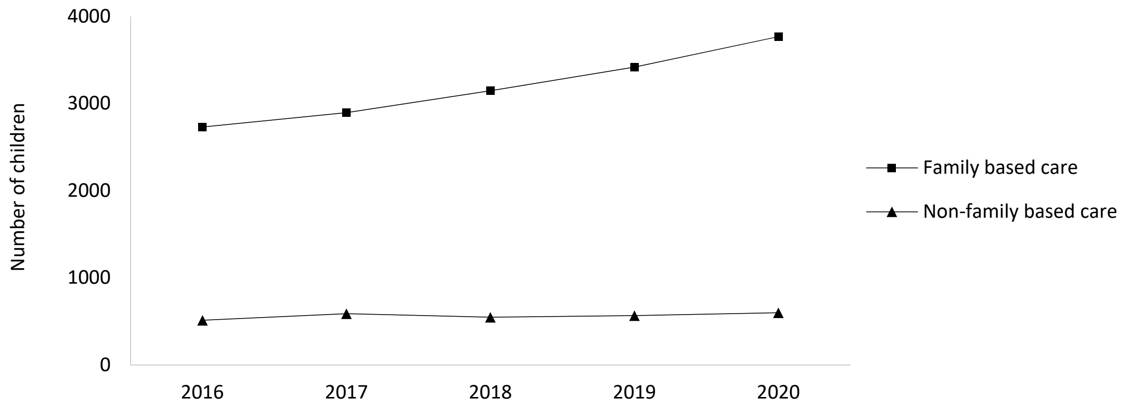
The following chart shows the number of FTEs by category over the last five years. The percentage of frontline employees has remained constant over the last five years, ranging between 73% and 75% of total employees. There has been a slight rise in professional employees in 2020 due to an increase in DCP residential staff.



* Number of child protection employees employed by the Department for Education when the child protection function was its responsibility.

Child protection services

The two main types of care provided are family based (foster, kinship and family day care) and non-family based (residential care, commercial 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.

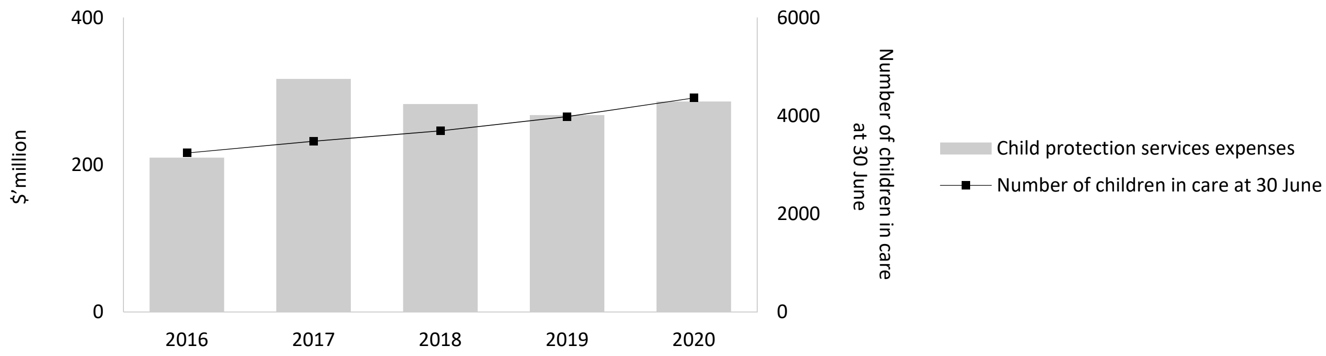
Family based care is the preferred form of care for most children, as the child is in a stable family environment. Family based care at 30 June 2020 had increased by 10% or 350 children since 30 June 2019, mainly in kinship care.

The number of children in non-family based care fluctuates depending on need. These types of care are the most expensive. 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. At 30 June 2020 there were 123 children in commercial care placements, 413 children in residential care placements and 63 independent living placements. This is an increase of 6% in children in these types of care from 30 June 2019.

Residential care is provided by DCP and the not-for-profit sector in a suitable residential building.

Commercial care is provided by service providers at suitable premises, such as a private rental house.

The graph 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 35% or 1127 children.

Statement of Financial Position

Cash and cash equivalents represent 45% of total assets and property, plant and equipment represents 50%. Property, plant and equipment mainly consists of residential accommodation of $15 million and land of $20 million.

Liabilities are made up of two main categories:

- 78% of total liabilities are employee related amounts, which include employee benefits, employee on-costs and workers compensation provisions
- 18% 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 2020 of $21 million. Its current liabilities were $12 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 2020 was $39 million. This includes $3 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 $4 million in 2019-20. $12 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:	$36.6 million
	Total appropriation:	$368.4 million
	Total prisoner numbers at 30 June 2020:	2 992
	Number of FTEs:	1 854

Significant events and transactions

- Contract commenced with Serco Australia Pty Ltd to manage and operate the Adelaide Remand Centre from 14 August 2019 for seven years for a total of $115 million. The SA Government retains the option to extend the contract for a further five years. The increase in supplies and services expenses, and the decrease in employee expenses, are impacted by this new arrangement.
- Appropriations increased by $21.4 million, mainly for capital expenditure.
- Targeted voluntary separation packages (TVSPs) for 95 staff were approved totalling $6.7 million.
- Recognition of $11.9 million of right-of-use buildings and motor vehicles for the first time following the implementation of AASB 16 *Leases* from 1 July 2020. A corresponding lease liability of $10.5 million was also recognised.
- $35.9 million in capital expenditure, following expenditure of $49.2 million in 2018-19.
- 80 new beds were made available at the Adelaide Women's Prison in 2019-20, offset by the temporary decommissioning of 64 beds at Port Augusta Prison and the Adelaide Pre Release Centre. Works are currently in progress to increase capacity by a further 270 beds at Yatala Labour Prison.

Financial report opinion

Unmodified

Controls opinion findings

- No asset management policy, strategy or plan.
- Condition assessments for all DCS correctional facilities have not occurred.
- Asset maintenance planning is not prioritised according to risk.

	— Servicing of baggage x-ray machines not scheduled for some facilities.
Other audit findings	— Monthly key performance indicator (KPI) performance reports not prepared for the Strategic Planning Committee. — KPIs for the Adelaide Remand Centre and Mount Gambier Prison contracts are not promptly verified. — Contract variations for a capital project were not approved.

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

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 2019-20 included:

- asset management
- operational contract 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 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

No asset management policy, strategy or plan

DCS owns land and buildings worth $688 million (after depreciation). It is important these assets are properly managed and maintained.

Our 2018-19 audit identified that DCS's asset management planning did not meet the minimum expectations documented in the *International Standard on Asset Management* (ISO 55000) or the Department of Planning, Transport and Infrastructure's Strategic Asset Management Framework.

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).

Each of these elements of asset management planning are identified in the Department of Planning, Transport and Infrastructure's Strategic Asset Management Framework, which provides agencies with guidance on best practice for asset management.

The absence of asset management planning may result in improperly informed strategic decisions on the maintenance or replacement of its building assets, increasing the risk of DCS failing to meet corporate objectives.

DCS has acknowledged that its current asset management planning needs improvement. In 2019-20 it strengthened its asset management governance by establishing a Construction Works Asset Committee and has committed to developing an asset management policy, strategy and plan by March 2021.

Condition assessments for all DCS correctional facilities have not occurred

In 2018-19 we reported that DCS could not demonstrate that it had recently assessed the condition of its correctional facilities, other than the Adelaide Remand Centre. DCS is responsible for physically maintaining its prisons under a structured asset condition assessment process supported by procedures.

This year's audit noted that DCS's facilities management service providers performed a condition assessment of Cadell Facility in August 2019. However, a detailed and documented strategy and plan to assess the condition for all remaining facilities has not been prepared. A structured condition assessment process is part of any condition-based asset management strategy and plan.

Without accurate information on the condition of its assets DCS cannot develop effective asset management strategy or planning to inform its maintenance and other infrastructure costs, resulting in the inefficient or ineffective use of its resources.

In August 2020 DCS responded to our request for an update on its progress on this matter, saying that it would implement condition assessment processes and related procedures by March 2021.

Asset maintenance planning is not prioritised according to risk

We noted that DCS could improve its asset management risk assessment procedures by identifying its designated assets (priority assets for the purposes of the SA Government's Across Government Facilities Management Arrangements) and update its asset management process to consider issues including:

- how assets are prioritised for repairs/renewal to reduce risk of failure
- prioritising assets within facilities according to criticality
- identifying the risks associated with delays in repairs/renewal.

DCS has annual preventative maintenance plans that include maintenance for statutory and technical specified compliance, with additional repairs listed as discretionary items. Funding limitations, however, may delay discretionary repairs. Prioritising maintenance based on asset criticality and the risks associated with asset failure will improve the efficiency and effectiveness of DCS's asset management program.

DCS responded that it would develop and implement plans and processes for managing risks associated with its assets by March 2021.

Servicing of baggage x-ray machines not scheduled for some facilities

DCS owns five x-ray baggage machines registered with the Environmental Protection Authority under the *Radiation Protection and Control Act 1982*.

While the annual preventative maintenance plans for the Adelaide Remand Centre and Yatala Labour Prison include quarterly servicing of x-ray machines located at these sites, the maintenance plans for the remaining three sites do not include regular servicing of the x-ray machines so located. This could lead to premature equipment failure or malfunction.

DCS responded that it will review and amend its procedures for the maintenance and servicing of its baggage x-ray equipment to include the requirement that quarterly servicing is included in annual preventative maintenance plans.

Other audit findings

Monthly KPI performance reports not prepared for the Strategic Planning Committee

We found that DCS's Strategic Planning Committee (SPC) was not receiving monthly KPI reporting for the South Australia Prisoner Movement and In-Court Management services contracts. Monthly reporting to the SPC is a documented requirement in the contract management plans for both arrangements, and are an important tool in monitoring contractor performance.

DCS uses KPI information provided by the contractor and compares this to source information, with reporting to the SPC highlighting any instance of non-conformance and planned remedial action.

The only KPI review and report performed for 2019-20 occurred in April 2020, covering the period July 2019 to March 2020. No significant matters were noted in that report.

DCS responded that it had amended its processes to ensure contractor management reports are prepared in a timely manner and reported to the SPC.

KPIs for the Adelaide Remand Centre and Mount Gambier Prison contracts are not verified timely

We noted that DCS was not reviewing and verifying the accuracy of KPI data received from the operators of the Adelaide Remand Centre and Mount Gambier Prisons in a timely manner.

Each month the contracted operators provide DCS with KPI data. DCS uses this information to monitor contractor performance, verifying the accuracy of the information supplied by comparing it with information recorded in the Justice Information System and other documentation sourced directly from the correctional facilities. The KPIs include instances of prisoner escapes, completion of prisoner admission forms, intake assessments and number of hours out of cells.

At the time of our audit in June 2020, the KPI data for the Adelaide Remand Centre was last verified by DCS up to February 2020. The KPI data for the Mount Gambier Prison was last verified up to March 2020.

Effective and timely monitoring of contractor performance is important for ensuring compliance with contract requirements and that value for money is achieved in outsourced arrangements.

DCS responded that it had amended its processes to ensure KPI data received for the Adelaide Remand Centre and Mount Gambier Prison contracts is verified in a timely manner and reported to the Contract Management Group.

Contract variations for a capital project were not approved

DCS could not provide documented evidence that two contract variations for capital works associated with the Mount Gambier Prison, totalling $34 000, were approved in line with contract delegations.

While invoices for the additional expenditure were approved in line with DCS's payment delegations, approval of contract variations is important for ensuring that the additional work was necessary and in line with the contract.

DCS responded that it has developed procurement policies and guidelines, which have been approved and published on the DCS intranet. The guidelines include the requirement that all contract variations must be approved in line with the terms and conditions of the contract.

Interpretation and analysis of the financial report

Highlights of the financial report *

	2020 $'million	2019 $'million
Income		
Appropriation	368	347
Income from prison labour and canteen and kitchen sales	7	7
Other income	16	7
Total income	391	371
Expenses		
Employee benefit expenses	202	226
Supplies and services	124	113
Other expenses	28	29
Total expenses	354	368
Net result	37	2
Total comprehensive result	37	63
Net cash provided by (used in) operating activities	42	41
Net cash provided by (used in) investing activities	(36)	(49)
Net cash provided by (used in) financing activities	(2)	-
Assets		
Current assets	29	26
Non-current assets	739	713
Total assets	769	739
Liabilities		
Current liabilities	44	56
Non-current liabilities	72	67
Total liabilities	115	123
Total equity	653	616

* Table may not add due to rounding.

Statement of Comprehensive Income

Impact of COVID-19

DCS has estimated that the COVID-19 pandemic impacted its operations by increasing expenditure for 2019-20 by about $1.8 million, comprising increases in salaries and wages, IT equipment charges, cleaning and the purchase of protective equipment.

Income

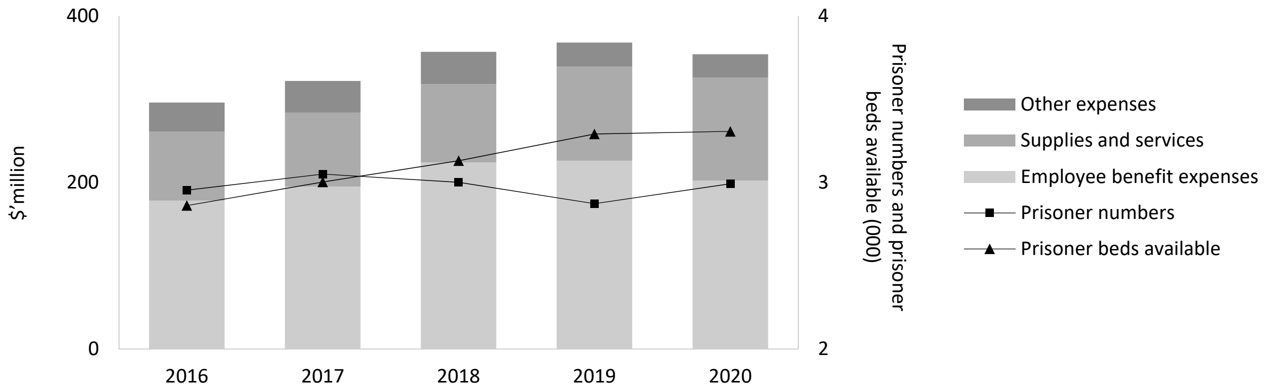
DCS relies on SA Government appropriations as its major revenue source to fund its operations. Appropriations increased by $21.4 million to $368.4 million, with increases in revenues from the Consolidated Account for capital projects (the amounts announced in the previous Budget were initially held by the Department of Treasury and Finance and were transferred to DCS during the year). This was for Yatala Labour Prison and the Adelaide Women's Prison projects.

Intra-government transfers for reimbursements from the Department of Treasury and Finance for TVSPs reduced by $2.8 million to $6.8 million, reflecting a decrease of TVSPs by 31 to 95 in 2019-20.

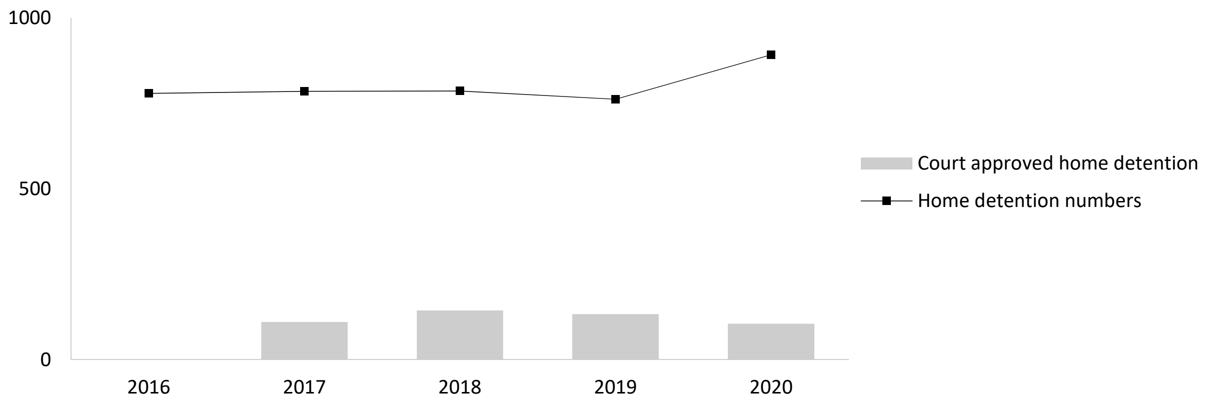
Commonwealth-sourced grants and funding increased by $2.2 million to $3 million for operating costs associated with the Community Transition Learning Centre pilot program.

Expenses

A structural analysis of DCS's main expense items and total prisoner numbers for the five years to 2020 is shown in the following chart. Total prisoner numbers have remained steady over the period, increasing by 38 to 2992 at 30 June 2020. There were 840 prisoners in the contractor operated prisons: Mount Gambier Prison and the Adelaide Remand Centre. Total expenses increased by $58 million (20%) over the same period. The prisoner numbers are at a point in time and may fluctuate during the year.



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. Home detention numbers increased by 130 to 892 at 30 June 2020 mainly as a result of increases in intensive bail supervision and extended suspension orders.



Employee benefit expenses

Employee benefit expenses decreased by $23.9 million due mainly to:

- a decrease in leave liabilities of $10.1 million, mostly relating to the long service leave liability. The decrease in the long service leave liability was driven by a reduction in FTEs of 223 following the outsourcing of the management and operations of the Adelaide Remand Centre and changes in actuarial assumptions used in the calculation of the liability

- a decrease of salaries and wages of $8.1 million as a result of the reduction in FTEs of 223
- a $2.7 million decrease in TVSPs accepted, with the number of packages accepted reducing by 31 in 2019-20. The number of TVSPs paid over the past two years largely reflects the reforms associated with the Better Prisons program including the contracting out of the management and operations of the Adelaide Remand Centre from August 2019 and benchmarking across government operated prisons.

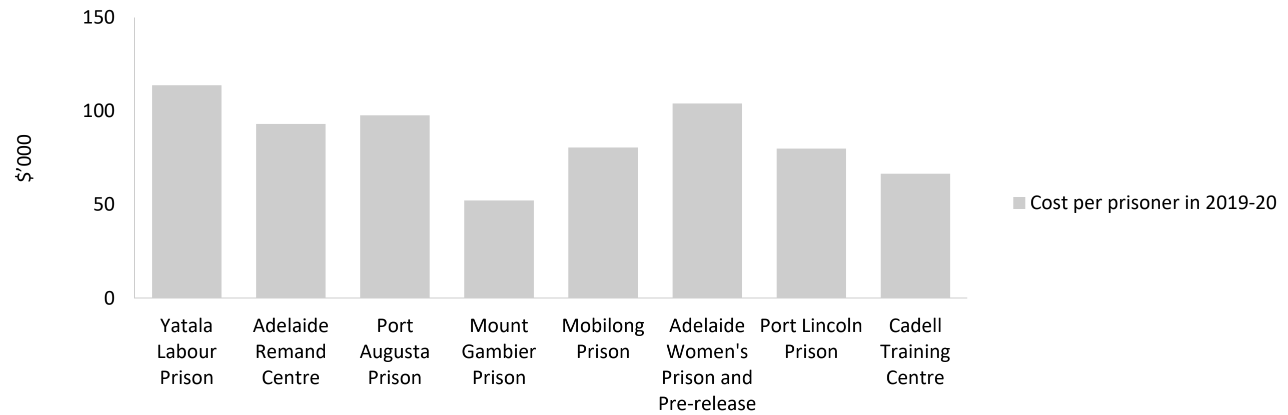
Supplies and services expenses

Supplies and services expenses increased by $10.7 million to $124.1 million following:

- a $15.4 million increase in contract expenditure due mainly to the commencement of the SERCO contract to operate and manage the Adelaide Remand Centre from August 2019
- an increase in supplies and services expenditure of $1.1 million mainly for IT equipment charges, additional cleaning and the purchase of protective equipment, with all increases driven by COVID-19
- a decrease in sundry expenses of $2 million, largely reflecting a reduction in reimbursements to the operator of the Mount Gambier Prison
- a net decrease in operating lease payments and accommodation costs of $1.2 million, following the introduction of AASB 16 *Leases*. Expenses associated with operating leases are now recognised as depreciation and financing costs
- a decrease in the cost of goods sold for prison industries and canteen of $951 000, due to lower average prisoner numbers and implementation of smoke-free facilities
- a decrease in staff related costs of $573 000 due to reduced training staff and travel because of COVID-19 social distancing requirements
- a decrease in utilities of $570 000 due mainly to the contracting out the Adelaide Remand Centre to SERCO, who now bear these costs (refer note 4.1 to DCS's financial statements).

Annual cost per prisoner per facility

The following chart shows the per prisoner cost of managing each facility in 2019-20. 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 that there were several drivers 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, level of industry activity at each site, level of prisoner employment, open campus (eg Mobilong) and 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. These requirements influence the cost of managing each facility, with higher security requirements generally increasing the cost of running a prison.

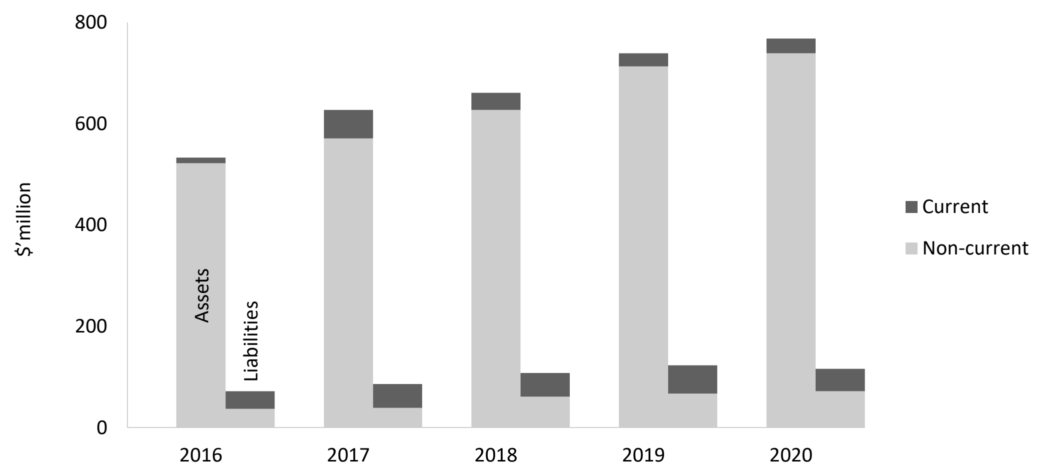
The cost per prisoner for the Adelaide Remand Centre reduced by $31 000 to $93 100 in 2019-20 following the outsourcing of the operational contract to SERCO from 14 August 2019. The figure for 2019-20 includes DCS employee and other costs up until this date.

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

- Facilities like the Adelaide Remand Centre 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 and Port Augusta Prison accommodate all security profiles.

Statement of Financial Position

For the five years to 2020, a structural analysis of assets and liabilities is shown in the following chart.



Current liabilities of $44 million exceed current assets, with employee leave related liabilities and compensation provisions representing 61% of current liabilities.

Assets

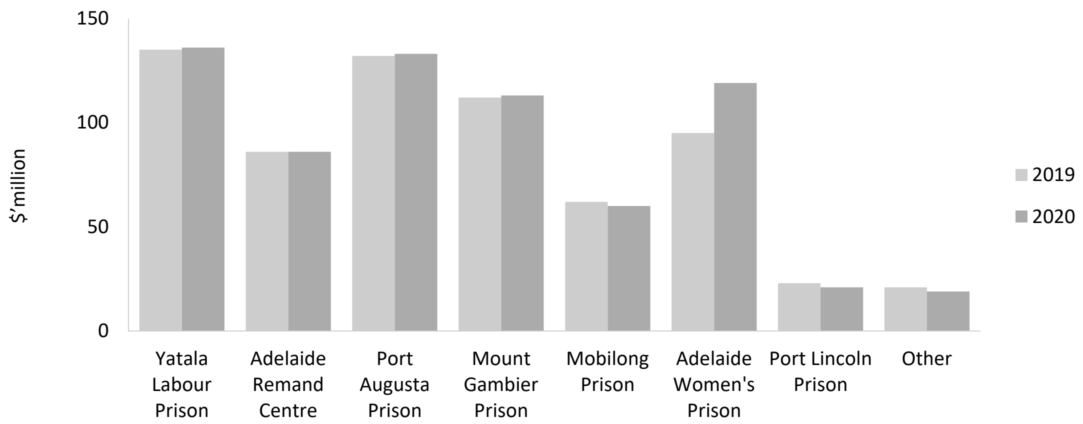
Cash and cash equivalents

DCS's current asset position improved in 2019-20 to $29 million following a $4 million increase in cash and cash equivalents. This increase in cash is due mainly to timing differences between capital expenditure and the SA Government funding received in support.

Property, plant and equipment

The main item of DCS's Statement of Financial Position is property, plant and equipment, representing 96% of total assets.

Land and buildings represent 98% of total property, plant and equipment and were valued at $688 million as at 30 June 2020. 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 $31.6 million was due to:

- $41.6 million of completed capital works, due largely to additional accommodation and upgrade at the Adelaide Women's Prison of $28 million, $4 million for Port Augusta Prison and $3 million for Mount Gambier Prison
- first time recognition of right-of-use buildings and motor vehicles of $11.9 million in line with AASB 16 *Leases*
- a partial offset in depreciation charges of $22.8 million.

Capital works in progress

At 30 June 2020 capital works in progress totalled $33 million. This included costs associated with the following prisoner accommodation projects in progress at 30 June 2020:

- $15 million for 40 additional beds at the Adelaide Women's Prison
- $12 million for 270 additional beds at Yatala Labour Prison
- $3 million for the Adelaide Remand Centre cell upgrade.

Liabilities

Total liabilities decreased by $7.9 million to $115.4 million.

This decrease is largely attributable to:

- the $8.2 million decrease in payables, following the payment of creditors owed for capital works incurred prior to 30 June 2019
- a decrease in the employee benefits liability of $10.1 million due mainly to the decrease in FTEs and changes in actuarial assumptions used when estimating the long service leave liability
- the first time recognition of $10.5 million in lease liabilities in line with AASB 16.

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 2020 provided by a consulting actuary engaged through the Office of the Commissioner for Public Sector Employment. The liability increased by $3.4 million due mainly to a decrease in the discount rate used in the calculation.

Additional compensation provision

As at 30 June 2020 the additional compensation provision was estimated at $6.1 million, down from $9.5 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 2020 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 2020.

	2016 $'million	2017 $'million	2018 $'million	2019 $'million	2020 $'million
Net cash flows					
Operating	6	48	24	41	42
Investing	(31)	(51)	(67)	(49)	(36)
Financing	8	47	20	-	(2)
Change in cash	(17)	44	(23)	(8)	4
Cash at 30 June	7	51	28	20	24

In 2019-20 cash increased by $4 million largely reflecting capital expenditure totalling $36 million, offset by net cash generated by operating activities of $42 million.

The table shows a history of investing cash outflows, reducing over the last two years, representing capital expenditures primarily for additional prisoner accommodation. In 2017 and 2018 this expenditure was funded in part through capital contributions from the SA Government, which are reflected in financing activities. Since 2019 capital expenditure was funded through operating cash flows.

Courts Administration Authority (CAA)

Financial statistics	Total revenues from SA Government:	$111 million
	Administered total expenses:	$65 million
	Number of FTEs:	
	Controlled	654
	Administered	82

Significant events and transactions

- The Higher Courts Redevelopment project continued in 2019-20, with an additional $20 million capitalised. Practical completion occurred in June 2020.
- The Electronic Court Management System (ECMS) Civil courts stage live in May 2020. This allows civil matters to be initiated and managed online, reducing the need for physical presentation at court registries.
- The CAA revalued its land and buildings, resulting in a $67 million revaluation increment.

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Other audit findings

- There were weaknesses in the review of bona fide reports and a need to improve the segregation of duties for the review of payroll system user access.
- Some ICT security documentation had not been updated.
- No user access review of the ECMS was performed, and there were other system access weaknesses.

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. For more information about the CAA's objectives and priorities refer note 1 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 2019-20 included:

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

Internal audit activities were considered when designing 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

There were no significant findings from our controls opinion work at the CAA.

Other audit findings

Payroll

The CAA paid employee and judicial benefit expenses totalling $99 million in 2019-20 and the liabilities for employee and judicial benefits as at 30 June 2020 were $32 million.

Weaknesses in the review of bona fide reports

The CAA uses bona fide reports as a key control to ensure payments to staff are accurate. We found that some bona fide reports listed large numbers of staff, in some cases in multiple geographic locations, for review. We also found that some reports included staff who were not directly supervised by the person reviewing the report, and in seven instances we found that the person reviewing the report was also included on it.

These factors reduce the effectiveness of the review process and increase the risk of inappropriate payments not being detected.

The CAA advised that it would consider these issues and update processes where applicable.

Segregation of duties in the review of payroll system user access needs to improve

We have previously found that the CAA's review of payroll system user access was performed by a staff member with master system access. As this access allows a user to amend system roles and access levels, the review should be conducted by someone without this level of access to ensure an appropriate review can occur. We found this issue remained in 2019-20.

The CAA responded that it would address the issue in 2020-21.

IT general controls

Some ICT security documentation had not been updated

The CAA is developing a security specification handbook that includes information about personnel responsibilities for using IT resources and handling digital information as well as practical guidance about ICT security.

We found that this handbook was still in draft and had not been updated for recent changes in ICT security expectations. Where documentation like the handbook is not up to date and finalised, there is an increased risk that information may not be secured and managed in line with contemporary requirements.

The CAA responded that it would update the handbook, including reflecting recent changes in SA Government cyber security requirements.

No user access review of the ECMS performed, and other system access weaknesses

Last year we found that no review of ECMS user access was performed. In 2019-20, this remained the case. We also noted 14 instances of staff who no longer worked for the CAA still having active ECMS credentials.

We also found that access to the CAA's general ledger and online banking was not promptly removed for a former staff member, and that access to the payroll system was not removed for a staff member who commenced extended leave in early 2020.

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

The CAA agreed to review procedures in these areas, which would include starting formal regular user access reviews for the ECMS.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

Statement of Comprehensive Income

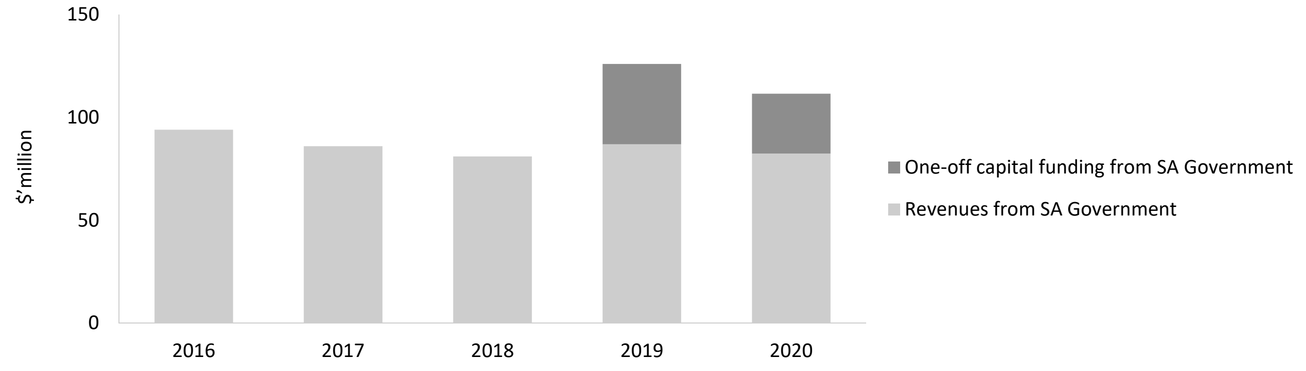
The CAA's expenses reflect the cost of performing its statutory responsibilities, including collecting administered income such as fines and court fees on behalf of the SA Government. This income is directly credited to the Consolidated Account and is reported under administered income.

	2020 $'million	2019 $'million
Income		
Revenues from SA Government	111	125
Fees and charges	3	3
Other revenues	2	2
Total income	116	130
Expenses		
Employee benefits expenses	57	59
Supplies and services	27	34
Other expenses	8	21
Total expenses	92	114
Net result	24	16
Net cash provided by (used in) operating activities	36	19
Assets		
Current assets	35	34
Non-current assets	349	235
Total assets	384	269
Liabilities		
Current liabilities	14	14
Non-current liabilities	36	13
Total liabilities	50	27
Total equity	334	242

Income

Revenues from the SA Government are the major source of funding for the CAA, accounting for 97% (97%) of total income.

The following chart shows the amount of revenue received from the SA Government for the five years to 2020.

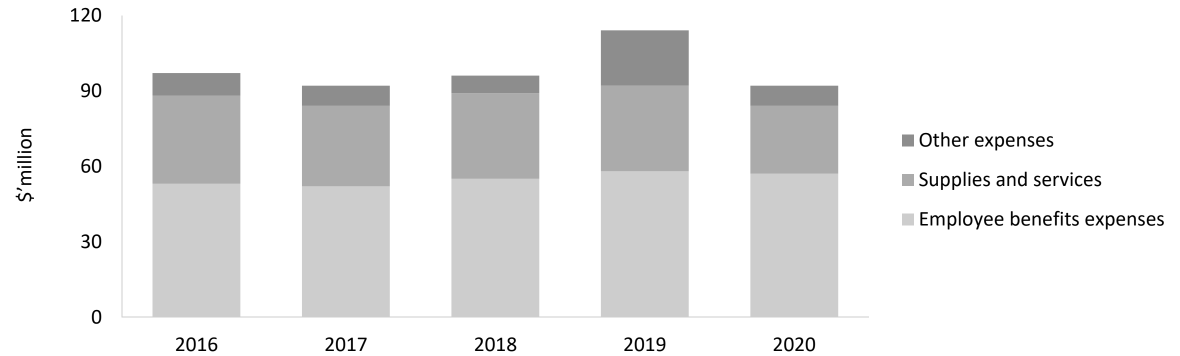


Revenues from the SA Government decreased by $13.3 million in 2019-20, to $111 million. The decrease mainly reflects:

- that the CAA is no longer receiving funding for lease charges associated with the Sir Samuel Way building
- the receipt of additional one-off funding in 2018-19 associated with the purchase of the building and associated land from the Superannuation Funds Management Corporation of South Australia in June 2019.

Expenses

The following chart shows the main expense items for the five years to 2020.



The chart shows that all categories of expenditure decreased in 2019-20.

Employee benefits expenses are the CAA's major expense category, accounting for 62% (52%) of total expenditure. Employee benefits expenses decreased by $2.1 million in 2019-20 mainly due the impact of the revaluation of long service liabilities at year end, with a decrease in the assumed long-term salary inflation rate reducing the liability and associated expense.

Supplies and services account for 29% (30%) of total expenses. While supplies and service as a percentage of total expenditure remained steady, actual expenses decreased by $7 million to $27 million. This reduction mainly reflects:

- that the CAA no longer pays finance lease expenses associated with the former lease agreement for the Sir Samuel Way building, previously $4.7 million in 2018-19

- a reduction in accommodation and services expenditure of $1.9 million because the charges associated with the public private partnership with Plenary Justice Pty Ltd are now reflected in lease liabilities associated with the four regional court premises. This change is a result of new lease accounting requirements that require leases to be captured as lease liabilities and associated right-of-use assets from 1 July 2019.

Other expenses decreased significantly in 2019-20, down to $8 million from $21 million in 2018-19. This reduction is due to a once-off payment in 2018-19 of $14.5 million to the Superannuation Funds Management Corporation of South Australia for the early exercise of the purchase option under the lease agreement for the Sir Samuel Way building and associated land.

Statement of Financial Position

Non-current assets mainly comprise land and buildings totalling $306 million ($211 million), which account for 88% (90%) of non-current assets.

In 2019-20 an independent valuation of the CAA's land and buildings was undertaken by a Certified Practising Valuer for the period ending 30 June 2020 – the first such complete valuation since 2014. This fair value assessment resulted in an increase in the value of land and buildings of $67 million.

Current assets mainly comprise cash and cash equivalents totalling $30 million ($26 million), which accounts for 88% (74%) of current assets.

Included in cash are deposits with the Treasurer, including $1 million ($74 000) 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 overall increase in cash reflects the cumulative impact of the changes outlined above, with total expenses decreasing at a greater rate than total income reflecting the impact of one-off items in 2018-19. Cash payments for property, plant and equipment and intangibles were also lower in 2019-20.

Higher Courts Redevelopment project

The 2017-18 State Budget allocated $31 million to redevelop higher courts facilities, with funding over two years starting in 2017-18. The Higher Courts Redevelopment project is the most significant capital redevelopment undertaken in the CAA's recent history. 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.

In 2019-20, $20 million was spent on capital works for this project ($7.5 million in 2018-19), bringing total costs to date to $29 million. Practical completion occurred in June 2020.

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 project costs as at 30 June 2020 were $8.7 million, with $4.9 million capitalised in 2019-20. The ECMS Civil stage went live in May 2020, joining the probate module. It is currently expected that the Criminal courts stage will be in use by mid-2021.

While the Civil courts module was previously expected to be in use by February 2020, project delays resulted in the later implementation. The CAA does not expect these delays to impact the overall project budget.

Interpretation and analysis of the financial report for administered activities

Highlights of the financial report – administered items

	2020 $'million	2019 $'million
Income		
Revenues from SA Government	43	44
Court and transcript fees	22	22
Total income	65	66
Expenses		
Judicial benefits expenses	42	44
Payments to the Consolidated Account	22	22
Other expenses	1	-
Total expenses	65	66
Net and total comprehensive result	-	-
Net operating cash provided by administered activities	46	7
Assets		
Current assets	96	52
Total assets	96	52
Liabilities		
Current liabilities	93	46
Non-current liabilities	11	14
Total liabilities	104	60
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. $22 million was raised, collected and transferred to the Consolidated Account in 2019-20, which was consistent with last year.

Revenues from SA Government

In 2019-20 revenues of $43 million ($44 million) were received from the SA Government to fund the CAA's Judiciary employment expenses.

Expenses

Payments to the Consolidated Account of $22 million mainly comprise court and transcript fees.

Judicial benefits expenses were $42 million, a decrease of $1.4 million from last year. This decrease was mainly attributable to the impact of decreased long-term salary inflation rates on the valuation of the long service leave liability, which reduced long service leave expenses.

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 2019-20 total administered assets and liabilities both increased by $44 million as a result of more cash being held in trust accounts, particularly the Supreme Court Suitors Fund.

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 2019-20 total expenses were $157 million ($180 million) and total income, excluding revenues from the SA Government, was $26 million ($27 million). The SA Government provided $154 million ($168 million) towards the cost of administering justice.

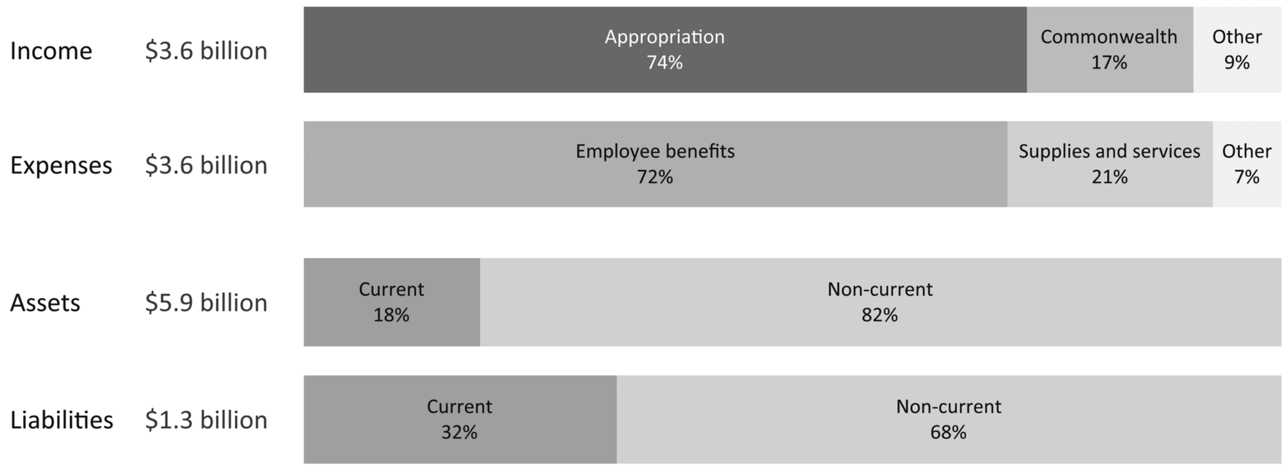
Impact of COVID-19

COVID-19 had a number of practical impacts on the CAA's operations in 2019-20. In particular:

- a reduction in listings for the Magistrates Court and circuit arrangements either postponed or cancelled
- new jury trials in the District Court and Supreme Court were suspended for a period due to space limitations in courtrooms
- increased use of technology when conducting court affairs, including variations in the way certain court users lodged documents.

Department for Education (Education)

Financial statistics



24,695
Total FTE employees

919
Number of public school and preschool sites

177,469
Number of FTE students in public schools in term 1, 2020

Administered items

Significant events and transactions

- Private schools were paid 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 $217.4 million was paid by the Commonwealth Government in May and June 2020, all of which relates to 2020-21.
- Education is planning to increase capital works spending from $131 million in 2020 to $723 million in 2021. This will present significant challenges and risks to be managed.
- An independent chair was appointed to the Capital Works Governance Committee.

Financial report opinion

Unmodified

Controls opinion findings

- Important elements of planning and governance for the capital works program were not operating effectively.
- Minor works and maintenance expenses were paid without being reviewed and approved.
- No consolidated workforce plan.
- 32% of employee performance development plans were overdue.
- Weaknesses in procurement of Modular Education Facilities.
- Weaknesses in contract management of public private partnerships (PPPs).
- Disaster recovery for the Valeo 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

$2.2b to operate public schools and preschools → 177,469 Student FTEs*

$1.3b** to support private schools → 93,374 Student FTEs***

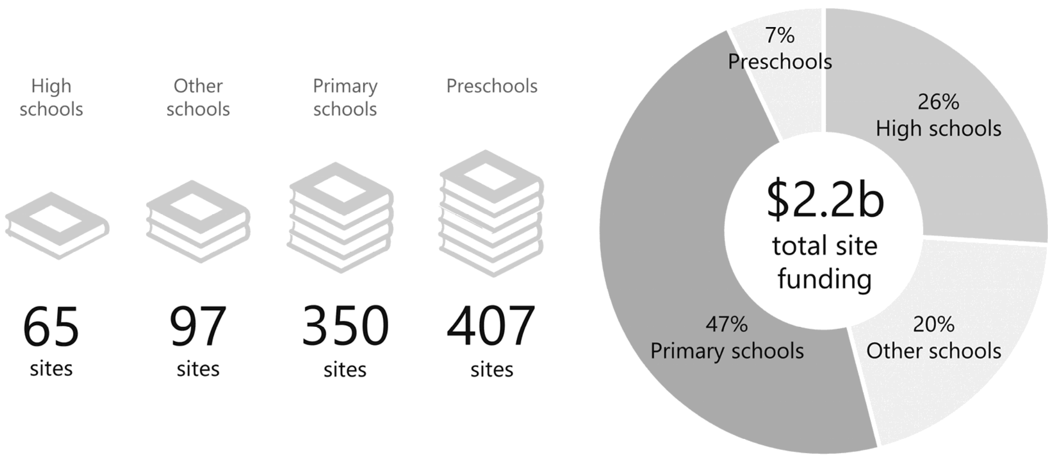
employing → 24,695 Staff FTEs costing → $2.6b

maintaining → 919 Sites worth → $4.8b

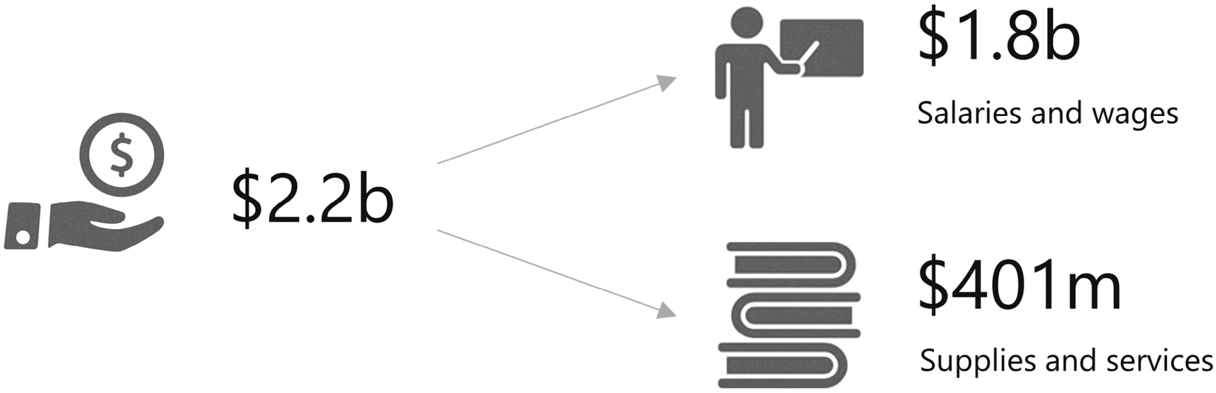
* Does not include preschool student FTEs.
** Excluding advance payments of $396.7 million.
*** As at 2 August 2019, as 2020 numbers are not available yet.

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 82% of the total amount provided to operate public schools and preschools.

In 2020 payments to and on behalf of public schools and preschools were funded by $1.6 billion in SA Government appropriation and $614 million in Commonwealth grants. Additional SA Government funds were also provided for capital works.

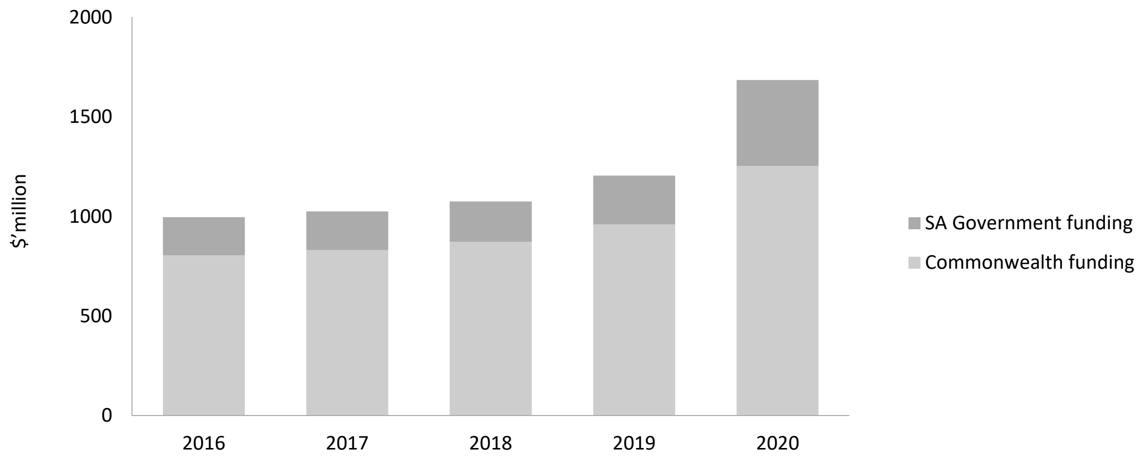
Payments to and on behalf of public schools and preschools are within the controlled financial report.

Funding to support private schools

There has been a gradual increase of 3% to 5% each year between 2016 and 2018 in the payments to private schools for enrolments and indexation. In 2019 there was a 12% increase in funding to private schools due to an increase in capital funding, enrolments and indexation.

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 COVID-19. Therefore private schools funding will substantially decrease in 2020-21. Without these early July 2020 payments there was a 7% increase in 2020 due to normal increases in enrolments and indexation.

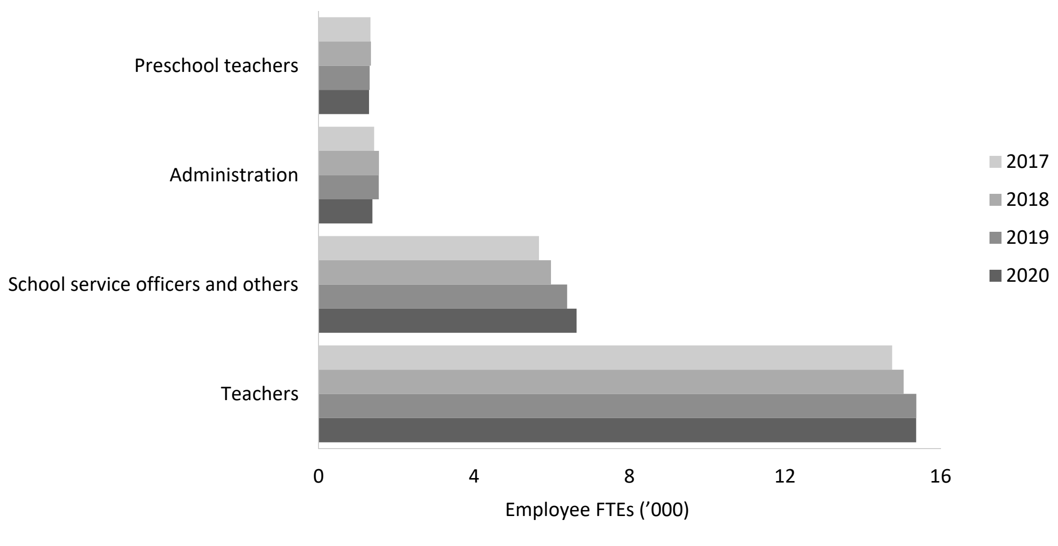
The following chart shows the composition of private school funding.



In 2020 private schools were funded by $445 million ($247 million) in SA Government appropriations and $1254 million ($959 million) in Commonwealth grants. Transfers were 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 2020 employee expenses were $2.6 billion and there was an overall increase in staff of 65 FTEs from 24 630 to 24 695.

Since 2017 school services officers have increased by 16% (977 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 2020 schools service officers increased by 262 FTEs.

In 2020 there was a decrease of 10% (162 FTEs) in administration staff. The SA Government asked Education to reduce administration staff by 200 FTEs by 30 June 2019. An organisational restructure was completed in 2018-19 with the new structure starting on 1 July 2019.

Assets

Of the $4.8 billion tangible assets Education owns, $4.6 billion relates to public schools and preschools spread over 919 sites across the State. Most of the assets relate to land, $1.6 billion, and building and improvements, $2.9 billion. In 2020 Education spent $170 million on minor works, maintenance and equipment, $131 million on capital works and $20 million on additions.

In 2021 Education is planning to spend $723 million on capital works which is a very large increase in capital works. We reviewed the effectiveness of Education's capital planning and governance of capital works, including the Sustainable Enrolment Growth program and transitioning year 7s to high school. We produced a separate report on the audit – Report 9 of 2020 *Education capital works: planning and governance*. An overview of the main findings 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 2019-20 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 in the following areas*:*

- school enrolment data used to determine the funding provided to each government school
- 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
- payments of State and Commonwealth Government funding
- 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 and governance for the capital works program were not operating effectively

Education owns $2.9 billion of buildings and improvements, across 919 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.

The main issues we raised were as follows:

- Education's strategic asset management framework and infrastructure plan were under development but not complete
- key asset condition information was not available
- the accuracy of enrolment projections was not regularly evaluated to confirm the reliability of the projections
- there was limited documentation and analysis to demonstrate that funding for the building better schools program was directed to schools with the greatest need
- a governance framework, implementation plan and risk management plan were not established for the Sustainable Enrolment Growth program
- the agreement between the Department of Planning, Transport and Infrastructure (DPTI) and Education for the Sustainable Enrolment Growth program was not finalised and did not specify performance measures and expectations.

The issues raised in this report also impact the managing and planning of other capital works, other asset classes, minor works and maintenance expenditure.

Education's response to this report was positive and it advised a number of initiatives were in progress to address our recommendations.

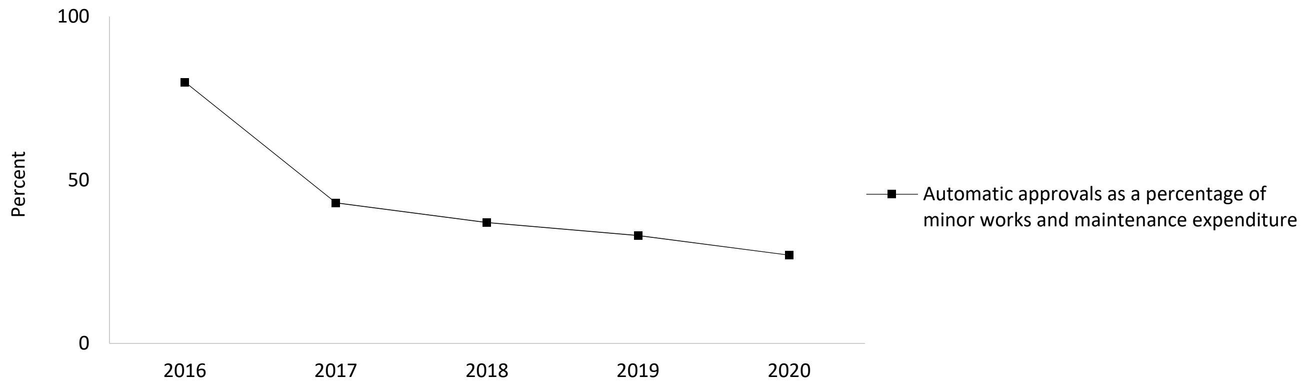
Minor works and maintenance expenses paid without being reviewed and approved

Education paid $170 million for minor works, maintenance and equipment in 2020. This will rise in 2021 because as well as its ongoing maintenance program, in April 2020 Education provided 116 schools and 380 preschools with an additional $32.6 million to spend on minor works and maintenance.

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 DPTI that have reduced the number of automatic payments since 2016 to the lowest level in five years, as shown below.



While there has been a significant improvement, a substantial amount of expenditure ($32.5 million in 2020) was still paid automatically without review and approval.

Education advised us it will continue with its existing practices as they are demonstrating continual improvement in results.

Employee benefits

Total employee expenses were $2.6 billion in 2020, representing 72% of total expenses. Education had 24 965 controlled FTEs and 32 administered FTEs at 30 June 2020.

No consolidated workforce plan

We found Education does not have a consolidated workforce plan. We acknowledge that it does perform many elements of workforce planning. However these elements are not brought together to ensure there are no gaps and so that Education can monitor and report on the strategies being implemented to ensure they are successful and in line with its strategic goals. This is a repeat issue from 2019-20.

Education advised us that it will consider options for compiling a consolidated department-wide workforce plan.

32% of employee performance development plans were overdue

There has been some improvement in overdue performance development plans since last year, from 38% down to 32%, but as at 3 March 2020 there were 9625 performance development plans that were overdue.

We recommended Education follow up long overdue performance development plans to determine the reasons and provide assistance where necessary.

Education responded that it will review the performance development system to improve accuracy and make it easier to use. They will also follow up performance development plans with lengthy delays.

Weaknesses in procurement of Modular Education Facilities

The procurement of Modular Education Facilities is done using a panel process. The previous panel ended in August 2019 and was for the purchase of 10 buildings a year over three years. The new panel tender was for 20 buildings a year over three years with a total panel contract value of $28.6 million.

We reviewed the tender and appointment process for the panel of suppliers, the request for quote and the awarding of a number of contracts. We found that:

- Education did not make a clear determination on whether the procurement was a construction or a good, which resulted in the appropriate approvals not being obtained and the appropriate processes not being followed
- risk mitigation processes were not in place to ensure DPTI notified Education promptly of the need for temporary teaching spaces during demolition and construction, leading to one procurement being done in a very short time frame.

Education responded that:

- it would seek advice from the Crown Solicitor's Office on whether the Modular Education Facilities are a construction or good
- it has implemented processes to mitigate the risk of DPTI not notifying Education promptly of the need for temporary teaching spaces.

To enable Education to meet its timelines for the Sustainable Enrolment Growth program, approval was obtained from the SA Government to expand the Modular Education Facilities panel to include 28 projects from the Sustainable Enrolment Growth program. The total of the program now being provided under the Modular Education Facilities panel is $147 million. We did not review the procurement of any of these 28 projects in our 2019-20 audit work.

Weaknesses in contract management of public private partnerships

Education has a 30-year contract (worth around $597 million as at 30 June 2020) with Pinnacle Education SA2 Pty Ltd to finance, build and maintain six PPP schools from 16 July 2009 to 16 July 2039. The contract is known as the Education Works New Schools PPP and it is currently 10 years into the operational phase.

We reviewed contract management for the contract and found:

- the risk register was inadequate, outdated and not reported on
- the contract included around 300 key performance indicators (KPIs) for facilities management services. Due to the volume and wording of some of these KPIs they could not be effectively monitored and verified. We recommended critical KPIs be documented, monitored, assessed and reported on regularly.

Education responded that it would ensure the risk register is updated and monitored, and that the critical KPIs are identified and a monitoring regime established.

Disaster recovery for the Valeo payroll system needs improvement

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

We found Education had no IT disaster recovery plan and no secondary disaster recovery site for Valeo. As a result it had not performed disaster recovery testing of the Valeo environment for a long time. This is a repeat finding from 2017-18.

Education advised that it has initiated a review of human resource and payroll systems, which includes determining whether to continue using Valeo. The development of a disaster recovery plan for Valeo will depend on the outcome of this review.

Interpretation and analysis of the financial report

Highlights of the financial report (Consolidated)

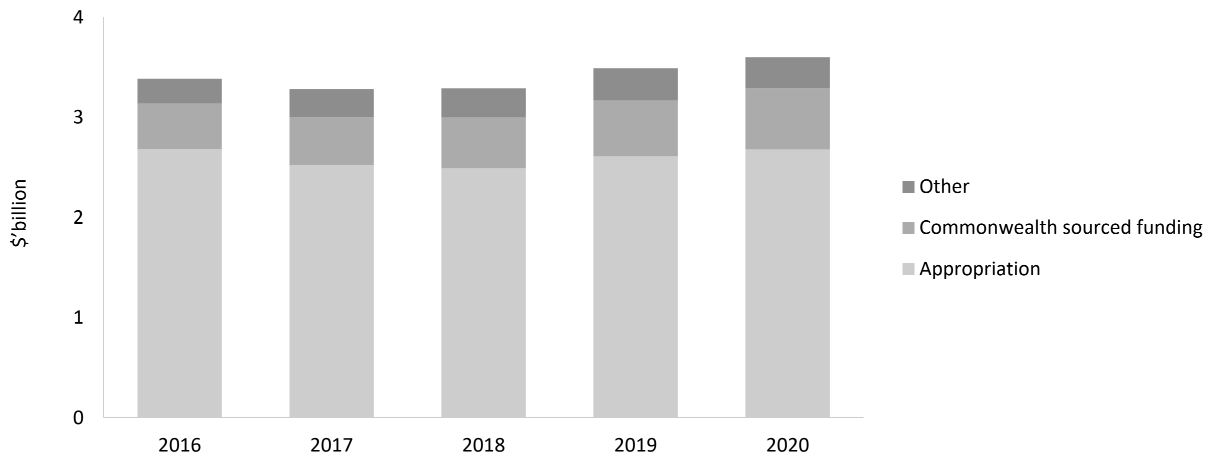
	2020 $'million	2019 $'million
Income		
Appropriation	2 671	2 602
Commonwealth sourced funding	614	561
Other	315	327
Total income	3 600	3 490
Expenses		
Employees benefits	2 588	2 480
Supplies and services	762	729
Other	257	268
Total expenses	3 607	3 477
Net result	(7)	13
Other comprehensive income		
Changes in revaluation surplus	3	63
Total comprehensive result	(4)	76

	2020 $'million	2019 $'million
Net cash provided by operating activities	183	218
Net cash used in investing activities	111	226
Assets		
Current assets	1 096	986
Non-current assets	4 853	4 822
Total assets	5 949	5 808
Liabilities		
Current liabilities	414	372
Non-current liabilities	872	807
Total liabilities	1 286	1 179
Total equity	4 663	4 629

Statement of Comprehensive Income

Income

The main income items for Education for the five years to 2020 are shown in the following chart.

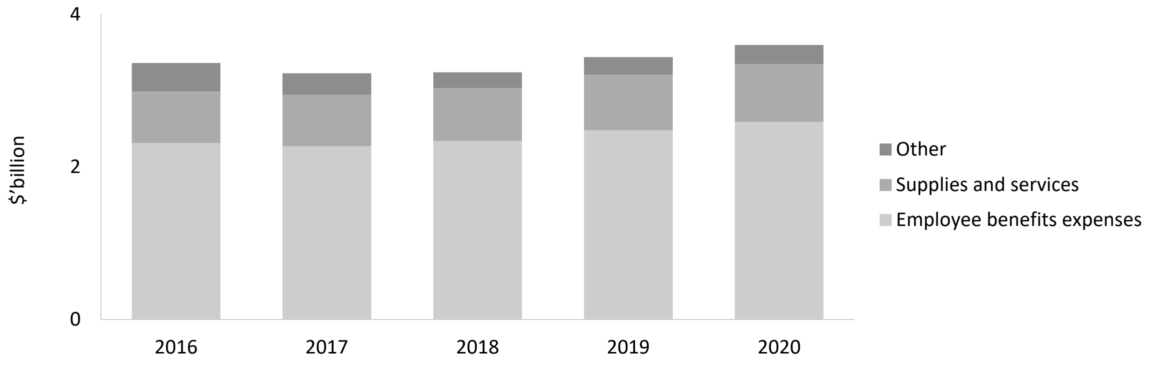


In 2020 total income increased by $110 million (3%) to $3.6 billion. This included:

- a $53 million increase in Commonwealth sourced funding mainly due to an increase in Quality Schools funding, reflecting indexation under the funding arrangement and an increase of students
- appropriation from the SA Government increasing by $69 million (3%), primarily as a result of additional funding for Quality Schools and capital projects
- offset by a $30 million reduction in revenue received free of charge due to Education receiving the Adelaide Botanic High School land from DPTI and the Parks Children's Centre from the Department of Human Services in 2019.

Expenses

The main expense items for Education for the five years to 2020 are shown in the following chart.



Total expenses increased in 2020 by $130 million (4%) to $3.6 billion. This comprised:

- a $108 million increase in employee benefits expenses largely due to:
  - a $134 million increase in salaries and wages (including annual leave) resulting from salary rate increases and back pay related to the new enterprise bargaining agreement
  - offset by a $32 million decrease in long service leave expense, reflecting a decrease in the yield on long-term Commonwealth Government bonds from 1.25% to 0.5% and the salary inflation rate from 4% to 2.5%
- a $33 million increase in supplies and services mainly due to:
  - a $14 million increase in ICT costs, largely due to the rollout of high speed internet to sites and additional software and licence costs related to the Education Management System
  - a $12 million increase in cleaning costs due to additional COVID-19 cleaning
  - a $9 million increase in minor works and maintenance due to $32.6 million in funding being provided to sites in April 2020.

Statement of Financial Position

Assets

Current assets increased by $110 million due to:

- a $97 million increase in cash and cash equivalents (see additional commentary under 'Statement of Cash Flows')
- a $7 million increase in accrued interest revenue
- a $4 million increase in receivables from non-government entities
- a $3 million increase in GST recoverable from the ATO.

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 2020, total physical SASIF balances for schools and preschools were $497.8 million ($510.6 million).

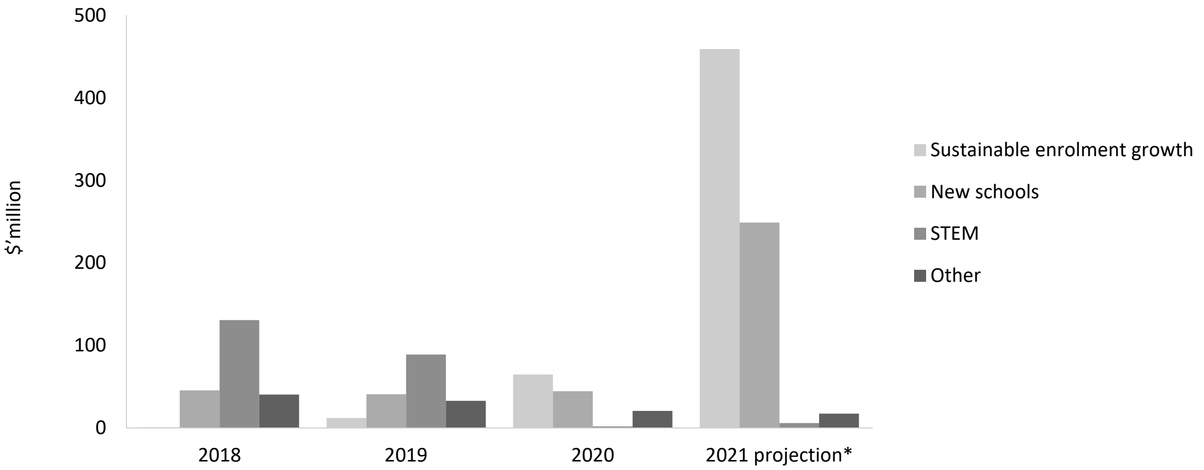
There was a decrease in total SASIF balances of $12.8 million in 2020 partly due to Education issuing a site instruction to help sites to prepare a plan for using their SASIF balances.

Property, plant and equipment increased by $24 million to $4.6 billion

The increase of $24 million in the value of property, plant and equipment was the result of:

- $131 million of capital works and $20 million of additions mainly due to the Sustainable Enrolment Growth and new schools capital works programs
- offset by $133 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, as shown in the chart below.



* 2021 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 (relating to the Northern and Southern Public Private Partnership Schools and Whyalla High School).

Projections provided to us for the 2019 Auditor-General's Annual Report to Parliament show the amount expected to be spent in 2020 on sustainable enrolment growth was $131 million. Only $64 million was actually spent in 2020. As a result of this underspend, $67 million will be carried forward into 2021 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. In 2021 Education is budgeting for a fivefold increase in spending for capital expenditure to $723 million.

As discussed in Auditor-General's Report 9 of 2020 *Education capital works: planning and governance*, 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 large volume of Public Works Committee submissions and reports required within short time frames to ensure building works can commence as scheduled
- 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 2020 liabilities mainly comprise:

- $835 million ($804 million) in employee benefits and related on-cost liabilities, making up 65% (68%) of total liabilities
- $209 million ($165 million) in financial liabilities costs relating to obligations under leases mainly for facilities provided under the PPP agreement, comprising 16% (14%) of total liabilities
- $104 million ($82 million) in the provision for workers compensation, which accounts for 8% (7%) of total liabilities.

The workers compensation provision increased by $22 million in 2020 due to an increase in costs associated with workers compensation claims and offset by a decrease in the discount rate. Movements over the past five years are shown in the following table.

	2016 $'million	2017 $'million	2018 $'million	2019 $'million	2020 $'million
Payments	30	21	16	19	17
Balance of the provision	93	72	59	82	104

The closing balance of the workers compensation provision varies according to actuarial assessments undertaken 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 2020 was $1 billion, an increase of $97 million which included:

- $341 million in deposits with the Treasurer in the Accrual Appropriation Excess Fund Account, which increased by $56 million mainly due to additional deposits to cover increased employee benefit liabilities
- $190 million in deposits with the Treasurer, which increased by $46 million mainly due to funding for capital works not being fully spent
- $457 million in cash held by schools in SASIF accounts, which decreased by $4 million due to schools spending more than their resource allocation, in line with Education new site instruction.

Administered items

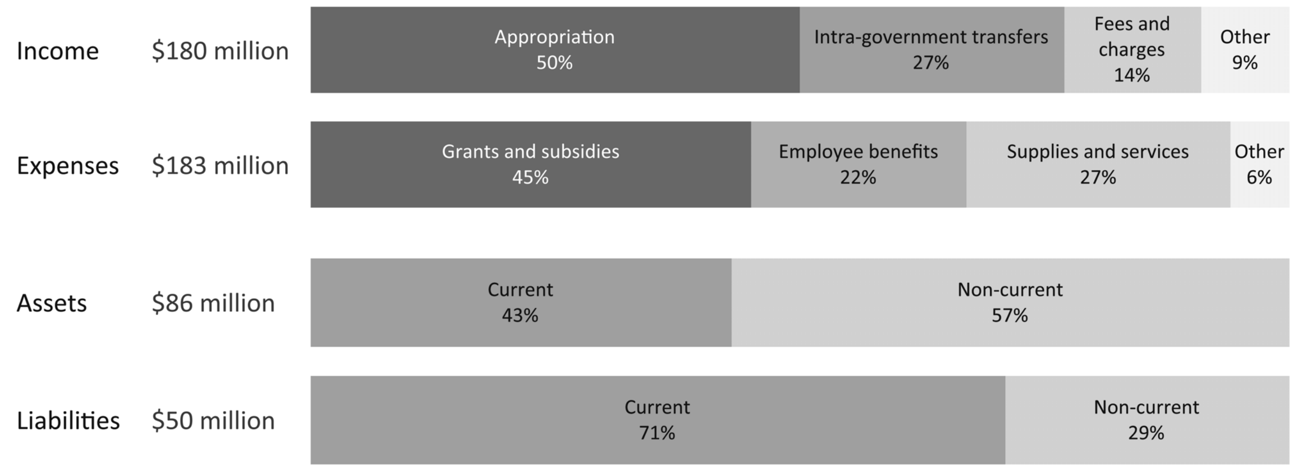
Education administers certain funds on behalf of the Minister for Education. Funds are received from the Commonwealth and SA Governments and used mainly to pay:

- $1699 million ($1205 million) in transfers and grants to private schools
- $19 million ($19 million) in Commonwealth child care subsidies for family day care
- $19 million ($18 million) for an operating grant to the SACE Board of South Australia
- $14 million ($14 million) for student travel concessions on transport services to DPTI.

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 $217.4 million was paid by the Commonwealth Government in May and June 2020, all of which relates to 2020-21.

Department for Energy and Mining (DEM)

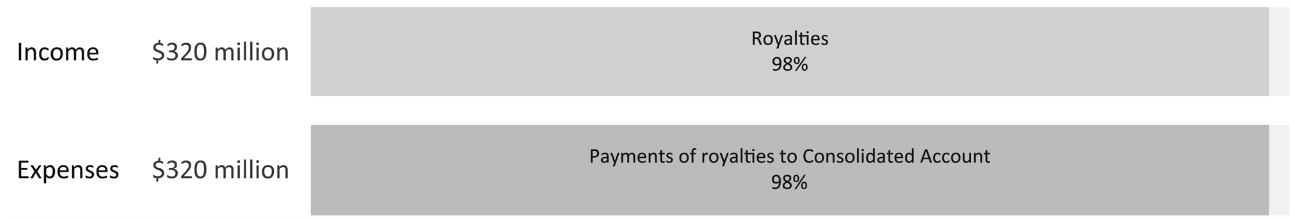
Financial statistics



315
Total employees

$217 million
Generator assets transferred out by Proclamation

Administered items



Significant events and transactions	— $43 million in subsidies paid through the continuation of the Home Battery Scheme to help pay for the installation of home battery systems. — Continued support for the project to deliver a new electricity connector between South Australia and New South Wales, including spending of $16 million in 2019-20. — The State's emergency electricity generators with a value of $217 million were transferred to the Department of Treasury and Finance in June 2020, before being transferred to the State Owned Generators Leasing Company Pty Ltd.
Financial report opinion	**Unmodified**

Controls opinion findings	DEM could improve controls over administrator changes to online banking access.
Other audit findings	DEM's current 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 2019-20 included:

- expenditure, including grants and accounts payable
- employee benefits and payroll processing
- revenue from fees and charges
- 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 management letters to the Chief Executive. The main findings and DEM's response are detailed below.

Controls opinion findings

DEM could improve controls over administrator changes to online banking access

DEM uses an online banking system, CommBiz, to make payments and to transfer funds.

CommBiz administrators can set up user access and set the number of users required to authorise a payment. Online banking functions are performed by officers of the Department for Innovation and Skills (DIS) on DEM's behalf.

We found that at the time of our audit there was no control in place to prevent only one administrator from making these types of changes.

Where changes can be made to administrator access by one user without independent review, there is a greater risk that inappropriate access could be granted, increasing the potential for unauthorised payments to be made from the bank account.

Once we identified this issue, DIS updated the settings for DEM's accounts and a second administrator must now confirm changes. The strengthened control was in place for the last two months of the financial year.

We recommended that DEM work with DIS to ensure regular user access reviews are conducted to ensure access is assigned to appropriate employees with access levels consistent with their roles.

DEM responded that it had confirmed with DIS that settings were amended to require a second administrator to confirm any changes. DEM also advised that all changes made had been checked and confirmed as valid and that user access would be reviewed annually or when a user leaves the agency.

Other audit findings

Payroll

DEM paid a total of $31 million in salaries and wages to around 315 staff in 2019-20.

DEM's current 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 May 2020 showed there were 82 outstanding bona fide and leave reports, with 27 overdue by more than two months. The longest outstanding was overdue by seven months.

We also identified a timesheet that had calculation errors resulting in an employee accumulating a flexi balance of -1000 hours. The timesheet was not signed by the relevant manager and the corresponding bona fide certificate had not been reviewed, meaning the error was not picked up before we found it.

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 completion of review of key payroll report as one of the metrics.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Income		
Appropriation	90	110
Intra-government transfers	48	22
Fees and charges	25	23
Other income	17	13
Total income	180	168
Expenses		
Grants and subsidies	82	44
Supplies and services	48	72
Employee benefits expenses	41	42
Other expenses	12	8
Cash returned to Department of Treasury and Finance	-	70
Total expenses	183	236
Net result	(3)	(68)
Net cash provided by (used in) operating activities	6	(71)
Assets		
Current assets	37	22
Non-current assets	49	271
Total assets	86	293
Liabilities		
Current liabilities	36	28
Non-current liabilities	14	15
Total liabilities	50	43
Total equity	36	250

Statement of Comprehensive Income

Income

DEM is predominantly funded by appropriations, receiving $90 million in 2019-20 ($110 million in 2018-19), 50% (65%) of total income. There was a $20 million decrease in appropriations in 2019-20 as a result of reduced costs for some operational areas, including a $17 million reduction in the costs associated with operating the State's emergency generators.

Revenue from intra-government transfers increased by $26 million, 118%, in 2019-20. The main increase was the receipt of an additional $20 million in funding from the Green Industry Fund for subsidies under the Home Battery Scheme.

DEM also received $6 million ($0) in funding from the Economic Business and Growth Fund. $3 million of this was for the Accelerated Discovery Initiative, a program providing co-funding for mineral exploration projects.

These increases were partially offset by a decrease in other intra-government transfers of $3 million as a result of less targeted voluntary separation package reimbursements in 2019-20.

DEM's other significant income stream was fees and charges of $25 million ($23 million), 14% of total income. The main source of fees and charges income, accounting for $23 million ($22 million), are fees associated with mining and petroleum licences.

Expenses

The main expense items for DEM in 2019-20 were grants and subsidies of $82 million (45%), supplies and services of $48 million (26%) and employee benefits expenses of $41 million (23%).

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.

$67 million (81%) of total grants paid were directly related to energy programs, under several schemes. Grants were paid from the Home Battery Scheme, Project EnergyConnect, Renewable Technology Fund (RTF) and Energy Productivity Program.

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.

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, for applications from 15 April 2020 to 10 September 2020.

Although subsidies will continue, they will reduce under step three to $3000.

Following the transition to step two subsidies in April 2020, there was a significant increase in subsidy applications. DEM advised that there were 6585 installations in 2019-20 (1302 in 2018-19) with associated expenditure of $38 million ($7 million).

DEM also provided $5 million in funding under the scheme to the Department for Trade and Investment for industry payments.

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. This additional transmission link would help to improve the security of electricity supply in South Australia. To facilitate the development of the project DEM provided grant funding of $3 million to TransGrid in 2018-19.

On 24 January 2020, the Australian Energy Regulator approved the project. TransGrid then reimbursed DEM for the initial $3 million. This amount was reported as recovery income by DEM in 2019-20.

The SA Government approved additional funding to TransGrid to fund further early works up to a maximum of $60 million. $16 million was spent in 2019-20, with the remaining amount committed for 2020-21.

Costs incurred will be refunded to DEM if contractual conditions are met.

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.

Expenditure incurred under the RTF in 2019-20 was $5.6 million ($13.6 million). This consisted of grants to recipients to support renewable resources in the energy market and included:

- $2.3 million towards the construction of a new battery energy storage system at the Lake Bonney Wind Farm
- $1.3 million towards the construction of a hydrogen production and distribution facility
- $600 000 towards the construction of a hybrid (wind, solar, diesel generation and battery storage) power plant.

There are commitments for future projects of $53 million, including $31 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 an additional 1000 home energy systems were installed.

DEM provided a loan in 2018-19 with initial drawdown of $11 million and in 2019-20 a further $9 million was provided for a total of $20 million towards the project. This is reported as a receivable to DEM, along with interest accrued on the loan of $1 million.

Energy Productivity Program

Expenditure under this program was $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, however no grants have been paid from the fund to date. One grant deed has been executed for the Hornsdale Power Reserve Expansion, with a commitment for $15 million to be paid over the next six years

Accelerated Discovery Initiative

This initiative commenced on 4 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 dollars over three years is available for approved co-funding exploration activities. No expenditure was incurred in 2019-20.

The SA Government announced successful applicants from round one under the program on 23 June 2020, with 14 proposals endorsed for co-funding of $3 million.

Supplies and services

Supplies and services decreased by $24 million, 33%, in 2019-20 to $48 million.

Emergency generation and storage expenses make up $17 million (35%) of supplies and services expenses and decreased by $16 million in 2019-20. Payments under this category were for the following activities.

Emergency generators

In December 2018 DEM purchased nine generator assets (generators) from APR Energy Holdings Limited, under a commitment made by the previous SA Government as part of its 'Our Energy Plan'. The generators were purchased for $227 million.

As the generators were operated, and then purchased, by the SA Government for the purpose of emergency generation capacity, they were not required to be operated in 2019-20 and did not generate income.

Prior to the purchase, in December 2018, DEM incurred $23 million in lease and other costs for operating and maintaining the generators, with a further $6 million incurred after the purchase for the 2018-19 financial year.

As DEM no longer had leasing costs in 2019-20 the costs of running the generators decreased to $13 million.

On 30 June 2020, the generators were transferred to the Treasurer and, subsequently, to the State Owned Generators Leasing Co Pty Ltd by way of two Proclamations. This is discussed further under 'Statement of Financial Position' below.

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 2019-20 ($4 million in 2018-19) with commitments for a further $31 million to be paid over the next eight 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 Neoen has since started final testing. Once testing is complete, the expansion will be fully operational.

Cash returned to the Department of Treasury and Finance

In 2018-19 DEM made payments to the SA Government of $69 million for the return of surplus cash, including $58 million relating to excess contributed capital for the purchase of the nine electricity generators. There were no cash returns in 2019-20.

Statement of Financial Position

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

	2020 $'million	2019 $'million
Assets		
Property, plant and equipment	47	268
Receivables	27	16

	2020 $'million	2019 $'million
Liabilities		
Payables	11	17
Employee benefits	15	15
Other current liabilities	21	7

Property, plant and equipment represents 55% (92%) of total assets and decreased by $221 million to $47 million as at 30 June 2020. The decrease is mainly due to the transfer of the emergency electricity generators, by Proclamation, to the Treasurer and then to the State Owned Generators Leasing Company Pty Ltd on 30 June 2020. The generators had a carrying value of $217 million on transfer.

As the generators were transferred by Proclamation, it was not a sale and DEM did not receive any cash. As a result, DEM's contributed capital, originally provided to fund the purchase of the generators, also reduced by $217 million.

The value of property, plant and equipment was also reduced by depreciation expenses for the year of $8 million. These decreases were partially offset by an increase in asset values of $3 million following an independent revaluation in 2019-20.

Receivables increased by $11 million to $27 million as at 30 June 2020. The increase mainly reflects the increased loan balance as a result of the full drawdown of the loan arrangements under the RTF, with an additional $9 million drawn down in 2019-20.

Trade receivables from non-government entities also increased by $3 million as a result of DEM deferring the collection of mineral exploration licence fees, and annual petroleum and geothermal licence fees to assist producers impacted by the COVID-19 pandemic.

Payables mainly relate to creditors and accrued expenses of $9 million ($15 million), with $2 million ($7 million) of this amount for accrued grants payable where conditions have been met but amounts had not yet been paid.

Other current liabilities of $20 million mainly consist of security deposits of $17 million ($4 million), which 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.

Statement of Cash Flows

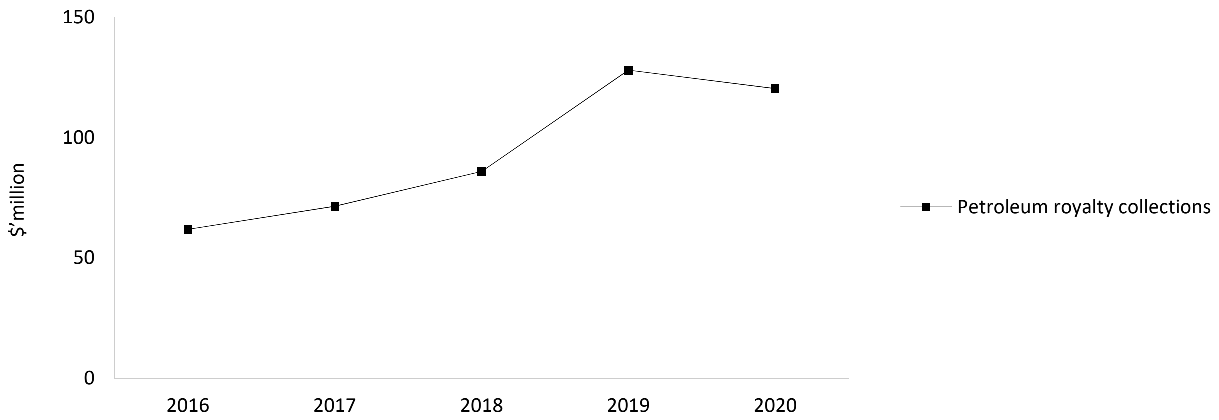
Cash and cash equivalents at 30 June 2020 totalled $10 million ($6 million). They are held in DEM's operating account.

Major cash movements included net cash provided by operating activities of $6 million offset by purchases of property, plant and equipment of $3 million.

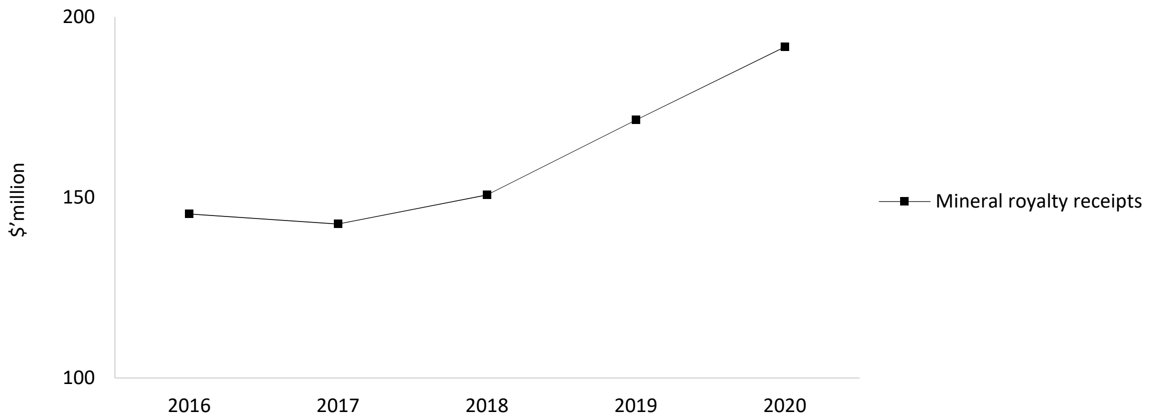
Administered items

DEM is responsible for administering the collection of royalties levied on mineral and petroleum production on behalf of the SA Government. In 2019-20 it administered the collection of $312 million ($299 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 2018-19, when a significant increase in royalties occurred due to increases in petroleum production and pricing. In 2019-20 the decrease in petroleum royalties was due to a fall in worldwide oil prices and the effects of COVID-19.



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 relating to 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.

Environment Protection Authority (EPA)

Financial statistics	Net assets:	$38.3 million
	Waste levies and environmental fees:	$55.5 million
	Net result:	$9.3 million
	Number of FTEs:	194.71
Significant events and transactions	— $81.6 million of waste levies were collected, with $37 million transferred to the Green Industries Fund (Green Industries SA). — Surplus cash of $20 million was returned to the SA Government under the cash alignment policy.	
Financial report opinion	**Unmodified**	
Audit findings	The EPA's environmental authorisation licence compliance objectives are not documented in an overarching compliance policy.	

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* (the 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 2019-20 included:

- waste levies revenue
- licence fee revenue
- accounts payable
- payroll
- fixed assets
- cash
- general ledger
- compliance activities for holders of environmental authorisations under Part 6 of the EP Act.

Audit findings

Communicating our audit findings

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

The EPA's environmental authorisation licence compliance objectives and expected outcomes are not documented in an overarching policy

The EPA can conduct investigations to assess compliance with the EP Act or the conditions of licences and other environmental authorisations issued under the EP Act. The nature and scope of its compliance activities are influenced by the risks involved and the regulatory effort required.

We reviewed elements of the EPA's environmental authorisation licence compliance function and found that although it maintains several procedures that outline how it expects compliance activities to be performed, these procedures do not outline the purpose, principles or expected outcomes of its compliance program.

We recommended that the EPA develop an overarching compliance policy or framework that outlines the purpose, principles and expected outcomes of the compliance activities performed.

The EPA responded that it will:

- use elements of existing documentation where possible (including externally published guidelines and plans) to develop and publish an overarching compliance policy to inform EPA compliance officers and licensees on compliance activities associated with environmental authorisations

- develop and publish an updated compliance plan that includes clear goals and objectives for activity associated with environmental authorisations
- formalise internal performance assessment and reporting, and provide this reporting to the EPA's executive on a quarterly basis.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2020 $'million	2019 $'million
Income		
Fees and charges	60	53
Appropriation	-	2
Other revenues	1	1
Total income	61	55
Expenses		
Employee benefits expenses	23	26
Surplus cash transferred to the Consolidated Account	20	18
Supplies and services	8	8
Other expenses	1	2
Total expenses	51	54
Net result	9	1
Net cash provided by (used in) operating activities	4	4
Assets		
Current assets	45	36
Non-current assets	5	4
Total assets	49	40
Liabilities		
Current liabilities	4	4
Non-current liabilities	7	7
Total liabilities	11	11
Total equity	38	29

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income increased by $5.3 million to $60.1 million due mainly to:

- a $5.6 million increase in waste levies primarily as a result of a 27% increase in waste levy rates from January 2020, partially offset by a 5% decrease in the tonnage of solid waste disposal
- a $2.1 million increase in environmental authorisation fees following an increase in the number of licences issued, driven by the introduction of new fees for petrol station activities from January 2020, and a 5% increase in the fee rate

- a $2 million decrease in appropriation from the Treasurer's Contingency Fund, which in 2018-19 was all received to reimburse the EPA for 24 targeted voluntary separation payments (TVSPs) paid.

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

Expenses

Total expenses decreased by $2.8 million in 2019-20 due mainly to:

- a $3.9 million decrease in employee benefits, which is largely attributed to the absence of TVSPs in 2019-20 (24 TVSPs at a cost of $2 million were paid in 2018-19) and a $1.1 million decrease in long service leave expense. The long service leave expense for 2018-19 was impacted by leave paid on the termination of employees
- a $1.3 million decrease in the impairment loss on receivables, with the 2018-19 balance impacted by the adoption of a new expected credit loss model for receivables
- a $2.3 million increase in surplus cash paid to the Consolidated Account under the SA Government's cash alignment policy.

Surplus cash transferred to the Consolidated Account

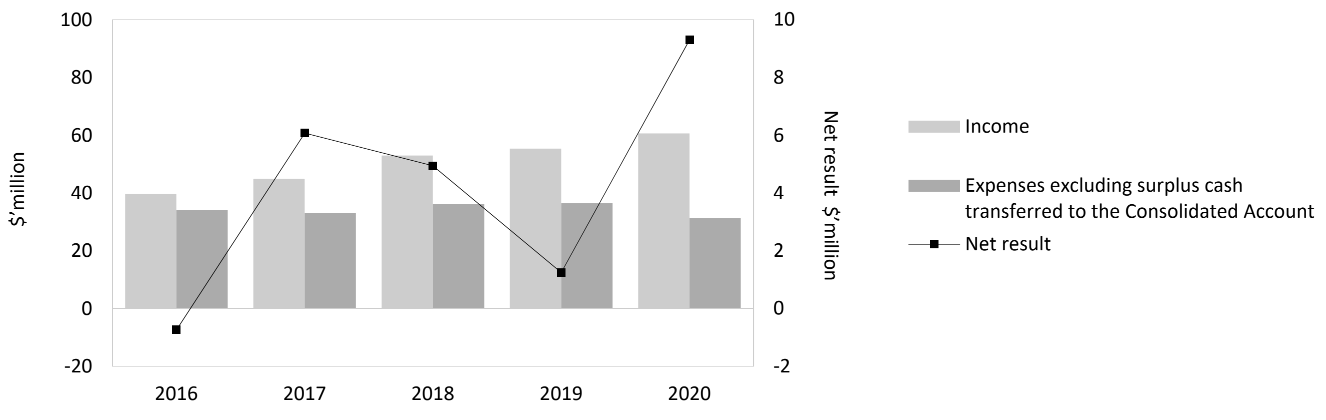
The EPA has achieved operating surpluses and generated surplus cash from operations for a number of years. It has returned $55.5 million to the Consolidated Account over the past four years under the cash alignment policy, as shown in the following table.

	2017 $'million	2018 $'million	2019 $'million	2020 $'million
Surplus cash transferred to the Consolidated Account	5.8	12.0	17.7	20.0

Net result

The chart below shows the net result for the five years to 2020.

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 TVSPs.



The EPA's underlying expenses, excluding surplus cash transferred to the Consolidated Account, are significantly less than annual income from 2017.

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, \$33.4 million (\$29.8 million), represent 75% (84%) of total current assets and 68% (75%) of total assets. These balances include the Environment Protection Fund deposit account of \$9.4 million (\$8.6 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, \$11.1 million (\$5.7 million), increased predominately due to the waste levy accrual at 30 June 2020, reflecting the 27% increase in waste levy rates from 1 January 2020.

Non-current assets

Property, plant and equipment make up 6% (6%) of total assets and largely comprise furniture and fittings, and plant and equipment.

Intangible assets make up 4% (6%) 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 Industries Fund.

Transfer of solid waste levies to the Green Industries Fund (Green Industries SA)

The EPA receives solid waste levies from waste depots under section 113 of the EP Act. There was an increase in solid waste levy rates of 27% from 1 January 2020, after increases of 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 \$110 per tonne on 1 July 2019 to \$140 per tonne from 1 January 2020.

Section 17 of the *Green Industries Act 2004* (GI Act) requires the EPA to transfer 50% of these levies to the Green Industries 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 $37 million ($35 million) to the Green Industries Fund during the year.

The Green Industries 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 a disaster under the *Emergency Management Act 2004*.

The balance of the Green Industries Fund at 30 June 2020 was $114.1 million ($131.8 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 Industries Fund. Most of the expenditure approved (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.

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 business plan for 2020-21 has forecast that the balance of the Green Industries Fund will reduce to $57 million by 30 June 2023.

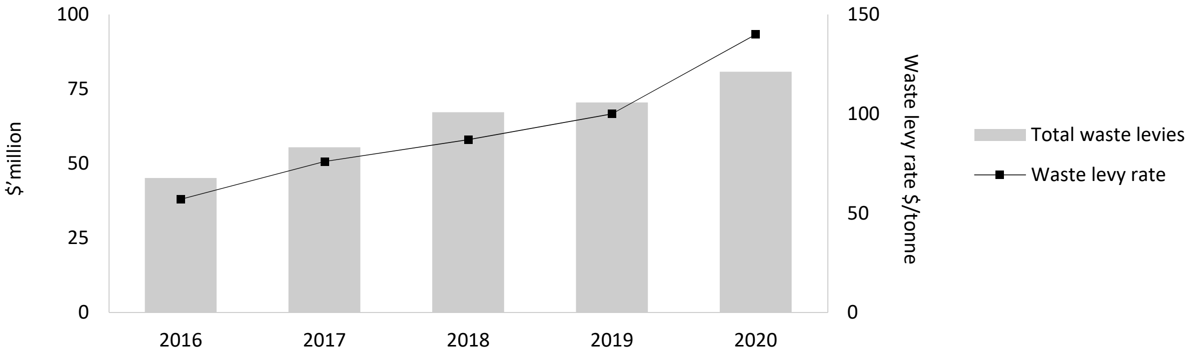
Further commentary on operations

Waste levies

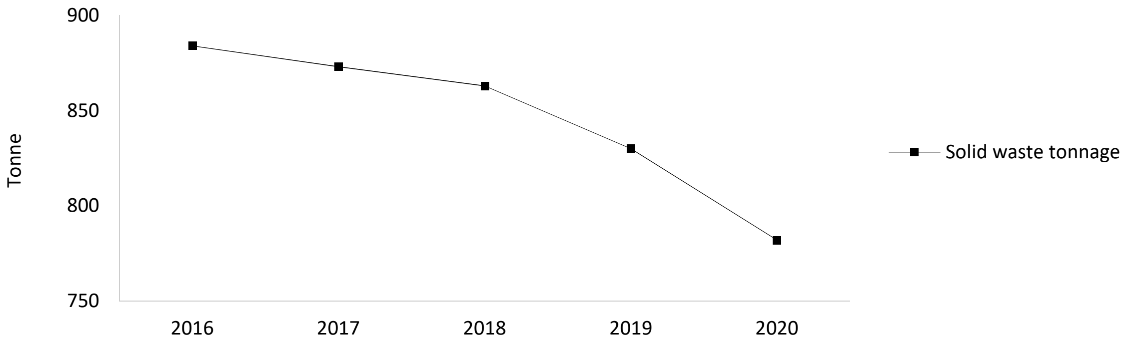
Waste levies collected by the EPA (controlled and administered) totalled $81.6 million ($70.5 million) (refer notes 2.2 and 8.4 of the EPA's financial report).

There has been an increasing trend in solid waste levy rates that has been offset by a decrease in solid waste tonnage reported as received by waste depots.

The following chart shows the amounts collected from waste levies from 2016 to 2020.



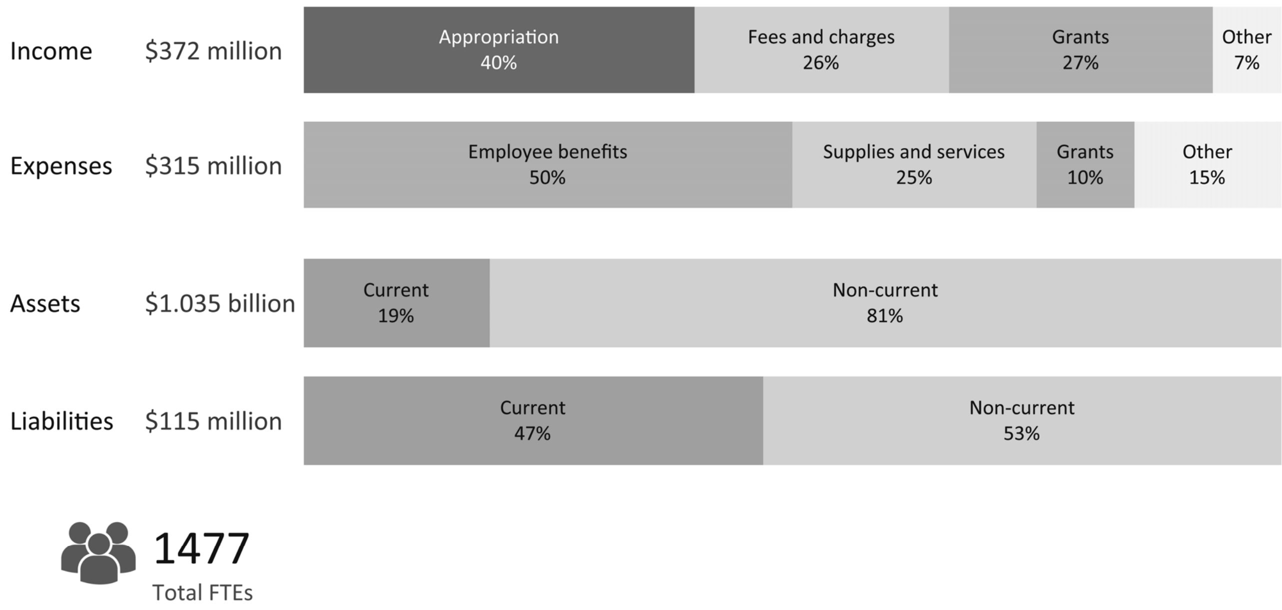
The chart below shows the decrease in solid waste tonnage reported by waste depots over the same period. This data was provided to us by the EPA and is unaudited.



Waste tonnage reported by waste depots for 2019-20 was 782 tonnes (830 tonnes). The EPA advised that this reduction reflects improvements in the processing and reuse of municipal solid waste and commercial and industrial waste.

Department for Environment and Water (DEW)

Financial statistics



Significant events and transactions

- Controlled land had a revaluation increment of $30 million and administered Crown land had a revaluation increment of $32 million.
- The 2019-20 summer bushfires caused substantial damage to assets owned by DEW on Kangaroo Island. DEW is in the process of settling an insurance claim with the South Australian Government Financing Authority to recover the cost of assets damaged and destroyed. DEW received an initial payment of $2.5 million in 2019-20 and a further $7.5 million as partial settlement on 31 July 2020.
- On 8 March 2020 the SA Government announced its new Parks 2025 plan, which included funding of $22 million to activate nature-based tourism and fast track the recovery of regional economies following the 2019-20 summer bushfires.
- COVID-19 caused the closure of some sites in April and May 2020, with lost revenue estimated at $2.7 million.
- DEW capitalised significant capital projects including the SA Riverland Floodplain Infrastructure Program, South East Flows Restoration Project and Riverine Recovery Project, resulting in a transfer of $46 million from capital works in progress to completed assets.

	— DEW administered the Water for Fodder agreement between the Commonwealth and SA Governments. The agreement provided for the production of up to 100 gigalitres of water from the Adelaide Desalination Plant and the transfer of water allocations, from entitlements held by the State, to eligible irrigators in the Southern Murray-Darling Basin. As part of the first round of this agreement, in 2019-20 DEW received \$28 million from the Commonwealth, which was subsequently dispersed to the South Australian Water Corporation (SA Water) for 40 gigalitres of water. Following a review of round one outcomes, the Commonwealth and SA Governments announced that a second round would not proceed. — The *Landscape South Australia Act 2019* replaces the *Natural Resources Management Act 2004* (NRM Act) on 1 July 2020. The eight Natural Resources Management Boards established under the NRM Act will be replaced by eight regional Landscape Boards and a new metropolitan board, Green Adelaide. At 1 July 2020, DEW employees who worked on Natural Resources Management Boards will transfer to Landscape Boards.
Financial report opinion	**Unmodified**
Control 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. — Controls over user access to the Retail Touch revenue system and the management of pricing data in the system need to improve. — Weaknesses in disaster recovery processes need to be addressed.

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 has significant responsibilities in managing the State's natural environment for the prosperity and wellbeing of current and future generations of South Australians. To support this DEW:

- safeguards the State's natural environment through sustainable management, evidence based decision-making and service delivery, with the focus on the community and stakeholders
- connects and involves people with nature by opening up parks and places
- unlocks the potential of the State's natural environment to contribute to the economic development and prosperity of 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 2019-20 included:

- fees and charges 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 and Retail Touch revenue 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 22 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 requiring action.

Our review of DEW's February 2020 bank reconciliation identified over 47 000 uncleared reconciling items. These reconciling items comprise:

- 4171 transactions recorded in the bank statement but not recorded in DEW's general ledger
- 42 862 transactions recorded in DEW's general ledger but not matched to the bank statement.

Some unresolved reconciling items date back to 2016-17, and more than 29 000 transactions related to 2019-20.

DEW advised that an external systems contractor it engaged had identified gaps in bank reconciliation data contained in interface files. An automated solution was created to provide the missing data and will help reduce unreconciled transactions. Data requirements for the interface files will be provided to vendors for them to reconfigure the interface files and mitigate future reconciling items. The automated solution is helping to clear longstanding reconciling items.

While we understand that the new system has helped to identify and correct outstanding reconciling items, as at 30 June 2020 there remained a total of $9.7 million (gross transactions) in unmatched reconciling transactions between the bank and the general ledger, which is a significant increase from 30 June 2019.

Other audit findings

While controls over payroll have improved, we continue to raise matters related to reviewing certain payroll reports

Employee benefits expenses were $156 million in 2019-20 and the liability for leave entitlements at 30 June 2020 was $53 million.

Incomplete and unapproved attendance records

DEW uses the TimeWise system to monitor employee attendance and approve leave taken. Based on time records up to 13 March 2020, we noted:

- 546 instances where TimeWise records were yet to be completed by DEW employees
- 386 completed TimeWise attendance records that had not been reviewed and approved.

These statistics show a worsening in the number of incomplete and unapproved TimeWise records compared to 2018-19.

Branches are unable to reconcile TimeWise records to those recorded in the CHRIS payroll system until all time records are complete and approved, meaning that the volume of outstanding TimeWise records is also compromising other controls designed to ensure the accuracy of the payroll system.

We have reported delays in the timely processing of certified and approved timesheets for a number of years. While we have seen action to improve outcomes, DEW continues to be challenged to find ways to ensure time records are processed quickly.

DEW relies on these controls to ensure all leave taken is deducted from an employee's leave entitlement. If they are not operating effectively DEW's leave liabilities may be overstated. Further, without accurate CHRIS leave records, managers may approve leave in excess of actual entitlement, resulting in salary overpayments.

DEW responded that the following steps were taken to improve DEW compliance:

- It had started a project to ensure that all outstanding TimeWise records were completed and approved by 30 June 2020.
- It had introduced regular reporting that provides executive with data on completing and approving attendance and leave in TimeWise. The effectiveness of this reporting will continue to be monitored.

In early September 2020 DEW advised that Stage 1 of the project was complete with 107 outstanding timesheets remaining. While significant work has been undertaken in this area, not all TimeWise entries were completed as planned by 30 June 2020.

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 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 March 2020 identified 265 leave reconciliations outstanding for 2019-20 and 102 outstanding for 2018-19.

As indicated above, DEW relies on these controls to ensure all leave taken is deducted from an employee's leave entitlement. If they are not operating effectively DEW's leave liabilities may be overstated.

DEW responded that it had:

- started a project to ensure that all outstanding leave reconciliations were completed and approved by 30 June 2020. This is dependent on all TimeWise records being completed and up to date
- introduced regular reporting that provides executive with data on the completion of leave reconciliations.

In early September 2020 DEW advised that Stage 1 of the project was complete. While significant work has been undertaken in this area, not all leave reconciliations were completed as planned by 30 June 2020, as they are reliant on the completion of TimeWise entries.

Controls over access to the Retail Touch revenue system and the management of pricing data need to improve

DEW controlled revenue from fees and charges ($98 million in 2019-20) relates mainly to:

- salary recoveries for DEW staff allocated to Natural Resources Management Boards
- service recoveries for water planning and management activities undertaken by SA Water
- income for professional services provided to other environment portfolio agencies
- service recoveries from SA Water
- income from national park admissions and guided tours
- property related income.

The revenue systems DEW uses are the Tenement and Billing System, Masterpiece Accounts Receivable/Retail Touch and the Hospitality and Leisure system.

Our review of controls supporting Retail Touch and revenue raising by DEW noted the following:

- In 2018-19 we noted that all Retail Touch users have access to override approved prices and recommended that DEW determine whether it can restrict this access.

  DEW responded that although it cannot restrict access to override pricing data in the system, it can produce reports from Retail Touch that enable it to review price adjustments.

  Our 2019-20 audit highlighted, however, that while such a report can be produced, DEW does not regularly produce or review this report and has not documented its policy expectations for doing so.
- We identified instances where fees uploaded to the head office pricing database did not agree to the fees recorded in site databases. DEW has implemented checks to ensure prices are completely and accurately loaded into Retail Touch each year. We noted, however, that only a sample of prices are checked and management's expectations on the minimum level of checking required is not documented.

DEW responded that:

- in conjunction with the Retail Touch software vendor, DEW has developed a report to track instances of price overrides, with further reporting to be investigated. Once fully developed, the reports will be made available to all sites. A policy and procedure will be developed to provide for the review of the manual price overriding process. Retail Touch does not prohibit users from price overriding. An initial report has been developed to highlight overridden prices for each site, with further reporting to be investigated. Policy and procedures outlining clear expectations on the timing and review of the price override reports will be distributed to sites

- DEW updates pricing in the Retail Touch head office database through bulk-uploads twice a year, to ensure accuracy of prices. Minor price changes may be made manually on an ad hoc basis. It is expected that some checking of uploaded prices and manual adjustments is undertaken to ensure data has been loaded without discrepancies occurring. A process will be developed and evidence of this checking will be maintained.

DEW advised that it has since resolved the pricing discrepancies we identified.

IT general controls review – Masterpiece application and Retail Touch

Inadequate password policy

Our review identified that DEW has not updated its user access policy and procedure.

DEW's user access policy that defines certain password settings was last reviewed in December 2016 and was due for review in December 2019.

A review of that document identified a number of password setting requirements across the ICT environment (including application, database and operating system) that are not defined. These include:

- password history
- minimum password age
- account lockout duration
- account lockout threshold/number of attempts
- frequency of review.

The policy should ideally outline password expectations across all significant applications.

DEW responded that its user access policy and procedure is currently being reviewed, and is expected to be finalised by October 2020. DEW has had a review by Microsoft and has received recommended settings that are being assessed, with planning being undertaken to deploy the changes.

DEW will assess the impacts of our recommendation to increase password complexity and enforce password history. Assessment of requirements against the *Australian Government Information Security Management Framework* (ISM) is also being considered.

Weaknesses in disaster recovery processes

Disaster recovery planning ensures that important IT systems and services are available in the event of interruption or helps to restore these services when required.

Our testing considered whether DEW had established a disaster recovery plan and associated procedures for Masterpiece and whether this plan had been tested.

We found that:

- a disaster recovery plan was drafted but not yet finalised. DEW advised that it is waiting on the business impact analysis before approving

- The Masterpiece disaster recovery plan has not been fully tested since a whole of government mainframe test was conducted in September 2016.

DEW responded that its ICT and Digital Subcommittee of Executive endorsed its disaster recovery plan on 8 July 2020 and it will ensure that Masterpiece backups are tested and verified periodically to provide assurance for the recovery of Masterpiece.

Weakness in password configuration settings in Masterpiece

In 2018-19 we identified that DEW's password settings across the active directory did not comply with the ISM. While we acknowledge that DEW does not need to comply with the ISM, we consider the recommended settings outlined in it represent better practice.

In response we were advised that DEW would investigate and implement access controls aligning to the Active Directory standards and its password policy.

Our follow-up of Active Directory password settings in 2019-20 identified that the password configuration settings could be further strengthened.

DEW responded that it had previously had a Microsoft risk assessment of the DEW Active Directory domain, which also makes recommendations on password settings that fall between the audit recommendations and the current state. DEW will investigate the potential of aligning the application-based Retail Touch passwords with its Active Directory password policies.

Weakness in password configuration settings in Retail Touch

In 2018-19 we compared the Retail Touch application, database and operating system environment password configuration settings against the ISM. We found that the configuration settings that apply to Retail Touch could be strengthened.

Our follow-up in 2019-20 identified that DEW had not made changes to the password settings in Retail Touch. We were advised that due to limitations with the current software version the recommended password settings, such as minimum password length, could not be applied. DEW will discuss strengthening these settings with the product vendor.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2020 $'million	2019 $'million
Income		
Appropriation	150	152
Fees and charges	98	102
Grants revenues	101	81
Resources received free of charge	9	26
Intra-government transfers	4	13
Other income	10	2
Total income	372	377

	2020 $'million	2019 $'million
Expenses		
Employee benefits expenses	156	168
Supplies and services	78	79
Grants and subsidies	33	32
Depreciation and amortisation expense	27	25
Impairment loss on receivables	-	1
Assets transferred for nil consideration	8	48
Other expenses	12	6
Surplus cash returned to Department of Treasury and Finance	-	4
Total expenses	315	363
Net result	57	14
Other comprehensive income	34	-
Total comprehensive income	91	14
Net cash provided by (used in) operating activities	73	65
Assets		
Current assets	200	213
Non-current assets	835	772
Total assets	1 035	985
Liabilities		
Current liabilities	54	64
Non-current liabilities	60	61
Total liabilities	115	124
Total equity	920	861

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

While DEW experienced significant fluctuations across its various income sources, total income decreased marginally to $372 million. The $4.7 million decrease in total income was impacted by:

- a $17.1 million decrease in resources received free of charge. In 2018-19 heritage assets valued at $18.4 million were transferred from the Department of Planning, Transport and Infrastructure
- intra-government transfers decreasing by $9 million. These transfers include funding from the Department of Treasury and Finance for targeted voluntary separation packages, which decreased by this amount
- a $3.8 million decrease in revenue from fees and charges, largely attributable to the impact of the COVID-19 pandemic
- appropriation from the Consolidated Account decreasing by $1.8 million, reflecting the SA Government's budgeted saving expectations for the year

- an increase in grant revenue of $19.2 million. This increase reflects the impact of adopting Accounting Standard AASB 1058 *Income for Not-For-Profit Entities* for the first time from 1 July 2019. Grant revenue for 2019-20 includes $23.3 million previously recognised in 2018-19. DEW recognised a new contract liability at 1 July 2019 for grants received prior to the delivery of performance obligations for the SA Riverland Floodplains Integrated Infrastructure Program. While a corresponding adjustment was recognised to reduce opening retained earnings, AASB 1058 allows DEW to re-recognise this revenue as performance obligations are met. Refer note 9.4 in DEW's financial report for more information
- other income increasing by $8.4 million. This increase is due mainly to the recognition of $4.2 million in assets identified through DEW's asset stocktake process, and a $2.5 million increase in insurance recoveries for assets damaged in the 2019-20 summer bushfires.

Expenses

Total expenses decreased by $47.4 million. The major items causing this change were:

- a $39.3 million decrease in assets transferred to other entities for $0 consideration. In 2018-19 regulators and embankments built as part of the South East Flows Restoration project at a cost of $42.3 million were transferred to the South Eastern Water Conservation and Drainage Board
- employee benefits expenses decreasing by $12 million following a $9 million decrease in targeted voluntary separation packages paid and a $5.9 million decrease in long service leave expenses. The decrease in long service leave expenses is influenced by year on year movements in the long service liability. In 2019-20 the long service leave liability decreased by $1.8 million compared to the $2 million increase in the liability for 2018-19. The long service leave liability is impacted by changes in key actuarial assumptions, which in the current year included a reduction in long-term salary inflation expectations.

These decreases were partially offset by a $3.9 million (3.4%) increase in salaries and wages.

A $6.5 million increase in other expenses was due mainly to $4.9 million of asset write-offs and $2.6 million in impairment losses, both associated with the Kangaroo Island bushfires.

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 $830 million and represents 80% of total assets.

Property, plant and equipment includes land valued at $366 million, which comprises national, conservation and recreation parks and wilderness protection areas and reserves. In addition, and after accumulated depreciation, related park infrastructure amounts to $25.9 million and roads, tracks and trails total $22.8 million.

Property, plant and equipment increased by $63 million due mainly to a net revaluation increment of $34 million, asset additions of $55 million and depreciation of $23.6 million.

The revaluation increments were $30 million for land and $11 million for Patawalonga seawater circulation assets and a decrement of $7 million for salinity disposal scheme assets. Valuations were performed by the Office of the Valuer-General. The last revaluation for land occurred on 1 July 2015.

Asset additions primarily relate to capital works associated with the SA Riverland Floodplains Integrated Infrastructure Program, the Waterfall Gully Summit trail and Kangaroo Island fire asset replacements.

Refer notes 5.1 and 5.2 of DEW's financial report for an analysis of the composition of and movements in this item.

Current assets – cash

Cash of $184.8 million ($187.4 million) represents 92% (88%) of total current assets, and 18% (19%) of total assets. DEW's cash at 30 June 2020 comprised operating deposit accounts of $78 million ($96.5 million) and an Accrual Appropriation Excess Funds Account of $106.7 million ($90.7 million). Access to the latter account is subject to the Treasurer's/Under Treasurer's approval.

Liabilities

Total liabilities decreased by $9.4 million (8%) to $114.8 million. The major items causing this change were:

- a $19 million decrease in payables, which is attributable mainly to the timing of payments for the SA Riverland Floodplains Integrated Infrastructure Program
- a $5.4 million increase in financial liabilities, due largely to first time recognition of lease liabilities for motor vehicle and IT equipment leases in line with AASB 16 *Leases*
- a $7.5 million increase in contract liabilities, due largely to first time recognition under AASB 1058. Contract liabilities primarily relate to amounts received for the SA Riverland Floodplains Integrated Infrastructure Program, for which revenue will be recognised as the asset is constructed.

Administered items

DEW's administered activities include:

- Crown lands
- Minister's other payments
- the National Landcare Program (South Australia)
- the Natural Resources Management 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 $17.3 million ($17 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.

National Landcare Program (South Australia)

Prior to 2018-19 DEW administered the National Landcare Program.

In 2018-19 the Commonwealth revised these arrangements and now provides funding directly to the Natural Resource Management Boards. The program is referred to as the National Landcare Program 2 – NLP 2. DEW is currently seeking Commonwealth approval to carry forward unused funds totalling $358 000 and apply them to NLP 2.

Natural Resources Management Boards and Natural Resources Management Fund

DEW has primary responsibility for helping the Minister to administer the NRM Act. The main purpose of the NRM Act is to promote sustainable and integrated management of the State's natural resources and to protect these natural resources.

The NRM Act provides for a range of entities with specific responsibilities, including eight regional Natural Resources Management Boards.

Water levies are collected by DEW for prescribed water resources within specific natural resources management regions under section 101 of the NRM Act. The levies are subsequently paid to the regional Boards under section 116(1)(a)(ii)(A).

In 2019-20, $25.4 million ($18.3 million) in water levies, penalties and expiation fees were raised on behalf of the Natural Resources Management Boards. DEW also received $2.7 million ($2.6 million) in revenues from government for transfer to the Boards.

Payments to Natural Resources Management Boards from the Natural Resources Management Fund during the year were $20.5 million ($20.6 million). They relate to water levies invoiced and collected by DEW. The NRM Act requires the Minister to issue the levies and collect the revenue into the Natural Resources Management Fund. The Minister then distributes funds collected to the Boards based on receipts.

The NRM Act was repealed on 1 July 2020. The *Landscape South Australia Act 2019* came into effect from that date.

Under these legislative changes, the eight Natural Resources Management Boards were replaced with eight regional Landscape Boards and a new metropolitan board, Green Adelaide.

DEW employees who previously worked to support activities of the Natural Resources Management Boards will transfer to the Landscape Boards. The employment arrangements for 280 positions were transferred from DEW to the regional Landscape Boards on 1 July 2020 . The transfer of assets and liabilities from each Natural Resources Management Board to the respective Landscape Boards was gazetted on 25 June 2020 with an effective date of 1 July 2020. DEW is, however, still finalising transfers and this is likely to occur in October 2020.

Water for Fodder program

The Water for Fodder program forms part of the Commonwealth Government's drought response package to support drought affected farmers in the SA Murray-Darling Basin. An intergovernmental agreement between the Commonwealth and SA Governments provides for the production of up to 100 gigalitres of water over two rounds from the Adelaide Desalination Plant, and the transfer of water allocations from the Adelaide Metropolitan River Murray licence to eligible irrigators in the Southern Murray-Darling Basin. Commonwealth revenue of $28 million was received by DEW, with $27.8 million subsequently disbursed to SA Water for the production of 40 gigalitres of water from the Adelaide Desalination Plant for the first round. Following a review of round one outcomes, the Commonwealth and SA Governments announced that a second round would not proceed.

DEW advised that an additional $5 million of revenue from the Commonwealth to the SA Government is expected in 2020-21 for the final acquittal of the total costs of the program.

South Australian Drought Resilience Fund

This Fund was established under the Commonwealth's Water for Fodder program. Southern Murray-Darling Basin irrigators are able to purchase water allocations held by the State at a discount, with the money received transferred into the Fund. The Fund will be applied by the Minister towards programs and measures to build the resilience of 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 at 30 June 2020, the Fund had received $4 million.

Murray-Darling Basin Authority

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

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 on 12 June 2009:

- asset agreement for River Murray Operations assets
- further 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 $899 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 2019-20 DEW paid $22.3 million to the MDBA.

COVID-19 impacts

The key impacts of the COVID-19 on DEW operations in 2019-20 were:

- the closure a number of commercial sites in parks during April and into May 2020, including Cleland Wildlife Park and Seal Bay Conservation Park and all campgrounds. Site closures resulted in lost revenues from admissions and fees estimated to be $2.7 million
- providing rent relief and fee waivers costing $425 000 in 2019-20 for tourism and hospitality operators that lease sites or premises from DEW or conducted commercial activities in national parks.

The continued key impacts of the COVID-19 pandemic outlook for DEW will be:

- an anticipated downturn in revenue in 2020-21. 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
- providing, with support from the SA Government Business and Job Support Fund, a six-month waiver (from 1 April 2020 to 30 September 2020) on commercial tour operator annual licence fees and rent relief on Crown Land properties leased to tourism and hospitality operators. The cost of this relief for 2020-21 is estimated at $425 000.

On 8 March 2020 the SA Government announced its new Parks 2025 plan, which included funding of $22 million that will provide economic stimulus to activate nature-based tourism and fast track the recovery of regional economies. This will include a range of capital projects across national parks including, for Kangaroo Island, $7 million for enhanced visitor experience and facilities at Seal Bay, a new visitor precinct at Antechamber Bay, upgraded visitor facilities at Murray Lagoon, a signature camping experience at D'Estrees Bay and a new visitor experience at Cape Willoughby.

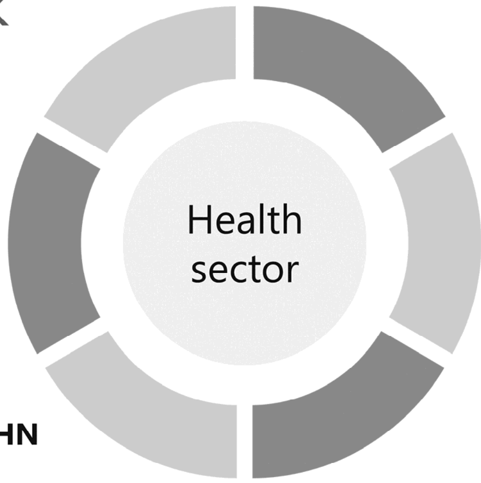
Health sector overview

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
$2.76b spent | 11.3k employees

Southern Adelaide LHN
$1.2b spent | 5.7k employees



Regional LHNs
$1.1b spent | 6k employees

Northern Adelaide LHN
$833m spent | 4.0k employees

Women's and Children's HN
$517m spent | 2.7k employees

SA Ambulance Service
$332m spent | 1.7k employees

Department for Health and Wellbeing*
$6.31b spent | 1.3k employees

Wellbeing SA
$28m spent | 87 employees

Commission on Excellence and Innovation in Health
$4m spent | 22 employees

* Includes grants to LHNs and SAAS.

Structure of this section

This Health sector overview discusses the following matters:

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

Overview of governance arrangements

Governance and accountability changes from 1 July 2019

From 1 July 2019 the SA Government devolved governance and responsibility for delivering public health services to new LHN governing boards. The governing boards have full responsibility for providing health services in line with the *Health Care Act 2008* (HC Act) and performance agreements.

Role of governing boards

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, DHW.

Role of the Department for Health and Wellbeing

Amendments to the HC Act changed the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering LHNs.

Frameworks supporting the governance and accountability changes

To support devolving governance and responsibility for delivering public health services to the new LHN governing boards, the SA Government and DHW have made significant changes to SA Health's governance and accountability frameworks. In 2019-20 we considered SA Health's progress in implementing these governance and accountability changes.

The main elements of new 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 to set 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 (expected to be finalised in 2021)

- a Charter for LHN governing boards
- updated service agreements
- performance information dashboards.

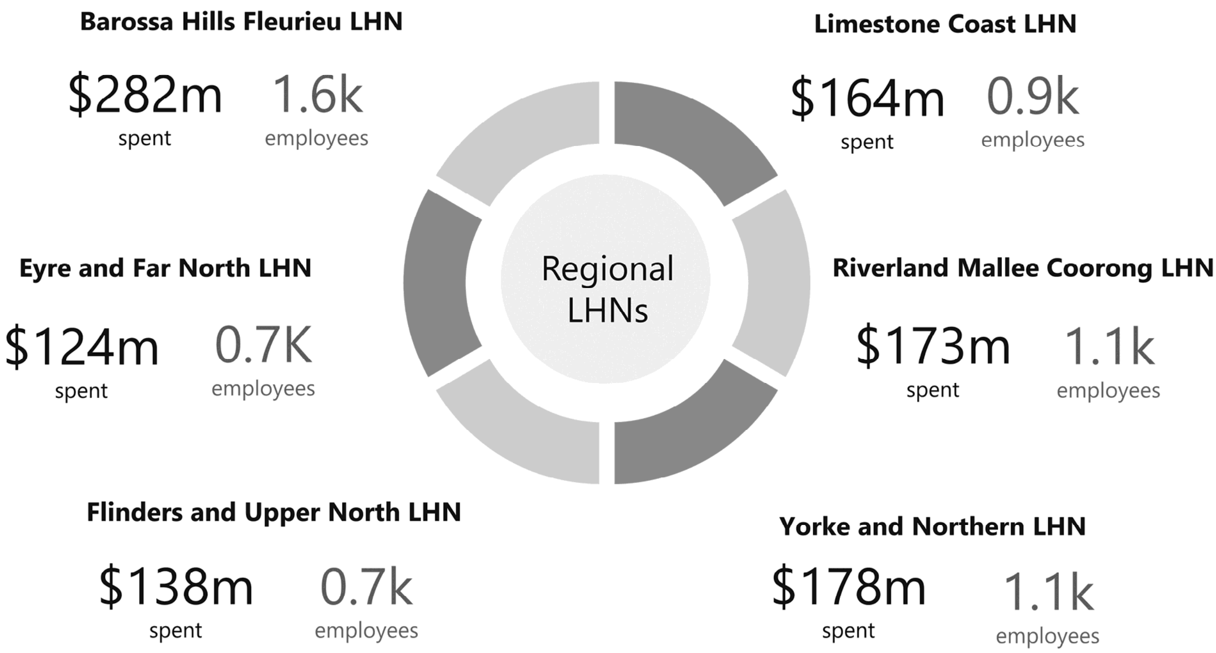
A second round of legislative amendments, the Health Care (Governance) Amendment Bill 2020, was introduced to Parliament in 2019-20. It proposes provisions relating to the service agreements for LHNs as a key element of the performance framework, as well as provisions relating to the role and function of the Chief Executive, DHW. DHW advised that the overall intent of the Bill is to strengthen the devolved governance that commenced on 1 July 2019, ensuring each entity under the HC Act has clear roles and responsibilities to avoid any duplication or omission of functions.

New regional country local health networks operational from 1 July 2019

A proclamation under the HC Act came into effect on 1 July 2019 which dissolved the Country Health SA Local Health Network Incorporated (CHSALHN) and transferred its assets, rights and liabilities to six new regional incorporated hospitals (LHNs). These new regional LHNs, listed below, were established by proclamation:

- Barossa Hills Fleurieu Local Health Network Incorporated
- Eyre and Far North Local Health Network Incorporated
- Flinders and Upper North Local Health Network Incorporated
- Riverland Mallee Coorong Local Health Network Incorporated
- Limestone Coast Local Health Network Incorporated
- Yorke and Northern Local Health Network Incorporated.

Total expenditure and FTE employees



New attached offices

Proclamations on 6 January 2020 under the *Public Sector Act 2009* (PS Act) established Wellbeing SA and the Commission on Excellence and Innovation in Health as attached offices to DHW.

Wellbeing SA (WBSA)

The proclamation establishing WBSA also abolished the South Australian Mental Health Commission. A notice under section 9 of the PS Act transferred to WBSA:

- all employees from the South Australian Mental Health Commission
- employees from specified branches of DHW's Wellbeing SA Division.

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 (CEIH)

A notice under the PS Act transferred employees from certain divisions of DHW to the newly established CEIH.

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.

Response to COVID-19

DHW provided the following information on its role in responding to the COVID-19 pandemic.

SA Health's role

On 15 March 2020, the Chief Executive, 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*. SA Health is the control agency for human disease under the State Emergency Management Plan.

Governance structure implemented under COVID-19

COVID-19 Leadership Team – supported by work streams with executive and operational leads

On 16 March 2020 DHW created a COVID-19 Leadership Team to manage the operational distribution of work, updates on progress and identification of issues. The COVID-19 Leadership Team established six work streams, each with executive and operational leads from DHW and tasked with a specific mission:

- Public Health Response – to flatten the curve

- Acute Metro and Country Operations – optimise capacity of the health system
- Whole of Government – government acts consistently and on health advice
- System Enabler – streams get what they need when they need it
- Out of Hospital Services – reduced hospital demand
- Health System Communications – maintain public confidence and keep the health system informed.

Initially, the work streams and the COVID-19 Leadership Team met daily and the work streams provided daily situation reports. As the situation progressed, the timing of these meetings varied.

Since the initial response, the governance structure was updated as follows:

- Border integrity – focused on ensuring South Australia's borders remain strong
- Effective quarantine – ensuring the most effective and safest quarantine facilities are available
- Community testing – working to ensure easy and fast access to testing and results
- Track and trace – swiftly identifying and following up with all positive cases and close contacts
- Community engagement and information – providing the community and stakeholders with timely, relevant and accurate information.

State Control Centre – Health (SCC-H)

To support the SA Health response, the SCC-H was activated on 18 March 2020. It is staffed by a combination of SA Health, Emergency Services, State and Federal Government agency personnel and provides a single point of contact for COVID-19 matters. The SCC-Health, among other things, is responsible for:

- command and coordination of SA Health resources
- command and coordination of rapid response teams
- coordinating COVID-19 testing sites in conjunction with SA Pathology and other service providers
- preparing strategic action plans.

A Strategic Liaison and Coordination team was established to support the connection between the work streams, the COVID-19 Leadership Team and the SCC-H.

Initiatives in response to COVID-19 Initiatives

DHW implemented a number of initiatives in response to COVID-19 as outlined below.

Increased capacity to treat

SA Health introduced a number of initiatives to improve capacity within public hospitals and to manage a potential surge in COVID-19 cases. DHW advised that these included:

- ceasing some services including non-urgent elective surgery and outpatient services
- increased Hospital at Home services
- increased non-hospital activity to other sites

- medi-hotel – expression of interest and tender process for hotels to provide accommodation to travellers returning to South Australia and other mandated quarantine.

Established facilities

The following additional facilities were set up as part of SA Health's COVID-19 response:

- leasing and setting up Calvary College Grove for non-COVID patients
- leasing and setting up, including remediation works, the Old Wakefield Hospital for COVID patients
- ward updates at the Repatriation General Hospital
- bolstering the number of mental health beds available in a non-COVID site, the Adelaide Clinic.

Partnership with private hospitals

Partnership contracts were set up with private hospitals to provide additional capacity. Although contracts were in place, DHW advised that it has not activated them.

The SA Government also entered into 'viability payment' contracts with the private hospital groups to ensure they were able to continue trading.

In addition to the viability payments, strategies to decant patients are in place with some private hospitals.

Workforce initiatives

SA Health introduced a number of initiatives to upskill and manage its workforce. DHW advised that these included:

- upskilling of its nursing workforce to support their clinical skills and knowledge in managing patients with intensive/critical requirements
- identifying and recruiting particular skills sets
- establishing a Sub Pandemic Register of SA Health Nursing Pool, enabling an additional 3500 nurses/midwives to be available to the health system
- provision of SA Health clinical workforce support to Victorian sites
- placement of nurses in district police stations.

Managing medical supplies

SA Health introduced a number of initiatives to source and manage medical supplies across government. DHW advised that its key initiatives were:

- leading the coordination of a whole of government procurement strategy to identify risks to the sourcing and supply of personal protective equipment (PPE) and hygiene supplies. The strategy was used to source essential supplies for all agencies through a centralised risk based procurement approach

- establishing the DHW COVID-19 Personal Protective Equipment Clinical Advisory Group whose members included subject matter experts providing advice on best practice PPE infection control, product manufacturing and testing and the availability of respirators
- establishing information dashboards to analyse the PPE supply chain across DHW, including average daily orders and stock on hand
- introducing a PPE procurement taskforce to collaboratively share data and information across the health system
- introducing PPE vending machines at LHNs to control and monitor the supply of PPE
- a collaborating and liaising role across various sectors and industries
- partnering with the design industry for the local design of PPE
- laboratory testing new PPE.

Testing

DHW advised that it had established:

- four respiratory and four COVID-19 testing clinics within metropolitan Adelaide
- metropolitan drive-through testing sites
- regional respiratory and COVID-19 clinics at a number of locations
- SA Pathology mobile collection services providing free COVID-19 testing for interstate truck drivers and travellers requiring swabs
- home testing.

Public health

Contact tracing

SA Health's Communicable Disease Control Branch (CDCB) is a multi-disciplinary team with over 70 employees and is responsible for contact tracing. DHW advised that to support CDCB and respond quickly to surges in demand, it recruited a further 130 people, including doctors, epidemiologists, infection control consultants and administrative support.

DHW also advised that it had procured a new digital system to support complete patient journey management and associated data capture. The system addressed functionality issues of pre-existing systems and paper-based operational processes which are not sustainable in the larger scale, multi-site model needed to respond to the COVID-19 pandemic.

Managing isolation and hotel isolation

As the control agency for COVID-19 in South Australia, SA Health is responsible for planning and implementing quarantine arrangements with assistance from South Australia Police as a coordinating agency, along with several other support agencies.

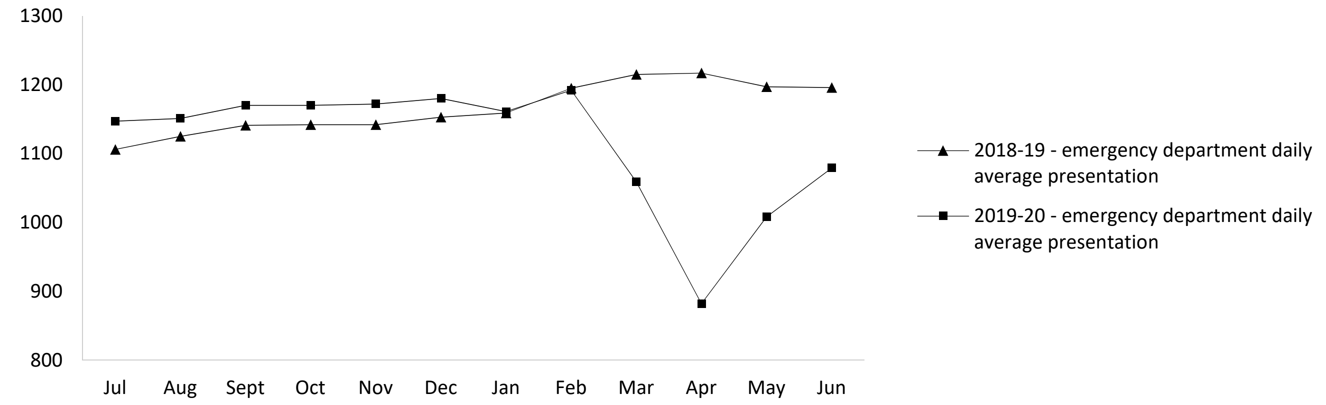
SA Health has overseen hotel quarantine arrangements for international arrivals. DHW advised that South Australia Police provided a 24/7 presence at supervised hotel quarantine sites, supporting

SA Health supervised quarantine of international arrivals. SA Health also engaged a private security firm to manage hotel security and monitor the movements of international guests.

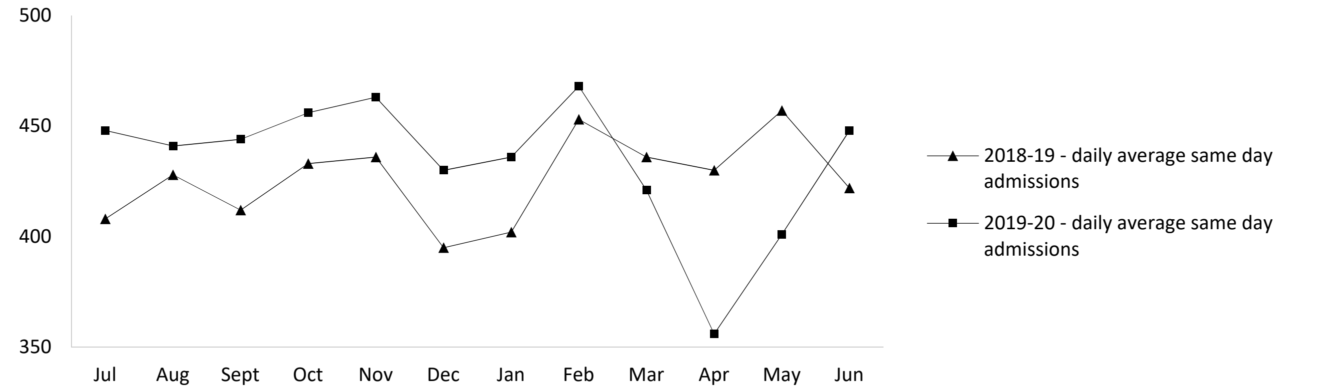
Activity levels impacted in 2019-20

The COVID-19 pandemic influenced activity levels across SA Health.

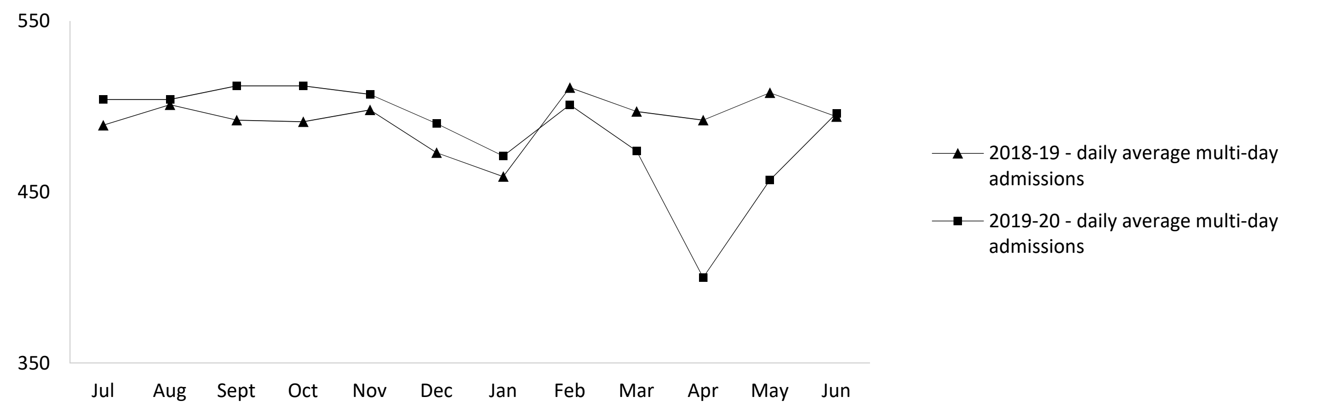
The following chart shows metropolitan emergency department daily average presentation for each month in 2019-20 compared to 2018-19, commencing with July of each financial year.



The following chart shows the daily average metropolitan same day admissions for each month in 2019-20 compared to 2018-19, commencing with July of each financial year.



The following chart shows the daily average metropolitan multi-day admissions for each month in 2019-20 compared to 2018-19, commencing with July of each financial year.



Commonwealth funding to support COVID-19 pandemic response

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

The Agreement provided for upfront funding of $6.9 million in March 2020 when the State signed and committed to it and reflected the State's share of $100 million paid on a population share basis. As this funding was an advance payment, subsequent receipts for COVID-19 related hospital services or state public health funding were adjusted to reflect the prospective nature of the payment.

In 2019-20, DHW received a total of $115.3 million from the Commonwealth Government under the Agreement for hospital services, public health and private hospital viability comprising:

- hospital services funding of $6.6 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 $19.8 million – the Commonwealth provides a 50% contribution 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 PPE (above 2018-19 levels)
  - 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 $88.9 million – the Commonwealth Government provided funding to ensure that the viability of private hospitals during the COVID-19 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 eligible private hospitals. DHW paid grant payments of $69 million to private hospitals under this agreement. Under its terms the remaining $20 million was retained by DHW and will be offset against future Commonwealth Government activity-based funding.

Commonwealth funding under the agreement makes up part of the other Commonwealth sourced grants and contributions revenue recognised in note 8 of DHW's financial report. Capability and viability payments made to private hospitals make up part of the subsidies expenses recognised in note 4.

Cost incurred by SA Health in responding to the COVID-19 pandemic

Note 1.7 of DHW's financial report outlines the material costs associated with COVID-19:

- the purchase by DHW of various plant and equipment and ICT infrastructure of $9 million. The LHNs also purchased various plant and equipment such as new ventilators and ICT infrastructure costing $5.7 million
- staff accessing special leave with pay for up to 15 days for absences related to COVID-19 at a cost of $3.7 million
- service model agreements costing $3.1 million that DHW entered into with two private hospitals (Wakefield Hospital and Calvary College Grove) to increase capacity and capability where needed
- an agreement between DHW and Detmold for the supply of disposable, non-sterile healthcare apparel products to secure a minimum three-year supply of medical facemasks. SA Health made an upfront payment of $2.9 million to Detmold to help with the purchase of manufacturing equipment
- LHNs recorded additional net costs associated with public health activities including preparation of hospitals to respond and establishing testing clinics, purchasing PPE for staff, non-clinical costs and establishing a rapid response nursing service – $28.6 million
- LHNs recorded additional costs associated with diverting activity to the private hospital system – $2.1 million.

DHW also made grant payments of $69 million to private hospitals to ensure their viability during the COVID-19 pandemic.

Financial sustainability and budget

State Budget

The SA Government, in its 2019-20 State Budget, confirmed its commitment to achieving national average efficiency for the hospital system by 2021-22. It is implementing a number of strategies with the intention of delivering quality health outcomes efficiently, including:

- a new governance and accountability framework for the public health system
- devolving governance and responsibility for the delivery of public health services to new LHN governing boards, which took effect on 1 July 2019. The governing boards have full responsibility for providing health services in line with the HC Act and performance agreements
- commencing financial and organisational recovery plans in LHNs including Central Adelaide Local Health Network Incorporated (CALHN) and in SA Pathology.

The 2019-20 State Budget provided an additional $451 million (including $95 million for 2018-19) towards establishing a sustainable, efficient health system. Additional approved funding of $169 million was provided in 2019-20 to ensure the health system continued to provide the necessary services required by the community and for legal support and contract management.

Note 35 of DHW's financial report provides some budgetary reporting information, including explanations of major variances between DHW's original budget provided to Parliament and actuals reported in its financial statements. Total actual expenses exceeded the 2019-20 State Budget allocation to Health by $547 million, while total income excluding revenue from SA Government exceeded the Budget by $138 million. It is important to note that budget data is not subject to audit.

Performance management

SA Health's performance framework sets out how DHW monitors and assesses the performance of public health services and resources within South Australia. 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.

Service agreements between LHNs/SAAS and the Chief Executive, 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 service agreement's intent is to be binding on all parties. We noted instances where LHN Chief Executive Officers and governing boards had not signed their 2019-20 service agreements or part thereof. Further discussion on this is included in the section of this Report titled 'Department for Health and Wellbeing'.

DHW advised that consistent with its SA Health Performance Framework 2019-20, quarterly performance monitoring and meetings took place for LHNs and more frequently for Northern Adelaide Local Health Network Incorporated (NALHN) and CALHN. DHW also advised that it had conducted a significant review and developed changed service agreements for 2020-21 that reflected LHN feedback from the 2019-20 process.

Summary of 2019-20 budget and forecast data

Total expenses for the consolidated SA Health sector in 2019-20 were $7.1 billion, an increase of $328 million (5%) over 2018-19.

In recent years, our reports have highlighted continued expenditure growth, failure to achieve set savings targets and ongoing risks associated with the financial sustainability of the public health system.

The declaration of the major emergency for COVID-19 led to SA Health being required to do what was needed to protect the health and wellbeing of the community. Existing resources were subject to COVID-19 priorities. SA Health also required additional funding to meet related costs, as explained under 'Response to COVID-19' above.

Accordingly, in 2019-20 we performed a limited review of reported outcomes for the LHNs and SAAS against budget targets. We looked at whether the 2019-20 LHN and SAAS budgets were achieved and what factors ultimately influenced budget outcomes for the year.

DHW monitors the budget performance of individual LHNs and SAAS throughout the year and reports the outcomes in its Portfolio Performance Report (PPR). In 2019-20, DHW changed elements of its commissioning and funding models and COVID-19 significantly affected activities across the sector, so it is not possible to compare budget results from year to year. It is important to note that the budget data is not subject to audit.

In its June 2020 (interim) PPR, DHW projected an unfavourable net operating result for the Health portfolio of $220 million. The most significant contribution to the unfavourable result came from salaries and wages.

CALHN continued to be the largest contributor to the unfavourable net operating result.

In 2018-19, DHW appointed KordaMentha in a role as implementation partner for CALHN's organisational and financial recovery plan. KordaMentha conducted work across a range of areas at CALHN, including developing plans for improvement and reviewing procurement and financial delegations. The recovery program was expected to take three years.

In 2019-20, KordaMentha's work at CALHN included procurement and workforce planning. Due to the impacts of COVID-19, the financial recovery program was paused in April 2020. Further discussion on this matter is included in the section of this Report titled 'Central Adelaide Local Health Network Incorporated'.

Independent Commissioner Against Corruption

In November 2019, the Independent Commissioner Against Corruption (ICAC) tabled his *Troubling Ambiguity: Governance in SA Health Report* into SA Health. It highlighted his 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 includes senior members of the public service.

DHW prepared a Program Implementation Plan to target and address the issues raised by ICAC, which have been categorised into the following three distinct work streams:

- Industrial Reform, which will consider the industrial arrangements with medical officers, including rights of private practice
- Cultural Reform, which in collaboration with the Office for the Commissioner for Public Sector will lead a number of strategies to address the cultural issues raised by ICAC
- Policy and Practice Reform, which will focus on the review and update of existing departmental policies, procedures and work practices as detailed by ICAC.

Each LHN was required to develop an action plan to locally implement changes supported by a Deputy Chief Executive, DHW.

The program was impacted by SA Health's response to the COVID-19 pandemic, with the time frames for completion of the program extended.

IT and system change

Over several years, DHW has developed and progressively implemented IT systems used to support financial and health related services, such as patient administration and clinical functions. Many of these systems and their dependencies are critical to the successful operation of the health system.

Electronic Medical Record (EMR)

In 2011 DHW commenced its implementation of an integrated patient administration system called EMR (previously known as the Enterprise Patient Administration System). Since our last review in October 2019, SA Health has continued to progress EMR's implementation at a number of exemplar sites and was addressing the recommendations made in an independent review dated December 2018.

At the time of this Report, DHW was in the process of updating business cases outlining a revised implementation approach, with updated estimated costs and benefits.

We intend to provide a more detailed report to Parliament on the EMR project in the second half of 2020.

Electronic Pathology Laboratory Information System (EPLIS)

EPLIS was implemented to standardise some pathology workflows and replace a legacy laboratory pathology system that was increasingly problematic and costly to support within DHW.

DHW completed the EPLIS rollout in April 2018. Since implementation, the EPLIS sites have experienced several ongoing issues. To resolve them DHW initiated a separate Optimisation Project in September 2018.

We have sought an update on these activities and intend to provide a more detailed report to Parliament in the second half of 2020.

Legacy systems

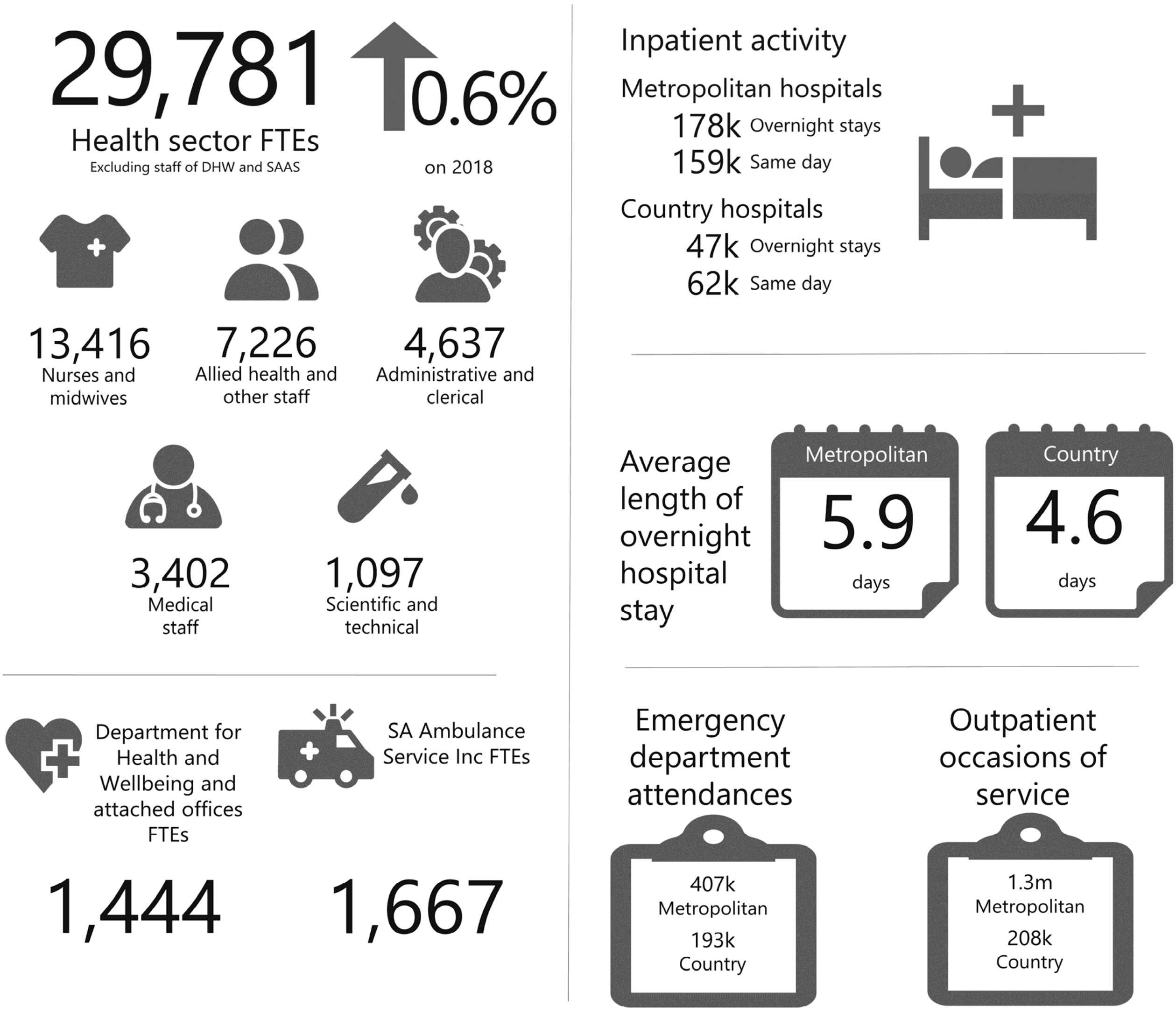
In 2019-20, we conducted a high-level review to determine the extent and impact of legacy ICT systems within the SA Government, which included DHW. Our summary of findings for the public sector are set out in the Auditor-General's Report 12 of 2020, *Information and communication technology reviews*, tabled in September 2020.

DHW continues to operate several legacy systems, including some legacy patient administration and revenue systems. These legacy systems present a number of challenges, including increased ongoing maintenance costs, higher risk of system failure, increased susceptibility to security vulnerabilities, inability to integrate with other key systems and insufficient access to personnel who have adequate expertise.

Health sector staffing and patient activity data – unaudited

The following staffing and patient activity information was provided by DHW in response to our request and is unaudited.

Health sector staffing statistics



Source: Provided by DHW in response to our request and unaudited.

The following table details the staffing levels as at 30 June in the Health sector, excluding staff of DHW and SAAS, for the past three years.

Health sector FTE mix (unaudited)

	2018 Number	2019 Number	2020 Number
Staff categories:			
Nurses and midwives	13 130	13 528	13 416
Medical staff	3 155	3 282	3 402
Scientific and technical	1 064	1 097	1 097
Administrative and clerical	4 552	4 569	4 637
Allied health and other staff	6 924	7 116	7 229
Total staff	28 825	29 592	29 781
Increase (Decrease)	911	767	189
Percentage increase (decrease)	3.3%	2.7%	0.6%

Department for Health and Wellbeing staffing statistics

The following table details the staffing levels of DHW as at 30 June for the past three years.

Department for Health and Wellbeing FTEs (unaudited)

	2018 Number	2019 Number	2020 Number
Total staff	1 602	1 605	1 335

Offices attached to the Department for Health and Wellbeing staffing statistics (unaudited)

	2020 Number
Commission on Excellence and Innovation in Health	22
Wellbeing SA	87

SA Ambulance Service Inc staffing statistics

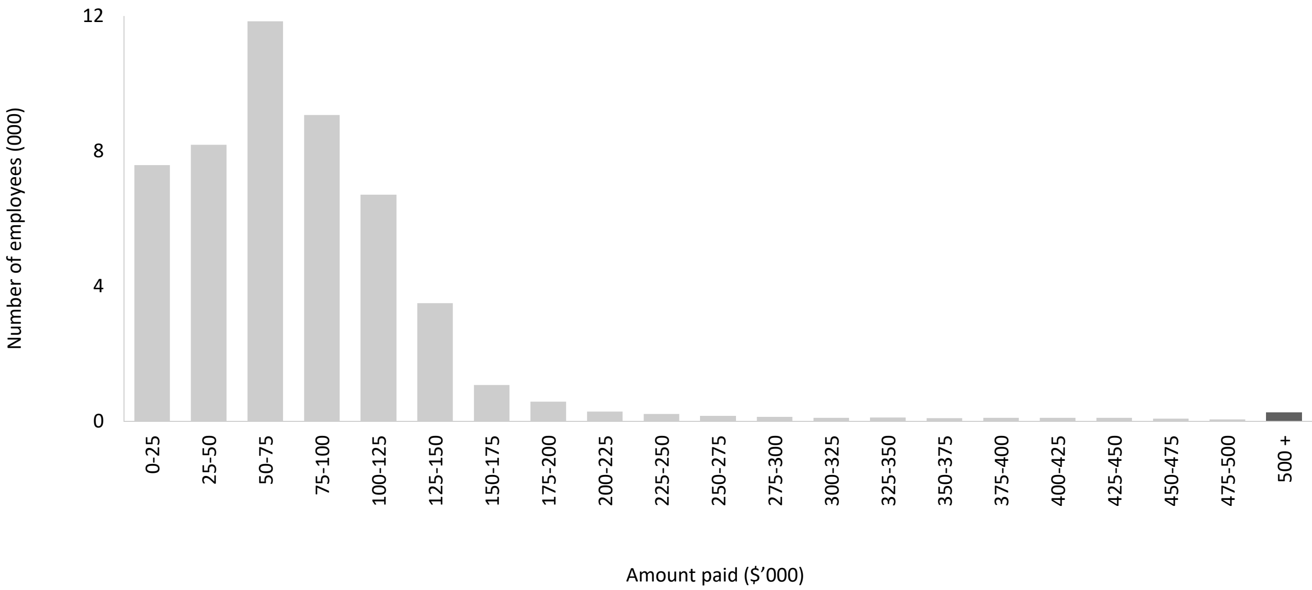
The following table details the staffing levels of SAAS as at 30 June for the past three years.

SA Ambulance Service Inc FTEs (unaudited)

	2018 Number	2019 Number	2020 Number
Total staff	1 480	1 618	1 667

Overall analysis of payments to SA Health staff

Our analysis of remuneration to all SA Health employees for 2019-20 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 that its processes to collate activity data for 2019-20 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)

	2018 Number	2019 Number	2020 Number
Metropolitan hospitals:			
Overnight stay	177 131	179 561	177 796
Same day	146 718	155 422	158 944
Total	323 849	334 983	336 740
Country hospitals:			
Overnight stay	51 146	50 147	47 064
Same day	65 073	64 261	62 955
Total	116 219	114 408	110 019

Average length of overnight hospital stay (unaudited)

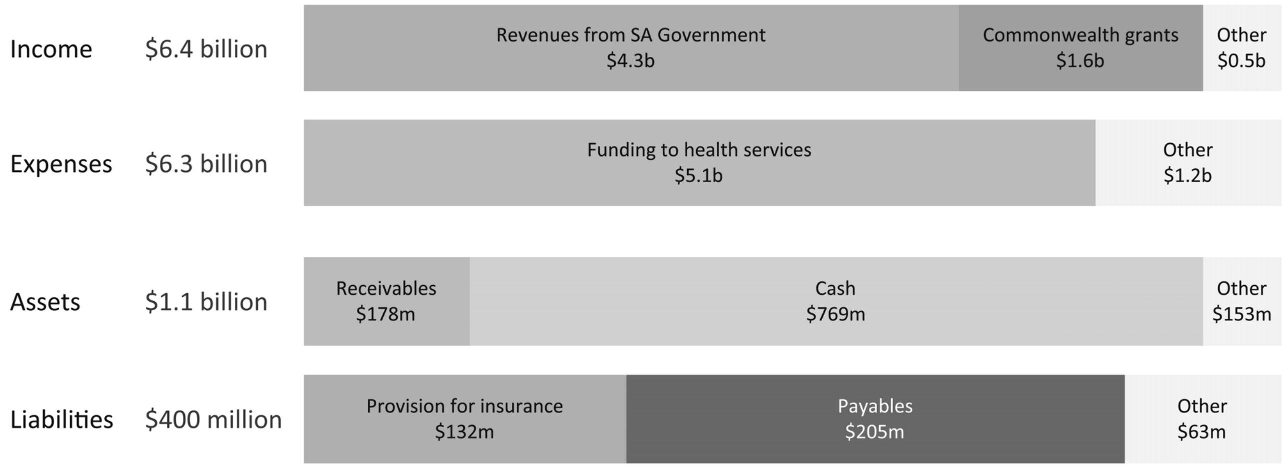
	2018 Days	2019 Days	2020 Days
Metropolitan hospitals	6.0	5.8	5.9
Country hospitals	4.8	4.7	4.6

Emergency department and public outpatient activity (unaudited)

	2018 Number	2019 Number	2020 Number
Metropolitan hospitals:			
Emergency department attendances	412 935	425 353	407 816
Outpatient occasions of service	1 122 289	1 213 213	1 280 945
Country hospitals:			
Emergency department attendances	192 795	196 816	193 011
Outpatient occasions of service	160 255	167 276	208 747

Department for Health and Wellbeing (DHW)

Financial statistics



1335
Total employees - DHW

32,780
Total employees - SA Health

Significant events and transactions

- The SA Government has, through legislative change, altered the role and responsibility of the Chief Executive, DHW and has provided that local health networks (LHNs) are governed by boards from 1 July 2019.
- To support the devolution of governance and responsibility to governing boards, the SA Government and DHW made significant changes to SA Health's governance and accountability frameworks.
- On 15 March 2020 the Chief Executive, DHW declared a public health emergency under the *South Australian Public Health Act 2011.*
- Under the State Emergency Management Plan, SA Health is the control agency for human disease.
- SA Health's response to the COVID-19 pandemic included increasing capacity to treat, upskilling staff, managing medical supplies, establishing testing capacity, contact tracing and managing isolation.
- DHW's financial report outlines material costs directly associated with COVID-19 of $55 million.
- Consolidated total expenses exceeded the original budget by $547 million.

Financial report opinion	**Unmodified**
Controls opinion findings	— Procurement and contract management practices need to improve. — No conflict of interest declarations and confidentiality agreements for some sampled procurements. — Inadequate documentation supporting some sampled procurement processes. — No contract management plans for sampled contracts. — Contractually required meetings with suppliers not held. — Management of delegations system needed to improve. — Improvements needed to ensure financial authorisation capacity in the payments systems align with approved delegations.
Other audit findings	— Service agreements with LHNs not always signed. — Invoices paid without purchase orders. — Legal compliance framework not fully implemented. — Insufficient review of payroll information. — Management of inventory records needed to improve. — Delayed recovery and payment of interstate patient transfers. — Expired agreements with other jurisdictions for interstate patient transfers.

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 2 of its financial report provides details about its objectives.

The Chief Executive, DHW is charged with the overall management, administration and provision of health services and to ensure DHW plays a leadership role in the administration of health services. The *Health Care Act 2008* (HC Act) makes the Chief Executive, DHW responsible for facilitating the efficient and economic operation of the public health system.

In line with AASB 10 *Consolidated Financial Statements*, consolidated financial statements were prepared comprising DHW, the LHNs and SA Ambulance Service Inc (SAAS).

Collectively DHW, the LHNs and SAAS are known as SA Health or the Health sector.

Governance changes from 1 July 2019

From 1 July 2019 amendments to the HC Act provided for LHNs to be governed by boards. The amendments also change the role of the Chief Executive, DHW to remove direct responsibility for administering LHNs from that date.

Governing boards were established and commenced on 1 July 2019. The board chairs and members were appointed by the Minister for Health and Wellbeing. Governing boards of LHNs are responsible for addressing the local need, providing strategic direction and monitoring their LHN's operating and financial performance. The board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive, DHW.

Under these changes, DHW remains responsible for setting statewide policy and the Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

To support devolving governance and responsibility for delivering public health services to the new LHN governing boards, the SA Government and DHW made significant 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.

Associated with the revised arrangements, SA Health made changes to its organisation structure, including transferring some staff and responsibilities to Shared Services SA (SSSA) from 1 July 2019. DHW also devolved some of its functions to LHNs.

A second round of legislative amendments, the Health Care (Governance) Amendment Bill 2020, was introduced to Parliament in 2019-20. It proposes provisions relating to the service agreements for LHNs as a key element of the performance framework, as well as provisions relating to the role and function of the Chief Executive, DHW.

Service agreements between LHNs/SAAS and the Chief Executive, 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 service agreement's intent is to be binding on all parties. We noted instances where LHN chief executive officers and governing boards had not signed their 2019-20 service agreement or part of the agreement. This matter is discussed 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.

Financial services are provided through a mix of:

- central services provided by DHW for LHNs and SAAS
- services provided by SSSA.

Specific areas of audit attention in 2019-20 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
- insurance services
- IT general controls
- professional development entitlements.

Internal audit activities were considered in designing and performing 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, including reviewing a sample of higher value or higher risk procurements.

In 2019-20 we looked at elements of procurement for the following six large procurements that resulted in contracts that were established during the year:

- Patient services – resulted in a panel contract consisting of 13 providers with a total estimated contract value of $680 million over eight years. The panel agreement is for use across SA Health to help LHNs, as required, to acquire patient services to relieve the public system when there are excess demands, overflows, backlogs and peak demand periods.

- Professional services – resulted in a panel contract consisting of 165 providers with a total estimated contract value of $300 million over 10 years. The panel agreement is for use across SA Health for the provision of a range of professional, business and advisory, biomedical and asset planning support services for SA Health.
- Sterile procedure packs – resulted in individual contracts with four providers with a total estimated contract value of $96 million over nine years.
- IV access devices and administration consumables – resulted in individual contracts with 30 providers with a total estimated contract value of $59 million over seven years.
- Airway management and oxygen consumables – resulted in period contracts with 31 providers with a total estimated contract value of $56 million over seven years.
- Defibrillators and associated accessories parts and consumables – resulted in contracts with four providers for LHNs and three for SAAS with a total estimated contract value of $48 million.

Our audit included reviewing procurement documentation against the mandated requirements of the State Procurement Board (SPB). We found that while DHW complied with most of these requirements, the following areas needed improvement.

Missing conflict of interest declarations, confidentiality agreements and associated management plans

In his *Troubling Ambiguity: Governance in SA Health Report*, November 2019, 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 to declare any conflicts of interest and sign confidentiality forms as required by SA Health procurement policy. We found this did not always occur, including instances where declarations could not be provided or were signed only after purchase recommendations were made.

Where conflicts are noted, SA Health’s policy directive requires an approved management plan and a briefing to the Chief Executive. Our review found an instance where an evaluation team member advised a conflict of interest but DHW could not provide an approved management plan or demonstrate that it briefed the Chief Executive.

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 do not contain information that could be perceived as important for due consideration, it can impact the integrity of the procurement process.

DHW advised its intention to work with the SPB to provide targeted training on conflict of interest and confidentiality requirements. It also indicated that it will require its procurement staff to undertake the online conflict of interest training provided by the Independent Commissioner Against Corruption.

Inadequate documentation supporting the decision not to have a probity plan

The SPB Probity and Ethical Procurement Guideline requires a probity plan for higher value and risky procurements. Such a plan helps to ensure ethical behaviour in a particular process.

We considered what probity processes occurred for the patient services and professional services procurements, which had an estimated value of $680 million and $300 million respectively. SA Health rated patient services as a moderate risk procurement and professional services as low risk. We note the professional services procurement, while lower in value and risk, had a probity plan while the patient services procurement did not. We found the discussion of probity risks in the patient services acquisition plan did not adequately document the reasons for not having a probity plan. We recommended better documentation to demonstrate decision making.

DHW advised its intention to work with the SPB to provide targeted training on these areas.

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 timing, membership and weightings of selection criteria. The SPB Supplier Selection Policy requires agencies to develop and approve evaluation plans before opening any bids.

Our review found instances where evaluation plans were not signed by some or all of the evaluation team members until after offers were opened. We also found instances where the evaluation plan was not signed as approved. We have reported similar concerns in previous years.

We recommended DHW ensure final evaluation plans are endorsed by all members of the evaluation team and approved before opening any bids.

DHW advised its intention to work with the SPB to provide targeted training on these areas.

Contract executed after the commencement date

Our review found instances where contracts were executed after their commencement date. Any period without a formal instrument of agreement potentially impacts DHW's ability to manage contractual obligations and conditions, including price.

DHW responded that it would advise staff to allocate more time in forward procurement planning for seeking contract execution by the Minister.

Objectives and justification of procurement strategy not clear

The SPB guidelines indicate that panel contracts are not appropriate for all situations and should only be considered where the benefits are clearly articulated and understood.

Our review considered whether the stated objectives of the procurement, and other discussion in the patient services acquisition plan, adequately demonstrated the benefits of establishing a panel over adopting a procurement strategy of negotiating individual supplier contracts.

We found that the procurement objectives as stated in the acquisition plan did not relate specifically to the procurement but were more like broad SA Health strategies. We also found that the documentation did not justify or analyse the benefits of a panel strategy over alternative approaches.

We recommended that procurement documentation should include clear and specific procurement objectives and justification for the chosen procurement approach.

DHW responded that the patient services panel used an outcome-based procurement approach, to seek innovation from the supply market by focusing on the outcomes SA Health required, rather than defining how the outcome should be achieved. It indicated that using outcome-based specifications allowed the suppliers to propose solutions that may otherwise be excluded from a conventional tender approach. DHW also indicated the objectives outlined in the acquisition plan reflect its commitment to patient safety and wellbeing, including a focus on continuous improvement and innovative solutions for better patient outcomes.

DHW also indicated that it would remind its staff to ensure that the justification for the procurement strategy is clearly articulated in the evaluation plan.

Process for secondary procurement unclear

Where a panel contract approach is used as a procurement strategy, it may not be possible to fully specify the details of goods or services required. These details may have to be negotiated between the supplier and DHW during a secondary procurement process.

SPB guidelines require the acquisition planning for procurements that use a panel contract strategy to document the approach to secondary procurement. We found the acquisition plan for the patient services contract indicated that there would be no secondary procurement. We were concerned that the level of detail in the first procurement process was not specific enough to engage a supplier and that a secondary procurement process was likely to be needed. We confirmed with DHW staff that the acquisition plan was incorrect and that a secondary procurement process was intended but not documented. Our review found similar issues in another procurement process.

Without an agreed and documented secondary procurement process, the objectives and evaluation of both the first and secondary procurement can become unclear or confused, potentially leading to important elements of the evaluation being missed.

DHW advised its intention to work with the SPB to provide targeted training on these areas. It also indicated that it had developed a guide to help SA Health business units to select a supplier to provide the required service.

Sustainability impact assessment not performed

The SPB guidelines provide guidance on how to effectively integrate sustainability features and objectives into the procurement process for goods and services. They specify that all procurements greater than $4.4 million must include a sustainability impact assessment in the acquisition plan.

Our review of acquisition plans found that they included statements that sustainability measures would be considered in the tender and evaluation processes. However we found the discussion was broad and did not demonstrate how the evaluation team would meet the sustainability impact assessment required by the SPB guidelines.

DHW responded that it acknowledged the requirements, however in its view, for the contracts we reviewed, it would be difficult to evaluate sustainability for unknown work. It also indicated that for one procurement process, it removed the sustainability impact assessment as the consumables involved were biohazard waste and needed to be incinerated.

Some procurement elements not addressed in acquisition plans

The SPB's Acquisition Planning Template and Panel Contracts Guideline provide mandated requirements for acquisition planning, a key element of undertaking a procurement.

Our review of the documentation for one procurement noted that the acquisition plan did not comprehensively address the following areas:

- life cycle costing – it did not adequately demonstrate what the team had done to identify and consider total estimated whole-of-life costs
- panel contract requirements – it did not document whether use of the panel contract was mandatory or optional.

DHW responded that the procurement related to a greenfield project where goods were not previously on contract and that it was difficult to clearly understand lifecycle costs. It did indicate that implementation of this first contract would enable better reporting in the future.

Contract management

Each year we review elements of DHW's contract management processes including reviewing some higher value or higher risk contracts.

In 2019-20, our review included a focus on DHW's management of the Pharmaceuticals and Large Volume Fluids contracts (pharmaceutical contracts) which comprise 30 individual contracts with suppliers. Expenditure on these contracts for 2019-20 was $192 million. Our objective was to determine whether there was reasonable assurance that they 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.

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 30 pharmaceutical contracts it established in 2018.

DHW's Procurement and Supply Chain Management (PSCM) staff advised they used a redundant contract management plan, based on old expired contracts, to manage the current arrangements with suppliers. This redundant plan was last updated in 2015.

We have previously reported concerns at PSCM's delay in establishing contract management plans.

DHW advised that in its view the missing contract management plans were low risk and that it was still undertaking contract management. It also advised that it had since approved a contract management plan and would remind its staff of the need to complete and approve contract management plans in a timely manner.

Contract management documentation was missing key information and guidance important for managing existing contracts

The SPB contract management guidelines prescribe the areas that should be included in a contract management plan. As discussed above, DHW uses a redundant contract management plan for the pharmaceutical contracts. We reviewed it and found the following issues that could prevent good contract management practices:

- it did not discuss the approach to implementing the current contracts, including transition requirements
- it had outdated terms of contract, including pricing
- key performance indicators were based on previous contracts, although they were similar to those in the current contracts
- supplier reporting requirements varied to those in the current contract
- payment terms and arrangements were not addressed
- contract finalisation arrangements were not addressed
- there were no current and specific risk management plans.

DHW advised that in its view the missing contract management plans were low risk and that it was still undertaking contract management. It indicated that it would remind its staff that contract management plans should include details of how the obligations and responsibilities are to be met and measured, by when and by who.

No formal contract manager currently appointed

Our review found that for large periods of the year, DHW did not have an appointed contract manager for its 30 pharmaceutical contracts.

The SPB Contract Management Policy requires entities to appoint an adequately resourced and skilled contract manager for contracts valued at or above $4.4 million and significant contracts below $4.4 million.

DHW responded that it had contract managers in place for periods of the year to February 2020 and had assigned a contract manager in March 2020, however it had reprioritised those resources to focus on securing consumables, including pharmaceutical products, in response to the COVID-19 emergency.

Contractually required meetings with suppliers not held

The pharmaceutical contracts require the supplier's representative to attend six-monthly 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 agreements.

Because there are no contract management plans specific to these contracts, there is uncertainty as to the objectives and purpose of these meetings and the responsibilities of each party in their conduct.

DHW staff advised that meetings were held with only three of the 30 suppliers in 2019-2020. We also found there were no documented minutes for the meetings held. The SPB's Contract Management Policy states that keeping records and documentation is a crucial aspect of good contract management, including records of contract management meetings.

DHW responded with its view that the risk was low as the operational daily contract management tasks were undertaken while the pharmaceuticals contract manager was focused on other priorities, such as sourcing a range of additional consumables, due to the COVID-19 emergency. It indicated that scheduled contract management meetings did not occur due to the change in priorities, but that staff met with suppliers during the period when the contract management meetings were due to be held.

DHW also indicated that the now approved contract management plan includes the contractual requirement for regular supplier meetings.

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.

Need to restrict access to the Governance and Delegations System (GADS)

DHW uses GADS to manage the financial delegations and authorities approved by the Chief Executive. We reviewed a list of users who had administrator access to GADS giving them the ability to make changes to the delegations register. We found that of nine employees with administrator access, only three were responsible for updating and maintaining the GADS delegation register. Employees having unnecessary access increases the risk of unauthorised changes being made to financial limits in payment systems.

DHW advised that it would review users with administration access to GADS and ensure access is restricted to those responsible for updating and maintaining the register.

Financial authorisations register not reviewed as required by Treasurer's Instructions

Treasurer's Instruction 8 *Financial Authorisations* (TI 8) requires the Chief Executive to review the financial delegations register annually. We found that, at the time of our audit, DHW had not reviewed the delegations register for more than 18 months.

DHW responded that it was aware of the requirements, indicating the review was intentionally put on hold while it went through structural change. It also indicated that it had advised the Department of Treasury and Finance of the breach of TI 8 and was now undertaking the review.

Payment system authorisation limits are not matched to the approved delegations.

In prior years we have raised concerns that financial authorisation limits in the Basware payment system did not always align with the financial delegations approved by the Chief Executive. DHW previously advised that it would implement an annual review to match Basware and Oracle payment system financial authorisation limits with the delegations register in GADS. In 2019-20 we found that the intended annual review had not occurred since October 2017.

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.

DHW responded that it would implement a quarterly review of authorisation limits in Basware and Oracle to GADS. It would also review delegation functions in its Procurement and Contract Management System, which include payment authorisation functions.

No monitoring of changes made to the delegations register

We reviewed DHW's processes for making changes to the GADS delegations register. This included assessing whether there were safeguards in place to ensure changes made were valid and accurate. Changes to the GADS delegations register can be made by users with administrator access. We found that DHW did not maintain an audit trail of changes made. We also found that changes were not subject to independent review. We recommended DHW ensure all changes made to the GADS delegations register are independently reviewed and maintain an audit trail of changes.

DHW advised that it would implement an independent review of changes but that limitations to GADS prevented an audit history of changes made being maintained.

No systematic approach to managing temporary changes to the delegations register

Some delegation limits on the GADS delegations register are subject to a specific time frame. Our review considered how DHW ensures the register is updated once the temporary delegation has expired.

We were advised that there is no systematic process to alert administrators when temporary delegations are expiring. We recommended DHW implement a systematic process for this so that expired temporary delegations can be quickly removed.

DHW responded that the GADS system did not allow for a systematic process and that it had a manual process to review expiry dates.

Super delegate, special delegate and manual transactions not adequately reviewed

We reviewed controls over transactions approved by super or special delegates in Basware, as well as manual payments. These transactions are processed outside of the normal Basware system approval processes and are generally of a higher value and/or higher risk.

In prior years we have reported that DHW did not ensure these payments were always independently reviewed across SA Health. In 2019-20 we noted an improved level of review at DHW and metropolitan LHNs, however reviews of these transactions at the regional LHNs needs improvement.

DHW advised that processes were delayed while management positions were filled at the newly established LHNs and that it would implement an escalation process for when reviews are not performed.

Review of user access to Oracle and Basware needs improvement

PSCM provides Basware and Oracle user listings to authorised delegates at LHNs and DHW on a quarterly basis for review. The delegates are responsible for confirming that each user's access level is appropriate and that financial delegations agree to those approved by the Chief Executive. PSCM maintains a register to record when responses are received from delegates and when escalation has been initiated due to non-compliance.

In recent years we have raised concerns about the low response rates and timeliness of these reviews. In 2019-20 we noted an improved response rate (88% from 66%), however improvements are still needed.

DHW indicated that it would continue to escalate to management when responses are not received.

Financial authorisation capacity in Basware and Oracle did not match GADS

We reviewed the approved financial delegations register against the system-based financial limits in Basware and Oracle to identify inconsistencies. We found positions in Basware and Oracle with system-based approval capacity:

- that did not have any delegated authority – both Oracle and Basware
- that exceeded the delegated authority – both Oracle and Basware
- that were lower than the delegated authority – Basware.

DHW advised that it would implement a quarterly review of authorisation limits in Basware and Oracle against GADS. It will also review discrepancies. It indicated that all payments made by the users we identified were authorised under the Chief Executive's delegations.

Grant revenue

Improvements needed to meet reporting requirements for Commonwealth funding

In 2019-20, DHW received $1.3 billion from the Commonwealth Government for activity-based funding under the National Health Reform Agreement (NHRA). Each quarter DHW is required to provide activity data to the Independent Hospital Pricing Authority (IHPA) under the requirements of the NHRA.

We found that statements of assurance attached to the activity data DHW provided to the IHPA in 2019-20 did not meet all reporting requirements approved by the Australian Health Ministers' Advisory Council (AHMAC). Gaps in this information could create doubt about the reliability and usefulness of the data provided. This could also impact DHW's accountability for the NHRA funding it received.

DHW responded that for its next submission to the IHPA it would review the contents of the statement of assurance to ensure it meets all elements approved by AHMAC and the NHRA.

Other audit findings

Interstate patient transfers

The NHRA 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. Interstate patient transfers revenue and expenditure transactions 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

The most recent cross-border agreements between South Australia and other jurisdictions expired in 2017. Without them there is an increased risk of disputes between jurisdictions and this could lead to significant and long outstanding receivables and payables.

DHW responded that a lengthy period of negotiation for a new addendum to the NHRA impacted its capacity to establish arrangements. It indicated that it has taken a lead in pursuing negotiations for cross-border agreements, including leading a process to create a template by the end of 2020. DHW was actively pursuing both interim and longer term arrangements. It considers the risk of these expired arrangements is low.

Delayed recovery and payment of interstate patient transfers

DHW recognises very large interstate patient transfer receivables and payables with other States and Territories. As at 30 June 2020 interstate patient receivables were $138 million and payables were $119 million, a net receivable of $19 million. Included in these figures are significant long outstanding receivables and payables which date back as far as 2015-16. DHW staff advised that because the payments are retrospective and rely on data from independent sources including the Administrator, there are delays before DHW can undertake negotiations to settle payments and receipts.

DHW advised that it had completed cross-border reconciliations with most jurisdictions for 2015-16 and 2016-17 and was actively engaged in negotiations to finalise those that are outstanding.

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 where the purchase is below $2200. Our review across DHW and the LHNs found many payments without purchase orders where 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.

We have reported this for many years.

Responding to our concerns previously, DHW indicated that it would monitor payments and contact approvers where the purchase order policy was not followed. In 2019-20 we found that for large parts of the year this monitoring did not occur.

We continue to report systemic compliance issues across SA Heath.

DHW responded that it is not possible to monitor non-compliance given the large number of invoices without purchase orders and data limitations. It indicated that PSCM was conducting a review to establish a process to identify, analyse and address non-exempt expenses processed through Basware. It was also writing to all suppliers advising them of the requirement to include a purchase order number on all invoices issued to SA Health. DHW is also developing a training package to be provided across SA Health.

Governance and accountability

Service agreements not signed

Service agreements between LHNs/SA Ambulance 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 service agreement's intent is to be binding on all parties.

Our review of service agreements found that agreements for 2019-20 were not always signed. We also found instances where the agreements were signed but important commissioning and funding components of the documents, including activity and budget allocations, were not signed as agreed.

Unsigned service agreements present the following risks:

- uncertainty over functions, obligations, expectations or performance deliverables
- impeding the LHN governing boards' legislative function to manage performance against the performance measures in the service agreement as required by the HC Act
- reduced accountability for specific service obligations and performance requirements
- conflicts with the NHRA which requires service agreements.

DHW responded that there were prolonged service agreement negotiations throughout the year and that although not all service agreements were signed for 2019-20, it had set and communicated the budget for each LHN clearly and transparently as well as communicating the performance targets that LHNs were to be monitored against for 2019-20. It indicated that, consistent with its SA Health Performance Framework 2019-20, quarterly performance monitoring and meetings took place for LHNs and more frequently for Northern Adelaide Local Health Network Incorporated and Central Adelaide Local Health Network Incorporated.

DHW also indicated that it had conducted a significant review of the service agreements for 2020-21, which focused on an assessment of LHN feedback from the 2019-20 process. It indicated that DHW and the LHNs have been involved in extensive negotiations regarding the 2020-21 service agreements and it planned to provide the 2020-21 agreements to LHNs in September 2020. It expected LHNs to sign their 2020-21 agreements shortly after.

Legal compliance framework not fully implemented

Last year we reported that DHW had progressed towards implementing its legislative compliance framework. We reported that SA Health had established a legislative compliance register at each business unit and had implemented an annual certification process for eight specified legislative obligation themes. We also reported that SA Health's intention to expand the certification process to LHN and SAAS business unit activities was deferred while the SA Government's health reform agenda were underway.

Our follow-up review in 2019-20 noted that in light of the changed statutory responsibilities and lines of accountability through amendments to the HC Act, SA Health had reassessed the way in which it would undertake legislative compliance activities across the system.

DHW is amending the policy framework to allow governing boards and local management teams to develop procedures that are consistent with the policy framework and relate to the local environment and context.

DHW developed a new System-wide Integrated Compliance Policy Directive which became operative on 20 July 2020. It provides an overarching framework encompassing all SA Health compliance activities including policy, financial management and legislative compliance. On the same date, the SA Health Legislative Compliance Policy Directive and Guideline was rescinded to avoid any unnecessary duplication in policies.

We found that while DHW had progressed these policy and support mechanisms, they were still being developed and were not fully implemented throughout 2019-20.

DHW's response indicated that it was undertaking the following activities to ensure legislative compliance activities were understood, risk managed, embedded and monitored across SA Health:

- developing a plan to help SA Health entities implement the System-wide Integrated Compliance Policy Directive
- updating fact sheets and guidance to ensure they align with the new policy directive
- developing a process to procure and implement IT-based support for legislative compliance to help SA Health entities to identify and monitor their legislative obligations.

Payroll

Staff benefit expenses are a significant cost, totalling $172 million for DHW and $4.2 billion across the consolidated entity in 2019-20.

Payroll services are provided through a combination of:

- central payroll services provided by DHW for SA Health
- central payroll services provided by SSSA for SA Health
- payroll activities located in each LHN.

A summary of our findings for payroll activities in LHNs can be found under 'Communicating our audit findings' in the sections of this Report for each LHN.

Findings relating to the central and DHW specific payroll services provided by DHW are reported below.

Insufficient review of payroll information

DHW has more than 1300 employees. Many of them are paid standard hours without direct reference to actual time records. In this environment, it is important for there to be regular management review of individual employee payments and leave records. In recent years we have reported deficiencies in management's review of bona fide and leave reports.

Managers/Team leaders are required to log on to the payroll system and review a report to confirm the bona fide nature of employee payments and leave taken. We reviewed the bona fide certification process from 1 July 2019 to 31 January 2020. We found that managers had not reviewed 30% (23% in 2018-19) of payment details on the bona fide certificates. As at 24 January 2020, managers had not reviewed 32% of payment details on the bona fide certificates for December 2019. We found that management review of bona fide certificates had deteriorated from the previous year.

DHW responded that bona fide review compliance continues to be monitored regularly and non-compliance followed up, indicating that compliance was high at 70%. It indicated that it was considering strategies to increase compliance including exploring automatically generated reminders.

Inventory

Annually DHW spends around $106 million on medical, surgical and laboratory inventory through its distribution centre and bulk stores.

Management of inventory records needs improvement

Our review of inventory at the distribution centre and bulk stores found:

- instances where adjustments to inventory occurred without evidence of investigating the cause and without authorisation
- adjustments not reviewed as required by SA Health directives
- discrepancies between the quantity of stock recorded in the system and stock on hand
- instances where cyclical stock counts were not completed as scheduled.

DHW responded with actions to address the findings including its plans to introduce more automated processes at its planned new warehouse distribution centre. It expects the building will be complete in January 2021 with fitouts commencing from February 2021. It advised that the new distribution centre will support SA Health's Direct to Imprest supply chain model, which it considers will streamline processes and achieve efficiencies.

IT general controls review

The Oracle Corporate System (OCS) is DHW's application for accounts payable, accounts receivable, general ledger and fixed assets.

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

Our review confirmed that DHW generally maintains strong management control over certain aspects of its OCS environment.

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

- segregation of duty conflicts
- weaknesses in the offboarding process
- inadequate user access review
- inappropriate privileged user access
- weaknesses in the disaster recovery process.

These risks increase the potential for malicious activity by users within the system and inappropriate changes to financial data.

DHW generally responded positively to our findings and agreed to take appropriate remedial action, expected to be completed by 30 June 2021.

Interpretation and analysis of the financial report

Highlights of the financial report – Department for Health and Wellbeing (parent)

	2020 $'million	2019 $'million
Income		
Revenue from SA Government	4 329	4 204
Fees and charges	322	357
Grants and contributions	1 684	1 397
Other	35	30
Total income	6 370	5 988
Expenses		
Staff benefit expenses	172	200
Supplies, services and other expenses	767	618
Grants and subsidies	5 375	4 836
Total expenses	6 314	5 654
Net result	56	334
Net cash provided by (used in) operating activities	146	342
Assets		
Current assets	977	875
Non-current assets	88	95
Total assets	1 065	970

	2020 $'million	2019 $'million
Liabilities		
Current liabilities	228	196
Non-current liabilities	172	176
Total liabilities	400	372
Total equity	665	598

Statement of Comprehensive Income – Department for Health and Wellbeing (parent)

Revenues

Revenues from the SA Government

Revenues from the SA Government increased by $125 million to $4.3 billion (3%) and comprised:

- $4.176 billion original appropriation – *Appropriation Act 2019*, 2019-20 State Budget
- additional $74 million relating to the return of cash previously paid to the SA Government under the cash alignment policy
- additional $39 million contingency funds from the Department of Treasury and Finance
- additional $21 million funding for targeted voluntary separation packages
- additional $28 million Commonwealth grants received through the Department of Treasury and Finance
- reduction of $8 million relating to the budget associated with staff transferred.

Grants and contributions

Income from grants and contributions amounted to $1.7 billion ($1.4 billion) and principally comprised:

- Commonwealth Government National Health Reform Agreement funding of $1.48 billion ($1.31 billion)
- other Commonwealth Government grants of $133 million ($17 million) – the increase is due mainly to funding of $115 million under the National Partnership on COVID-19 Response (Agreement) with the Commonwealth of Australia
- Commonwealth Transition Care Program – $25 million ($25 million)
- Department of Veterans' Affairs funding – $37 million ($40 million).

DHW receives Commonwealth Government grants paid from the State Pool account in line with the funding agreement under the National Health Reform Agreement.

Expenses

Staff benefit expenses

Staff benefit expenses decreased by $28 million to $172 million. Contributing to the decrease was:

- a decrease in long service leave expense, down $11 million, mainly due to the impact of changed actuarial assumptions used to estimate the associated liability, including a decrease in expected salary growth rate from 4% to 2.5%.
- a $12 million decrease in salaries and wages expense impacted by the transfer out of the following groups of employees:
  - centralised financial accounting functions (86 employees) to SSSA from 1 July 2019
  - Oracle debt management and receipting functions (15 employees) to SSSA from 1 December 2019
  - Wellbeing SA functions (81 employees) to Wellbeing SA from 6 January 2020
  - Commission on Excellence and Innovation in Health functions (17 employees) to Commission on Excellence and Innovation in Health from 6 January 2020.

The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 67 (73), comprising 43 (39) executive, 15 (21) administration, seven (eight) medical and two (five) nursing employees. Total remuneration for these employees was $16 million ($17 million). Over the past five years the number of employees whose remuneration received or receivable exceeds base executive level has decreased by 17%.

Supplies and services expenses

Supplies and services expenses amounted to $584 million ($540 million). Significant components of supplies and services were:

- contract of services – $103 million ($116 million), the decrease reflecting activities transferred to Wellbeing SA from 6 January 2020
- cost of goods sold to incorporated health services – $106 million ($105 million)
- computing costs – $101 million ($96 million)
- insurance – $42 million ($49 million)
- interstate patient transfers – $96 million ($43 million), the increase relating to a change in estimated patient activity levels
- repairs and maintenance – $1 million ($23 million), the decrease reflecting Biomedical Engineering activities transferred to LHNs from 1 July 2019.

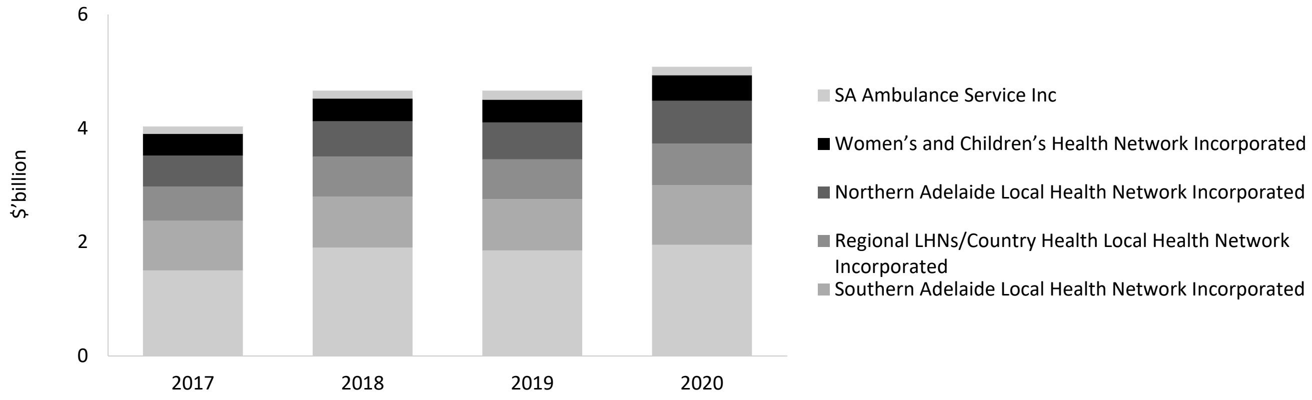
Grants and subsidies

Grants and subsidies expense increased by $540 million to $5.4 billion. It consists mainly of recurrent and capital grants to LHNs and SAAS.

Recurrent funding to incorporated health services

Recurrent funding to incorporated health services increased by $376 million (8%) to $5.1 billion. Recurrent funding is provided to health services to meet their cost of services. In 2019-20 DHW changed elements of its recurrent funding model, including funding LHNs to meet increased recharging of centralised costs.

The following chart shows recurrent funding provided to incorporated health services over the last four years.

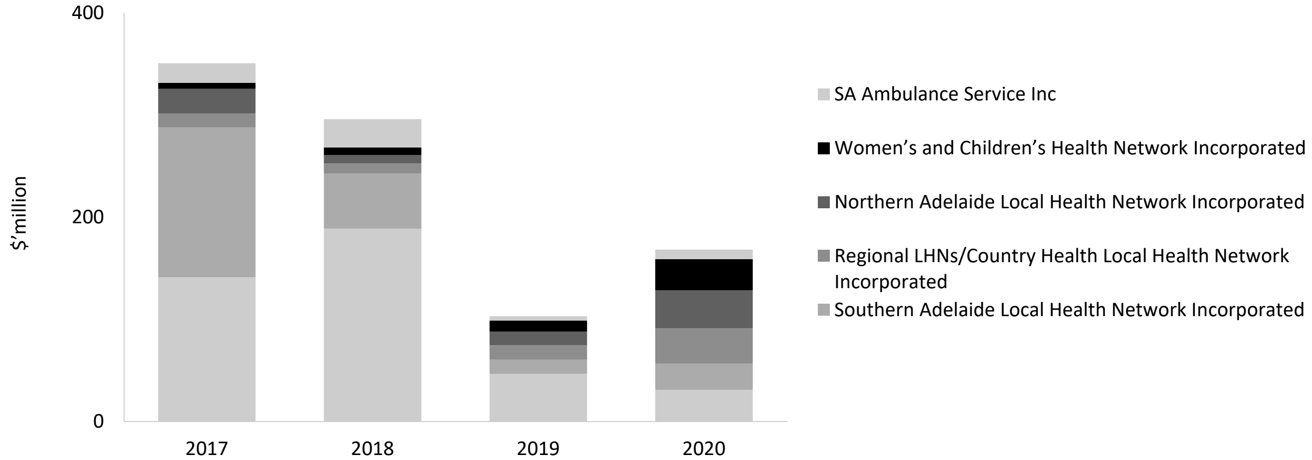


Total recurrent funding has increased 21% over the four years, from $4 billion in 2017 to $5.1 billion in 2020 (refer note 4.1 of DHW's financial report).

Capital funding to incorporated health services

In 2020 total capital funding increased by $66 million to $169 million. This was mainly due to several major capital works projects commencing in 2019-20. These included the upgrade of the Women's and Children's Hospital buildings, service relocations and expansions at the Southern Adelaide Local Health Network Incorporated, redevelopments at Lyell McEwin and Modbury hospitals and refurbishments and reactivation of the Repatriation General Hospital.

The following chart shows capital funding to incorporated health services for the four years to 2020.



Statement of Financial Position – Department for Health and Wellbeing (parent)

Assets

Current assets increased by $102 million to $977 million as at 30 June 2020 and essentially comprise cash and cash equivalents of $769 million and receivables of $178 million, which includes $138 million for interstate patient transfers.

Cash and cash equivalents

Cash and cash equivalents increased by $136 million to $769 million. Cash flows contributing to this increase are disclosed in the Statement of Cash Flows. As DHW is a funder of health services, the timing of receipts from government and payments to LHNs and SAAS can impact the amount of cash held.

Liabilities

DHW's total liabilities were $400 million at 30 June 2020, an increase of $28 million from the previous year. Significant components of liabilities were:

- payables, $205 million ($169 million) – contributing to the increase was a $23 million increase in payables for interstate patient transfers owing to interstate jurisdictions for SA residents treated in interstate public hospitals
- employee benefits liabilities and related on-costs, $63 million ($73 million) – contributing to the decrease was the impact of changes in actuarial estimates used to measure long service leave liabilities, including a decrease in the expected salary growth rate from 4% to 2.5%. The decrease also reflects the transfer out of employees to SSSA, Wellbeing SA and the Commission on Excellence and Innovation in Health
- provision for insurance, $132 million ($131 million).

DHW manages the public health system insurance program. It pays premiums to SAicorp 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 (refer note 26.2 of DHW's financial report).

Equity

As at 30 June 2020, DHW had a net assets position of $665 million ($598 million). It did not receive any equity contribution from the SA Government in 2019-20.

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.

	2020 $’million	2019 $’million
Income		
Total revenues from SA Government	4 329	4 204
Fees and charges	637	678
Grants and contributions	2 084	1 775
Other	119	99
Total income	7 169	6 756
Expenses		
Employee benefit expenses	4 247	4 221
Supplies, services and other expenses	2 298	2 107
Borrowing costs	153	169
Depreciation and amortisation	317	287
Grants and subsidies	133	36
Total expenses	7 148	6 820
Net result	21	(64)
Other comprehensive income		
Gains or losses recognised directly in equity	15	(14)
Total other comprehensive income	15	(14)
Total comprehensive result	36	(78)
Net cash provided by (used in) operating activities	506	417
Net cash provided by (used in) investing activities	(182)	(96)
Assets		
Current assets	1 610	1 419
Non-current assets	6 047	5 992
Total assets	7 657	7 411
Liabilities		
Current liabilities	1 274	1 179
Non-current liabilities	3 873	3 723
Total liabilities	5 147	4 902
Total equity	2 510	2 509

Statement of Comprehensive Income – consolidated entity

Expenses

Total expenses increased by $328 million to $7.1 billion (5%) and principally comprised employee benefit expenses of $4.2 billion and supplies and services expenses of $2.1 billion.

Employee benefit expenses

Employee benefits, clearly the most significant health sector expense, increased by $26 million to $4.2 billion. Contributing to this increase were:

- a $145 million increase in salaries and wages and superannuation to $3.7 billion (4.1%). Contributing to the increase were salaries and wages rises associated with various enterprise agreements. There was a small drop in FTE numbers as at 30 June 2020 to 32 780 (32 823)
- a $160 million decrease in long service leave expense, mainly due to the impact of changed actuarial assumptions used to estimate the associated liability for both 2019 and 2020
- a $14 million increase in annual leave expense
- a $26 million increase in targeted voluntary separation packages.

The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 3348 (3395), comprising 110 (104) executive, 99 (121) non-medical and 2609 (2512) medical, 243 (271) nursing and 287 (387) operational employees. Over the past five years the number of employees whose remuneration received or receivable exceeds base executive level has increased by 18%.

Total remuneration for these employees was $942 million ($921 million).

The following table summarises the remuneration of employees for 2019-20, included in note 2.4 of DHW's financial report.

	Executive Number	Medical Number	Non-medical Number	Nursing Number	Operational Number	Total Number
$155 001 - $255 000	79	1 269	92	240	278	1 958
$255 001 - $355 000	19	479	7	2	9	516
$355 001 - $455 000	7	428	-	1	-	436
$455 001 - $555 000	4	252	-	-	-	256
$555 001 - $655 000	1	134	-	-	-	135
$655 001 - $755 000	-	37	-	-	-	37
$755 001 - $855 000	-	5	-	-	-	5
$855 001 - $955 000	-	2	-	-	-	2
$955 001 - $1 055 000	-	1	-	-	-	1
$1 155 000 - $1 255 000	-	1	-	-	-	1
$1 355 001 - $1 455 000	-	1	-	-	-	1
Total	110	2 609	99	243	287	3 348

Supplies and services expenses

Supplies and services increased by $101 million to $2.1 billion. Significant components of supplies and services were:

- medical, surgical and laboratory supplies – $322 million ($319 million)
- drug supplies – $278 million ($265 million)
- contract of services – $144 million ($149 million)
- fee-for-service – $190 million ($170 million)
- contractors – agency staff – $83 million ($88 million)

- public private partnership operating expenses – \$95 million (\$86 million)
- electricity, gas and fuel – \$48 million (\$49 million)
- interstate patient transfers – \$96 million (\$43 million), the increase relating to a change in estimated interstate patient activity levels
- insurance – \$45 million (\$51 million)
- computing – \$113 million (\$104 million)
- housekeeping – \$81 million (\$79 million).

Comparison of actual expenses to original budget

For 2019-20, the total expenses exceeded the original budget by \$547 million. Note 35 of DHW's financial report provides budgetary reporting information, including some explanations of major variances between DHW's original budget provided to Parliament and actuals reported in the financial statements. Note 35 explains that overall the increased cost of providing hospital services and the COVID-19 response significantly impacted the unfavourable variance.

Statement of Financial Position – consolidated entity

As at 30 June 2020, the consolidated entity had a net assets position of \$2.5 billion.

Assets

The consolidated entity's financial position is dominated by non-current property, plant and equipment assets, representing 78% of total assets.

The carrying value of property, plant and equipment increased by \$76 million to \$5.9 billion. Key movements during the year were:

- depreciation and amortisation of \$298 million
- additions of \$197 million, including \$163 million in capital works in progress additions
- newly recognised right-of-use lease assets under the new Accounting Standard AASB 16 *Leases* of \$223 million.

The main categories of property, plant and equipment were:

- land – \$344 million
- buildings – \$2.3 billion
- right-of-use buildings including under public private partnership – \$2.7 billion
- capital works in progress – \$158 million
- leasehold improvements – \$52 million
- plant and equipment – \$191 million
- right-of-use plant and equipment – \$243 million.

Liabilities

Employment liabilities make up \$1.6 billion of the consolidated entity's total liabilities at 30 June 2020, comprising:

- employee benefits liabilities and related on-costs, $1.6 billion ($1.5 billion) – contributing to the rise were increases in accrued salaries and wages of $44 million, annual leave of $26 million and long service leave liability of $10 million
- provision for workers compensation, $109 million ($105 million). The worker compensation provision was estimated by an independent actuary as at 30 June 2020. 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

Under the State Emergency Management Plan, SA Health is the control agency for human disease. Responding to the COVID-19 global pandemic has had a significant impact across SA Health in 2019-20.

On 15 March 2020 the Chief Executive, DHW declared a Public Health Emergency under the *South Australian Public Health Act 2011*.

SA Health's response to COVID-19 included hospital preparation, increasing capacity to treat, upskilling staff, managing medical supplies, establishing testing capacity, contact tracing and managing isolation.

The 'Health Sector Overview' section of this Report provides further detail of SA Health's response to COVID-19.

Commonwealth funding to support COVID-19 pandemic response

In March 2020, the States and Territories entered into the National Partnership on COVID-19 Response (Agreement) with the Commonwealth of Australia. The objective of the Agreement was to provide financial assistance for the additional costs incurred by state health services in responding to the COVID-19 outbreak. Under the agreement DHW received $115 million from the Commonwealth Government in 2019-20 for the following purposes:

- hospital services funding of $6.6 million
- public health funding of $19.8 million
- private hospital capability and viability funding of $88.9 million.

Material direct costs

Note 1.7 to DHW's financial report outlines the following material costs directly associated with COVID-19, which total $17.5 million:

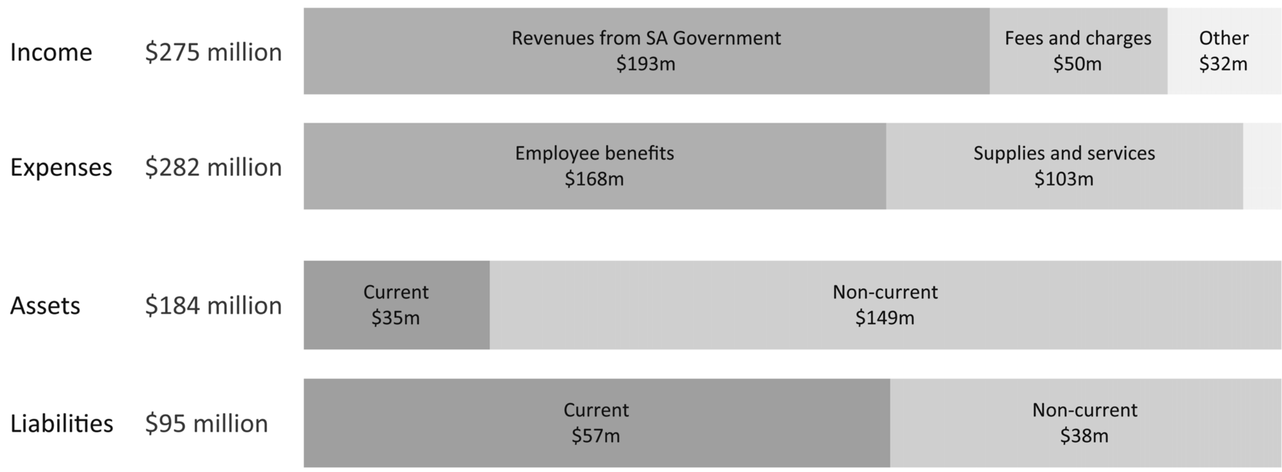
- staff accessed special leave with pay for up to 15 days for absences related to COVID-19 at a cost of $3.7 million
- DHW entered into service model agreements at a cost of $3.1 million with two private hospitals (Wakefield Hospital and Calvary College Grove) to increase capacity and capability where needed

- DHW entered into an agreement for the supply of disposable, non-sterile healthcare apparel products with Detmold to secure a minimum three-year supply of medical facemasks. SA Health made an upfront payment of $2.9 million to Detmold to assist with the purchase of manufacturing equipment
- various plant and equipment and ICT infrastructure was purchased by DHW at a cost of $9 million. The LHNs also purchased various plant and equipment such as new ventilators and ICT infrastructure costing $5.7 million
- LHNs recorded additional net costs associated with public health activities including preparing hospitals to respond and establishing testing clinics, purchasing PPE for staff, non-clinical costs and establishing a rapid response nursing service – $28.6 million
- LHNs recorded additional costs associated with diverting activity to the private hospital system – $2.1 million.

Additionally, DHW paid private hospital viability payments of $69 million to ensure the viability of private hospitals during the COVID-19 pandemic, in return for the expectation that private hospitals would maintain capacity and support the COVID-19 response.

Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN)

Financial statistics



1554
Number of FTEs

13
Hospitals and health services

Significant events and transactions

- BHFLHN and five other regional local health networks (LHNs) were proclaimed under the *Health Care Act 2008* and took over the function of providing regional health services from Country Health SA Local Health Network Incorporated (CHSALHN) from 1 July 2019.
- On 1 July 2019 CHSALHN transferred its assets, rights and liabilities to the regional LHNs including net assets of $96 million to BHFLHN.
- The BHFLHN governing board was established on and commenced from 1 July 2019.
- BHFLHN formed the Rural Support Service to provide some administrative and accounting support to all regional LHNs.
- BHFLHN's response to the COVID-19 pandemic included additional public health activities including preparation of hospitals, establishing testing clinics and purchasing equipment.
- BHFLHN's financial report outlines material costs associated with COVID-19 of $2.6 million.

Financial report opinion	**Unmodified**
Audit findings	— Contracts with general practitioners need updating. — Specialists working in BHFLHN without contractual agreements. — Delays in medical officers submitting timesheets. — High dollar value call-back allowances that appear to be consistent with a shift rather than a call back. — Financial authorities in the payment system not in line with approved delegations. — Invoices paid without purchase orders. — No contract management plan for a significant contract. — System access restrictions insufficient. — Ineffective follow-up of long outstanding patient debtors.

Functional responsibility

BHFLHN is established under the *Health Care Act 2008* (HC Act). A proclamation under the HC Act, which came into effect on 1 July 2019, dissolved CHSALHN and transferred its assets, rights and liabilities to six regional LHNs including BHFLHN. The new LHNs took over the function of providing health services from CHSALHN from that date.

BHFLHN's powers and functions are to provide health services in the Barossa, Hills and Fleurieu region of South Australia.

The Rural Support Service (RSS) within the BHFLHN provides some centralised support to the six regional LHNs.

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.

Governance

The HC Act provides for BHFLHN to be governed by a board. The governing board was established on and commenced from 1 July 2019. Governing boards of LHNs are responsible for addressing the local need, providing strategic direction and monitoring the LHN's operating and financial performance. The board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive, Department for Health and Wellbeing (DHW).

Amendments to the HC Act changed the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering the LHNs. DHW is responsible for setting statewide policy and the Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

A service agreement between BHFLHN and the Chief Executive of DHW sets 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 of the service agreement is to be binding on all parties. We note that BHFLHN only executed part of the agreement and the overarching agreement was not signed for 2019-20.

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
- 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 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 2019-20 included:

- payroll
- accounts payable
- patient revenue including accounts receivable
- fee-for-service
- property, plant and equipment
- cash
- general ledger.

Internal audit activities were considered in designing and performing 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

Payroll

Delays in submitting timesheets – medical officers

We identified delays in the submission of manual timesheets by medical officers. Such delays reduce management's ability to confirm the accuracy or completeness of manual timesheets submitted given the time elapsed between the duties being performed and when the timesheets are authorised by management. It may also delay the recording of expenditure or leave taken resulting in difficulties managing budgets.

BHFLHN responded that it was considering using the ProAct rostering system to automate medical staff time records. It advised that if ProAct was not practicable it would implement alternative manual options.

High value call back allowances

Our audit included a review of large employee payments. We identified high dollar value payments to a medical officer for overtime and call-back allowances in two specific pay periods. We noted the call-back allowance occurred four times, each for a duration of 15 hours. We found the call-back allowance forms did not specify the event or reason for the call back to the hospital. The attendances appeared to be more consistent with a shift rather than a call back. We reported these concerns to management, and recommended that it be investigated and that call backs and overtime are minimised through medical officer rostered shifts.

BHFLHN advised that it was reviewing the matter.

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 where 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.

BHFLHN advised that it would:

- review any invoices without purchase orders
- remind managers of their responsibilities
- implement a monthly compliance review.

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 some variances between the two. Where this occurs, there is an increased risk of a breach of Treasurer's Instruction 8 *Financial Authorisations*.

BHFLHN advised it would review the authorities within Basware and align them with the financial delegations as appropriate.

Revenue

Ineffective follow up of long outstanding 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 long outstanding 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.

BHFLHN responded that each month it would review all debtors outstanding over 120 days.

No recalculation of compensable patient invoicing

We noted that revenue officers manually calculated patient billing charges in spreadsheets and then manually input the charges into the Chiron patient billing system. We found there was inadequate review of these manual processes, increasing the risk of error.

BHFLHN responded that it intends to establish a review process.

Cash

Bank account signatories include former employees

We identified signatories for BHFLHN bank accounts that were no longer employees of SA Health and recommended a regular review to ensure bank account signatories remain pertinent.

BHFLHN advised it would review bank account signatories.

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.

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 need updating to reflect overarching agreements

In December 2017 CHSALHN established agreements with the Australian Medical Association (AMA) and the Rural Doctors Association of South Australia (RDA). These arrangements require general practitioners (GPs) and GP registrars who provide public inpatient medical services to enter into a fee-for-service agreement.

We reported to CHSALHN last year that many GPs or clinics were operating without updated agreements. Our follow-up in 2019-20 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 or clinics were still operating without updated agreements.

BHFLHN advised it would develop a standard operating procedure for GP contracts. It also indicated it would develop a contract status report for communicating current, due to expire or outstanding contracts to the regional LHNs.

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. We found there were a number of specialists operating without contractual agreements. We also noted the six regional LHNs did not have overarching agreements with the AMA and RDA defining terms and conditions for contracts with specialists. We recommended BHFLHN ensure agreements are in place with specialists. This recommendation was also made to CHSALHN last year.

In response, BHFLHN advised it would undertake a direct negotiation procurement process to contract existing specialists. It also indicated it would establish an overarching specialist agreement in conjunction with the AMA, RDA and regional LHNs.

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. We also found staff could manually override code rates used to automatically generate fee-for-service payments. These matters were raised with CHSALHN in previous years.

BHFLHN advised that it would implement additional review processes.

Revenue

Fees and charges masterfile

The fees and charges masterfile is managed by the central revenue service in Port Pirie. Our review found that unauthorised revenue officers based in other hospitals have access to the ‘Service Charge Maintenance’ function in Chiron allowing access to edit the fees and charges masterfile. This increases the risk of fraud or error in the invoicing process.

BHFLHN advised that it had removed access to the 'Service Charge Maintenance' function in Chiron for all users except those who require access to update fees.

Policies and procedures

We found instances where policies and procedures for patient invoicing, aged care residential fees and sundry invoicing processes were not documented. We also found instances where control practices were inconsistently performed. These matters were raised with CHSALHN in previous years.

BHFLHN advised that it was developing patient billing and aged care procedures and work instructions.

Procurement and contract management

No contract management plan for a significant contract

State Procurement Board guidelines require that contracts valued above $4.4 million or significant contracts below $4.4 million have an approved contract management plan. We identified a significant contract above $4.4 million with a supplier that provides recruitment and support services for medical practitioners in rural and remote communities that did not have an established contract management plan. The absence of a contract management plan may impact the consistency and systematic nature of contract management processes. This could delay identifying problems and potentially result in either party not fulfilling their contractual obligations.

BHFLHN responded that it would approve and implement a formal contract management plan for the contract. It also advised it would review all of its significant contracts to ensure that they have contract management plans.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020	
	Consolidated $'million	Parent $'million
Income		
Revenues from SA Government	193	193
Revenue from fees and charges	50	50
Grants and contributions	29	29
Other income	3	3
Total income	275	275
Expenses		
Staff benefit expenses	168	168
Supplies and services	103	103
Depreciation and amortisation	9	5
Other expenses	2	2
Total expenses	282	278
Net result	(7)	(3)

	2020	
	Consolidated $'million	Parent $'million
Assets		
Current assets	35	27
Non-current assets	149	66
Total assets	184	93
Liabilities		
Current liabilities	57	57
Non-current liabilities	38	38
Total liabilities	95	95
Net assets	89	(2)

Statement of Comprehensive Income – Consolidated

Revenues

Revenues from SA Government

BHFLHN is principally funded by DHW. In 2019-20, funding of $193 million, which represents 70% of total income, comprised recurrent funding of $189 million and capital funding of $4 million.

Fees and charges

Fees and charges totalled $50 million and include the following significant components:

- recoveries of $35 million which relate primarily to the recharge of salaries and wages or various goods and services expenses incurred on behalf of another entity, including other regional LHNs
- residential and aged care charges of $5 million which 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 of $29 million included Commonwealth aged care subsidies of $11 million and other Commonwealth grants of $16 million.

Expenses

Staff benefit expenses

Staff benefit expenses represent 60% of BHFLHN's total expenses. The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 52, comprising 38 medical (excluding nursing), eight nursing, two executive and four non-medical employees. Total remuneration for these employees was $16 million.

Supplies and services expenses

Supplies and services totalled $103 million and included the following significant components:

- fee-for-service payments to medical practitioners – $22 million
- medical, surgical and laboratory supplies – $12 million
- patient transport – $14 million
- contract of services – $8 million
- contractors – agency staff – $7 million
- repairs and maintenance – $6 million.

Statement of Financial Position – Consolidated

Assets

At its establishment on 1 July 2019, assets of $185 million were transferred to BHFLHN as follows:

- cash – $3 million
- receivables – $5 million
- property, plant and equipment and intangibles – $151 million
- other assets – $26 million.

Property, plant and equipment

As at 30 June 2020, property, plant and equipment represents $148 million (81%) of BHFLHN's total assets and includes the following significant components:

- newly recognised right-of-use lease assets under the new Accounting Standard AASB 16 *Leases* – $3 million
- buildings – $124 million
- land – $13 million
- capital works in progress – $5 million
- medical, surgical, dental and biomedical equipment – $2 million.

Liabilities

At its establishment on 1 July 2019, liabilities of $89 million were transferred to BHFLHN as follows:

- payables – $12 million
- staff benefits – $54 million
- provisions – $2 million
- other liabilities – $21 million.

Current liabilities

Current liabilities of $57 million exceeded current assets of $35 million at balance date.

Cash and cash equivalents of $8 million were not sufficient to meet current payables of $9 million. BHFLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 to its financial report discusses continuity of operations.

Staff related liabilities

Staff related liabilities make up $64 million (67%) of BHFLHN's total liabilities at 30 June 2020, comprising:

- staff benefits liabilities and related on-costs – $61 million
- provisions for workers compensation – $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 the COVID-19 global pandemic has had a significant impact across SA Health in 2019-20 including at BHFLHN. Some of the more significant initiatives implemented by BHFLHN were:

- preparation of hospitals and staff
- temporarily closing some of its accident and emergency services, where they were co-located with aged care facilities, to decrease the risk of transmission of COVID-19 and protect aged care residents in the region
- temporarily suspending elective surgery
- establishing COVID-19 clinics and testing centres in the region
- changed visitor arrangements.

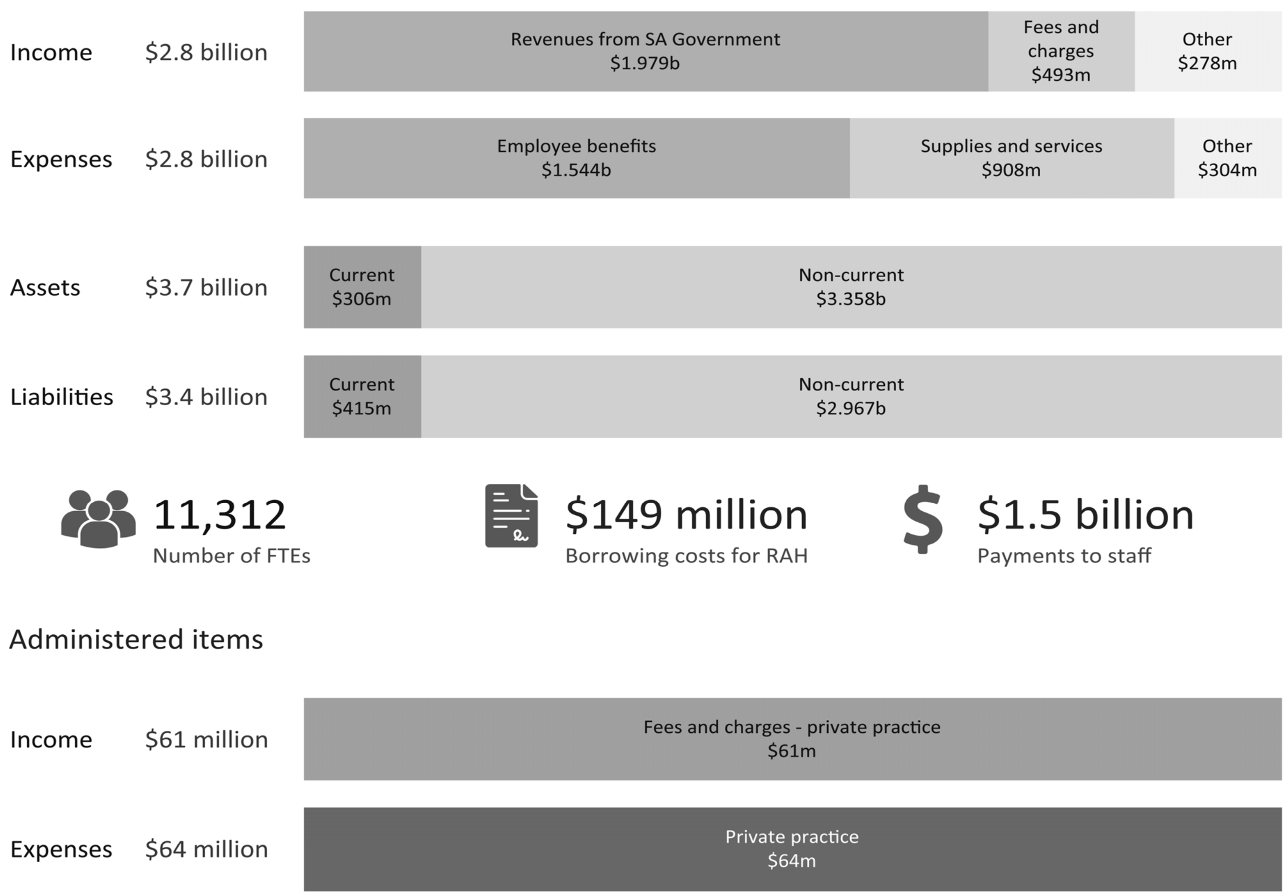
Note 1.7 to BHFLHN's financial report outlines material costs associated with COVID-19 for additional public health activities at a cost of $2.5 million including:

- preparation of hospitals
- establishing testing clinics
- purchase of personal protective equipment
- non-clinical costs including cleaning.

BHFLHN also incurred $138 000 for hospital staff accessing special leave with pay for up to 15 days for absences related to COVID-19.

Central Adelaide Local Health Network Incorporated (CALHN)

Financial statistics



Significant events and transactions

- The CALHN governing board commenced from 1 July 2019.
- Quarterly service payments of $270 million for the Royal Adelaide Hospital (RAH) were paid in line with the Project Agreement.
- The RAH was designated the lead hospital in response to the classification of COVID-19 as a global pandemic by the World Health Organisation.
- KordaMentha's involvement with CALHN's financial recovery program was paused in April 2020 as a result of COVID-19.

Financial report opinion	**Unmodified**
Controls opinion findings	— Asset management processes under the across government facilities management arrangements (AGFMA) could be improved. — Some controls over procurement, contracting and purchasing could be improved. — Payroll planning, monitoring and approval processes could be improved.
Other audit findings	— Monitoring access to some pharmacies needs to improve. — Inadequate review of patient administration system user access. — No monitoring of medical officers' professional development leave entitlements.

Functional responsibility

Governance

CALHN is established under the *Health Care Act 2008* and its powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

From 1 July 2019 amendments to the *Health Care Act 2008* provided for local health networks (LHNs) including CALHN to be governed by boards. Accordingly, the CALHN governing board was established and commenced from 1 July 2019. The amendments also changed the role of the Chief Executive, Department for Health and Wellbeing (DHW) to remove direct responsibility for administering LHNs.

The governing board is responsible for addressing local need, providing strategic direction and monitoring CALHN's operating and financial performance. It must comply with any direction of the Minister for Health and Wellbeing or Chief Executive, DHW. Under these changes DHW remains responsible for setting statewide policy and the Minister for Health and Wellbeing remains responsible for setting reform agenda and priorities.

Impact of the COVID-19 pandemic

CALHN has been providing a frontline response to the COVID-19 pandemic with the RAH as the lead hospital for the State. This has included:

- activating COVID-19 testing clinics at the RAH
- planning for potential workforce requirements and providing additional training to deal with pandemic scenarios

- ensuring its inventory of personal protective equipment, and other equipment such as ventilators, was sufficient to meet potential increased demand
- establishing an overarching COVID-19 governance committee. Significant issues that would otherwise have gone to other governance committees were addressed through this committee
- pausing cost saving initiatives, including goods and services reductions and workforce efficiencies, during the initial response to COVID-19, meaning the full year potential savings were not realised.

Financial recovery program – KordaMentha

Suspension 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. KordaMentha was engaged on an initial 12-month contract.

An extension option in KordaMentha's contract arrangements was exercised for 2019-20 to continue supporting the financial recovery program.

During the year, KordaMentha reported to:

- CALHN's Chief Executive Officer
- the CALHN Organisational and Financial Recovery Plan Steering Committee, whose members included the Chief Executive and Deputy Chief Executive, DHW, the Chief Executive Officer of CALHN, KordaMentha and Transition Board members.

In 2019-20, KordaMentha conducted work across a range of areas at CALHN including procurement and workforce planning.

Due to the impacts of COVID-19 the financial recovery program was paused in April 2020. Cost saving initiatives were paused and delegations for procurement and expenditure previously applied by KordaMentha were delegated to appropriate CALHN staff.

The contract arrangements with KordaMentha were also paused due to COVID-19 and, at the time of this Report, had not resumed.

The Royal Adelaide Hospital

We have reported in previous years that there were a number of matters of dispute between Spotless, Celsus and the SA Government about the operations of the public private partnership (PPP) arrangements for the RAH. We reported the announcement of an in-principle agreement between the parties on 21 August 2019 in our 2018-19 report.

We have confirmed that the parties agreed to a commercially confidential resolution of these disputes in 2019-20.

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 2019-20 included:

- governance
- payroll and workforce management
- borrowings
- goods and services expenditure and accounts payable
- patient billing and debtor management
- property, plant and equipment
- accounts receivable and other revenue
- SA Pharmacy
- SA Pathology
- cash and online banking
- general ledger and financial accounting.

The work of CALHN's internal auditors was considered 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 11 300 FTEs and payroll related costs are significant, with $1.5 billion in staff benefits paid and $572 million in staff benefit liabilities and associated on-costs as at 30 June 2020. As a result of the significance of these costs, we review key payroll controls each year.

CALHN's system records indicate that less than half of its staff had a current performance review

In 2019-20, we continued to review how current employee performance reviews were at a number of agencies, including CALHN.

Our review of CALHN's system records in 2020 indicated that less than half of the reviews for CALHN staff were current. A key performance indicator in CALHN's service agreement with DHW is that 80% of performance reviews should be current.

CALHN responded that it had implemented additional guidance and support to CALHN staff in December 2019. It also advised that it was committed to improving the level of performance and would continue to regularly report compliance rates to key management and governance groups.

CALHN did not have a consolidated workforce plan

As part of our controls opinion work in 2019-20, we followed up the progress of workforce planning at a number of agencies, including CALHN. This work considered guidance on workforce planning from the Commissioner for Public Sector Employment.

While some progress was made in 2019-20, including with the assistance of KordaMentha, we were advised that further work is needed in this area. We also understand that CALHN's development of a consolidated workforce plan was delayed by the focus on responding to COVID-19.

CALHN responded that it had developed a workforce plan to cover contingencies arising from the COVID-19 pandemic in 2019-20 to respond to the immediate need, and that it would continue with other workforce planning.

Weaknesses in the approach to monitoring employment screening requirements

As part of our review of controls associated with the management of staff, we chose to look at CALHN's management of employment clearances for its staff.

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.

While DHW provides policy guidance, LHNs need to determine what employment clearances are required for specific positions. At CALHN, employment clearance requirements are managed by the hiring manager as they are specific to each role, with no central record maintained of the clearances positions require.

We understand CALHN's position is that all medical officers require working with children checks and that legal advice has been sought collectively by the LHNs regarding prescribed positions for other staff. CALHN also requires relevant screening for all new appointments.

CALHN advised that it would establish a procedure for determining positions that require working with children checks, criminal history and relevant history screening in line with legislative requirements, subject to legal advice.

CALHN also advised that the screening process for staff who require up-to-date working with children checks is managed within business units for those in prescribed positions.

Ongoing responsibility for ensuring clearances are maintained and Chris21 records updated will also be covered by the procedure.

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 CALHN 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.

In 2019-20 we found:

- gaps or inconsistencies in the review of payroll information or leave information across all employee types
- ineffective monitoring of leave certificates
- there remained 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.

We understand that some of these matters may be addressed through the implementation of the SA Health Electronic Timesheet Project, which would expand the use of ProAct to medical officers.

CALHN responded that KordaMentha had developed a range of procedure documents to guide timesheet preparation and management, and that CALHN would establish a procedure that clearly details the requirements of the process for reviewing and approving bona fides and leave reports.

Some controls over procurement, contracting and purchasing could be improved

CALHN spent more than $900 million on supplies and services in 2019-20. We identified issues in procurement, contracting and purchasing in our work on goods and services expenditure for the controls opinion.

We found:

- some gaps in procurement documentation and non-compliance with some elements of SA Health and State Procurement Board requirements, such as conflict of interest forms, in our sample testing of procurements
- that contract and risk management plans were not in place for one of the procurements we reviewed
- no evidence that complete monthly reviews of manual payments, special and super delegation reports at Statewide Clinical Support Services had been performed.

CALHN advised that it was establishing a procurement team and support that will ensure ongoing training and a review of the current practices and process.

Asset management processes could be improved

CALHN has property, plant and equipment worth $3.3 billion. Its main asset apart from the RAH is The Queen Elizabeth Hospital (TQEH). As part of our controls opinion work in 2019-20 we considered 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 PPP arrangements.

We found 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
- deemed condition reporting assessments provided by the facilities services provider were not reliable, with the exception of data obtained when breakdown maintenance was performed, and as a result this data was not used for strategic management purposes.

While we noted some progress had been made on developing a draft strategic asset management plan, this remained a work in progress and has been impacted by staff changes during the year.

CALHN responded that it would develop a strategic asset management plan with the support of DHW with a target date of 30 June 2021. CALHN and Spotless will also conduct quarterly reviews of Spotless' asset condition reports.

Other audit findings

SA Pharmacy

SA Pharmacy operates pharmacies for all LHNs and spent more than $259 million on drug supplies in 2019-20.

Monitoring access to some pharmacies needs to improve

We have previously identified that monitoring swipe card access and after-hours access to some pharmacies needed to improve to ensure access was restricted and stock was safe.

In 2019-20 we found SA Pharmacy had improved policies and procedures around after-hours access to pharmacies. We did note that access reviews for one pharmacy store were lost for several months due to system reporting issues.

SA Pharmacy advised that it had worked with the Southern Adelaide Local Health Network Incorporated, as the LHN at which the system reporting issues occurred, to ensure access to security log files would be available in future.

SA Pathology

SA Pathology patient fees for public and private patients totalled more than $152 million in 2019-20. At 30 June 2020, SA Pathology had outstanding debts of $12.5 million with $5.3 million outstanding for more than 90 days.

Debtor management

We found that SA Pathology had continued to make progress to address debtor management issues in 2019-20. 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 which have reduced the amount of debt outstanding throughout 2019-20. Processes to allow final and demand notices were still being finalised at the time of our 2019-20 audit.

SA Pathology advised that it had implemented a range of responses in 2019-20 to address the system billing issues, noting the need to focus on COVID-19 billing as a priority. SA Pathology expects that reminder and final demand notices will have been sent by the end of December 2020.

Patient billing

CALHN's revenue from patient and client fees was over $341 million in 2019-20, with a further $44 million recorded in private practice fees controlled by CALHN. In addition, $61 million was collected on behalf of medical officers and DHW in administered revenue from private practice arrangements.

Inadequate review of patient administration system user access

Last year we found that no complete review of user access profiles was performed for the Sunrise EMR patient administration system (formerly known as EPAS). Hospital Revenue Services' policy requires user access profiles for revenue systems to be reviewed each year.

This year we noted that CALHN had performed a review of Sunrise EMR users with access to the billing module. However, this review did not consider users with access to the clinical module of Sunrise EMR. As such, no complete review of user access to Sunrise EMR had been performed.

We acknowledge that CALHN was working through the user access review process at the time of our audit, to ensure it effectively identified users with inappropriate access and that required action was taken.

CALHN advised that an annual review of Sunrise EMR access would be performed.

No monitoring of medical officers' professional development leave entitlements

CALHN does not have a consistent process to monitor professional development leave entitlements for medical officers. We note the implementation of the SA Health Professional Development Reimbursement Project across SA Health should address these matters, with implementation expected in 2020-21.

As this system was not in place in 2019-20, there continued to be potential risks that leave may be approved above the entitlement.

In response, CALHN advised that the professional development reimbursement project is scheduled to be available from 2 November 2020, following a pilot process within CALHN at Statewide Clinical Support Services.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020		2019	
	Consolidated $'million	Parent $'million	Consolidated $'million	Parent $'million
Income				
Revenues from SA Government	1 979	1 979	1 899	1 899
Fees and charges	493	481	423	410
Grants and contribution	232	232	214	214
Resources received free of charge	11	11	9	9
Other revenue/income	35	34	28	27
Total income	2 750	2 737	2 573	2 559

	2020		2019	
	Consolidated $'million	Parent $'million	Consolidated $'million	Parent $'million
Expenses				
Staff benefits expenses	1 544	1 535	1 525	1 516
Supplies and services	908	905	869	866
Borrowing costs	149	149	168	168
Depreciation and amortisation	140	139	128	127
Grants and subsidies	4	4	5	4
Impairment loss on receivables	(2)	(2)	1	1
Other expenses	13	13	22	23
Total expenses	2 756	2 743	2 718	2 705
Net result and total comprehensive result	(6)	(6)	(145)	(146)
Assets				
Current assets	307	296	274	264
Non-current assets	3 358	3 352	3 407	3 400
Total assets	3 665	3 648	3 681	3 664
Liabilities				
Current liabilities	415	414	413	415
Non-current	2 967	2 966	2 967	2 974
Total liabilities	3 382	3 380	3 391	3 389
Net assets	283	268	290	275

Statement of Comprehensive Income

Income

CALHN is mainly funded through recurrent and capital funding from DHW. In 2019-20, CALHN received recurrent funding of $1.948 billion and capital funding of $31 million, mainly for works at TQEH. The increase in recurrent funding reflects that DHW changed elements of its recurrent funding model in 2019-20, increasing recurrent funding to cover increased recharging of centralised costs.

Grants and contributions income increased by $18 million to $232 million, due to an increase of $20 million in Pharmaceutical Benefits Scheme subsidies to $206 million.

Fees and charges increased by $70 million to $492 million, due to increases in patient and client fees of $68 million, reflecting increased recharging of central services such as imaging and pathology, and a $23 million increase in recoveries. These increases were offset by a reduction in royalty income of $15 million associated with the end of an intellectual property royalty agreement associated with techniques developed by SA Pathology.

Expenses

In 2019-20 the consolidated entity's total expenses remained steady at $2.8 billion.

Staff benefit expenses

Staff benefit expenses, $1.5 billion, represent more than 50% of CALHN's total expenses and increased by $19 million in 2019-20.

The increase in staff benefit expenses is due to:

- a $38 million increase in salaries and wages, mainly from wage rises associated with enterprise agreements, including a nursing enterprise agreement increase of 2% from 1 January 2020
- a $10 million increase in workers compensation reflecting the outcomes of the annual actuarial reassessment of this liability
- an increase of $32 million in targeted voluntary separation packages to $35 million ($3 million) that were paid to 293 (27) employees.

These increases were mainly offset by a $59 million decrease in long service leave expense. In 2018-19 there was a significantly higher long service leave expense associated with a $44 million impact from the actuarial calculation of long service leave liabilities. This was mainly associated with significant falls in interest rates used in the calculation. In 2019-20, changes to the actuarial assumptions did not have the same level of impact.

The number of employees whose remuneration received/receivable exceeded the base executive level ($155 000) totalled 1219 (1226), comprising 1068 medical, 60 non-medical, 63 nursing and 28 executive employees. Total remuneration for these employees was $368 million ($357 million).

Supplies and services expenses

Supplies and services expenses increased by $39 million (4%) to $908 million. Significant components of supplies and services expenses were:

- drug supplies, which increased by $18 million (7%) to $260 million
- PPP operating expenses, which increased by $9 million to $95 million and relate to the operations of the RAH (security, cleaning, maintenance, food supplies) as a result of increased Spotless charges
- repairs and maintenance, which increased by $10 million (43%) to $33 million, reflecting the transfer of responsibility for biomedical equipment maintenance from DHW to LHNs in 2019-20.

Other expenses

Overall other expenses reduced by $9 million to $12 million. Significant components of other expenses were:

- royalty payments, which decreased by $11 million to $3 million due to the cessation of a royalty distribution agreement
- other expenses, which increased by $1 million to $6 million
- donated assets of $1 million relating to medical equipment.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 90% of total assets. The carrying value of property, plant and equipment remained at $3.3 billion.

Significant movements in property, plant and equipment in 2019-20 were:

- depreciation and amortisation expenses, which increased by $13 million to $130 million
- capital works in progress, which decreased by $11 million, with $11 million of additional works associated mainly with the TQEH redevelopment recognised offset by $22 million of completed works transferred out of work in progress.

Liabilities

Current liabilities decreased by $2 million to $415 million during the year and exceeded current assets of $307 million at 30 June 2020. 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 $171 million are sufficient to meet current payables of $100 million.

Staff benefits are the largest element of current liabilities, totalling $234 million at 30 June 2020, and include leave entitlements expected to be taken within 12 months.

Total liabilities remained steady at $3.4 billion, reflecting that decreases in payables have offset increases in staff benefit entitlements.

Staff liabilities and associated on-costs make up $593 million of CALHN's total liabilities at 30 June 2020, comprising:

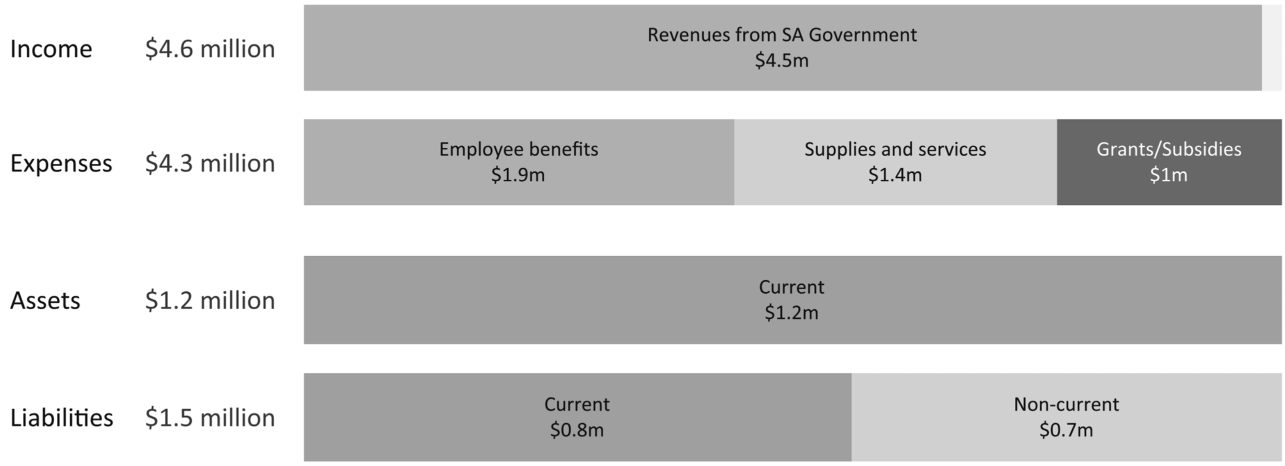
- staff benefits liabilities and related on-costs – $572 million ($535 million)
- provision for workers compensation – $21 million ($19 million).

The increase in staff liabilities is mainly the result of a rise in accrued salaries and wages, which includes an accrual for the *Nursing and Midwifery (SA Public Sector) Enterprise Agreement* that was approved in July 2020. The new agreement provides for a 2% increase in salaries and wages from 1 January 2020.

The $2 million increase in the provision for workers compensation reflects the outcomes of the annual independent actuarial valuation of the liability.

Commission on Excellence and Innovation in Health (CEIH)

Financial statistics



22
Number of FTEs

Significant events and transactions	— CEIH was proclaimed under the *Public Sector Act 2009* and became an attached office of the Department for Health and Wellbeing (DHW) from 6 January 2020. — On 6 January 2020 DHW transferred assets, rights and liabilities to CEIH including net liabilities of $631 000.
Financial report opinion	**Unmodified**

Functional responsibility

On 6 January 2020 CEIH was established as an attached office to DHW by proclamation under the *Public Sector Act 2009* (PS Act).

A notice under the PS Act transferred employees from the DHW's Commission on Excellence and Innovation division to the newly established CEIH.

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.

CEIH's work includes the following:

- Consumer and clinical partnerships – bringing together expertise from clinicians, consumers, health partners and other relevant stakeholders to maximise health outcomes for patients.
- Clinical improvement and innovation – creating an environment that supports all stages of innovation. Being a centre of excellence, a partner for clinical improvement and innovation and having recognised expertise that can influence design.
- Clinical informatics – building capability in clinical informatics, enhancing data assets, providing better access to data, and impacting how data and analytics are used to inform the creation of better healthcare.
- Human centred design – providing knowledge and advice to build capacity, understanding, skills and thinking for a more compassionate health system where all involved respect and actively seek out each other's opinion and to help build resilience and wellbeing among clinical staff.

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 CEIH are provided through a mix of:

- finance services located within CEIH
- services provided by DHW
- services provided by Shared Services SA.

Specific areas of audit attention in 2019-20 included:

- payroll
- accounts payable
- grants and subsidies
- cash
- general ledger.

Audit findings

Communicating our audit findings

We did not identify any audit findings that required a management letter to the CEIH.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'000
Income	
Revenues from SA Government	4 504
Fees and charges	8
Resources received free of charge	144
Total income	4 656
Expenses	
Employee benefits expenses	1 944
Supplies and services	1 346
Grants and subsidies	967
Other expenses	18
Total expenses	4 275
Net result	381
Assets	
Current assets	1 229
Non-current assets	-
Total assets	1 229
Liabilities	
Current liabilities	813
Non-current liabilities	667
Total liabilities	1 480
Total equity	(252)

Statement of Comprehensive Income

Revenue

Revenues from SA Government

CEIH is funded by an intra-government transfer from DHW. In 2019-20, DHW funding of $4.5 million represented 97% of total income.

Expenses

Employee benefits expenses

Employee benefits expenses of $1.9 million represent 45% of CEIH's total expenses.

Supplies and services expenses

Supplies and services totalled $1.4 million and included the following significant components:

- contractors – $319 000
- minor equipment – $102 000

- training and development – $163 000
- accommodation from DHW – $137 000
- advertising – $127 000.

Statement of Financial Position

Transfer of assets and liabilities on establishment

At its establishment on 6 January 2020, net liabilities of $632 000 were transferred to CEIH from DHW as follows:

- cash – $145 000
- payables – $77 000
- employee benefits – $691 000
- provisions – $9000.

Employee related liabilities

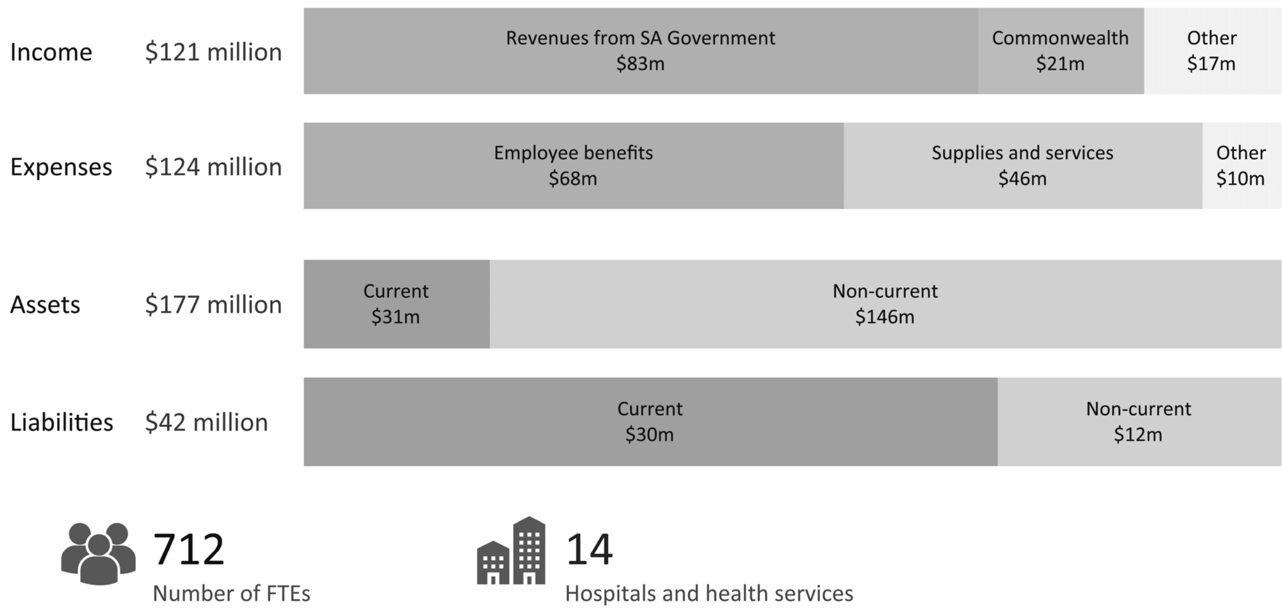
Employee related liabilities make up $1.2 million (80%) of CEIH's total liabilities at 30 June 2020, comprising:

- employee benefits liabilities and related on-costs – $1.2 million
- provisions for workers compensation – $16 000.

Note 12 of CEIH's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

Eyre and Far North Local Health Network Incorporated (EFNLHN)

Financial statistics



Significant events and transactions

- EFNLHN and five other regional local health networks (LHNs) were proclaimed under the *Health Care Act 2008* (HC Act) and took over the function of providing regional health services from Country Health SA Local Health Network Incorporated (CHSALHN) from 1 July 2019.
- On 1 July 2019 CHSALHN transferred its assets, rights and liabilities to the regional LHNs including net assets of $137 million to EFNLHN.
- The EFNLHN governing board was established on and commenced from 1 July 2019.
- EFNLHN's response to the COVID-19 pandemic included additional public health activities including preparation of hospitals, establishing testing clinics and purchasing equipment.
- EFNLHN's financial report outlines material costs associated with COVID-19 of $683 000.

Financial report opinion

Unmodified

Audit findings

- Financial authorities in the payment system not in line with approved delegations.
- Invoices paid without purchase orders.
- Ineffective follow-up of long outstanding patient debtors.
- Contracts not established for some regular services.
- No recalculation of compensable patient invoicing.
- Insufficient system access restrictions.
- Bank account signatories include former employees.

Functional responsibility

EFNLHN is established under the HC Act. A proclamation under the HC Act, which came into effect on 1 July 2019, dissolved CHSALHN and transferred its assets, rights and liabilities to six regional LHNs including EFNLHN. The new LHNs took over the function of providing health services from CHSALHN from that date.

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 EFNLHN to be governed by a board. The governing board was established on and commenced from 1 July 2019. Governing boards of LHNs are responsible for addressing the local need, providing strategic direction and monitoring the LHN's operating and financial performance. The board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive, Department for Health and Wellbeing (DHW).

Amendments to the HC Act changed the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering the LHNs. DHW is responsible for setting statewide policy and the Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

A service agreement between EFNLHN and the Chief Executive, DHW sets 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 service agreement's intent is to be binding on all parties. We note that EFNLHN only executed part of the agreement and the overarching agreement was not signed for 2019-20.

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 (BHFLHN)
- 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, the 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 2019-20 included:

- payroll
- accounts payable
- patient revenue including accounts receivable
- fee-for-service
- property, plant and equipment
- cash
- general ledger.

Internal audit activities were considered in designing and performing audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer 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 where 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.

EFNLHN advised that it would implement a process to review invoices monthly to identify those without purchase orders and require purchase orders to be raised before payment.

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 some variances between the two. Where this occurs there is an increased risk of a breach of Treasurer's Instruction 8 *Financial Authorisations*.

EFNLHN advised that it had corrected the financial delegation variances and would make financial delegations available to all staff.

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.

EFNLHN responded that it would implement contracts for suppliers that have ongoing services.

Revenue

Ineffective follow-up of long standing 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 long outstanding 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.

EFNLHN responded that it would review outstanding debts monthly and ensure all follow-up actions are documented.

Patient billing system access rights not reviewed

Our review identified Chiron patient billing system users that have access to modules in the system that are not required for their role. This presents segregation of duties concerns. There is no regular review of user access performed.

EFNLHN responded that it would review user access rights to Chiron and request removal of inappropriate access.

Segregation of duties between revenue officers and medical records

Last year we reported to CHSALHN that admission and discharge dates and charge types can be modified by revenue officers. Our follow-up found that revenue officers still had access to modify these details, increasing the risk of inappropriate adjustments to invoiced fees.

EFNLHN responded that it would look to identify possible access restrictions and where this is not possible due to Chiron system limitations, it would review audit trails for potential segregation of duty breaches.

No recalculation of compensable patient invoicing

We noted that revenue officers manually calculated patient billing charges in spreadsheets and then manually input the charges into the Chiron patient billing system. We found there was inadequate review of these manual processes, increasing the risk of error.

EFNLHN advised that it would review a sample of compensable patient invoice calculations quarterly.

Cash

Bank account signatories include former employees

We identified signatories for EFNLHN bank accounts that were no longer employees of SA Health and recommended a regular review to ensure bank account signatories remain pertinent.

EFNLHN advised that it would review the centralised register of bank signatories and remove former employees.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020	
	Consolidated $'million	Parent $'million
Income		
Revenues from SA Government	83	83
Revenue from fees and charges	11	11
Grants and contributions	26	26
Other income	1	1
Total income	121	121

	2020 Consolidated $'million	2020 Parent $'million
Expenses		
Staff benefit expenses	68	68
Supplies and services	46	46
Depreciation and amortisation	7	4
Other expenses	3	3
Total expenses	124	121
Net result	(2)	(1)
Assets		
Current assets	31	30
Non-current assets	146	82
Total assets	177	112
Liabilities		
Current liabilities	30	30
Non-current liabilities	12	13
Total liabilities	42	43
Net assets	135	69

Statement of Comprehensive Income – Consolidated

Revenues

Revenues from SA Government

EFNLHN is principally funded by DHW. In 2019-20, DHW funding of $83 million, which represents 69% of total income, comprised recurrent funding of $81 million and capital funding of $2 million.

Fees and charges

Fees and charges totalled $11 million and include the following significant components:

- residential and aged care charges of $4 million which relate primarily to long stay nursing home fees, including daily care fees and daily accommodation fees
- patient and client fees – $3 million
- recoveries of $1 million which relate primarily to the recharge of salaries and wages or various goods and services expenses incurred on behalf of another entity, including other regional LHNs
- other fees and charges – $3 million.

Grants and contributions

Grants and contributions of $25 million included Commonwealth grants of $29 million.

Expenses

Staff benefit expenses

Staff benefit expenses represent 55% of EFNLHN's total expenses. The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled nine, comprising one medical (excluding nursing), seven nursing and one executive. Total remuneration for these employees was $1.8 million.

Supplies and services expenses

Supplies and services expenses totalled $46 million and included the following significant components:

- fee-for-service payments to medical practitioners – $11 million
- contract of services – $6 million
- internal SA Health service level agreement payments – $4 million
- medical, surgical and laboratory supplies – $4 million
- repairs and maintenance – $5 million.

Statement of Financial Position – Consolidated

Assets

At its establishment on 1 July 2019, assets of $175 million were transferred to EFNLHN as follows:

- cash – $5 million
- receivables – $3 million
- property, plant and equipment – $149 million
- other assets – $18 million.

Property, plant and equipment

As at 30 June 2020, property, plant and equipment of $146 million, represents 82% of EFNLHN's total assets and includes the following significant components:

- newly recognised right-of-use lease assets under the new Accounting Standard AASB 16 *Leases* – $1 million
- buildings – $134 million
- land – $7 million
- capital works in progress – $2 million.

Liabilities

At its establishment on 1 July 2019, liabilities of $38 million were transferred to EFNLHN as follows:

- payables – $4 million
- staff benefits – $18 million
- provisions – $1 million
- other liabilities – $15 million.

Staff benefits liabilities

Staff related liabilities make up $22 million (51%) of EFNLHN's total liabilities at 30 June 2020, comprising:

- staff benefits liabilities and related on-costs – $21 million
- provisions for workers compensation – $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 the COVID-19 global pandemic has had a significant impact across SA Health in 2019-20 including at EFNLHN. Some of the more significant initiatives implemented by EFNLHN were:

- preparation of hospitals and staff
- temporarily suspending elective surgery
- establishing COVID-19 clinics and testing centres in the region
- changed visitor arrangements.

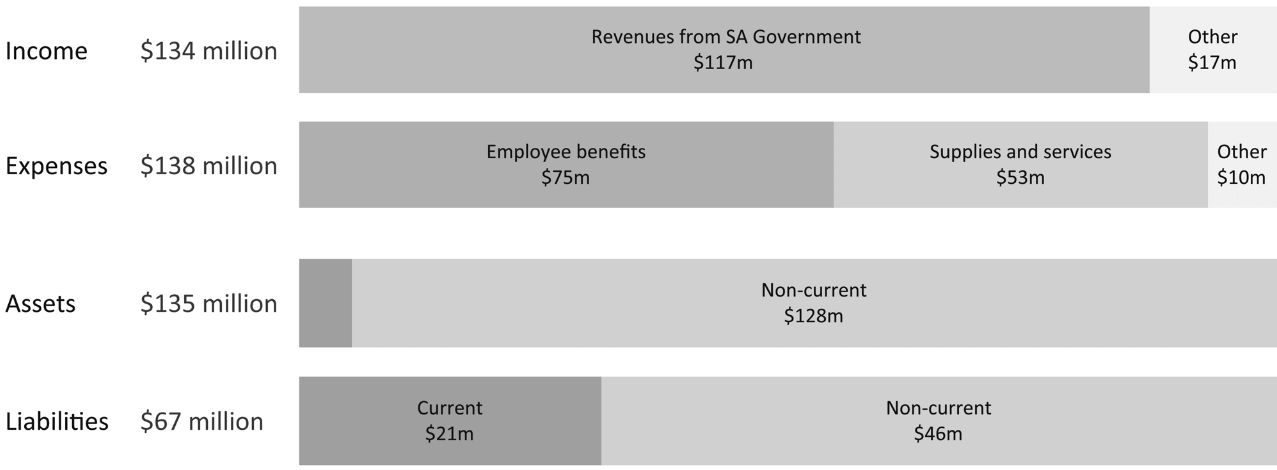
Note 1.7 to EFNLHN's financial report outlines material costs associated with COVID-19, including additional public health activities at a cost of $634 000 including:

- preparation of hospitals
- establishing testing clinics
- purchasing personal protective equipment
- non-clinical costs including cleaning.

EFNLHN also incurred $49 000 for hospital staff accessing special leave with pay for up to 15 days for absences related to COVID-19.

Flinders and Upper North Local Health Network Incorporated (FUNLHN)

Financial statistics



699
Number of FTEs

7
Hospitals and health services

Significant events and transactions

- FUNLHN and five other regional local health networks (LHNs) were proclaimed under the *Health Care Act 2008* (HC Act) and took over the function of providing regional health services from the Country Health SA Local Health Network Incorporated (CHSALHN) from 1 July 2019.
- On 1 July 2019 CHSALHN transferred its assets, rights and liabilities to the regional LHNs including net assets of $88 million to FUNLHN.
- The FUNLHN governing board was established on and commenced from 1 July 2019.
- FUNLHN's response to the COVID-19 pandemic included additional public health activities including preparation of hospitals, establishing testing clinics and purchasing equipment.
- FUNLHN's financial report outlines material costs associated with COVID-19 of $557 000.

Financial report opinion | **Unmodified**

Audit findings

- Financial authorities in the payment system not in line with approved delegations.
- Invoices paid without purchase orders.
- Contracts not established for some regular services.
- No recalculation of compensable patient invoicing.
- System access restrictions insufficient.
- Bank account signatories include former employees.

Functional responsibility

FUNLHN is established under the *Health Care Act 2008* (HC Act). A proclamation under the HC Act, which came into effect on 1 July 2019, dissolved CHSALHN and transferred its assets, rights and liabilities to six regional LHNs including FUNLHN. The new LHNs took over the function of providing health services from CHSALHN from that date.

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 are 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. All HACs in the region are unincorporated and their assets, liabilities, revenues and expenses are consolidated in the accounts of the Barossa Hills Fleurieu Local Health Network Incorporated (BHFLHN).

Governance

The HC Act provides for FUNLHN to be governed by a board. The governing board was established on and commenced from 1 July 2019. Governing boards of LHNs are responsible for addressing the local need, providing strategic direction and monitoring the LHN's operating and financial performance. The board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive, Department for Health and Wellbeing (DHW).

Amendments to the HC Act changed the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering the LHNs. DHW is responsible for setting statewide policy and the Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

A service agreement between FUNLHN and the Chief Executive, DHW sets 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 service agreement's intent is to be binding on all parties. We note that while FUNLHN signed the overarching agreement some elements of the agreement were not signed for 2019-20.

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, the 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 2019-20 included:

- payroll
- accounts payable
- patient revenue including accounts receivable
- fee-for-service
- property, plant and equipment
- cash
- general ledger.

Internal audit activities were considered in designing and performing 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 where 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 responded that it considered that shortcomings of the Basware payment system contribute to the matters raised. It also advised that it would provide training to staff on the need to use purchase orders.

Financial authorities in the payment system not in line with approved delegations

Our review compared the authority limits assigned to individuals in Basware to approved financial delegations and found some variances between the two. Where this occurs there is an increased risk of a breach of Treasurer's Instruction 8 *Financial Authorisations*.

FUNLHN advised that it would review Basware authority levels against the financial delegations and the organisational structure quarterly.

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.

FUNLHN advised that it would review expenditure transactions quarterly to identify significant suppliers without contracts and consider potential contract opportunities. It also indicated it would consult with other LHNs to consider where procurement could occur locally or across SA Health.

Revenue

Patient billing system access rights not reviewed

Our review identified Chiron patient billing system users that have access to modules in the system which are not required for their role. This presents segregation of duties concerns. Also, there is no regular review of user access performed.

FUNLHN advised that system limitations prevented some access restrictions and that it had established controls and processes to mitigate the risks. It advised it would regularly review user listing reports and would consider these concerns when implementing any system replacing Chiron.

Segregation of duties between revenue officers and medical records

In the prior year we reported to CHSALHN that admission and discharge dates and charge types can be modified by revenue officers. Our follow-up found that revenue officers still had access to modify these details, increasing the risk of inappropriate adjustments to invoiced fees.

FUNLHN advised that it would investigate whether Chiron system access could be removed. It will also consider these concerns when implementing any system replacing Chiron.

No recalculation of compensable patient invoicing

We noted that revenue officers manually calculated patient billing charges in spreadsheets and then manually input the charges into the CHIRON patient billing system. We found there was inadequate review of these manual processes, increasing the risk of error.

FUNLHN advised that it would implement a checking process.

Cash

Bank account signatories include former employees

We identified signatories for FUNLHN bank accounts that were no longer employees of SA Health and recommended a regular review to ensure bank account signatories remain pertinent.

FUNLHN advised that, with the support of the SSSA health accounting and taxation services team, it will ensure that all bank account signatories are reviewed and updated every year.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $’million
Income	
Revenues from SA Government	117
Revenue from fees and charges	7
Grants and contributions	8
Other income	2
Total income	134
Expenses	
Staff benefit expenses	75
Supplies and services	53
Depreciation and amortisation	9
Other expenses	1
Total expenses	138
Net result	(4)

	2020 $'million
Assets	
Current assets	7
Non-current assets	128
Total assets	135
Liabilities	
Current liabilities	21
Non-current liabilities	46
Total liabilities	67
Net assets	68

Statement of Comprehensive Income

Revenues

Revenues from SA Government

FUNLHN is principally funded by DHW. In 2019-20, DHW funding of $117 million, which represents 87% of total income, comprised recurrent funding of $114 million and capital funding of $3 million.

Fees and charges

Fees and charges totalled $7 million and include the following significant components:

- patient and client fees of $3 million
- recoveries of $2 million which relate primarily to the recharge of salaries and wages or various goods and services expenses incurred on behalf of another entity, including other regional LHNs
- 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 of $8 million included Commonwealth grants of $7 million.

Expenses

Staff benefit expenses

Staff benefit expenses represent 54% of FUNLHN's total expenses. The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 19, comprising 12 medical (excluding nursing), six nursing and one executive. Total remuneration for these employees was $7 million.

Supplies and services expenses

Supplies and services totalled $53 million and included the following significant components:

- fee-for-service payments to medical practitioners – $11 million
- contract of services – $7 million

- internal SA Health service level agreement payments – $7 million
- medical, surgical and laboratory supplies – $8 million
- repairs and maintenance – $4 million.

Statement of Financial Position

Assets

At its establishment on 1 July 2019, assets of $123 million were transferred to FUNLHN as follows:

- cash – $1 million
- receivables – $3 million
- property, plant and equipment – $117 million
- other assets – $2 million.

Property, plant and equipment

As at 30 June 2020, property, plant and equipment of $127 million represents 95% of FUNLHN's total assets and includes the following significant components:

- newly recognised right-of-use lease assets under the new Accounting Standard AASB 16 *Leases* – $34 million
- buildings – $82 million
- land – $4 million
- accommodation and leasehold improvements – $3 million
- capital works in progress – $3 million.

Liabilities

At its establishment on 1 July 2019, liabilities of $35 million were transferred to FUNLHN as follows:

- payables – $4 million
- staff benefits – $23 million
- provisions – $1 million
- other liabilities – $7 million.

Current liabilities

Current liabilities of $21 million exceeded current assets of $7 million at balance date.

Cash and cash equivalents of $3 million were not sufficient to meet current payables of $5 million. FUNLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 to its financial report discusses continuity of operations.

Staff related liabilities

Staff related liabilities make up $28 million of FUNLHN's total liabilities at 30 June 2020, comprising:

- staff benefits liabilities and related on-costs – $26 million
- provisions for workers compensation – $2 million.

Note 22 of FUNLHN'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 the COVID-19 global pandemic has had a significant impact across SA Health in 2019-20 including at FUNLHN. Some of the more significant initiatives implemented by FUNLHN were:

- preparation of hospitals and staff
- temporarily suspending elective surgery
- establishing COVID-19 clinics and testing centres in the region
- changed visitor arrangements.

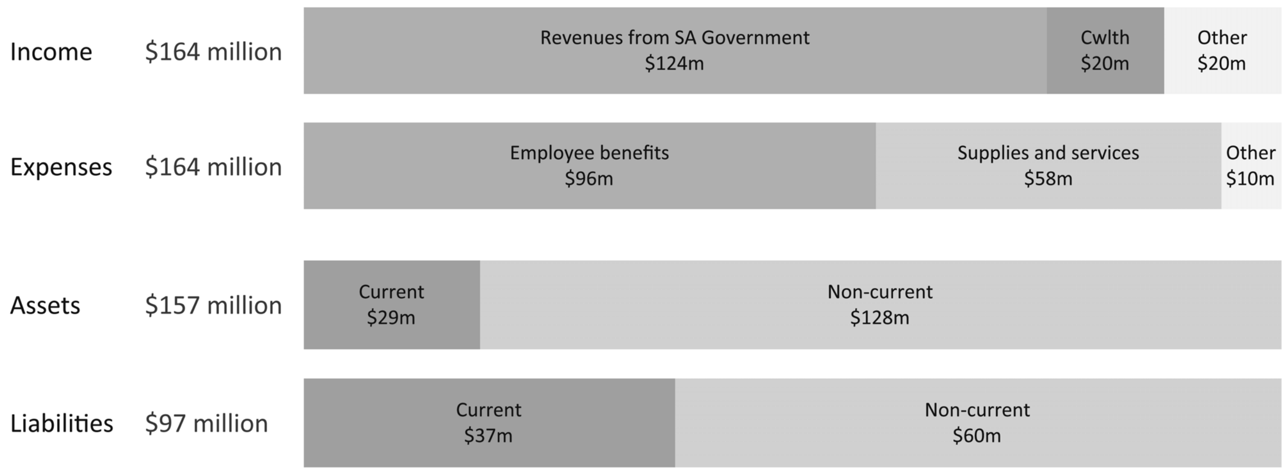
Note 1.7 to FUNLHN's financial report outlines material costs associated with COVID-19 including additional public health activities at a cost of $550 000 including:

- preparation of hospitals
- establishing testing clinics
- purchasing of personal protective equipment
- non-clinical costs including cleaning.

FUNLHN also incurred $27 000 for hospital staff accessing special leave with pay for up to 15 days for absences related to COVID-19.

Limestone Coast Local Health Network Incorporated (LCLHN)

Financial statistics



921
Number of FTEs

15
Hospitals and health services

Significant events and transactions

- LCLHN and five other regional local health networks (LHNs) were proclaimed under the *Health Care Act 2008* (HC Act) and took over the function of providing regional health services from Country Health SA Local Health Network Incorporated (CHSALHN) from 1 July 2019.
- On 1 July 2019 CHSALHN transferred its assets, rights and liabilities to the regional LHNs including net assets of $87 million to LCLHN.
- The LCLHN governing board was established on and commenced from 1 July 2019.
- LCLHN's response to the COVID-19 pandemic included additional public health activities including preparation of hospitals, establishing testing clinics and purchasing equipment.
- LCLHN's financial report outlines material costs associated with COVID-19 of $821 000.

Financial report opinion

Unmodified

Audit findings	— Delays in medical officers submitting timesheets. — High dollar value call-back allowances that appear to be consistent with a shift rather than a call back. — Invoices paid without purchase orders. — Insufficient system access restrictions. — Contracts not established for some regular services. — No recalculation of compensable patient invoicing.

Functional responsibility

LCLHN is established under the HC Act. A proclamation under the HC Act, which came into effect on 1 July 2019, dissolved CHSALHN and transferred its assets, rights and liabilities to six regional LHNs including LCLHN. The new LHNs took over the function of providing health services from CHSALHN from that date.

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 LCLHN to be governed by a board. The governing board was established on and commenced from 1 July 2019. Governing boards of LHNs are responsible for addressing the local need, providing strategic direction and monitoring the LHN's operating and financial performance. The board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive, Department for Health and Wellbeing (DHW).

Amendments to the HC Act changed the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering the LHNs. DHW is responsible for setting statewide policy and the Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

LCLHN entered a service agreement with the Chief Executive, DHW that sets 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 service agreement's intent is to be binding on all parties.

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 (BHFLHN)
- 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, the 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 2019-20 included:

- payroll
- accounts payable
- patient revenue including accounts receivable
- fee-for-service
- property, plant and equipment
- cash
- general ledger.

Internal audit activities were considered in designing and performing audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of LCLHN.

The main findings and LCLHN's responses are discussed below.

Audit findings

Payroll

Delays in medical officers submitting timesheets

We identified delays in the submission of manual timesheets by medical officers. Such delays reduce management's ability to confirm the accuracy or completeness of manual timesheets submitted given the time elapsed between the duties being performed and when the timesheets are required to be authorised by management. They may also delay the recording of expenditure or leave taken resulting in difficulties managing budgets.

LCLHN responded that it had implemented a process to track and follow up the submission of timesheets.

High value call-back allowances

Our audit included a review of large employee payments. We identified high dollar value payments to a medical officer for overtime and call-back allowances. The medical officer was rostered Monday to Friday 8 am to 4 pm. The call backs related to Saturdays and Sundays for 12-14 hours and in one case a public holiday. We found the call-back allowance forms did not specify the event or reason for the call back to the hospital. The attendances appeared to be more consistent with a shift rather than a call back. We reported these concerns to management, and recommended that it be investigated and that call backs and overtime are minimised through medical officer rostered shifts.

LCLHN responded that it had reviewed the on-call usage and deemed it clinically appropriate having regard to the service. It indicated that alternative arrangements would require additional staffing and potentially put service delivery arrangements at risk given enterprise agreement provisions. LCLHN indicated that it would establish a mechanism to regularly monitor overtime and on-call usage.

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 where 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.

LCLHN advised that it would review procurement processes with the intent to improve 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.

LCLHN advised that it would review procurement and contracting processes with the intent to improve compliance with policy.

Revenue

Patient billing system access rights not reviewed

Our review identified Chiron patient billing system users that have access to modules in the system that are not required for their role. This presents segregation of duties concerns. Also there is no regular review of user access performed.

LCLHN advised that it would liaise with RSS revenue staff to review and update security access.

Segregation of duties between revenue officers and medical records

Last year we reported to CHSALHN that admission and discharge dates and charge types can be modified by revenue officers. Our follow-up found that revenue officers still had access to modify these details, increasing the risk of inappropriate adjustments to invoiced fees.

LCLHN advised that RSS revenue staff would review the process and advise it on how to implement appropriate controls.

No recalculation of compensable patient invoicing

We noted that revenue officers manually calculated patient billing charges in spreadsheets and then manually input the charges into the Chiron patient billing system. We found there was inadequate review of these manual processes, increasing the risk of error.

LCLHN indicated that it would liaise with RSS revenue to ensure appropriate controls are implemented.

Cash

Bank account signatories include former employees

We identified signatories for LCLHN bank accounts that were no longer employees of SA Health and recommended a regular review to ensure bank account signatories remain pertinent.

LCLHN advised it intended to establish new bank accounts with current signatories.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020	
	Consolidated $’million	Parent $’million
Income		
Revenues from SA Government	124	124
Revenue from fees and charges	18	18
Grants and contributions	21	21
Other income	1	1
Total income	164	164

	2020	
	Consolidated $'million	Parent $'million
Expenses		
Staff benefit expenses	96	96
Supplies and services	58	58
Depreciation and amortisation	6	5
Other expenses	3	3
Total expenses	163	162
Net result	1	2
Assets		
Current assets	29	27
Non-current assets	128	99
Total assets	157	126
Liabilities		
Current liabilities	37	37
Non-current liabilities	60	60
Total liabilities	97	97
Net assets	60	29

Statement of Comprehensive Income – Consolidated

Revenues

Revenues from SA Government

LHN is principally funded by DHW. In 2019-20, DHW funding of $124 million, which represents 75% of total income, comprised recurrent funding of $119 million and capital funding of $5 million.

Fees and charges

Fees and charges totalled $18 million and include the following significant components:

- patient and client fees of $6 million
- recoveries of $6 million which relate primarily to the recharge of salaries and wages or various goods and services expenses incurred on behalf of another entity, including other regional LHNs
- residential and aged care charges of $4 million which relate primarily to long stay nursing home fees, including daily care fees and accommodation fees.

Grants and contributions

Grants and contributions of $21 million included Commonwealth aged care subsidies of $8 million and other Commonwealth grants of $12 million.

Expenses

Staff benefit expenses

Staff benefit expenses represent 59% of LCLHN's total expenses. The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 31, comprising

21 medical (excluding nursing), nine nursing and one executive. Total remuneration for these employees was $9 million.

Supplies and services expenses

Supplies and services totalled $58 million and included the following significant components:

- fee-for-service payments to medical practitioners – $15 million
- internal SA Health service level agreement payments – $7 million
- medical, surgical and laboratory supplies – $11 million
- repairs and maintenance – $4 million.

Statement of Financial Position – Consolidated

Assets

At its establishment on 1 July 2019, assets of $139 million were transferred to LCLHN as follows:

- cash – $3 million
- receivables – $4 million
- property, plant and equipment – $112 million
- other assets – $20 million.

Property, plant and equipment

As at 30 June 2020, property, plant and equipment represents $128 million (81%) of LCLHN's total assets and includes the following significant components:

- newly recognised right-of-use lease assets under the new Accounting Standard AASB 16 *Leases* – $46 million
- buildings – $54 million
- land – $4 million
- accommodation and leasehold improvements – $16 million
- capital works in progress – $5 million.

Liabilities

At its establishment on 1 July 2019, liabilities of $52 million were transferred to LCLHN as follows:

- payables – $5 million
- staff benefits – $28 million
- provisions – $1 million
- other liabilities – $18 million.

Current liabilities

Current liabilities of $37 million exceeded current assets of $29 million at balance date. LCLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 to its financial report discusses continuity of operations.

Staff related liabilities

Staff related liabilities make up $33 million (34%) of LCLHN's total liabilities at 30 June 2020, comprising:

- staff benefits liabilities and related on-costs – $31 million
- provisions for workers compensation – $2 million

Note 23 of LCLHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

Financial liabilities

Financial liabilities make up $45 million (47%) of LCLHN's total liabilities at 30 June 2020.

This comprises lease liabilities of $45 million that are recognised under the new Accounting Standard AASB 16.

Further commentary on operations

Response to the COVID-19 pandemic

Responding to the COVID-19 global pandemic has had a significant impact across SA Health in 2019-20 including at LCLHN. Some of the more significant initiatives implemented by LCLHN were:

- preparation of hospitals and staff
- temporarily suspending elective surgery
- establishing COVID-19 clinics and testing centres in the region
- changed visitor arrangements.

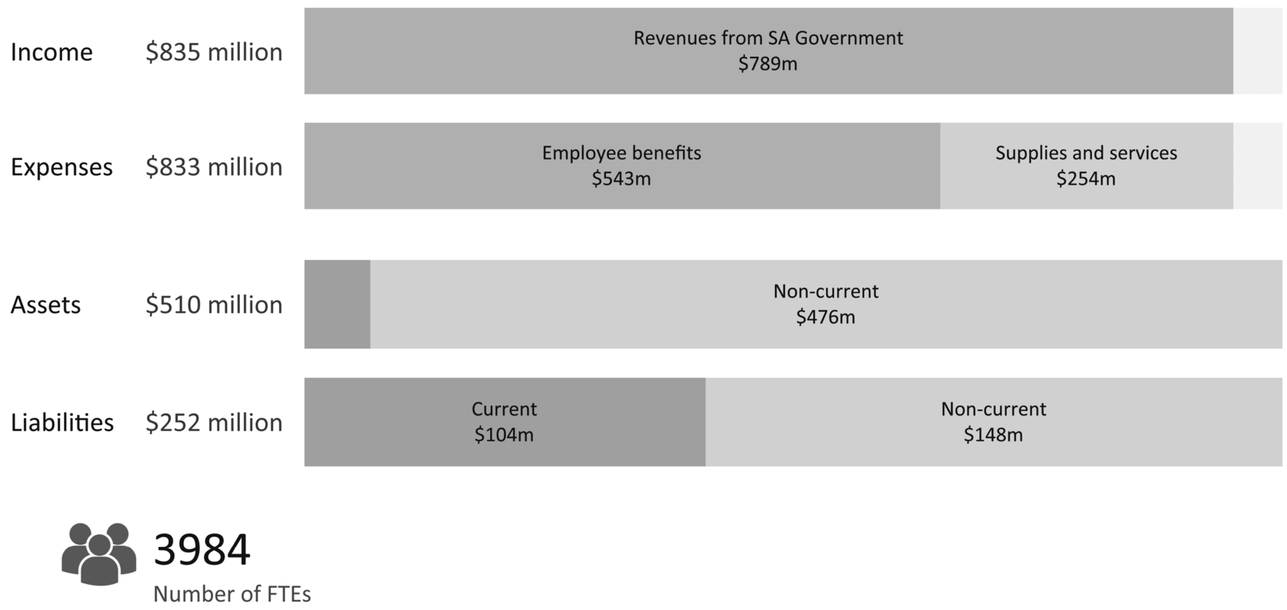
Note 1.7 to LCLHN's financial report outlines material costs associated with COVID-19 for additional public health activities at a cost of $754 000 including:

- preparation of hospitals
- establishing testing clinics
- purchasing of personal protective equipment
- non-clinical costs including cleaning.

LCLHN also incurred $67 000 for hospital staff accessing special leave with pay for up to 15 days for absences related to COVID-19.

Northern Adelaide Local Health Network Incorporated (NALHN)

Financial statistics



Significant events and transactions	— The NALHN governing board commenced from 1 July 2019. — In June 2020 NALHN launched its 'Strategic Plan 2020-25' and 'Consumer and Community Engagement Strategy 2020-25'. — NALHN recorded $38 million in capital works expenditure mainly for upgrades at the Modbury Hospital, the expansion of the Lyell McEwin Hospital car park and works associated with redeveloping the Lyell McEwin Hospital emergency department.
Financial report opinion	**Unmodified**

Controls opinion findings	— Processes to ensure appropriate employment clearances are in place need to improve. — Payroll planning, monitoring and approval processes can be improved. — Asset management processes under the across government facilities management arrangements (AGFMA) can be improved. — Some controls over procurement, contracting and purchasing can improve.
Other audit findings	— Patient billing practices and debtor management could improve. — Medical officer professional development leave recording and expenditure approval controls can be improved. — Controls supporting the completeness of Rights of Private Practice offsite generated revenue can be improved.

Functional responsibility

Governance

NALHN is 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.

From 1 July 2019 amendments to the HC Act provided for local health networks (LHNs) including NALHN to be governed by boards. Accordingly, the NALHN governing board was established and commenced from 1 July 2019. The amendments also changed the role of the Chief Executive, Department for Health and Wellbeing (DHW) to remove direct responsibility for administering LHNs.

The governing board is responsible for addressing local need, providing strategic direction and monitoring NALHN's operating and financial performance. It must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive, DHW. Under these changes DHW remains responsible for setting statewide policy and the Minister for Health and Wellbeing remains responsible for setting reform agenda and priorities.

Impact of the COVID-19 pandemic

NALHN has been providing a frontline response to the COVID-19 pandemic in its local area. This has included:

- activating COVID-19 testing clinics at the Lyell McEwin Hospital

- planning for potential workforce requirements and providing additional training to deal with pandemic scenarios
- ensuring its inventory of personal protective equipment and other equipment, such as ventilators, is sufficient to meet potential increased demand.

2020-21 is also expected to be impacted by COVID-19 mainly as a result of the cancellation of elective surgeries, which has increased patient waitlists. NALHN's response to this challenge, at the time of this Report, is to continue outsourcing some elective surgery to private hospitals to reduce patient waitlist times – refer 'Fee for service' discussion 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. 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 2019-20 included:

- governance
- payroll and workforce management
- goods and services expenditure and accounts payable
- property, plant and equipment
- patient billing and debtor management
- medical officer professional development
- cash and online banking
- general ledger and financial accounting.

The work of NALHN's internal auditors was considered 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 NALHN Chief Executive Officer. The main findings and NALHN's responses are discussed below.

Controls opinion findings

As part of our review of controls associated with managing staff, we chose to look at the way NALHN manages employment clearances for its staff.

Processes to ensure appropriate employment clearances are in place need to be improved

Some employees worked without current working with children 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.

Our analysis of NALHN's employee data identified seven Emergency Department Critical Care employees whose clearances were not current. Clearances expire and need to be renewed. Six of the seven employees without a current clearance had provided direct care to at least one child during the period they did not have a current clearance.

This is a breach of the *Child Safety (Prohibited Persons) Act 2016.*

NALHN responded that it was identifying prescribed positions across its network to enable more targeted reporting and that, following the anticipated release of a revised SA Health directive in this area, it will finalise and distribute a new criminal screening procedure.

NALHN employment clearance records are not up to date

NALHN's main record for employment clearance information is the Chris21 payroll system. We found this information was out of date. Some NALHN divisions were not referring to these data records, or they were not advising NALHN's Human Resource and Workforce division of changes that needed to be made.

We also found multiple Chris21 records that did not agree to current clearance information on file.

Where employment clearance information is not accurate there is an increased risk of non-compliance with legislation. It may also increase risk for NALHN's patients.

NALHN responded that it would remind its divisions and staff that it is a shared responsibility to ensure that data in Chris21 is accurate. Its Human Resource and Workforce division will also work with divisions to help ensure compliance.

Payroll planning, monitoring and approval processes can be improved

NALHN employs more than 3900 FTEs and payroll related costs are significant, with $543 million in staff benefits paid and $190 million in staff benefit liabilities, related on-costs and workers compensation provisions as at 30 June 2020. Because of the significance of these costs, we review key payroll controls each year.

NALHN's records indicate that over half of its staff did not have a current performance review in March 2020

In 2019-20, we continued to review how current employee performance reviews were at a number of agencies, including NALHN.

Our review of NALHN's records for performance reviews in March 2020 found that only half of the reviews for its staff were current, consistent with 2018-19. Of the more than 2600 reviews that were not current, around half were more than a year overdue.

NALHN's response stated that it had undertaken focused work with divisions and there had been a significant improvement in the number of staff with current performance reviews by August 2020. NALHN also advised it was looking at further strategies to improve this process in the future.

NALHN did not have a consolidated workforce plan

In 2019-20 we reviewed agency workforce planning across numerous agencies, considering guidance on workforce planning from the Commissioner for Public Sector Employment.

While NALHN had made some progress towards a workforce plan, it did not have one in place in 2019-20. NALHN advised us that it would only be able to finalise the workforce plan once its strategic plan was finalised. The strategic plan was launched in June 2020.

NALHN advised that it would continue its current work on developing a workforce plan, with the aim of having it in place by the end of 2020-21.

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 payments to staff are accurate and valid.

For NALHN 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 17%, 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 2019-20 we found:

- the review of bona fide reports and leave return certificates to certify the accuracy of payments and leave taken continues to be an issue for NALHN. Only 44% of bona fide reports and 37% of leave return certificates had been reviewed and approved as at March 2020
- 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 6000 nursing and midwifery ProAct timesheets had not been authorised to March 2020, an improvement compared to 2018-19.

The approval rates for bona fide reports and leave return certificates in 2019-20 were impacted by a Chris21 system issue identified in April 2020 that meant that some reviewers were unable to authorise these reviews or, where they had, audit reports indicated they had not. While the extent of this issue could not be quantified, it would have contributed to the above results.

In response to these matters NALHN advised it would:

- reinforce the importance of the prompt review and approval of bona fide reports and leave return certificates, make training available to managers and establish an administrative instruction to support the review process
- explore options to report all unauthorised ProAct timesheets for the whole financial year on one consolidated report to assist compliance. It will also reinforce the need to review all unapproved or modified ProAct timesheets prior to payment.

NALHN also advised it understood the Chris21 reporting issue would be addressed by a Chris21 update in August 2020.

Inconsistent medical rostering practices across divisions

Consistent with our findings over the last two years, we found that medical rostering practices varied 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 DHW, with SSSA, is leading the SA Health Electronic Timesheet Project which aims to transition medical officers, who currently submit manual timesheets, onto ProAct. 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 advised it expected a pilot of the electronic timesheet project would be completed, at NALHN, 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 two years, our testing identified ongoing weaknesses in how these allowances were checked. There remains 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.

As a result, there is a risk that NALHN is paying recall allowances in circumstances where they should not be paid.

NALHN responded that it had developed a procedure for the review of recall allowances that is going through consultation. Education on the appropriate verification of timesheets will be provided to timesheets authorisers.

Asset management processes under the AGFMA can be improved

NALHN has property, plant and equipment worth over $470 million. As part of our 2019-20 controls opinion work, we considered NALHN's processes to manage the maintenance of these assets, including the implementation of the AGFMA.

We found that:

- while NALHN is working to develop a strategic asset management plan and accompanying asset management plans, these documents were not in place in 2019-20. Without them NALHN is less informed about its asset management risks and how to address them
- consistent with 2018-19, NALHN did not have a process to confirm that preventative maintenance outlined in its annual service delivery plan had been completed by Department of Planning, Transport and Infrastructure's (DPTI's) Facilities Services group (where it was responsible for the work), meaning there was a risk the work may not have been performed
- some asset data was documented in a number of local records, but not in DPTI's asset management system, SAMIS. As a result, NALHN was not complying with the asset data requirements set out in Premier and Cabinet Circular PC114 *Government Real Property Management*
- NALHN's 2019-20 assigned service provider, DPTI Facilities Services, had not performed any asset condition assessments. As a result, asset condition is not being taken into account in its annual service delivery planning, raising the risk that important preventative maintenance is not being performed
- some information such as asset lifecycle analysis and breakdown history, which should inform preventative maintenance plans, was not being captured and considered for NALHN.

NALHN responded that:

- it has started to develop a strategic asset management plan and accompanying asset management plans with the assistance of an engineering consultancy firm
- it expected that a change in service provider from 1 July 2020 would provide a more consistent and appropriate delivery of future services
- it was working closely with DHW Infrastructure and had developed an audit program of SAMIS data for NALHN sites. It expects that the new service provider will assist in the appropriate recording of asset data, as it will form part of their preventative and breakdown maintenance management processes
- under the arrangements with its new service delivery provider, SAMIS asset condition data will be captured as part of the preventative and breakdown maintenance process.

Some controls over procurement, contracting and purchasing can be improved

NALHN spent over $250 million on supplies and services in 2019-20. As part of our 2019-20 controls opinion work we considered NALHN's processes to ensure the effective procurement, contracting and purchasing of goods and services was occurring.

We found that:

- NALHN had not established contracts for some printing and document management services
- conflict of interest declarations for some evaluation team members for a pharmacy services procurement and cleaning services procurement could not be provided
- inappropriate approval of some direct negotiation procurements occurred. Direct negotiation procurements should only to be approved by the Chief Executive Officer under the established delegations.

NALHN responded that:

- advice from the DHW Procurement and Supply Change Management unit was that, due to SA Health's changing requirements including a move towards electronic record keeping, the project to secure a whole-of-health printing contract may not now proceed. NALHN also advised that it had arranged fixed pricing from various printing suppliers and would be incorporating those prices into its purchasing system
- it intended to move to a different model for the provision of document management services. Under the existing model, while there was no consolidated contract with the supplier, multiple singular service agreements were in place for each printing device
- procurement and contracting training sessions reinforcing relevant ethical and probity requirements are regularly held for managers. In addition to these training sessions, these requirements will be reinforced to managers at leadership and skills workshops.

Other audit findings

Patient billing practices and debtor management can be improved

NALHN received $21.5 million in patient and client fees in 2019-20. 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 $5 million in patient and client fee debts as at 30 June 2020.

Debtor follow-up delays and inconsistent debtor management practices

Our March 2020 analysis of debts managed by NALHN found that the percentage of debt outstanding for more than 60 days, for all patient debtor categories, ranged between 30%-80%. These statistics indicate that NALHN can improve the effectiveness of its debtor management practices.

We also found that there were different approaches to debtor management across major NALHN sites. Inconsistent debtor follow-up practices raise the risk of ineffective debt recovery occurring, which can result in financial loss.

NALHN responded that it agreed the effectiveness of its debt recovery processes could improve, and that it had recently implemented several new initiatives to help with this. These included changes to debtor officer roles and responsibilities, and the creation of a debtor category database to improve the monitoring and analysis of debt.

Some weaknesses in the process to confirm health fund eligibility

As we had found in 2018-19, there were some weaknesses in the processes to confirm the health fund eligibility of some privately admitted patients.

We found several instances where there was no evidence available to confirm that a health fund eligibility check was performed when the patient was admitted as a private patient. We also found examples where no explanation was on file to support why a health fund had rejected a claim.

NALHN responded that there can be legitimate reasons why a health fund check may not have been performed, such as the availability of health fund system access. However, it advised it would look to ensure that the reason for the inability to perform an eligibility check was always documented on file.

Medical officer professional development and expenditure approval controls can be improved

Consistent with our findings in prior years, there was no central record of professional development leave entitlements for medical officers. The lack of a central record results in inconsistent recording of professional development leave entitlements. We found differences between the records of professional development leave taken kept by NALHN divisions and the information in Chris21 for 80% of the professional development leave records we tested. This was consistent with our findings in prior years.

These leave recording issues should be addressed by the implementation of the SA Health Professional Development Reimbursement Project. This system should be implemented in 2020-21.

We also identified approved professional development expenditure claims that did not meet NALHN's current guidelines on the types of expenditure eligible for reimbursement.

NALHN's response stated that it was committed to the implementation and roll-out of the professional development reimbursement project, and believes that it will provide efficiencies and controls to support real-time decision making for professional development. It also advised that it would remind staff of the need to review all professional development expenditure claims against NALHN guidelines.

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 arrangement, medical officers must transfer all offsite generated ROPP receipts to NALHN. NALHN recognised more than $9 million in private practice fees in 2019-20.

NALHN has little visibility over offsite ROPP generated receipts therefore there is a risk that medical officers may not completely and accurately transfer all revenue owing.

We found NALHN did not have an effective control to ensure it receives all offsite generated ROPP receipts owed. We note that NALHN is reviewing its ability to conduct audits of medical officer private practice records under the various ROPP memorandums of arrangement.

NALHN responded that, as a high priority, it was developing procedures to help ensure offsite ROPP receipts are transferred as required.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $’million	2019 $’million
Income		
Revenues from SA Government	789	666
Revenue from fees and charges	38	34
Grants and contributions	4	4
Other income	4	3
Total income	835	707
Expenses		
Staff benefit expenses	543	521
Supplies and services	254	218
Depreciation and amortisation expense	35	30
Other expenses	1	1
Total expenses	833	770
Net result and total comprehensive result	2	(63)
Assets		
Current assets	34	22
Non-current assets	476	420
Total assets	510	442
Liabilities		
Current liabilities	104	90
Non-current liabilities	148	96
Total liabilities	252	186
Net assets	258	256

Statement of Comprehensive Income

Income

Revenues from SA Government

NALHN is mainly funded through recurrent and capital funding from DHW. In 2019-20, NALHN received recurrent funding of $752.1 million and capital funding of $37.2 million mainly for upgrade works at the Modbury Hospital, the expansion of the Lyell McEwin Hospital car park and works associated with the redevelopment of the Lyell McEwin Hospital emergency department.

Expenses

In 2019-20 total expenses increased by $63 million (8%) to $833 million.

Staff benefit expenses

Staff benefit expenses of $543 million represent 65% (68%) of NALHN's total expenses. These costs have increased by $22 million, which is mainly attributable to:

- FTE growth of 3.3% (127) in 2019-20. Half of this increase related to nursing staff recruited to work at the Glenside Hospital Tarnarthi Ward and to operate the COVID-19 testing clinics at the Lyell McEwin Hospital
- annual salary and allowance increases as well as accruals of $1.9 million recognised for the recently approved *Nursing and Midwifery (SA Public Sector) Enterprise Agreement*, which was backdated to 1 January 2020.

These growth drivers were partially offset by a reduction in long service leave expense. In 2018-19 there was a significantly higher long service leave expense associated with a $15 million impact on the actuarial calculation of long service leave liabilities. This was mainly associated with significant falls in interest rates used in the calculation. In 2019-20, changes to the actuarial assumptions did not have the same level of impact.

The number of staff whose remuneration received/receivable exceeded base executive level ($155 000) totalled 427 (420), comprising 383 (365) medical officers, six (seven) executives, 37 (46) nursing staff and one (two) non-medical staff. Total remuneration of these staff was $127 million ($119 million).

Supplies and services expenses

Supplies and services expenditure increased by $36 million (16%) in 2019-20 to $254 million. Significant components of supplies and services were:

- medical, surgical and laboratory supplies, which increased by $17.5 million (27%) to $83.1 million, and drug supplies, which increased by $5.7 million (71%). These increases are mainly due to an increase in the way pathology and drug supply costs are allocated to LHNs from SA Pathology and SA Pharmacy, with a change to align costs more closely with the national efficient price for the first time. NALHN received offsetting funding to cover these increases
- fee for service, which increased by $5 million (57%). This expenditure relates to the provision of medical services outsourced to third-party providers. The increase mainly relates to outsourced elective surgery above NALHN's commissioned activity levels to reduce patient waiting times
- contracts for services, which increased by $3.9 million. The increase is mainly due to the allocation of colonoscopy panel service costs from DHW to NALHN for the first time ($3.6 million).

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment assets represent 93% of total assets.

The carrying value of property, plant and equipment increased by $55 million to $474 million. The increase was mainly the result of the first time recognition of right-of-use assets under new lease accounting requirements, which are offset by lease liabilities. These assets mainly relate to rented buildings used for a car park, office accommodation and the Elizabeth GP Plus clinic.

Liabilities

Current liabilities increased by $14.8 million to $104.5 million during the year and exceeded current assets by $70.1 million as at 30 June 2020.

Staff liabilities make up $190.5 million (76%) of NALHN's total liabilities at 30 June 2020, comprising:

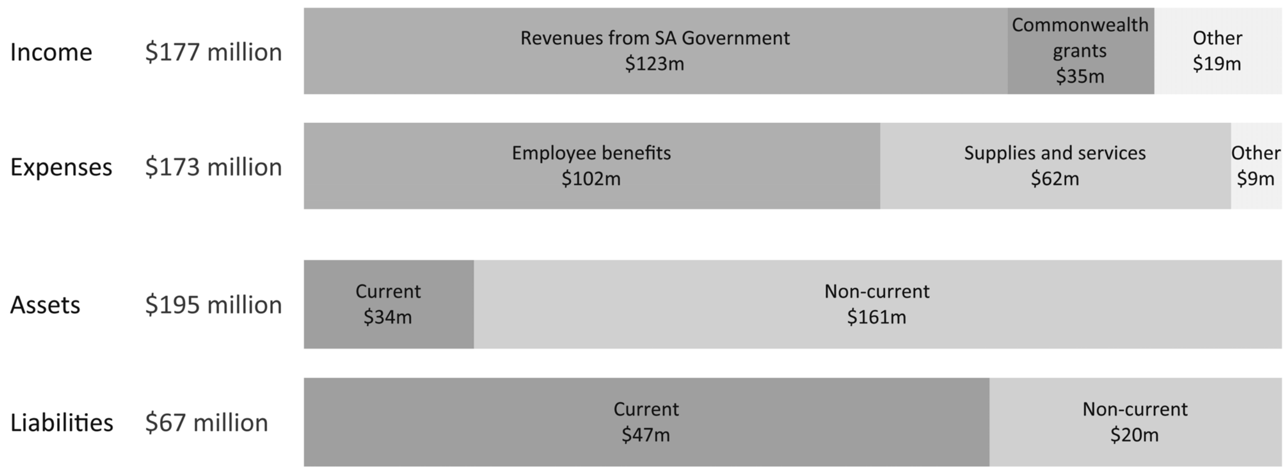
- staff benefits liabilities and related on-costs of $184.5 million ($168.4 million)
- workers compensation provisions of $6 million ($4.9 million).

The increase in staff liabilities is mainly the result of:

- a rise in accrued salaries and wages being mainly an accrual for the *Nursing and Midwifery (SA Public Sector) Enterprise Agreement* that was approved in July 2020. The agreement provides for a 2% increase in salaries and wages from 1 January 2020 and totalled $1.9 million
- FTE growth of 3.3% (127) in 2019-20 as mentioned above. This contributed to an overall increase in long service leave and annual leave liabilities of $4.4 million and $2.9 million respectively in 2019-20. These factors, plus the normal accumulation of leave, were partially offset by decreases from changes in actuarial assumptions of around $1 million
- the impact of the *Nursing and Midwifery (SA Public Sector) Enterprise Agreement* also added $900 000 to the long service leave liability and $400 000 to the annual leave liability.

Riverland Mallee Coorong Local Health Network Incorporated (RMCLHN)

Financial statistics



1063
Number of FTEs

14
Hospitals and health services

Significant events and transactions

- RMCLHN and five other regional local health networks (LHNs) were proclaimed under the *Health Care Act 2008* and took over the function of providing regional health services from the Country Health SA Local Health Network Incorporated (CHSALHN) from 1 July 2019.
- On 1 July 2019 CHSALHN transferred its assets, rights and liabilities to the regional LHNs including net assets of $124 million to RMCLHN.
- The RMCLHN governing board was established on and commenced from 1 July 2019.
- RMCLHN's response to the COVID-19 pandemic included additional public health activities including preparation of hospitals, establishing testing clinics and purchasing equipment.
- RMCLHN's financial report outlines material costs associated with COVID-19 of $555 000.

Financial report opinion — **Unmodified**

Audit findings

- Financial authorities in the payment system not in line with approved delegations.
- Invoices paid without purchase orders.
- Contracts not established for some regular services.
- No recalculation of compensable patient invoicing.
- Insufficient system access restrictions.
- Bank account signatories included former employees.

Functional responsibility

RMCLHN is established under the *Health Care Act 2008* (HC Act)*.* A proclamation under the HC Act*,* which came into effect on 1 July 2019, dissolved CHSALHN and transferred its assets, rights and liabilities to six regional LHNs including RMCLHN. The new LHNs took over the function of providing health services from CHSALHN from that date.

RMCLHN's powers and functions are to provide health services in the Riverland, Mallee and Coorong regions 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 RMCLHN to be governed by a board. The governing board was established on and commenced from 1 July 2019. Governing boards of LHNs are responsible for addressing the local need, providing strategic direction and monitoring the LHNs operating and financial performance. The board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive, Department for Health and Wellbeing (DHW).

Amendments to the HC Act changed the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering the LHNs. DHW is responsible for setting statewide policy and the Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

A service agreement between RMCLHN and the Chief Executive, DHW sets 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 service agreement's intent is to be binding on all parties. We note that RMCLHN only executed part of the agreement and the overarching agreement was not signed for 2019-20.

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 (BHFLHN)
- 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, the 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 2019-20 included:

- payroll
- accounts payable
- patient revenue including accounts receivable
- fee-for-service
- property, plant and equipment
- cash
- general ledger.

Internal audit activities were considered in designing and performing audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer 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 where 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.

RMCLHN responded that it considered that shortcomings of the Basware payment system contribute to the matters raised. It also indicated that it would remind responsible staff of the policy on ordering through Oracle and Basware.

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 some variances between the two. We also found no evidence of regular management review of user authorisation limits in Basware. Where this occurs there is an increased risk of a breach of Treasurer’s Instruction 8 *Financial Authorisations*.

RMCLHN advised that it would review the instances we identified, indicating they may relate to officers who were acting in higher duties. It also advised that management would maintain evidence of its review of authorisation limits.

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.

RMCLHN advised that it would undertake a price comparison with contracted suppliers and source supplies from contracted suppliers if they were price competitive.

Revenue

Patient billing system access rights not reviewed

Our review identified Chiron patient billing system users that have access to modules in the system that are not required for their role. This presents segregation of duties concerns. Also there is no regular review of user access performed.

RMCLHN responded that it is currently reviewing all user access to ensure staff have appropriate access to modules within Chiron.

Segregation of duties between revenue officers and medical records

Last year we have reported to CHSALHN that admission and discharge dates and charge types can be modified by revenue officers. Our follow-up found that revenue officers still had access to modify these details, increasing the risk of inappropriate adjustments to invoiced fees.

RMCLHN advised that it is unable to control or restrict staff access due to system limitations but will consider requirements of the new system when replacing Chiron.

No recalculation of compensable patient invoicing

We noted that revenue officers manually calculated patient billing charges in spreadsheets and then manually input the charges into the Chiron patient billing system. We found there was inadequate review of these manual processes, increasing the risk of error.

RMCLHN advised that it will implement a process to ensure invoices are reviewed by an independent person.

Cash

Bank account signatories include former employees

We identified signatories for RMCLHN bank accounts that were no longer employees of SA Health and recommended a regular review to ensure bank account signatories remain pertinent.

RMCLHN advised that, with the support of the SSSA health accounting and taxation services team, it will ensure that all bank account signatories are reviewed and updated.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020	
	Consolidated $'million	Parent $'million
Income		
Revenues from SA Government	123	123
Revenue from fees and charges	15	16
Grants and contributions	36	37
Other income	3	2
Total income	177	178
Expenses		
Staff benefit expenses	102	102
Supplies and services	62	62
Depreciation and amortisation	8	1
Other expenses	1	8
Total expenses	173	173
Net result	4	5

	2020	
	Consolidated $'million	Parent $'million
Assets		
Current assets	34	29
Non-current assets	161	19
Total assets	195	48
Liabilities		
Current liabilities	47	47
Non-current liabilities	20	20
Total liabilities	67	67
Net assets	128	(19)

Statement of Comprehensive Income – Consolidated

Revenues

Revenues from SA Government

RMCLHN is principally funded by DHW. In 2019-20, DHW funding of $123 million, which represents 69% of total income, comprised recurrent funding of $109 million and capital funding of $14 million.

Fees and charges

Fees and charges totalled $15 million and include the following significant components:

- residential and aged care charges of $8 million which relate primarily to long stay nursing home fees, including daily care fees and daily accommodation fees
- patient and client fees of $4 million
- recoveries of $2 million which relate primarily to the recharge of salaries and wages or various goods and services expenses incurred on behalf of another entity, including other regional LHNs.

Grants and contributions

Grants and contributions of $36 million included Commonwealth aged care subsidies of $14 million and other Commonwealth grants of $21 million.

Expenses

Staff benefit expenses

Staff benefit expenses represent 59% of RMCLHN's total expenses. The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled 14, comprising five medical (excluding nursing), eight nursing and one executive. Total remuneration for these employees was $3 million.

Supplies and services expenses

Supplies and services expenses totalled $62 million and included the following significant components:

- fee for service payments to medical practitioners – $15 million
- medical, surgical and laboratory supplies – $10 million
- internal SA Health service level agreement payments – $6 million
- contractors – agency staff – $5 million
- repairs and maintenance – $4 million.

Statement of Financial Position – Consolidated

Assets

At its establishment on 1 July 2019, assets of $181 million were transferred to RMCLHN as follows:

- cash – $6 million
- receivables – $3 million
- property, plant and equipment – $151 million
- other assets – $21 million.

Property, plant and equipment

As at 30 June 2020, property, plant and equipment of $161 million represents 82% of RMCLHN's total assets and includes the following significant components:

- newly recognised right-of-use lease assets under the new Accounting Standard AASB 16 *Leases* – $2 million
- buildings – $139 million
- land – $8 million
- capital works in progress – $9 million.

Liabilities

At its establishment on 1 July 2019, liabilities of $57 million were transferred to RMCLHN as follows:

- payables – $4 million
- staff benefits – $29 million
- provisions – $2 million
- other liabilities – $22 million.

Current liabilities

Current liabilities of $47 million exceeded current assets of $34 million at balance date. RMCLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 to its financial report discusses continuity of operations.

Staff benefits liabilities

Staff related liabilities make up $35 million (52%) of RMCLHN's total liabilities at 30 June 2020, comprising:

- staff benefits liabilities and related on-costs – $33 million
- provision for workers compensation – $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 the COVID-19 global pandemic has had a significant impact across SA Health in 2019-20 including at RMCLHN. Some of the more significant initiatives implemented by RMCLHN were:

- preparation of hospitals and staff
- temporarily suspending elective surgery
- establishing COVID-19 clinics and testing centres in the region
- changed visitor arrangements.

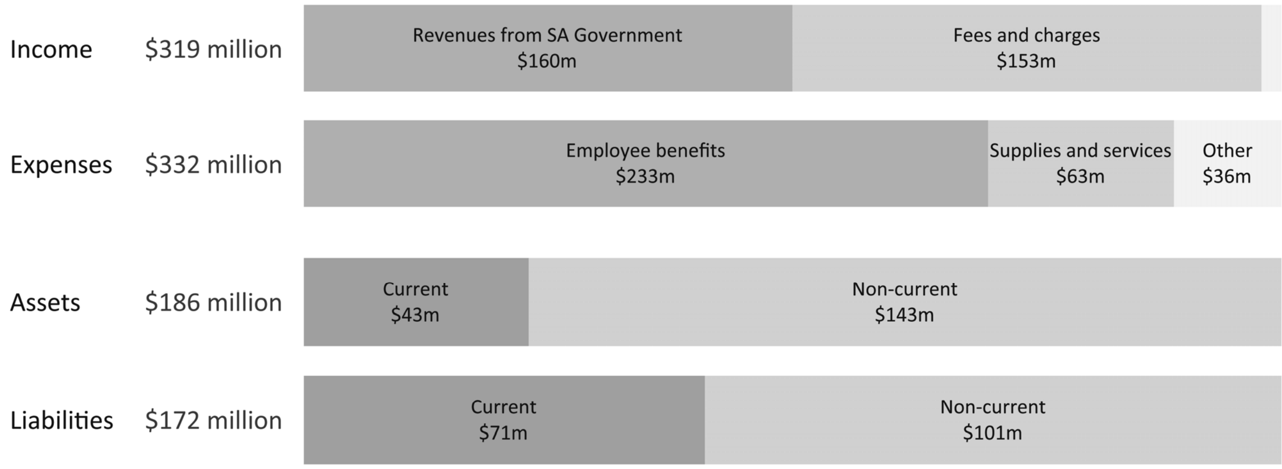
Note 1.7 to RMCLHN's financial report outlines material costs associated with COVID-19 for additional public health activities at a cost of $473 000 including:

- preparation of hospitals
- establishing testing clinics
- purchasing personal protective equipment
- non-clinical costs including cleaning.

RMCLHN also incurred $82 000 for hospital staff accessing special leave with pay for up to 15 days for absences related to COVID-19.

SA Ambulance Service Inc (SAAS)

Financial statistics



1667 Number of FTEs

38 Volunteer crews in regional SA

840 Incidents responded to - daily average

Significant events and transactions

- SAAS recognised a contingent liability relating to its enterprise bargaining agreement. Agreement negotiations are ongoing and any increase will be backdated to the first pay period after 31 December 2018.
- SAAS adjusted downwards its staff benefits liability by $5.4 million and payables by $534 000, after a review that reconciled its roster system attendance records to its payroll system leave records. The review continues and may result in further adjustments.
- SAAS's response to the COVID-19 pandemic included managing workforce planning and up-skill training to deal with pandemic scenarios, and purchasing equipment including personal protective equipment.
- SAAS's financial report outlines material costs associated with COVID-19 of $1.4 million.

Financial report opinion

Unmodified

Audit findings

- Major adjustment required to the staff benefits liability.
- Improvements needed to confirm the accuracy and completeness of timesheets submitted.
- 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.
- 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).

SAAS 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.

Under the HC Act the Chief Executive, Department for Health and Wellbeing (DHW) assumes direct responsibility for administering SAAS. This includes appointing SAAS's Chief Executive Officer. The Chief Executive, DHW cannot give a direction about a person's clinical treatment.

SAAS entered a service agreement with the Chief Executive, DHW that sets 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 service agreement's intent is to be binding on all parties.

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 2019-20 included:

- payroll
- accounts payable
- revenue and accounts receivable
- fixed assets
- cash
- general ledger.

Internal audit activities were considered in designing and performing audit procedures.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of SAAS and copied to the Chief Executive, DHW. We had previously reported most of these findings.

The main findings and SAAS's responses are discussed below.

Payroll

Major adjustment to staff benefits liability

During our 2019-20 audit, SAAS staff advised that an internal review had identified that its employee leave entitlement records were overstated by $6 million, including on-costs, affecting a significant proportion of operational staff. As a result, SAAS adjusted its staff benefits liabilities and related on-costs downwards as at 30 June 2019 by the $6 million with a prior period adjustment. It processed the adjustment to its general ledger and financial report but had not adjusted individual leave entitlement balances in its Chris21 payroll system, as the review continues and may result in further adjustments.

SAAS identified the errors by reviewing discrepancies between individual operational employee records in its Global Rostering System (GRS) and leave records entered in Chris21. The adjustments mainly related to employee leave taken but not deducted from their balances in Chris21. The review considered records dating back to 2013 and was undertaken as part of actions to address concerns previously reported by internal audit and the Auditor-General.

We have previously reported that SAAS had not reconciled manual timesheets or Chris21 payment records to GRS. This increased the risk that it may fail to identify instances where payments do not reflect time worked.

SAAS responded that its review of leave records continues. It also indicated it had recently conducted a review of controls and processes surrounding time and leave recording and had started to implement corrective actions.

Improvements needed to confirm the accuracy and completeness of timesheets submitted

Consistent with concerns raised since 2017, we again noted weaknesses in management's review of manual timesheets. SAAS has previously advised its intention to interface GRS with Chris21. This may address some of these weaknesses, however while the project has commenced it is not complete. We found the following weaknesses continue 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 is 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.

We recommended the following processes to strengthen the control environment over time recording and leave taken:

- require staff to submit timesheets regularly including following up staff who submit timesheets in bulk lots
- reconcile expected manual timesheets to what has been received. This will help to identify unsubmitted timesheets
- follow up rejected timesheets and ensure they are returned to the review team for final assessment
- review allowances paid to staff. It may be appropriate to perform this review on a sample basis.

SAAS responded that it continues to have a significant focus on these matters as it tries to balance automated and manual checking, and auditing. It indicated that it had recently conducted its own review of controls and processes surrounding time and leave recording and had started to implement new corrective actions, including the introduction of an electronic timesheet and electronic leave form.

Revenue

Improvements needed to ensure transport charges are completely and accurately raised

Since 2017 we have reported that there was no mechanism to check whether all dispatch data recorded in SAAS's South Australian Computer Aided Dispatch (SACAD) system was interfaced completely and accurately to its invoicing system, AMBS. Last year SAAS indicated that it would take

12 months to implement a comprehensive control process and that, in the meantime, it would refine its missing case card process. Our review in 2020 found that SAAS had not implemented controls to address our concern. We recommended it implement processes to confirm that data recorded in SACAD is interfaced completely and accurately to AMBS.

SAAS responded that it had considered the recommendation and that further work and resources were required to implement a comprehensive process. SAAS indicated that it was balancing the priority of this work against its longer term intention to move away from AMBS to an alternative system. SAAS indicated its preference to use its Electronic Patient Care Record project to address any system reconciliation issues, but that it would continue to refine its current processes.

Use of gazetted call-out fees not set out in policy

The South Australian Government Gazette lists two categories of emergency call-out fees. 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 not defined in policy. We recommended SAAS ensure its categories of emergency call-out fees are clearly defined by policy, match the gazetted rates and are available to and interpretable by the general public. We first reported this matter in 2017.

SAAS responded that it had proposed removing the lower rate from the gazette but this did not occur as planned. It indicated that it would continue to progress the removal of this rate from the gazetted fees in its next budget cycle.

Business continuity risk for ageing invoicing system

Due to the uniqueness of programming languages, ICT support for the AMBS invoicing system is predominantly provided by a single analyst in DHW's Digital Health SA area. We noted there was no business continuity plan in place to cover a temporary loss of knowledge in the event that the analyst responsible for AMBS is absent. We recommended SAAS develop business continuity plans that adequately address the risks associated with ageing systems and associated unique programming languages.

SAAS advised that it was working with DHW on prioritising the components of its future IT requirements. It indicated that it had established an ICT governance committee whose tasks included improving the coordination and integration of its ICT systems and resources, and resolving any issues associated with ICT and corporate business systems across SAAS.

Supplies and services expenditure

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 where the purchase is below $2200. Our review found payments without purchase orders that did not meet this criteria. 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.

We have previously reported these concerns.

SAAS responded that it would continue to remind its financial delegates of the requirement to use purchase orders. It advised that in 2019-20 it had monitored for non-compliance but acknowledged further work is needed, indicating that it would increase its review and monitoring.

Purchase orders created outside of mandated financial system

SA Health's requisition, purchase order and invoice management policy mandates that purchase orders be created in the Oracle financial system. Consistent with concerns we have reported since 2017, we found that the fleet services team raises manual, spreadsheet-based purchase orders that do not benefit from the system-based controls built into Oracle.

SAAS responded that it had reduced the number of non-compliant purchase orders in 2019-20 but acknowledged there was not full compliance. It indicated that it would continue to monitor and follow up non-compliance.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Income		
Revenues from SA Government	160	165
Revenue from fees and charges	153	139
Other income	6	11
Total income	319	315
Expenses		
Staff benefit expenses	233	234
Supplies and services	63	65
Depreciation and amortisation expense	14	13
Other expenses	22	25
Total expenses	332	337
Net result	(13)	(22)
Other comprehensive income	15	(14)
Total comprehensive result for the year	2	(36)
Assets		
Current assets	43	43
Non-current assets	143	130
Total assets	186	173
Liabilities		
Current liabilities	71	74
Non-current liabilities	101	87
Total liabilities	172	161
Net assets	14	12

Statement of Comprehensive Income

Revenues

Revenues from SA Government

SAAS is dependent on revenue from the SA Government, which comprises 50% of total revenue. In 2019-20 total revenues from the SA Government decreased by $4 million (3%) to $160 million and comprised recurrent funding of $151 million ($160 million) and capital funding of $9 million ($4 million). Capital funding in 2019-20 included funding to purchase new defibrillators.

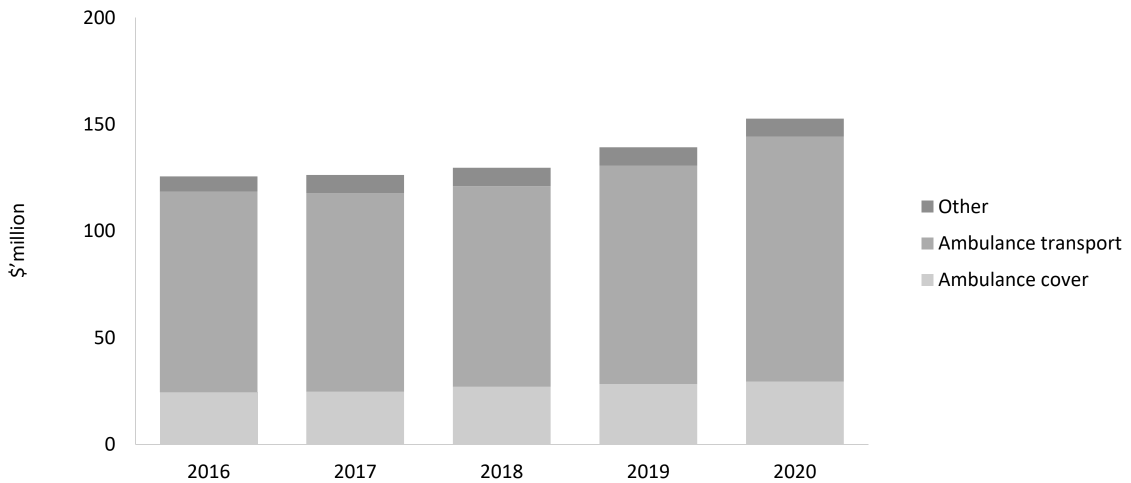
Revenues from fees and charges

Revenues from fees and charges increased by $13 million to $153 million. Significant components were:

- ambulance cover – $29 million ($28 million)
- ambulance transport – $115 million ($103 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, $82 million, and SA Government customers, $33 million. The ambulance transport increase of 12% mainly relates to a change in the arrangement with the CTP Regulator where it is charged for services provided rather than making a lump sum contribution that was previously recorded under grants and contributions. The increase also reflects a gazetted fee rise of 5%.

The following chart show the growth in fees and charges revenue over the past five years. Fees and charges revenue increased by 22% over the five years (noting the change in 2019-20 described above). This increase reflects growth in activity and charge rates.



Revenues from grants and contributions

In 2019-20 total grants and contributions income decreased by $5 million (62%) to $3 million due mainly to the change in arrangements with the CTP Regulator discussed above.

Expenses

In 2019-20 total expenses decreased by $5 million (2%) to $332 million.

Staff benefit expenses

Staff benefit expenses of $233 million represented 70% of SAAS's total expenses. Salaries and wages rose $4 million (3%) to $169 million. Long service leave expense decreased by $6 million to $5 million mainly due to the impact of changed actuarial assumptions used to estimate the associated liability, including the impact on the expense of a decrease in the expected salary inflation rate from 4% to 2.5%.

The number of staff whose remuneration received/receivable exceeded the base executive level ($155 000) totalled 334 (391) comprising 287 (348) operational, 19 (19) medical, 20 (17) nursing, six (five) executive and two (two) administration staff. The decrease in operational staff whose remuneration exceeded the base executive level mainly reflects the impact of backpays included in the 2018-19 remuneration.

Total remuneration for staff across the categories was $64 million ($73 million). Over the past five years, the number of staff whose remuneration received or receivable exceeds the base executive level has increased by 12%.

Supplies and services expenses

Supplies and services expenses decreased by $2 million to $63 million. Significant components of supplies and services were:

- contractors – agency staff – $5 million ($4 million)
- patient transport – $19 million ($20 million)
- motor vehicle expenses – $5 million ($6 million)
- medical, surgical and laboratory supplies – $4 million ($4 million)
- communication – $3 million ($3 million).

Other expenses

Impairment loss on receivables decreased by $4 million to $2 million. SAAS measures impairment on receivables using an expected credit loss model in line with AASB 9 *Financial Instruments*.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 76% of SAAS's total assets. The carrying value of property, plant and equipment increased by $14 million to $141 million. This was primarily due to:

- an $11 million right-of-use asset recognised in the Statement of Financial Position for the first time on adoption of AASB 16 *Leases*
- $16 million in additions mainly related to the acquisition of defibrillators, building improvements and additional leases entered into during the year resulting in a further increase in the right-of-use asset

- offset by a depreciation and amortisation of $14 million.

Current assets

Receivables make up 59% of current assets and increased by $9 million (55%) to $25 million due mainly to more timely entering of cases into the invoicing system, allowing invoices to be sent out quickly. This is consistent with the decrease in contract assets below.

Contract assets relate to work completed but not yet invoiced. Contract assets decreased by $9 million to $6 million.

Liabilities

SAAS made a prior period adjustment of $6 million to its staff benefits liability and on-cost payables. Comparatives were restated. The adjustment resulted from a review that reconciled its roster system attendance records to its payroll system leave records. The review continues and may result in further adjustments. Refer note 1.5.1 to SAAS's financial report for more information.

Staff liabilities make up $145 million (85%) of SAAS's total liabilities at 30 June 2020, comprising:

- staff benefits liabilities and related on-costs, $127 million ($133 million)
- provisions for workers compensation, $18 million ($19 million).

Staff benefits liabilities decreased by $6 million to $122 million due mainly to:

- a $9 million decrease in defined benefits superannuation scheme liabilities reflecting an actuarial assessment as at 30 June 2020. Major factors impacting the decrease were changes in the assumptions used to calculate the defined benefit liability, including the expected rate of salary increase which decreased from 4% to 2.5%
- a $1 million increase in long service leave liabilities
- a $2 million increase in annual leave liabilities.

Provisions for workers compensation decreased by $1 million to $18 million. Workers compensation provisions are based on independent actuarial assessments. They included non-statutory provisions for certain work related injuries as part of enterprise bargaining arrangements and industrial awards. As at 30 June 2020 SAAS recognised a workers compensation non-statutory provision of $6 million ($8 million). There is a high level of uncertainty about the value of the provision because of the absence of claims experience. Note 21.1 of SAAS's financial report provides information on the actuarial assessment.

Financial liabilities of $15 million ($0) are lease liabilities relating to leases previously classified as operating leases being recognised for the first time in 2019-20.

Current liabilities, $71 million, exceeded current assets, $42 million, at 30 June 2020. SAAS is funded to meet expected cash flows for its current program delivery. Note 1.4 of its financial report provides information about the continuity of operations.

Further commentary on operations

Response to the COVID-19 pandemic

Responding to the COVID-19 global pandemic has had a significant impact across SA Health in 2019-20 including at SAAS.

SAAS has developed a COVID-19 Pandemic Action Plan.

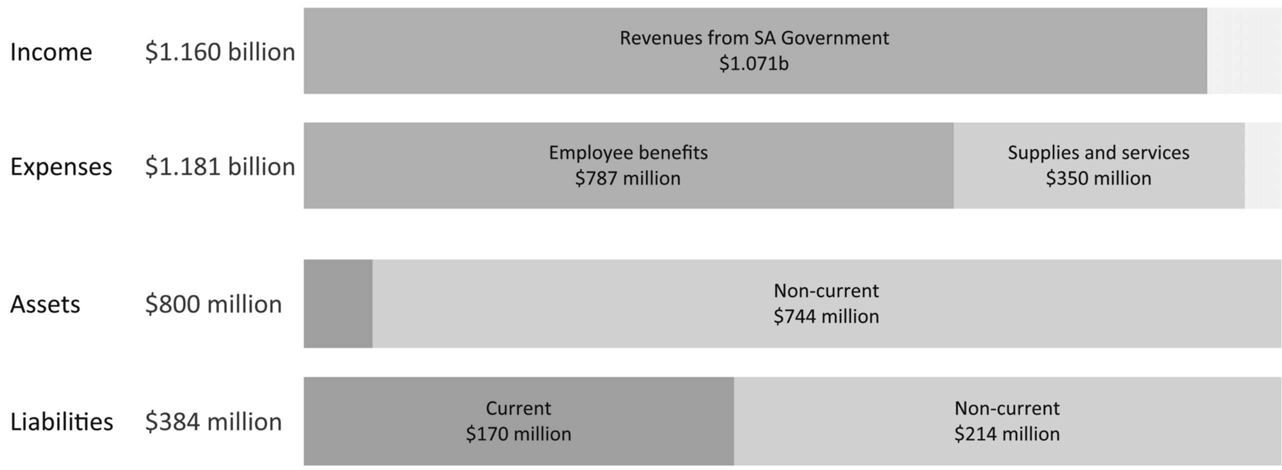
Note 1.6 to SAAS's financial report outlines material costs associated with COVID-19, including additional public health activities at a cost of $1.2 million including:

- preparing to respond
- purchasing personal protective equipment and other goods and services
- non-clinical costs including cleaning of vehicles and stations.

SAAS also incurred $199 000 for staff accessing special leave with pay for up to 15 days for absences related to COVID-19.

Southern Adelaide Local Health Network Incorporated (SALHN)

Financial statistics



5753
Number of FTEs

Significant events and transactions	— The SALHN governing board commenced from 1 July 2019. — Work continued at the Repat Health Precinct (RHP), with $21 million in capital works in progress costs in 2019-20 associated with reactivation projects. — In November 2019 the SA Government announced an additional $30 million for the creation of a 12-bed specialist ward for older patients with complex needs and a 26-bed care transition facility at the 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 and delegation review processes could be improved.

Other audit findings	— No agreement with health insurers for Hospital in the Home services. — No monitoring of professional development leave entitlements.

Functional responsibility

Governance

SALHN is 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.

From 1 July 2019 amendments to the HC Act provided for local health networks (LHNs) including SALHN to be governed by boards. Accordingly, the SALHN governing board was established and commenced from 1 July 2019. The amendments also changed the role of the Chief Executive, Department for Health and Wellbeing (DHW) to remove direct responsibility for administering LHNs from 1 July 2019.

The governing board is responsible for addressing local need, providing strategic direction and monitoring SALHN's operating and financial performance. It must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive, DHW. Under these changes DHW remains responsible for setting statewide policy and the Minister for Health and Wellbeing remains responsible for setting reform agenda and priorities.

Impact of the COVID-19 pandemic

SALHN has been providing a frontline response to the COVID-19 pandemic in its local area. This has included:

- establishing COVID-19 testing clinics at the Finders Medical Centre (FMC)
- establishing a dedicated COVID-19 healthcare facility at the RHP
- providing hospital-level care for positive COVID-19 patients quarantined in the Marion Holiday Park
- introducing telehealth services to deliver outpatient clinical services
- planning for potential workforce requirements and providing additional training to deal with pandemic scenarios
- ensuring its inventory of personal protective equipment and other equipment, such as ventilators, is sufficient to meet a potential surge demand.

2020-21 is also expected to be impacted by COVID-19 through continued testing clinics and the impact of elective surgery cancellations in 2019-20, which has increased patient waitlists.

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 continues to operate a legacy revenue system at the FMC. 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/or systems
- matters for individual health services
- DHW matters
- governance.

Specific areas of audit attention in 2019-20 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.

The work of SALHN's internal auditors was considered 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 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 more than 5700 FTEs and payroll related costs are significant, with $787 million in staff benefit expenses paid and $288 million in staff benefit liabilities at 30 June 2020. As a result of the significance of these costs, we review key payroll controls each year.

SALHN had not clearly identified 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.

We found that in 2019-20, SALHN was in the process of identifying prescribed positions and which types of employment clearances would be required for specific roles.

SALHN had provided its senior staff with information about the requirements and requested responses regarding the types of employment checks required for positions based on those requirements. This process was still in progress in June 2020.

SALHN advised it was continuing to work with divisions to finalise the identification of prescribed positions and clarify the types of employment clearances required for specific roles.

SALHN did not have a consolidated workforce plan

In 2019-20 we reviewed agency workforce planning across numerous agencies, considering guidance on workforce planning from the Commissioner for Public Sector Employment.

In 2018-19 we had noted that SALHN had undertaken a range of workforce planning activities in specific areas. We also noted that it did not have a consolidated workforce plan.

In 2019-20 we noted further specific workforce planning activities had been performed, including targeted work to reduce reliance on agency staff. SALHN had also continued to progress work on developing a consolidated workforce plan.

SALHN advised that it would continue to develop its workforce plan and to work on other strategies to ensure it had an appropriate workforce to deliver its outcomes.

SALHN's records indicated around 47% of its staff did not have a current performance review in June 2020

In 2019-20, we continued to review how current employee performance reviews were at a number of agencies, including SALHN.

Our review of SALHN's data at June 2020 indicated that around 47% of its staff did not have a current performance review. SALHN advised that the 80% target level for current reviews every six months was achieved in November 2019, but there had been a decline since then, including as a result of the impact of COVID-19 on staff priorities.

SALHN advised that it would continue to reinforce the importance of the performance review process to all divisions, targeted interventions would be taken where needed and lessons from high performing areas would be shared.

Key payroll information was not always reviewed for SALHN staff

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 SALHN 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 these employees paid significant allowances in addition to their automatically paid base pay.

In 2019-20, we found SALHN had produced staff establishment reports from January 2020. These reports, which cover staff who are not captured by the bona fide or ProAct processes, are sent to all divisional managers each month for review. We noted that there were no policies or procedures about the use of these reports, their review and approval or associated time frames. Further, we could not obtain assurance that they were being reviewed consistently and that any errors in employee payroll information were promptly followed up and rectified.

SALHN advised that it would update its procedures to reinforce the expectation of consistent review of staff establishment reports. It also advised that it would be implementing the SA Health Electronic Timesheet Project which would expand the use of ProAct to medical officers, commencing in April 2021.

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 June 2020 the rostering guidelines were in draft awaiting feedback from industrial consultation.

Until SALHN implements consistent rostering practices across all divisions and all types of medical officers, the risks associated with inconsistent rostering practices will remain.

SALHN advised that it would continue work to standardise rostering approaches.

On-call allowances were not always reviewed

We found that not all units had reviewed their on-call roster frequencies and percentages. These reviews are important because they determine whether the rates of allowances paid to on-call staff are correct.

SALHN had implemented a review of these allowances every six months. Analysis of the October 2019 review found that only 12 out of 59 cost centres had completed it. We also noted potential issues with completeness of the reporting as we identified four employees who had received remote call allowances but were not listed on the October 2019 report. SALHN was expecting responses to its May 2020 review by June 2020, although in July 2020 we noted that not all divisions had responded.

SALHN responded to this matter by noting the importance of the six-monthly reviews and advising that it had established processes to support them.

Asset management processes could be improved

SALHN has property, plant and equipment worth $735 million. As part of our controls opinion work in 2019-20, we considered the control processes in place to manage the maintenance of these assets at SALHN, including considering the AGFMA.

Consistent with our 2018-19 findings, in 2019-20 we continued to find that SALHN:

- did not have a consolidated strategic asset management plan and supporting asset management plans. In 2019-20, SALHN started to develop these plans, including working with SA Health staff to progress them
- did not use asset condition reports prepared by Spotless (as the facilities services provider). These reports were not useful to SALHN as many assets in continued use were rated as unserviceable. SALHN separately assesses these assets using a range of factors that are not considered in the Spotless condition assessments. This results in a duplication of effort and may mean important information needed for asset maintenance and replacement plans is not captured
- did not use the strategic asset management system, SAMIS, to record detailed asset information. Instead, there were a range of records in place, informed by SALHN and Spotless. These records are not maintained centrally and the quality of the data has not been reviewed, restricting uniform reporting across all of SALHN's asset portfolio.

In 2019-20, we also found 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:

- it had started to develop its strategic asset management plan and supporting asset management plans after completing its Strategic Master Plan in 2019-20, which will inform them. SALHN expects they will be completed in 2020-21
- it had linked FMC assets with Spotless asset identification codes to help in reviewing Spotless condition reports. SALHN and Spotless will also conduct quarterly reviews of the condition reports
- it considers Spotless is responsible for updating and maintaining asset data in SAMIS and it will work with Spotless to review this data each quarter
- delegations will be changed to reflect the need for maintenance staff to approve jobs of up to $1000, with ongoing monitoring of compliance with delegations.

Some contract management and delegation review processes could be improved

SALHN paid over $350 million for supplies and services in 2019-20. We identified issues in contract management and purchasing from our work on goods and services expenditure for the controls opinion.

We found that:

- SALHN had implemented a new certification process for the review of expenditure system delegations in February 2020. Divisions now have to certify that they have completed their quarterly review and addressed any issues. At the time of our audit, we found that guidance documents had not been updated with the new process and one instance where the certification had not been completed and there was no evidence it had been followed up
- there were no contracts in place for a number of suppliers with regular significant expenditure, as was the case in prior years. In 2019-20 we identified four suppliers, with collective expenditure of about $4 million between July 2019 and March 2020, where contracts were not in place.

SALHN responded that:

- internal work instructions covering the revised process of confirming expenditure system users would be converted into a procedure to formalise the requirements
- the suppliers we identified were subject to procurement processes being developed in one case, or were contracts close to being finalised.

Other audit findings

Hospital billing

Our audit covered the major financial functions for hospital billing. The Sunrise EMR system (formerly EPAS) is used for patient billing at Noarlunga Hospital and part of the FMC, with Homer used for most patient billing at the FMC.

SALHN's revenue from patient and client fees was over $37 million in 2019-20, with a further $3.5 million recorded in private practice fees controlled by SALHN. A further $15 million was collected on behalf of medical officers and DHW in administered revenue from private practice arrangements.

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 2018-19, we found that SA Health had attempted to negotiate arrangements with selected insurers, however no contracts had been established. In 2019-20, we found there were still no agreements in place between SA Health and private health insurers.

As at 31 March 2020, a total of $303 977 in 2019-20 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 advised that Wellbeing SA is progressing 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.

No monitoring of medical officers' professional development leave entitlements

We have previously reported that SALHN did not have a process to monitor professional development leave entitlements for medical officers. Issues associated with leave recording should be addressed by the implementation of the SA Health Professional Development Reimbursement Project. This system should be implemented in 2020-21.

As this system was not in place in 2019-20, there continue to be potential risks. We note that SALHN had implemented a leave tracker spreadsheet in 2019-20, which records leave taken. It does not show leave balances or current entitlements of employees before leave is approved. In the absence of this information, the risk remains that leave may be being approved above the entitlement.

In response, SALHN advised that the professional development reimbursement project is scheduled to be available from November 2020. It also advised that it would generate a leave taken report from Chris21 to check available leave before applications are approved.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Income		
Revenues from SA Government	1 071	958
Revenue from fees and charges	71	60
Grants and contributions	5	4
Other income	13	12
Total income	1 160	1 034
Expenses		
Staff benefit expenses	787	781
Supplies and services	350	298
Depreciation and amortisation	43	41
Other expenses	1	2
Total expenses	1 181	1 122
Net result and total comprehensive result	(21)	(88)
Assets		
Current assets	56	40
Non-current assets	744	748
Total assets	800	788

	2020 $'million	2019 $'million
Liabilities		
Current liabilities	169	154
Non-current liabilities	215	197
Total liabilities	384	351
Total equity	416	437

Statement of Comprehensive Income

Income

Revenues from SA Government

SALHN is mainly funded through recurrent and capital funding from DHW. In 2019-20, overall revenues increased by $113 million (12%) to $1.07 billion due to increased capital funding of $12 million and increased recurrent funding of $101 million.

Capital funding increased by $12 million (86%) to $26 million mainly for major works associated with the RHP, described further under 'Further commentary on operations' below.

The increase in recurrent funding reflects that DHW changed elements of its recurrent funding model in 2019-20, increasing recurrent funding to cover increased recharging of centralised costs.

Revenues from fees and charges

Revenues from fees and charges increased by $11 million (18%) mainly due to:

- an $8 million (27%) increase in patient and client fees received, mainly as a result of increased compulsory third party funding arrangements for motor vehicle accident related treatments
- a $3 million (15%) increase in salaries and wages recoveries from other LHNs.

Expenses

In 2019-20 total expenses increased by $59 million (5%) to $1.18 billion.

Staff benefit expenses

Staff benefit expenses of $787 million represent 67% of SALHN's total expenses. These costs have increased by $6 million in 2019-20 mainly due to:

- a $31 million increase in salaries and wages expense to $625 million and $5 million increase in staff on-costs to $67 million, mainly from FTE growth of 160 in 2019-20 and annual salary and allowance increases associated with enterprise agreements, including a nursing enterprise agreement increase of 2% from 1 January 2020
- a $3 million increase in annual leave expenses and $5 million increase in superannuation costs, associated with the increase in salaries and wages.

These increases were mainly offset by a $31 million decrease in long service leave expense. In 2018-19 there was a significantly higher long service leave expense associated with a $25 million impact from the actuarial calculation of long service leave liabilities. This was mainly associated with significant falls in interest rates used in the calculation. In 2019-20, changes to the actuarial assumptions did not have the same level of impact.

The number of staff whose remuneration received or receivable exceeded the base executive level ($155 000) totalled 646 (632), comprising 595 (578) medical officers, 37 (42) nursing staff, eight (seven) executives and six (five) non-medical staff. Total remuneration for these staff was $188 million ($178 million).

Supplies and services expenses

Supplies and services expenses increased by $52 million (17%) to $350 million in 2019-20. Significant components in supplies and services were:

- medical, surgery and laboratory supplies, which increased by $33 million (35%) to $126 million, and drug supplies, which increased by $8 million (44%) to $25 million. These increases are mainly due to an increase in the way pathology and drug supply costs are allocated to LHNs from SA Pathology and SA Pharmacy, with increased charges offset by increased funding as explained above
- internal SA Health service level agreement payments, which increased by $7 million (112%) to $14 million
- contract for services, which increased by $4 million (93%) to $8 million due to the allocation of colonoscopy panel service costs from DHW to SALHN for the first time.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 92% of SALHN's total assets. Its carrying value decreased marginally by $4 million to $735 million. This decrease is due mainly to:

- additions of $23 million for capital works in progress, mainly at the RHP
- additions of $3 million for new medical and surgical equipment
- first time recognition of $12 million for right-of-use assets due to new lease accounting requirements, which are offset by lease liabilities
- offset by depreciation expenses of $43 million.

Liabilities

Current liabilities increased by $15 million (10%) to $169 million during the year and exceeded current assets by $113 million at balance date. Cash and cash equivalents of $32 million were insufficient to meet current payables of $33 million at 30 June 2020. SALHN works with DHW to ensure sufficient funding is provided to SALHN to meet expected cash flows for its administration and program delivery.

Total liabilities increased by $33 million (9%) to $384 million.

Staff liabilities make up $349 million (91%) of SALHN's total liabilities at 30 June 2020, comprising:

- staff benefits liabilities and related on-costs of $305 million ($280 million)
- workers compensation provisions of $44 million ($43 million).

The movement in staff liabilities is mainly due to:

- a $6 million (4%) increase in long service leave liabilities
- a $7 million (10%) increase in annual leave liabilities.

These increases reflect the growth in FTE numbers by 160 in 2019-20 and a 2% rise in nursing and midwifery salaries from 1 January 2020, as a result of a new *Nursing and Midwifery (SA Public Sector) Enterprise Agreement.*

Further commentary on operations

SALHN infrastructure changes

Repat Health Precinct capital works

Work has continued in 2019-20 at the RHP, with building works associated with previously announced initiatives being undertaken in 2019-20.

As at 30 June 2020, SALHN recorded capital works in progress of $21 million at the RHP, including:

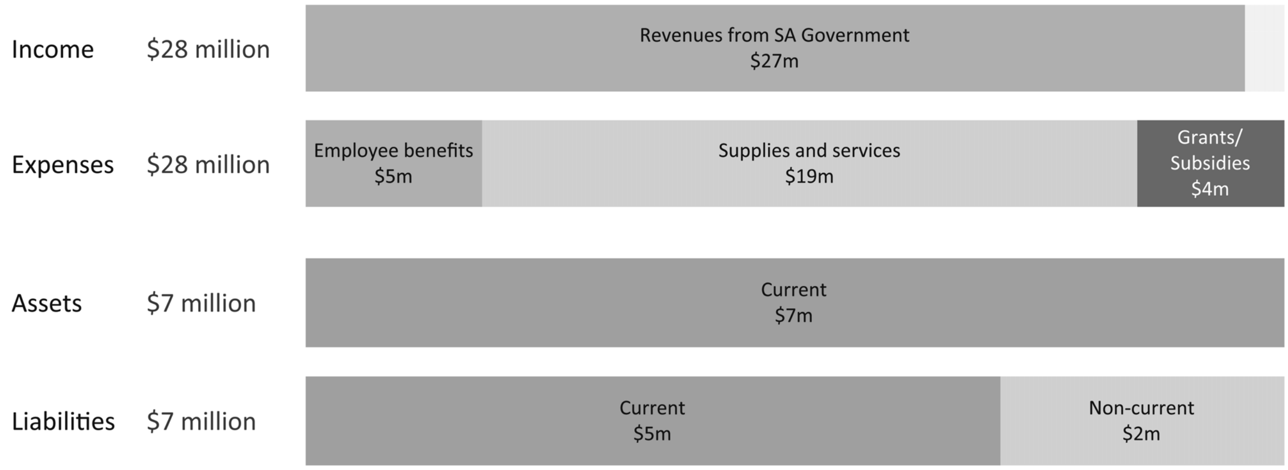
- $3 million for the brain injury and spinal cord injury rehabilitation unit
- $4 million for the refurbishment of wards for use by COVID-19 patients
- $10 million for the neuro behavioural unit
- $3 million for master planning and common area works.

In November 2019, the SA Government announced an additional $30 million in funding commitments for the RHP which include:

- reconfiguration of a 12-bed specialist ward for older patients with complex dementia and acute medical conditions
- refitting of heritage wards for the construction of a 26-bed care transition facility for people with dementia and those transitioning to home or an aged care facility following acute care treatment.

Wellbeing SA (WBSA)

Financial statistics



87
Number of FTEs

Significant events and transactions

- WBSA was proclaimed under the *Public Sector Act 2009* and became an attached office of the Department for Health and Wellbeing (DHW) from 6 January 2020.
- On 6 January 2020 all assets, rights and liabilities from the now dissolved South Australian Mental Health Commission were transferred to WBSA (net assets of $400 000).
- On 6 January 2020 DHW transferred assets, rights and liabilities to WBSA (net liabilities of $1.1 million).
- WBSA's response to the COVID-19 pandemic included an Open Your World campaign and providing community grants to raise awareness and build community resilience during the pandemic.
- WBSA's financial report outlines material costs associated with COVID-19 of $1 million.

Financial report opinion

Unmodified

Functional responsibility

On 6 January 2020 WBSA was established as an attached office to DHW by proclamation under the *Public Sector Act 2009* (PS Act). The proclamation also abolished the South Australian Mental Health Commission.

A notice under section 9 of the PS Act transferred:

- all employees from the South Australian Mental Health Commission to WBSA
- employees from specified branches of DHW's Wellbeing SA Division to WBSA.

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 provides 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 2019-20 included:

- payroll
- accounts payable
- grants and subsidies
- cash
- general ledger.

Audit findings

Communicating our audit findings

We did not identify any audit findings that required a management letter to WBSA.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million
Income	
Revenues from SA Government	27
Other	1
Total income	28
Expenses	
Employee benefits expenses	5
Supplies and services	19
Grants and subsidies	4
Total expenses	28
Net result	-
Assets	
Current assets	7
Total assets	7
Liabilities	
Current liabilities	5
Non-current liabilities	2
Total liabilities	7
Total equity	(-)

Statement of Comprehensive Income

Revenue

Revenues from SA Government

WBSA is funded by an intra-government transfer from DHW. In 2019-20, DHW funding of $27.6 million represented 98% of total income.

Expenses

Employee benefits expenses

Employee benefits expenses of $5 million represent 18% of WBSA's total expenses.

Supplies and services expenses

Supplies and services totalled $19 million representing 68% of total expenses and included the following significant components:

- contract of health services for the SA Community Care Program – $14.9 million
- contractors – $1 million
- data collection services and deliverables for health surveys – $900 000
- advertising – $1 million.

Statement of Financial Position

Assets

At its establishment on 6 January 2020, assets of $2.6 million were transferred to WBSA as follows:

- cash – $2 million
- receivables – $582 000
- leased assets – $3000.

Liabilities

At its establishment on 6 January 2020, liabilities of $3.3 million were transferred to WBSA as follows:

- payables – $377 000
- employee benefits – $2.83 million
- provisions – $50 000
- lease liability – $3000.

Employee related liabilities

Employee related liabilities make up $3.7 million (47%) of WBSA's total liabilities at 30 June 2020, comprising:

- employee benefits liabilities and related on-costs – $3.7 million
- provisions for workers compensation – $65 000.

Note 14 of WBSA's financial report provides further information on the independent actuarial assessments of provisions for workers compensation.

Further commentary on operations

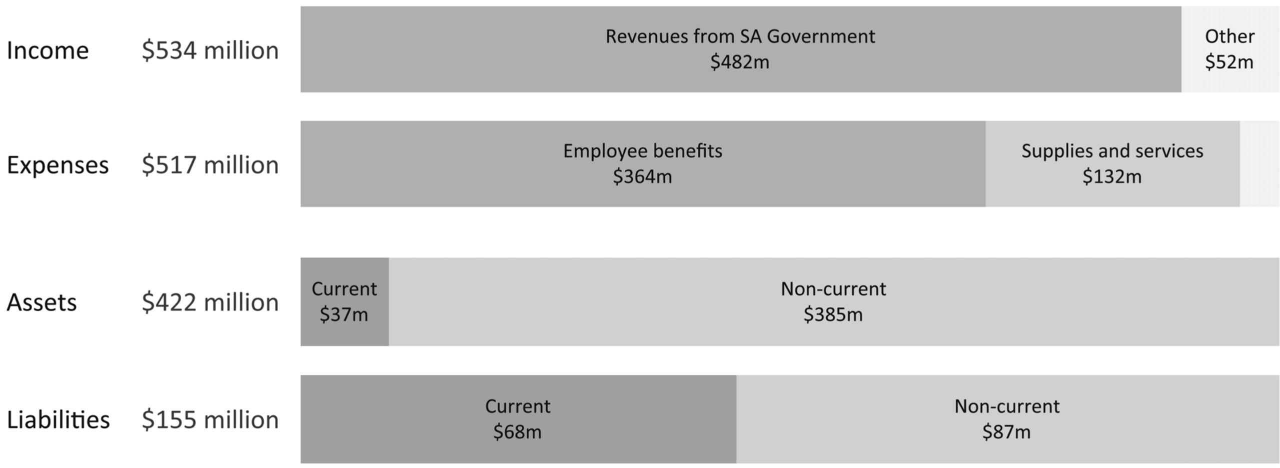
Response to the COVID-19 pandemic

Responding to the COVID-19 global pandemic has had a significant impact across SA Health in 2019-20 including at WBSA. Some of the more significant initiatives implemented by WBSA were:

- developing an Open Your World campaign and platform to raise awareness around building community resilience and to support physical, social, mental and community wellbeing in response to COVID-19 – $720 000
- 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 – $278 000.

Women's and Children's Health Network Incorporated (WCHN)

Financial statistics



2720
Number of FTEs

8
Hospitals and health services

Significant events and transactions

- As part of the SA Government's reforms and legislative amendments a board is now accountable for delivering health services at WCHN.
- The WCHN governing board was established on and commenced from 1 July 2019.
- A $50 million upgrade of WCHN buildings was underway in 2019-20 to address high priority clinical and infrastructure requirements.
- The SA Government has committed $550 million to continue the planning work for a new Women's and Children's Hospital.
- WCHN's response to the COVID-19 pandemic included additional public health activities such as preparing hospitals, establishing a testing clinic and purchasing equipment.
- WCHN's financial report outlines material costs associated with COVID-19 of $3.4 million.

Financial report opinion	**Unmodified**
Audit findings	— Delays in medical officers submitting timesheets. — Inconsistent management of medical practitioner's rosters. — Insufficient review of payroll information. — Nurses' time records not always approved. — Limited workforce planning. — Invoices paid without purchase orders. — Access rights to the revenue system not reviewed.

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. The principal unit within WCHN is the Women's and Children's Hospital.

Governance

The *Health Care Act 2008* (HC Act) provides for WCHN to be governed by a board. The governing board was established on and commenced from 1 July 2019. The Board Chair and members were appointed by the Minister for Health and Wellbeing. The governing board is responsible for addressing the local need, providing strategic direction and monitoring WCHN's operating and financial performance. It must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive, Department for Health and Wellbeing (DHW).

Amendments to the HC Act changed the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering the health networks. DHW is responsible for setting statewide policy and the Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

While DHW prepared a service agreement with WCHN, it was not signed by the WCHN's governing board and Chief Executive Officer. The intent of service agreements is to 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.

Associated with the revised arrangements, SA Health changed its organisation structure and transferred some staff and responsibilities from DHW to WCHN from 1 July 2019, including health network based biomedical engineering.

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 the 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 2019-20 included:

- cash
- payroll
- accounts payable
- procurement and contract management
- revenue and accounts receivable
- fixed assets
- general ledger.

Internal audit activities were considered in designing and performing 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

Delays in medical officers submitting timesheets

We identified delays in the submission of manual timesheets by medical officers. Such delays reduce management's ability to confirm the accuracy or completeness of manual timesheets submitted given the time elapsed between the duties being performed and when the timesheets are required to be authorised by management. It may also delay the recording of expenditure or leave taken resulting in difficulties managing budgets.

WCHN responded that its divisional business managers will continue to follow up delayed timesheets and that it will provide a breakdown of the main areas of concern to its human resources team. Where an area of concern is identified, staff will be reminded of the requirement to submit timesheets on a fortnightly basis.

Inconsistent management of medical practitioners' rosters

We have previously reported concerns that WCHN had inconsistent practices across its departments for managing medical officers' rosters, including manual processing with excel spreadsheets.

Our 2019-20 review again noted inconsistent practices across WCHN. At the time of our audit it had around 578 salaried medical officers employed under the *SA Health Salaried Medical Officers Enterprise Agreement 2017* (MOEA). Many of them work a seven-day roster in line with the MOEA. We reviewed practices and noted:

- 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 MOEA (for example, break time between shifts) or operational rules
- there was no WCHN framework or other guidance on establishing, approving and monitoring rosters.

Inconsistent rostering practices can impact WCHN's ability to manage award conditions, service capacity and efficient use of services.

WCHN provided an update on the second phase of the SA Health Electronic Project, which it said would help to address inconsistent roster management practices. It indicated that, depending on the progress of the project at the pilot site in the Northern Adelaide Local Health Network Incorporated, WCHN expects to implement electronic rosters in the ProAct system between February and July 2021.

Insufficient review of payroll information

Since 2018 we have reported that WCHN managers and team leaders did not always review payroll reports to ensure the accuracy and completeness of staff payments. We noted that in 2019-20 WCHN implemented a process of following up outstanding reviews of the bona fide reports. However, we found that this did not result in significant improvement and the number of outstanding reviews remained excessive. At the time of our audit in April 2020, 2477 reports were outstanding, of which 1373 were outstanding for up to 12 months and 1104 were outstanding for over 12 months.

Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments. We recommended that WCHN regularly review the accuracy and completeness of employee-level pay information on bona fide reports.

WCHN advised that it sends emails to notify managers when bona fides are ready for approval. It indicated it would communicate with managers reminding them of their responsibilities and provide training where necessary. It also advised its intention to develop an escalation process where reviews are not approved within a reasonable time frame.

Nurses' time records not always approved

Timesheets for nurses and other ancillary staff are created in the ProAct rostering timesheet system. Managers are required to electronically authorise timesheets before they are uploaded to SSSA for payment.

We noted that the interface between ProAct and CHRIS payroll does not prevent unauthorised timesheets from being uploaded and paid. Our review of timesheets from July 2019 to May 2020 found 13% were unauthorised. We recommended WCHN ensure all ProAct timesheets are approved before being uploaded for payment.

WCHN responded that it would follow up instances of non-compliance with managers. It also indicated that it was investigating concerns with the system's recording of approvals.

Limited workforce planning

We found that, while WCHN had an Aboriginal Workforce Plan 2018-2022, it did not have workforce plans covering other areas. WCHN's strategic plan 2020-2026, describes an 'engaged and capable workforce' as a key enabler in achieving its strategies. As well as helping achieve strategic goals, workforce planning can help to ensure that resources are available when needed and reduce the need for temporary resources at a premium cost. We recommended WCHN develop a workforce plan or strategies covering all areas of the WCHN workforce.

WCHN responded that SA Health is developing a health workforce strategy, indicating that it would consider developing a local strategy once this was finalised.

Supplies and services expenditure

Invoices paid without purchase orders

SA Health's requisitioning, 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 is below $2200. Our review found payments without purchase orders that did not meet the exemptions criteria. 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. These concerns were also raised last year.

WCHN responded that it had improved the rate of use of purchase orders and that it would provide ongoing education and raise awareness with staff to ensure compliance with SA Health policy.

Patient billing

Access rights to revenue system not reviewed

In past years we reported that management did not review a complete list of user access rights in the Homer revenue system. In response to our concerns last year, WCHN indicated that it had commenced a project to review its user profiles in Homer to simplify its user access reviews.

Our 2019-20 audit found that the project was not complete as at 30 June 2020 and regular reviews of user access rights in Homer had not occurred. Without regular management review, WCHN may not detect inappropriate levels of access within Homer, increasing the risk of inaccurate or unauthorised changes to revenue transactions.

WCHN advised that it continues to review its user profiles in Homer to reduce the number of profile codes. It advised that once this was completed, management would review user access rights each quarter.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Income		
Revenues from SA Government	482	413
Revenue from fees and charges	38	37
Grants and contributions	9	9
Other income	5	4
Total income	534	463
Expenses		
Staff benefits expense	364	364
Supplies and services	132	111
Depreciation and amortisation expense	20	17
Other expenses	1	-
Total expenses	517	492
Net result	17	(29)
Assets		
Current assets	37	31
Non-current assets	385	366
Total assets	422	397
Liabilities		
Current liabilities	68	62
Non-current liabilities	87	84
Total liabilities	155	146
Net assets	267	251

Statement of Comprehensive Income

Revenues

Revenues from SA Government

WCHN is principally funded by DHW. In 2019-20, DHW funding of $482 million ($413 million) comprised recurrent funding of $451 million ($402 million) and capital funding of $31 million ($11 million). In 2019-20 DHW changed elements of its recurrent funding model. This included funding local health networks to meet increased recharging of centralised costs. Capital funding mainly related to receipts for the upgrade of buildings to address high priority clinical and infrastructure requirements.

Fees and charges

Fees and charges totalled $38 million and include the following significant components:

- patient and client fees – $12 million ($11 million)

- recoveries – $13 million ($13 million) which relate primarily to the recharge of salaries and wages or various goods and services expenses incurred on behalf of another entity, including other local health networks
- car parking revenue – $2 million ($3 million).

Expenses

In 2019-20 total expenses increased by $25 million to $517 million.

Staff benefits expenses

Staff benefits expenses, $364 million, represent 70% of WCHN's total expenses and include the following significant components:

- salaries and wages – $292 million ($282 million)
- long service leave – $6 million ($23 million). The decrease was mainly due to the impact of changed actuarial assumptions used to estimate the associated liability, including the impact on the expense of a decrease in the expected salary inflation rate from 4% to 2.5%
- annual leave – $29 million ($28 million)
- staff on-cost superannuation – $31 million ($29 million).

The number of staff whose remuneration received/receivable exceeded the base executive level ($155 000) totalled 290 (278), comprising 253 (242) medical, 21 (22) nursing, eight (seven) administration and eight (seven) executive staff. Total remuneration for these staff was $83 million ($80 million). Over the past five years the number of staff whose remuneration received or receivable exceeded the base executive level has increased by 31%.

Supplies and services expenses

Supplies and services expenses increased by $21 million to $132 million. Significant components of supplies and services were:

- medical, surgical and laboratory supplies – $37 million ($25 million), the increase mainly related to increased costs for the provision of services including those for SA Pathology and SA Medical Imaging
- internal SA Health service level agreement payments – $7 million ($2 million), the increase mainly related to increased payments to DHW for centralised costs not previously recharged
- drug supplies – $11 million ($9 million)
- contractors – agency staff – $7 million ($7 million)
- housekeeping – $11 million ($11 million)
- repairs and maintenance – $8 million ($6 million).

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 by $19 million to $365 million. This increase was primarily due to:

- $29 million in additions to capital work in progress mainly relating to the building upgrade
- $3 million in other additions
- $7 million newly recognised right-of-use lease assets under the new Accounting Standard AASB 16 *Leases*
- offset by depreciation and amortisation of $20 million.

The 2019-20 State Budget includes a provision of $550 million in the forward estimates to start to construct a new Women's and Children's Hospital.

Liabilities

Current liabilities increased by $6 million to $69 million and exceeded current assets of $37 million at 30 June 2020. Cash and cash equivalents of $29 million are sufficient to meet current payables of $11 million. WCHN is funded to meet expected cash flows for its current program delivery. Note 1.4 to its financial report discusses continuity of operations.

Staff benefits are the largest element of current liabilities, totalling $52 million at 30 June 2020. They mainly comprise leave entitlements expected to be taken within 12 months.

Staff liabilities make up $142 million of WCHN's total liabilities at 30 June 2020, comprising:

- staff benefits liabilities and related on-costs – $134 million ($127 million)
- provision for workers compensation – $8 million ($9 million).

Further commentary on operations

Response to the COVID-19 pandemic

Responding to the COVID-19 global pandemic has had a significant impact across SA Health in 2019-20 including at WCHN. Some of the more significant initiatives implemented by WCHN were:

- preparation of hospitals and staff
- temporarily suspending elective surgery
- establishing COVID-19 clinics and testing centres.

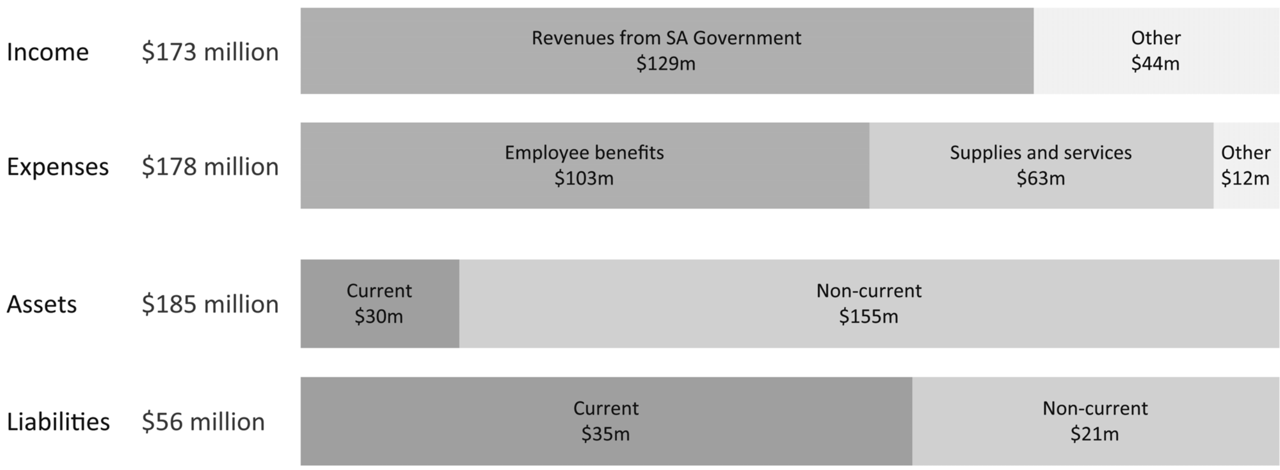
Note 1.7 to WCHN's financial report outlines material costs associated with COVID-19 including additional public health activities at a cost of $3.2 million such as:

- preparing hospitals
- staff training
- establishing a testing clinic
- purchasing personal protective equipment
- purchasing plant and equipment including ventilators
- non-clinical costs including cleaning.

WCHN also incurred $273 000 for hospital staff accessing special leave with pay for up to 15 days for absences related to COVID-19.

Yorke and Northern Local Health Network Incorporated (YNLHN)

Financial statistics



1063
Number of FTEs

23
Hospitals and health services

Significant events and transactions

- YNLHN and five other regional local health networks (LHNs) were proclaimed under the *Health Care Act 2008* (HC Act) and took over the function of providing regional health services from the Country Health SA Local Health Network Incorporated (CHSALHN) from 1 July 2019.
- On 1 July 2019 CHSALHN transferred its assets, rights and liabilities to the regional LHNs including net assets of $134 million to YNLHN.
- The YNLHN governing board was established on and commenced from 1 July 2019.
- YNLHN's response to the COVID-19 pandemic included additional public health activities including preparation of hospitals, establishing testing clinics and purchasing equipment.
- YNLHN's financial report outlines material costs associated with COVID-19 of $528 000.

Financial report opinion **Unmodified**

Audit findings	— Financial authorities in the payment system not in line with approved delegations. — Invoices paid without purchase orders. — Contracts not established for some regular services. — Ineffective follow-up of long outstanding patient debtors. — No recalculation of compensable patient invoicing. — System access restrictions insufficient. — Bank account signatories include former employees.

Functional responsibility

YNLHN is established under the *Health Care Act 2008* (HC Act). A proclamation under the HC Act, which came into effect on 1 July 2019, dissolved CHSALHN and transferred its assets, rights and liabilities to six regional LHNs including YNLHN. The new LHNs took over the function of providing health services from CHSALHN from that date.

YNLHN's powers and functions are to provide health services in the Yorke and Northern regions 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 YNLHN to be governed by a board. The governing board was established on and commenced from 1 July 2019. Governing boards of LHNs are responsible for addressing the local need, providing strategic direction and monitoring the LHN's operating and financial performance. The board must comply with any direction of the Minister for Health and Wellbeing or the Chief Executive, Department for Health and Wellbeing (DHW).

Amendments to the HC Act changed the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering the LHNs. DHW is responsible for setting statewide policy and the Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

A service agreement between YNLHN and the Chief Executive, DHW sets 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 service agreement's intent is to be binding on all parties. We note that while YNLHN signed the overarching agreement some elements of the agreement were not signed for 2019-20.

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 (BHFLHN)
- 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, the 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 2019-20 included:

- payroll
- accounts payable
- patient revenue including accounts receivable
- fee-for-service
- property, plant and equipment
- cash
- general ledger.

Internal audit activities were considered in designing and performing 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 where 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.

YNLHN advised that shortcomings in the Basware payment system contribute to the matters raised but that it had improved the rate of using purchase orders. It indicated it would communicate the need to abide by the policy and would regularly review compliance.

Financial authorities in the payment system not in line with approved delegations

Our review compared the authority limits assigned to individuals in Basware to approved financial delegations and found some variances between the two. Where this occurs there is an increased risk of a breach of Treasurer's Instruction 8 *Financial Authorisations*.

YNLHN's response described the control processes it uses to reduce the number of discrepancies. It indicated that it had addressed the instances identified by our audit and would review authority limits each quarter.

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.

YNLHN responded that the instances identified by our audit related to longstanding suppliers with competitive quality and prices. It indicated that it would investigate if contracts or other alternative procurement practices could result in better pricing.

Revenue

Ineffective follow-up of long outstanding 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 long outstanding 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.

YNLHN indicated that it had appointed a senior officer whose main focus would be debt management, including ensuring debtors are followed up in line with policy. It also indicated that its Finance and Performance Committee had an increased focus on debt management.

Patient billing system access rights not reviewed

Our review identified Chiron patient billing system users that have access to modules in the system which are not required for their role. This presents segregation of duties concerns. Also, there is no regular review of user access performed.

YNLHN advised that system limitations prevented some access restrictions and that it had established controls and processes to minimise risks. It will review user access to Chiron to ensure access is relevant to the role the staff member is performing.

Segregation of duties between revenue officers and medical records

Last year we reported to CHSALHN that admission and discharge dates and charge types can be modified by revenue officers. Our follow-up found that revenue officers still have access to modify these details, increasing the risk of inappropriate adjustments to invoiced fees.

YNLHN advised that limitations in the Chiron system prevented some access restrictions but it had established controls to reduce the risk of these limitations. It will also consider these concerns when implementing any system replacing Chiron.

No recalculation of compensable patient invoicing

We noted that revenue officers manually calculated patient billing charges in spreadsheets and then manually input the charges into the CHIRON patient billing system. We found there was inadequate review of these manual processes, increasing the risk of error.

YNLHN advised that it would review its processes to ensure invoices are independently reviewed.

Cash

Bank account signatories include former employees

We identified signatories for YNLHN's bank accounts that were no longer employees of SA Health and recommended a regular review to ensure bank account signatories remain pertinent.

YNLHN advised that, with the support of the SSSA health accounting and taxation services team, it will ensure that all bank account signatories are reviewed and updated.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020	
	Consolidated $'million	Parent $'million
Income		
Revenues from SA Government	129	129
Revenue from fees and charges	14	14
Grants and contributions	28	28
Other income	2	2
Total income	173	173

	2020	
	Consolidated $'million	Parent $'million
Expenses		
Staff benefit expenses	103	103
Supplies and services	63	63
Depreciation and amortisation	10	6
Other expenses	2	2
Total expenses	178	174
Net result	(5)	(1)
Assets		
Current assets	30	26
Non-current assets	155	92
Total assets	185	118
Liabilities		
Current liabilities	35	35
Non-current liabilities	21	21
Total liabilities	56	56
Net assets	129	62

Statement of Comprehensive Income – Consolidated

Revenues

Revenues from SA Government

YNLHN is principally funded by DHW. In 2019-20, funding of $129 million, which represents 74% of total income, comprised recurrent funding of $122 million and capital funding of $7 million.

Fees and charges

Fees and charges totalled $14 million and include the following significant components:

- residential and aged care charges of $5 million which relate primarily to long stay nursing home fees including daily care fees and daily accommodation fees
- patient and client fees of $6 million
- recoveries of $2 million which relate primarily to the recharge of salaries and wages or various goods and services expenses incurred on behalf of another entity, including other regional LHNs.

Expenses

Staff benefit expenses

Staff benefit expenses represent 58% of YNLHN's total expenses. The number of employees whose remuneration received/receivable exceeded base executive level ($155 000) totalled five, comprising four nursing and one executive. Total remuneration for these employees was $1 million.

Supplies and services expenses

Supplies and services expenses totalled $63 million and included the following significant components:

- fee-for-service payments to medical practitioners – $17 million
- medical, surgical and laboratory supplies – $10 million
- internal SA Health service level agreement payment – $6 million
- repairs and maintenance – $6 million.

Statement of Financial Position – Consolidated

Assets

At its establishment on 1 July 2019, assets of $184 million were transferred to YNLHN as follows:

- cash – $3 million
- receivables – $4 million
- property, plant and equipment – $156 million
- other assets – $21 million.

Property, plant and equipment

As at 30 June 2020, property, plant and equipment of $154 million represents 83% of YNLHN's total assets and includes the following significant components:

- newly recognised right-of-use lease assets under the new Accounting Standard AASB 16 *Leases* – $1 million
- buildings – $133 million
- land – $10 million
- capital works in progress – $7 million.

Liabilities

At its establishment on 1 July 2019, liabilities of $50 million were transferred to YNLHN as follows:

- payables – $5 million
- staff benefits – $31 million
- provisions – $1 million
- other liabilities – $13 million.

Current liabilities

Current liabilities of $35 million exceeded current assets of $30 million at balance date. YNLHN is funded to meet expected cash flows for its current program delivery. Note 1.4 to its financial report discusses continuity of operations.

Staff related liabilities

Staff related liabilities make up $37 million of YNLHN's total liabilities at 30 June 2020, comprising:

- staff benefits liabilities and related on-costs – $35 million

- provisions for workers compensation – $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 the COVID-19 global pandemic has had a significant impact across SA Health in 2019-20 including at YNLHN. Some of the more significant initiatives implemented by YNLHN were:

- preparation of hospitals and staff
- temporarily suspending elective surgery
- establishing COVID-19 clinics and testing centres in the region
- changed visitor arrangements.

Note 1.7 to YNLHN's financial report outlines material costs associated with COVID-19 including additional public health activities at a cost of $477 000 including:

- preparation of hospitals
- establishing testing clinics
- purchasing personal protective equipment
- non-clinical costs including cleaning.

YNLHN also incurred $51 000 for hospital staff accessing special leave with pay for up to 15 days for absences related to COVID-19.

HomeStart Finance (HomeStart)

Financial statistics	Loans and advances:	$2.2 billion
	Short-term borrowings:	$651 million
	Long-term borrowings:	$1.4 billion
	Profit before income tax:	$31.2 million
	Dividends paid:	$22.3 million
	Number of FTEs:	106
	Number of loans outstanding at 30 June:	13 023

Significant events and transactions

- Dividends of $22.3 million were approved by the Treasurer and paid to the Department of Treasury and Finance (DTF) in June 2020. This included a residual dividend of $1.7 million payable for 2018-19, together with a dividend of $20.6 million based on expected profit for 2019-20.
- To 30 June 2020, customers with 735 loan accounts had requested some form of negotiated payment arrangement due to the impacts of COVID-19. HomeStart expects that 321 of these will recommence payments at a future date, with the remaining 414 loan accounts under review. This emerging uncertainty contributed to HomeStart's total provision for credit impairment increasing by $4.8 million to $23.4 million in 2019-20.

Financial report opinion

Unmodified

Functional responsibility

HomeStart is a statutory corporation established by *the Housing and Urban Development (Administrative Arrangements) (HomeStart Finance) Regulations 2007* (regulations) under the *Urban Renewal Act 1995*. It has a Board of Management appointed by the Minister for Transport, Infrastructure and Local Government and is subject to the control and direction of the Minister.

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 2019-20 included:

- provision for loan impairment
- shared appreciation loan
- loans and advances
- South Australian Government Financing Authority (SAFA) facility, including borrowings
- derivative and hedge accounting
- employee expenses and provisions
- purchases and payables
- treasury
- lease arrangements.

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

One opportunity for improvement of a minor nature was identified. It did not impact the controls opinion.

Other audit findings

One minor matter was identified.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Interest income	105	112
Interest expense	(26)	(44)
Net interest income	79	68
Other income	11	12
Other expenses	(32)	(27)
Government guarantee fee	(27)	(30)
Profit (Loss) before income tax equivalent	31	23
Income tax equivalent expense	(9)	(7)
Profit (Loss) after income tax equivalent expense	22	16
Other comprehensive income	-	(2)
Total comprehensive result	22	14
Assets		
Loans and advances	2 188	2 208
Other assets	19	12
Total assets	2 207	2 220
Liabilities		
Borrowings	2 031	2 040
Other liabilities	18	21
Total liabilities	2 049	2 061
Total equity	158	159

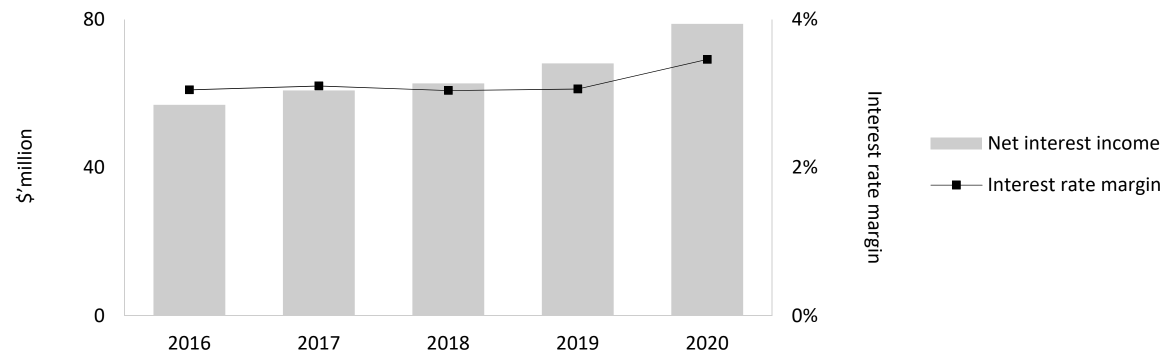
Statement of Comprehensive Income

Profit for the year

Profit before income tax equivalent payments increased by $7.9 million to $31.2 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 $10.7 million (15.7%) to $78.8 million. This mainly reflects improved margins from lower borrowing rates and minimal movement in the loan portfolio in 2019-20.

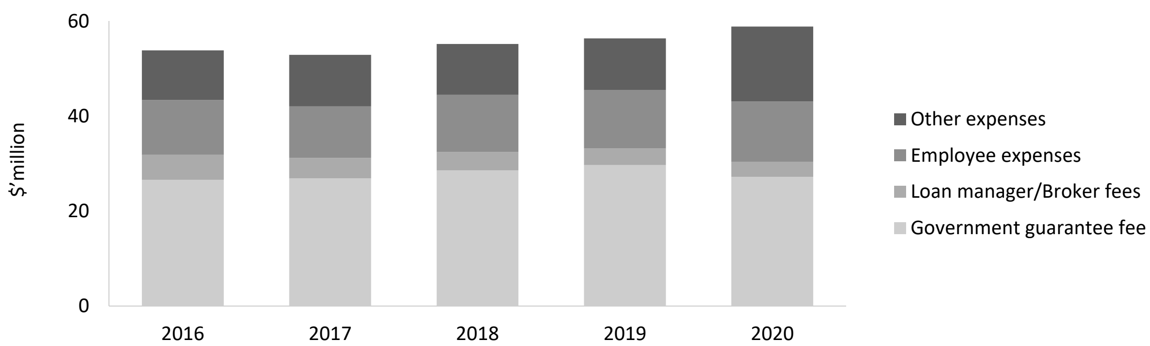
The chart shows that the interest rate margin between loans and cost of funds remained relatively stable at around 3% between 2016 and 2019, with an increase to 3.5% in 2020 due to lower borrowing rates. HomeStart's standard variable rate is set to be generally in line with the standard variable rate of major lenders. Standard variable rates are generally adjusted when the Reserve Bank of Australia changes the official cash rate.

Other income

Other income decreased marginally to $11.3 million. It includes community service obligation (CSO) grants from DTF of $7.3 million ($6.9 million). For further details on CSO grants see 'Distributions to and revenue from SA Government' below.

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 increased by $2.4 million to $58.8 million in 2019-20. The more significant movements were:

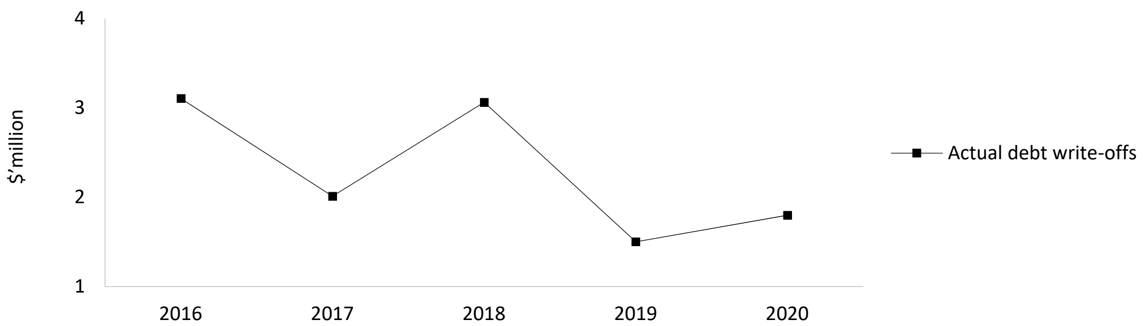
- a $5.1 million increase in bad and impaired loans expense. For more information on this see 'Bad and impaired loans expense' below
- an increase of $1 million in depreciation and amortisation expenses. This is largely due to $704 000 in depreciation recognised for the first time in 2019-20 on right-of-use buildings and motor vehicles under AASB 16 *Leases*

- a decrease in the government guarantee fee of $2.6 million. The government guarantee fee rate of 0.99% applies to new borrowings taken out or for the refinancing of maturing borrowings in 2019-20, a decrease from 1.36% in the prior year. Existing debt will continue to attract government guarantee fee rates approved in previous financial years
- a $1.3 million decrease in other expenses due mainly to a $494 000 decrease in the unrealised loss in fair value of breakthrough and shared equity option loans (in 2019-20 there was an unrealised gain of $450 000), a $670 000 decrease in office accommodation expenses and a $597 000 decrease in other expenses, all offset by a $356 000 increase in IT expenses.

Bad and impaired loans expense

HomeStart's bad and impaired loans expense for the year was $6.6 million, up from $1.5 million in 2018-19. Most of this increase relates to an upwards revaluation of its provision for impairment. This significant increase is due mainly to the impacts of the global COVID-19 pandemic on HomeStart's customers in 2020. To 30 June 2020, customers with 735 loan accounts had requested some form of negotiated payment arrangement due to the impacts of COVID-19. HomeStart expects that 321 of these will recommence payments at a future date, while the other 414 loan accounts remain under review.

The total provision for impairment as at 30 June 2020 was $23.4 million ($18.6 million). The following chart shows the actual debt write-offs through the provision and the Statement of Comprehensive Income for the last five years.



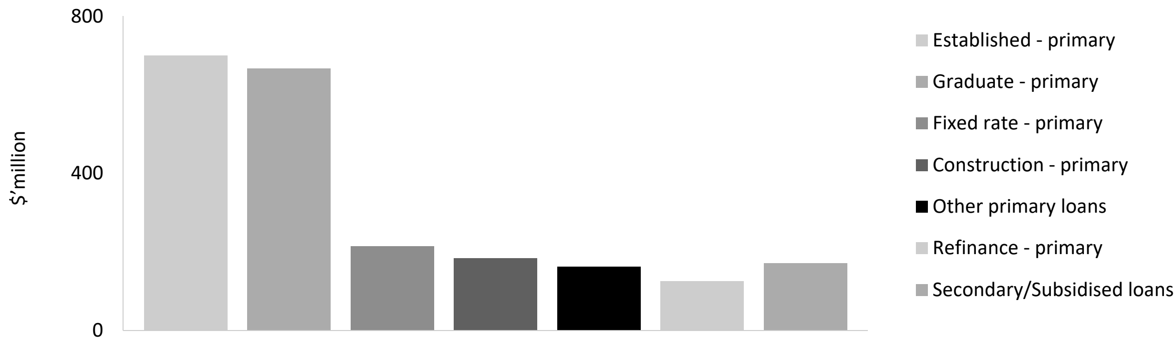
The chart demonstrates the relative volatility of debt write-offs over the past five years, reflecting the impact of the economic circumstances of borrowers.

Statement of Financial Position

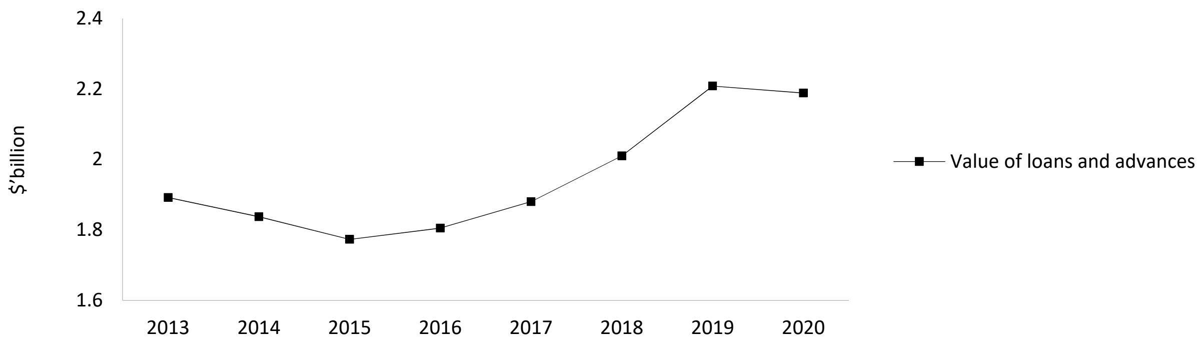
Loans and advances

At 30 June 2020 total loans and advances equalled $2.2 billion, a decrease of $20.5 million from the previous year. This decrease was due mainly to a $36.9 million decrease in established loans, a $14.1 million decrease in low deposit loans and a $12.5 million decrease in refinance loans, all partially offset by a $34.1 million increase in graduate loans and a $14.6 million increase in fixed rate loans. 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 2020.



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.

The slight decrease in loans and advances in 2020 reflects increased loan repayments, including discharges, due mainly to low interest rate levels.

Breakthrough loans and shared equity option loans

Breakthrough loans and shared equity option loans are comprised of two components:

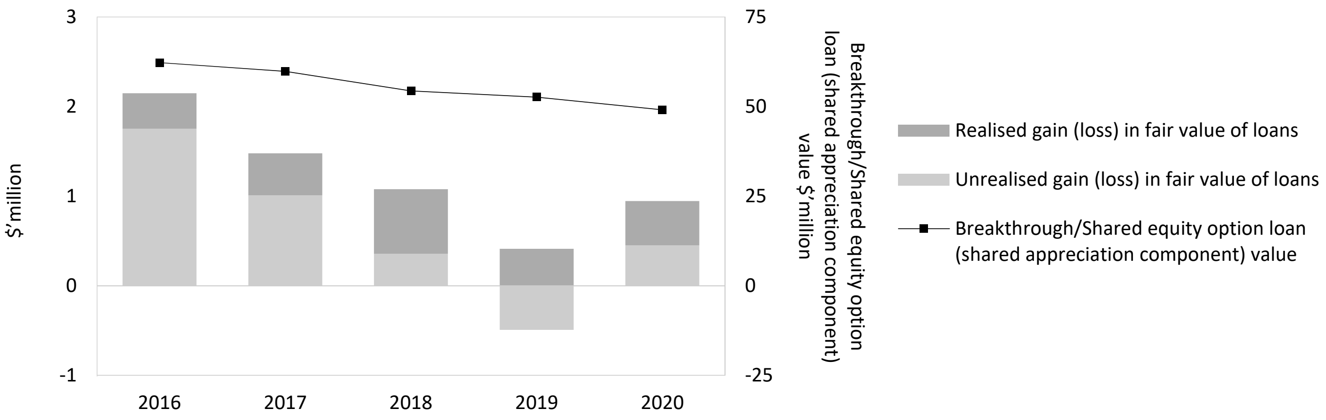
- a standard loan component with standard interest rates and repayments
- a shared appreciation component where the loan is repaid along with a percentage of the change in property value when the property is sold.

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 HomeStart 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 2019-20 a net $945 000 gain ($82 000 loss) was recognised for these loans, comprising a $450 000 gain ($494 000 loss) recognised from revaluation and a $495 000 gain ($412 000 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 growth in the general property market from the prior year.

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 2016.



The breakthrough loan product was withdrawn from December 2017, with the new shared equity option loan released in April 2018.

Provision for credit impairment

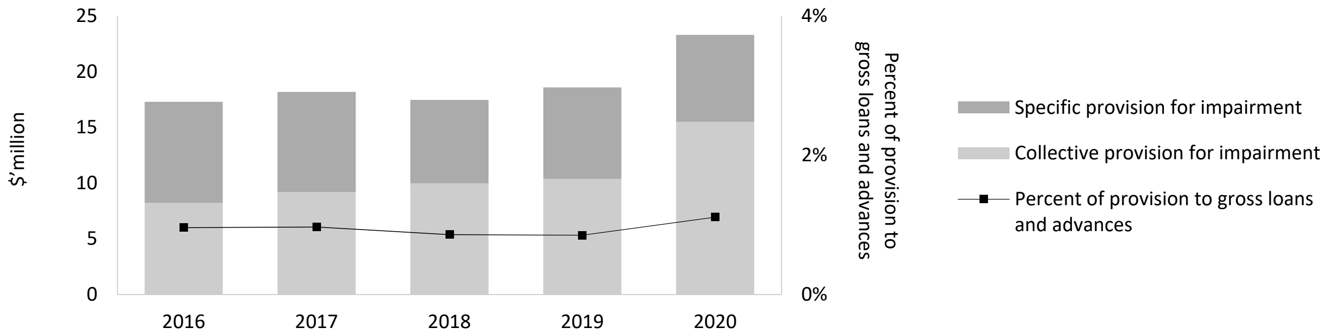
In 2018-19 the Australian Accounting Standards Board issued a new accounting standard AASB 9 *Financial Instruments,* which HomeStart adopted from 1 July 2018. The standard contains a classification and measurement approach for financial assets and impacts on impairment requirements and other elements. 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 increased by $4.8 million to $23.4 million. It has two components based on lifetime expected credit losses:

- the specific provision – representing loans and advances that are individually assessed as impaired. As at 30 June 2020 this was $7.8 million ($8.2 million) with the decrease reflecting an ongoing trend of reduced arrears over the year, particularly those in arrears three months or more
- the collective provision – based on AASB 9. As at 30 June 2020 this was $15.5 million ($10.4 million). The ECL model is used to calculate this provision. Most of this increase is directly related to the COVID-19 pandemic. Loan accounts with a negotiated payment arrangement were assessed as having a significant increase in credit risk and were included in stage 2 of the ECL model.

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, relative to total gross loans and advances, between 2016 and 2019, with an increase in 2020 recognising the impacts of the COVID-19 pandemic on HomeStart's customers.

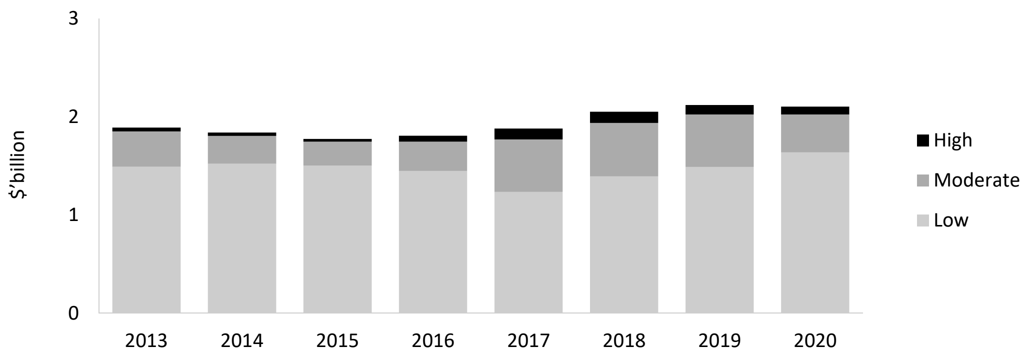
General reserve for credit losses

The use of a general reserve for credit losses, to set aside additional funds in excess of the specific and collective provisions in line with HomeStart's charter, is consistent with the Australian Prudential Regulation Authority's prudential risk management requirement to retain sufficient retained earnings for capital adequacy purposes. The charter requires HomeStart to maintain a capital adequacy ratio of at least 12%. As at 30 June 2020, its capital adequacy ratio was 12.4%. The balance of the reserve at 30 June 2020 was up 47% to $10.7 million ($7.3 million), reflecting the impact that COVID-19 is having on the market.

The combined provision for impairment and general reserve for credit losses take the total amount set aside for potential losses to $34.1 million ($25.9 million), representing 1.62% (1.18%) of gross loans and advances.

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 assessed as low risk, with reductions in high and moderate risk loans.

HomeStart has advised that although the COVID-19 pandemic 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. Scores have also improved with HomeStart's COVID-19 payment assistance (deferred payments) and large payments received, which may have resulted from 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, a collective provision and a general reserve for credit losses. It also seeks to maintain appropriate capital reserves to cover any significant losses from loan defaults.

Liabilities

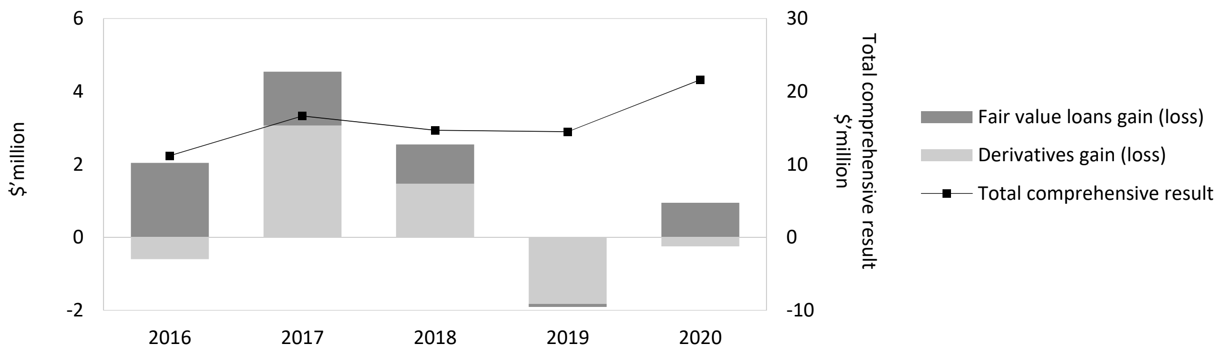
Borrowings at 30 June 2020 were $2 billion ($2 billion) and represent 99% (99%) of HomeStart's liabilities. HomeStart is required to use SAFA as its sole counterparty for all funding transactions. At 30 June 2020, HomeStart had an approved borrowing limit of $2.46 billion ($2.197 billion). The majority of its borrowings from SAFA mature within five years, with $650 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 $7.1 million to $21.6 million in 2019-20. 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. As mentioned previously, the minimal fair value gains in 2020 follow the relatively flat general property market from the prior year.



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 $143.7 million ($147.9 million), while the carrying value of net financial assets is $146.7 million ($154 million). The decrease in the margin between fair value and carrying value is a result of a reduction in interest rates during the year.

Distributions to and revenue from SA Government

HomeStart's distributions to the SA Government include dividends, guarantee fees and income tax equivalent payments. HomeStart also receives CSO funding from DTF 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 2019-20).

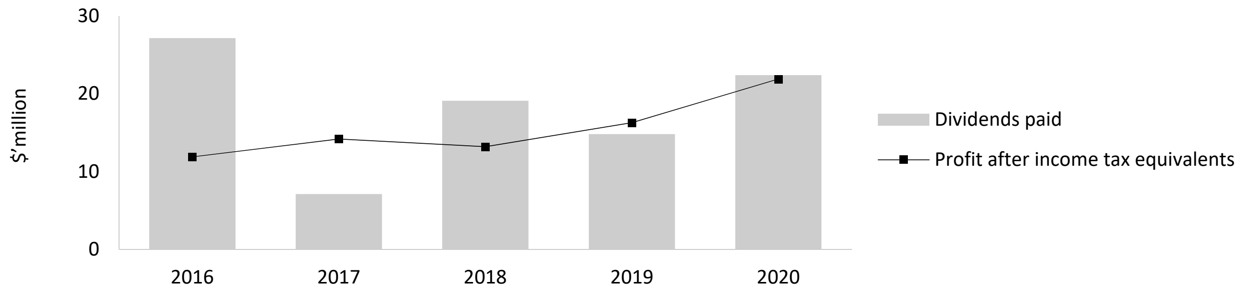
HomeStart's requirement to undertake CSOs is set out in its regulations.

The following table summarises these transactions with the SA Government for the four years to 2020.

	2017 $'million	2018 $'million	2019 $'million	2020 $'million
SA Government distributions:				
Dividend	7	19	16	22
Income tax equivalent	5	6	7	9
Government guarantee fee	28	29	30	27
Total distributions to SA Government	40	54	53	59
CSO income	(6)	(7)	(7)	(7)
Net amount provided to SA Government	34	47	46	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 2020 the Treasurer approved the payment of a dividend of $22.4 million, noting the remaining dividend from HomeStart's final operating result would be paid in June 2021. The dividend HomeStart paid is comprised of:

- a residual dividend of $1.7 million to account for the difference between the forecast after tax profit and the actual after tax profit in 2018-19
- a dividend of $20.7 million relating to 100% of HomeStart's forecast after tax profit for 2019-20, in line with its 2019-20 performance statement.

HomeStart recognised a dividend payable of $1.2 million ($1.7 million) at 30 June 2020 for the difference between the forecast after tax profit and the actual after tax profit in 2019-20, which is not included in the chart above. This will be paid in June 2021.

HomeStart aims to return dividends to the SA Government regularly, in line with its established performance statement and the requirements of the *Public Corporations Act 1993*. 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 2020.

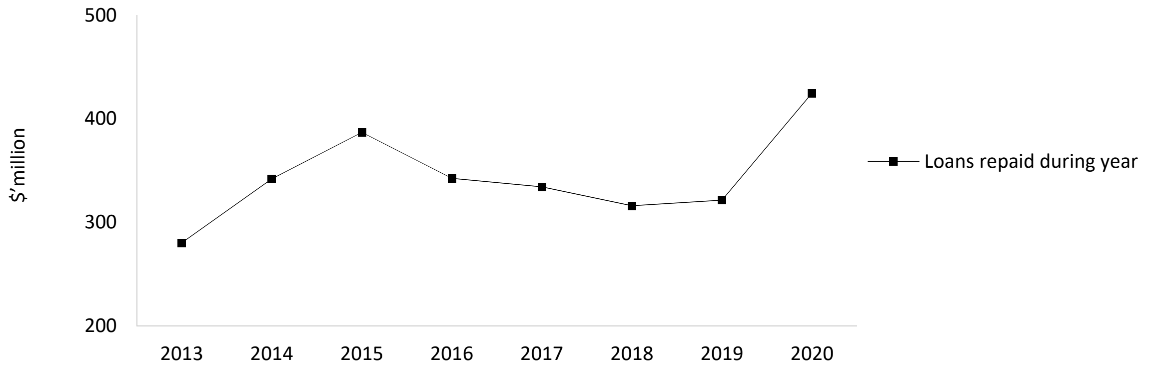
	2017 $'million	2018 $'million	2019 $'million	2020 $'million
Net cash flows				
Operating	12	10	15	24
Investing	(19)	(161)	(142)	18
Financing	10	149	128	(41)
Change in cash	3	(2)	-	1
Cash at 30 June	5	3	3	4

Note: Table may not add due to rounding.

Investing activities relate primarily to the provision of loans to customers. In 2020 there was a net $16 million cash inflow for customer loans reflecting loan repayments, which corresponds to the decrease in gross loans and advances. The net financing cash outflow of $41 million largely reflects the repayment of borrowings ($118 million) and dividends paid ($22 million), offset by new SAFA borrowings ($100 million).

Customer loans repaid

The following chart shows loan repayments, including discharges, since 2013.



Customer repayments increased substantially in 2019-20. This was 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
- fixed repayment loan products repaying proportionately more principal.

Discharges in 2019-20 were $334 million compared to $244 million in the prior year. Of this value, 81% refinanced reflecting the current market conditions, 18% sold the property and 1% repaid their loan in full.

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 Transport, Infrastructure and Local Government.

HomeStart's performance targets compared to actual results are detailed below.

	Cabinet approved operating parameters	Performance statement target for 2020	2020 result	2019 result
Operating profit before tax	n/a	$25.6 million	$31.2 million	$23.3 million
Return on equity	9%	15.8%	19.7%	14.5%
Cost to income ratio	55%	45.1%	39.9%	50%
Capital adequacy ratio	12%	11.9%	12.4%	12.5%

The most significant factor contributing to HomeStart's above-parameter return on equity in 2020 was its strong net interest income.

The Treasurer approved HomeStart's current borrowing limit of $2.46 billion in January 2020.

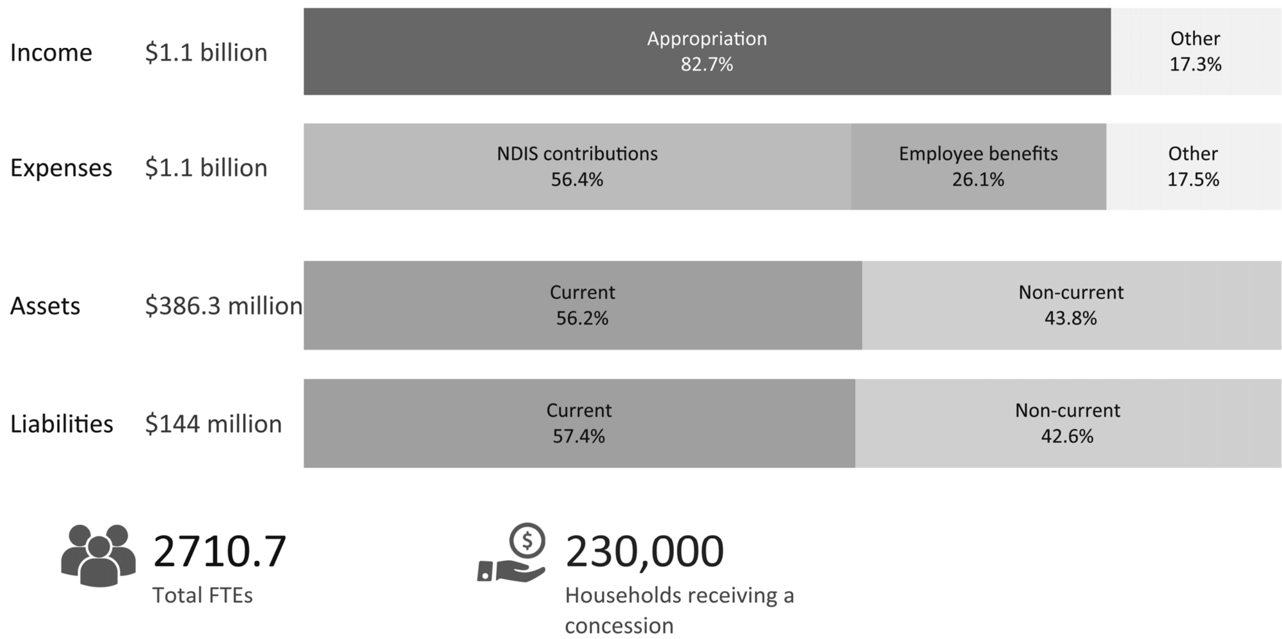
COVID-19 pandemic outlook for HomeStart

The COVID-19 pandemic will continue to impact HomeStart's operations in 2020-21. HomeStart has advised that expected key impacts may include the following:

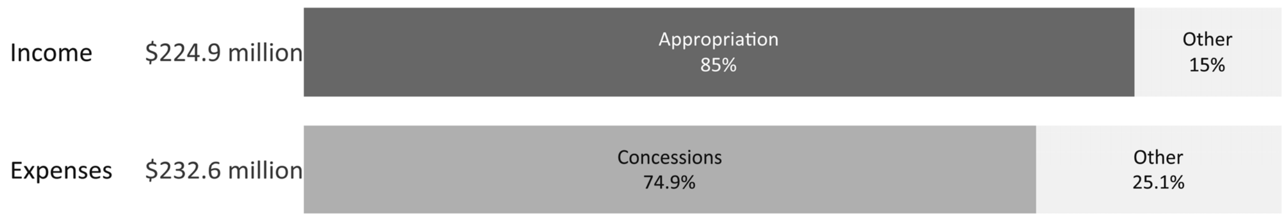
- Weaker economic conditions will make it more difficult for some customers to service their loans. This may result in an increase to HomeStart's provision for credit impairment and actual debts written off.
- Property prices are expected to remain weak during the year due to the virus and overall economic conditions. It is expected that HomeStart's shared appreciation loans will remain weak and may generate realised and unrealised losses.
- The financing of house and land packages represented 37% of total new loans settled in 2019-20. Lending volumes in the future may be driven by external stimulus measures including government grants or other measures.

Department of Human Services (DHS)

Financial statistics



Administered items



Significant events and transactions

- National Disability Insurance Scheme (NDIS) contributions increased from $207.9 million to $612 million in 2019-20, under the full scheme Bilateral Agreement between the Commonwealth and SA Governments. The increase reflects the first full year after State-funded disability clients transferred to the NDIS.
- Concessions expenditure increased by $18.4 million to $174.2 million in 2019-20. This includes $9.6 million of additional COVID-19 cost of living concessions. The approximate number of households receiving a concession also increased from 200 000 to 230 000 in 2019-20.
- DHS was responsible for administering the State Emergency Relief Fund, which received $7 million in public donations and paid $5.8 million in relief grants in 2019-20 to people directly affected by the Cudlee Creek and Kangaroo Island bushfires.

	— A machinery of government change resulted in the Child and Family Intensive Support System being established in DHS. This involved the transfer of $5.8 million of liabilities from the Department for Education. — DHS continued to make targeted voluntary separation package (TVSP) payments in 2019-20, with $11.9 million of TVSP expenses for 153 employees. It received $12.2 million of funding from the Department of Treasury and Finance (DTF) for TVSPs.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— Limited validation of sewerage and water concessions prior to payment. — Concessions administration practices do not align with the energy concession scheme. — Segregation of duties can be improved in the cost of living concessions reconciliation process. — Bona fide reports not reviewed promptly. — IT control weaknesses for the Funding and Grants Management System.

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, NDIS and disability services, and social housing. The social housing program ended in 2018-19 when DHS's Housing SA division transferred to the South Australian Housing Trust (SAHT) as the result of a machinery of government change.

DHS also has responsibility 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 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 2019-20 included:

- follow-up of issues raised in 2018-19
- compliance with legislation and other government requirements
- machinery of government changes
- expenditure, including grant payments, concessions, and supplies and services
- payroll
- revenue
- cash and general ledger
- fixed assets
- client trust accounts
- receipts and payments from the State Emergency Relief Fund (SERF).

The audit considered control processes performed by both DHS and Shared Services SA.

We also considered DHS's internal audit coverage when designing and performing audit procedures. We made use of the work performed by internal audit in the following areas:

- finalisation of brokerage services for disability clients
- cost of living concession eligibility and payment controls
- SERF administrative procedures and controls.

Controls opinion

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

- NDIS expenditure
- deposit accounts and special deposit accounts held with the Treasurer.

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters 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

Concessions payments

In 2019-20 DHS made concessions payments of $174.2 million ($155.8 million).

Concessions payment administration

In previous years we have reported on a number of long outstanding issues for concessions administered by DHS. DHS's responses have focused on external reviews into the administration of concessions as the solution to these issues.

In 2019-20 we comprehensively reviewed the key controls in place across the most significant concession types. We found that the issues we raised in previous years still exist, as well as some other areas for internal controls to be improved.

— *Limited validation of water and sewerage concession payments prior to payment*

We have previously reported that there is limited validation of the accuracy of water and sewerage concession payments to pensioners prior to payment. DHS previously advised that it was considering options for increasing the validation of these payments in the future, pending the completion of the project to explore the transfer of energy administration to energy retailers.

In 2019-20 we found that there was still limited validation of water and sewerage concession payments prior to payment. Without sufficient validation, concession payments may be made to ineligible clients or amounts paid may be inaccurate.

DHS advised that it is implementing changes to the reconciliation process between concessions system data and the South Australian Water Corporation to check the eligibility and accuracy of concessions, with the aim of automating this process to occur prior to payment.

— *Concessions administration practices do not align with the energy concession scheme*

We previously identified that DHS and energy retailers are operating outside of the established SA Government Customer Concession Scheme for Energy (the scheme). This scheme prescribes the administrative arrangements for the concession payment. DHS previously advised that although it believes it adheres to the intent of the scheme, it does not follow certain aspects of it as it considers it impractical to do so.

To partially mitigate the risk of operating outside of the scheme, DHS issued letters to energy retailers outlining each party's responsibilities. Based on legal advice this acts as a contractual agreement.

We previously noted that the update of the scheme has been repeatedly delayed due to external reviews undertaken to reform ConcessionsSA. In 2019-20 we found there had been no changes to the scheme.

DHS responded that external reviews currently in progress will be completed by September 2020. A resource will be dedicated to review all schemes administered by ConcessionsSA.

— *Segregation of duties can be improved in the cost of living concessions reconciliation process*

In 2019-20 we found that the person who performs the cost of living concession (COLC) reconciliation also has the ability to make changes to customer records in the COLC system, create vendor maintenance and payment files, and approve payment batch files. There is no independent review of the reconciliation when it is completed. This does not support proper segregation of duties.

If the person performing the reconciliation is also involved in processing or approving payments, it increases the risk of inappropriate changes being made to the payment file before processing and this not being detected. We recommended that someone else also be involved in the reconciliation process.

DHS responded that an officer separate from processing batch payments will be trained and assigned to review the reconciliations.

Payroll

In 2019-20 DHS's salaries and wages expense totalled $201.9 million ($201.9 million).

Bona fide reports not reviewed promptly

Reviewing and approving bona fide reports provides assurance that payroll payments are only made to valid employees. If they are not promptly reviewed, inaccurate payments may be made to employees. We reviewed bona fide reports at DHS and found instances where they were not reviewed and approved promptly.

We have raised this as an issue with DHS in prior years. In 2018-19, we found a significant increase in the number of days reports were outstanding. We understand this increase was largely due to DHS restructuring throughout the year. We were advised that this led to gaps in how the reports were escalated to senior managers. With many employees separating from DHS at the end of June 2019, we reported that this issue was likely to be further exacerbated.

In 2018-19 DHS responded that restructuring had delayed the payroll system update for reporting. It expected that once the reform initiatives were completed the payroll data would stabilise. In the meantime, DHS reminded managers to promptly review bona fide reports.

In 2019-20 we found a further significant increase in the number of outstanding bona fide reports, with a substantial portion being more than 250 days old. This indicates the outstanding reports from 2018-19 have not been resolved.

DHS responded that it has investigated system capabilities to reassign bona fide reports that were left outstanding as a result of organisational structure changes. Bona fides will be reassigned for review and approval, which DHS expects will significantly reduce the number of long outstanding reports. DHS is also investigating existing functionality within the payroll system to manage the bona fide approval process, to prevent this situation from reoccurring.

IT general control review

IT control weaknesses for the Funding and Grants Management System

DHS uses the Funding and Grants Management System to track grant payment and funding arrangements. In 2019-20, we reviewed the system's IT general controls. This included password management, user access management, privileged user access, audit logging, change management, backup and disaster recovery management.

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

- lack of application source code
- weaknesses in user access management
- inappropriate privileged user access
- weaknesses in audit logging
- weaknesses in disaster recovery process
- weaknesses in password management.

These control weaknesses increase the risks of not being able to maintain required system functionality, unauthorised access and unauthorised changes being made.

DHS responded positively to our findings and agreed to take appropriate remedial action.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2020 $'million	2019 $'million
Income		
Appropriations	945	1 537
Commonwealth grants	102	101
Intra-government transfers	41	40
Sales of goods and services	25	19
Fees and charges	19	35
Other revenues	10	20
Total income	1 142	1 752
Expenses		
NDIS contributions	612	208
Employee benefits expenses	284	308
Supplies and services	96	212
Grants and subsidies	81	1 031
Other expenses	13	32
Total expenses	1 086	1 791
Net result	56	(39)
Other comprehensive income	3	-
Total comprehensive result	59	(39)
Net cash provided by (used in) operating activities	(10)	(74)

	2020 $'million	2019 $'million
Assets		
Current assets	217	188
Non-current assets	169	171
Total assets	386	359
Liabilities		
Current liabilities	83	111
Non-current liabilities	61	63
Total liabilities	144	174
Total equity	242	185

Statement of Comprehensive Income

Income

In 2019-20 total income decreased by $608.6 million to $1.1 billion, mainly due to decreases in appropriation ($592 million) and fees and charges ($16.6 million), partially offset by increases in Commonwealth grants ($1.3 million) and intra-government transfers ($1.2 million).

Appropriations

Appropriations decreased by $592 million to $945.4 million in 2019-20. Appropriations were significantly higher in 2018-19 when DHS received additional appropriation of $470.2 million from the Treasurer through an adjustment under section 13 of the *Public Finance and Audit Act 1987* and the Governor's Appropriation Fund. The increased appropriation was for an increase in grants paid to the SAHT.

The overall decrease in appropriations in 2019-20 reflects that payments are no longer made through DHS to the SAHT ($834.2 million in 2018-19), partially offset by increases in NDIS contributions (refer to 'NDIS contributions' below).

Fees and charges

Fees and charges decreased by $16.6 million to $18.7 million mainly due to:

- a $6.6 million decrease in recoveries, mainly relating to reduced recoveries for salaries and wages for employees seconded to the National Disability Insurance Agency and accommodation costs from the SAHT as it now contracts separately with the Department of Planning, Transport and Infrastructure
- a $7.9 million decrease in business services income that resulted from corporate services employees transferring to the SAHT effective 1 December 2018.

Commonwealth grants

Commonwealth-sourced grants and funding increased from $101.2 million to $102.5 million in 2019-20. This increase is primarily due to $2.8 million received in 2019-20 for COVID-19 domestic violence support payments. Funding is provided to support initiatives including a men's referral line, a brokerage package for domestic violence services, a communications campaign and upskilling the support workforce.

Intra-government transfers

Intra-government transfers increased from $40 million to $41.2 million, mainly due to:

- $19.3 million received from the Department for Education for the National Education Reform Agreement. On 1 July 2019 a machinery of government change saw the Child and Family Intensive Support System transfer from the Department for Education to DHS (see 'Machinery of government changes' below). The Department for Education has passed on funding for services DHS now provides under the agreement
- partially offset by a $15.3 million decrease in TVSP reimbursements from the DTF contingency fund. In 2019-20 DHS recorded 153 TVSP payments compared to 345 in 2018-19.

Expenses

In 2019-20 total expenses decreased by $704.5 million to $1.1 billion. This included decreases in grants and subsidies ($949.7 million), supplies and services ($115.6 million), employee benefits expenses ($24.1 million) and cash alignment transfers ($16.6 million), offset by increases in NDIS contributions ($404.1 million).

NDIS contributions

The increase in NDIS contributions of $404.1 million is due to the completion of State-funded disability clients transitioning to the NDIS in 2018-19. Funding is paid to the National Disability Insurance Agency under a Commonwealth agreement.

In 2019-20 NDIS contributions totalled $612 million ($207.9 million) comprising the fixed State contribution under the full scheme bilateral agreement, offset by cost of delay adjustments and in-kind provision of services (such as the supported accommodation DHS continues to provide to disability clients).

Employee benefits expenses

Employee benefits expenses decreased by $24.1 million to $283.7 million in 2019-20. This is mainly due to:

- a $1.9 million decrease in eligible termination payments. In 2018-19 these were paid to CYS and ASSIST employees transferring out of DHS, and to other staff who were materially affected by disability and aged care reforms. In 2019-20 the payments related to executive contracts being terminated
- a $14.9 million decrease in TVSPs. 153 employees received TVSPs compared to 345 in 2018-19. In 2019-20 most TVSPs related to employees in the Accommodation Services and NDIS Reform and Services divisions
- a $5 million decrease in long service leave expense, attributable to a decrease in the Commonwealth Government bond rate (from 1.25% to 0.75%) and the salary inflation rate (from 4% to 2.5%) that are used in the actuarial calculation of the long service leave liability, and the number of long service leave entitlement hours.

Supplies and services

In 2019-20 supplies and services expenses decreased by $115.6 million to $96.2 million. This is a result of brokerage care services expenses decreasing by $111.4 million, from $115.1 million in 2018-19 to $3.8 million in 2019-20.

Brokerage care services expenses significantly decreased as all eligible State-funded disability clients transitioned to the NDIS by 30 June 2019. The remaining expenditure relates to finalisation of payments and expenses for the exceptional needs unit.

Grants and subsidies

Grants and subsidies decreased from $1 billion to $81.2 million in 2019-20. Previously grant expenses included grants to the SAHT ($834.2 million in 2018-19) which from 2019-20 are funded through DTF instead of DHS.

Disability grants fell from $132.7 million to $2.6 million in 2019-20, as now most disability expenditure is through NDIS contributions.

Remaining grant expenditure in 2019-20 is mainly for Home and Community Care ($21.5 million), Child and Family Support grants ($13.7 million) and Family and Community Development ($12.6 million).

Cash alignment transfers

Payments to DTF decreased from $16.6 million to $0 in 2019-20. The 2018-19 expense relates to the return of proceeds for asset sales, including land at Magill and the Parks Community Centre.

Statement of Financial Position

Assets

DHS's major assets include cash and cash equivalents of $145.9 million ($164.1 million), property, plant and equipment of $162.3 million ($163.1 million) and receivables of $71.8 million ($24.4 million).

Total assets increased from $359 million to $386.3 million as at 30 June 2020, largely due to:

- a $47.4 million increase in receivables mainly due to accrued recoveries for in-kind services provided to the National Disability Insurance Agency throughout 2019-20. Under the full scheme bilateral agreement these in-kind services are offset against DHS's NDIS contributions
- an $18.2 million decrease in DHS's cash and cash equivalents balance. This is the result of a $27.5 million decrease in the operating account, partially offset by an $8.6 million increase in the Accrual Appropriation Excess Funds Account. This account is not available for general use but can only be used in line with the Treasurer's/Under Treasurer's approval. The account had a balance of $98.7 million at 30 June 2020, up from $90.1 million at 30 June 2019.

Liabilities

Total liabilities decreased by $29.7 million to $144 million. This was largely due to:

- a $7.1 million decrease in payables resulting mainly from less brokerage care services accrued expenses as most of these services ceased with the transition to the NDIS
- a $25.5 million decrease in employee benefit liabilities. Accrued salaries and wages decreased to $13.5 million from $37.2 million in 2018-19, as the previous year included additional accruals for many employees who separated from DHS at the end of June 2019. The 2018-19 figure also included TVSP accruals for offers accepted prior to 30 June. The long service leave liability also decreased from $48.7 million to $44.7 million in 2019-20 due to reductions in the number of long service leave entitlement hours, the Commonwealth Government bond rate (from 1.25% to 0.75%) and the salary inflation rate (from 4% to 2.5%) that are used in the actuarial calculation.

Highlights of the financial report – administered items

	2020 $'million	2019 $'million
Income		
Appropriation	191	185
Grants and contributions	14	11
Client trust receipts	11	11
Other income	9	1
Total income	225	208
Expenses		
Grants, subsidies and client payments	207	190
Client trust payments	12	12
Other expenses	14	5
Total expenses	233	207
Net result	(8)	1
Other comprehensive income	-	3
Total comprehensive result	(8)	4
Assets		
Current assets	67	74
Non-current assets	24	27
Total assets	91	101
Liabilities		
Current liabilities	8	10
Total liabilities	8	10
Total equity	83	91

Statement of Administered Comprehensive Income

Administered expenses

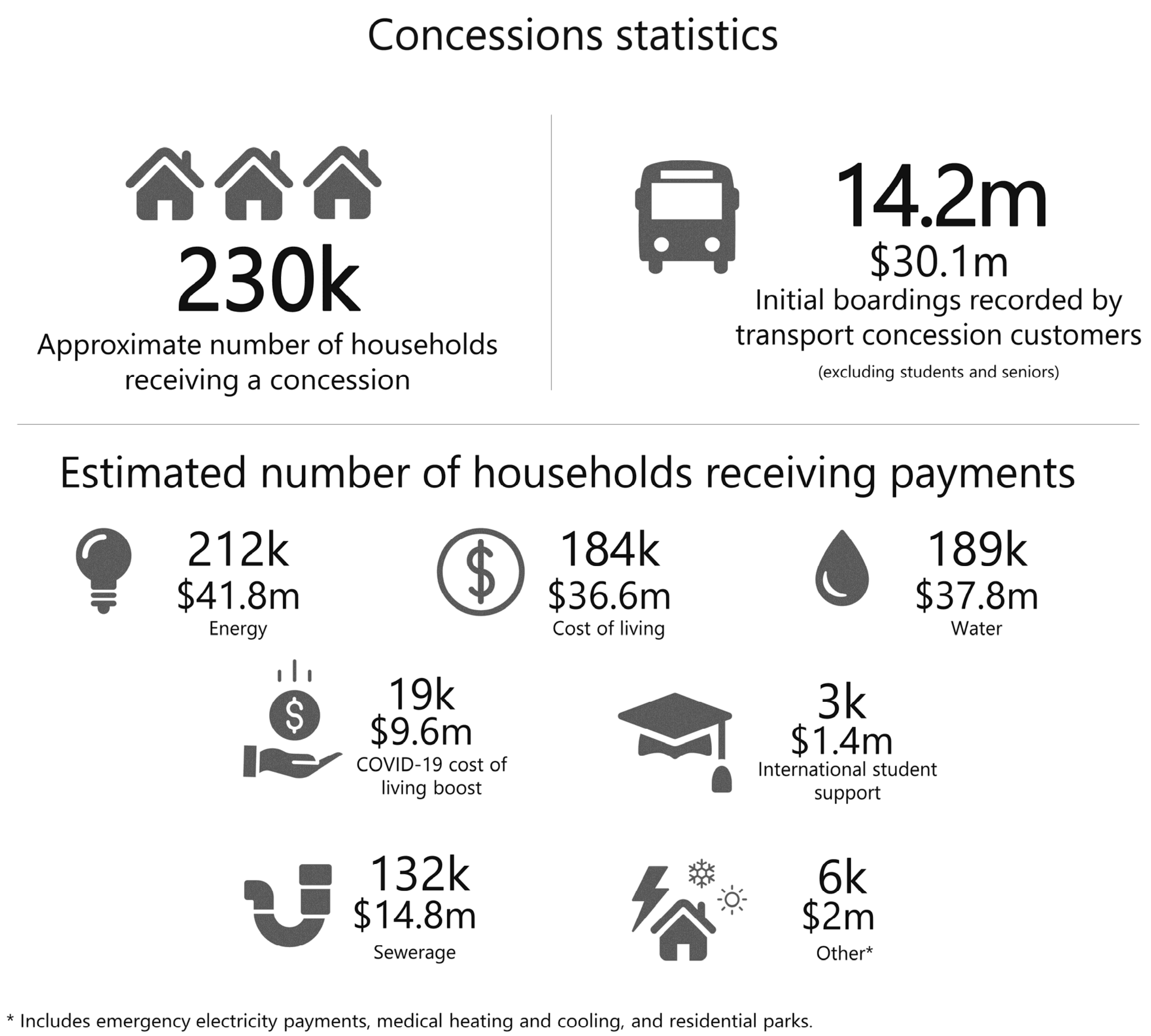
Grants, subsidies and client payments of $207.1 million represent 89% of total administered expenses. This balance is largely made up of concession payments (84%).

Concessions

Concession payments increased by $18.4 million to $174.2 million. This is largely due to:

- a $13.6 million increase in COLC. As part of the SA Government's response to COVID-19, the 2020-21 COLC payments were brought forward to April 2020 (the COLC is an annual payment). In addition, a $500 one off 'boost' payment was made to eligible people receiving JobSeeker payments
- $1.4 million of concessions paid as a result of the new international student support package, introduced in response to COVID-19.

The following chart highlights concession payments by number and value in 2019-20.



DHS advised that approximately 230 000 households received an SA Government concession in 2019-20. Most of these households received more than one concession type during the year and therefore one household may show up in more than one concession type in the above chart.

The number of households receiving a concession increased from 200 000 in 2018-19. Increases were mainly in energy, cost of living and water concessions.

Transport concessions increased from $29.3 million to $30.1 million in 2019-20, however initial boardings recorded by transport concession customers decreased from 17.2 million to 14.2 million. The payment made by DHS to the Department of Planning, Transport and Infrastructure is based on forecast boardings which would not have factored in the impact of COVID-19 on public transport.

State Emergency Relief Fund

The SERF is established by the *Emergency Management Act 2004* and is 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 SERF received $7 million in public donations in 2019-20 and $2 million in appropriations from the SA Government. As at 30 June 2020, $5.8 million in relief payments had been made. $3.2 million remains in the SERF to be distributed. Of the payments made, $3.3 million related to Cudlee Creek and $2.4 million to Kangaroo Island.

The SERF is administered by a committee appointed by the Minister under the *Emergency Management Act 2004.* The Governor issues directions to the committee, including that the committee may adopt any fair and reasonable assessment scheme for disbursement of money.

Our audit considered the internal controls over the SERF bank account, receipts and payments. We tested a sample of transactions and found that there were adequate processes for recording donations, application for claims had been assessed against eligibility criteria, and payments were appropriately approved by the SERF committee.

Further commentary on operations

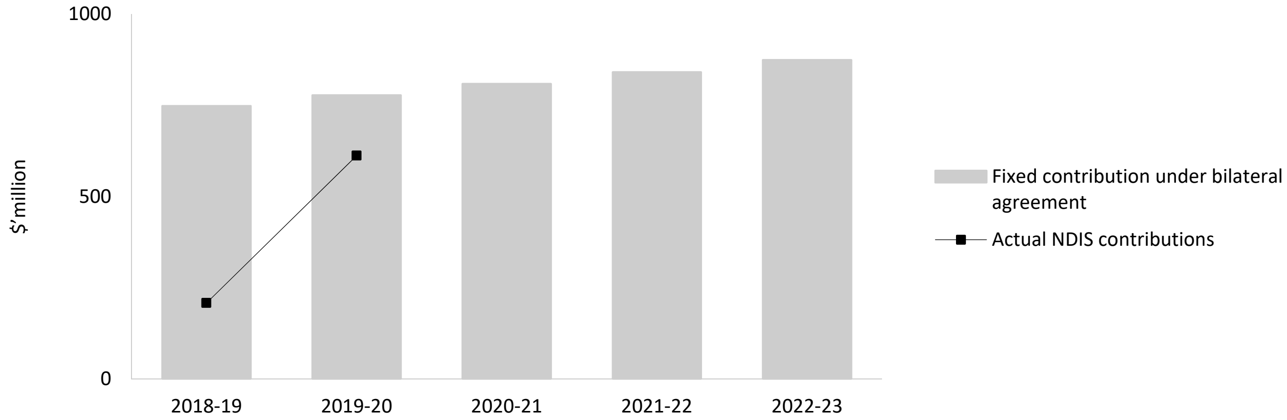
National Disability Insurance Scheme

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. 2019-20 is the first 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 2019-20 under the full-scheme bilateral agreement was $777.7 million. There are various adjustments made to the fixed contribution, including in-kind service provision by the State ($182.7 million), variable per person contribution discount ($29.3 million), fixed cost discount ($6.7 million) and variable cost of delay adjustments ($15.4 million). These adjustments are partially offset by final wash up adjustments from the prior year ($76.6 million).

NDIS expenditure is expected to increase in 2020-21 as the fixed component of the full-scheme bilateral agreement increases to $808.7 million.



In 2019-20 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 2019-20 DHS continued its reform of disability services. Key aspects of this reform in 2019-20 included:

- the transition out of providing Domiciliary Equipment Services (DES)
- the ongoing reform of Accommodation Services, to commercialise its operations and deliver quality services under the NDIS.

We sought an understanding of the strategy and current status of reform changes occurring at DHS in 2019-20 and beyond to identify risks and financial impacts. There were no significant findings from our review.

Domiciliary Equipment Services

DES provides rental equipment and home modification services. It manages the independent living equipment assets included in property, plant and equipment of $5.9 million.

A market process to transfer DES to the non-government sector commenced in 2018-19, however a suitable provider was not identified to meet the objectives of the transfer. As a result, the SA Government has decided to gradually withdraw from providing these services by December 2020. DES has been separated into distinct areas that will either be transferred or closed.

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. The future of the Highgate Park site is still being determined.

Machinery of government changes

A machinery of government change resulted in Child and Family Support Services transferring to DHS from the Department for Education and Department for Child Protection effective 1 July 2019. The Public Sector (Reorganisation of Public Sector Operations – Child and Family Intensive Support System) Notice 2019, gazetted on 27 June 2019, identified the employees affected by the change. On transfer, DHS recognised $5.8 million of liabilities, mainly employee benefits, and $193 000 of assets, mainly cash.

Impact of COVID-19

In 2019-20 COVID-19 resulted in additional grant and concession expenses for DHS, including:

- $9.6 million in COVID-19 'boost' cost of living concessions. This was a once-off $500 payment to ease cost of living pressures for those people receiving JobSeeker payments, as part of the SA Government's stimulus package in response to COVID-19. Over 19 000 households received the payment
- $1.4 million in payments for the International Student Support Package, which aimed to provide emergency cash grants to international students residing in South Australia and experiencing financial hardship. Over 2000 payments were made in 2019-20
- the 2020-21 COLC was brought forward to be paid in late 2019-20 for households receiving JobSeeker. The additional amount paid in 2019-20 for this was $3 million
- $2.8 million in Commonwealth funding DHS received for COVID-19 domestic violence support services, of which $1.9 million was expensed. Funding is provided to support initiatives including a men's referral line, a brokerage package for domestic violence services, a communications campaign and upskilling the support workforce.

Additional measures have been announced by the SA Government that will impact DHS in 2020-21, including:

- residential rent relief grants of $1000 which are being administered by DHS. These payments are for eligible residential tenants who have experienced financial hardship such as loss of employment or reduction in working hours/wages. Under this scheme landlords are paid the grant for eligible tenants where rental terms have been revised to provide rent relief. As at 30 June 2020, over 200 applications had been received
- the introduction of a paid pandemic leave scheme, with payments of up to $1500 for eligible workers who are required to quarantine.

Independent Commissioner Against Corruption (ICAC)

Financial statistics	Net result:	$4.2 million
	Revenues from SA Government:	$19.5 million
	Number of FTEs:	70.3

Significant events and transactions

- The Independent Commissioner Against Corruption's term expired on 1 September 2020 and a new Commissioner was appointed and commenced their term on 2 September 2020.
- The Commissioner released six major reports in 2019-20:
  - In Their Own Words
  - Local Government Integrity Insights
  - Looking Back
  - Evaluation of the Practices, Policies and Procedures of the City of Playford
  - Troubling Ambiguity: Governance in SA Health
  - Public Administration in a Pandemic: Unique Challenges in the Current Climate.

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 the ICAC 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 2019-20 included:

- governance
- expenditure
- payroll
- revenue
- 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.

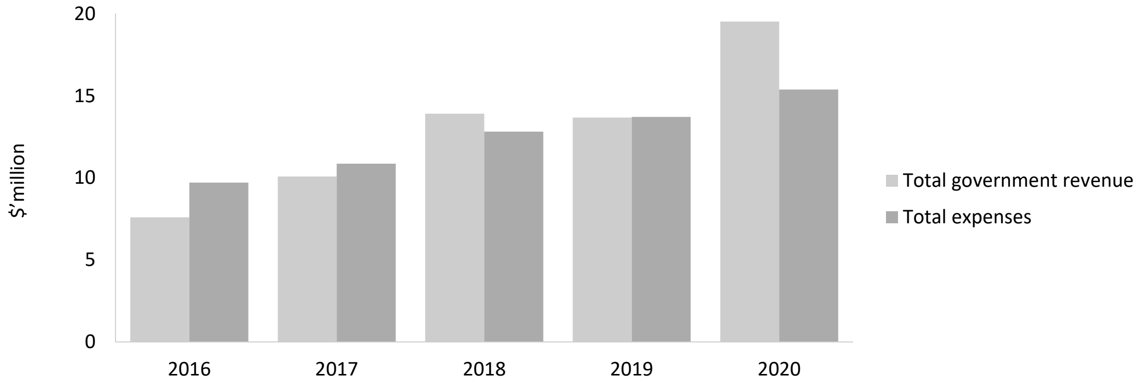
Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Income		
Appropriation	20	14
Total income	20	14
Expenses		
Employee benefits	10	9
Supplies and services	5	4
Other	1	1
Total expenses	16	14
Net result	4	-
Net cash provided by (used in) operating activities	6	1
Net cash provided by (used in) investing activities	(1)	-
Assets		
Current assets	11	6
Non-current assets	4	4
Total assets	15	10
Liabilities		
Current liabilities	2	2
Non-current liabilities	2	1
Total liabilities	4	3
Total equity	11	7

Statement of Comprehensive Income

The following chart shows total expenses and government revenue over the past five years.



The chart shows that both expenses and government revenue increased in 2020 as a result of increased activity.

Income

ICAC relies on revenues from the SA Government, which increased by $5.9 million to $19.5 million mainly due to additional capital funding of $4.4 million for the ICT corporate infrastructure refresh project and the fitout of public hearings accommodation.

Expenses

ICAC's expenses increased by $1.7 million to $15.4 million.

Employee benefits expenses increased by $791 000 mainly due to increases in salaries and wages of $861 000, annual leave of $65 000 and employment on-costs of $106 000. These increases were offset by a decrease in long service leave of $261 000. Salaries and wages increased due to a number of positions being filled for the full financial year and a number of additional/higher duties allowances paid, as well as the reclassification of positions. Long service leave decreased due to a decrease in the bond yield rate (0.75%, down from 1.25%) and the salary inflation rate (2.5%, down from 4%) used to calculate the liability.

Supplies and services increased by $1.1 million mainly due to increased:

- ICT charges of $300 000 due to an increase in network, software and hardware maintenance costs
- accommodation charges of $290 000 due to the CPI increase applied to rent and associated accommodation charges, as well as the full-year effect of taking over additional floor space
- legal expenses of $256 000 due to additional investigations performed in 2019-20
- contract staff payments of $92 000, as extra staff were needed for significant ICT projects and additional transcription staff were contracted due to a significant increase in hearings.

Statement of Financial Position

Assets

ICAC's assets increased by $4.6 million to $15.2 million. This is mainly due to an increase in cash of $5.3 million, as increased appropriations were received for capital projects but not spent due to delays. These funds will remain unspent due to the project not proceeding or have been requested to be carried over to 2020-21.

This increase was offset by a decrease in property, plant and equipment of $438 000 and intangible assets of $172 000 primarily as a result of depreciation and amortisation.

Liabilities

ICAC's liabilities increased by $404 000 to $4.1 million. The major items causing this change were:

- payables increasing by $245 000. As at 30 June 2020 there were increases in payables for accommodation charges of $136 000 and legal expenses of $100 000
- employee benefit liabilities increasing by $315 000 to $2.6 million. The main components were annual leave, up $172 000, long service leave, up $63 000 and accrued salaries and wages, up $74 000. The increases in annual leave and long service leave were due to employees transferred from other agencies and less annual leave taken during 2019-20. Accrued salaries and wages were up as seven days were accrued in 2019-20 compared to five days in 2018-19.

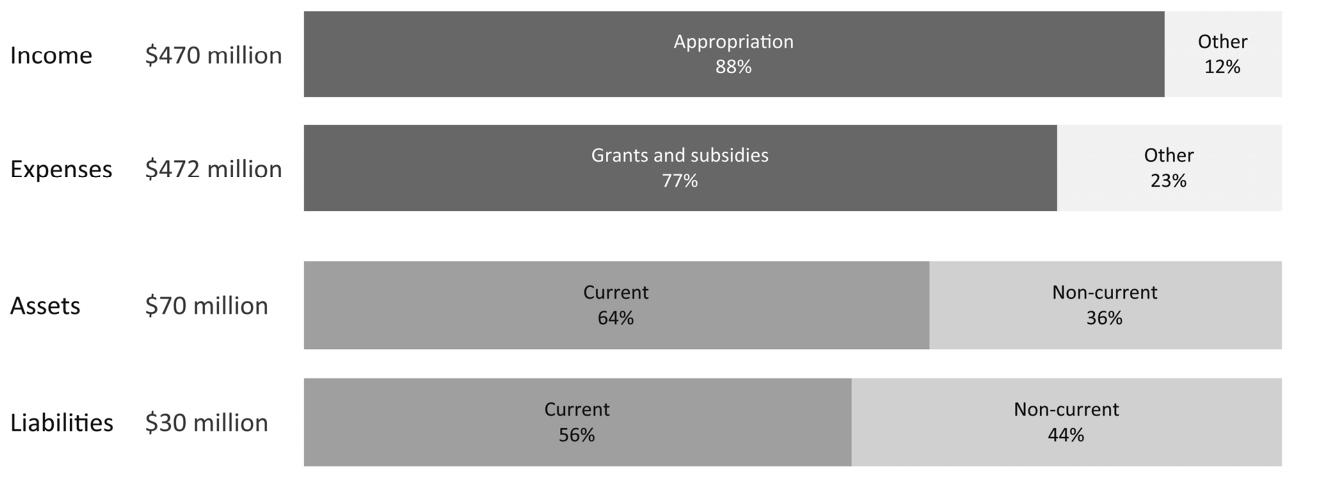
Statement of Cash Flows

Cash and cash equivalents at 30 June 2020 were $11.4 million ($6.1 million). Net cash provided by operating activities was $5.9 million, an increase of $5.3 million from 2019. This was mainly due to an increase in appropriation, up $5.9 million, and a decrease in supplies and services payments, down $343 000, offset by an increase in employee benefits payments, up $916 000.

Net cash used in investing activities was $551 000 mainly due to the purchase of property, plant and equipment.

Department for Innovation and Skills (DIS)

Financial statistics



339
Total employees

Significant events and transactions	— DIS provided $246 million in total funding to TAFE SA to support the provision of vocational education training (VET). — DIS continued to implement the Skilling South Australia initiative, a $192 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. — Infrastructure assets, which DIS previously leased from Renewal SA and subleased to TAFE SA, were transferred to TAFE SA from 1 November 2019, reducing DIS's leasing expenses and infrastructure recharge revenue by $40 million.
Financial report opinion	**Unmodified**
Controls opinion findings	DIS could improve controls over administrator changes to online banking access.
Other audit findings	Nominal hours assigned to units of competency were not reviewed for reasonableness in the South Australian vocational education and training sector.

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 2019-20 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.

The work of DIS's internal audit was also considered in planning and conducting the audit.

Controls opinion

We reviewed controls over bank accounts as part of our 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

DIS could improve controls over administrator changes to online banking access

DIS uses an online banking system, CommBiz, to make online payments and to transfer funds.

Administrators for this system can set up user access and set the number of users required to authorise a payment.

We found that at the time of our audit there was no control in place to prevent only one administrator from making these types of changes.

Where changes can be made to administrator access by one user without independent review, there is a greater risk that inappropriate access could be granted. This increases the potential for unauthorised payments to be made from the bank account.

Once we identified this issue, DIS updated the settings and a second administrator must now confirm changes. The strengthened control was in place for the last two months of the financial year.

We recommended that DIS conduct regular user access reviews to ensure access is assigned to appropriate employees with access levels consistent with their roles.

In addition to changing administrator access settings, DIS advised that it had conducted a review to validate that all user changes were appropriate and confirmed it would review user access annually, or when users leave the agency.

Other audit findings

Payments to TAFE SA and private training providers

DIS provided $246 million in total funding to TAFE SA to support the delivery of vocational education and training.

DIS also provided $57 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).

Last year we reported that DIS had 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 last year, DIS advised that additional resources would be needed to effectively implement the recommendations and that it would investigate alternative, cost effective solutions in the interim.

We found that no reviews were performed in 2019-20.

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 advised that the scope of the review project is being finalised and it was expected to commence in the first quarter of 2020-21. DIS also noted that national reform considerations may impact the completion of the review.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Income		
Appropriations	413	406
Commonwealth sourced grants and funding	23	39
Infrastructure recharge – TAFE SA	14	54
Other revenues	20	22
Total expenses	470	521
Expenses		
Grants and subsidies	365	386
Employee benefits expense	43	56
Supplies, services and other expenses	44	87
Payments to Consolidated Account	20	-
Total income	472	529
Net result	(2)	(8)
Assets		
Current assets	45	39
Non-current assets	25	42
Total assets	70	81
Liabilities		
Current liabilities	17	32
Non-current liabilities	13	13
Total liabilities	30	45
Total equity	40	36

Statement of Comprehensive Income

Impact of COVID-19

DIS received additional funding and made increased grant payments as a result of COVID-19. In particular it:

- received additional appropriations from the Governor's Appropriation Fund of $10.3 million which was then paid to TAFE SA to mitigate the impact of COVID-19 on TAFE SA's external revenue
- received additional funding of $3 million, brought forward from 2020-21, which was used to provide additional funding to private training providers under the VET Market Continuity Package
- provided additional funding of $800 000 to support the live music industry
- received $2.8 million in additional National Partnership revenue to provide for very low fee or fee free infection control training courses for businesses.

The VET Market Continuity Package provided funding to private training providers and consisted of two parts – once-off funding to help these providers continue trading during COVID-19 and funding at guaranteed levels for three months. Total payments made in 2019-20 for the package were $6.2 million.

Income

DIS is predominantly funded by appropriation, receiving $413 million ($406 million) and making up 88% (78%) of its total income.

In addition, DIS received $23 million ($39 million) of Commonwealth-sourced grants and funding. The decrease in this funding in 2019-20 reflected a reduction in Commonwealth National Partnership revenue for the Skilling Australian Fund of $19 million, in line with the agreed funding profile. This was partially offset by other National Partnership funding increases.

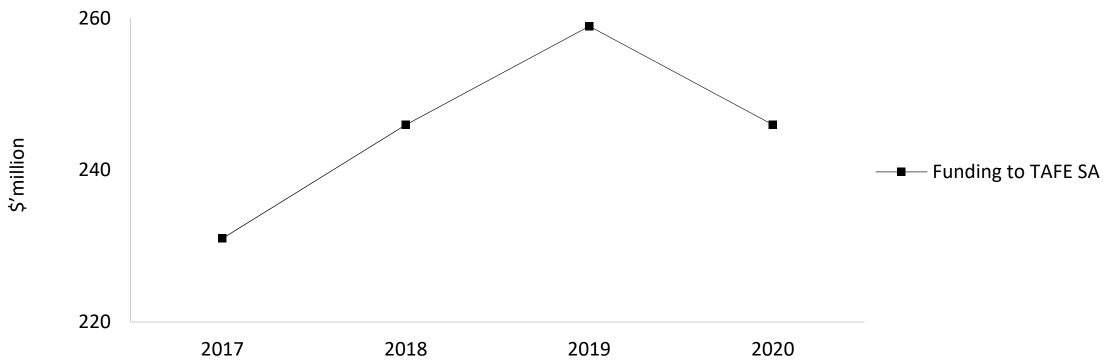
Expenses

Total expenses for 2019-20 were $472 million ($529 million). The main expenses were grants and subsidies of $365 million ($386 million), employee benefits of $43 million ($56 million), supplies and services of $40 million ($80 million) and payments to Consolidated Account of $20 million ($0), which collectively account for 99% (99%) of total expenses.

Grants and subsidies

Funding to TAFE SA

Grants and subsidies to TAFE SA totalled $246 million ($259 million) for 2019-20. The following chart shows that funding to TAFE SA increased by $15 million in 2017-18 and again by a further $13 million in 2018-19 before decreasing by $13 million in 2019-20.



The amounts shown in the chart include a number of elements: funding for specific course delivery; structural support; capital grant funding; targeted voluntary separation package (TVSP) support (this was provided directly by the Department of Treasury and Finance in 2018-19 and 2019-20); and other funding. The specifically identified components of the funding have varied across the years, as funding is mainly provided through a Memorandum of Administrative Arrangement (MoAA) each year.

DIS is the predominant funder of TAFE SA as a purchaser of TAFE SA services.

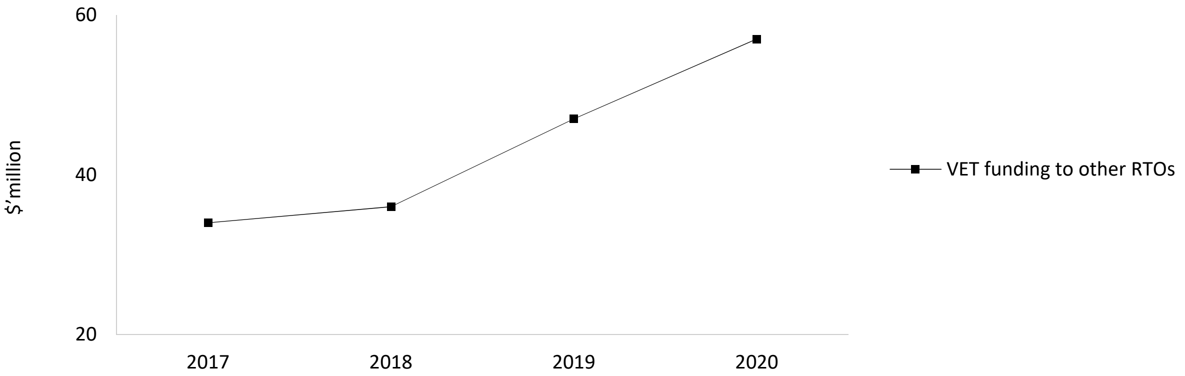
In 2019-20 the initial MoAA for funding TAFE SA commenced in July 2019. This MoAA differed to previous years as DIS agreed to provide a set level of funding to TAFE SA in monthly instalments. Previous MoAAs have split funding between amounts linked to the completion of specific training and other, more general, categories of funding. In 2018-19, for example, the MoAA provided some of the funding based on the number of hours of training delivered and then provided for more general funding as well. The total funding provided to TAFE SA in 2019-20 was agreed, regardless of the actual number of training hours delivered.

Total funding under the main MoAA, which was amended several times in 2019-20, was $230 million, with separate arrangements supporting the additional $16 million DIS also provided.

Other funding arrangements included capital grants of $15 million and funding for excess staff costs of $1 million. DIS pays excess staff funding to TAFE SA to meet the employment costs of excess employees needed while TAFE SA makes changes to its business structure.

Other VET funding

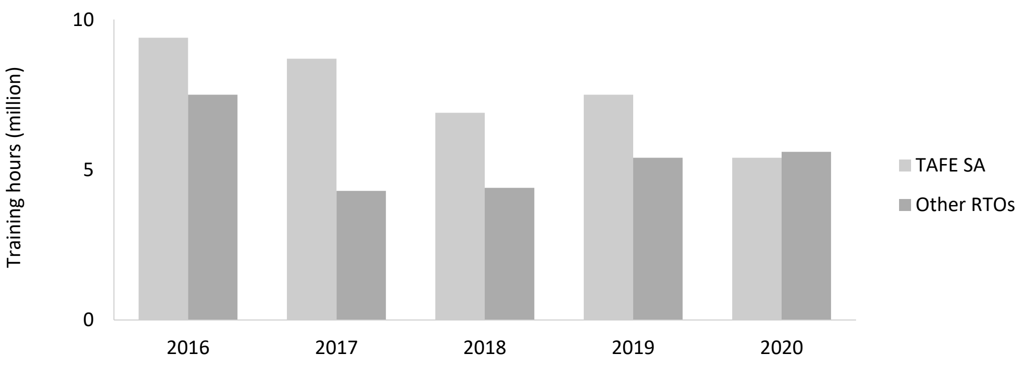
DIS also provides VET funding to other registered training organisations (RTOs). The chart below shows the amounts provided for the last four years.



Funding to other RTOs remained steady from 2017 to 2018 and increased by $12 million in 2018-19 and a further $10 million in 2019-20. The increases in 2018-19 and 2019-20 mainly reflect increased funding as a result of an increase in paid training hours from 4.4 million in 2017-18 to 5.4 million in 2018-19 and then to 5.6 million in 2019-20. Training subsidy prices also increased due to indexation and subsidy price reviews over this time.

As noted above, DIS also paid $6.2 million to support non-government RTOs by way of once-off payments and non-recourse grants to maintain the State's training market in response to COVID-19.

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 that are specified in the MoAA; other training is also included in the MoAA, but without targeted hours.

The chart shows that total funded training hours have decreased over the last four years, reflecting decreased subsidised training payments.

There was an overall 1.9 million hours (15%) decrease in funded training hours in 2019-20, with a decrease in specific TAFE SA training hours of 2.1 million hours offset by a 200 000 hour increase in other RTOs training hours.

Other grants

Other major categories of grants include innovation and science grants of $28 million ($28 million) and other skills and employment grants of $24 million ($25 million). These grants generally include specific milestones or deliverables that are monitored by DIS.

Innovation and science grants included payments of:

- $6.6 million under two schemes to help small businesses affected by bushfires. One scheme is to help small businesses for costs associated with clean up, restoration and rebuilding while the other scheme supports small businesses who experienced a significant loss of income
- $5.4 million to fund the Australian Cyber Collaboration Centre which was established to develop a centre of excellence for the purpose of advancing cyber research, education and training in cyber security
- $5.4 million from the Research Commercialisation and Start-up Fund to support business collaboration with researchers and universities, commercialise products and support start-ups.

Other skills and employment grants included payments of $12 million to businesses, groups and training providers under the Skilling South Australians scheme, associated with increasing opportunities for traineeships and apprenticeships.

Employee benefits expenses

Employee benefits expenses decreased by $13 million to $43 million in 2019-20.

This decrease was mainly due to decreases in salaries and wages of $5 million, associated with lower staff numbers, and TVSPs of $3 million respectively. As DIS continued to restructure, TVSPs were paid to 23 employees in 2019-20 after 57 TVSPs were paid in 2018-19.

There were some changes to DIS in 2018-19, with administrative changes to staffing between DIS and other agencies occurring in that year. In 2019-20, there was only a minor transfer of five FTEs to TAFE SA, associated with the transfer of ownership of TAFE SA sites.

Further, long service leave expenses decreased by $2 million due to changes in actuarial assumptions used in valuing the liability.

Payments to the Consolidated Account

DIS paid $20 million to the Consolidated Account in 2019-20. This amount was received by DIS from TAFE SA for campus infrastructure, with the cash returned to the Consolidated Account to offset the amounts provided to TAFE SA to purchase these assets from DIS.

Statement of Financial Position

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

	2020 $'million	2019 $'million
Assets		
Cash	35	29
Property, plant and equipment and intangibles	25	42
Liabilities		
Payables	12	27
Employee benefits	13	16

The decrease in property, plant and equipment and intangibles is mainly a result of the sale of VET infrastructure valued at $20 million to TAFE SA.

The decrease in payables predominantly reflects that 2018-19 accruals included maintenance expenses payable to the Department of Planning, Transport and Infrastructure for VET infrastructure assets, no longer owned by DIS in 2019-20, and grant amounts payable as at 30 June 2019.

Further commentary on operations

TAFE SA campuses

The 2019-20 State Budget announced the SA Government's intention to transfer ownership of TAFE SA campuses from the Urban Renewal Authority to TAFE SA in 2019-20. The transfer occurred on 1 November 2019.

These properties were previously leased to DIS, which in turn subleased them to TAFE SA. The lease cost funding and lease recharge income that DIS paid and received concluded in October 2019 under this revised ownership structure.

This resulted in a decrease in leasing expenses of $40 million offset by a decrease in infrastructure recharges from TAFE SA. TAFE SA previously paid these amounts to DIS for the use of TAFE SA campuses. This income was fully offset by funding DIS provided to TAFE SA, with an element of that funding specifically for these costs.

Associated with the transfer of the campuses from the Urban Renewal Authority to TAFE SA, DIS sold campus infrastructure with a carrying amount of $20 million to TAFE SA.

Lifetime Support Authority of South Australia (LSA)

Financial statistics	Provision for future costs of current participants: $606 million Lifetime Support Scheme Fund levy net of duty: $145 million Investments: $847 million Net assets: $248 million Number of FTEs: 65 Number of interim participants as at 30 June: 72 Number of lifetime participants as at 30 June: 159
Significant events and transactions	— The provision for the future cost of caring for current participants increased by $103.8 million. — The total number of participants increased from 209 to 231. — COVID-19 had a significant effect on global financial markets and the LSA experienced a negative investment return in 2019-20. — The LSA made an operating loss of $8.9 million and has net assets of $248.1 million, meaning the Lifetime Support Scheme remains fully funded at 30 June 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.

Functional responsibility

The LSA is established under the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013* (the LSS Act).

The LSA administers the Lifetime Support Scheme (LSS or the Scheme) and the LSS Fund established by the LSS Act to support people who suffer very serious injuries in motor vehicle accidents in South Australia, regardless of fault. A person can be accepted as an interim or lifetime Scheme participant depending on their eligibility under the LSS rules.

Lifetime Support Scheme Fund

Levies on motor vehicle registrations to pay for the Scheme expenses are collected by the Registrar of Motor Vehicles and paid into the LSS Fund. The LSA invests the levies with the Superannuation Funds Management Corporation of South Australia (Funds SA) until the funds are needed to pay for participant treatment, care and support and other costs of operating the Scheme.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2019-20 included:

- expenditure related to participant treatment, care and support expenses
- provision for participant treatment, care and support
- investment revenue
- payroll and other administrative expenses
- financial assets
- general ledger
- service level agreements with other SA Government agencies.

Internal audit activities were considered in planning and conducting the audit.

Controls opinion

We reviewed controls over bank accounts, the provision for participant treatment care and support and the need for the LSA to reinsure the Scheme 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 2019-20 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 2020, 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.*

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. This uncertainty will remain until sufficient participant experience is available.

Communicating our audit findings

We communicated our audit findings of two low rated risks in a management letter to the Acting Chief Executive.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $’million	2019 $’million
Income		
LSS Fund levy	161	156
Investment revenue	(11)	55
Total income	150	211
Expenses		
Participant treatment, care and support expenses	125	122
Duty on LSS Fund levy	16	15
Other	18	16
Total expenses	159	153
Net result from operating activities	(9)	58
Total comprehensive result	(9)	58
Net cash provided by operating activities	106	109
Net cash used in investing activities	97	108
Assets		
Current assets	12	4
Non-current assets	849	761
Total assets	861	765
Liabilities		
Current liabilities	45	43
Non-current liabilities	568	465
Total liabilities	613	508
Total equity	248	257

Statement of Comprehensive Income

Net result

The LSA made a loss of $8.9 million ($58 million surplus). Actual outcomes in 2019-20 were:

- the LSS Fund levy received was $800 000 over the $159.9 million estimate
- actual LSS costs were $159.4 million, including a $103.8 million increase in the provision for participant treatment and support costs.

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 (refer to commentary under 'Liabilities' and 'Required fund contribution' below).

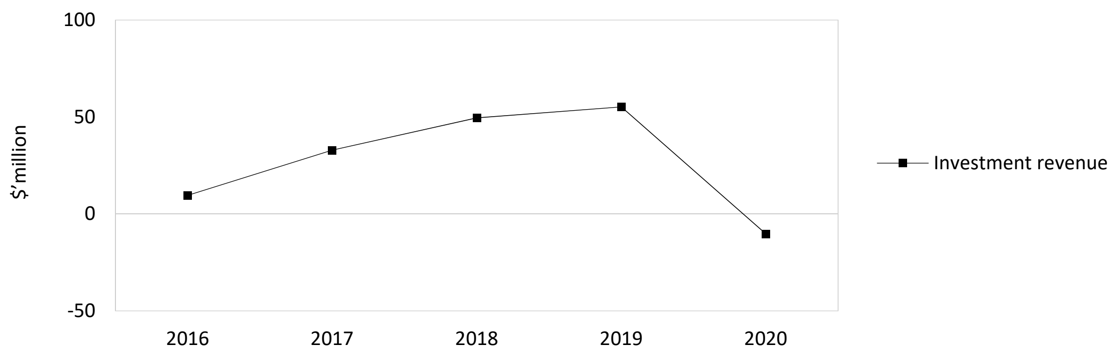
The net result was also impacted by investment losses of $10.2 million ($55.2 million profit).

Income

The LSA's income of $150.5 million ($211.4 million) mainly comprised:

- $160.7 million ($156.2 million) of LSS Fund levy on South Australian motor vehicle registrations. No GST is payable on the levy
- a $10.2 million investment loss ($55.2 million profit). This result reflected the impact of the COVID-19 pandemic on global financial markets. There were no changes in LSS Fund strategy in 2019-20.

The following chart highlights the growth from investment revenues over the previous four years and the loss experienced in 2020.



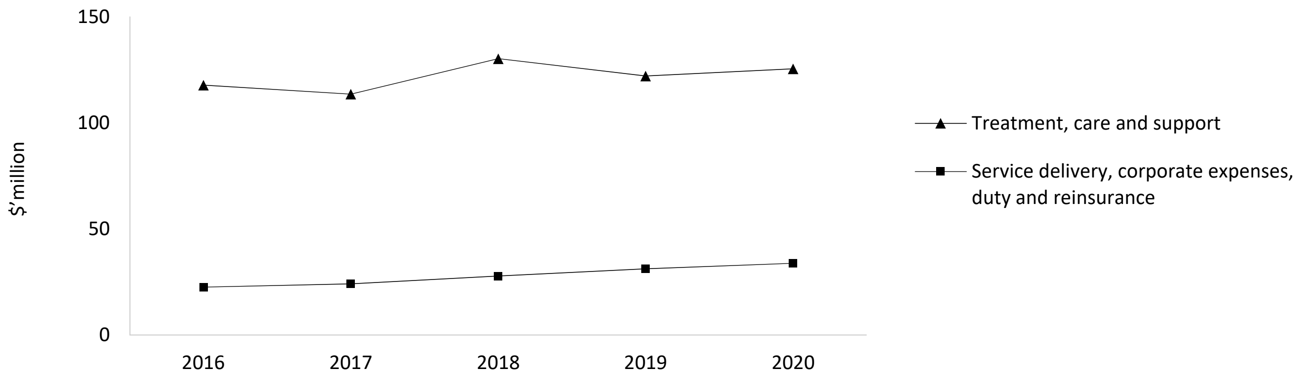
Expenses

The LSA's expenses of $159.3 million ($153.4 million) comprised:

- $125.5 million ($122.1 million) for participant treatment, care and support expenses, of which $103.8 million was the increase in the estimate of future expenses for participants injured in motor vehicle accidents up to 30 June 2020
- $15.9 million ($15.5 million) paid to the SA Government for the 11% duty on the LSS Fund levy payable under the *Stamp Duties Act 1923*

- $3 million ($2.7 million) for brokerage fees and premiums paid to reinsurers who provide cover for significantly larger than expected liabilities for estimated future participant care costs
- $14.9 million ($13.1 million) for general operating expenses, including $8.3 million ($6.7 million) for employee benefits, $3.5 million ($3.8 million) for service delivery and corporate expenses and $2.6 million ($2.2 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. These increased costs are a result of participant numbers growing from 39 in 2015 to 231 in 2020.



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 $8.9 million to $248.1 million and reflect the net result from operations discussed under 'Net result' above.

Assets

The LSA's assets of $860.9 million ($765.2 million) consist mainly of cash, investments and receivables. During the year additional funds totalling $96 million were invested with Funds SA.

Investments

At 30 June 2020 the LSA had $846.7 million invested with Funds SA in line with the investment strategy approved by the LSA Board. This an increase of $85.8 million from 2018-19.

The LSA must maintain investments to fund its present and likely liabilities for participant treatment, care and support services. The LSA 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 -1% in 2019-20 compared to its target of 6.25%. Investment returns reflect financial markets conditions. In 2019-20 the COVID-19 pandemic had a significant effect on global financial markets. The following table shows the return from investments over the last five years.

	2016	2017	2018	2019	2020
Target rate of return	6.25%	6.25%	6.25%	6.25%	6.25%
Actual rate of return	3.7%	9.4%	9.4%	8.2%	-1.0%

Liabilities

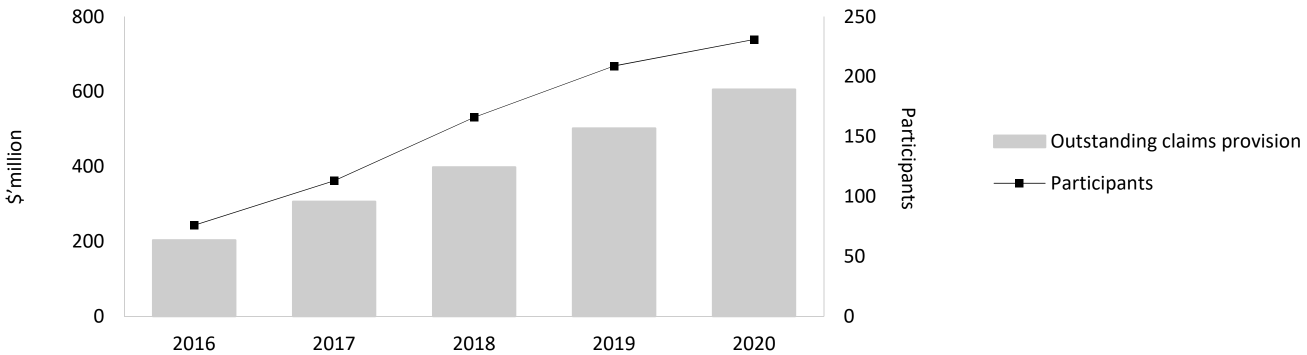
The LSA's liabilities of $612.8 million consist mainly of the provision for participant treatment, care and support services.

Provision for participant treatment, care and support services

The provision was estimated to be $605.7 million at 30 June 2020, an increase of $103.8 million.

The main reason for the increase was the rise in the number of participants from 209 in 2018-19 to 231 in 2019-20. The inflation rate and investment return rate used in the actuarial calculation remained the same as in 2018-19. Other assumptions such as the weighted mean term (estimated length of claim) changed only marginally in 2019-20. Refer note 7.3 of the LSA's financial report for further details.

The following chart highlights the consistent growth in the outstanding claims provision and the 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 2020, 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.

In estimating the liability at 30 June 2020, the actuary noted that the LSS is still in its infancy and limited experience exists to assess the reasonableness of initial LSS costings. 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 the Scheme and is not yet sufficient, in isolation, to inform long-term future assumptions.

The independent actuary referred to the significant inherent uncertainty in the projected outcomes of future claim costs for long-term claims. 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
- the final stable severity for each participant's injury. The current assessment for each participant is at very early duration since injury
- 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 $51.4 million and a 1% increase in the long-term gap, being the difference between the inflation rate and the discount rate, can increase the provision by $108.4 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 20.8 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 rate of investment return (discount rate) to be adopted in deriving the present value of liabilities. It 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.

Probability of sufficiency

As at 30 June 2020 the probability of sufficiency for the LSS was 81% (86%). The LSA has a target minimum probability of sufficiency of 75% (the chance that the capital of the LSS is expected to be adequate to cover actual outcomes) through a solvency margin in excess of actuarial provisions.

Current liabilities

At 30 June 2020 current liabilities exceeded current assets by $33 million. Most of the balance of current liabilities is the $40.5 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 a 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 under-funded.

Annual contribution and levy

The estimated levy of $159.9 million including duty was required to cover the costs of operating the Scheme in 2019-20 and probable liability increase at 30 June 2020.

The following table sets out the required fund contribution and levy for the past two years and for next year.

	2019	2020	2021
Required fund contribution:			
LSA recommended ($'million)	154.7	159.9	163.3
Minister approved	Yes	Yes	Yes
Average levy ($)	104.59	106.68	108.50
Average increase per vehicle over previous year ($)	2.05	2.09	1.82

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.

2020-21 levy

The estimated 2020-21 levy was based on an actuarial estimate at 31 December 2019.

Statement of Cash Flows

The Statement of Cash Flows reflects the investment of $96 million with Funds SA using the LSS Fund levy of $161.4 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: $558 million Outstanding claims liability: $558 million Other financial assets: $151 million Other financial liabilities: $104 million Return of capital: $18.5 million MAC Fund assets exceeded the targeted solvency level by $9.3 million (101.3% of the targeted level).
Significant events and transactions	— 2019-20 saw a $142 million decrease in outstanding claims liability. — MAC paid $18.5 million to the Consolidated Account in June 2020 as a return of capital. — MAC invested $55.4 million of the $100 million deferred from the reinsurance arrangements with the National Indemnity Company (NICO) with two 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 of Planning, Transport and Infrastructure (DPTI). 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.

As we discussed last year, MAC agreed to pay NICO $718 million through a combination of an initial payment and subsequent arrangements for assuming this responsibility.

In 2019-20, MAC paid the remaining $109 million to NICO from an initial $200 million that was withheld by MAC from the total $718 million reinsurance arrangement. Amounts were paid each month to NICO until the total was transferred.

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 2019-20 included:

- investment assets
- outstanding claims liability
- reinsurance asset

- payments to NICO
- return of capital.

Controls opinion

We reviewed controls over the following areas as part of our 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 exercise oversight over the outstanding claims liability.

We reviewed MAC's processes to manage its contract with NICO and found that while SAFA undertook 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.

Interpretation and analysis of the financial report

Highlights of MAC's consolidated financial report

	2020 $'million	2019 $'million
Net investment returns and fees	9	7
Road safety expenses	-	(13)
Management expenses	(1)	(8)
Total revenue	-	14
Net result before market value movements	8	-
Investment market value movements	1	20
Total comprehensive result	9	20

	2020 $'million	2019 $'million
Assets		
Current assets	332	519
Non-current assets	382	468
Total assets	714	987
Liabilities		
Current liabilities	200	375
Non-current liabilities	502	591
Total liabilities	702	966
Equity	12	21

Return of capital

The 2014-15 State Budget identified that, after ceasing to be the sole CTP insurance provider for South Australia, MAC would be able to return surplus net assets to the Highways Fund to improve road safety.

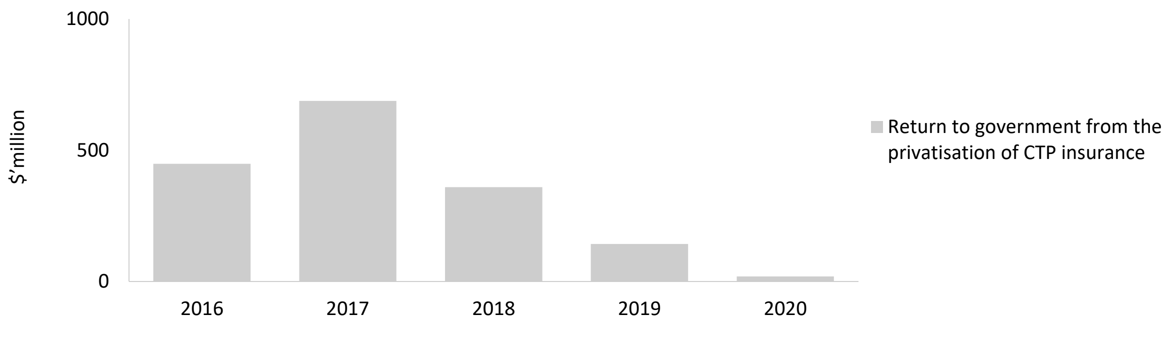
In June 2019 MAC paid $143 million to the Highways Fund out of net assets in excess of the level required for sufficient solvency of the MAC Fund. Consistent with section 26(2) of the MAC Act, the Treasurer directed that the payment be made to the Highways Fund, which is administered by DPTI.

In June 2020 MAC paid $18.5 million from the MAC Fund to the Consolidated Account, as approved by the Treasurer. This payment was 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.

While payments have previously been directed to the Highways Fund, MAC confirmed that there was no legislative requirement for payments to only be made to the Highways Fund and the 2019-20 return of capital was instead paid to the Consolidated Account.

As the payment was made from MAC's surplus net assets, it was treated as a return of capital in the financial report and recorded as a reduction in MAC's assets and total equity. As such, this payment is not reflected in MAC's total comprehensive result for 2019-20.

The following chart shows that a total of $1.7 billion has been returned to government by MAC in the last five years. The reinsurance arrangement with NICO discussed above means no more significant returns are expected.



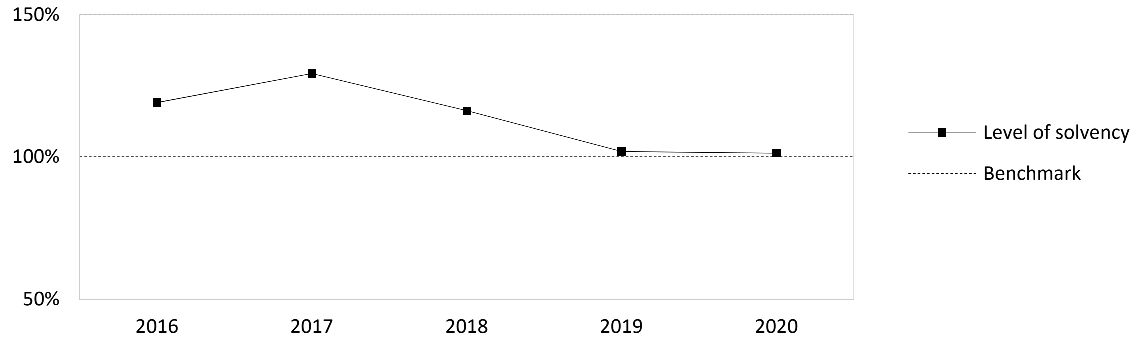
Solvency level is above the target level

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 the MAC Fund will have a sufficient level of solvency if its assets exceed its liabilities. Full details are included in note 24 of MAC's financial report.

As at 30 June 2020 the target level of solvency was $702 million and total assets were $712 million, $9 million above the target level. This equates to 101.3% (101.9%) of the targeted solvency level.

The following chart shows the level of solvency achieved over the past five years.



The importance of the solvency level increased in recent years as MAC ceased writing new CTP policies and was running off existing claims. The reinsurance arrangement with NICO now means that most of the risk associated with settling claims rests with NICO.

Outstanding claims liability

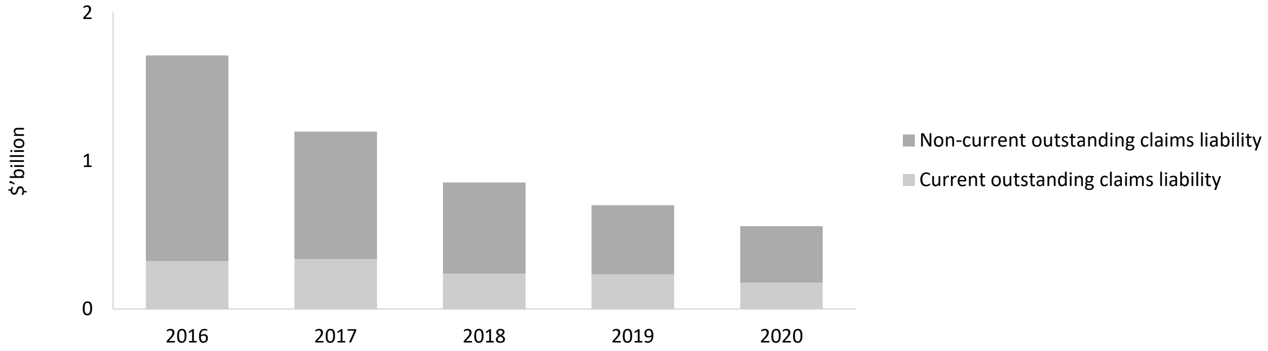
MAC's liability for outstanding claims is from the period before 1 July 2016, totalling $558 million at 30 June 2020. The liability covers claims reported but not yet paid, claims incurred but not yet reported, the anticipated costs of settling those claims and other insurance costs.

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 2019-20 MAC's independent actuary was Finity Consulting Pty Ltd (Finity), consistent with the prior year. Full details of the actuary's calculations and assumptions are provided in note 15 of MAC's financial report.

The following chart shows the outstanding claims liability for the five years to 2020, with the continuing decrease a reflection of the run-off process since 1 July 2016.



Factors considered by the actuary that impact the estimate of outstanding claims include the:

- number of claims incurred
- length of time taken to settle the claim
- average amount of claim payments
- 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 large claims increased by 15% (old scheme)	1.9	10
Average size of large claims increased by 30% (new scheme)	14.4	80
Cost of attritional claims deteriorates by 5% per quarter over the next two years (new scheme)	6.5	36

The risk margin achieves 80% probability the provision is adequate

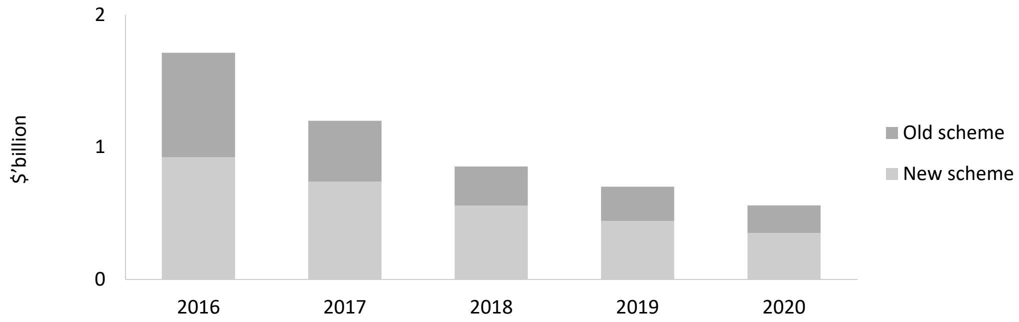
Also impacting on the outstanding claims liability calculation are the solvency requirements determined by the Treasurer under the MAC Act that require a risk margin to be included in the provision to achieve an 80% probability the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority's nominated target of 75% probability, as set out in Prudential Standard GPS 320 *Actuarial and Related Matters*.

$142 million reduction in the outstanding claims liability

The $142 million decrease in the liability at 30 June 2020 was due to:

- a $134 million decrease due to a reduced number of expected future claim payments; reflecting 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 $10 million reduction in 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 2020, CTP claims under the new scheme represented 63% (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
176	238	92	44	5	555

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.

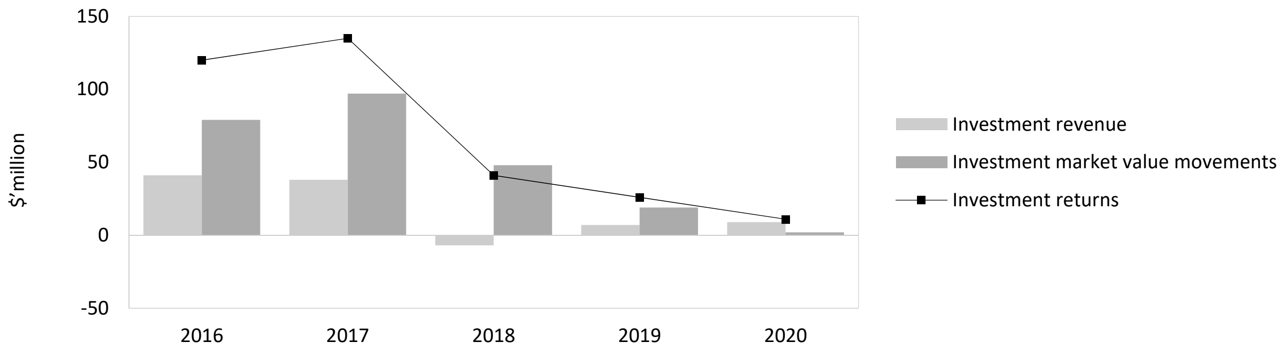
Statement of Comprehensive Income

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. MAC's 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 compared with $26 million 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. Investment returns decreased by $15 million due mainly to a decrease in the market value movement, reflecting the reduced amounts invested.

An analysis of MAC's investment result for the five years to 2020 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

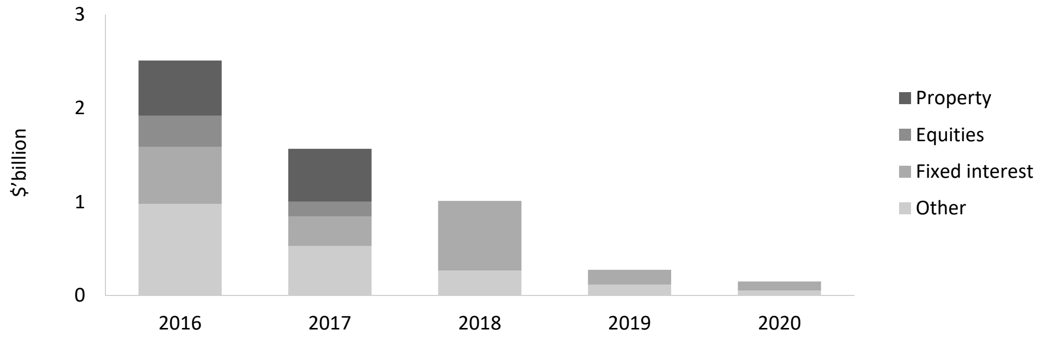
MAC's total comprehensive result for 2020 was a profit of $9 million compared to a $20 million profit in the previous year. The $11 million decrease is a result of the factors previously mentioned.

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 2020 a structural analysis of investment assets (excluding cash) is shown in the following chart.

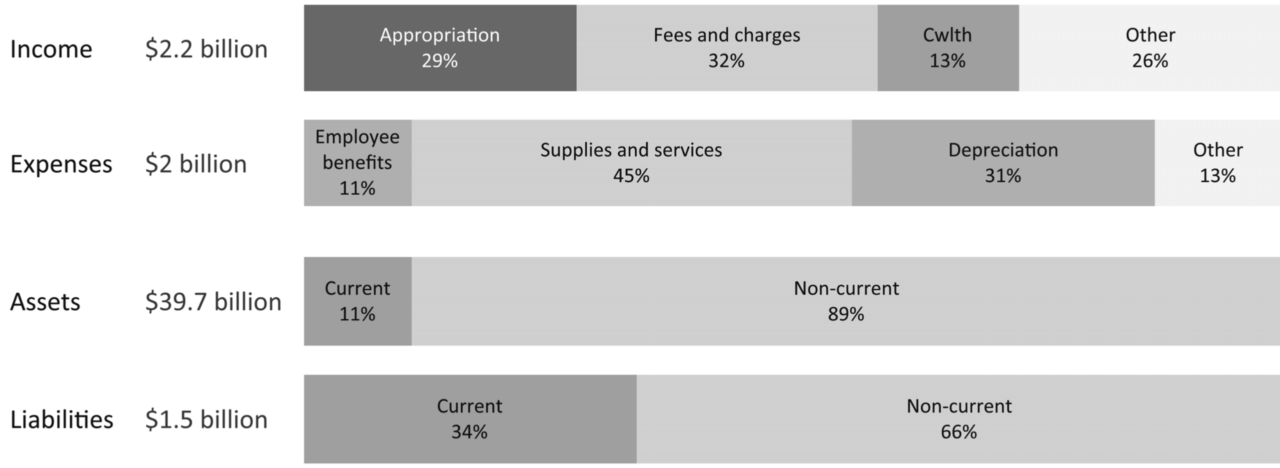


The chart shows a decrease in total investment assets, excluding cash, from $275 million in 2019 to $151 million in 2020. The decrease of $124 million in 2020 was principally due to:

- $109 million in additional monthly payments to NICO from the $200 million funds initially withheld
- a $18.5 million return of capital.

Department of Planning, Transport and Infrastructure (DPTI)

Financial statistics

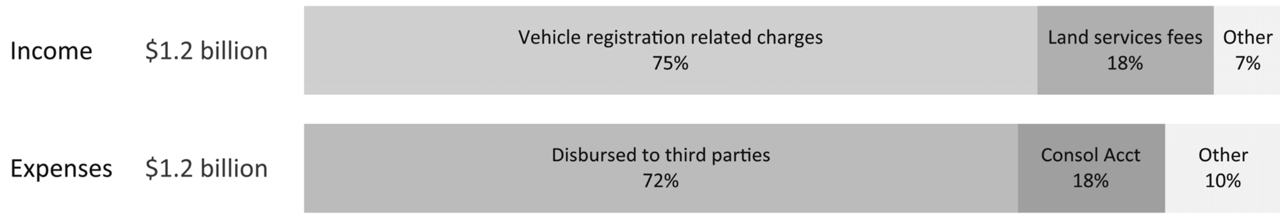


2425
Employees (excluding Rail Commissioner)

$1 billion
Capital expenditure

22,000 km
Roads managed

Administered items



Significant events and transactions

- Property, plant and equipment and network assets were revalued upwards by $6.1 billion.
- AASB 16 *Leases* was applied for the first time, resulting in DPTI recognising $1 billion of lease liabilities, $728 million of right-of-use assets (mainly office accommodation) and finance lease receivables of $150 million at 1 July 2019.
- The Northern Connecter project was completed, resulting in $778 million being recognised in network assets.
- Commonwealth sourced funding received for capital projects decreased by $262 million to $293 million.
- Administered unearned revenue liabilities increased by $80 million due to the SA Government exercising an option to extend the contract with the land services provider.

	— During the year DPTI commenced the procurement of bus, tram and rail services. While bus services have been provided by contractors for some years, until now tram and rail services have been provided by DPTI. The new bus and tram contracts commenced in July 2020, with the rail services contract still in the procurement process at the time of this Report. — DPTI completed the procurement of road maintenance services for an estimated cost of $1.2 billion over seven years. Contract services are planned to commence in November 2020. — The number of public transport boardings decreased by 12.7 million and Metroticket income was down by $14 million due mainly to the impact of COVID-19.
Financial report opinion	**Unmodified**
Controls opinion findings	— Improvements in across government facilities management arrangements are in progress. — Opportunities to improve asset management practices were noted. — Improvements in infrastructure procurement, contract management and project delivery were needed.
Other audit findings	— Payroll controls need to improve to ensure all payments are bona fide and accurate and that leave is recorded. — Further action is needed to enhance IT controls for selected systems.

Functional responsibility

DPTI 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 2019-20 included:

- accounts payable
- payroll
- bus contracts
- fees and charges, including motor vehicles, drivers licences, public transport and land titling
- income and expenditure for maintenance, property and building construction services
- accounts receivable
- bank reconciliation
- general ledger
- governance, including risk management and legal compliance
- 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 DPTI 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
- motor registration related revenue
- expenditure of Commonwealth money
- bank accounts.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Improvements in across government facilities management arrangements (AGFMA) 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 2019-20 these services amounted to $298 million and were provided by two facilities management (FM) providers:

- Spotless Pty Ltd (Spotless) for the central and northern Adelaide regions ($164 million)
- DPTI's Facilities Services unit for the southern Adelaide region and country South Australia ($134 million), which operates under a services framework.

Both the outsourced contract and services framework aim to provide a similar service to agencies.

DPTI 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 DPTI to act as a guide for managing SA Government buildings that is aligned 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.

In response to these audit findings DPTI advised that it had started a focused AGFMA improvement program, which it expects to complete by mid-2021.

Our follow-up of the progress of the AGFMA improvement program indicated that while action was progressing, the following high-risk audit findings remained unresolved:

- DPTI's contract management plan supporting its management of arrangements with Spotless was incomplete, and improvement of subsidiary controls to monitor service delivery was required. We had previously noted that the contract management plan did not address Spotless' obligations for asset inspections and condition assessments. We were also advised that the contract management plan was not used, and our 2018-19 testing found that there were no other controls implemented to ensure that asset inspections and condition assessments were performed.
- DPTI does not enter into signed service level arrangements (or similar) with AGFMA participating agencies, detailing their respective roles and responsibilities. Our 2018-19 review of asset management practices across the SA Government noted that agencies were unclear on their roles and responsibilities under the AGFMA. In my opinion, expecting all participants to sign service level agreements will strengthen the engagement and understanding by all parties and increase the likelihood of the AGFMA's success.
- Only about 40% of participating agencies had established asset hierarchies in their asset management systems. Asset hierarchies 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 assessment (expected replacement).
- DPTI staff do not review any supporting documents to confirm the qualifications, licences and clearances of subcontractors used by Spotless, either when they are engaged or periodically. Facilities Services has not implemented controls to ensure subcontractor qualifications, licences and clearances remained valid.
- DPTI has not implemented a control to monitor that Spotless has completed condition and lifecycle assessments for all nominated assets. Further, Facilities Services was not meeting its responsibility for providing agencies with asset condition reports.

In addition to these high rated audit findings, several other audit findings are expected to be resolved through DPTI's AGFMA improvement program.

In response, DPTI advised that:

- senior management is reviewing a draft contract management plan
- the Crown Solicitor is reviewing a draft Memorandum of Administrative Arrangements that DPTI intends to introduce with participating agencies
- it is actively working with participating agencies to establish asset hierarchies
- it has endorsed a scoping document to develop a monitoring framework for subcontractors
- an Asset Condition Report Pilot Program was implemented to improve condition reporting and provide updates to the Facilities Management Governance Group, which is comprised of DPTI and agency representatives.

2020-21 Target Operating Model

The SA Government has approved the establishment of a fully outsourced service delivery model for a future AGFMA, with this model to commence from late 2021. Market sounding on the outsourced model has been completed, with the formal procurement process planned to commence in late September 2020.

DPTI advised that the Target Operating Model will retain many of the fundamentals of the current AGFMA, including that:

- it will remain as the central policy and contract management agency
- facilities management service providers will primarily be works coordinators
- facilities management 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.

Importantly existing arrangements, including the provision of services received under the current AGFMA, will continue unchanged until late 2021. Key agencies are involved in developing the future Target Operating Model.

Opportunities to improve asset management practices were noted

In 2019-20 we reviewed DPTI'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

DPTI's road and structures network assets are valued at $25.9 billion as at 30 June 2020 and comprise of the following assets:

- sealed roads
- road corridor, which includes signs and safety barriers
- unsealed roads
- bridges and structures
- electrical assets, which includes lighting and traffic signals
- data and systems, which includes asset and traffic information.

For 2019-20 our review focused on DPTI's management of sealed roads (pavements), bridges and structures.

While DPTI has an established framework and structure for managing its road assets, we noted that important elements of this framework require improvement. Specifically, we noted that:

- policies are not clear on the requirements for preparing contract management plans or contract risk management plans for road maintenance contracts
- the contract management plans for a sample of road maintenance contracts we reviewed were not approved or were incomplete, and did not identify any contract risks

- staff do not always perform independent verification of key performance data provided by the contractor
- condition inspections for bridges and structures for 2019-20 were not scheduled based on the criticality of the asset, which is inconsistent with the requirements of asset management plans
- the condition rating system documented in the bridges and structures asset management plan needs updating
- DPTI has not developed an endorsed policy on asset management
- DPTI has not established desired levels of service (ie performance targets) for some technical and customer levels of service to allow comparison to the actual performance of the assets. In addition, there were no performance measures or desired levels of service based on customer consultation and/or satisfaction evaluations.

DPTI responded that:

- its Contract Management Plan procedure and template were recently reviewed and updated. The contract management plans we reviewed aligned with the new procedure, and were subsequently completed and approved
- project risk registers have been updated to include overall project risks, including any contractual risks
- it was satisfied with existing arrangements to manage the performance of contractors responsible for maintaining the road assets covered by our audit. This included the use of the Traffic Monitoring Centre to manage complaints or performance issues. We will liaise with DPTI to consider the adequacy of these arrangements as part of our 2020-21 follow-up
- the Strategic Asset Management Plan and related asset management plans will be updated to reflect organisation restructures, to better define the way criticality is interpreted and the scoring of assets
- it has adopted a new bridge management system that will help to schedule condition inspections
- it will review existing asset management policy documents and ensure that the Chief Executive approves a departmental policy
- it has defined customer levels of services and is developing technical performance measures and targets aligned to different road and asset classifications.

Marine asset management

DPTI is responsible for managing marine assets with a written down value of $517 million as of 30 June 2020.

Our 2019-20 review focused on DPTI’s management of its jetties and specifically the Port Bonython Jetty as the largest marine asset, valued at $155 million. The facility operates under indenture arrangements and is used by SANTOS Limited to support its business operations.

The results of our audit revealed that DPTI needs to improve asset management and ensure that:

- marine asset condition monitoring is undertaken 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

- Santos provides written reports every quarter containing the details of all repairs conducted on the Port Bonython Jetty in the previous three months
- it jointly inspects works performed by Santos every six months to ensure that Santos meets expectations, and records these inspections in the marine asset data system
- emerging marine asset risks are considered and captured in risk management systems and that controls or treatments put in place to mitigate these risks are monitored and assessed
- desired levels of service are defined, and that actual performance is monitored and reported on regularly.

The overall asset management plan and separate Port Bonython Jetty asset management plan were both approved for use in previous years. As part of an organisational restructure, DPTI intends to prepare a series of simplified plans to replace the existing ones. These revised plans are being prepared on a priority basis and will be developed and approved over the next 12 months.

We considered these proposed arrangements, including a draft marine facilities asset management plan, and recommended that DPTI ensures that:

- customer expectations are integrated into performance measure planning
- how critical assets are identified is outlined in the draft asset management plan and that criticality is included in the risk identification, assessment and monitoring of marine assets.

DPTI responded that:

- it has now established a Marine Asset Inspection Strategy to define a standard and consistent approach to the inspection of marine assets, and to assign the frequency of inspections commensurate with the type of inspection scheduled
- all inspections will include formal reporting and be loaded to the asset inventory system
- it is currently reviewing all works requested from Santos and has established a Port Bonython Governance Group tasked with setting clear accountability, reporting and governance structures around the management, maintenance and operation of the harbour
- the existing maintenance agreement is over 30 years old and a new maintenance agreement with Santos is expected to be in operation in 2020-21
- it has recently developed a marine assets risk management plan
- it has established a prioritised marine assets five-year works program and jetty condition index that enables maintenance activities to be allocated in line with their condition rating. It plans to load all condition data into the marine asset inventory system
- it is reviewing existing asset management plans with a view to reforming them into practical working documents
- it will prepare appropriate key performance indicators and will be working with councils and other marine asset users to identify services levels.

Management of the Adelaide Oval asset

Adelaide Oval assets are recognised in DPTI's Statement of Financial Position as buildings and facilities. The fair value of the Adelaide Oval as of 30 June 2020 was $495 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 Stadium Management Authority (AOSMA) until 2091. DPTI 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 including maintenance of 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'. DPTI 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*

Our review included an assessment of DPTI'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 asset.

The results of our review identified specific areas where we thought DPTI could improve its internal controls for asset management of the Adelaide Oval precinct. This included:

- defining the legislated term 'world class multi-use facility' and using this definition to develop performance measures that can be used to monitor AOSMA's success in maintaining the Adelaide Oval precinct
- preparing and executing a Condition Rating Framework and Condition Assessment Plan and reporting the outcomes to senior management. Current reliance on revaluations by the Valuer-General does not consider condition assessment, have condition ratings or use asset inspectors
- DPTI working with AOSMA to review future revisions to AOSMA's long-term maintenance plan. This includes assessing the adequacy of data used to formulate the plan, how this plan aligns with departmental policy, asset management frameworks and whether there is a need for a separate asset management plan for the Adelaide Oval precinct
- implementing processes to independently assess the adequacy of the long-term maintenance plan prepared by AOSMA to support the management of non-recurrent expenditure from the sinking fund

- ensuring that AOSMA's insurance arrangements for the Adelaide Oval core area are adequate and in line with the requirements of the sublease
- updating the established contract management plan for key sublease/contractual requirements including insurance requirements, staff responsible for activities, time frames for completion and reporting of outcomes to senior management
- ensuring that agreement is reached with AOSMA about data sharing, ownership and responsibility for all capital upgrades or improvements to the Adelaide Oval.

In response, DPTI advised that:

- the generally accepted definition of world class 'is amongst the best in the world'. Because the lease is for a term spanning almost 80 years, in DPTI's opinion the term is sufficiently objective as an aspirational target, goal or intent to maintain the stadium. DPTI does not intend to further define this term.

  In its response DPTI noted that the sublease sets out certain obligations regarding the management of the Adelaide Oval core area, and that it will update its contract management plan to identify these obligations. The obligations include those relating to security and emergency management, risk management and insurance, technology management and upgrades, asset management (including maintenance, repairs and upgrades and asset replacement) and facilities management services (cleaning, waste management, pest control, etc).

  AOSMA's responsibilities to meet these obligations is premised on doing so to a standard that, having regard to the age of the oval since it was last redeveloped, is at least appropriate to that for a world class multi-use sporting facility.

  While acknowledging that nothing has come to our attention to suggest that AOSMA is not meeting this standard, DPTI has not defined its performance expectations. Doing so will strengthen its approach to monitoring AOSMA's performance under the sublease
- AOSMA will be requested to demonstrate its compliance with its obligations for the use and operation of the Adelaide Oval under the sublease annually, and DPTI will reserve the right to physically inspect the premises
- an annual inspection of Adelaide Oval will be conducted to spot check the condition of AOSMA's long-term maintenance plan. The contract management plan will be updated accordingly
- it is satisfied with the efficacy of the long-term maintenance plan but will engage with AOSMA and its consultant to better understand its suitability
- the contract management plan will be updated for specific requirements related to insurance obligations under the sublease and DPTI will work with AOSMA to ensure required documentation and requirements are met
- it will review the adequacy of existing time frames for compliance monitoring activities under the sublease, document officers performing tasks and update the contract management plan
- it will seek legal advice to inform all asset management and future maintenance issues related to the newly built Adelaide Oval Hotel, including the applicability of the sinking fund for future non-recurrent expenses.

Improvements in infrastructure procurement, contract management and project delivery are needed

The acquisition and delivery of infrastructure projects is a core component of DPTI's operations that warrants a strong control environment. In 2019-20 DPTI spent about $1 billion on constructing and purchasing assets.

During the year we reviewed aspects of DPTI's infrastructure procurement, contract management and project delivery. The projects we reviewed included:

- the Darlington Upgrade Project, which we reported on to Parliament in December 2019
- the Flinders Link Project, which we reported on to Parliament in April 2020
- selected procurement, contract management and project delivery activities.

In addition, DPTI's internal audit unit reviewed matters affecting procurement, contract management and project delivery.

The findings from these reviews are commented on below.

DPTI has continued to change how it manages infrastructure procurement, contract management and project delivery

In 2015 DPTI reviewed its approach to managing project and program delivery, and identified a range of recommendations to improve project delivery governance, procurement and contract management arrangements. Since then it has undergone a number of organisational restructures. DPTI's previous efforts to improve have been discussed in my previous reports to Parliament.

In 2019-20 we noted that DPTI has implemented further measures aimed at improving its procurement, contract management, project management and delivery practices. For DPTI infrastructure projects this included:

- continuing to progress its organisational restructure, which resulted in:
  - the area responsible for project delivery taking responsibility for the procurement, tender and contract management functions for DPTI infrastructure projects
  - creating a new division to lead a dedicated Program Management Office for the remaining section of the North-South Corridor between the River Torrens and Darlington. The new division has a Program Director reporting directly to the Chief Executive
- establishing specific committees to:
  - provide oversight and guidance in developing the strategies, future plans and policy setting for transport networks
  - manage investments across DPTI including assessing and prioritising initiatives to meet its strategic business plan and objectives. The committees make decisions relating to delivery of major programs/projects and strategic business and reform initiatives from a financial perspective

- identify, assess and prioritise major infrastructure programs and projects to meet DPTI's strategy. A new committee also monitors the delivery of major infrastructure plans, programs and projects to ensure projects are delivered on time and within scope and budget. It reviews risks and issues, and provides guidance and direction to the program/project lead.

Auditor-General's review of the Flinders Link and Darlington Upgrade projects

In 2019-20 we reported to DPTI and Parliament on our reviews of the Flinders Link and Darlington Upgrade projects.

— *Flinders Link Project*

In April 2020 we reported to Parliament on our review of the Flinders Link Project. We assessed whether the arrangements established to procure design and construction services for the project met appropriate procurement standards.

We concluded that the procurement process was not effectively managed because key elements did not meet those standards, proportionate to the high risk, high value nature of the project. They included:

- robust procurement planning was not completed before procurement activity started
- proper records of communications with Gateway South before completing the acquisition plan were not maintained
- arrangements to manage probity were not implemented from the outset of the procurement
- there was a lack of evidence-based analysis and documentation to support key decisions made during the procurement process, including using a direct negotiation approach
- the nature and extent of work performed to demonstrate value for money was not sufficiently documented.

We made a range of recommendations relating to acquisition planning, the basis for key decisions, procurement management, procurement evaluation and probity management.

DPTI accepted most of the recommendations and detailed action to be taken to address the matters raised, including that it has secured external advisers to help to review, reshape and update the program management tool kit and implement it across all major projects. This review may extend to procurement and contract management.

— *Darlington Upgrade Project*

Our review of the Darlington Upgrade Project was reported to Parliament in December 2019. We examined whether the arrangements established to deliver the project on time, within budget and with intended benefits were effective.

We concluded that key elements of the Darlington Upgrade Project were not effectively managed as we identified deficiencies in important processes and functions. These included:

- numerous utility service relocation processes were deficient including the lack of documented analysis of DPTI's capacity to deliver works on time, the adequacy of contract provisions, the lack of timely reporting and gaps in monitoring works by service authorities and contractors
- key governance arrangements were not established or implemented timely, clearly defined and documented, and there was limited oversight by governance committees
- fundamental contract management processes and documents were not established or were not established timely
- a significant contract variation was issued without documented analysis supporting this decision
- a risk management plan was not prepared timely and was still in draft
- deficiencies in the planning, monitoring and reporting on quality of works
- contingency management practices needed to provide better control and visibility over the use of contingency funds
- DPTI had yet to establish robust benefits realisation processes for the project.

We made a range of recommendations relating to governance, reporting an accountability arrangements, risk management, contract management, quality management, financial management and benefits realisation.

DPTI accepted the recommendations and detailed action to be taken to address the matters raised. This included securing external advisers to help it review, reshape and update the program management tool kit and implement it across all major transport projects.

— *Action taken since the completion of these reviews*

We noted that DPTI had engaged an external advisor with relevant expertise to help it review, reshape and update the project and program management framework and toolkit, and implement it across all major transport projects.

We also noted that DPTI had actioned some of the findings and developed interim project management policies (while the framework is being developed), including:

- reinforcing to the staff the requirements for project management plans
- detailing protocols for reporting and escalation for governance plans for major projects
- periodically reviewing key project governance arrangements to ensure responsibilities, accountabilities and reporting processes are in place and operating effectively
- developing an interim project status report standard and linking it to the revised interim project management policies
- developing requirements for an interim revised risk management plan for projects
- developing an interim revised project management policy that:
  - provides information on risk management plans
  - requires that contracts be executed before works commence and before making any payments for services
  - sets out requirements for project quality management frameworks.

Further, in August 2020 DPTI provided an update on its planned action in response to the Flinders Link and Darlington Upgrade project reviews:

- For the Darlington Upgrade Project, a significant number of actions are now addressed, with work in progress by external advisers to review, reshape and update the program and project management framework. This framework is expected to be implemented (in a staged approach) commencing September 2020.
- Most options arising out of recommendations reported for the Flinders Link Project are complete, including updated construction templates and updated procurement planning and documentation policies. The post-sourcing review was postponed due to COVID-19 precautions but will be completed within the next month. In addition work continues on other actions to complete open items and improve processes, such as standardising contract terms.

Findings from other work we performed on project delivery and management of infrastructure procurement, contract management and project delivery

We selected a sample of projects to assess whether there was evidence of adequate controls for selected aspects of infrastructure procurement, contract management and project delivery. Our review considered:

- acquisition plans, tender assessments, conflict of interest declarations and managing prequalified suppliers
- contract management processes and the information recorded in the contract register. This included reviewing a sample of contract management plans, approvals and payments
- the project governance framework, including governance structure, project meetings, project reporting, risk management, issues managements and maintenance of decision and lessons learnt registers.

We noted the following:

- Consistent with our prior audits, many of DPTI's procurement and contract management policies and procedures require review. Without updated policies and procedures, staff may be unclear about how to complete tasks and there may be misunderstandings about roles and responsibilities.
- The prequalified contractors register included many contractors without a documented expiry date for their assessment, with some contractors having an overdue prequalification reassessment. If the prequalification process is not adequately followed, DPTI is at risk of entering into contracts with suppliers without the necessary experience, technical capacity, available resources or management systems to competently undertake the work, increasing the risk of contract failure.
- Post-contract performance reviews were not performed. These reviews can provide valuable lessons that can be used to improve contractor performance between contracts, inform future procurements decisions and contractor prequalification status and improve contract management practices. Not performing these reviews may result in poor procurement and contract outcomes and additional costs for future procurements.
- Monthly reporting on the analysis and trend of procurements and contracts to the procurement committee had not occurred since February 2019. Lack of oversight of procurements and contracts increases the risk procurement decisions may not achieve the best value outcomes.

- A post-sourcing review had not been performed for one procurement we reviewed and there was no detailed documentation on the post-sourcing review on another procurement. Both matters increase the risk of DPTI not applying improvement opportunities from previous procurement processes.
- There were no policies and procedures that clarified the requirements for a contract management plan. Our testing of three projects found two contract management plans were approved after the contract was underway, and one was in the process of being prepared. Failure to promptly complete a contract management plan may result in non-compliance with key contract provisions and the intended contractual outcomes not being achieved.
- Our testing of three projects found that the project risk register was incomplete for one project, which may result in project risks not being adequately addressed, impacting the project scheduling, resourcing, costs and quality.
- For three projects we tested, we found that the Project Definition Reports (PDRs) for two projects were not signed. The PDR is an important document used to communicate and agree project purpose, design and specification to project delivery. The absence of a PDR increases the risk that the concept planning, detailed design and construction in line with the time, cost and performance criteria is not understood and agreed between the parties. This may cause issues in the construction phase of the project, increasing risks to project cost and effectiveness.
- For two of three projects we tested the document used to communicate and agree project purpose, design and specification from the planning section to project delivery section was not signed, increasing the risk this information not understood and agreed between the parties. This may cause issues in the construction phase of the project, increasing risks to project cost and effectiveness.

DPTI's response noted that an outcome of the South Australian Productivity Commission review was the replacement of the State Procurement Board framework, with the Department of Treasury and Finance (DTF) to be responsible for setting the new procurement framework. This will bring construction, buildings and goods and services procurement in under a unified approach. The new framework was expected to come into effect from September 2020. DPTI will align its policies to the requirements of this framework and noted this draft framework considers post-contract reviews, post-sourcing reviews and contract management plans.

Further, in response to the above issues, DPTI advised that it:

- will continue to update the prequalification register information, aiming to be completed by 30 September 2020
- is in the process of establishing reporting on procurement and contract management matters to the appropriate committee
- had implemented a revised contract management plan template that must be completed and approved for all projects over $4 million
- updated the risk register for the project identified in our review and started conducting monthly assurance audits of project registers
- has implemented a new handover process for new projects.

DPTI also noted that its project and program management framework and toolkit, currently under development, will address requirements for risk management and formal project handover requirements (refer to discussion on the Darlington Upgrade and Flinders Link projects above).

DPTI internal audit also identified concerns with procurement and contract management

Due to the scale and nature of DPTI's activities, DPTI internal audit has an important role in reviewing and improving internal controls and processes. During the year, internal audit coverage included reviewing various aspects of DPTI's procurement, contract management and project delivery activities. The results are discussed below.

— Portfolio, Program and Project Management Office (3PMO) risk register review

This review focused on risk management strategies and practices for a sample of capital projects under $100 million. It identified significant issues for risk management for these projects, including that:

- there was no governance committee to oversee, monitor and review project outcomes
- risk registers were wholly owned and managed by project managers with minimal input from stakeholders or oversight from line managers
- six risk registers could not be located or did not exist, there was incomplete critical information in some risk registers and there was no regular review of risk registers by project managers
- project risks reported to project executives and 3PMO did not reflect the risk register and potentially misrepresented actual project risk
- risk escalation is informal, undocumented and with no apparent consideration of DPTI's risk appetite and risk management policy
- there is lack of clear project risk management guidance
- the risk register templates are poorly designed and do not encourage effective risk management behaviour
- the in-phase project handover is poorly executed with no formal procedure established.

On these matters, DPTI advised that the project and program management framework and toolkit (refer Darlington Upgrade and Flinders Link projects above) would address requirements for risk management and reporting and the project handover requirements. Further changes to the project management system would enable project managers to report all risks, with key project risks reported to executive.

— Bundled Initiatives – Metropolitan Program of Works (Road) Design and Construct review

The Metropolitan Program of Works (Road) consisted of 21 projects across the Metropolitan Adelaide road network that were awarded to a single contractor. DPTI engaged another contractor to provide project management and contract administration (PMCA) services. The PMCA model aims for the contractor to be responsible for project management, contract administration, delivery of site engineering, independent construction verification and cost control.

The overall objective of the internal audit review was to provide assurance that appropriate processes were followed in relation to the planning, procurement, initial project delivery and governance of the program. The internal audit identified that:

- the PMCA contractor should have been engaged at the beginning of the planning process to be able to undertake the full role of a PMCA contractor

- the adequacy of some procurement practices for the design and construct and PMCA procurements could not be supported due to the unavailability of key documentation. In addition, there was a lack of evidence that market sounding was undertaken to confirm the PMCA approach taken was appropriate
- issues with the documentation in the evaluation plan, including reasons for the removal of a planning representative, evaluation criteria not included and criteria weighting changing from the acquisition plan
- reporting requirements were not adapted to suit a bundled approach, leading to a lack of specificity around the reporting of projects within the bundle
- there was lack of clarity regarding role definition between DPTI and the PMCA contractor
- the design and construct contract had not been signed by the contractor and there were no key performance indicators to evaluate the contractor's performance and delivery against
- the initial benefits management work was not communicated to the DPTI team or the contractor
- the project management plan did not provide adequate information on discussion items, responsibilities and accountabilities, quorums for decision-making, escalation processes and record keeping.

DPTI advised us that these matters have been addressed, noting also that the works have now reached completion. In addition, DPTI advised that it:

- completed a 'lessons learnt' workshop in January 2020, which included analysis of the effectiveness of the PMCA model
- revised and updated its procedures to include requirements regarding finalisation and approval of the evaluation plan and action required where a deviation from the acquisition plan occurs
- made improvements to the communication and reporting framework with the contractor.

Audit comment

The scope, complexity and variety of construction projects for which DPTI is responsible mean that it can be difficult and impractical to develop a rigid, singular approach to project management. It must maintain a flexible approach that allows it to adapt to different circumstances and ensure it remains efficient in its project delivery.

While DPTI must maintain flexibility, it is equally important that its staff are clear on the processes required to ensure project risks are effectively managed and good project outcomes are consistently achieved.

DPTI advised that all findings from internal audit, the Auditor-General, the State Procurement Board and the South Australian Productivity Commission Inquiry into Government Procurement have been incorporated into a central integrated reform program. Further, a procurement governance team is being recruited to action the recommendations and report on progress monthly to a DPTI governance committee.

Construction work on behalf of other SA Government agencies

In 2019-20 DPTI spent about $261 million on construction work for other SA Government agencies.

As a part of DPTI's organisational restructure, the building projects section now has responsibility for procurement, tender and contract management functions for construction work for other SA Government agencies.

We reviewed aspects of procurement, contract management, project management and delivery for a sample of projects. This review identified areas where internal controls could be improved. We noted that DPTI:

- did not document its evaluation and justification for selecting shortlisted contractors to participate a tender process. We also noted that the committee members involved in the shortlisting process did not complete conflict of interest declarations. Lack of documentation could lead to an incorrect outcome in tender selection and compromise the integrity of the assessment process
- has not documented its policy expectations for the development and approval of project management plans and contract management plans, increasing the risk that project outcomes will not be achieved, non-compliance with key contract provisions or contractor performance not being adequately managed
- did not obtain a bank guarantee prior to a contract payment for one project we tested, increasing the risk of financial loss in the event of contractor failure
- for one project tested had engaged a credit rating company to identify and assess financial risks associated with engaging a contractor, but did not document its reasons for not following the recommendations made, increasing the risk that the financial risks of engaging the contractor were not adequately addressed
- made payments in excess of the funding approved by the lead (funding) agency for one project tested
- did not perform post-sourcing reviews for the three procurements we reviewed, increasing the risk that it fails to apply the improvement opportunities from previous procurement processes.

In response DPTI advised that:

- it considered that the evaluation criteria and scoring for the shortlisting process were determined and approved in line with its procedures. We noted that DPTI has now established a committee to make decisions on the allocation of tenderers to projects. DPTI also advised that any conflicts of interest raised by will be documented at committee meetings
- it will implement procedures for contract management and project management
- it will review its implementation of procedures for reviewing of credit rating recommendations
- excess expenditure on projects is reported monthly to internal cost managers and the Director, Building Projects with action agreed and documented. While we note that this process will identify projects where expenditure has exceeded approved funding, we consider approval should be before funding limits are exceeded
- it will develop a policy and procedure for undertaking and documenting post-sourcing reviews on procurements above a certain threshold value.

Review of Basware users and delegations is incomplete

DPTI uses the Basware payment system to create and approve purchase orders and make payments.

In 2020 it processed $2.2 billion through Basware. System functionality includes assigning users with delegation limits for approving transactions.

We noted that:

- DPTI's check of user delegation limits in Basware did not cover all users
- procedures for evidencing receipt of items and payment approval could be improved. Failure to appropriately evidence receipt of goods/services and payment approval for each invoice increases the risk of inappropriate payments.

DPTI acknowledged the findings and advised that it has now implemented a check of all delegations and will be reviewing controls over receipting with the upgrade of the Basware system expected in 2021.

Small procurements less than $4.4 million

We reviewed a sample of five operating expenditure procurements of less than $4.4 million. We found that conflict of interest forms for two members on a tender selection panel were missing, potentially compromising the integrity of the tender evaluation process.

DPTI advised that it has reviewed and reissued the relevant procedure to specify documentation storage requirements.

Contract register

We reviewed whether DPTI's contract register was adequately maintained. We found it was incomplete and inaccurate. Maintaining a register of information on key contracts supports contract management, risk management, internal procurement planning and business improvement activities. The register also helps DPTI to meet its reporting obligations under government policies.

In response DPTI advised that it:

- had completed a project in June 2020 to improve the quality of data in the contract management system
- is planning to implement a new procurement and contract management system
- will provide further education and training to staff in the use of the contract management system.

Highways Fund

Our review of the Highway's Fund noted that:

- the Commissioner of Highway's instrument of delegation to approve payments from the Highways Fund was not clear
- the submission of a schedule setting out the program of works for 2019-20 was not authorised by the Minister before the start of the financial year as required by section 35(1) of the *Highways Act 2016*.

DPTI's response advised that the delegations had been revised and that it will work to ensure the program of works is submitted to the Minister within the legislated time frames.

Other audit findings

Payroll controls need to be better to ensure all payments are bona fide and accurate, and that all leave is recorded

In 2019-20 DPTI's employee benefits expenses amounted to $225 million, with related liabilities of $107 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, DPTI is responsible for ensuring payroll transactions are valid, accurate and complete.

DPTI's payroll verification process comprises a quarterly review of employee details and a monthly review of employee pay variations and leave variances between the 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
- DPTI 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.

DPTI responded that it would:

- increase its efforts 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
- reinforce the need to ensure attendance records are maintained and reviewed.

Treasurer's consent required to enter into leases valued above $100 000 was not obtained

We noted that DPTI had not obtained the Treasurer's consent to enter into operating leases for its whole of government office accommodation arrangements, as required by section 18(2) of the *Public Finance and Audit Act 1987* (PFAA). While we acknowledge that DPTI has regularly obtained Cabinet approval for leases that exceed its contracting authority under Treasurer's Instruction 8 *Financial Authorisations*, Cabinet approval does not derogate from the Treasurer's responsibilities under the PFAA.

DPTI advised that the matter was raised with DTF, and that DTF advised that it will prepare a minute recommending to the Treasurer that leases be excluded from the definition of financial arrangements.

Further action is required to improve IT controls for selected systems

We reviewed password management, privileged user access, audit logging, patch management, change management, backup and disaster recovery management for the motor registration and licensing system (TRUMPS).

We also followed up the progress of addressing issues we raised last year for the Masterpiece financial system, fee and resource management system (FARMS) and facilities management information system (FAMIS).

We identified shortcomings in the following aspects of DPTI's information security controls:

- Password settings for applications, databases and operating system environments.
- Several privileged user accounts were identified that were no longer required.
- Some staff can perform multiple functions across the change management process, including developing, testing and migrating changes into the production environment.
- Patching of software for security vulnerabilities could be improved.

These matters increase the risk of unauthorised access and/or unauthorised changes to within system environments. The associated impact would be the potential loss of sensitive data, unnecessary expense and disruption to operations.

DPTI responded positively to our findings, indicating that it would implement stronger password controls, review privileged users, review existing change management processes, and progress the implementation of outstanding software patching.

Other commentary

AASB 16 *Leases*

AASB 16 has changed how lease activities are recognised. From 1 July 2019, DPTI and its lessee agencies are required to recognise lease assets and liabilities in their respective Statement of Financial Position. Accounting for leases under AASB 16 also changes the expense profile within the Statement of Financial Performance.

DPTI is responsible, on behalf of the Minister, for managing whole of government office accommodation arrangements in line with Premier and Cabinet Circular PC018 *Government Office Accommodation Framework*. Under these arrangements, DPTI leases office accommodation from private landlords and then acts as lessor by assigning accommodation to lessee agencies.

Because PC018 provides the Minister with authority to direct all agencies, except Public Financial Corporations (PFCs) and Public Non-Financial Corporations (PNFCs), with respect to office accommodation, DTF and DPTI concluded that office accommodation arrangements between DPTI and most government agencies are not leases for the purposes of AASB 16. This was a significant change from the planned approach disclosed in DPTI's 2018-19 financial report, where lease accounting under AASB 16 was proposed for all SA Government agencies with DPTI sourced office accommodation. We agreed with this interpretation and subsequent accounting approach.

Under the revised interpretation:

- DPTI recognises income from most government agencies as income under AASB 15 *Revenue from Contracts with Customers*, with agencies recognising an accommodation services expense

- office accommodation arrangements between DPTI and PFC/PNFC agencies are classified as leases and recognised in line with AASB 16.

An adjustment of $118 million was made against retained earnings as at 1 July 2019 for the implementation of the new standard.

Last year we noted that DPTI needed to resolve a number of matters before adopting AASB 16 on 1 July 2019. This included separating non-lease components when calculating lease liabilities and lease assets, clarifying lease terms and the treatment of contractual rent increases. These issues related to DPTI lease arrangements with private building owners and its lease arrangements within government.

Because of the time required to resolve these matters, DPTI did not complete its lease calculations until late in the financial year, meaning that information for our review was not available until July 2020.

While we appreciate the complexity of work necessary to meet the requirements of the standard, and the limitations of the IT system used to record lease activity, this delay presented significant challenges in resolving lease accounting for both DPTI and its lessee agencies (PFC/PNFC agencies).

Going forward it is important that DPTI ensures it establishes clear policy and procedures to support the ongoing financial reporting requirements of AASB 16. This will include processes to ensure new leases and lease modifications are identified promptly, and accounted for completely and accurately.

Passenger transport services contracts

DPTI is responsible for providing passenger transport services in South Australia.

In 2019-20 DPTI commenced procurement processes to:

- replace existing bus passenger service contracts
- contract private operators to provide tram and train passenger services, asset management and maintenance services.

On 10 March 2020 the Minister awarded the contracts to provide bus and trams services. The operators started providing services on 5 July 2020.

Under section 39 of the *Passenger Transport Act 1994* I am required to examine the contract and submit a report to Parliament on the probity of the processes leading up to the awarding of the contract. This report was completed on 7 August 2020. We concluded that:

- we did not identify any specific probity matters that would suggest that the procurement process was compromised
- DPTI designed and established processes for conducting the procurement that were consistent with sound probity principles
- in carrying out the processes DPTI maintained sufficient documentation consistent with appropriate standards for most areas of the procurement, other than for four specific areas.

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.

The procurement processes for the train services was underway at the time of preparing this Report. I will prepare a separate report to Parliament on this contract in line with the *Passenger Transport Act 1994* after it has been awarded.

Adelaide Oval redevelopment

On 29 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 the Adelaide Oval. DPTI 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 on 29 February 2012 and the most recent Report, the eighteenth under the AORM Act, was provided on 31 August 2020.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2020 $'million	2019 $'million
Income		
Appropriation	636	387
Fees and charges	721	699
Commonwealth sourced grants and funding	292	554
Intra-government transfers	80	177
Sale of goods and services	181	174
Rental income	202	218
Grants and subsidies	65	60
Other income	47	50
Total income	2 224	2 319
Expenses		
Employee benefits expenses	225	245
Supplies and services	912	1 005
Depreciation and amortisation	622	425
Grants and subsidies	85	77
Surplus cash paid to DTF	101	68
Other expenses	69	91
Total expenses	2 014	1 911
Net result	210	408
Other comprehensive income		
Changes in revaluation surplus	6 114	535
Total comprehensive result	6 323	943

	2020 $'million	2019 $'million
Net cash provided by (used in) operating activities	848	936
Net cash provided by (used in) investing activities	(965)	(927)
Net cash provided by (used in) financing activities	171	273
Assets		
Current assets	4 462	4 412
Non-current assets	34 278	26 772
Total assets	38 740	31 184
Liabilities		
Current liabilities	443	295
Non-current liabilities	1 084	158
Total liabilities	1 527	453
Total equity	37 213	30 731

* Table may not add due to rounding.

The following chart shows the breadth and scale of DPTI's activities, identifying 2019-20 operating expenses by activity and the value of fixed assets held to support these activities.

Activity

Roads and marine	$591m in operating expenses	$26.7b in fixed assets
SA Public Transport Authority	$583m in operating expenses	$3.3b in fixed assets
Across government services	$412m in operating expenses	$2.0b in fixed assets
Infrastructure planning and policy	$157m in operating expenses	$539m in fixed assets
Delivery of transport projects	$81m in operating expenses	$1.5b in fixed assets
Other activity	$191m in operating expenses	$9m 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 $2.2 billion. This figure includes appropriations of $636 million ($387 million) and intra-government transfers of $80 million ($177 million). DPTI'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.

$1.51b in revenue

Fees and charges — $721m

$493m	Motor registrations
$68m	Driver's licence fees
$80m	Metrotickets

Commonwealth revenues — $292m

$49m	North South Corridor – Pym St to Regency Rd
$47m	North South Corridor – Darlington upgrade
$37m	Northern Connector
$36m	Tonsley rail extension
$29m	Recurrent grants
$24m	APY lands

Other revenues — $495m

$167m	Office accommodation
$31m	Government employee housing
$135m	Maintenance services
$58m	Concessional passenger income

Total income decreased by $96 million (4%) to $2.2 billion, due mainly to:

- Commonwealth sourced funding for road projects decreasing by $262 million. Commonwealth sourced funding is largely received to support major capital projects. The scope and timing of capital projects varies from year to year
- intra-government transfers decreasing by $97 million (55%) to $80 million due mainly to the following movements:
  - DPTI receiving $142 million from the Motor Accident Commission in 2018-19, with no money received in 2019-20
  - an increase in transfers from the SA Government contingency provisions of $25 million to $36 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
- rental income decreasing by $16 million (7%) to $201 million, due mainly to the introduction of AASB 16.

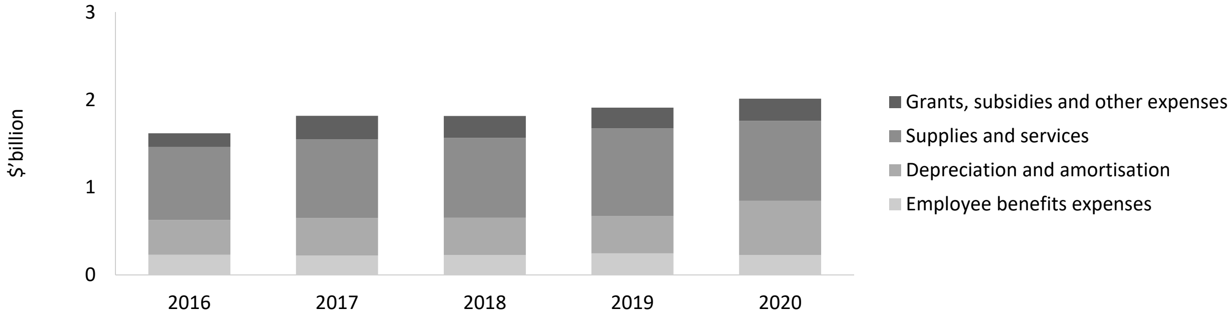
These decreases were partially offset by:

- appropriation increasing by $249 million to $636 million. The appropriation included additional funding for capital projects including for the Gawler Line Electrification, City Tram Extension and Main South Road Duplication projects, and the bus replacement program
- fees and charges increasing by $22 million (4%). While this increase was moderate, there were large variations in individual revenue lines including:
  - motor registration charges increasing by $42 million (9%) due mainly to fee increases and growth in vehicle registrations
  - Metroticket income deceasing by $14 million (15%) due mainly to the impact of the COVID-19 pandemic on public transport patronage. The number of public transport boardings decreased from 76.2 million in 2018-19 to 63.5 million in 2019-20

- driver's licence fees deceasing by $9 million (12%). This compared to last year when revenue from these fees increased by $16 million, with drivers generally electing to take out longer licence durations in that year
- an increase in transfers from other government entities of $21 million. In 2019-20 this included a contribution of $13 million from the Planning and Development Fund for planning reform and $7 million from Renewal SA for the Adelaide Festival Centre precinct.

Expenses

For the five years to 2020, a structural analysis of DPTI's major expense items is shown in the following chart.



Expenses for the year totalled $2 billion ($1.9 billion) and are mainly attributable to:

- supplies and services expenses of $913 million (45%), of which $218 million was for bus service contract payments, $243 million was for operating costs of major infrastructure maintenance and other service contracts, $176 million was for property expenses and $74 million was for land administration fees paid to Land Services SA
- depreciation and amortisation expense of $622 million (31%), of which $391 million was for network assets, $102 million was for right-of-use assets, $62 million was for buildings and facilities and $57 million was for plant and equipment
- employee benefits expenses of $225 million (11%)
- cash alignment transfers of $101 million (5%), reflecting the transfer of surplus cash to the Consolidated Account.

Total expenses increased by $103 million (5%), with the more notable movements including:

- depreciation and amortisation increasing by $197 million (46%) million due to:
  - depreciation for right-of-use assets of $104 million recognised for the first time on the implementation of AASB 16
  - an increase in the depreciation of network assets of $90 million (30%), due mainly to asset revaluations effective 1 July 2019
- an increase in surplus cash paid to the Consolidated Account of $33 million to $101 million
- additional interest expense of $23 million, reflecting the recognition of lease liabilities under AASB 16.

These increases were partially offset by the following:

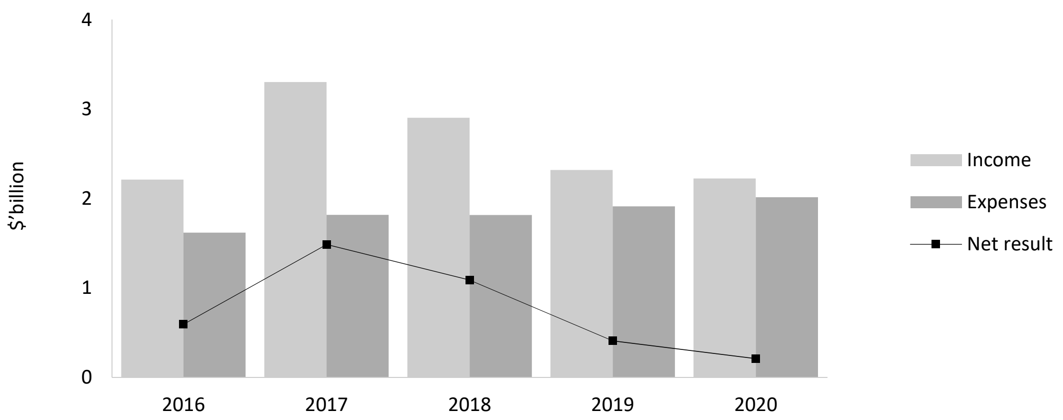
- supplies and services expenses decreasing by $93 million (9%), largely as a result of:

  - the impact of accounting changes from the commencement of AASB 16 on 1 July 2019, which contributed to the $122 million reduction in expenses relating to operating leases
  - partially offset by an increase in major infrastructure maintenance contracts expenditure of $31 million due mainly to construction works performed for external entities

- other expenses decreasing by $47 million, with the 2019 expense including the one-off transfers of the Adelaide Botanic High School assets of $28 million to the Department for Education, and of heritage assets valued at $18 million to the Department for Environment and Water
- employee benefits expenses decreasing by $20 million (7%), due mainly to a reduction in the number employees following organisational restructures, a change in the inflation rate used for estimating long service leave liabilities and a reduction in the number of separation packages paid.

Net result

The following chart shows the income, expenses and net result for the five years to 2020.



In 2019-20 DPTI recorded a net result of $210 million ($407 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 2015 and 2019, DPTI received $2.5 billion following the wind up of the Motor Accident Commission. No money was received in 2020. Further details are provided under 'Cash' below.

Statement of Financial Position

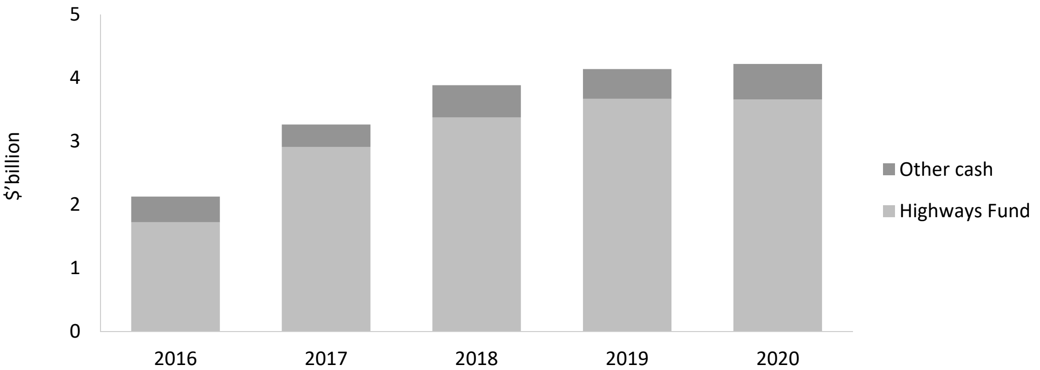
DPTI's total assets as at 30 June 2020 were $38.7 billion ($31.2 billion) and are discussed below.

DPTI's liabilities amounted to $1.5 billion ($453 million) and mainly comprised lease liabilities of $1.1 billion ($12 million), payables of $261 million ($245 million) and employee benefits of $107 million ($107 million).

The increase in lease liabilities is due to the commencement of AASB 16 which resulted in the recognition of $1 billion in lease liabilities as at 1 July 2019.

Cash

DPTI's cash amounted to $4.2 billion ($4.2 billion) and includes $3.7 billion ($3.7 billion) held in the Highways Fund established under the *Highways Act 1926*. The balance of the Highways Fund and other cash is shown in the following chart.

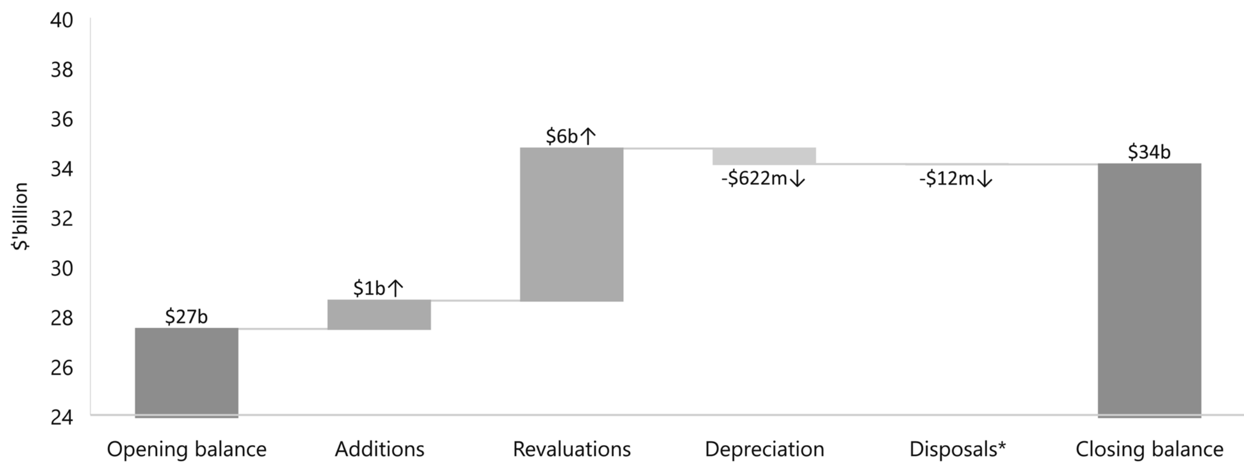


The marked increase in amounts held in the Highways Fund largely reflects the following transfers since 2015:

- surplus funds from the Motor Accident Commission totalling $2.5 billion since 2015. The last amount received was $143 million in 2019. The nature of the transfer of these surplus funds is included in my previous Reports
- money received from private insurer participation in compulsory third party arrangements amounting to $259 million received in 2018.

Fixed assets

DPTI's fixed assets totalled $34 billion and include network assets of $28.5 billion ($21.8 billion), land, buildings and facilities of $3.4 billion ($2.6 billion), capital work in progress of $1.5 billion ($1.7 billion) and plant and equipment of $655 million ($671 million). Land, buildings and facility assets include $791 million of right-of-use building recognised for the first time under AASB 16. The following chart shows the movement in fixed assets during the year.



* Disposals include donated assets and assets transferred to held for sale.

** Opening balance includes $761 million of right-of-use assets recognised on 1 July 2019 on the adoption AASB 16.

Network assets

Network assets amounted to $28.5 billion ($21.8 billion) and represent 83% of total non-current assets. Network assets comprise roads with a written down value of $22.9 billion (81%), structures with a written down value of $3 billion (10%) and rail and bus track assets with a written down value of $2.6 billion (9%).

The written down value of network assets increased by $6.7 billion to $28.5 billion. The main movements were:

- a net revaluation upwards of $6.1 billion, comprising a $5.5 billion increment for roads, a $393 million increment for structures and a $161 million increment for rail and bus track assets
- capitalisation of network projects totalling $1.1 billion, comprising $680 million for roads, $314 million for structures and $56 million for rail and bus track assets
- depreciation expense of $392 million, comprising $264 million for roads, $55 million for structures and $72 million for rail and bus track assets.

For many years DPTI has had the Treasurer's approval to value its road and structures assets using an internally developed revaluation methodology.

Recognising the significance of this increase in roads and structures, to ensure the reasonableness of its valuation approach for its current revaluation DPTI engaged a range of external experts to estimate construction costs, estimate component construction time, review its model for predicting useful life and review valuation work compliance with accounting principles.

The increase in roads and structures network value was driven by several factors, notably:

- changes to key cost assumptions impacting unit rates. This included:
  - using a 'design and construct' contract model rather than a 'construct' only contract approach for some road types, which resulted in the inclusion of contractor's design, overheads and profit margin in the estimated unit rates
  - inclusion of DPTI's overhead charges for the first time
  - allocating overheads to road components based on time rather than construction cost, which resulted in more overhead costs being allocated to non-depreciated road components (such as earth works)
  - more ancillary assets (such as drains) being included in the road valuation due to improved road data
  - improved standards for safety management and worker protection, resulting in higher costs
  - inclusion of retaining walls as a separate asset in the valuation of structures due to their use for projects becoming more prevalent
- an increase in the cost of road and structure making materials, including an increase in granular material, asphalt costs and precast supply costs due to market conditions
- an increase in labour costs for the construction of roads.

Capital works in progress

The value of capital works in progress decreased by $140 million to $1.5 billion. The major movements in capital works are shown in the following table.

Projects	Carrying amount 01.07.19 $'million	Additions $'million	Transfer to assets $'million	Closing balance 30.06.20 $'million
Northern Connector	677	109	778	8
North-South Corridor Darlington Upgrade	509	101	-	610
Gawler Line Electrification and Modernisation	99	120	-	219
North-South Corridor Regency road to Pym street	16	93	5	104
Flinders Link – Tonsley line extension	26	76	-	102
Festival Plaza Precinct	35	17	-	53
Metropolitan intersection upgrade program*	-	82	40	42
Princes Highway Upgrades	-	26	-	26
Oaklands Rail Crossing	15	10	25	-

* 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.

Land, buildings and facilities

Land, buildings and facilities increased by $800 million to $3.4 billion, the main movements were due to:

- recognition of $728 million of right-of-use assets on 1 July 2019 on the adoption AASB 16
- additions and transfers from capital works of $209 million, of which $138 million was for right-of-use assets and $49 million of land for current projects
- a $62 million upward revaluation, of which $34 million related to land and $28 million related to buildings
- depreciation expense of $164 million, of which $102 million was for right-of-use assets recognised for the first time with the implementation of AASB 16.

Plant and equipment

Plant and equipment totalled $655 million, a decrease of $16 million from the previous year. The main movements for the year were:

- asset additions and transfers from capital works in progress of $43 million, which included $20 million for the purchase of new buses
- depreciation expense of $61 million.

Statement of Cash Flows

Cash increased by $54 million to $4.2 billion.

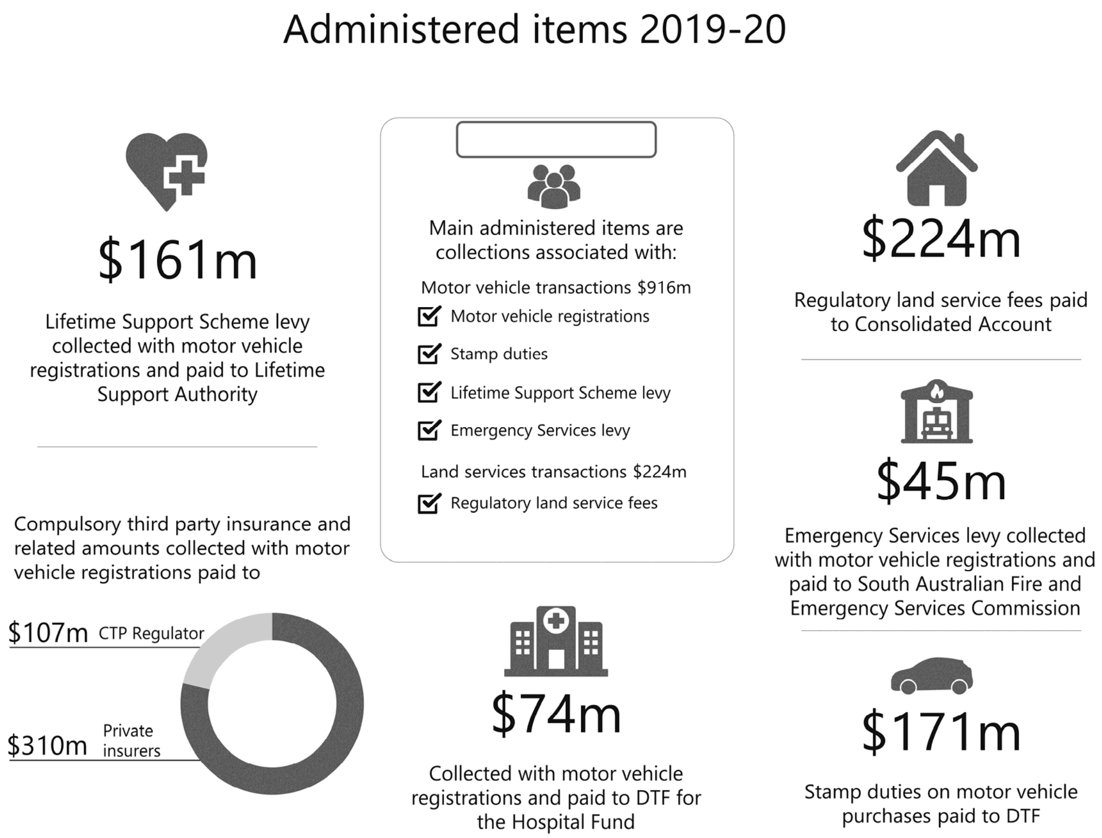
Cash flows provided by operating activities decreased by $88 million, due mainly to changes in the level of funding received from the State and Commonwealth. Changes in the level of government funding is impacted by the timing and scope of capital projects.

The cash used in investing activities increased by $39 million to $965 million, reflecting that DPTI maintained its level of capital works.

The net cash flows provided by financing activities decreased by $102 million to $171 million, due mainly to an increase in the repayment of lease liabilities arising from the adoption of AASB 16. Net cash flows provided by financing activities include an equity contribution from the SA Government under the Appropriation Act of $277 million ($277 million). Equity contributions are recognised in the Statement of Changes in Equity.

Administered items

DPTI 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, DPTI does not control these activities but is responsible for transferring amounts to other eligible beneficiaries. In 2019-20 DPTI was responsible for administering the following activities.



Major movements in DPTI's administered revenue ($1.2 billion) and expenses totalled ($1.3 billion) were:

- an increase in regulatory land services fees of $24 million to $225 million, due mainly to rate increases
- a decrease in compulsory third party insurance charges of $130 million

- recognition of an $80 million expense and an increase in the unearned revenue liability due to the SA Government extending the existing land services contract by seven years. This is discussed further below.

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, the relevant 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 is 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 DPTI's financial statements of the LSSA arrangements

The Office of the Registrar-General and Office of the Valuer-General transferred to DPTI on 1 July 2018 and resulted in DPTI:

- recognising a $1.5 billion liability in the Statement of Administered Financial Position for unearned revenue. This liability will be progressively reduced over the term of the agreement
- assuming responsibility for LSSA costs, which amounted to $74 million in 2019-20 and were recognised in DPTI's Statement of Comprehensive Income
- recognising SAILIS as a service concession asset valued at $17.1 million in DPTI's 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 DPTI's financial statements.

During the year 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 DPTI's administered financial statements recognising an additional $80 million in unearned revenue (liability) and an expense of $80 million.

On transition to AASB 1059 in July 2020, a further asset – the data in the land title registries – will also need to be considered. These assets must be measured at current replacement cost under AASB 1059. A valuation determined with reference to market prices or income modelling is not permitted by AASB 1059. At the time of this Report, DPTI was in the process of valuing these registries.

Impact of COVID-19

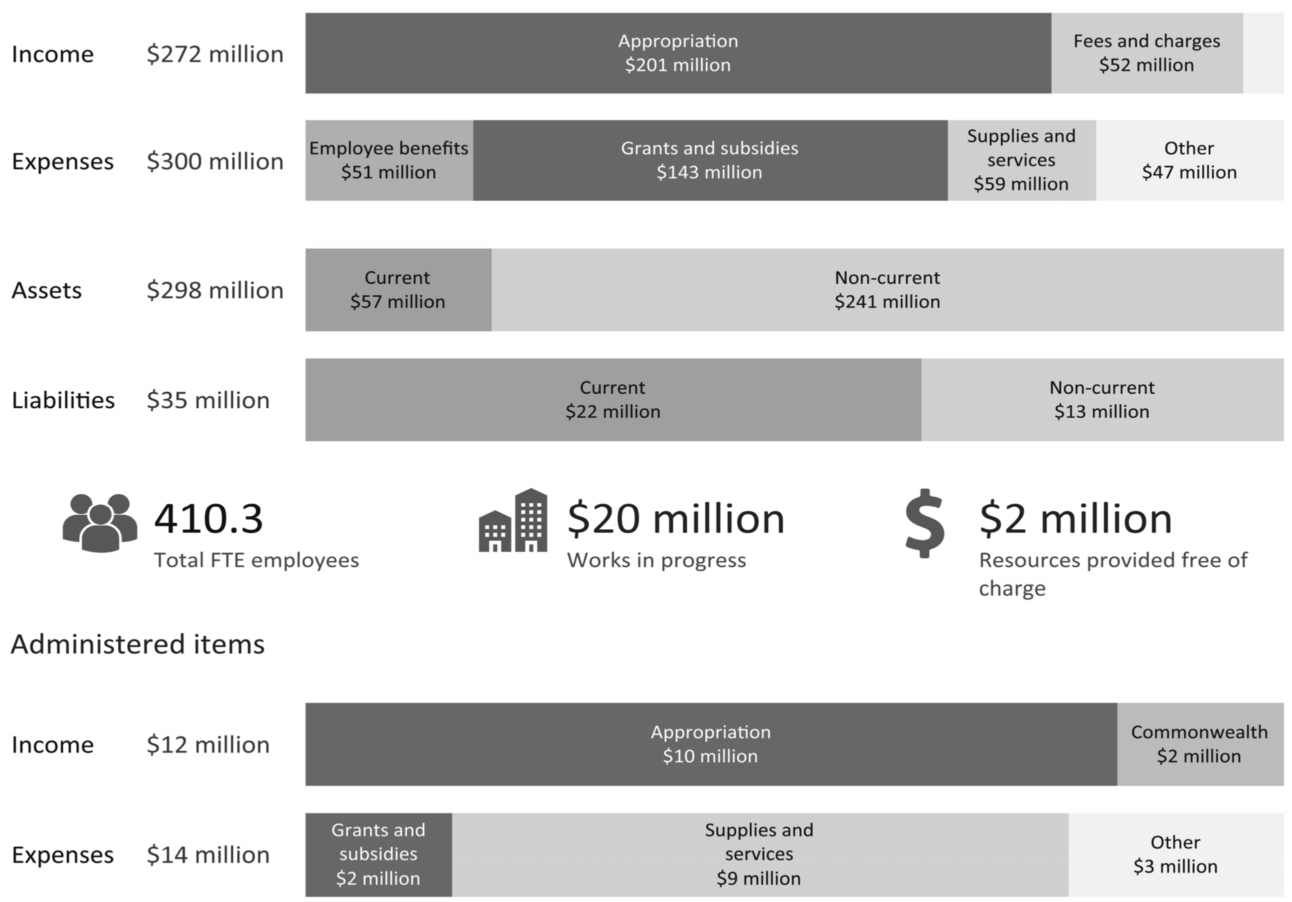
The main financial impacts of the COVID-19 pandemic for DPTI during the year included:

- a decrease in passenger transport revenue collected passenger of $14 million due to a decline in the patronage of public transport and the provision of free public transport to SA Health staff
- an increase in expenditure for the provision of a financial assistance package to the taxi industry of $4.9 million due to a decline in patronage, additional sanitising across the public transport network of $3.3 million and financial assistance to keep regional bus services viable.

The SA Government has approved an $85 million road infrastructure stimulus package targeting regional and national highway road projects and a $60 million regional road safety stimulus package to be jointly funded by the Commonwealth. The impact of these packages will occur in 2021 and beyond.

Department of the Premier and Cabinet (DPC)

Financial statistics



Significant events and transactions

- An independent revaluation of land and buildings held by DPC, mostly arts-related, was performed in 2020 resulting in a $41 million increment to property, plant and equipment.
- As a result of administrative arrangements, responsibility for Veterans SA transferred from DPC to Defence SA effective 1 July 2019.
- DPC returned surplus cash of $30 million to the Department of Treasury and Finance (DTF).

Financial report opinion

Unmodified

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. Details are contained in note 1 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 2019-20 included:

- payroll
- accounts payable
- ICT revenue
- general ledger
- grants.

The work of DPC's internal auditors was also considered 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 a small number of low risk audit findings in management letters to the Chief Executive and received a satisfactory response from DPC.

Controls opinion findings

There were no significant findings for our controls opinions work at DPC.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2020 $'million	2019 $'million
Income		
Appropriation	201	228
Fees and charges	52	54
Commonwealth and other grants	6	3
Other income	13	10
Total income	272	295
Expenses		
Employee benefits expense	51	59
Grants and subsidies	143	153
Supplies and services	59	62
Cash returned to DTF	30	31
Depreciation and amortisation	14	14
Other	3	3
Total expense	300	322
Net result	(28)	(27)
Other comprehensive income		
Changes in property, plant and equipment asset revaluation surplus	41	-
Total other comprehensive income	41	-
Total comprehensive result	13	(27)
Net cash provided by (used in) operating activities	(9)	(22)
Net cash provided by (used in) investing activities	(10)	(13)
Net cash provided by (used in) financing activities	(1)	(40)
Net increase (decrease) in cash and cash equivalents	(20)	(75)
Assets		
Current assets	57	81
Non-current assets	241	205
Total assets	298	286
Liabilities		
Current liabilities	21	20
Non-current liabilities	14	14
Total liabilities	35	34
Total equity	263	252

Statement of Comprehensive Income

Income

Total income for the year was $272 million, a decrease of $23 million (8%) from the previous year.

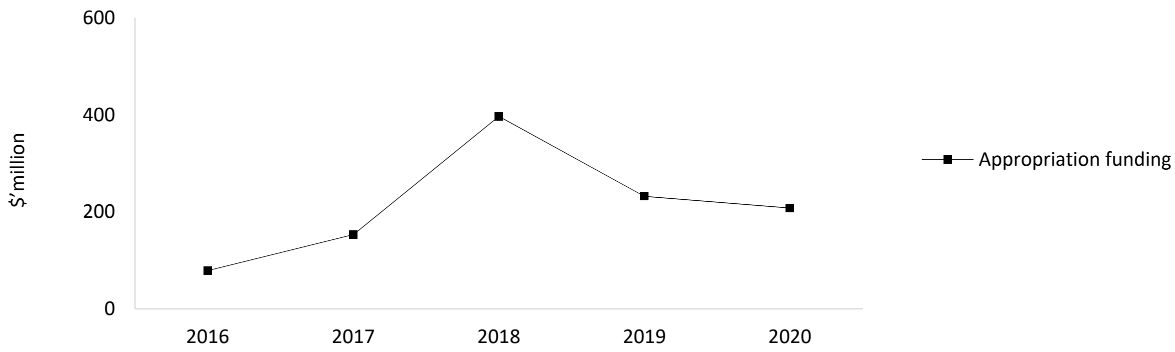
The main decrease in 2019-20 was in appropriation income, which decreased by $27 million to $201 million. This reduction reflects a reduced need for funding with reductions in a range of expenditure items, discussed further below, and reduced payments for property, plant and equipment compared to 2018-19.

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, Service 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 2020.



The reduction in appropriation funding in 2018-19 reflects that 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.

Expenses

Total expenses for the year decreased by $22 million (7%) to $300 million.

Employee benefits expense decreased by $8 million (14%) and supplies and services by $3 million (5%).

The reduction in employee benefits expense includes a decrease in targeted voluntary separation payments made in 2019-20 and a reduction in long service leave expenses as a result of changes to the assumptions used to value the liability.

The decrease in supplies and services is due to a range of factors, including a reduction in intra-government transfers reflecting the one-off nature of a number of 2018-19 payments.

Grants and subsidies decreased by $10 million (7%) to $143 million.

The significant grant programs included:

- $111 million to major arts organisations to fund their operations
- $5.8 million to minor arts organisations
- $5.2 million for Aboriginal Affairs and Reconciliation grants
- $5 million in local government grants
- $2.7 million for the Ageing Well Initiative
- $2.9 million in multicultural grants.

The funding to major arts organisations mainly reflects annual funding to SA Government agencies. Out of the $111 million in funding for these organisations, $97 million (87%) 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 $11 million (4%) to $263 million.

DPC revalued its land and buildings in 2019-20, resulting in a $41 million increase in values, mostly related to land. It also spent $10 million on additions during the year.

These increases were offset by depreciation expenses of $14 million and the repayment of $30 million in surplus cash to DTF.

Employee benefits liabilities reduced by $1 million to $17 million as a result of a decrease in long-term salary inflation rates to 2.5% (previously 4%) used in the valuation of the long service leave liability.

Highlights of the financial report – administered items

	2020 $’million	2019 $’million
Administered income		
Appropriations	10	17
Commonwealth revenue	2	3
Other	-	1
Total administered income	12	21
Administered expenses		
Grants and subsidies	2	2
Supplies and services	9	10
Cash returned to DTF	2	-
Other	1	4
Total administered expenses	14	16
Net result	(2)	5
Net cash provided by (used in) operating activities	(4)	5
Assets		
Current assets	40	43
Total assets	40	43
Liabilities		
Current liabilities	2	2
Total liabilities	2	2
Net administered assets	38	41

Statement of Administered Comprehensive Income

Administered income reduced by $9 million to $12 million (43%) mainly as a result a $5 million decrease in funding for the Stolen Generations Reparations Scheme, reflecting the Scheme substantially being completed. There was also a corresponding $3 million reduction in expenses associated with the Scheme in 2019-20.

Statement of Financial Position

Administered current assets decreased by $3 million to $40 million in 2019-20. This was mainly due to the $2 million return of surplus cash to DTF.

Department of Primary Industries and Regions (PIRSA)

Financial statistics	Net result:	$9.5 million
	Appropriations:	$144.7 million
	Advances and grants revenue:	$61.8 million
	Grants and subsidies expense:	$70 million
	Number of FTEs:	851

Significant events and transactions

— $20.2 million of bushfire recovery and response grants and subsidies payments were made. Most of this relates to grants paid to primary producers suffering direct damage from bushfire disasters in 2019-20. The grants are to assist with recovery costs and are 80% funded by the Commonwealth. PIRSA received additional appropriations to support these grant payments.

— A $21 million drought support package was announced in December 2019 to assist primary producers over two years. Program costs include $2.1 million of grant payments in 2019-20.

— $10.7 million was advanced as a loan to cooperatives in 2019-20. PIRSA received funding from the Department of Treasury and Finance as borrowings to facilitate this loan. Additional loan advances are expected in 2020-21 under the agreement.

— There was a $6.7 million increase in contractors and temporary staff expenses for fruit fly outbreak management and implementing the State's zero-tolerance policy.

— New accounting standards AASB 15 *Revenues from Contracts with Customers,* AASB 16 *Leases* and AASB 1058 *Income of Not-for-Profit Entities* were adopted from 1 July 2019. The most significant impact from this was the recognition of contract assets and liabilities of $4.1 million and $12.5 million respectively, as a result of revenue from contracts with customers.

Financial report opinion — **Unmodified**

Controls opinion findings — No significant findings.

Other audit findings

- Bona fide and leave return reports were not reviewed promptly.
- Implementation of the legislative compliance framework needs improvement.
- Risk management framework needs improvement.
- Bushfire grant payments were made to eligible applicants but there were some initial delays in payments.

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 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 2019-20 included:

- follow-up of 2018-19 findings
- governance
- revenue, including license revenue, South Australian Research and Development Institute (SARDI) grant revenue, consultancies services and sundry revenue. This included reviewing PIRSA's assessment and conclusions relating to the implementation of new revenue standards and its associated accounting policies
- expenditure, including supplies and services, and grant expenditure for the South Australian River Murray Sustainability (SARMS), Regional Development Fund (RDF), Regional Growth Fund (RGF), and bushfire recovery and response programs
- payroll
- cash and general ledger
- loan receivables and borrowings
- fixed assets, including leased assets
- other financial assets, including investments in shares.

The audit considered control processes performed by both PIRSA and Shared Services SA.

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

Payroll

Employee benefits expenses for the year were $90.1 million ($95.9 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. In response PIRSA introduced monthly compliance reporting to executive on overdue reports to improve compliance.

As at December 2019 when we performed our review, 17.5% of bona fide reports and 16% of leave return reports were reviewed late. We also found a number of reports were overdue and yet to be reviewed.

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.

PIRSA responded that it would continue to issue reminders for managers to review bona fide and leave return reports in the time frames outlined in its procedures.

Governance

Implementation of the legislative compliance framework needs improvement

In 2018-19 we found that improvements could be made to PIRSA's legislative compliance framework, including using the legislative compliance register to coordinate compliance monitoring across its divisions. Our follow-up in 2019-20 found that this is still a work in progress.

In 2019-20 we also reviewed the application of the legislative compliance framework within a division of PIRSA. We found the biosecurity division did not have a structured or formal program to assess legislative compliance and report breaches. While there are assessments against responsibilities under legislation, no documentation is maintained.

Without a coordinated approach to monitoring and assessing compliance with legislation, breaches may not be identified or reported.

We recommended PIRSA update its legislative compliance policies and procedures, and use the legislative compliance register to document how divisions have assessed compliance. This central register can then be used to identify and report any breaches.

PIRSA responded that a review of the legislative compliance policy and procedure has been completed. A register has been developed to capture all relevant legislation.

Risk management framework needs improvement

A risk management framework should provide for the ongoing monitoring and reassessment of risk to ensure that risk registers remain relevant and risks are effectively managed.

We found that PIRSA's risk management framework could be enhanced by including the process to add a new risk into the risk register or for an existing risk to be reassessed. Without having these steps formally documented within the framework, PIRSA's risk registers may be incomplete or not reflect its current risk profile, increasing the potential for risks not to be effectively managed.

We recommended PIRSA amend its risk management framework to incorporate these elements. PIRSA responded that it will update its risk management policy and procedure.

Grant expenditure

Total grant and subsidies expenditure for the year was $70 million ($50 million), including $20.2 million for the bushfire recovery and response program.

Bushfire grant payments were made to eligible applicants but there were some initial delays in payments

The Emergency Bushfire Response in Primary Industries (ERPI) grants were announced in response to the devastating and severe impact of the 2019-20 bushfire season. The ERPI grants are a joint contribution of the State and Commonwealth Governments under the Disaster Recovery Funding Arrangements.

The objective of the ERPI grant program is to assist primary producers who suffered direct damage from a bushfire disaster in 2019-20 with immediate recovery costs, including disposing of deceased livestock and rebuilding or replacing damaged or destroyed farm infrastructure.
ERPI grants of up to $75 000 are available to reimburse eligible primary producer businesses located within several council areas across South Australia. They are 80% funded by the Commonwealth.

We reviewed the ERPI grant process, including:

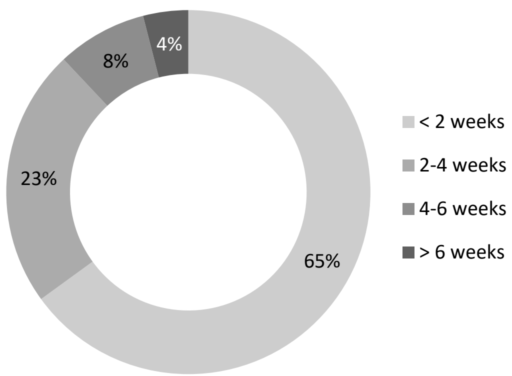
- determining whether appropriate approvals were obtained for the grants
- identifying if appropriate guidelines and processes had been developed to assess grant applications

- testing a sample of approved and rejected applications to ensure the guidelines were followed
- analysing the time frames between assessing, approving and paying grants.

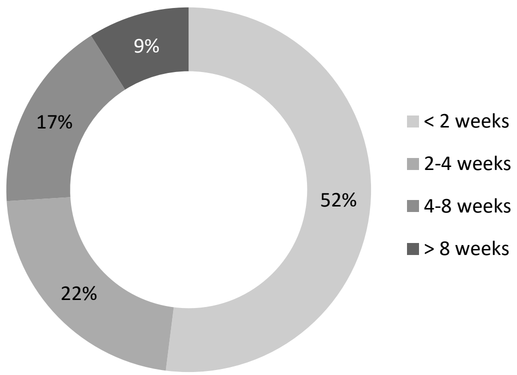
We found that appropriate approvals were obtained and PIRSA developed detailed grant guidelines and procedures to assess the applications. Our sample testing found that the guidelines were followed so that payments were made to eligible applicants.

We did find there were some delays in approving the applications and disbursing payments, as shown in the charts below.

Time between complete application received and approval



Time between approval and payment



Delays between receiving and approving applications were due to additional documents being required to support them. PIRSA identified early that there were delays in processing payments for approved grants and implemented a streamlined payment process. In our sample of payments after this was introduced, 79% were paid within two weeks.

As the ERPI grant application date has been extended until the end of 2020, we recommended that PIRSA update its guidelines to include examples of additional supporting documents that may be helpful for applicants to submit with their application. We also recommended PIRSA work with Shared Services SA to identify further ways to reduce the payment time, and establish clear expectations regarding roles and responsibilities and time frames for payment.

PIRSA is yet to respond to our findings.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2020 $'million	2019 $'million
Income		
Appropriation	145	99
Advances and grants	62	57
Sale of goods and services	16	17
Commonwealth revenues (National Partnership Payments)	3	34
Other income	10	20
Total income	236	227

	2020 $'million	2019 $'million
Expenses		
Employee benefits	90	96
Supplies and services	55	52
Grant and subsidies	70	50
Other expenses	12	11
Total expenses	227	209
Net result	9	18
Other comprehensive income	1	3
Total comprehensive income	10	21
Net cash provided by (used in) operating activities	16	20
Assets		
Current assets	164	147
Non-current assets	173	165
Total assets	337	312
Liabilities		
Current liabilities	45	38
Non-current liabilities	54	46
Total liabilities	99	84
Total equity	238	228

Statement of Comprehensive Income

Income

Appropriations

Appropriations from the SA Government increased by $45.4 million to $144.7 million largely due to $49.4 million of additional receipts from the Governor's Appropriation Fund in 2019-20. Additional funding was received for bushfire response and recovery grants ($22 million), drought support package ($9 million) and fruit fly biosecurity response activities ($10 million).

Advances and grants

Advances and grants revenues increased by $5.1 million to $61.8 million, mainly due to $3.9 million received from the Economic and Business Growth Fund administered by the Department of Treasury and Finance for the Growing the Livestock Sector program.

Commonwealth grants (National Partnership payments)

Commonwealth revenues decreased by $30.2 million mainly due to the SARMS program funding ending. See more discussion on the SARMS program under 'South Australian River Murray Sustainability program' below.

Expenses

Employee benefits expenses

Employee benefits expenses decreased by $5.9 million to $90.1 million largely due to:

- a decrease in targeted voluntary separation package (TVSP) expenses of $3.6 million. In 2018-19 TVSPs were paid/payable to 50 employees, mainly affecting the Corporate Services and Agriculture, Food and Wine divisions. In 2019-20, 11 TVSPs were paid/payable, mainly within the SARDI and Corporate Services divisions
- a decrease in long service leave expense of $3 million primarily due to decreases in the long service liability resulting from changes in the assumptions used by the actuary (including a reduced government bond rate, down to 0.75% (1.25%), and salary inflation rate, down to 2.5% (4%)) and a decrease in overall entitlement hours.

Grants and subsidies expense

Total grants and subsidies increased by $20 million to $70 million, mainly due to:

- $20.2 million of grant payments for bushfire recovery and response in 2019-20. See discussion under ‘Bushfire recovery and response’ below
- a $3.7 million increase in other adverse event recovery programs, including the on-farm emergency water infrastructure rebate scheme and the drought support package
- a $4.4 million increase in the South East Forestry Partnership program, including a $3 million payment to the Department of Planning, Transport and Infrastructure as a contribution towards the Mount Gambier airport development
- a $6 million increase in RGF grant payments as the program enters its second year. This includes a $3.9 million contribution to Thomas Foods International to fund utilities infrastructure
- a $3.4 million decrease in grant payments made from the RDF as this program winds down
- a $16.4 million decrease in SARMS grant payments as the program has ended, with final projects being paid in 2019-20.

Bushfire recovery and response

Bushfire recovery and response expenses relate to ERPI grants ($19.7 million) and other assistance grants ($476 000) made in response to eligible bushfire disaster events.

ERPI grants aim to assist 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.

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.

A maximum of $75 000 is claimable by eligible applicants. As at 30 June 2020, 362 grant applications had been received. Of these, 290 grant applications were approved totalling $19.7 million. Most claims were paid for applicants from the Kangaroo Island and Adelaide Hills council areas.

Drought Support Package

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.

As at 30 June 2020, PIRSA had received over 1000 applications for drought assistance and $6.2 million of rebates had been approved. Total payments made of $2.1 million are included in grants and subsidies expense for the drought support package.

Regional Development Fund/Regional Growth Fund

Grant funding from the RDF supported efforts to grow stronger, more sustainable and competitive regions. Grants are intended to support economic growth, improved infrastructure and job creation in the regions.

The RDF has now closed, with no new grant funding agreements entered into since 2017-18.

Total payments from the RDF for the year were $3.9 million ($7.3 million), as funds are not paid on approval but over time as project milestones are achieved.

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.

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) – $7 million for 15 projects. 10 agreements totalling $4.4 million related to competitive grants and five agreements totalling $2.6 million related to strategic projects.

Contract management for the RGF grant agreements is being administered by the South Australian Government Financing Authority.

Total expenses for the RGF were $6.4 million ($440 000), as funds are not paid on approval but over time as project milestones are achieved.

Round three of the RGF was brought forward as part of the SA Government's stimulus package for regional economies affected by bushfires, drought and COVID-19. As at 30 June 2020, applications were still being assessed.

South Australian River Murray Sustainability program

In August 2013 a National Partnership Agreement between the Commonwealth and SA Government was signed, allocating $265 million in Commonwealth funding to the SARMS program over six years, with the aim of returning 40 gigalitres of water to the River Murray. Of the $265 million, $240 million has been allocated to the Irrigation Industry Improvement program (3IP) and $25 million to the Regional Economic Development (RED) program. These components are designed to provide a comprehensive set of programs supporting regional research, economic diversification and development in River Murray communities.

— Irrigation Industry Improvement program

3IP is a competitive grants program created by industry to support the restoration of a healthy Murray-Darling Basin environment. It helps SA River Murray irrigators to remain at the forefront of irrigation practices, and also helps irrigators and the wider community respond to the Murray-Darling Basin Plan and be more resilient to the effects of fluctuating water availability.

Since 3IP's inception, PIRSA has entered into 255 grant funding agreements for a total of $214.1 million to return 40 gigalitres of water to the River Murray. Grant funding has closed, however payments continued in 2019-20 under the existing agreements. PIRSA advised that as at 30 June 2019, the full 40 gigalitres of water has been returned to the River Murray.

— Regional Economic Development program

Funding of $25 million for the RED program was allocated across three areas as follows:

- $12.5 million for the Regional Development and Innovation Fund – to date there has been $11 million in grants awarded to support 17 projects across four rounds of funding. No further funding has been offered since 2016-17
- $5 million for the Industry-Led Research Sub-Program – to date there has been $2.9 million in grants awarded to support nine projects across two rounds of funding. No further funding has been offered since 2015-16
- $7.5 million for the Loxton Research Centre redevelopment. The redevelopment was substantially completed in 2016-17 although some minor work continued through to 2018-19.

Total SARMS grant payments for 2019-20 for both 3IP and the RED program were $6.6 million ($23 million), as funds are not paid on approval but over time as project milestones are achieved.

Commonwealth funding ceased in 2018-19 for the SARMS program. At 30 June 2020 PIRSA continued to hold $4.1 million of Commonwealth funds for SARMS. The remaining 3IP and RED projects are expected to be completed in 2020-21, with expenditure commitments of $2.2 million and $898 000 respectively. PIRSA has advised that the remaining funds from the SARMS program were allocated to other projects in 2019-20 that were approved by the Minister, in line with the Commonwealth agreement.

Supplies and services

Supplies and services expenses increased by $2.9 million to $55.2 million in 2019-20 largely due to:

- a $5.7 million increase in professional and technical services, mainly the result of a $6.7 million increase in contractors and temporary staff engaged to assist with the biosecurity response to manage fruit fly outbreaks throughout South Australia as part of the State's zero tolerance policy
- a $2 million decrease in utility and property costs, mainly due to works undertaken in 2018-19 at the Yamba quarantine station
- a $1.6 million decrease in vehicle and equipment operating lease payments as a result of the initial application of AASB 16 *Leases*, under which operating lease payments are no longer recognised in supplies and services. Instead the present value of payments is recognised as a lease liability with a corresponding right-of-use asset recognised.

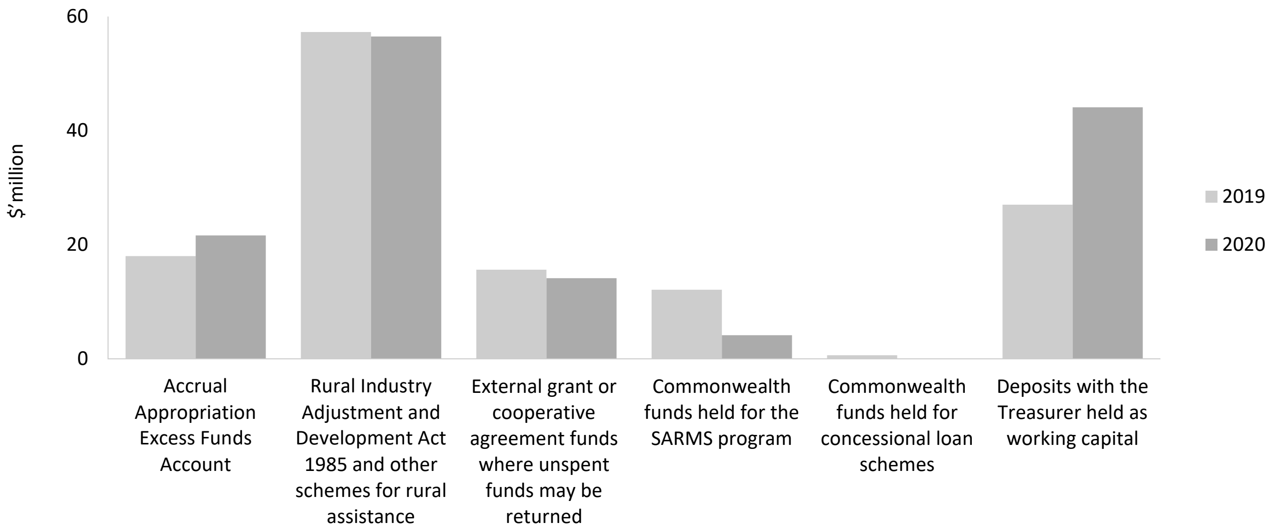
Statement of Financial Position

Assets

Total assets increased by $24.8 million to $336.6 million. This was primarily due to increases in cash, receivables and contract assets as discussed below. Property, plant and equipment remained relatively consistent at $121 million ($120.5 million) with depreciation offset by additions.

Cash and cash equivalents

PIRSA held cash of $140.7 million ($130.6 million) at 30 June 2020. The main components of cash held are shown in the chart below.



The $8 million decrease in funds held for the SARMS program is due to funding from the Commonwealth ending in 2018-19, with remaining grants paid out under the program totalling $6.6 million in 2019-20.

The $17.1 million increase in PIRSA's cash held as working capital is largely due to appropriation funded grant expenditure carried forward into 2020-21.

Receivables

Receivables increased by $7.2 million to $38.9 million in 2019-20, mainly due to a $9.4 million increase in loans to cooperatives (see 'Loans to cooperatives' below).

Contract assets

Contract assets were originally recognised on 1 July 2019 on initial application of AASB 15 *Revenue from Contracts with Customers*. The balance relates to contracts with customers, where the contract asset represents work undertaken by PIRSA to satisfy contractual obligations that will be billed at a later date. For example, research performed under a grant agreement where revenue is recognised over time as the research is carried out. $4.1 million was recognised on 1 July 2019, reclassified from receivables. The contract asset balance increased to $6.2 million by 30 June 2020.

Liabilities

Total liabilities increased by $14.7 million to $98.6 million ($83.9 million). This increase was largely due to a $10.1 million increase in financial liabilities and a $13.6 million increase in contract liabilities, offset by a $12.6 million decrease in other liabilities.

Financial liabilities

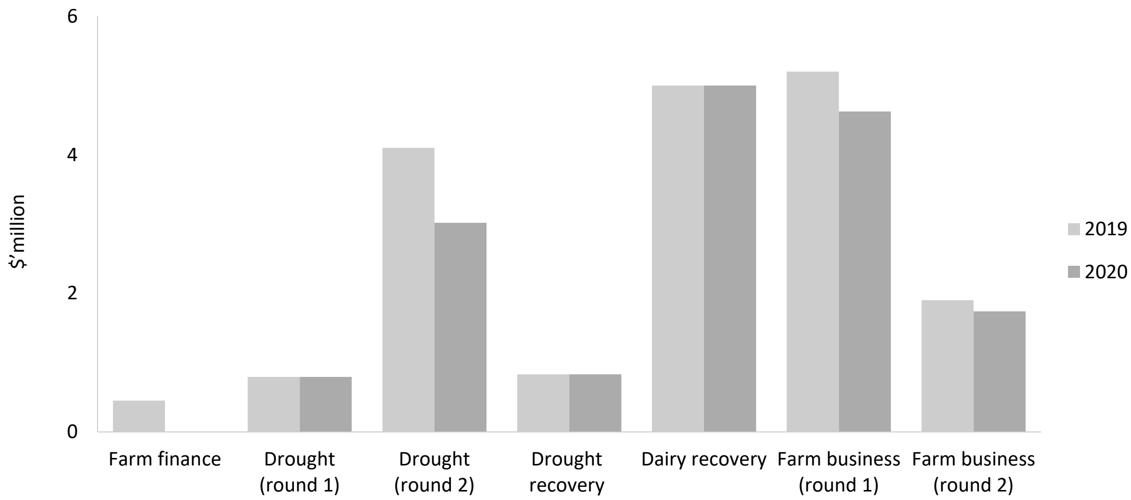
Financial liabilities consist of indebtedness to the Treasurer of $26.7 million ($18.8 million) and lease liabilities of $2.3 million.

Lease liabilities were recognised for the first time in 2019-20, as a result of adopting AASB 16 *Leases*. The present value of future lease payments is now recognised as a liability instead of being expensed on a straight-line basis under supplies and services. A corresponding right-of-use asset is recognised under property, plant and equipment and depreciated over the lease term.

The increase in borrowings is discussed under ‘Commonwealth concessional loans schemes’ and ‘Loans to cooperatives’ below.

Commonwealth concessional loans schemes

PIRSA’s financial liabilities balance includes $16 million ($18.8 million) relating to borrowings associated with the concessional loans schemes shown in the chart below.



The Commonwealth pays funds for these loans schemes in advance in agreed amounts and these funds are held in a special deposit account until paid to approved applicants. When the loans schemes are closed to new applicants, any amounts that are not paid to loan recipients are returned to the Commonwealth.

Farm finance concessional loans were made available to applicants to restructure their debt. This scheme closed on 30 June 2015. The remaining loan balance was repaid in 2019-20.

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 refinancing of 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. Loan payments for round one were paid to eligible applicants in 2017-18 and any unpaid amounts were returned to the Commonwealth. 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. Loans were made to eligible applicants in 2017-18 and continued in 2018-19 as while the scheme closed on 30 June 2018, application assessments were made after this date. Loan advances in 2018-19 totalled $2.1 million. Unpaid amounts were returned to the Commonwealth in 2018-19.

From 1 July 2018, farm business concessional loans applications are 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. Going forward PIRSA will only receive repayments for existing loans.

As at 30 June 2020 there were no impaired loans and all amounts are expected to be repaid in line with the repayment schedules.

Loans to cooperatives

PIRSA also administers loans to cooperatives provided by the SA Government. Loans to cooperatives 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. Refer to note 6.2 of PIRSA's financial report for 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, however by 30 June 2020 only $10.7 million had been drawn down.

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 $28.4 million ($28 million) and grants and subsidies paid out during the year totalled $29.4 million ($30 million). The Fisheries Research and Development Fund paid $12.8 million ($13.3 million) to carry out research, exploration and experiments for the conservation and management of living resources found in waters.

PIRSA also received $4.9 million ($4.9 million) in appropriation from the SA Government for the administered activities. $4.5 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 ($54.1 million) held under the Pastoral Land Management Fund and cash of $19.3 million ($22.7 million).

Return to Work Corporation of South Australia (RTWSA)

Financial statistics	Total comprehensive result: ($303.3 million) Premium revenue: $519 million Net claims paid: $445 million Outstanding claims liability: $3.5 billion Net assets: $70.2 million The number of seriously injured claimants in the Return to Work Scheme as at 30 June 2020 was 653 (595), an increase of 9.7%. The average premium rate was 1.65% in 2019-20, a 0.05% decrease from the 2018-19 rate of 1.7%. Number of FTEs: 242.5
Significant events and transactions	— The provision for outstanding claims increased by $269.6 million. — COVID-19 impacted RTWSA affecting premiums and had a significant effect on global financial markets, with many experiencing negative returns. — RTWSA's net investment loss was $2 million. — RTWSA achieved a consolidated funding ratio of 102%, meaning that the Return to Work Scheme is fully funded. — The Compensation Fund has net liabilities of $93.1 million as at 30 June 2020.
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.

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.

On 4 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%

Source: The numbers shown in this table were provided by RTWSA and are 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 2019-20 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 expenses
- payroll expenditure
- IT general controls.

We considered internal audit activities in designing and performing our audit procedures. We made use of the investment and IT general controls work performed by internal audit.

Controls opinion

We reviewed controls over premiums 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 2019-20 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 2020, 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.*

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 required communication 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

	2020 $'million	2019 $'million
Underwriting result		
Premium revenue from registered employers	519	510
Net claims paid	(445)	(350)
Increase in net outstanding claims liability	(258)	(483)
Claim management fees	(55)	(53)
Other underwriting expenses	(17)	(2)
Underwriting result	(256)	(378)
Net investment and other income		
Net investment profit (loss)	(2)	272
Other income	12	12
Net investment profit and other income	10	284
Operating expenses		
Employee benefits expenses	(32)	(32)
Other expenses	(25)	(27)
Total operating expenses	(57)	(59)
Result from operating activities before tax equivalents	(303)	(153)
Tax equivalents	-	-
Total comprehensive result	(303)	(153)
Net cash provided by (used in) operating activities	59	171
Net cash provided by (used in) investing activities	12	(152)
Assets		
Investments	3 528	3 571
Other assets	76	60
Total assets	3 604	3 631

	2020 $'million	2019 $'million
Liabilities		
Outstanding claims	3 505	3 235
Other liabilities	29	23
Total liabilities	3 534	3 258
Total equity	70	373

Statement of Comprehensive Income

Total comprehensive result

RTWSA's comprehensive result depends significantly on:

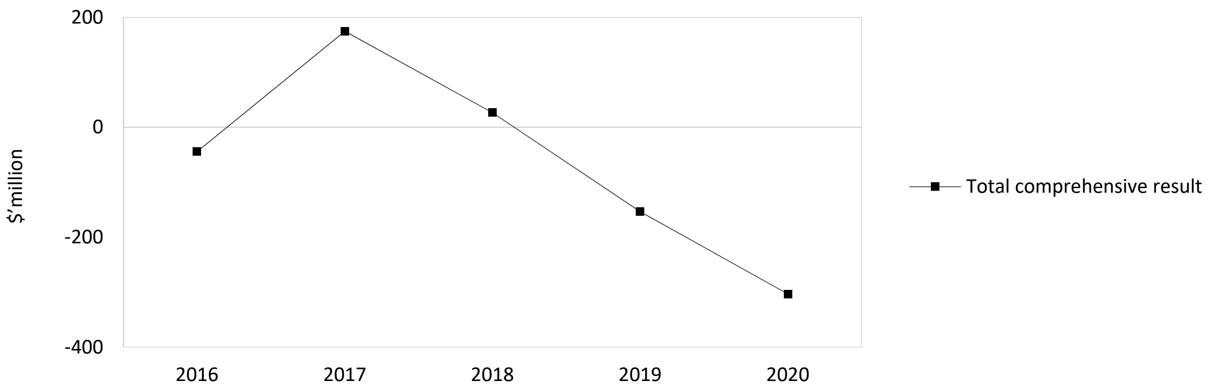
- premium rates being set before the start of the financial year with the aim of ensuring premium revenue and investment income will at least cover the cost of new claims incurred during the financial year and administrative costs. The premium setting process depends significantly on the actuarial estimate 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 $303.3 million (loss of $153.4 million). The increase in the loss of $149.9 million in the total comprehensive result was due mainly to a $273.6 million decrease in net investment profit offset by a decrease in the cost of claims of $115.3 million.

Other factors impacting the result for the year were an increase in premium revenue of $8.8 million.

In 2019-20 and 2018-19 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 has achieved 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 2019-20 and 2018-19 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 2020.



Since 2017 the comprehensive result has been steadily decreasing. The decreases result from increases in net outstanding claims liability in 2019 and losses from investment activity in 2020.

Underwriting result

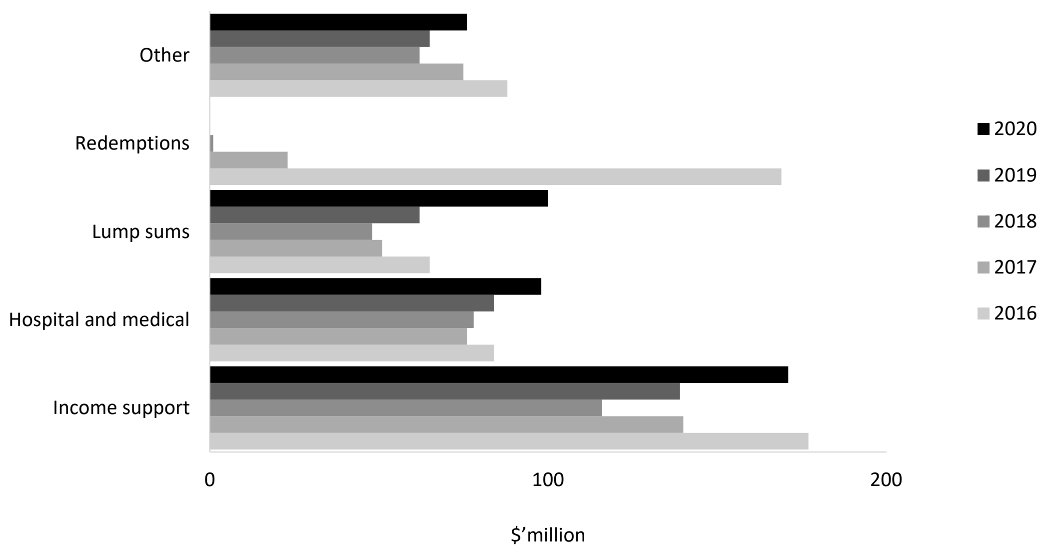
The underwriting result is essentially registered employer premium revenue less claims expense. Investment income does not form part of the underwriting result. AASB 1023 *General Insurance Contracts* requires the underwriting result to be shown separately in the Statement of Comprehensive Income to help show the extent to which underwriting activities rely on investment income for the payment of claims.

The underwriting result was a loss of $256.3 million, compared to a loss of $378.5 million in 2018-19. The $122.3 million upturn reflects a $115.3 million decrease in the cost of claims, mainly as a result of:

- a $258.3 million increase in the net outstanding claims liability compared to a $483.4 million increase last year
- a $95.7 million increase in claims payments due mainly to:
  - income support increasing by $31.7 million to $171 million as a result of an increase in the number of income support claims and longer durations for income support paid (reflecting a deterioration in return to work outcomes)
  - lump sum payments paid to claimants increasing by $37.6 million as a result of a higher number of WPI assessments coming through from projects related to transitional claims and a speed up in the WPI assessment process
- an $8.8 million increase in premiums due mainly to higher remuneration estimates combined with additional prior year premium.

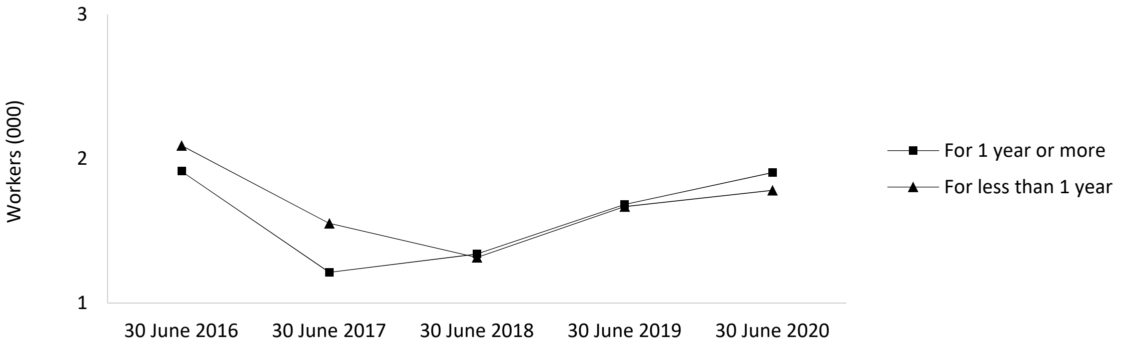
Claim payments

The following chart analyses claim payments for the five years to 2020.



The chart shows an increase in income support payments in 2020 ($31.7 million) due mainly to an increase in the number of income support claims and longer durations for income support paid. Lump sum payments also increased in 2020 ($37.6 million) 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 2020 is reflected in the following chart.

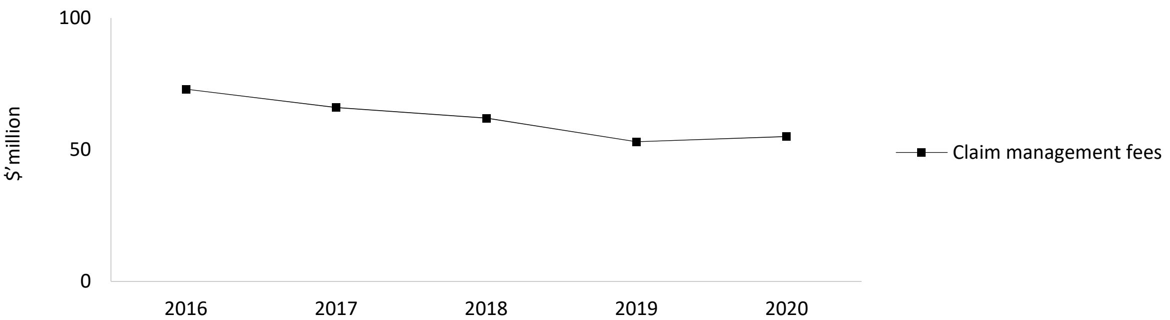


Source: The numbers shown in this chart were provided by RTWSA and are unaudited.

The chart shows that the number of workers receiving income support started on an increasing trend from 2018. In 2020 the number of workers receiving income support for a year or more (long-term claims) increased by 13.1%, and for less than a year increased by 6.8%. This was mainly due to the continued deterioration 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 2020.



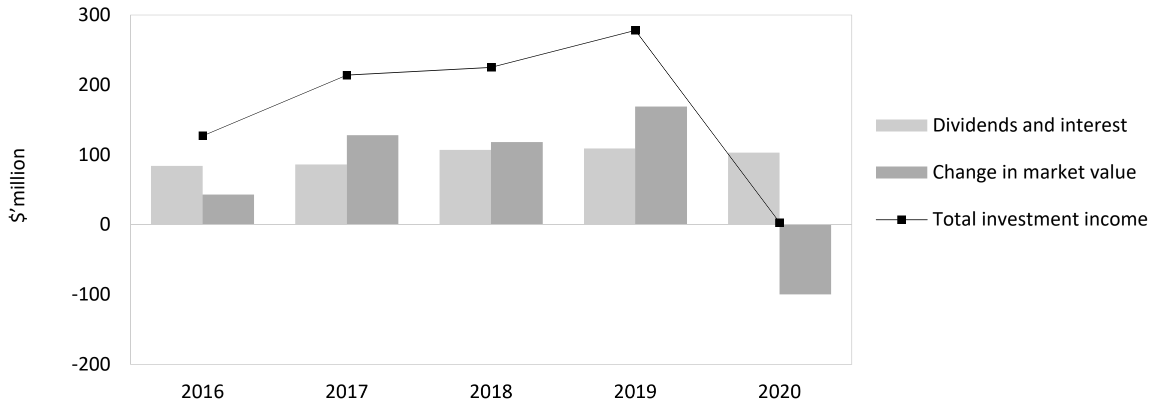
Claim management fees are paid to RTWSA's two claims agents for managing workers compensation claims.

Claim management fees have been steadily decreasing since 2016 due mainly to the removal of additional payments to cover the extra costs incurred by the agents due to Scheme reform. In 2020, claim management fees increased by $1.2 million to $54.7 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 value of its investments, which depend on financial market conditions and macroeconomic influences. In 2019-20 the COVID-19 pandemic had a significant impact on global financial markets.

The following chart shows RTWSA's investment income for the five years to 2020.

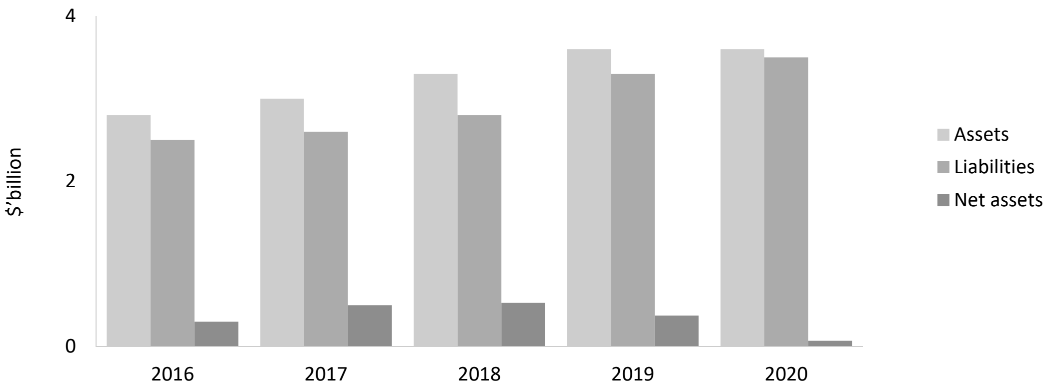


As shown, dividend and interest income has remained relatively stable over prior years with a decrease in 2020 of $5.8 million. The market values of RTWSA's investments significantly decreased in 2020 as a result of the COVID-19 impact, with the value of investments held at the end of the year decreasing by $58.6 million.

Statement of Financial Position

In 2020 there was a decrease in net assets of $303.3 million, due mainly to an increase in the provision of outstanding claims of $269.6 million to $3.505 billion as a result of the actuarial valuation. The other significant impact was investments, which decreased in value by $43.2 million to $3.528 billion as a result of decreases in the market values of investments of $58.6 million and net cash inflows of $12.4 million.

The following chart analyses RTWSA's assets and liabilities for the five years to 2020.



The chart shows that RTWSA's net asset position has continued to decrease since 2018 and the Scheme is close to being unfunded. The funding ratio (assets divided by liabilities) was 102% in 2019-20 compared to 111.5% in 2018-19.

The Compensation Fund, which makes up the largest portion of the Scheme, has negative net assets of $93.1 million (refer note 5 of RTWSA's financial report).

Liabilities

Outstanding claims – Compensation Fund

Outstanding claims for the Compensation Fund comprised 97% (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.

The central estimate of outstanding claims liabilities was $3.009 billion at 30 June 2020. The net outstanding claims provision was $3.365 billion at 30 June 2020, including a risk margin of $430.3 million intended to achieve a 75% probability of sufficiency.

The net liability for outstanding claims has increased from $3.103 billion at 30 June 2019. The $261.3 million increase can be mainly attributed to:

- a $171 million increase due to the inclusion of another year of claims
- a $67 million increase due to a more unfavourable claims experience than was projected for both short-term and serious injury claims
- an increase of $41.4 million in the risk margin, which increased to 14.3% from 14% to allow for the additional uncertainty associated with the impact of COVID-19 on the liabilities
- an increase in recoveries of $11.3 million.

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 2020 (refer 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 $545 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 $149 million to $446 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 111.5% in 2018-19 and 102% in 2019-20.

RTWSA reduced the average premium rate from 1.7% in 2018-19 to 1.65% in 2019-20.

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:

- Legal precedent risk – the RTW Act has elements that are subject to interpretation and legal challenge. Despite a number of 'key cases' having been resolved over the last two to three 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 for at least another two years, and perhaps longer.
- 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 claimants delaying their WPI assessments, as well as the large number of outstanding serious injury application disputes and WPI disputes
  - life expectancy
  - cost escalation – the potential for future cost escalation in a number of medical, care and treatment related items.
- Claim durations for short-term claims – over the last two years there has been an increase in claim numbers and slippage in return to work outcomes. Compounding this the COVID-19 pandemic has created a poorer and more uncertain economic environment that has the potential to impact claim outcomes.
- Outcomes for claims with current disputes – the valuation basis assumes a high level of success on currently disputed claims. Open dispute numbers remain high and more claims are moving into the later stages of the dispute resolution process.
- Economic environment – there is considerable uncertainty in financial markets, and this has adversely impacted the discount rates used to determine the valuation results.

We note there are still key areas of the RTW Act being tested in the courts, and there is still only limited information on the number of serious injury claims that will emerge from these cases.

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 2020 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: uncertainty about the ultimate number of serious injury claims; potential legal challenges; high levels of disputes and delays in the dispute process; short-term claimants staying on income benefits for longer; ultimate number of claimants seeking lump sums; and impacts of the COVID-19 pandemic. The uncertainties may have favourable as well as unfavourable outcomes for the Scheme.

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 a large number of open disputes and slow rate of dispute resolution, there is still considerable uncertainty in the Scheme. RTWSA has adopted the actuary's higher risk margin of 14.3% as at 30 June 2020 (14% in 2019), 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.

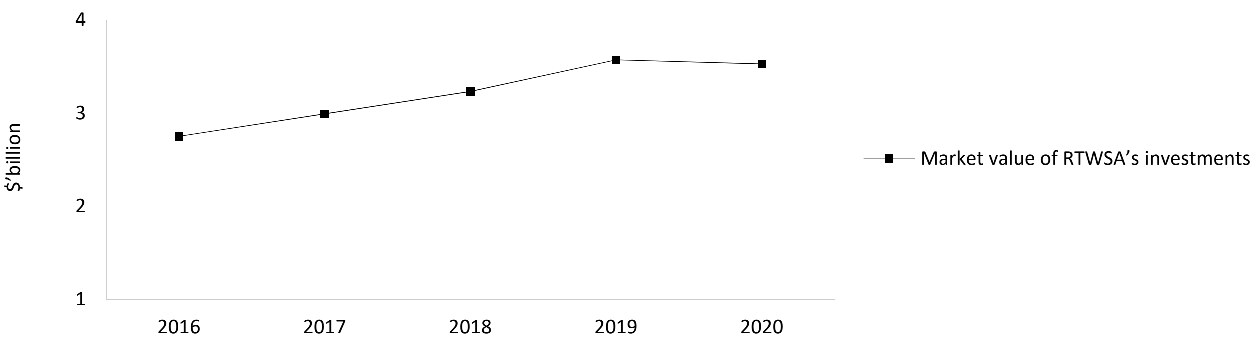
Investments

RTWSA's investment portfolio of $3.528 billion ($3.571 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.

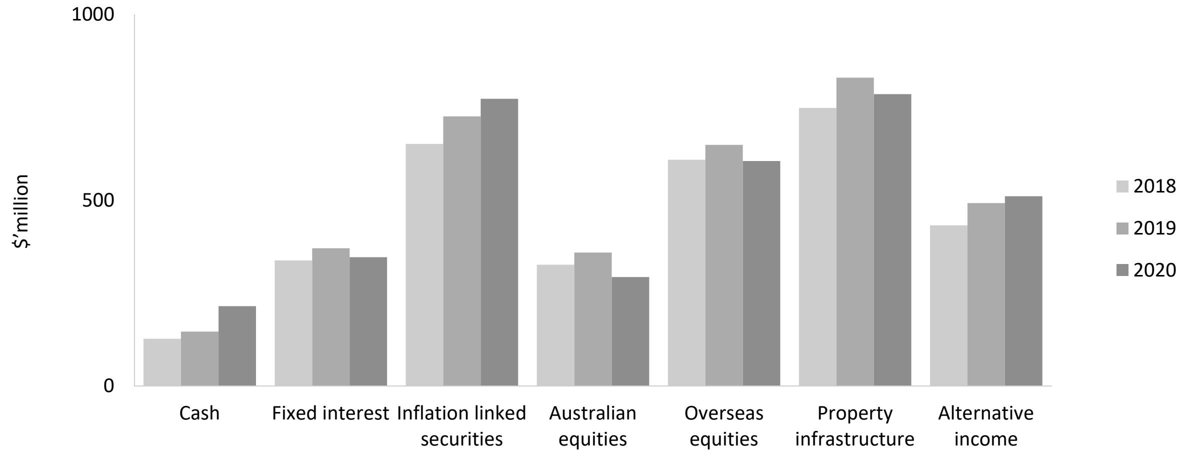
Investment decisions

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 2020.



The following chart shows RTWSA's investments by asset class for the three years to 2020.



According to RTWSA, the return on investments measured in line with Australian Investment Performance Standards for the last five years to 2020 was as shown in the following table.

	2016	2017	2018	2019	2020
Return on investments	4.6%	7.7%	7.5%	8.4%	0.0%
RTWSA Board of Management approved targeted return	4.5%	4.9%	4.6%	4.2%	2.2%

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.

Further commentary on operations

Impact of COVID-19

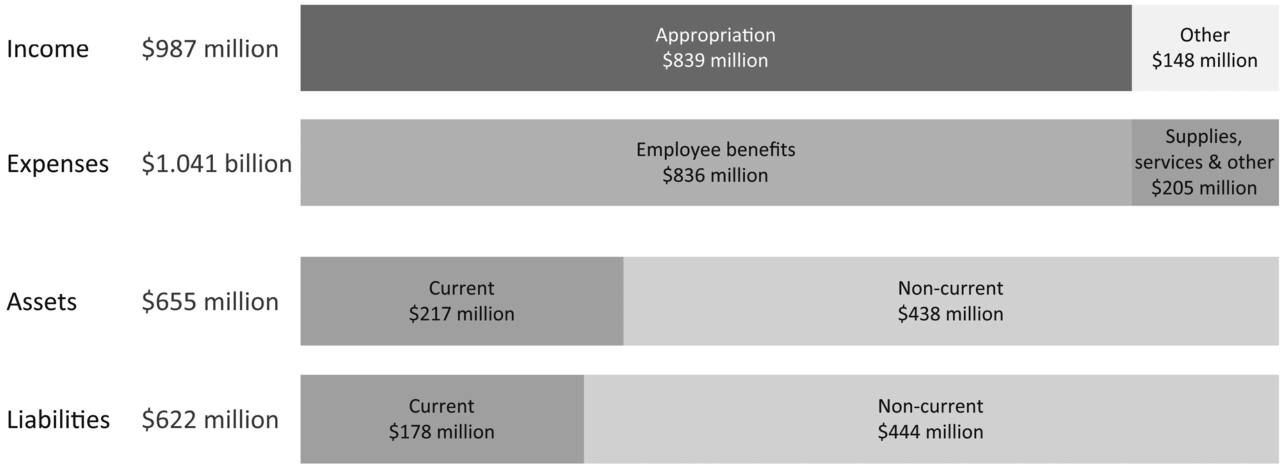
COVID-19 impacted RTWSA's operations in 2019-20 and this is expected to continue in 2020-21. Some of the key impacts are:

- reduced remuneration and premium growth in 2019-20 that is expected to continue in 2020-21
- a lower number of claims, but for longer duration
- an increase in the risk margin to 14.3%
- investment returns affected by the decline in global markets.

Note 7 of RTWSA's financial report also explains the key expected impacts.

South Australia Police (SAPOL)

Financial statistics

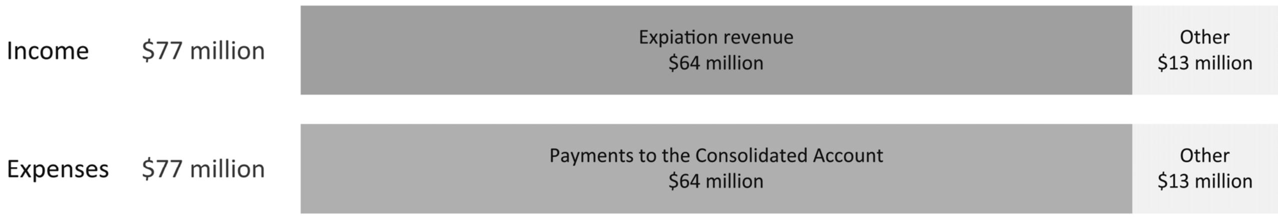


4701
Police Act employees

1116
Protective security officers and unsworn employees

$836 million
Total employee benefits expenses

Administered items



Significant events and transactions

- SAPOL played a significant role in responding to the impacts of the bushfires and the COVID-19 pandemic in South Australia during the year. This resulted in unbudgeted increases to expenditure, particularly employee benefits expenses and supplies and services expenses, and decreases in budgeted administered revenue from expiation fees and the Victims of Crime levy, with less cars on the road between March and June 2020.
- Recognised $87 million of right-of-use assets for the first time following implementation of AASB 16 *Leases* from 1 July 2019. Lease liabilities of $88 million were also recognised.
- In November 2019 SAPOL implemented a new performance management system, iEngage, to overcome some of the weaknesses of the previous performance management system.

Financial report opinion	**Unmodified**
Controls opinion findings	— The number of employees without an active individual performance plan reduced, but further improvement is required. — Individual performance plan biannual reviews were not always performed in line with policy. — Improvements needed to the use of the leave mismatch query tool.
Other audit findings	Controls over workers compensation: — Review of some injury management procedures is overdue. — Reconciliation of income support payments to the payroll system not performed timely. — Income support calculator not configured for additional compensation claims.

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*.

The functions of SAPOL 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 2019-20 included:

- payroll
- workers compensation and additional compensation
- cash

- expiation revenue
- revenue from fees and charges
- expenditure
- fixed assets.

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 without an active individual performance plan reduced, but further improvement is required

SAPOL has a performance management program to ensure that employees have a clear understanding of their individual accountabilities and responsibilities, and how they are expected to achieve them.

In May 2019 we wrote to the Commissioner noting that only about 50% of SAPOL employees had an active individual performance plan (IPP). SAPOL implemented a new performance management system, iEngage, in mid-November 2019, designed to address the weaknesses of the previous system.

We reviewed reporting from the iEngage system as at 5 May 2020. We noted a significant improvement in the number of employees with an active IPP. We also noted that about 24% of eligible employees did not have an approved IPP.

Without an active IPP, employees may be unaware of the performance standards for their position, if they are reaching them and how their performance could improve. As a result, SAPOL may not be able to achieve its strategic priorities.

SAPOL responded that the new iEngage system has functionality that supports monitoring of performance management, and that this functionality will be made available from the last quarter of 2020 to ensure each service and branch within SAPOL is able to monitor compliance. SAPOL advised that as at 21 September 2020 there were 4% of SAPOL employees without an approved IPP.

Individual performance plan biannual reviews not always performed in line with policy

SAPOL policy requires that an employee and their supervisor perform a twice yearly review of the employee's performance, the first review performed six months after the initial approval of their IPP in iEngage.

Of the 1400 IPPs approved prior to 30 November 2019 with a review date of 30 May 2020 or earlier, reviews for about 32% remained outstanding as at 30 June 2020. This statistic suggests that while SAPOL had some initial success in increasing the number of employees with an active IPP, this has not translated into full adoption of the performance management program. Regular review and feedback on employee performance is an important factor for systemic and sustained improvement.

SAPOL responded that the new iEngage system has the functionality that supports monitoring of performance management, and that this functionality will be made available from the last quarter of 2020 to ensure each service and branch within SAPOL is able to monitor compliance.

Improvements required to use of the leave mismatch query tool

Attendance records for all non-commissioned officers are recorded in the Workforce Central timesheet system. Leave taken by non-commissioned officers, however, is not deducted from an employee's leave balance until an approved leave form is processed in the Chris21 payroll system.

To ensure leave forms are processed in the payroll system, SAPOL implemented a leave mismatch query tool (LMQT) to identify leave recorded in Workforce Central that is not recorded in Chris21.

Our review of the use of the LMQT in the four SAPOL districts identified significant differences in how each district uses it. We also noted instances of:

- significant delays in correcting mismatches identified
- a large number of identified mismatches.

Further, we noted the absence of:

- a documented policy outlining expectations on the time frames and responsibilities for using the LMQT
- central monitoring of its use to ensure mismatches are promptly followed up and corrected.

Without these controls, employees may be unclear on their roles and responsibilities for using the LMQT, resulting in inconsistent practices across SAPOL. If leave mismatches are not corrected promptly, SAPOL's leave liability and leave expense balances may be misstated.

In response, SAPOL policy will be updated to capture the time frames and responsibilities for using the LMQT. This is expected to occur in October 2020.

Any long outstanding mismatches will be addressed and escalated as required, with all employees reminded of their responsibility to update leave records in Workforce Central and complete leave forms in Chris21 in a timely manner to avoid mismatches occurring.

Other audit findings

Workers compensation and additional compensation

As at 30 June 2020 provisions for workers compensation and additional compensation totalled $156 million.

We reviewed SAPOL's controls over the processing of claim payments for both workers compensation and additional compensation and noted:

- the need to update several key policies and procedures within the Injury Management Section, with some requiring update to reflect the requirements of the *Return to Work Act 2014*. Up-to-date policies and procedures are important for ensuring employees are aware of their roles and responsibilities and that current practices comply with the law and accepted practice
- delays in reconciling income support payments in the income support calculator to pay data from the payroll system following each pay run. SAPOL uses the income support calculator to determine each claimant's pay entitlements each fortnight. The purpose of the reconciliation is to ensure the accuracy of the final fortnightly payment back to the income support calculator
- the income support calculator needs to be updated to recognise additional compensation earnings and leave codes. Because of this, the employee performing the calculation adjustment process is required to manually identify and assign each additional compensation claimant's wages and leave, which may result in calculation errors.

SAPOL responded that:

- it is implementing a review of all Injury Management Section policies and procedures. A Health Safety Welfare Branch tracking register has already been developed to manage the review of these policies and procedures in the future
- it is currently reviewing the team structure and resourcing to ensure the reconciliation of income support payments is completed in a timely manner. It also intends to create a new procedure for the income support calculator, including the reconciliation process
- it is updating the income support calculator to incorporate pay and leave codes for additional compensation claimants.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2020 $'million	2019 $'million
Income		
Appropriation	839	829
Intra-government transfers	96	70
Fees and charges	35	25
Other revenues	17	9
Total income	987	933
Expenses		
Employee benefits	836	750
Supplies and services	159	153
Cash alignment transfers	-	10
Other expenses	46	28
Total expenses	1 041	941
Net result	(54)	(8)
Other comprehensive income	-	(5)
Total comprehensive result	(54)	(13)

	2020 $'million	2019 $'million
Net cash provided by (used in) operating activities	44	49
Assets		
Current assets	217	201
Non-current assets	439	365
Total assets	655	566
Liabilities		
Current liabilities	178	128
Non-current liabilities	445	352
Total liabilities	623	480
Total equity	33	86

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

Total income increased by $53.9 million in 2019-20 to $987.4 million. This increase is attributable to a $9.8 million increase to appropriation funding, a $25.6 million increase in intra-government transfers, a $10.9 million increase in fees and charges and a $7.6 million increase in other revenues.

SAPOL receives appropriation funding based on annual budgeted expenditure, less estimated revenues from fees and charges and other sources. Total appropriation funding increased by $9.8 million to $839.1 million in 2019-20.

Intra-government transfers increased by $25.6 million to $95.8 million. This was due mainly to a $26.4 million increase in other contingency funding received from the Department of Treasury and Finance (DTF). 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*. More information on this is included under 'Expenses' below.

Fees and charges increased to $35.4 million ($24.5 million), with $10.5 million received for the first time from the CTP Insurance Regulator for road safety programs. Under a Memorandum of Administrative Arrangement (MoAA) between the CTP Regulator and SAPOL, SAPOL receives funding for programs, initiatives and activities undertaken to reduce the number of motor vehicle accidents and severity of motor vehicle accident injuries in South Australia. Activities outlined in the MoAA include:

- ongoing development of data analytic capabilities, in collaboration with the Department of Planning, Transport and Infrastructure, to enhance policy direction and decision making in developing and evaluating road safety and law-enforcement campaigns
- implementing road safety strategic communication and engagement programs that contribute to a positive shift in long-term driving behaviours
- working with key road safety stakeholders to achieve road trauma reduction targets
- ongoing collection, analysis and reporting of motor vehicle accident statistics and trends

- implementing effective law enforcement strategies designed to influence positive road driving behaviours and reduce motor vehicle accidents
- supporting the establishment of a statewide road safety committee.

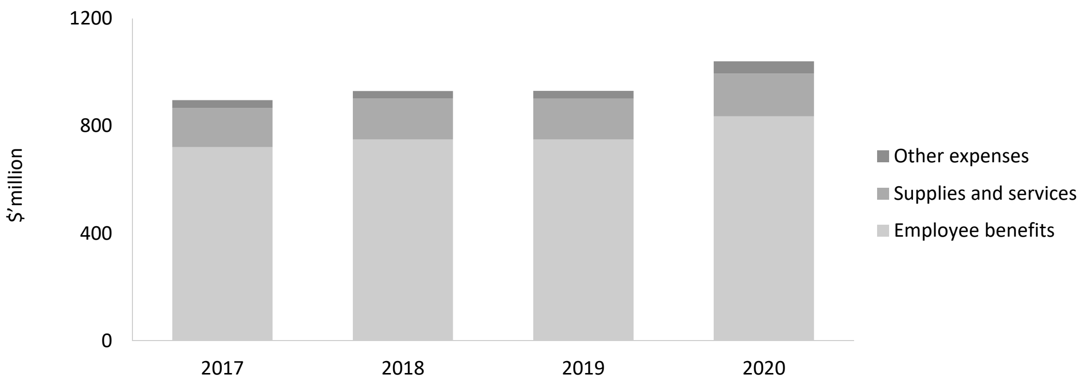
Prior to 1 July 2019 these functions were performed by the Motor Accident Commission.

Other income increased by $7.6 million to $17 million. This was due largely to a $4.6 million increase in recoveries and a $1.6 million increase in Commonwealth-sourced grants and funding. The increase in recoveries revenue was driven by:

- a $1.4 million increase in workers compensation and additional compensation recoveries
- a $1.3 million increase in salary and wage recoveries from the SA Government for employees seconded to other agencies where SAPOL continues to pay their ongoing salaries
- a $700 000 increase in salary and wage recoveries from non-SA Government, mostly for employees involved in the Viking Joint Task Force, a joint task force between SAPOL, the Australian Federal Police and the Australian Criminal Intelligence Commission
- a $1.1 million increase in goods and services recoveries.

Expenses

The following chart shows SAPOL's main expense items for the four years to 2019-20.



Total expenses increased by $99.8 million to $1.04 billion in 2020, with this increase driven by an $86.6 million increase in employee benefits expenses, a $16.1 million increase in depreciation and amortisation, a $5.2 million increase in supplies and services and a $1.8 million increase in borrowing costs. These increases were all partially offset by a $9.7 million decrease in cash returned to DTF.

Employee benefits expenses make up 80% of SAPOL's total expenses. The significant increase in 2019-20 is due mainly to:

- a $52.2 million increase in salaries and wages. This movement is attributable to enterprise agreement salary increases approved under the *SA Police Interim Administrative Arrangement* signed on 2 October 2019 (effectively extending the existing *SA Police Enterprise Agreement 2016* to 30 June 2020) and additional policing required to manage the December 2019 bushfires and the COVID-19 pandemic within South Australia.

  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 administrative agreement. The average increase was about 2.5% per year. SAPOL was required to backpay eligible employees a total of $20 million dating back to 1 July 2018, with most of this amount paid in December 2019.

- a $28.8 million increase in additional compensation expenses and a $9.6 million increase in workers compensation expenses. These expenses are impacted by movements in the respective provisions. Refer to 'Additional compensation provision' and 'Workers compensation provision' heading below for more information
- a $12.4 million increase in annual leave expenses and a $10.8 million increase in police service leave expenses, offset by a $38.4 million decrease in long service leave expenses. These expenses largely relate to the movements in the respective provisions. Refer to information explaining the movements in these liabilities under 'Employee benefits liabilities' below
- a $12.1 million increase in on-cost expenses associated with the higher value of salaries and wages paid during the year and the increase in the total employee benefits liability.

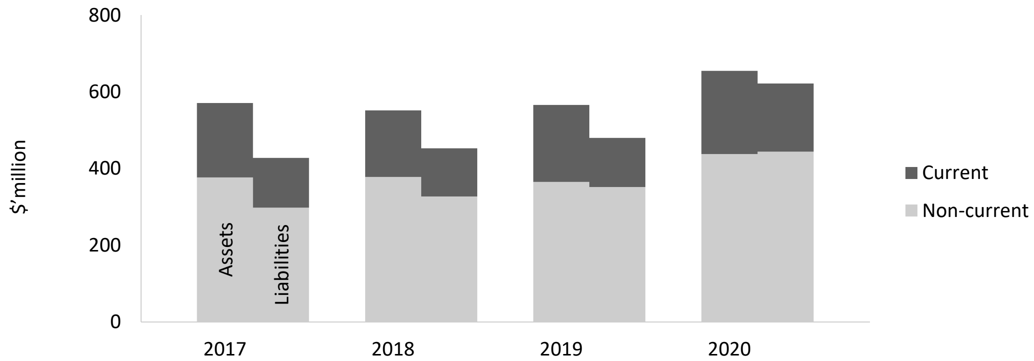
The $16.1 million increase in depreciation and amortisation expenses is largely attributable to depreciation on right-of-use assets, which were recognised for the first time from 1 July 2019 to comply with AASB 16. Additional borrowing costs of $1.8 million were also incurred to comply with AASB 16, reflecting the amortisation of the accompanying lease liability. These increases were largely offset by a $2.8 million decrease in accommodation expenses and a $7.4 million decrease in motor vehicle expenses as part of supplies and services, associated with SAPOL's first year adoption of AASB 16.

The $5.2 million increase in supplies and services was due largely to $5.9 million in expenses associated with CTP Regulator funded road safety campaigns, which were provided by SAPOL for the first time in 2019-20. Increases in communication and computing expenses ($3.2 million), minor equipment expenses ($3.1 million) and administration expenses ($1.9 million) were largely offset by the decreases in accommodation and motor vehicle expenses resulting from the introduction of AASB 16. SAPOL advised that its response to the COVID-19 pandemic contributed to an estimated $3.4 million increase in supplies and services.

In 2018-19, $9.7 million in surplus cash held by SAPOL was returned to DTF under the cash alignment policy. No surplus cash was returned in the current year.

Statement of Financial Position

For the four years to 2020, a structural analysis of assets and liabilities is shown in the following chart.



Assets

Current assets increased by $15.4 million, driven by a $6.9 million increase in cash and cash equivalents and an $8.6 million increase in current receivables.

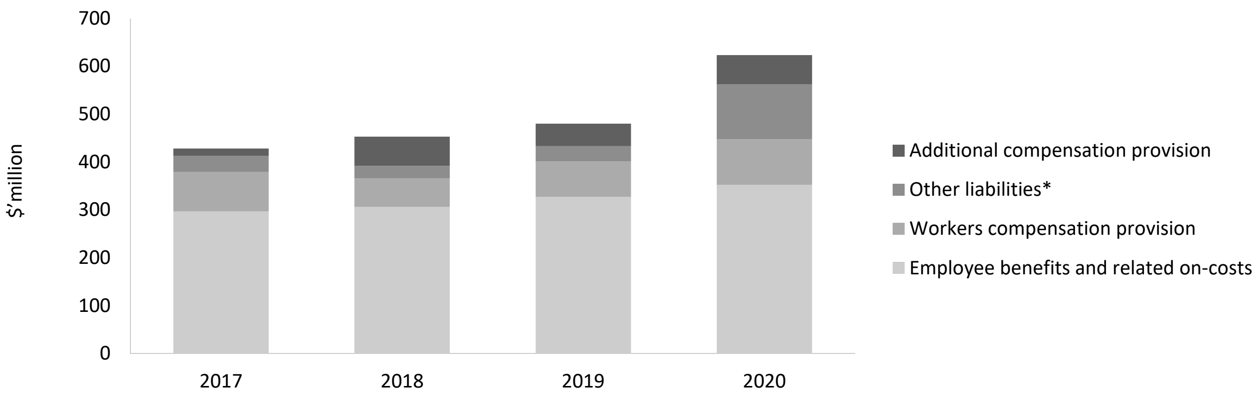
The increase in cash and cash equivalents included a $28.4 million increase in the Accrual Appropriation Excess Fund Account. Funds held in this account can be accessed with the Treasurer's approval in a financial year when cash requirements exceed the appropriation provided for the cost of items including employee related liabilities. This increase was partially offset by a $21.5 million decrease in the balance of SAPOL's general operating account.

The increase in current receivables of $8.6 million is largely attributable to a receivable of $10.5 million from the CTP Regulator for road safety programs. This is the first year that SAPOL provided these services to the CTP Regulator and the amount relates to services provided by SAPOL between 1 July 2019 and 30 June 2020. This amount was received by SAPOL in July 2020.

Non-current assets increased by $73.9 million to $438.5 million due mainly to the recognition of $78.2 million in the written-down value of right-of-use buildings, vehicles and plant and equipment for the first time in 2019-20 as required by AASB 16.

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 increased by $142.6 million in 2019-20, an increase of 30%. $78 million of the increase relates to financial liabilities and reflects the first time recognition of lease liabilities in line with AASB 16.

The balance of the increase is attributable to:

- a $17.9 million increase in employee benefits liabilities, explained further below
- provisions for workers compensation and additional compensation increasing by $34.4 million, explained further below
- payables increasing by $12 million due mainly to a $7.5 million increase in employment on-costs (including superannuation costs) associated with the increase in employee benefits liabilities, and a $4.2 million increase in trade payables.

Employee benefits liabilities

The $17.9 million increase in employee benefits liabilities is largely attributable to a $14.9 million increase in annual leave liabilities, a $9.6 million increase in police service leave liabilities and a $5 million increase in accrued salaries and wages. These increases are all partially offset by a $13.1 million decrease in long service leave liabilities.

As a result of the additional policing requirements associated with the SA Government's response to the COVID-19 pandemic in South Australia, no annual leave was allowed to be taken by SAPOL employees between 9 April and 13 May 2020. This was a significant factor in the $14.9 million increase in annual leave liability.

Police service leave is provided for retaining policing knowledge and experience. At 20 years police service, and at every fifth year anniversary thereafter (ie at 25 years, 30 years etc), a person employed as a police officer or community constable will be credited with four calendar weeks of paid police service leave. As 2019-20 was the fifth year anniversary of this leave entitlement, all eligible employees accrued an additional 28 days of police service leave during the year, resulting in the $9.6 million increase in liability.

The $13.1 million decrease in long service leave liabilities is attributable to a change in actuarial assumptions in the current financial year, including a decrease in the salary inflation rate from 4% in 2019 to 2.5% in 2020. A number of employees with significant long service leave liabilities also left SAPOL in 2019-20, further reducing the liability.

Workers compensation provision

The workers compensation liability increased by $20.5 million in 2020 due mainly to:

- significant increases across the workers compensation scheme in the amount of payments for income support, medical benefits and other payments (particularly legal expense) for non-seriously injured workers (net of claim payments during the year)
- changes in the assumed inflation indices, future inflation and discount rates since the previous valuation in 2019, resulting in an $8.4 million increase to the provision.

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 liability increased by $13.9 million in 2020, due mainly to:

- a change in the average outstanding claim size based on the profile of the claimants and their recent payment history and also an increase in the expected number of successful applications. This resulted in a $6.3 million increase to the provision (net of claim payments during the year)
- changes in the assumed inflation indices, future inflation and discount rates since the previous valuation in 2019, resulting in a $7.6 million increase to the provision.

There is a significant degree of uncertainty associated with estimating the additional compensation provision. In addition to the general uncertainties associated with estimating future claim and expense payments, the provision is impacted by limited 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.

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 $1.4 million to $63.8 million. Expiation fees collected were significantly lower than the original budgeted amount of $84.4 million. SAPOL advised that this shortfall was partially attributable to the COVID-19 pandemic, which resulted in fewer vehicles on the roads between March and June 2020.

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 2019-20, Victims of Crime levy income received and paid to the Attorney-General's Department totalled $9.6 million, which was less than the original budgeted amount of $13 million. As the Victims of Crime levy is paid on expiation notices, the impact of the COVID-19 pandemic on expiation fee revenue has also contributed to less Victims of Crime levy income collected compared to budget.

Further commentary on operations

Staffing

SAPOL employed the following active FTEs by category as at 30 June for the past two years.

	2020 FTEs*	2019 FTEs*
Police Act 1998 employees**	4 701	4 787
Unsworn employees	964	914
Unsworn casuals	18	28
Protective Security	134	126
Total	5 817	5 855

* FTE data was supplied by SAPOL and is unaudited.

** The 2019 figure includes 85 FTE cadets still in training. No cadets were still in training at 30 June 2020, as SAPOL transitions to a six-month cadet training program in early 2020-21.

COVID-19 impacts

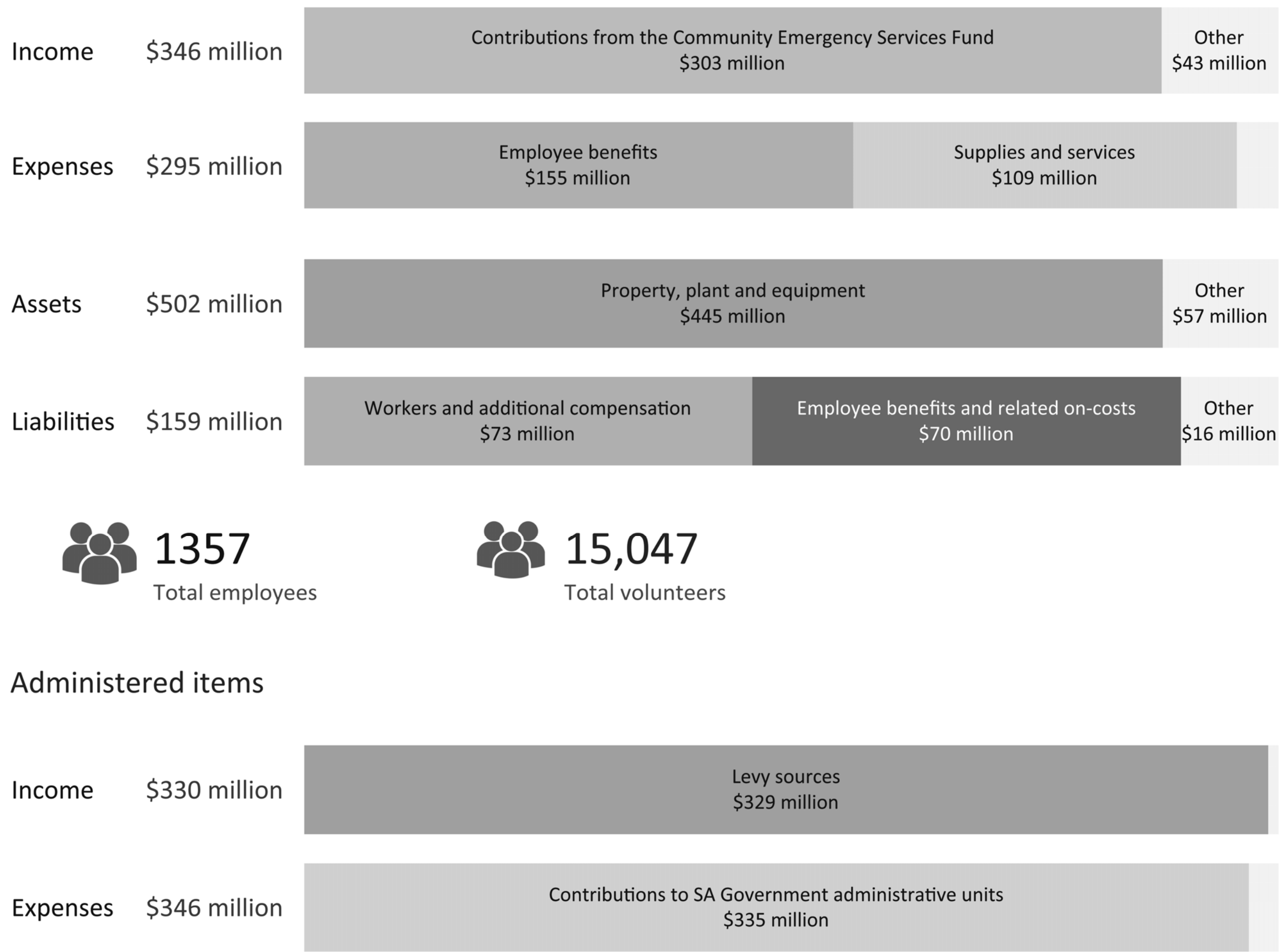
SAPOL played a significant role in responding to the impacts of the COVID-19 pandemic in South Australia during the year. This included:

- the Commissioner declaring on 22 March 2020 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 has been deemed the coordinating agency due to an emergency of a specific kind)
- additional police resourcing and the redirection of resourcing required to respond to COVID-19 in South Australia, driven by operational requirements including:
  - additional police resources required to staff the Police Operations Centre
  - establishing and maintaining checkpoints at state borders and at the Adelaide Airport
  - checking compliance with self-quarantine requirements and restrictions on public activities and gatherings
  - providing a policing and security overlay at hotels used by SA Health for supervised quarantine
- cancelling all employee annual leave between 9 April and 13 May 2020 to facilitate the need for additional police resourcing. This contributed to an increase in SAPOL's annual leave liability as at 30 June 2020
- SAPOL 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 employee benefits expenses by $3.2 million and supplies and services expenses by $3.4 million. Supplies and services expenses increased due to the purchase of additional personal protective equipment and other equipment; cleaning (including facilities, operational equipment and vehicles); IT and communications (including additional working from home capability); and increased travel and accommodation requirements
- the COVID-19 pandemic impacting budgeted administered expiation revenue and Victims of Crime levies due to less cars being on the road between March and June 2020.

COVID-19 will continue to impacting SAPOL's operations in 2020-21. The expected impacts are difficult to quantify and are influenced by the timing of when South Australia returns 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



Significant events and transactions

- An estimated $24.6 million in bushfire response additional costs were incurred across the sector.
- Additional funding of $19 million was provided to the South Australian Country Fire Service from the Community Emergency Services Fund for extraordinary bushfire response costs.
- Intra-government transfers totalling $16 million were provided to the South Australian Metropolitan Fire Service for bushfire related responses, one-off supplies and services injections and additional enterprise bargaining related costs.

	— Immediately after the extraordinary bushfires the SA Government engaged an independent consultant to look at how the State responded and what lessons could be learned for future bushfire seasons. A report was completed in June 2020 containing 15 recommendations. — An independent valuation of property, plant and equipment was performed as at 1 November 2019 resulting in a $71 million gain on revaluation for this asset category. — Total workers compensation liabilities reduced by $31 million following a revision of provisions related to firefighter presumptive cancer claims. This liability estimation is subject to a high degree of uncertainty.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— SAFECOM and the emergency services sector do not have an asset management policy, framework or plans. — A legal compliance framework is yet to be fully implemented. — Workers compensation claims approvals were not consistent with policy. — Bona fide and leave returns were not reviewed promptly.

Functional responsibility

SAFECOM is established by the *Fire and Emergency Services Act 2005*.

SAFECOM's functions include responsibility for corporate services across the emergency services sector. It supports and allocates sector resources and has a leadership role in statewide emergency management.

SAFECOM administers the Community Emergency Services Fund (the Fund), the main source of funding for all emergency services sector agencies.

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 emergency services organisations to conduct relevant financial transaction and control compliance tests. The emergency services organisations are the:

- South Australian Metropolitan Fire Service (SAMFS)
- South Australian Country Fire Service (SACFS)
- South Australian State Emergency Service (SASES).

Specific areas of audit attention in 2019-20 included:

- expenditure
- payroll, including employee benefits
- revenue
- non-current assets including revaluations and capital works in progress
- cash
- workers compensation
- financial accounting
- volunteer accounting
- governance
- the Fund.

We considered internal activities when planning and conducting the audit.

We made use of the work performed by internal audit in relation to legal compliance.

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 on SAFECOM.

Other audit findings

Asset management

We found that the emergency services sector does not currently have an established asset management policy, framework or plans.

SAFECOM and the emergency service organisations are responsible for managing consolidated non-current assets with a fair value of over $448 million, including buildings ($131 million) and vehicles ($160 million). These assets are decentralised over South Australia and are critical to achieving the sector's objectives.

The Department of Planning, Transport and Infrastructure (DPTI) has developed a strategic asset management framework 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 including the International Standard on asset management (ISO 55000). While the framework focusses 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.

We recommended that SAFECOM conduct a gap analysis of existing asset management practices and develop appropriate strategies and documentation to optimise assets, including an asset management policy, framework and plans.

SAFECOM recognises the importance of good asset management practices, accompanied by an appropriate management policy, framework and plans. SAFECOM advised that this identified gap in the sector has not been addressed due to competing priorities and a lack of resources.

SAFECOM acknowledges the substantial work that is required to develop and implement the asset management framework, policies and plans. An Emergency Services Sector Asset Management Working Committee has been formed and it is expected that initial discussions on this project will occur in 2020-21.

SAFECOM is yet to implement a legislative compliance framework

Past audits have identified the need for SAFECOM to implement a formal legislative compliance framework to monitor compliance with the sector's legal and regulatory obligations.

An effective legal compliance framework includes identifying relevant legislative and regulatory requirements, assigning responsibility for compliance, review processes to ensure legislative and regulatory requirements are complied with, and mechanisms for dealing with non-compliance. This should include periodic reporting to senior agency management and SAFECOM.

This year we found that the legal compliance framework is still yet to be developed. SAFECOM's internal audit action plan for 2019-20 included a legal compliance review. However, this review did not occur as planned due to the impact of the significant bushfires experienced in the State and subsequent mobilising of staff to assist in SA Government's inquiry into the bushfires.

We did note progress on improving legal compliance controls with the establishment of a sector-wide legal compliance register. The register could be further improved by identifying the specific Acts and Regulations together with their key requirements, and linking these to demonstrable management actions/activity to support legal compliance.

SAFECOM advised that it will continue to improve legislative compliance and will include it in the internal audit plan for 2020-21.

Workers compensation claim approvals not consistent with policy

The SAFECOM Injury Management Manual outlines processes and principles for injury and claims management. It requires lump sum and other claims to be approved by the Chief Officer or Deputy Chief Officer of the relevant agency. Once a claim is approved, claim payments are processed and paid in line with financial delegations issued under Treasurer's Instructions 8 *Financial Authorisations*.

Our testing identified instances where claims were approved by personnel other than the Chief Officer or Deputy Chief Officer.

We recommended that SAFECOM ensure that claims are approved by staff with appropriate authority in line with policy.

In response, SAFECOM advised that the Injury Management Manual is currently under review for updating approvals for payments and an annual review of approvals will be performed to ensure appropriate authority of staff approving payments.

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 and leave returns 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 the audit revealed that as at May 2020 across SAFECOM, SACFS and SASES, 36 bona fide and 34 leave reports were more than 90 days overdue. We recommended that these reports be reviewed within the prescribed time frames.

SAFECOM advised that it has experienced some difficulties within inaccuracies and the lag in processing corrections which has had impacted the certainty for certification. SAFECOM will continue to issue reminders to managers of the importance of certifying bona fide and leave reports in a timely manner and rectifying issues promptly.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated emergency services sector

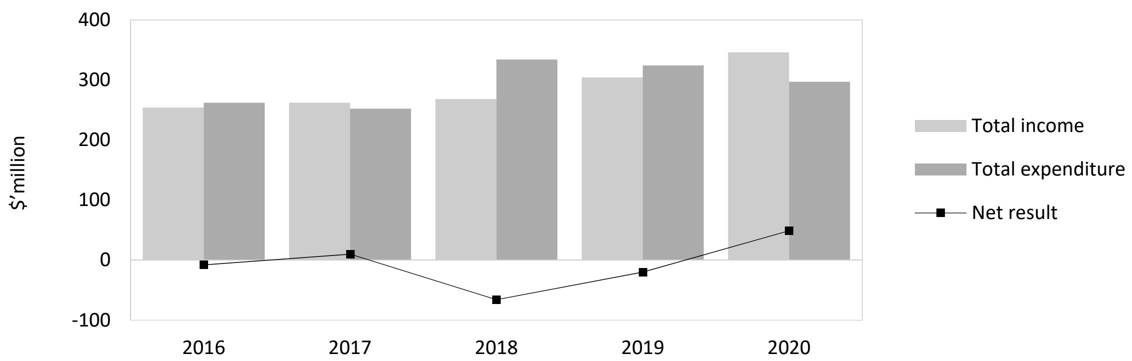
	2020 $'million	2019 $'million
Income		
Contributions from the Fund	303	280
Other income	43	24
Total income	346	304

	2020 $'million	2019 $'million
Expenses		
Employee benefits	155	206
Supplies and services	109	92
Depreciation and amortisation	25	21
Other expenses	6	5
Total expenses	295	324
Net result	51	(20)
Other comprehensive income	71	-
Total comprehensive result	122	(20)
Net cash provided by (used in) operating activities	35	38
Net cash provided by (used in) investing activities	(30)	(26)
Assets		
Current assets	54	45
Non-current assets	448	366
Total assets	502	411
Liabilities		
Current liabilities	51	59
Non-current liabilities	108	131
Total liabilities	159	190
Total equity	343	221

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 $51 million net result in 2020 is mainly due to the significant decrease in employee benefit related workers compensation expenses, coupled with increases in supplies and services costs and increased income which are all explained further below. The $20 million net result shortfall in 2019 follows a $66 million shortfall in 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.

Income

The main source of revenue for the consolidated sector is contributions from the Fund of $303 million ($280 million), which account for 88% of total income.

In 2020, total income increased by $42 million to $346 million due mainly to:

- a $23 million increase in contributions from the Fund, including an additional $19 million related to SACFS for extraordinary bushfire response costs
- a $15 million increase in intra-government transfers to $22 million.

The additional intra-government grants include one-off SAMFS supplies and services cash injections of $7 million, additional funding for out-of-scale bushfire related costs totalling $2 million and a $7 million contribution to the SAMFS's enterprise bargaining related costs.

Expenses

Total expenses decreased by $29 million to $295 million mainly as a result of a $51 million decrease in employee benefits expenses, partially offset by an $18 million increase in supplies and services.

Employee benefits expenses

Employee benefits expenses of $155 million ($206 million) represent 52% of total expenses. In 2019-20, employee benefits expenses decreased by $51 million due mainly to a significant decrease in workers compensation expenses ($58 million), partially offset by a $12 million increase in total salaries and wages.

Workers compensation expenses reduced due to workers compensation provisions being remeasured by an independent actuary. This resulted in a negative expense adjustment due to re-measurement of $24 million, which was $58 million lower than last year's expense of $34 million. The movements in the workers compensation provision are explained under 'Statement of Financial Position' below.

Salaries and wages for the consolidated sector increased by $12 million, mainly as a result of a $9 million increase in SAMFS salaries and wages related to enterprise bargaining increases and overtime.

The employment of an additional 22 FTEs across 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 219 (170). The aggregate remuneration paid or payable for those employees was $39 million ($29 million). The increase largely reflects an additional 40 (39) SAMFS officers now included in the disclosure who fell below the minimum band in 2019. Enterprise bargaining increases and additional overtime resulted in the inclusion of their salary in this disclosure for 2020.

Supplies and services expenses

Supplies and services expenses across the sector increased by $18 million to $109 million. This is due mainly to SACFS costs in responding to extraordinary bushfires, including:

- a $6 million increase in aerial firefighting expenses
- a $6 million increase in operational costs. This includes:
  - a $2 million increase in meals, catering and site consumables
  - a $1 million increase in fire suppressants and retardants
  - a $1 million increase in breathing apparatus and minor purchases
- a $5 million increase in vehicle expenses
- a $2 million increase in South Australian Government Radio Network expenses
- a $1 million increase in travel and training expenses.

Statement of Financial Position

Assets

Property, plant and equipment assets increased by $82 million during the year to $445 million and represent 89% of total assets. The main asset classes held are land ($82 million), buildings ($131 million) and vehicles ($160 million).

Property, plant and equipment assets were revalued during the year resulting in a $71 million gain on revaluation. The main asset revaluations were for vehicles, $30.2 million, buildings, $19.5 million and land, $16.2 million. First time recognition of right-of-use lease assets totalling $6 million also contributed to the increase in assets.

Liabilities

Total liabilities decreased by $31 million to $159 million.

The decrease in liabilities is mainly attributable to a $29 million decrease in provisions and a $7 million decrease in payables, offset by the first time recognition of $6 million in financial liabilities for leases in line with AASB 16 *Leases*.

Provisions

Total provisions decreased by $29 million due to a decrease in the workers compensation provision of $31 million, offset by a $2 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 2020. 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 2020 was impacted by:

- a decrease in the number of known seriously injured firefighter cancer claims. The number of open cases reduced by 19 in 2019-20
- claims experience in 2019-20 which saw a large reduction in the average outstanding claim size compared to recorded claims in previous periods estimated at the maximum allowable compensation

- a related decrease in the allowance for incurred but not yet reported firefighter cancer claims estimated by the actuary, which is based on an assessed proportion of known cancer claims
- 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 relatively stable at $35 million in 2020 compared to $38 million in 2019. Increases in cash generated from operations of $40 million were accompanied by a $43 million increase in cash used in operations.

Increases in cash generated from operations included:

- a $23 million increase in contributions from the Fund, mostly related to the SACFS ($19 million) for extraordinary bushfire response costs
- an $11 million increase in cash received for intra-government transfers related to additional funding for the SAMFS
- a $5 million increase in grants and contributions
- a $3 million increase in GST recovered from the ATO.

Increases in cash used in operations included:

- a $16 million increase in employee benefit payments mostly due to additional SAMFS salaries and wages
- a $28 million increase in payments for supplies and services related mostly to additional SACFS expenditure for extraordinary bushfires and a reduction in payables of $7 million.

Net investing cash outflows increased by $4 million to $30 million following an increase in cash payments for the acquisition of property, plant and equipment across the sector. Financing cash outflows totalling $2 million for lease payments also occurred in 2020.

The following table summarises the consolidated sector's net cash flows for the five years to 2020.*

	2016 $'million	2017 $'million	2018 $'million	2019 $'million	2020 $'million
Net cash flows					
Operating	26	32	23	38	35
Investing	(29)	(26)	(29)	(27)	(30)
Financing	-	-	-	-	(2)
Change in cash	(2)	6	(6)	11	3
Cash at 30 June	23	29	23	34	37

* Table may not add due to rounding.

Highlights of the financial report – SAFECOM

	2020 $'million	2019 $'million
Income		
Contributions from the Fund	14	18
Other income	5	6
Total income	19	24
Expenses		
Employee benefits	9	8
Supplies and services	8	7
Other expenses	4	5
Total expenses	21	20
Net result	(2)	4
Total comprehensive result	(2)	4
Net cash provided by (used in) operating activities	(3)	4
Assets		
Current assets	6	8
Non-current assets	4	5
Total assets	10	13
Liabilities		
Current liabilities	3	4
Non-current liabilities	3	3
Total liabilities	6	7
Total equity	4	6

Statement of Comprehensive Income

Income

The main source of funds for SAFECOM is revenue from the Fund of $14 million ($18 million), which accounts for 76% of revenues. The decrease in revenue from the Fund was due mainly to one-off funds provided in 2018-19 to replace the Alert SA system.

Expenses

Employee benefits expenses are SAFECOM's main expense category and totalled $9 million ($8 million), which is 40% of total expenses.

Supplies and services totalled $8 million ($7 million).

Highlights of the financial report – administered items

	2020 $'million	2019 $'million
Income		
Revenues from levy sources	329	320
Other revenues	1	2
Total income	330	322

	2020 $'million	2019 $'million
Expenses		
Contributions to SA Government administrative units	335	309
Grants and subsidies	3	6
Other expenses	8	8
Total expenses	346	323
Net result and total comprehensive result	(16)	(1)
Net cash provided by (used in) operating activities	(18)	1
Assets		
Current assets	15	34
Total assets	15	34
Liabilities		
Current liabilities	1	4
Total liabilities	1	4
Total equity	14	30

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 DPTI 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 2020 the Fund's net result was a deficit of $16 million (deficit of $1 million).

The deficit of $16 million was funded from cash balances and was due mainly to additional unexpected funding to the SACFS for extraordinary bushfire responses of $19 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 $9 million to $329 million.

The increase in levy revenue and changes in remissions are shown in the table below.

	2016 $'million	2017 $'million	2018 $'million	2019 $'million	2020 $'million
Fixed property collections	199	216	221	146	155
Fixed property remissions*	26	25	25	119	119
Mobile collections	43	43	44	44	45
Mobile remissions*	3	3	3	4	4
Government concessions	7	6	6	6	6
	278	294	300	320	329

* Remissions are provided by the SA Government.

In the 2018-19 State Budget, the SA Government announced the reintroduction of general remissions for fixed property collections and its commitment to funding the anticipated shortfall. The decrease in fixed property collections of $75 million and the $94 million increase in fixed property remissions in 2018-19, funded from the Consolidated Account, reflect this change which continued in 2019-20.

The net increase in receipts to the Fund reflects growth in the base expenditure and new initiatives, including funding for the new Alert SA system, improved aerial 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.

	2016 $'million	2017 $'million	2018 $'million	2019 $'million	2020 $'million
SAMFS	136	137	139	148	152
SACFS	74	76	77	93	113
South Australia Police	21	21	22	22	23
SASES	16	20	20	21	23
SAFECOM	11	12	15	18	14
Other SA Government entities	6	6	6	7	10
	264	272	279	309	335

Over the period contributions paid increased by $71 million, with most of the increase being received by the SACFS ($39 million) and the SAMFS ($16 million).

In 2020, contributions to SA Government entities increased by $26 million to $335 million, representing an 8% increase. The increase in expenditure was mainly due to a $19 million increase in SACFS funding related to responding to extraordinary bushfires.

Grants and subsidies totalling $3 million were paid to Surf Life Saving South Australia, Volunteer Marine Rescue and Shark Beach Patrol. This is a reduction in grants of $3 million from 2018-19, reflecting delays experienced in the Surf Life Saving Club redevelopment program.

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. DPTI 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 2020 were $14 million ($30 million).

At 30 June 2020, current assets totalled $14 million ($34 million), predominately comprising cash and cash equivalents. The decrease in cash and cash equivalents is mainly due to approved additional funding for the SACFS due to exceptional bushfires experienced.

At 30 June 2020, current liabilities totalled $1 million ($4 million) after paying the Department for Environment and Water for its share of 2018-19 contributions from the Fund during the year.

Further commentary on operations

Staffing

SAFECOM and the emergency services organisations employed the following active FTEs as at 30 June for the past two years.

	*2019 FTEs	*2020 FTEs
SAFECOM	70	73
SAMFS	1 042	1 046
SACFS	157	171
SASES	66	67
Total	1 335	1 357

* FTE data was supplied by SAFECOM and is unaudited.

The increase in SACFS FTEs was due mainly to a number of short-term contracts related to bushfire response and coordinated reviews.

Volunteers

The SACFS and SASES had the following active volunteers as at 30 June for the past two years.

	*2019 FTEs	*2020 FTEs
SACFS	13 149	13 452
SASES	1 541	1 595
Total	14 690	15 047

* Volunteer data was supplied by SAFECOM and is unaudited.

2019-20 bushfires

The 2019-20 bushfire season was one of the worst the State has ever endured, with a devastating loss of lives, homes, properties, livestock and wildlife during blazes in the Adelaide Hills, Kangaroo Island, Yorke Peninsula, Eyre Peninsula and the South East.

In the immediate aftermath, the SA Government announced an independent review to be conducted by former Australian Federal Police Commissioner, Mick Keelty AO, with the support of SAFECOM and experts from across the emergency services sector.

The intent was to look at how the State responded and what lessons could be applied for future bushfire seasons.

The independent review into South Australia's 2019-20 bushfire season was completed in June 2020. It found that across the emergency services sector, the response was remarkable considering the conditions faced were the worst on record. It also made 15 recommendations including the need for investment in enhanced technology like automatic vehicle location systems, burnover protection systems, new trucks and a single source of truth and information for community and stakeholders.

In response, the SA Government has committed to implement a significant number of immediate action items. The funding response is worth $20 million. A further $17 million in Commonwealth and State funding will be invested over five years for the South Australian Disaster Reduction Grants Program.

For further commentary refer to Part A of this Report under the heading '2019-20 bushfires'.

COVID-19 impact

Note 1.5 to SAFECOM's financial report details the impact the COVID-19 pandemic has had on the operation of the emergency services sector.

The key impacts were:

- additional expenditure to keep personnel safe while maintaining services delivery to the community
- additional expenditure to support the South Australian response to COVID-19
- increased leave liabilities as a result of cancellation of leave (SAMFS)
- 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.

South Australian Government Financing Authority (SAFA)

Financial statistics	Loss before income tax equivalents:	$117 million
	Total loans on issue:	$28.2 billion
	Total bonds, notes and debentures on issue:	$23.1 billion
	Outstanding insurance claims:	$730 million
	Fleet vehicles (including held for sale):	$188 million
	Number of fleet vehicles (including held for sale):	6899
Significant events and transactions	SAFA's insurance activities reported a 2019-20 loss after tax of $155 million, mainly as a result of claims associated with the South Australian bushfires and COVID-19 business interruption claims.	
Financial report opinion	**Unmodified**	
Controls opinion findings	No significant findings.	
Other audit findings	— Service level agreements did not exist for industry assistance functions performed by SAFA for several SA Government agencies. — Weaknesses in Findur treasury management system IT controls.	

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 2019-20 included:

- cash
- financing
- treasury
- insurance
- general ledger
- IT general controls over the Findur treasury management system.

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

We considered the work 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 funding and liquidity management, building indemnity insurance management, vehicle disposal, cyber security governance and 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 controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

We communicated our findings in management letters to the General Manager. The main findings and SAFA's responses are discussed below.

Controls opinion findings

There were no significant findings for our controls opinion work at SAFA.

Other audit findings

Service level agreements did not exist for industry assistance functions performed by SAFA for several SA Government agencies

SAFA's Commercial Advisory Unit helps several SA Government agencies with assessing grant or loan applications and performing contract management services.

We noted that service level agreements did not exist between SAFA and the agencies it provides these services to. As a result, there is a risk that either SAFA or the agencies may not be clear on their respective roles and responsibilities.

SAFA advised it would engage with the agencies concerned to document agreed roles and responsibilities.

Review of IT controls for the Findur treasury management system

In 2019-20 we reviewed IT controls over the environment for SAFA's treasury management system, Findur. This included reviewing controls over password management, user access management, patch management, change management, audit logging, backup processes and disaster recovery management.

Our review identified that some controls could be strengthened, particularly around password configuration settings, managing changes to the environment, the audit logging process and disaster recovery management.

SAFA's response to these matters indicated it would take appropriate action to address the weaknesses raised.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Interest revenue	905	1 167
Interest expense	(909)	(1 174)
Net interest revenue	(4)	(7)
Net gain (loss) on financial instruments and derivatives	31	76
Leasing and hire revenue	53	55
Insurance premium revenue	60	60
Recoveries	39	4
Other income (including net gain on sale of property, plant and equipment)	7	12
Vehicle operating costs (including depreciation and impairment)	(33)	(46)
Insurance claims	(232)	(91)
Other expenses	(38)	(7)
Profit (Loss) before income tax equivalents	(117)	56
Income tax equivalent expense	-	(17)
Profit (Loss) after income tax equivalents	(117)	39
Other comprehensive income	-	6
Total comprehensive income	(117)	45

	2020 $'million	2019 $'million
Assets		
Cash, short-term assets and investments	7 047	8 598
Loans	28 241	24 253
Derivatives receivable	189	61
Property, plant and equipment (including held for sale)	188	183
Other assets	85	75
Total assets	35 750	33 170
Liabilities		
Deposits and short-term borrowings	11 293	11 205
Bonds, notes and debentures	23 121	20 826
Outstanding claims	730	586
Derivatives payable	254	77
Payables and other liabilities	56	59
Total liabilities	35 454	32 753
Total equity	296	417

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 $262 million or 22%, with a corresponding decrease in interest expense of $265 million or 23%.

The decrease in interest revenue and expense is mainly due to lower interest rates in 2019-20. These rates reflect the general fall in interest rates across financial instruments in 2019-20, 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 2019-20 operating result includes a net gain of $31 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

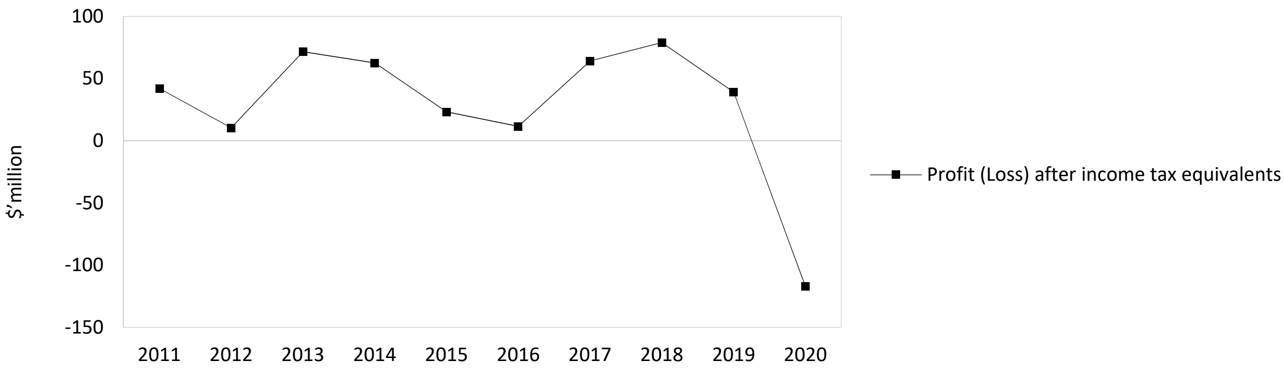
Leasing and hire revenue reflects the fees charged to other government agencies for leasing fleet vehicles. This amount reduced in 2019-20, in part reflecting reduced vehicle numbers compared to 2018-19.

Profit (Loss)

SAFA's loss before income tax equivalents was $117 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.

As SAFA made a loss in 2019-20, it is not required to make an income tax equivalent payment. Also, because income tax equivalents are calculated on accounting profits, no deferred income tax asset or liability arises from the loss.

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 2020 loss after income tax equivalents of $117 million is primarily attributable to a loss on SAFA's insurance activities of $155 million, offset by profit on treasury activities of $22 million and fleet activities of $16 million, as explained in note 3 of SAFA's financial report.

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:

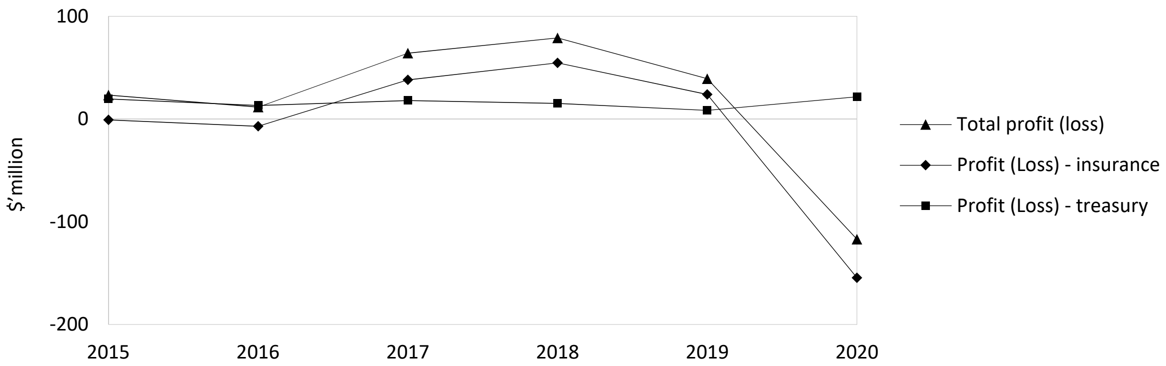
- occurred before 1 July 1994
- involve claims under the building warranty indemnity reinsurance arrangements up to 30 June 2013
- involve the former State Government Insurance Commission residual claims and workers compensation claims previously managed by the former South Australian Asset Management 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 2019-20 loss of $155 million (profit after tax of $24 million). The decrease in the insurance profit was mainly a result of a $140.8 million increase in claim expenses.

This increase in claim expenses was mainly due to:

- a $162.5 million increase in Fund 1 outstanding claims liabilities, mostly due to claims associated with property destroyed or damaged during the December 2019 bushfires and business interruption claims arising from the COVID-19 restrictions implemented in South Australia.

  SAFA received seven bushfire claims in 2019-20. Interim payments have been made totalling $2.9 million to the Department for Environment and Water for claims associated with the Kangaroo Island and Cudlee Creek fires. These claims remain open at 30 June 2020, with further payments likely once full assessments are made.

  SAFA received eight COVID-19 related business interruption claims in 2019-20 and a further four claims in July 2020. Interim payments totalling $5 million were made to Zoos SA and the West Beach Trust in 2019-20. All claims are ongoing and were yet to be finalised at 30 June 2020

- a $10.1 million decrease in Fund 2 outstanding claims liabilities, mostly due to lower than expected reported claims ($12.7 million) offset by a $1.9 million increase in the liability associated with lower than expected payments

- a $9.9 million decrease in Fund 3 outstanding claims liabilities, mostly due to new builder's indemnity claims during the year ($12.7 million) and modelling changes ($4.3 million), offset by an $8.5 million decrease for higher than expected payments.

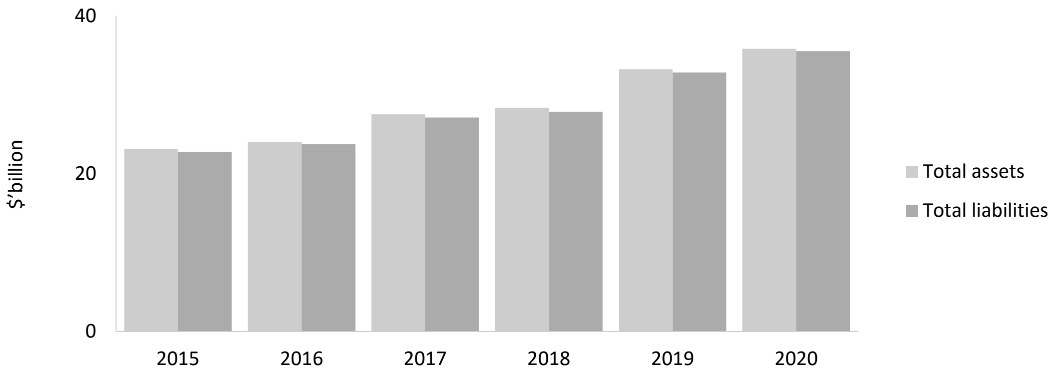
These changes highlight the inherent volatility of insurance activities, and the impact on SAFA's financial performance.

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 2020 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 there was a $4.9 billion increase in SAFA's total liabilities, with total assets increasing by a corresponding amount. This was mainly due to an increase in loans ($3.3 billion) and bonds, notes and debentures ($3 billion). The increase was mainly a result of an increased overall Treasurer's funding requirement for 2018-19.

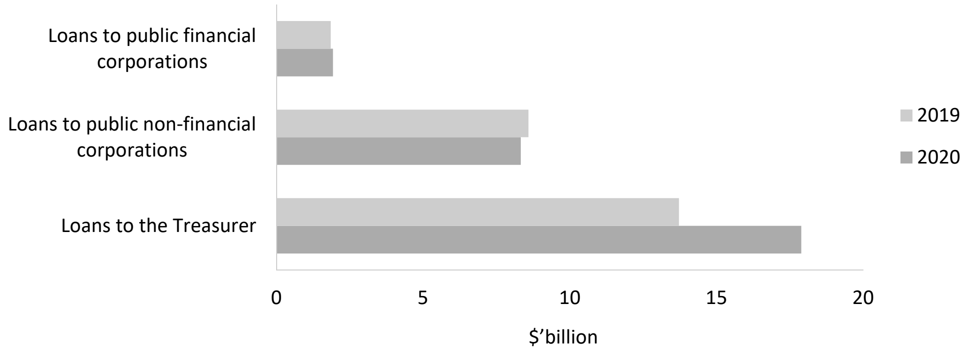
In 2020 there was a further $2.7 billion increase in SAFA's total liabilities, with total assets increasing by $2.6 billion. This was mainly due to an increase in loans ($4 billion), mainly to the Treasurer, offset by a decrease in investments ($2.1 billion) and an increase in bonds, notes and debentures ($2.3 billion).

Loans to government agencies

Total assets include loans of $28.2 billion, comprising SAFA's loans to the Treasurer to fund accumulated Consolidated Account deficits and loans to other public authorities.

At 30 June 2020 SAFA's loans to the Treasurer totalled $17.9 billion, an increase of $4.2 billion since 30 June 2019. The Treasurer also has funds on deposit with SAFA totalling $8.8 billion ($8.7 billion) as at 30 June 2020.

The chart below highlights SAFA's current and prior year government sector loan composition.



There was a current year increase in loans to the Treasurer and loans to public financial corporations of $4.2 billion and $74 million respectively, while loans to public non-financial corporations decreased by $256 million. The increase in loans to the Treasurer was primarily to fund the deficit in the Consolidated Account for 2019-20 ($3.86 billion).

Loans to the Treasurer also include a small amount, less than $1 million at 30 June 2020, in concessional loans to assist with recovery from bushfires. A total of seven loans were approved, with payments made for four of them as at 30 June 2020.

The main loans to public non-financial corporations were to the South Australian Water Corporation (SA Water), the Urban Renewal Authority and the Adelaide Venue Management Corporation.

Capital and distributions

At 30 June 2020 SAFA's capital reserves were represented by its retained earnings, which stood at $296 million ($409 million), and asset revaluation surplus, $0 ($6 million). A $4 million ($49 million) dividend distribution was made to the Treasurer in 2019-20.

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 dividend payment in June 2020, which comprised a final amount from 2018-19.

As SAFA made an overall loss in 2019-20, no dividend associated with 2019-20 results was paid.

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 provides that the Under Treasurer may request advice from the Advisory Board and consider any advice given. The Advisory Board may 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 2019-20 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 four 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 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 a basis where mismatches between assets and liabilities are managed within risk parameters, with assets of $15.7 billion at 30 June 2020. 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 ($15 731) at 30 June 2020.

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 new Royal Adelaide Hospital transactions out to 2033. The interest rate exposure on these new 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

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 and fleet functions with a low risk appetite, protects the interests of its owners and clients and protects its reputation as a provider of services consistent with its strategic direction.

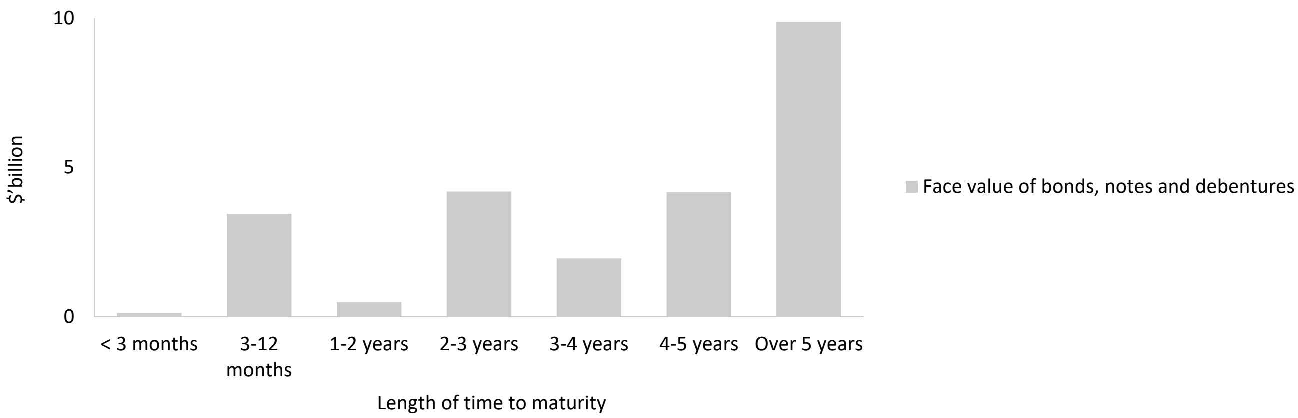
A low risk appetite approach means some exposure to identified risk is tolerated that is within well defined, approved parameters consistent with the organisation's strategic direction and business objectives.

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 2020 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 2026, SAFA will have $9.9 billion of principal and interest repayments.

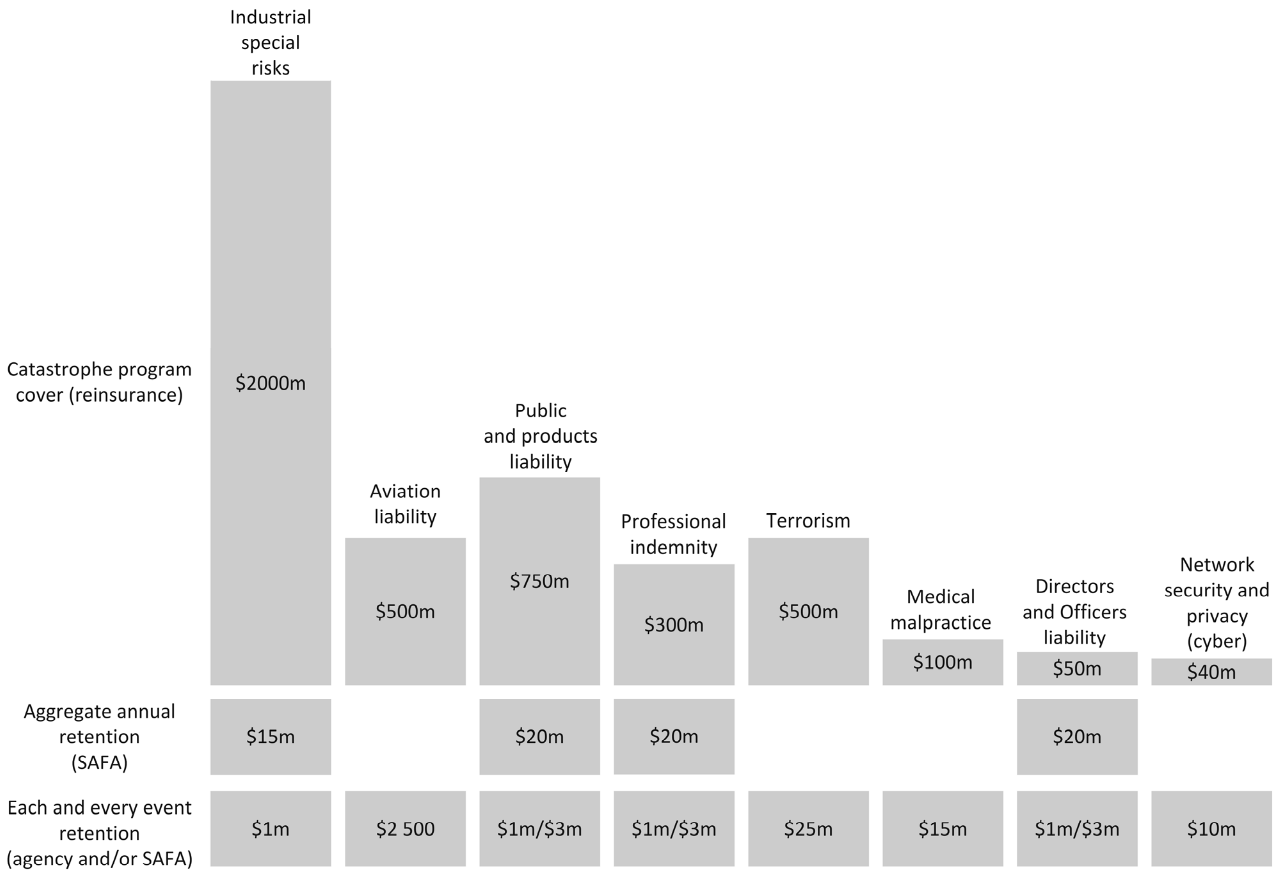
The chart does not include expectations for the SA Government's early refinancing or future financing requirements.

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. In 2019-20, SAFA claimed under this reinsurance program for the first time, as a result of the bushfires in December 2019.

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 2019-20 is shown in the following diagram.



SAFA's catastrophe reinsurance premium expense for 2019-20 was $9.8 million ($8.9 million), an increase of 10%. This increased cost mainly reflected a hardening of the property insurance market following two years of record catastrophic losses for insurers.

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 will be made available over five years, with loan terms up to 15 years. All non-government schools are eligible to apply and access will be granted based on highest need, taking into account a school's socio economic status score. Priority will be 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 2020 were $69.2 million, made up of $65.6 million (face value) in loans and $3.6 million in overdraft facilities. As at 30 June 2020, $6 million had been paid back.

The total value of approved school loans at 30 June 2020 was $109.4 million, with $34.5 million not yet drawn down.

SA Venture Capital Fund

On 6 July 2017 SAFA entered into an investment management agreement to establish the $50 million SA Venture Capital Fund (the Fund), with the objective of helping early-stage South Australian companies to attract private sources of co-investment from national and international investors.

Blue Sky Venture Capital Pty Ltd provided investment and management services for the Fund, until the investment management agreement was temporarily novated to Melbourne Securities Corporation in August 2019.

On 4 March 2020 Artesian Venture Partners was appointed as the fund manager.

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 2019-20 there was one new investment made from the Fund for $150 000 and a further investment of $3.5 million to a company previously invested in.

As at 30 June 2020, investments in four companies have been made from the Fund totalling $9.9 million.

National Redress Scheme for Institutional Child Sexual Abuse

On 25 May 2018 the SA Government approved South Australia's participation in the National Redress Scheme for Institutional Child Sexual Abuse (the Scheme) and for SAicorp to administer all payments associated with this. On 6 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 SAicorp on 24 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 2020 the outstanding claims liability for Fund 4 was $138.1 million ($136.7 million).

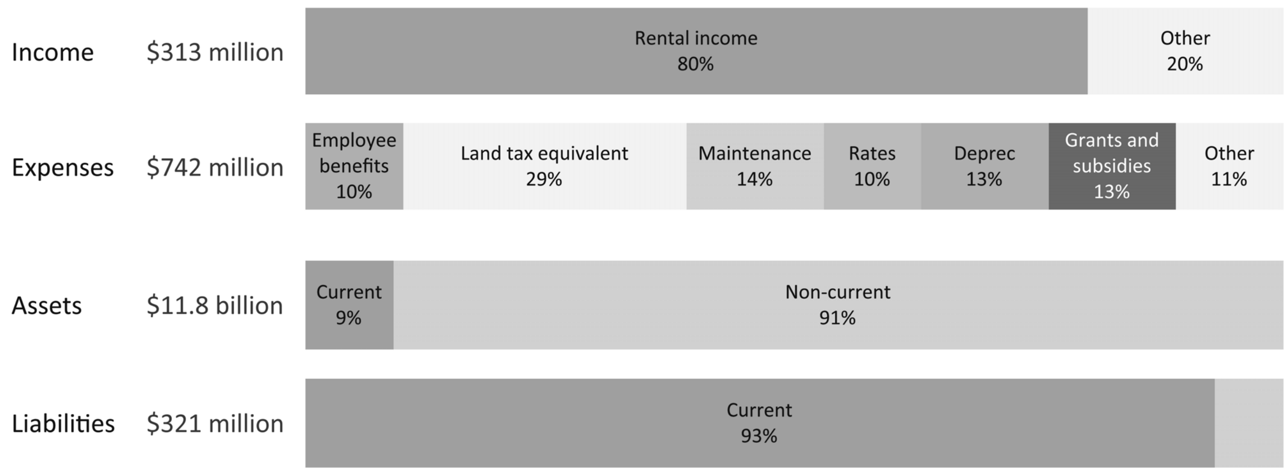
While the current estimate of claims is below the level of funding provided, the estimate is subject to change because the Scheme is open until 2027.

There were 258 (95) Scheme applications as at 30 June 2020.

In 2019-20 redress payments totalling $4.8 million were made to 47 applicants.

South Australian Housing Trust (SAHT)

Financial statistics



849
Total employees

$7.5 billion
Value of rental property

$428 million
Net deficit

Significant events and transactions

- 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 SAHT successfully went live with its cloud based Connect system on 14 April 2020, replacing its ageing legacy IT systems. Connect is now the SAHT's core system for managing properties and tenancies.
- The SAHT's net result moved from a $443 million surplus in 2019 to a $428 million deficit in 2020, due mainly to grants from the SA Government reducing by $810 million. Grants of $825 million were received in 2019 and included additional once-off grants of $604 million. Funding received in 2020 was mainly through an equity contribution of $241 million and therefore not recognised in the net result.

Financial report opinion

Unmodified

Controls opinion findings	—	Opportunities to improve the SAHT's asset management processes.
	—	The SAHT Board did not receive regular reporting on the progress of its 2020 capital works and sales program against non-financial targets.
	—	Further action is required to improve the SAHT's management of maintenance contractors.
	—	The SAHT Board did not receive regular reporting on the performance of community housing providers.
Other audit findings	—	Opportunities to improve the complaint management system were identified.

Functional responsibility

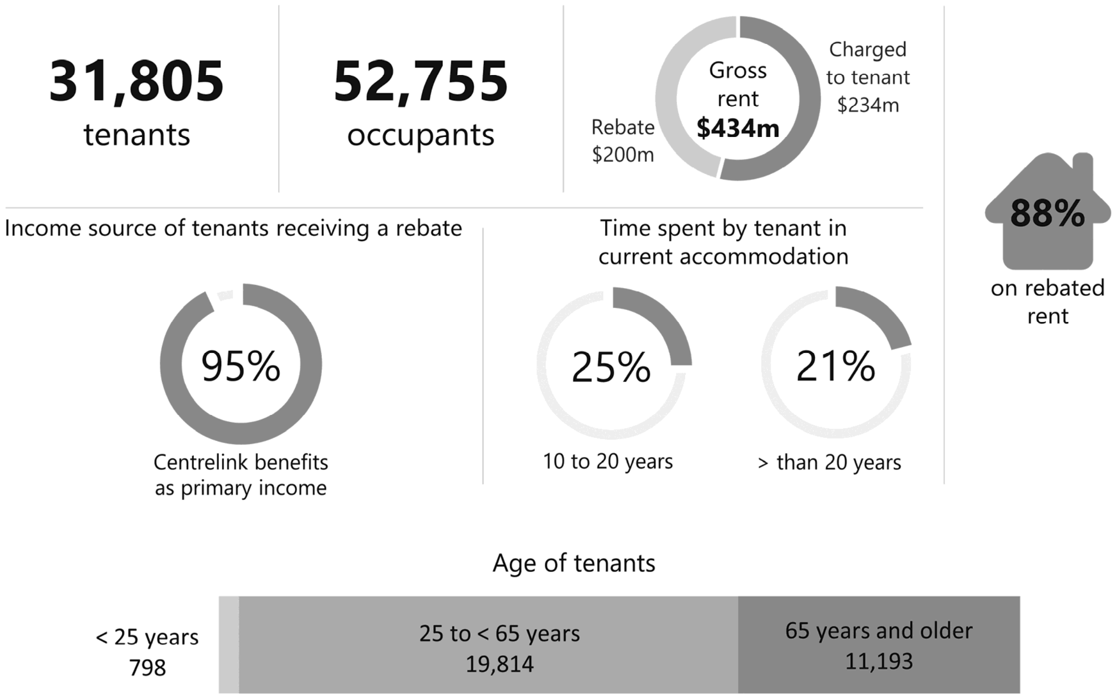
The SAHT is established by the *South Australian Housing Trust Act 1995* (SAHT Act).

The functions of the SAHT include:

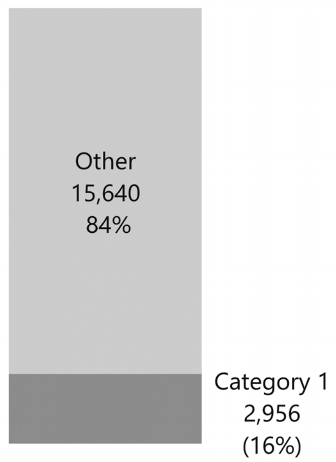
- the construction, purchase, ownership and management of houses and units for tenant occupation
- managing SAHT tenancies and housing grant programs.

Snapshot of SAHT operations

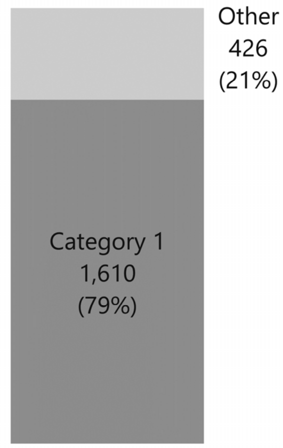
The SAHT's public housing operations (excluding SAHT housing managed by community housing providers (CHPs)) are summarised below.



Public housing register applicants at 30 June 2020[1]



Public housing register allocations to SAHT houses 2019-20[2]



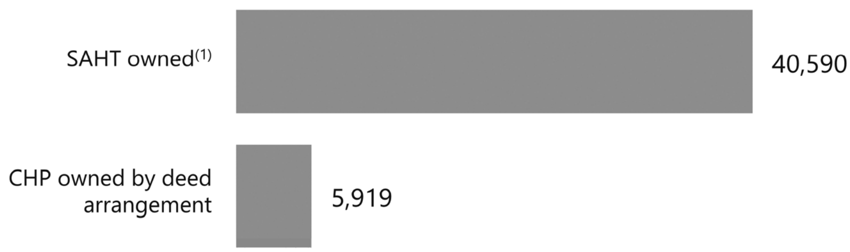
Category 1 applicants are people with urgent housing need and long-term barriers to accessing or maintaining private housing options.

[1] Excludes tenants requesting a transfer to another property.
[2] Excludes tenants transferring between properties.

Property, plant and equipment

$10.68b

Number of rental properties



[1] Includes unlettable properties and SAHT owned properties managed by either the SAHT or CHPs.

Age of SAHT owned rental houses[1]

[1] The age of 14 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 audit attention in 2019-20 included:

- 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
- private rental assistance
- grants to specialist homelessness service providers
- house sales
- general ledger.

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

Controls opinion

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

- rental income
- asset management including
  - land
  - buildings and improvements
  - assets under arrangement
- 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

Opportunities to improve the SAHT's asset management processes

The SAHT is responsible for managing property valued at $10.7 billion.

In 2019 we reviewed the SAHT's asset management practices and controls against aspects of the International Standard on asset management (ISO 55000) and identified improvement opportunities.

The SAHT is committed 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 of Planning, Transport and Infrastructure.

In 2019 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 key performance indicators (KPIs) and reporting to measure progress. The SAHT had implemented this process for some, but not all, of its asset management objectives. The SAMM identifies 12 asset management objectives to guide the asset planning process for creating and maintaining a housing portfolio that will achieve the SAHT's organisational objectives.

In 2020 we followed up progress made by the SAHT on these matters. The SAHT provided the following updates:

- To reach its targeted 'competent' level of asset management maturity it has aligned its asset management objectives with the organisational objectives in its Strategic Plan 2020-2025 (released in June 2020) and, in turn, aligned these objectives with those in the Our Housing Future strategy released by the SA Government in December 2019.
- It is developing a strategic asset management approach covering strategic asset disposal and investment as required by the Our Housing Future strategy. In July 2020 the SAHT Board approved a new strategic asset management framework (aligned to ISO 55000) enabling progress to be made on the draft asset management strategy (including KPIs). The SAHT had earlier engaged a consultant to conduct a housing need and demand analysis to inform the asset management strategy and KPIs. Stage 1 of this analysis was delivered in June 2020 with Stage 2 scheduled for completion by September 2020. The draft asset management strategy will include new KPIs aligned to the SAHT's Strategic Plan 2020-2025 and will provide clear objectives, time frames and reporting requirements.

Importantly, the SAHT has not yet completed its assessment of the condition of its housing stock. The asset condition assessment program, which started in February 2018, is scheduled for completion in 2021. These condition assessments can then be used to properly inform its future maintenance and future asset management plans.

The SAHT Board did not receive regular reporting on the progress of its 2020 capital works and sales program against non-financial targets

In 2020 we also noted that the SAHT Board was not receiving regular reporting on the progress of its 2020 capital works and sales program against non-financial targets. This reporting was not provided to the SAHT Board until May 2020. While the Board was receiving a monthly finance report, that report only showed progress against financial budgets and not against non-financial targets such as the number of houses constructed or sold.

In response, the SAHT advised that quarterly capital performance reporting will be provided to the SAHT Board along with regular dashboard reporting for major capital programs. In addition, the SAHT Board has established a Property Development Work Group to discuss the progress of the capital works program in detail.

Further action is required to improve the SAHT's management of maintenance contractors and to ensure compliance with 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.

In 2019 we noted that the SAHT had improved the reliability of its method for assessing MTC performance against the measures in their contracts and had started applying abatements (financial penalties) for underperformance. Improvements continued through 2020, with the introduction of a balanced scorecard approach for performance assessment.

Notwithstanding these improvements we noted the following:

- The MTC performance report for the six months ending 30 September 2019 containing recommendations to address underperformance was not finalised until May 2020, when it was approved by the Chief Executive. We recommended that the SAHT specify time frames for completing and approving MTC performance reports. The SAHT responded that policies will be amended to require the performance report to be completed within eight weeks of the end of the six-month review period and approved by the relevant director.
- Following the implementation of the Connect system in April 2020, work orders committing the SAHT to expenditure can, in certain circumstances, be raised, authorised and automatically processed by the SAHT's contractors. The absence of approval by an SAHT employee before payment has resulted in non-compliance with the expenditure and payment requirements of Treasurer's Instruction 8 *Financial Authorisations*. The SAHT responded that it is consulting with the Department of Treasury and Finance for a variation to the Treasurer's Instruction and that, in the interim, it is reviewing a daily report of all paid work orders to ensure the risk of invalid or unnecessary expenditure is mitigated.
- The SAHT has not developed financial delegations that authorise SAHT employees to approve the recharging of tenants for maintenance relating to unfair wear and tear. The SAHT responded that appropriate delegations will be developed.

The SAHT Board did not receive regular reporting on the performance of community housing providers

CHPs play a significant role in helping the SAHT achieve its objectives. They are privately operated organisations operating under the National Regulatory System for Community Housing, providing social and affordable housing to people on low to moderate incomes. The SAHT has contracted with CHPs to manage the tenancies and maintenance of about 11 000 of its properties worth $2.7 billion, including 5919 properties owned by CHPs but controlled by the SAHT. The contracts prescribe how the properties are to be used, maintained and managed on behalf of the SA Government, the eligible tenants that are entitled to use them and the rent that the CHP can charge.

In 2019 we recommended that the SAHT Board receive more timely reporting on the performance of CHPs. This would ensure issues with CHP performance are identified and actioned promptly.

The SAHT responded that quarterly reporting would be introduced. We noted, however, that this was not occurring in 2020. We recommended that the requirements and responsibilities for regular reporting to the SAHT Board on CHP performance be documented in a policy or procedure. The SAHT responded that it had now allocated responsibility for this reporting to the Business and Partnerships unit and that the unit had initiated quarterly reporting in June 2020.

Other audit findings

Opportunities to improve the SAHT's complaints management system

The SAHT is required to comply with Premier and Cabinet Circular PC039 *Complaint Management in the South Australian Public Sector* (PC039), which requires agencies to establish a complaints management system that conforms to the principles in the Australian/New Zealand Standard: *Guidelines for Complaint Management in Organizations* (AS/NZS 10002:2014).

We reviewed the design of the SAHT's complaints management system and found that the SAHT is committed to complying with PC039 requirements.

Complaints received by the SAHT include:

- antisocial complaints about tenants, which are received and recorded in the Connect system by staff in regional offices
- other forms of customer complaints received throughout the organisation and recorded centrally in the Objective system by staff in the Office of the Chief Executive.

The SAHT has established an antisocial behaviour policy and procedure to ensure the antisocial behaviour of tenants is managed efficiently and effectively, minimising the impact on neighbours and the local community. It has also established a customer feedback and complaints management policy and procedure for managing all other forms of customer complaints.

We noted the following opportunities for the SAHT to improve its complaints management system.

Data is not collected to assess customer satisfaction with the complaint handling process

The SAHT is not collecting data to determine the levels of satisfaction of complainants with the complaint handling process. Analysing why complainants are dissatisfied with the complaint handling process may identify areas for business improvement.

The SAHT responded that its primary focus with the new complaint management process has been to respond to and resolve the complaints and feedback received. The system has not yet matured to the point of collecting feedback on the complaint handling process itself. The SAHT intends to undertake a project to identify the most cost and resource effective way to manage data collection for the consideration of the Executive team.

Greater clarity is required in complaint management policies and procedures to ensure the accuracy of complaint reporting

The SAHT's complaint management policies and procedures do not specify the person responsible for providing internal and external reporting on complaints, and from which systems they should produce these reports. We noted there was a significant understatement of antisocial behaviour and maintenance complaint numbers in the SAHT's 2018-19 annual report.

Inaccurate reporting on complaints reduces staff accountability for any poor complaint management outcomes and opportunities to identify service improvements are diminished.

The SAHT responded that it will review its customer feedback and complaints management policy and procedures to ensure clarity of scope, and to identify appropriate data capture mechanisms and reporting requirements.

Reporting to the SAHT Board on complaint handling performance does not differentiate between substantiated and unsubstantiated antisocial behaviour complaints

Reporting to the SAHT Board on complaint handling performance does not differentiate between substantiated and unsubstantiated antisocial behaviour complaints. A significant drop in substantiated complaints coupled with a rise in unsubstantiated complaints could indicate a failure to properly investigate complaints. Our analysis of antisocial behaviour complaint data from Data.SA for 2018 and 2019 indicated country regional offices are substantiating 54% of complaints while metropolitan regional offices are substantiating 32%. Data for 2020 was not available.

The SAHT responded that it does not intend to differentiate between substantiated and unsubstantiated antisocial behaviour complaints in its reporting to the SAHT Board.

The SAHT does not regularly audit the performance of its complaints management system to identify improvement opportunities

The SAHT does not regularly audit the performance of its complaints management system to identify improvement opportunities. Ideally audits should be conducted by someone independent of the audited activity, focusing on the suitability of the system for achieving complaint management objectives and staff conformity with the policies and procedures.

In response the SAHT advised that complaints management is part of the SAHT's three-year internal audit plan and that any further reviews outside of this will be considered in light of the applicable standards, any potential anomalies in complaint levels, the severity of issues raised by internal audit and any competing priorities. We sought clarification on this response and were subsequently advised by SAHT officers that an internal audit is not scheduled within the next three years and they were unable to verify when a formal internal audit of complaints management last occurred, noting that the new complaint management process has only been recently introduced with the establishment of a new housing authority.

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 SAHT is the lead on 26 of the strategy's 33 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.

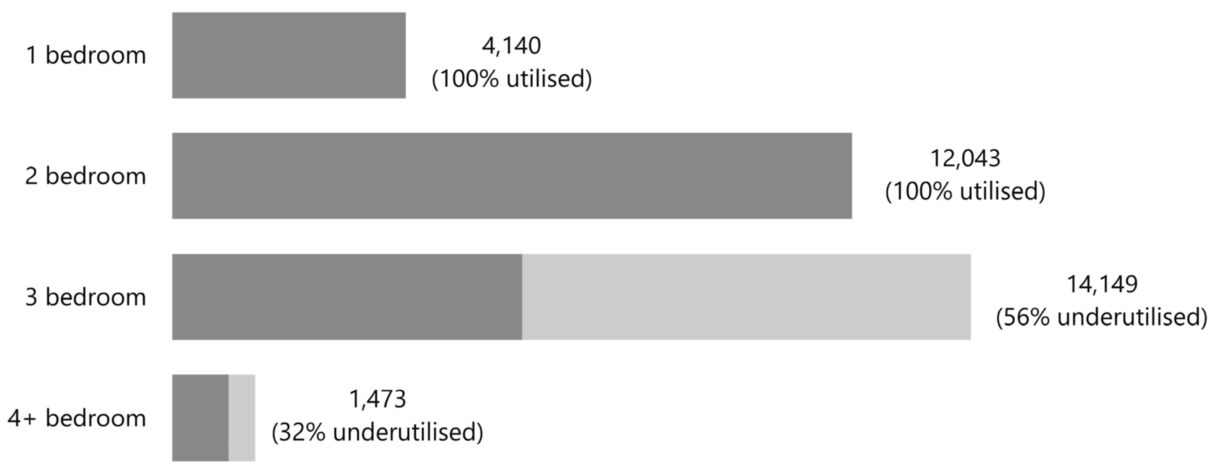
The SAHT is still finalising implementation plans for some of the actions. In June 2020, the SAHT Board received a report advising that two actions were complete, 26 were on track and five were to commence shortly.

Underutilisation of SAHT properties (excludes CHP properties)

The SAHT is updating its SAMM to reflect the asset strategies in the Our Housing Future strategy. 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. 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 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 assets under arrangement.

Triennial review

Section 43 of the SAHT Act requires the Minister, once in every three years, to report on the SAHT's operations and administration.

The triennial review for the period 2013-14 to 2016-17 was presented to Parliament on 4 July 2018. Performed by an external consultant, it included several significant observations on the governance arrangements that support SAHT operations. Some of the more notable findings included:

- the SAHT currently has no clear performance framework set out through Ministerial direction or funding arrangements
- year-on-year funding under the State budget process has varied, which impacts the SAHT's ability to develop and deliver long-term plans
- the new National Housing and Homelessness Commonwealth funding agreement that commenced on 1 July 2018 requires the State to develop a housing strategy
- property condition profiles have not been kept up to date by the SAHT in recent years and this has resulted in an unclear picture of the maintenance backlog. The SAHT has started but not yet finished inspecting the condition of its properties
- underutilisation and overcrowding figures indicate properties do not meet changing tenant profile needs. The SAHT has taken action to redevelop properties, including transferring them to the community housing sector for redevelopment.

The triennial review also identified the following areas in which the SAHT needed to improve its operations and administration:

- To support a modern housing system, a business model should be developed that enables policy objectives to be achieved in the most effective and sustainable manner.
- Improved benchmarks and indicators should be implemented to measure strategic targets and operational performance.
- The SAHT should evolve its service and asset delivery to meet the needs of its growing primary tenant cohort of single aged households.
- Options to increase rental revenue include looking to a 30% household income cap like some other jurisdictions or tailoring the rental policy to encourage employment and mobility within the housing system.

The Minister for Human Services responded in Parliament in July 2018 that the SAHT will operate under a new governance structure. A key deliverable would be developing a new housing and homelessness strategy.

In 2018-19 the Minister for Human Services established a new governance structure for the SAHT. Under its previous structure, the SAHT had no chief executive and no employees and depended on the Department for Human Services (DHS) and the Urban Renewal Authority (URA) to deliver its services. In 2018-19 a new SAHT Board and a chief executive were appointed and the employment of 872 DHS and 166 URA staff transferred to the SAHT. The SAHT has operated independently from the DHS and the URA since 1 July 2018.

The SAHT developed the Our Housing Future housing and homelessness strategy on behalf of the SA Government and will play a significant role in its delivery. The SAHT is improving its asset management methodologies, plans and other processes to deliver the strategy. It is also continually improving benchmarks and indicators to measure strategic targets and operational performance.

In relation to the finding of the triennial review that the SAHT currently has no clear performance framework set out through Ministerial direction or funding arrangements, we noted that the Minister for Human Services has chosen not to prepare a performance statement for the SAHT. Section 28 of the SAHT Act gives the Minister that discretion.

Successful replacement of legacy IT systems with the Connect system

The SAHT successfully went live with its cloud based Connect system in April 2020, replacing its ageing legacy IT systems. Much of the deployment was managed and executed remotely due to COVID-19 restrictions, a substantial change to the rehearsed deployment. The Connect system resulted from the SAHT's Business System Transformation program. Connect is now the SAHT's core system for managing properties and tenancies. Phase 2 of the program will be completed by March 2021 and will, among other things, enable:

- customers to access their accounts and SAHT correspondence through a secure website portal
- community housing providers to access a portal to allocate customers into housing from a single housing register.

The Connect system is a commercial off-the-shelf housing management system supplied by Northgate Public Services Pty Ltd. The company is contracted to provide support for the Connect system for five years from go-live date with a five-year extension option.

Cabinet approved the Business System Transformation program in September 2017 with a budget of $45 million, which includes the contract for program implementation and cloud and related services. This cost is funded from existing SAHT resources. Project expenditure to 30 June 2020 was $35 million, with $32 million capitalised and transferred from work in progress to internally generated software. The remaining budget will be applied to further stages of the program, which is expected to end in December 2022.

Interpretation and analysis of the financial report

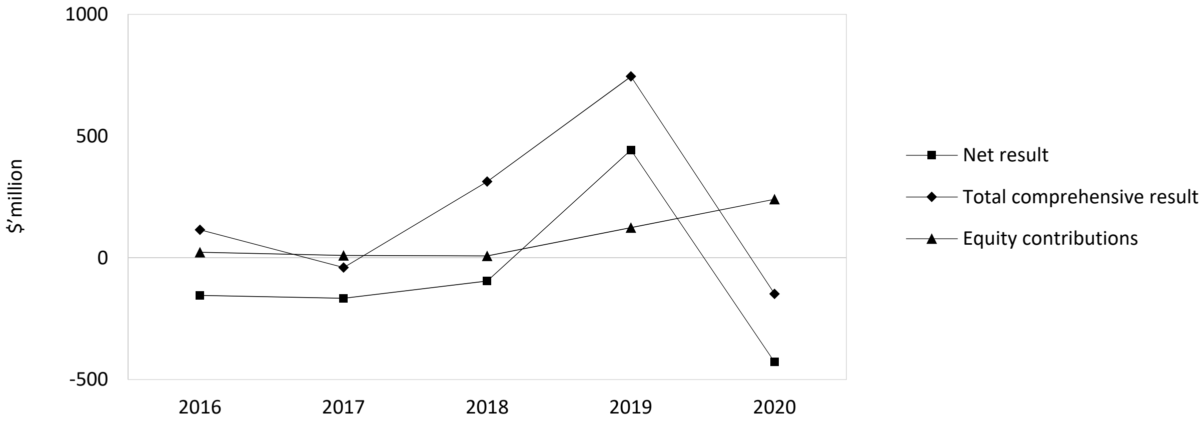
Highlights of the financial report*	2020 $'million	2019 $'million
Income		
Rental income	249	247
Recurrent revenues from SA Government	16	825
Commonwealth revenues	1	11
Other	47	95
Total income	313	1 178
Expenses		
Employee benefits expenses	77	85
Maintenance	107	111
Council rates and water rates	76	74
Land tax equivalent	214	196
Depreciation and amortisation	93	91
Grants and subsidies	99	103
Other expenses	76	75
Total expenses	742	735
Net result	(428)	443
Other comprehensive income	280	302
Total comprehensive result	(148)	745
Net cash provided by (used in) operating activities	(175)	577
Equity funding	241	124
Assets		
Current assets	1 071	1 049
Non-current assets	10 719	10 473
Total assets	11 790	11 523
Liabilities		
Current liabilities	300	125
Non-current liabilities	21	21
Total liabilities	321	146
Total equity	11 469	11 376

* 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 2020 is presented in the following chart.



The chart shows that the SAHT's total comprehensive result decreased in 2020 following a significant increase in 2019. Equity contributions have increased considerably since 2019.

Total comprehensive result moved from a $745 million surplus in 2019 to a $148 million deficit in 2020. This significant turnaround of $893 million was due mainly to:

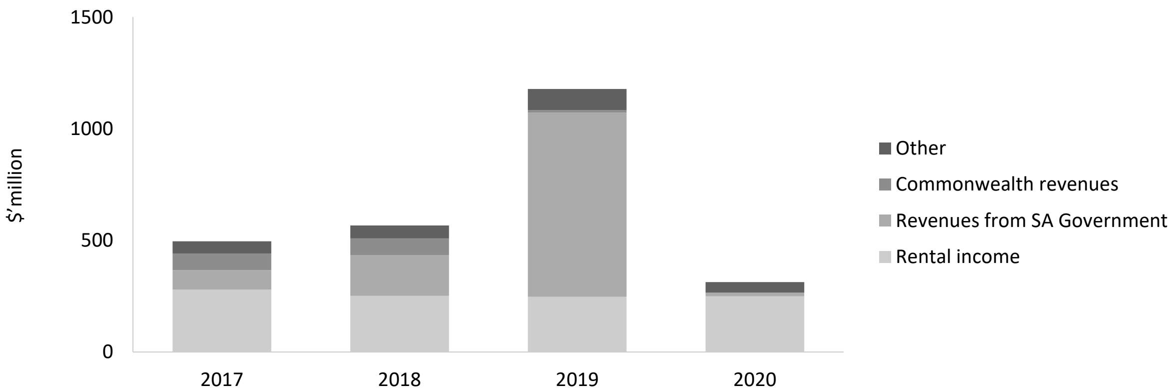
- $810 million less in revenues because of changes in how the SA Government funds SAHT operations
- a $42 million drop in net gains from disposals of assets
- a $22 million reduction in the upward revaluation for total property, plant and equipment.

To restructure and recapitalise the SAHT, in 2019 the SA Government provided additional once-off grants of $604 million and an equity contribution of $124 million. According to the 2019-20 State Budget, the SA Government will provide the SAHT with equity contributions totalling $778 million from 2019-20 to 2022-23 and minimal recurrent grants, resulting in large projected annual net deficits during this period. The SA Government provided an equity contribution of $241 million in 2020.

Where money has been provided in the form of an equity contribution, accounting rules require that the funding received is recorded as contributed equity and not recognised as income in the comprehensive result.

Income

A structural analysis of the SAHT's income for the four years to 2020 is presented in the following chart.



The chart shows the dramatic change in the SAHT's funding arrangements from 2019. In 2020 recurrent funding from the SA Government reduced to $16 million.

Recurrent funding for 2020 included $5 million to support people impacted by bushfires and $4 million to support and accommodate homeless people during the COVID-19 pandemic.

Other movements in total income for 2020 included the following:

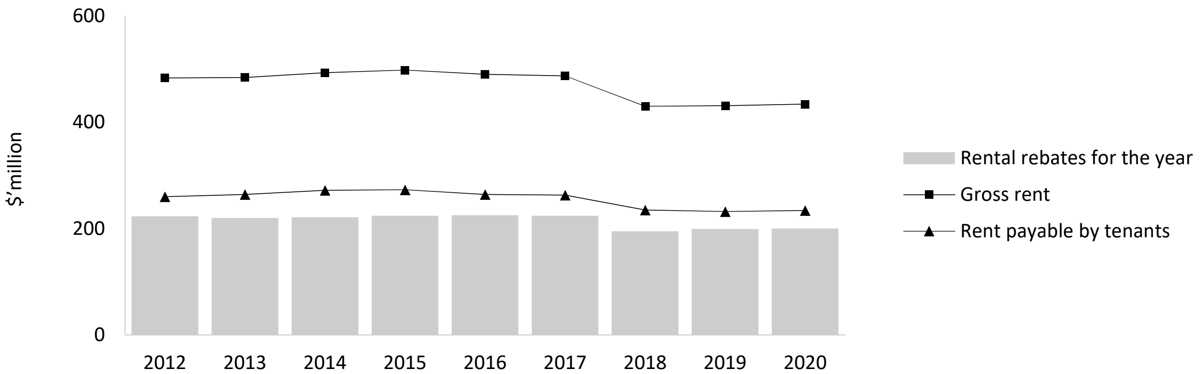
- Net gain from disposal of assets was $7 million ($48 million). The minimal net gain from disposal of assets in 2020 reflected the carrying amount of properties sold. Proceeds from selling properties support the SAHT's financial viability strategy and its housing renewal and capital programs.
- Commonwealth Government revenues decreased to $1 million ($11 million.) The SA Government now transfers Commonwealth Government funding for public housing as an equity contribution. It was previously transferred as a grant.

Rental operations

The SAHT advised that in 2019-20 its housing stock (excluding SAHT owned properties managed by CHPs) reduced from 35 596 to 35 419, a fall of 177 properties. This reduction only slightly impacted rental income.

Information provided by the SAHT records that 88% (87%) 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.

The trend of rents and rebates is illustrated in the following chart.

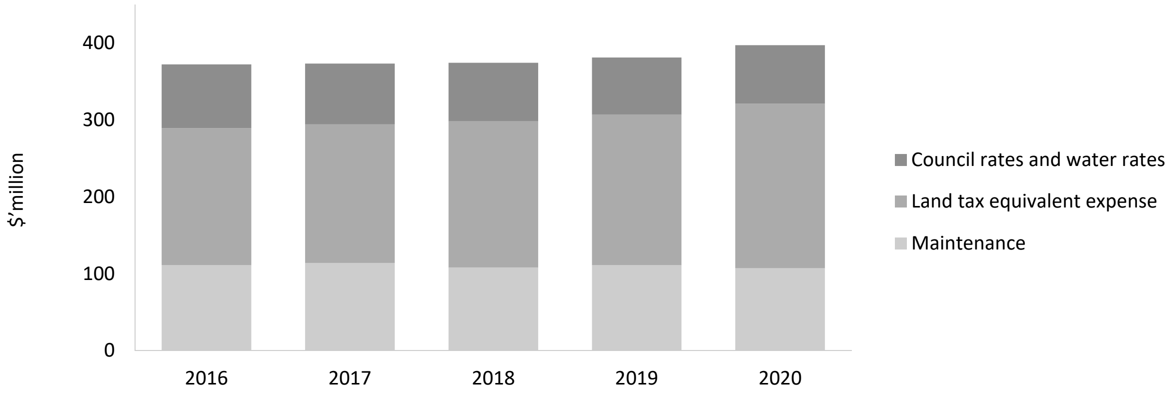


The chart highlights that gross rents, rental rebates and rent payable by tenants dropped in 2018 following the transfer of responsibility for tenancy management of over 5000 properties to the community housing sector between 2016 and 2018. The rent on these properties is retained by the community housing sector.

While gross rent (market rent) increased by $3 million in 2020, rebates remained consistent with the prior year. This indicates that most of the $3 million (1.1%) increase in rent paid was contributed by tenants who do not receive a rental rebate. Rents charged to most tenants is capped at 25% of household income. These tenants are not affected by market rent increases.

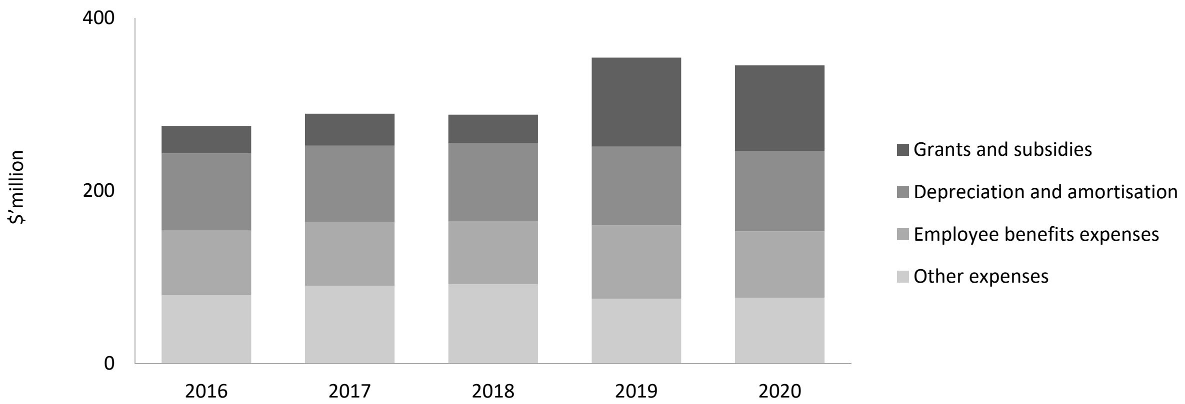
Expenses

Major property expenses for the five years to 2020 are shown in the following chart.



The chart shows that major property expenses have remained relatively constant over the last five years apart from the increase in land tax equivalent expense in 2020 explained below. 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 properties managed by CHPs. 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 2020 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 from DHS to the SAHT. In 2020 these grants were $68 million ($67 million).

In 2020 total expenses increased by $6 million to $742 million due mainly to the following movements:

- land tax equivalents expense increasing by $18 million to $214 million following increases in land values
- supplies and services increasing by $12 million to $47 million. Key movements included a $4 million increase in computer expenses, a $3 million increase in contractor expenses and a $1 million increase in insurance costs. The increase in computer expenses reflects the change in the provision of these services, which were previously provided by DHS and classified as a business service fee. These services are now directly incurred by the SAHT. Contractor expenses increased mainly due to increased use of agency staff
- employee benefits expenses decreasing by $8 million to $77 million driven by a $7 million decrease in targeted voluntary separation packages paid

- grants and subsidies decreasing by $4 million to $99 million due mainly to $6 million of once-off funding provided in the prior year for the CBD Respite Facility, offset by $3 million spent on the COVID-19 homelessness response
- impairment expenses decreasing by $4 million to $21 million, resulting from a $2 million decrease in asset write-offs due to less property demolitions relating to the SAHT's housing renewal programs. There was also a $2 million decrease in doubtful debts expense, with $2 million less debtor write-offs recorded against the provision
- business service fees decreasing by $7 million to $4 million, largely reflecting the revised service level arrangements with DHS. Besides computing services and processing charges, other services no longer provided by DHS include procurement, internal audit and payroll services.

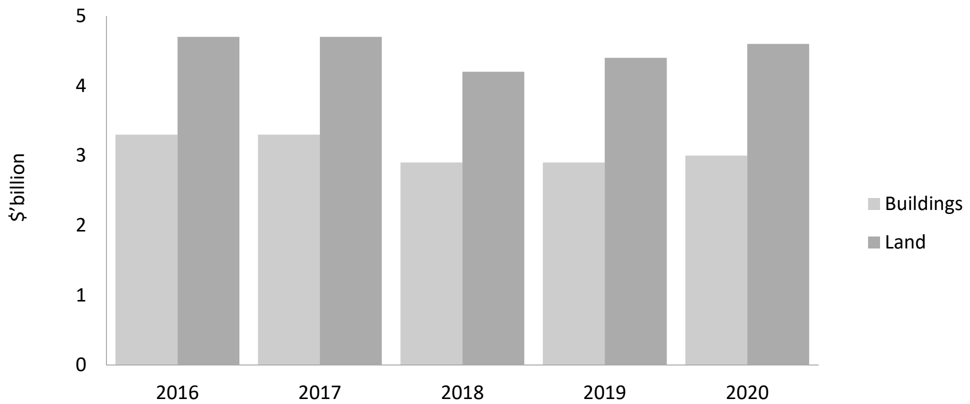
Statement of Financial Position

The SAHT's financial position is dominated by its significant property assets and cash balance. Its current assets of $1.07 billion ($1.05 billion) were significantly higher than its current liabilities of $300 million ($125 million).

Rental properties

The SAHT's rental properties are estimated to be worth $7.5 billion and comprise 70% of the SAHT's property, plant and equipment of $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 that in 2020 its housing stock reduced from 35 596 to 35 419, a fall of 177 properties, yet the value of its rental properties increased by $207 million. The average value of an SAHT rental property, based on the totals, changed from $206 000 in 2019 to $213 000 in 2020.

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.

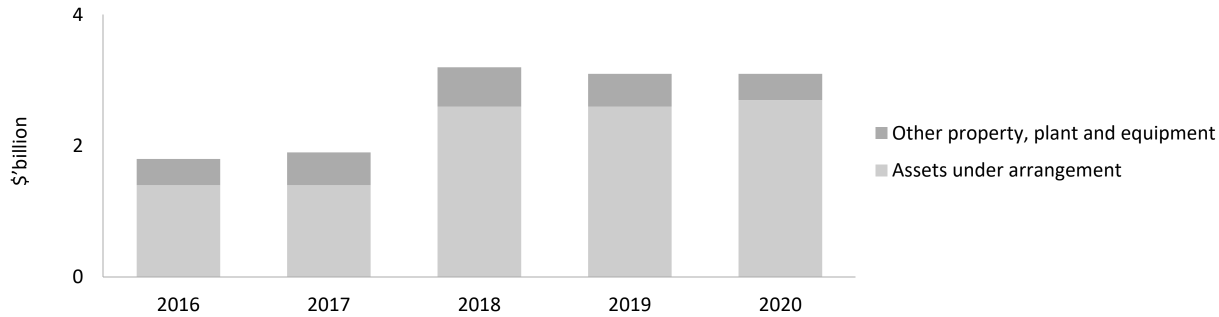
These properties are now classified as assets under arrangement and included in the commentary under 'Other property, plant and equipment' below.

In 2020 the value of rental properties increased by $207 million to $7.5 billion. This reflects an upward revaluation of land and buildings of $195 million and additions of $155 million, including completed capital works and maintenance upgrades. These impacts were partially offset by transfers to other asset categories of $52 million (principally to capital work in progress) and to assets held for sale of $3 million, disposals of $28 million and depreciation expense of $60 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 2020 were issued by the Valuer-General as at 1 July 2019. 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 5.8% as at 1 July 2019 for 2019-20 and 0.9% as at 1 July 2020 for 2020-21.

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 as a result of the transfer of the responsibility for property and tenancy management of 4050 properties to the community housing sector. These properties are no longer classified as rental properties.

In 2020 the SAHT's other property, plant and equipment of $3.1 billion increased slightly by $21 million due mainly to following movements:

- $67 million increase in assets under arrangement following upward revaluations of land and buildings of $89 million, partially offset by depreciation expense of $21 million
- $11 million increase in vacant land due mainly to asset category reclassifications for reasons including demolition of rental stock
- capital works in progress decreasing by $60 million to $125 million. This reflects works completed of $209 million ($323 million) mainly under SAHT's housing renewal programs, partially offset by additional works of $92 million ($134 million).

Intangible assets

Intangible assets increased by $13 million due to the capitalisation of development costs relating mainly to the development of the Connect system. The Connect system was implemented in April 2020 resulting in computer system development work in progress reducing from $18 million to less than $1 million.

Current assets

Current assets increased by $22 million to $1.07 billion due mainly to a $45 million increase in cash and deposits with the South Australian Government Financing Authority, partially offset by a $19 million decrease in inventories. Inventories decreased mainly following a reduction in capital works in progress on properties earmarked for sale and reflects scheduling within the capital works program. The increase in cash is explained further under 'Statement of Cash Flows' below.

Current liabilities

Current liabilities increased by $175 million to $300 million due mainly to land tax payable increasing by $165 million. The land tax assessment notice for 2020 was received on 30 June 2020 and not paid until the following year. Land tax for the last quarter of 2019 was paid in 2020.

Statement of Cash Flows

In 2019 the SAHT recorded a cash increase of $45 million compared to the $689 million increase for the previous year. This $644 million reduction in cash flow was due mainly to:

- an $810 million decrease in receipts from the SA Government, reflecting changes in arrangements of government funding already noted
- proceeds from the sale of properties decreasing by $89 million, due mainly to the sale in the previous year of a large parcel of vacant land at Seaford Meadows for $52 million and a reduction in the volume of sales of redeveloped properties
- a $98 million decrease in payments for land tax equivalents, noting the land tax assessment notice for 2020 was received on 30 June 2020 and paid in 2020-21
- a $47 million decrease in development costs reflecting a reduction in capital works. The SAHT reported the reduction was not due to COVID-19 but due to delays in scoping works, tendering and procurement processes, obtaining planning approvals, engaging builders and executing contracts
- a $116 million increase in equity contributions from the SA Government.

COVID-19 impacts

Key impacts of the COVID-19 pandemic on the SAHT's operations in 2020 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 required to self-isolate
- funding was provided to specialist homelessness services to transition rough sleepers self-isolating in emergency accommodation to longer term sustainable housing
- accommodation and transport was provided for indigenous community members required to quarantine before returning to remote communities.

The COVID-19 pandemic will continue to impact on the SAHT's operations in 2021:

- 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.

South Australian Tourism Commission (SATC)

Financial statistics	Net result:	$2.4 million
	Total appropriation:	$89.2 million
	Net assets:	$26.2 million
	Number of FTEs:	114

Significant events and transactions

— SATC held the 2020 Superloop Adelaide 500 motor race, which attracted an estimated 206 350 patrons across the four-day event. This is 38 470 less patrons than the 2019 event.

— SATC held the 2020 Santos Tour Down Under cycling event, which attracted an estimated 44 800 event specific visitors. This is 3200 less visitors than the 2019 event.

— SATC recognised $9.3 million in right-of-use buildings and motor vehicles for the first time following the implementation of AASB 16 *Leases* from 1 July 2019. A corresponding lease liability of $9.7 million was also recognised.

— The COVID-19 pandemic significantly impacted the South Australian tourism industry and SATC's operations. The impact will continue into 2021.

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 2019-20 included:

- income from sponsorships and event entrance fees
- 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*

	2020 $'million	2019 $'million
Income		
Appropriation	89	84
Other	25	33
Total income	114	117
Expenses		
Employee benefits expenses	14	15
Advertising and promotion	32	37
Industry assistance	17	16
Event operations	40	41
Other	9	9
Total expenses	111	117
Net result	2	(1)
Total comprehensive result	2	(1)
Net cash provided by operating activities	5	4
Assets		
Current assets	23	19
Non-current assets	21	16
Total assets	45	35

	2020 $'million	2019 $'million
Liabilities		
Current liabilities	10	8
Non-current liabilities	9	3
Total liabilities	19	11
Total equity	26	24

* Table may not add due to rounding.

Statement of Comprehensive Income

SATC relies on SA Government appropriations as its major revenue source to fund its operations. 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, Santos Tour Down Under cycling race, biennial Bridgestone World Solar Challenge (held in 2019-20 but not in 2018-19), National Pharmacies Christmas Pageant and Tasting Australia food and beverage festival.

The COVID-19 pandemic has significantly impacted the South Australian tourism industry and SATC's operations. The impact will continue into 2021. Keys impacts, which are detailed in note 1.8 of SATC's financial report, resulted in lost income and changes in spending priorities including:

- cancellation of the Tasting Australia food and beverage festival originally scheduled for March-April 2020
- reduced international marketing activities in response to Commonwealth Government restrictions on international travel
- provision of financial support packages to tourism businesses affected by the pandemic.

Income

Income for the year totalled $113.8 million ($116.7 million).

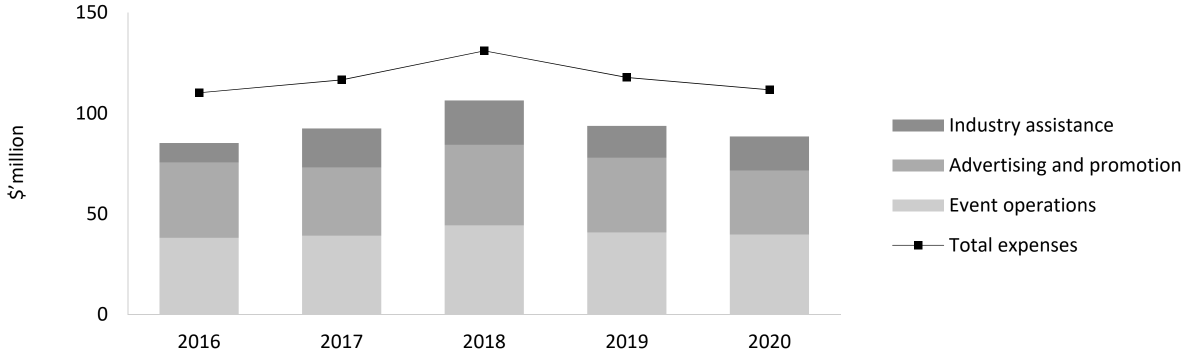
Appropriations were increased to $89.2 million ($83.6 million) and represented 78% (72%) of total income. The relative increase as a proportion of total income from last year was the combined effect of the increased appropriation for the year and falls in some other income sources. Appropriations included $3 million from the Governor's Appropriation Fund for tourism related initiatives in support of areas affected by the 2019-20 bushfires.

Other income decreased by $8.5 million to $24.6 million in 2019-20 mainly because of:

- revenue from event entry fees and licence fees decreasing by $4.7 million. There was reduced revenue from the Superloop Adelaide 500 motor race and the cancellation of the Tasting Australia food and beverage festival. These reductions were partially offset by entry fees from the biennial Bridgestone World Solar Challenge which was held in 2019-20 but not in 2018-19
- income from intra-government transfers decreasing by $4.3 million due mainly to a once-off grant of $3 million received in 2018-19 from the SA Government's Economic and Business Growth Fund for the Winter marketing campaign.

Expenses

The following chart shows a structural analysis of the main expense items for the five years to 2020.

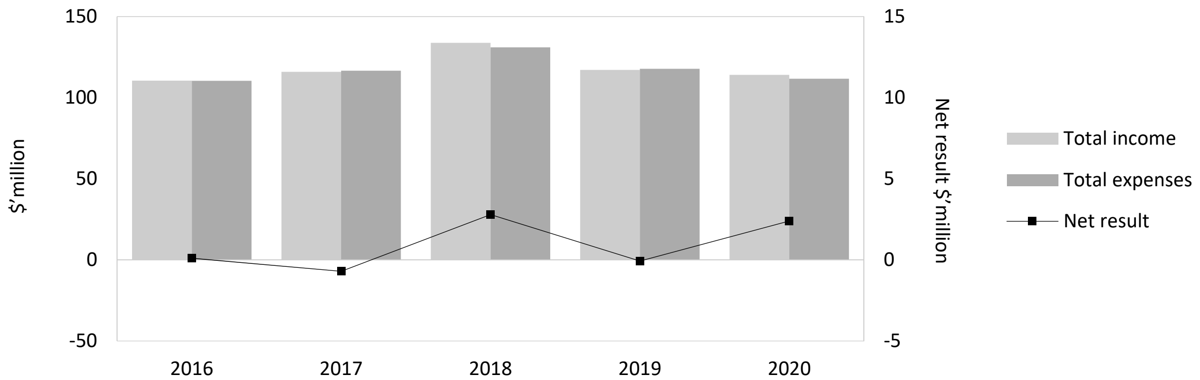


Total expenses decreased by $6.1 million to $111.3 million in 2019-20:

- Advertising and promotion expenses decreased by $5.5 million due mainly to reduced marketing activities in response to the impact of COVID-19 on interstate and international travel.
- Accommodation costs reduced by $2 million due mainly to the implementation of AASB 16.
- Industry assistance included new financial support payments totalling $2.7 million for tourism businesses affected by the pandemic and a $1 million payment to the Department for Planning, Transport and Infrastructure for tourism signage replacement. These increases were partially offset by reductions in industry assistance initiatives that ended in 2018-19, resulting in a net increase in assistance of $1.4 million.

Net result

The following chart shows total income, total expenses and the net result for the five years to 2020.



The chart shows that total income exceeded total expenses by $2.4 million in 2019-20. This net result reflects funds held for the NRL State of Origin match, which was postponed as a result of COVID-19. SATC's contractual commitments for this event are included in note 10 of its financial report.

Statement of Financial Position

Current and non-current assets

At 30 June 2020 current assets were $23.3 million ($19.1 million), exceeding current liabilities of $9.6 million ($8.4 million). Current assets increased due mainly to cash held increasing by $2.8 million to $19.4 million. Cash from operations of $115.1 million exceeded cash used in operating, investing and financing activities of $112.3 million.

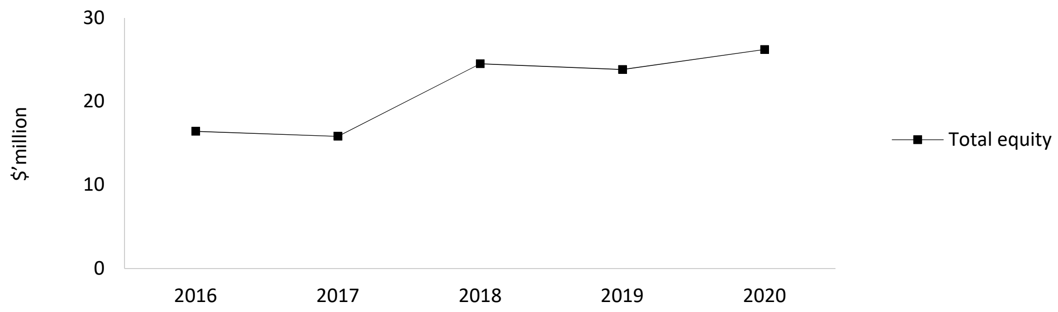
Non-current assets of $21.5 million ($15.8 million) at 30 June 2020 consist of plant and equipment. The $5.7 million increase in plant and equipment was due mainly to the recognition of $9.3 million in SATC accommodation and motor vehicle leases as right-of-use assets in line with AASB 16. This increase was partially offset by increased depreciation expense of $3.8 million ($2.4 million).

Current and non-current liabilities

Current and non-current liabilities increased by $7.4 million to $18.6 million at 30 June 2020 due mainly to the recognition of the financial lease liability for SATC accommodation and motor vehicle leases in line with AASB 16. The financial lease liability at 30 June 2020 was $8.4 million ($0).

Equity (net assets)

The following chart shows total equity as at 30 June for the past five years.



Total equity (net assets) increased by $2.4 million to $26.2 million in 2019-20 due to the net result of $2.4 million.

Further commentary on operations

Impact of COVID-19

The COVID-19 pandemic has significantly impacted the South Australian tourism industry and SATC's operations. The impact will continue into 2021. The future key impacts are unquantifiable and dependent on the severity and duration of the pandemic. SATC reports it is monitoring developments and will activate contingency plans if required for future SATC managed events based on health advice and restrictions around large gatherings. SATC will continue to refocus its marketing and industry assistance as new developments occur.

South Australian Water Corporation (SA Water)

Financial statistics

Water and sewer rates and charges:	$1.25 billion
Community service obligations:	$169.4 million
Borrowing costs:	$317.6 million
Profit before income tax:	$315.7 million
Infrastructure, plant and equipment:	$13.2 billion
Borrowings:	$7.1 billion
Net assets:	$4.8 billion
Number of FTEs:	1599

Significant events and transactions

- SA Water's profit before tax increased by $43 million (16%) to $316 million.
- SA Water adopted the income approach for valuation of system infrastructure assets. These assets were revalued downwards by $1.18 billion.
- Work continued on the $390 million Zero Cost Energy Future program with $185.6 million spent in 2019-20, bringing the total spent so far to $222.6 million.
- Work continued on the $155.6 million Northern Adelaide Irrigation Scheme (NAIS) and the $52.5 million upgrade of the Murray Bridge sewerage network, with $30 million (NAIS) and $21.7 million (Murray Bridge) spent in 2019-20. Both projects are nearing completion.
- Work continued on the $119.9 million upgrade of Kangaroo Creek Dam safety with $14.9 million spent in 2019-20, bringing the total spent so far to $109 million.
- Following an independent inquiry into South Australian water prices, in May 2020 the Treasurer issued a pricing order for the four-year regulatory period commencing 1 July 2020. The Regulatory Asset Base (RAB) for the provision of drinking water retail services was reduced by $520 million. The RAB is a key input into Essential Services Commission of South Australia's (ESCOSA's) regulatory determinations for SA Water's allowable revenue.
- On 11 June 2020 ESCOSA released its regulatory determination to apply to SA Water for the period 1 July 2020 to 30 June 2024. In present value terms, the pricing determination reduced SA Water's drinking water and sewerage retail service revenues by about 16% and 4% respectively over the next four years.

	—	The Water for Fodder program led to production of 40 gigalitres of water from the Adelaide Desalination Plant. The Commonwealth announced that the program will not continue into 2020-21.
Financial report opinion	**Unmodified**	
Controls opinion findings	—	No established processes to ensure that formal asset condition assessments are scheduled and regularly performed for water treatment plant assets.
	—	Asset condition records not updated soon after assets are repaired, upgraded or renewed.
	—	The Customer Service Information System access review was incomplete.
Other audit findings	—	A number of IT general control issues were reported.

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 2019-20 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.

The work of SA Water's internal auditors was also considered 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 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

Formal condition assessments not scheduled for water treatment plants

SA Water has not established processes to ensure that formal asset condition assessments are scheduled and regularly performed for water treatment plant assets.

While asset condition assessments are an important part of SA Water's asset management process, we noted that they are generally performed on an ad hoc basis. There is no routine assessment program or plan established that ensures all assets (or identified assets) are assessed at a minimum frequency. While asset condition is reviewed through regular maintenance inspections, this is not considered a formal condition assessment – although they are generally aligned to what are considered more critical assets.

The absence of scheduled asset condition assessments increases the risk that asset degradation is not detected, impacting asset operations and provision of services as expected to customers. Information recorded in systems may not fully assist management in making asset management related decisions.

While noting that formal condition assessments are only one element of an effective asset management system, SA Water acknowledged the opportunity to improve its practices in this area and committed to the following action:

- updating relevant procedures to clarify when formal condition assessments are necessary and their recommended interval
- creating condition assessment schedules within the Maximo asset management system to support these revised procedures.

Condition grades of water treatment plants not regularly updated to the asset management system

We noted that SA Water does not update asset condition ratings in Maximo soon after assets are repaired, upgraded or renewed. Because the time frame between asset condition assessments may reach up to four years, this could result in unreliable asset management information in Maximo, increasing the risk that asset condition and other details are not used when making asset replacement and other asset management decisions.

We were advised that the condition grading for the sample of assets we reviewed, last recorded on 20 September 2017, would be changed when the assets are next inspected. Since SA Water has no current documented condition plans or programs, this delay could mean four years or more pass before the correct asset condition grading is recorded in Maximo.

SA Water responded that it would develop and implement a business process to ensure that asset condition grades are updated.

Control over user access to the Customer Service Information System (CSIS) could be improved

The CSIS system is used to calculate amounts owed and invoice customers for water and sewerage charges.

We noted that SA Water's annual review of CSIS user access for 2019, which started in April 2019, remained incomplete as at February 2020. At that date 16 of 112 managers had not responded to the CSIS information system team's request for confirmation of user access information.

These reviews are important for ensuring that only valid users have access to systems and that the level of access provided to them is appropriate for their roles and responsibilities.

SA Water responded that it would update its procedures to include the requirements to escalate to senior managers if review responses are not received and to conduct reviews on 30 June each year.

Other audit findings

IT general controls review – Ellipse

SA Water uses the Ellipse system for financial reporting and payment processing.

We reviewed password management, user access management, patch management, change management, audit logging, backup and disaster recovery management for this system.

While our review confirmed that SA Water generally maintains strong management control over certain aspects of its Ellipse environment, we noted:

- a small number of users with privileged access (limited restrictions) who no longer required this access
- two instances of active user access for terminated staff.

SA Water responded positively to our findings and recommendations and advised that remediation would be completed by March 2021.

IT general controls review – Customer Services Information System and Chris21 payroll system

We reviewed the IT general controls operating within the CSIS and Chris21 payroll system environments.

We sought an update on the password configuration settings that apply to active directory which authenticates users and computers in the network, the Chris21 and CSIS applications and their supporting databases and operating systems. We compared these settings against those specified in the Australian Government Information Security Manual and SA Water's password policy. This comparison identified that aspects of password configuration settings could be strengthened.

SA Water has taken appropriate steps to resolve these matters.

Other matters

Referral of projects to the Public Works Committee

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

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

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

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

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

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

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

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

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

Interpretation and analysis of the financial report

Highlights of the financial report*

	2020 $'million	2019 $'million
Income		
Water and sewer rates and charges	1 246	1 247
Community service obligations	169	140
Other	191	195
Total income	1 606	1 582
Expenses		
Depreciation and amortisation expense	362	361
Borrowing costs	318	330
Operational and service contracts	226	219
Employee benefits expense	140	137
Other expenses	244	263
Total expenses	1 290	1 310
Net profit before income tax equivalents expense	316	272
Income tax expense	93	80
Net profit after income tax equivalents expense	223	193
Other comprehensive income (net of tax)	(807)	85
Total comprehensive result	(584)	278
Net cash inflows (outflows) from operating activities	518	476

	2020 $'million	2019 $'million
Assets		
Current assets	249	258
Non-current assets	13 618	14 408
Total assets	13 866	14 666
Liabilities		
Current liabilities	273	305
Non-current liabilities	8 799	8 737
Total liabilities	9 072	9 042
Total equity	4 794	5 624

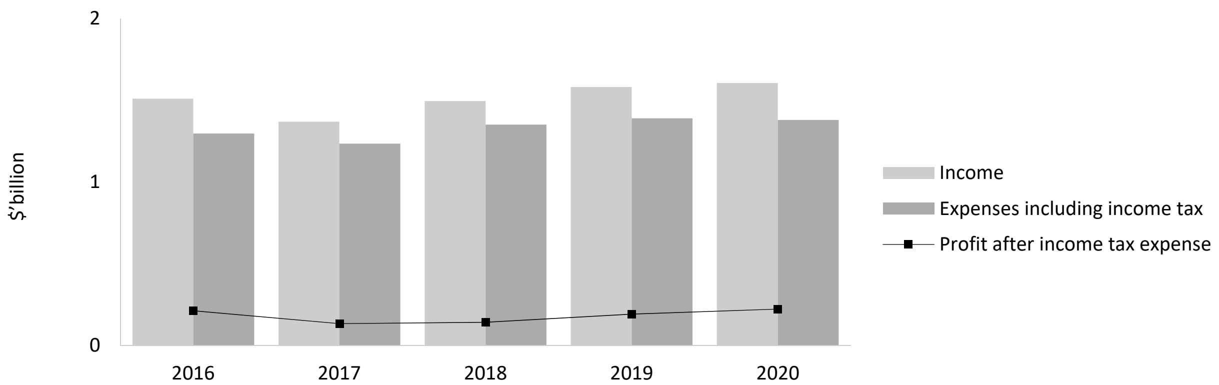
* Table may not add due to rounding.

Statement of Comprehensive Income

Operating result

SA Water's profit after income tax equivalents expense (income tax) increased by $30 million to $223 million.

The following chart shows the income, expenses (including income tax) and profit after income tax for the five years to 2020.

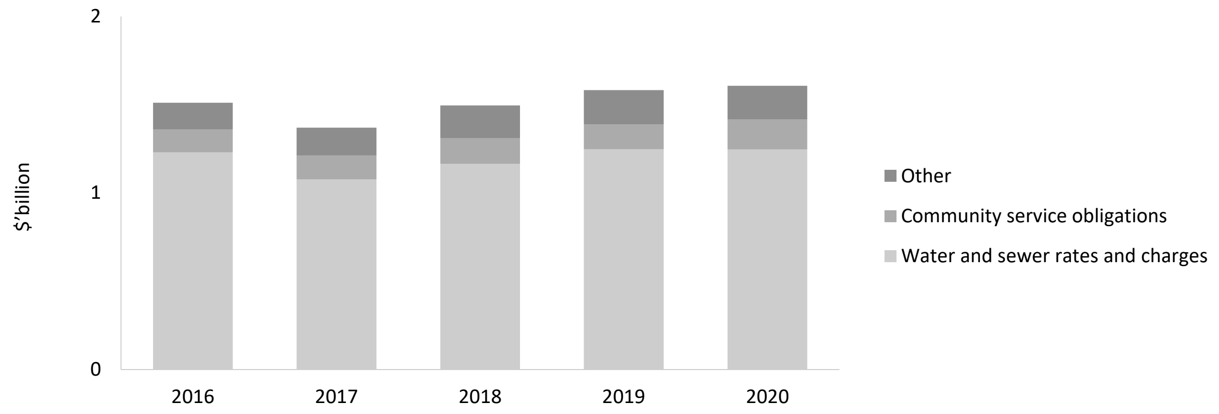


Since 2014 ESCOSA has regulated the revenue that SA Water can earn from providing drinking water and sewerage retail services. ESCOSA determines the revenue (not price) that SA Water may derive from these services, with SA Water setting annual water and sewerage charges to achieve the revenue limits determined by ESCOSA, and ESCOSA monitoring SA Water's performance. Further information on ESCOSA's role in making revenue determinations is provided below under 'Further commentary on operations'.

The chart shows the gradual increase in SA Water's profit after income tax over the second regulatory period, which began in 2017. In 2017, SA Water experienced an 11% decrease in water usage. Further explanation of the movements in income and expenses is provided below.

Income

The following chart shows the main sources of income for SA Water for the five years to 2020.



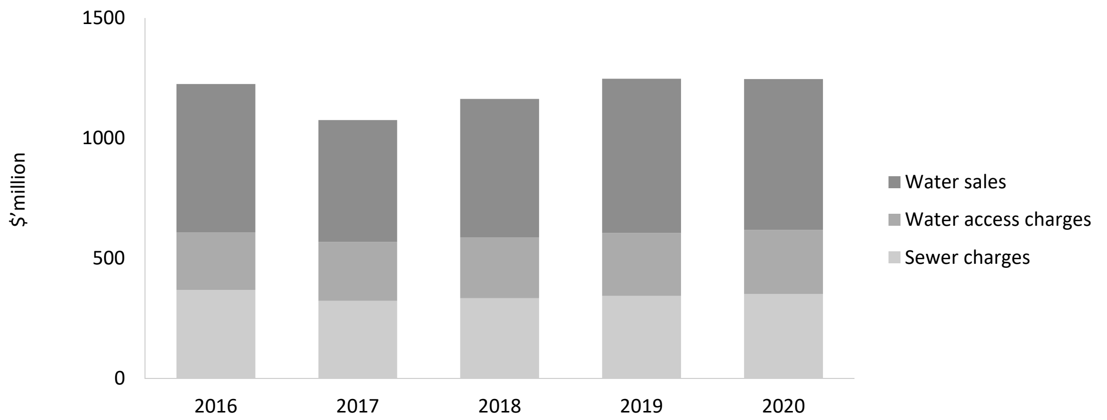
The chart shows total income generally increasing to 2020 except in 2017, when income from water and sewer rates and charges were at the lowest level of the previous five years. Total income increased by $23.5 million to $1.61 billion in 2020. Factors that impact this movement are discussed below.

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.

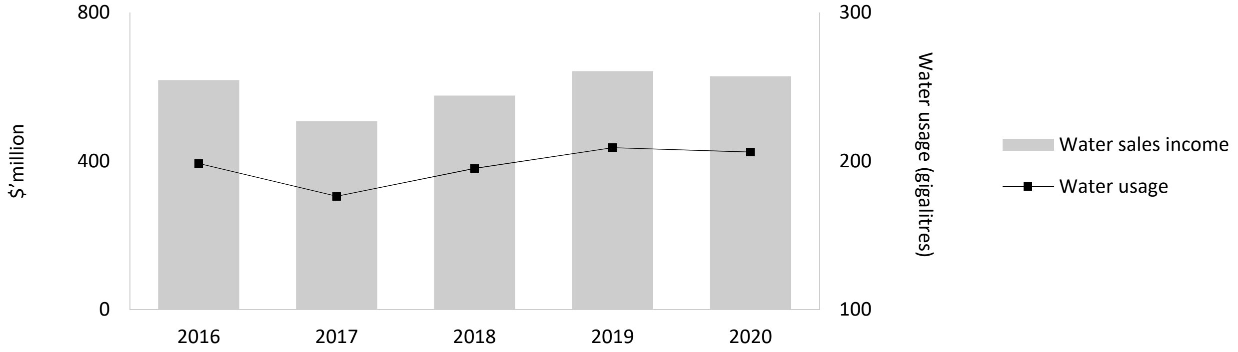
The following chart shows these components for the past five years.



Water and sewer rates and charges revenue is affected by changes in price and water consumption. Water sales decreased by $14 million in 2020 due to a decrease in the demand for water from the previous year, when conditions were drier and warmer. This was offset by a 1.3% price increase. Demand for water is discussed further in the next chart. In 2017 water pricing decreased by an average of 3%.

In 2020 sewer charges increased by $6.7 million to $351 million, due to a 1.3% price increase and an increase in customer growth of $2.3 million. Water access charges increased by $6 million to $267 million as a result of customer growth and pricing.

The following chart shows the relationship between water usage and water sales income.



In 2017 water usage fell to 176.2 gigalitres, down from 198.3 gigalitres in the previous year. This reflected above average rainfall and below average temperatures in South Australia in 2017. From 2018 water usage increased to 195 gigalitres, and again in 2019 to 209 gigalitres due to hotter and drier weather conditions. In 2020 volumes decreased by 2.8 gigalitres resulting in a decrease in revenue.

The factors affecting water and sewer prices are discussed further under 'Further commentary on operations' below.

Community service obligations (CSOs)

SA Water is required to provide a number of non-commercial services to the community on behalf of the SA Government. The SA Government provides SA Water with CSO funding to compensate it for these activities. CSO revenue increased by $29 million to $169 million in 2020, due mainly to funding of the Water for Fodder program (see comments in the next section).

Apart from this program, CSOs are to compensate SA Water for:

- the shortfall in 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 $19.2 million ($19.2 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.

Water for Fodder program

In 2019-20 an agreement between the Commonwealth and SA Governments was formalised for SA Water to produce water from the Adelaide Desalination Plane (ADP). Under the agreement, the Commonwealth Government would fund the State to produce up to 100 gigalitres of water at the incremental cost of producing it.

In November 2019, SA Water received a direction from the Minister for Environment and Water to increase production from the ADP to 40 gigalitres for 2019-20. The State surrendered 40 gigalitres of temporary water allocations that could be purchased by irrigators. The equivalent unused River Murray water allocations were then transferred from entitlements held by the State in the Murray-Darling Basin to irrigators in the Southern Murray-Darling Basin (mainly outside South Australia) under the Water for Fodder program.

The original project spanned from 2019-20 (round 1), when an initial 40 gigalitres of water was transferred, to 2020-21 when up to a further 60 gigalitres could be transferred (round 2). Under the agreement, SA Water incurred estimated incremental costs of $32.5 million for the 2019-20 production of water for the program. CSO revenue of $30.6 million was recognised in 2019-20 with the remainder to be recognised in the future. Recently, the Commonwealth announced that round 2 of the program would not proceed due to increased rainfall and water flows in the Southern Murray-Darling Basin, which has reduced the need for the program as a continued emergency drought response.

Other income

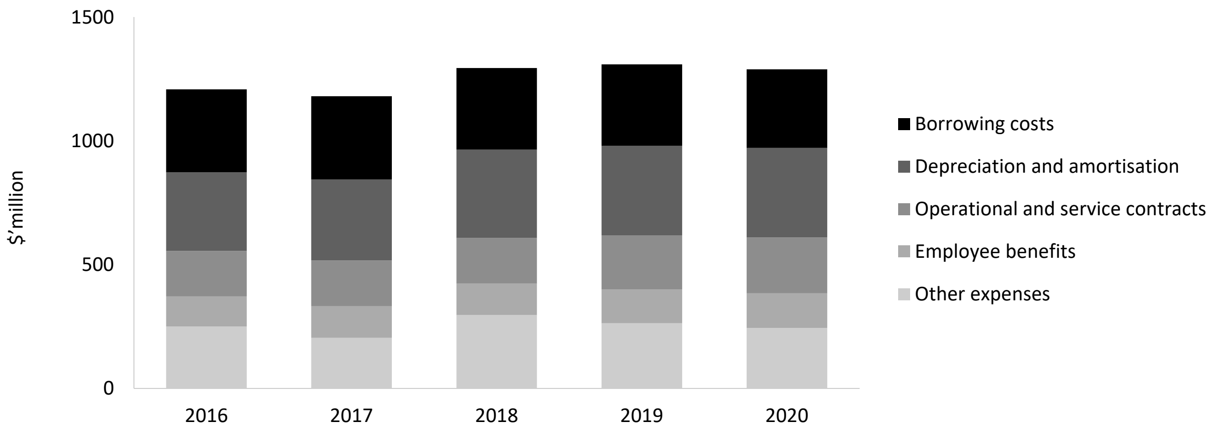
Income from all other sources decreased by $4.8 million to $191 million and comprises mainly income from contributed assets and recoverable works, which can vary from year to year depending on economic conditions and government initiatives, and gains on the disposal of infrastructure and other assets.

Expenses

Total expenses decreased by $19.7 million to $1.29 billion. The major contributing components were:

- a reduction in accommodation and contingent rentals of $17.2 million in 2019-20 following the implementation of AASB 16 *Leases*
- a reduction in interest expense of $16 million due mainly to lower market interest rates
- minimal loss following the sale of renewable energy certificates in 2019-20, compared to a loss of $5 million in 2018-19
- lower workshop costs and cost of goods sold of $5.2 million due to projects nearing completion
- an increase of treatment plant expenses of $5.9 million due to increased ADP costs for the Water for Fodder program
- an increase in electricity charges of $4.2 million due mainly to a $20 million increase in charges to run the ADP for the Water for Fodder program, offset by reductions in major pumping costs of $12 million and reduced requirements at other operational sites of $4 million
- an increase in finance costs of $3.8 million due to the recognition of leases required by the implementation of AASB 16
- higher asset write-offs of $4.2 million in 2019-20
- an increase in employee benefits expenses of $3.7 million due to increases in salary rates, an increase of 12.9 average FTEs and increases in employee leave entitlements and workers compensation provisions.

The following chart analyses SA Water's main expense items, excluding income tax expense, for the five years to 2020.



Since 2016 expenses have increased by $81 million (6%). Major factors affecting expenses have been:

- a $44 million increase in depreciation and amortisation costs, which are highly responsive to asset revaluations and additions
- an increase in employee benefits expenses of $18 million due mainly to increased salary rates
- an increase in service contracts of $43 million for the maintenance of Adelaide metropolitan water and sewerage infrastructure
- decreased borrowing costs of $18 million due mainly to a reduction in interest rates.

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.

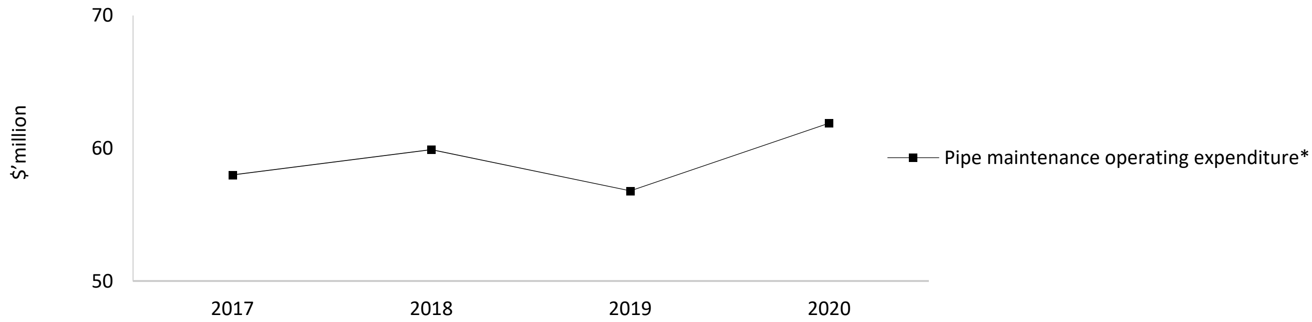
SA Water's major costs for the ADP are:

- operation and maintenance of the desalination plant (O&M contract). The O&M contract is for 20 years from 2012. In 2019-20 contract expenditure for operating the plant was $25.5 million ($20 million). Water produced by the plant increased by approximately 35 gigalitres to 40 gigalitres (4.4 gigalitres). The increase was mainly due to increased production for the Water for Fodder program
- 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 2019-20 expenditure for operational power (including relevant used renewable energy certificates) was $32.1 million ($11.2 million). This increase is also due mainly to increased production for the Water for Fodder program.

The total depreciation expense (including intangible assets) for the ADP was $49 million ($53 million) in 2019-20.

SA Water maintenance expenditure

The following chart shows SA Water's routine maintenance and repairs expenditure since 2017 on water and sewerage assets.



*   Data on specific pipe maintenance expenditure by year provided by SA Water and unaudited.

SA Water's routine maintenance and repairs expenditure, including pipe maintenance, increased to $62 million in 2020. 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 four 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
Reported pipe bursts:				
Metropolitan	1 689	1 693	2 026	1 801
Country	1 968	2 168	2 020	1 867
Total	3 657	3 861	4 046	3 668

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 in 2019-20, due mainly to climactic factors.

The Australian Government Bureau of Meteorology's *National performance report 2018-19: urban water utilities* reports that SA Water's water main burst rates ranked seventh 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 2019-20 other comprehensive income showed a loss of $807 million ($85 million gain), principally due to the revaluation downwards 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 2015 total assets have increased by $708 million reflecting revaluation 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 billion (86%) of the $13.9 billion in total assets.

In 2019-20 total assets were $13.9 billion, a reduction of $800 million from the previous year. Significant movements affecting assets during the year were:

- the downward revaluation of infrastructure assets of $1.18 billion
- depreciation and amortisation charges of $362 million
- the acquisition of system infrastructure and plant and equipment of $550 million (including water and sewer pipe network renewal)
- the first time recognition of right-of-use buildings and vehicles of $186.9 million in line with AASB 16.

Adopting an income approach for valuing system infrastructure assets

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

In 2019-20 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.

The Under Treasurer approved SA Water's use of an income approach in March 2020. Factors contributing to this approval included:

- the regulatory process governing water pricing is now well established, with ESCOSA completing its revenue determination in June 2020 for the third regulatory period beginning 1 July 2020. Predictability and transparency in future revenue expectations is an important factor for a reliable measure of value

- the income generating potential of SA Water's assets, as compared to their replacement cost, is of key importance to the State and other users of its financial report
- all other for-profit water authorities in Australia use an income approach when valuing infrastructure assets.

SA Water aligns its approach to determining the future cash flows with the methodology applied by the ESCOSA. In addition to the cash flows for regulated assets under this approach, SA Water's fair value calculations also 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 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	4.45%	4.55%	4.35%
Calculated fair value of infrastructure, plant and equipment ($'billion)	13.173	12.485	13.967
Resulting change ($'million)		(687)	794

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 ($'billion)	13.173	13.895	12.521
Resulting change ($'million)		722	(652)

Sustainable capital expenditure	Value applied	If higher by $10 million	If lower by $10 million
Nominal post-tax value ($'million)	384.4	394.4	374.4
Calculated fair value of infrastructure, plant and equipment ($'billion)	13.173	12.535	13.811
Resulting change ($'million)		(638)	638

The following data provides an overview of water and sewer infrastructure assets for 2020.

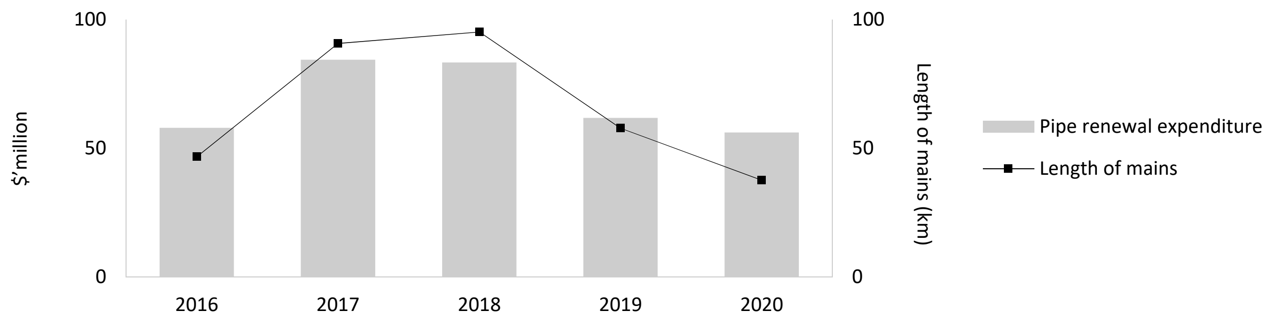
Water	Assets*	Value
Water customer connections	794,026	$641m
Pipes	27,806km	$3.9b
Water treatment plants	35	$705m
Dams/Weirs	36	$594m
Desalination plants	4	$1.3b

Sewerage	Assets*	Value
Customer wastewater connections	624,650	$571m
Wastewater mains	9,105km	$1.9b
Treatment plants	28	$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 (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, before reducing again in 2019 and 2020.

Liabilities

Total liabilities increased by $29.4 million, impacted by:

- increased borrowings of $302 million to fund capital expenditure
- the first time recognition of $115 million in lease liabilities in line with AASB 16
- decreases in deferred tax liabilities of $330 million mainly as a result of the revaluation downwards of system infrastructure assets
- a decrease in trade creditors of $40 million, mainly reflecting SA Water's early payment of creditor invoices as part of its COVID-19 pandemic response
- reduced accruals of $15.1 million for capital projects nearing completion in 2019-20 .

Current assets and liabilities

At 30 June 2020 current liabilities amounted to $273 million, exceeding current assets of $249 million by $24 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 61% (74%) of the balance, which includes obligations for capital purchases.

Statement of Cash Flows

While cash increased marginally to $4.8 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 $1.5 billion, largely reflecting water and sewerage charges
- investment in the construction and purchase of infrastructure, plant and equipment and intangible assets. In 2019-20 investing payments for assets amounted to $579 million ($548 million), representing the number of large infrastructure projects
- payment of a cash dividend to the SA Government of $228 million ($179 million)
- an increase in SA Water's financing requirements, with cash inflows from net borrowings totalling $305 million ($221 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 2019-20	Actual results 2019-20
Profit ($'million)	267.8	315.7
Tax expense ($'million)	80.3	92.6
Dividend ($'million)	179.0	228.1
Total contribution ($'million)	259.3	320.7
Gearing ratio (%)*	46.2	51.4

* Total interest bearing debt (including borrowings and lease liabilities) divided by total assets.

SA Water's actual total contribution of $320.7 million was $61.4 million above the performance statement target.

The dividend target of $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 maintaining a gearing ratio of at least 45% and specifying a ratio of 46.2% for 2019-20. The increase in the actual gearing ratio of 51.4% was impacted by the downward revaluation of system infrastructure assets and the increase in lease liabilities of $115.2 million due to the introduction of AASB 16.

The following table summarises movements in the major items influencing borrowings.

	2016 $'million	2017 $'million	2018 $'million	2019 $'million	2020 $'million
Net cash inflows from operating activities	504	395	487	476	518
Net cash outflows from investing activities	(295)	(290)	(413)	(527)	(576)
Surplus (Shortfall in) cash from operations after investing activities	209	105	74	(51)	(58)
Dividend payments to owners	(205)	(193)	(139)	(179)	(228)
Surplus (Shortfall in) funds to pay for dividends and investing activities	4	(88)	(65)	(230)	(286)
Net increase in borrowings	6	95	66	221	305

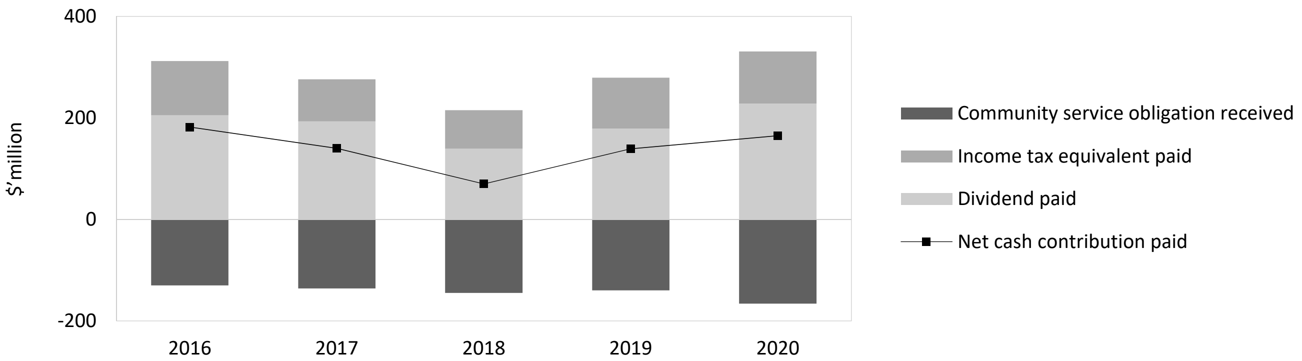
Net borrowings have increased from 2016 to fund major capital works. The $95 million increase in net borrowings in 2017 followed a direction from the Treasurer under section 30(5) of the *Public Corporations Act 1993* for an interim dividend of $71 million.

Net borrowings increased by $305 million to $6.9 billion in 2020, representing additional borrowings for increased capital expenditure (largely for the Zero Cost Energy Future project) and working capital requirements.

In 2018 the Treasurer approved an increase in the core debt facility limit with SAFA by $608 million to $7.04 billion. At that time, the Treasurer also approved amendments to SA Water's interest rate risk management policy and liquidity risk management policy and an increase in its working capital facility limit with SAFA to $150 million, up from $100 million, to be reviewed every two years. On 2 September 2020, the Treasurer approved a core debt limit of $8.163 billion for SA Water.

The 2019-20 performance statement included a decision to maintain SA Water's debt to asset ratio of at least 45% and specifically 46.2% in 2019-20. As discussed, the actual debt to asset ratio was 51.4% due to the downward revaluation of system infrastructure assets and the increase in lease liabilities.

A structural analysis of SA Water's cash contributions (dividends, income tax equivalent) to the SA Government and CSO funding provided by the SA Government for the five years to 2020 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 between 2016 and 2018, and then increasing from 2019.

The increase in 2020 recognises the $49 million increase in dividends paid.

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 2020 SA Water had a debt to asset ratio of 51.4%.

The table below shows SA Water's 2020 gearing ratio and the gearing ratios for four major water utilities from around Australia as at 30 June 2019.

	SA Water (2020)	Sydney Water	Melbourne Water	Water Corporation WA	Yarra Valley Water
Total debt ($'billion)	7.126	9.382	7.802	6.176	2.628
Total assets ($'billion)	13.867	20.342	15.279	17.767	5.121
Gearing ratio (%)	51	46	51	35	51

SA Water's revised gearing ratio is similar to those of Melbourne Water, Yarra Valley Water in Victoria and Sydney Water. SA Water's gearing ratio was impacted by the introduction of AASB 16, which increased lease liabilities by $115.2 million. The gearing ratios for the four other utilities noted do not include this impact, with the new accounting standard only introduced in 2019-20.

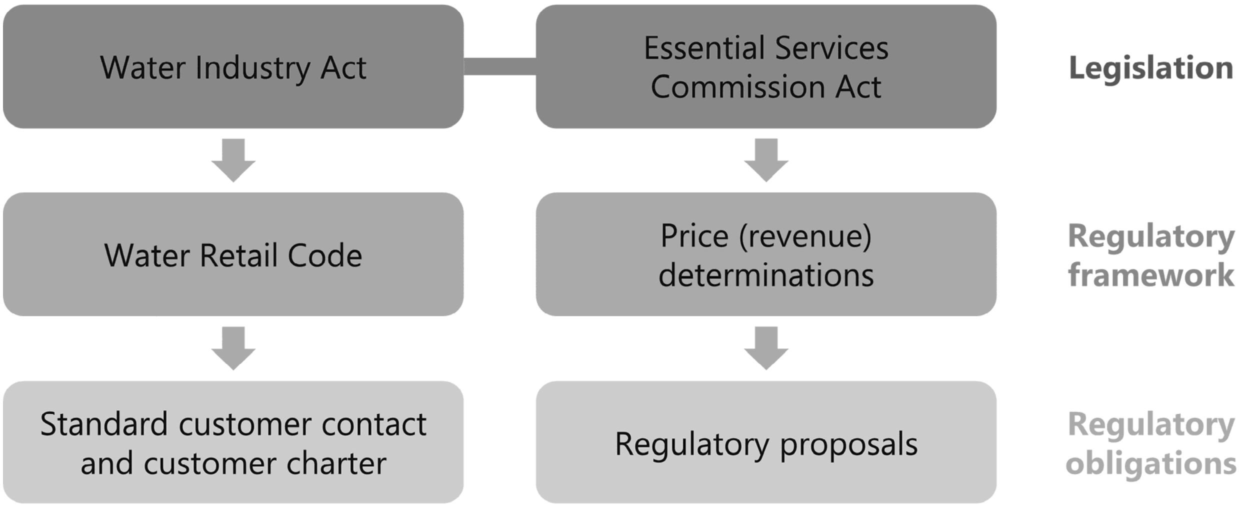
Water and sewer rates and charges

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



Reduced Regulatory Asset Base (RAB)

Following an independent inquiry into South Australian water prices, the *Abridged Advice – Final Report of the SA Inquiry into Water Prices* was tabled in June 2019.

This report covers a range of issues including the valuation of the RAB.

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).

The Treasurer issued a pricing order on 25 May 2020, which stated that from the regulatory period commencing 1 July 2020, the RAB for the provision of drinking water retail services was to be set at $7.25 billion as at 1 July 2013 (in December 2012 dollars). This replaces the previous RAB value of $7.77 billion (in December 2012 dollars), a reduction of $520 million.

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.

ESCOSA determinations

In June 2016 ESCOSA issued a final determination establishing the maximum revenue that can be recovered by SA Water for the provision of drinking water and sewerage retail services for the four years from 1 July 2016 to 30 June 2020. The determination set SA Water's maximum allowable revenue for drinking water retail services at $3.12 billion over the four years (averaging $780 million p.a.) and $1.3 billion for sewerage retail services (averaging $326 million p.a.). These amounts are based on December 2014 dollars.

ESCOSA has 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 during this four-year period, based on the reduced RAB of $7.25 billion 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 2014 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.

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.

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 RABs, at $7.77 billion and $3.58 billion respectively as at 1 July 2013 (in December 2012 dollars). As discussed, the regulatory period commencing 1 July 2020 to 30 June 2024 takes account of the SA Government's reduction in the value of SA Water's RAB for drinking water assets from $7.77 billion to $7.25 billion (at 1 July 2013, in December 2012 dollars).

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 next regulatory period commencing 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 in 2024.

SA Water pricing

SA Water sets annual water and sewerage charges to achieve the revenue limits determined by ESCOSA, with ESCOSA then monitoring SA Water's performance.

ESCOSA's 2016 to 2020 revenue determination 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 ended on 30 June 2020, leading to an adjustment of $37 million being reflected in the 2020 to 2024 revenue determination.

SA Water prices vary according to customer type. The charges for water for residential customers for the five years to 2020-21 are detailed below.

Residential water charges	2016-17 $	2017-18 $	2018-19 $	2019-20 $	2020-21 $
First tier: first 0.3288 kL* per day	2.27/kL	2.32/kL	2.36/kL	2.39/kL	1.95/kL
Second tier: from 0.3288 kL* to 1.4247 kL per day	3.24/kL	3.31/kL	3.37/kL	3.41/kL	2.78/kL
Third tier: over 1.4247 kL per day	3.51/kL	3.58/kL	3.65/kL	3.70/kL	3.01/kL
Annual residential water supply charge per year	286.40	292.40	297.80	301.60	271.60

* 0.3836 kL from 2020-21.

As discussed above, 2016-17 was the first year of the second regulatory period. 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 2020-21 will decrease by 18.7%, mainly as a result of the reduction in the value of SA Water's regulated asset base for drinking water assets from $7.77 billion to $7.25 billion and levels of revenue set by ESCOSA for drinking water and sewerage services of $2.54 billion and $1.22 billion respectively for the new regulatory period.

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 in line with Guideline 2. 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 earning income of up to $37 000 p.a.
Judges' Pensions Scheme (JPS)	Defined benefit	South Australian judges
Governors' Pensions Scheme (GPS)	Defined benefit	Former Governors of the State

With the exception of Select and SSARIF income stream all schemes offer insurance services to their members, which may include income protection, death, and total and permanent disability.

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 2020, a total of $46 million in member benefits under the ERS was paid out to around 5500 scheme members from the SASS, Triple S, SSARIF, Ambulance Super and Select schemes.

For SASS, amounts paid under the ERS came from rollover accounts as SASS' rules do not allow for early access on hardship grounds.

Super SA anticipates a similar amount of benefits may be accessed by members in 2020-21.

Investments and related performance

As at 30 June 2020, the superannuation schemes had $31.6 billion ($31.8 billion) in investments. In 2019-20 these assets decreased in fair value by $215 million.

The decrease in the fair value of total investment assets reflects a downturn in market performance. However, this is mostly offset by additional funds invested by the superannuation scheme members.

COVID-19 has had a significant impact on global economies. Market movements were volatile in 2019-20, which affected investment performance. Performance across all asset classes and investment options decreased from 2018-19, with many experiencing negative returns.

As a result of this volatility, net investment income in 2019-20 decreased by $2.6 billion (111%). In particular, Australian equities was the lowest performing asset class in 2019-20, with a negative return of 5.9%.

Investment expenses decreased in 2019-20 reflecting lower transactional costs to Funds SA, due to lower investment returns, as costs (including performance fees) are applied on a percentage basis of funds under management.

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.

	2018 %	2019 %	2020 %
Balanced	9.5	8.1	(0.3)
Growth	10.6	8.1	(0.7)

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 2020, the total deficit of net assets to member benefits liabilities was $4.6 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	
	2019	2020	2019	2020	2019	2020
	$'million	$'million	$'million	$'million	$'million	$'million
SASS	5 082	4 620	9 443	8 979	(4 362)	(4 359)
Police Super	1 978	1 941	2 257	2 250	(279)	(309)
Parliamentary Super (1)	222	207	195	193	27	14
Ambulance Super (1)	217	206	194	188	18	13
JPS	280	269	250	247	30	22
GPS	3	3	2	2	1	1
Total	7 782	7 246	12 341	11 859	(4 565)	(4 618)

(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. Super SA advised that the State's liability for unfunded superannuation benefits is estimated to be $12.5 billion at 30 June 2020. This figure is significantly larger than the accumulated deficit of net assets to accrued benefits of $4.6 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 used by Super SA was 1.5% p.a. 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 2019-20 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 2019-20 Budget Paper 3 *Budget Statement*, page 63).

The past service liability contribution for 2019-20 was $456 million ($444 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:	$28 million
	Total comprehensive result:	$1.4 million
	General reserve:	$2.6 million

Significant events and transactions	SASB appointed several new members to its Executive Team in conjunction with working to deliver its new strategy.
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.
Other audit findings	— Inconsistent transaction dates between the general ledger, the superannuation administration system and the bank account. — Key personnel risk. — Inability of the general ledger to record detailed transaction data.

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 2019-20 included:

- impacts of COVID-19 on operations
- governance
- administration expenses
- fees and charges revenue (recovery of administration fees from superannuation schemes)
- general ledger
- Phoenix (previously known as Bluedoor) functionality and 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 SASB's bank accounts as part of our 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 Officer. The main findings and SASB's responses are discussed below.

Controls opinion findings

We did not identify any significant matters from our controls opinion work at SASB.

Other audit findings

The Phoenix superannuation administration system (previously known as Bluedoor) is used to manage member balances of around $24.1 billion in the Triple S, SSARIF and Super SA Select schemes as at 30 June 2020.

Inconsistent transaction dates between the general ledger, Phoenix and the bank account

We identified instances where different effective dates were recorded for the same transaction in the general ledger, Phoenix and the bank account. This issue reflects that Phoenix records transactions that occur outside of business hours on the same date as the transaction, while the general ledger and bank account are updated on the following business day.

Mismatched dates between systems can lead to difficulties in identifying processing errors. Delays in transferring funds received to Funds SA to be invested can also contribute to differences in investment valuation records between Super SA and Funds SA systems – reflected in the asset and liability movement reserve.

To address this matter we recommended Phoenix be configured to record the effective date of transactions, matching other systems.

SASB agreed that it was important there was a clear audit trail between systems for transactions and advised the aging general ledger would be upgraded to assist this. Changes to Phoenix would be made at the same time as other changes to automate reconciliations and matching of data.

Key personnel risk

We noted that Super SA relied on one key staff member to perform the more complex accounting reconciliations and analysis over the schemes administered using Phoenix. Over-reliance on one key individual can lead to unintentional and undetected financial reporting errors due to minimal oversight and review.

We recommended SASB implement further training to ensure knowledge is spread across other members of the finance team in performing accounting reconciliations over the schemes on Phoenix.

SASB agreed there was a key person risk and advised that a number of activities were in progress to reduce it, including: a finance team cross skilling program; creating a new Associate Director of Finance position to provide dedicated senior leadership; and implementing an upgraded general ledger.

Inability of the general ledger to record detailed transaction data

Phoenix can generate detailed member transaction data with sufficient information to audit member level cash flows. The current general ledger is unable to receive this detailed data and, as a result, only contains summary information. This means it is not possible to review or audit transaction information using only the general ledger and there is no clear audit trail between the general ledger and Phoenix.

We recommended SASB ensure its replacement general ledger is better able to record detailed daily transaction data, at least at the agency level.

SASB advised that its project to upgrade the general ledger in 2019-20 was materially delayed due to COVID-19. SASB expects a selection from the procurement process will be made in September 2020.

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

	2020 $'million	2019 $'million
Income and expenses		
Total income	29.4	29.6
Total expenses	28.0	29.4
Total comprehensive result	1.4	0.2
Net cash provided by (used in) operating activities	2.2	0.4
Assets		
Cash and cash equivalents	4.4	2.2
Receivables	0.6	0.6
Total assets	5.0	2.8
Total liabilities	1.8	1.0
Total equity	3.2	1.8

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.

SASB oversaw the processing of around 5500 applications and the payment of around $46 million from various superannuation schemes under the ERS for 2019-20.

The terms of the ERS provide for early release of amounts up to $10 000 per member in 2020-21 as well, meaning SASB's revised processes will remain in place next year.

Statement of Comprehensive Income

The total comprehensive result for the year was a profit of $1.4 million ($250 000). This result mainly reflects:

- revenue from recoveries of administration fees of $29.4 million ($29.6 million). This amount represents the administration fees charged to the superannuation schemes administered by SASB. These fees are set by SASB to recover the costs of its operations from the schemes and are paid to DTF as a reimbursement of actual costs incurred in operating SASB

- administration expenses of $28 million ($29.1 million). This amount is paid to DTF for administrative services, which also includes the reimbursement of $1 million in strategic project costs and consultancies.

The reduction in administration fees in 2019-20 was due to the decrease in ICT management costs after the Phoenix implementation was completed in 2018-19.

Statement of Financial Position

The main movement in the Statement of Financial Position was a $2.2 million increase in cash, reflecting reduced spending on ICT projects in 2019-20. This increase is partially offset by a $790 000 increase in payables, mostly associated with $620 000 for administration fees payable to DTF.

General reserve

SASB has established a general reserve to:

- account for under and over spend in office expenditure
- provide for future project expenditure
- provide funding for the triennial SASB election.

In 2019-20, SASB transferred $1.4 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:	$9 billion
	Net assets available for member benefits:	$4.6 billion
	Defined benefits underfunded:	$4.4 billion
	Past service liability funding:	$383 million
	Benefits paid and payable:	
	Defined benefit Scheme	$779 million
	Defined contribution Scheme	$78 million
	Number of members:	
	Pension Scheme	14 691
	Lump Sum Scheme	2 869
	Total	17 560
Significant events and transactions	Changes in investments measured at fair value for 2019-20 were -$22 million (compared to a $431 million increase in 2018-19) reflecting significantly lower investment performance in 2019-20.	
Financial report opinion	**Unmodified**	

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 the Pension Scheme 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 the Lump Sum Scheme 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.

In 2019-20, specific areas of audit focus were:

- COVID-19 impact on SASS's operations
- 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 to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings

Communicating our audit findings

We did not communicate any issues to the Chief Executive of Super SA relating specifically to SASS. Other matters communicated to the Chief Executive of Super SA and those charged with governance are discussed under the South Australian Superannuation Board commentary.

Impact of COVID-19

COVID-19 has mainly impacted SASS's operations in decreased investment performance as a result of the volatility of investment markets.

COVID-19 impact on investment performance

COVID-19 has had a significant impact on global investment markets. Market movements were volatile in 2019-20, especially in the first and second quarters of 2020, which affected investment performance. Performance across all asset classes and investment options decreased from 2018-19, with many experiencing negative returns. As a result of this volatility, net investment income for SASS decreased significantly in 2019-20.

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 support those significantly financially affected by COVID-19. This 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 benefits superannuation amounts on hardship grounds. SASS members were able to access amounts from any rollover accounts under the ERS, which resulted in the payment of $25 000 in 2019-20.

Super SA anticipates a similar amount of benefits may be accessed by SASS members in 2020-21.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Assets		
Investments	4 612	5 101
Other assets	35	13
Total assets	4 647	5 114
Liabilities		
Benefits payable and other current liabilities	27	32
Total liabilities	27	32
Net asset available to pay benefits	4 620	5 082
Member benefits		
Defined benefit member liabilities	8 425	8 819
Defined contribution member liabilities	554	624
Total member liabilities	8 979	9 443
Equity		
Defined benefits that are over (under) funded	(4 359)	(4 361)
Total equity	(4 359)	(4 361)
Revenue		
Changes in investments measured at fair value	(22)	431
Total revenue	(22)	431
Expenses		
Investment expenses	34	38
Higher education expense	9	9
Administration expenses	4	4
Total expenses	47	51
Result from superannuation activities	(69)	380
Net change in defined member benefits liabilities	67	99
Allocation to defined contribution member accounts	4	(45)
Operating result	(2)	236
Changes in member benefits		
Net contributions	464	473
Benefits to members (paid and payable)	(857)	(885)

	2020 $'million	2019 $'million
Net cash flows from operating activities	(13)	(13)
Net cash flows from investing activities	432	408
Net cash flows from financing activities	(396)	(398)

Statement of Financial Position

Investments

Total investments decreased by $489 million to $4.6 billion, as a result of increased payments to members and lower 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.

Summarised below are the net assets available for member benefits, member benefits liabilities and the resulting excess of liabilities over net assets.

	2019 $'million	2020 $'million
Net assets available for member benefits	5 082	4 620
Member benefits liabilities	9 443	8 979
Over (Under) funded member benefits liabilities	(4 361)	(4 359)

The $9 billion member benefits liabilities comprise of $8.4 billion (94%) for the defined benefit liability and $554 million (6%) for the defined contribution liability.

The total of unfunded member benefits liabilities decreased marginally by $2 million to $4.4 billion. This was largely due to:

- the decrease in total investments of $489 million
- the -$22 million of changes in investments measured at fair value in 2019-20
- the actuarial calculation of the liability and the effect of the past service liability funding of $383 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 member benefits liabilities. The following assumptions were used in calculating the 2020 member benefits liabilities:

- discount rate 6.5% (7%)
- long-term salary inflation 2.5% (4%)

- long-term CPI factor 2% (2.5%).

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 2020 were $9.1 billion ($9.6 billion) as disclosed in note 4 of SASS's financial report.

Income Statement

Investment revenue

Total revenue decreased significantly by $453 million (105%) to -$22 million as a result of lower earnings from changes in investments measured at fair value.

Overall investment performance was significantly lower than 2018-19, with many categories not meeting their benchmarks but instead experiencing negative returns this year. In 2019-20, returns varied across investment categories with downward movements in the diversified strategies income, diversified strategies growth, property and Australian equities asset classes. These were partially offset by increased investment holdings in cash and international equities.

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 $4 million to $34 million. This was a result of lower Funds SA investment performance fees, reflecting that lower investment performance in 2019-20 resulted in less fees paid.

Statement of Changes in Member Benefits

Contribution revenue

Details of contribution revenue and membership statistics are presented in the following table.

	2019 $'million	2020 $'million
Contributions for past service liability	384	383
Contributions by employers	36	31
Public authority employer contributions	37	37
Contributions by members	14	12
Transfers from other superannuation entities	2	1
Total	473	464

	2018 Number	2019 Number	2020 Number
Pension Scheme	15 543	15 081	14 691
Lump Sum Scheme	3 559	3 151	2 869
Total	19 102	18 232	17 560

Net contributions decreased by $9 million (2%) to $464 million, mainly due to:

- a decrease of $5 million (14%) in contributions by employers
- a decrease of $2 million (14%) in contributions by 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 a total of $378 million ($380 million) into the South Australian Superannuation Scheme Contribution Account for past service liability funding. Public sector employers contributed $5 million ($4 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 2019-20 the assumptions used varied to reflect the market movements resulting in a small decrease in benefits to members of $28 million (3%) to $857 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	2018 Number	2019 Number	2020 Number
Contributory	400	307	213
Preserved	296	245	211
Superannuants	14 847	14 529	14 267
Total	15 543	15 081	14 691

Lump Sum Scheme	2018 Number	2019 Number	2020 Number
Contributory	2 447	2 148	1 922
Preserved	1 112	1 003	947
Total	3 559	3 151	2 869

Total number of members	2018 Number	2019 Number	2020 Number
Contributory	2 847	2 455	2 135
Preserved	1 408	1 248	1 158
Superannuants	14 847	14 529	14 267
Total	19 102	18 232	17 560

Southern State Superannuation Scheme (Triple S)

Financial statistics	Net contribution revenue:	$1.9 billion
	Member benefits liabilities:	$18.9 billion
	Net assets available for member benefits:	$19.1 billion
	Benefits paid and payable:	$1.6 billion
	Number of members:	178 349

Significant events and transactions

- Changes in investments measured at fair value for 2019-20 were -$20.3 million reflecting significantly lower investment performance in 2019-20 when compared to 2018-19.
- Early release of superannuation scheme payments totalling $45.2 million were paid out to around 5400 members in 2019-20.

Financial report opinion — **Unmodified**

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.

In 2019-20, specific areas of audit focus were:

- COVID-19 impact on Triple S's operations
- Phoenix (previously known as Bluedoor) ICT general controls
- 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 to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings

Communicating our audit findings

We did not communicate any issues to the Chief Executive of Super SA relating specifically to Triple S. Other matters we communicated to the Chief Executive of Super SA and those charged with governance are discussed under the South Australian Superannuation Board commentary in this Report.

Impact of COVID-19

COVID-19 has impacted Triple S's operations in two main areas:

- members accessing funds under the Early Release of Superannuation Scheme (ERS)
- decreased investment performance as a result of the volatility of investment markets.

Early Release of Superannuation Scheme

On 22 March 2020, the Australian Government announced the ERS as a temporary measure to support economic recovery and support 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 2020, a total of $45.2 million in member benefits under the ERS was paid out to around 5400 Triple S scheme members.

Super SA anticipates a similar amount of benefits may be accessed by Triple S members in 2020-21.

COVID-19 impact on investment performance

COVID-19 has had a significant impact on global investment markets. Markets were volatile in 2019-20, especially in the first and second quarters of 2020, which affected investment performance. Performance across all asset classes and investment options decreased from 2018-19, with many experiencing negative returns. As a result of this volatility, net investment income for Triple S decreased significantly in 2019-20.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Assets		
Investments	19 114	18 983
Other assets	39	64
Total assets	19 153	19 047
Liabilities		
Benefits payable	42	96
Insurance liabilities	21	19
Total liabilities	63	115
Net assets available for member benefits	19 090	18 932
Member benefits		
Member benefit liabilities	18 935	18 725
Total net assets	155	207
Total equity	155	207
Revenue		
Changes in investments measured at fair value	(20)	1 498
Total revenue	(20)	1 498
Expenses		
Investment expenses	99	105
Other expenses	18	14
Total expenses	117	119
Result from superannuation activities	(137)	1 379
Insurance expenses	3	(2)
Net benefits allocated to members accounts	(88)	1 375
Operating result	(52)	6
Changes in member benefits		
Net contributions	1 863	1 795
Benefits to members (paid and payable)	(1 561)	(1 431)
Net cash flows from operating activities	(22)	(22)
Net cash flows from investing activities	(250)	(349)
Net cash flows from financing activities	251	378

Statement of Financial Position

The accumulative nature of Triple S (a defined contribution scheme) means that member benefits liabilities are fully funded.

Benefits payable

Benefits payable decreased by $54 million (56%) mainly due to revised processes adopted by Super SA that allowed more member benefit transactions to be processed before the end of the year compared to 2018-19.

Net assets available for member benefits

Net assets available to pay member benefits increased by $158 million (1%) to $19.1 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 2018-19, while the total dollar value of investments measured at fair value was higher, the actual return on investments was lower due to more volatile investment market performance.

Income Statement

Revenue

Total revenue decreased by $1.5 billion (-101%) as a result of significantly lower earnings from changes in investments measured at fair value due to the negative impacts of COVID-19 on investment performance.

Overall investment performance was significantly lower than 2018-19, with many categories not meeting their benchmarks but instead experiencing negative returns this year. In 2019-20, returns varied across investment categories with downward movements in the diversified strategies income, diversified strategies growth, property and Australian equities asset classes. These were partially offset by increased investment holdings in cash and international equities.

Further details on investment returns are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

Expenses

Total expenses of $117 million were $2 million less than in 2018-19. This reduction reflects a $6 million decrease in investment expenses, as a result of lower Funds SA investment performance fees, offset by a $4 million increase in administration expenses – partially reflecting higher costs associated with the provision and maintenance of ICT systems.

Statement of Changes in Member Benefits

Net contribution revenue

Total contributions increased by $68 million (4%) to $1.86 billion. In 2019-20, increases occurred in employer contributions and transfers from other superannuation entities, partially offset by decreases in member contributions and government co-contributions. The overall increase reflects the growth in non-contributory member numbers and the impact of wage increases, which also flow through to higher superannuation contributions.

Details of contribution revenue and membership statistics, supplied by Super SA, are provided in the following table.

	2020 $'million	2019 $'million
Contributions by employers	1 204	1 188
Contributions by members	109	116
Transfers from other superannuation entities	549	490
Government co-contributions	1	1
Total	1 863	1 795

	2020 Number	2019 Number
Contributory members	30 949	31 024
Non-contributory members	98 531	91 004
Preserved members	48 159	57 001
Spouses	710	685
Total	178 349	179 714

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 2019-20, overall member numbers were down slightly (1%). This was due to small increases in non-contributory (8%) and spouse (4%) member numbers, offset by a larger decrease in preserved (16%) and a marginal decrease in contributory member numbers.

Benefits paid and payable

Benefits paid and payable to members increased by $130 million (9%) to $1.6 billion mainly due to:

- an overall reduction of 1365 in member numbers resulting in higher benefits paid over the year
- $45.2 million in payments to members under the ERS, implemented due to COVID-19.

The increase in benefits paid and payable over recent years is shown in the following table.

	2017 $'billion	2018 $'billion	2019 $'billion	2020 $'billion
Benefits paid and payable	1.2	1.3	1.4	1.6

Statement of Cash Flows

The analysis of cash flows shows that Triple S maintains a relatively small balance of funds on hand, $7 million at 30 June 2020 ($29 million). 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:	$1.2 billion
	Member benefits liabilities:	$5.1 billion
	Net assets available for member benefits:	$5.2 billion
	Benefits paid and payable:	$958 million
	Number of members:	17 812

Significant events and transactions

— Changes in investments measured at fair value for 2019-20 were -$32.1 million ($342 million increase in 2018-19) reflecting significantly lower investment performance in 2019-20.

— Early release of superannuation scheme payments totalling $831 000 were paid out to around 90 members in 2019-20.

Financial report opinion — **Unmodified**

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 2019-20 included:

- COVID-19 impact on SSARIF's operations
- Phoenix (previously known as Bluedoor) ICT general controls
- 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 SSARIF's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

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

Audit findings

Communicating our audit findings

We did not communicate any issues to the Chief Executive of Super SA relating specifically to SSARIF. Other matters communicated to the Chief Executive of Super SA and those charged with governance are discussed under the South Australian Superannuation Board commentary in this Report.

Impact of COVID-19

COVID-19 has impacted SSARIF's operations in two main areas:

- members accessing funds under the Early Release of Superannuation Scheme (ERS)
- decreased investment performance as a result of the volatility of investment markets.

Early Release of Superannuation Scheme

On 22 March 2020, the Australian Government announced the ERS as a temporary measure to support economic recovery and support 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 2020, a total of $831 000 in member benefits under the ERS was paid out to around 90 scheme members.

Super SA anticipates a similar amount of benefits may be accessed by SSARIF members in 2020-21.

COVID-19 impact on investment performance

COVID-19 has had a significant impact on global investment markets. Markets were volatile in 2019-20, especially in the first and second quarters of 2020, which affected investment performance. Performance across all asset classes and investment options decreased from 2018-19, with many experiencing negative returns. As a result of this volatility, net investment income for SSARIF decreased significantly 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

	2020 $'million	2019 $'million
Assets		
Investments	5 163	4 947
Other assets	39	24
Total assets	5 202	4 971
Liabilities		
Benefits payable	11	26
Other liabilities	31	29
Total liabilities	42	55
Net assets available for member benefits	5 160	4 916
Member benefits		
Income Stream member liabilities	3 746	3 595
Flexible Rollover product member liabilities	1 402	1 299
Total member liabilities	5 148	4 894
Total equity	12	22
Revenue		
Changes in investments measured at fair value	(32)	342
Other revenue	8	6
Total revenue	(24)	348
Expenses		
Investment expenses	26	25
Other expenses	4	3
Total expenses	30	28
Result from superannuation activities	(54)	320
Net benefits allocated to members accounts	21	313
Income tax expenses	(12)	4
Operating result	(21)	3
Changes in member benefits		
Net contributions	1 243	1 202
Benefits to members (paid and payable)	(958)	(955)
Net cash flows from operating activities	7	(13)
Net cash flows from investing activities	(266)	(260)
Net cash flows from financing activities	272	271

Statement of Financial Position

Net assets available to pay member benefits increased by $244 million (5%) to $5.2 billion. This is principally the result of 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 decreased by $372 million (-106%) as a result of significantly lower earnings from changes in investments measured at fair value due to the negative impacts of COVID-19 on investment performance.

Overall investment performance was significantly lower than 2018-19, with many categories not meeting their benchmarks but instead experiencing negative returns this year. In 2019-20, returns varied across investment categories with downward movements in the diversified strategies income, inflation linked securities and long-term fixed interest asset classes. These were partially offset by increased investment holdings in cash and international equities.

Further details on investment returns are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

Expenses

Total expenses increased to $30 million ($28 million) mainly due to increased investment and administration fees, reflecting increased scheme administration costs.

Statement of Changes in Member Benefits

Total contributions increased by $41 million (3%) to $1.2 billion mainly due to:

- an increase of $3 million in member contributions to the Flexible Rollover product
- an increase of $46 million in rollovers from other schemes
- offset by an increase of $7 million in income tax expense on rollovers.

Contributions to SSARIF are all voluntary and are therefore open to fluctuation.

Benefits paid or payable to members increased marginally by $3 million (0.3%) to $958 million due to:

- an increase of $23 million (4%) in payments from the Income Stream product
- offset by a decrease of $20 million (-5%) in payments from the Flexible Rollover product.

The increase in benefits paid and payable is mainly due to the overall increase in the number of members of SSARIF. In 2019-20, there were 1307 (8%) more members in the scheme.

Total benefits available to members ultimately depend on the investment strategy and investment performance, with no guarantee of return provided by the SA Government.

Statement of Cash Flows

The net cash from operating activities increased by $20 million as a result of income tax revenue associated principally with the tax treatment of realised capital losses in 2020.

The net flows from investing activities decreased by $6 million mainly due to increased receipts from Funds SA from the sale of investments being offset by a larger increase in the purchase of investments from Funds SA.

The net flows from financing activities increased by $1 million mainly due to increased member contributions and net transfers from other superannuation entities, offset by increased payments for income stream 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.

	2017 Number	2018 Number	2019 Number	2020 Number
Flexible Rollover product	4 733	5 291	5 819	6 352
Income Stream	8 898	9 814	10 686	11 460
Total	13 631	15 105	16 505	17 812
	$'000	$'000	$'000	$'000
Total investments	3 758 000	4 363 000	4 947 000	5 163 000

Superannuation Funds Management Corporation of South Australia (Funds SA)

Financial statistics	Net surplus:	$135 000
	Number of FTEs:	57.3
	Funds under management:	$34.1 billion
	Net income of assets under management:	($274 million)

Significant events and transactions

- Funds under management decreased by $83 million during the year. Unrealised losses of $1.4 billion were mostly offset by rent, interest and dividends and realised gains.
- COVID-19 has had a significant impact on global economies, which has affected market performance. Performance across all asset classes and investment options fell in 2019-20 with many experiencing negative returns.
- The initial application of AASB 16 *Leases* resulted in $2 million of lease liabilities and right-of-use assets being recognised in the corporate Statement of Financial Position for the first time in 2019-20. Comparatives have not been restated.
- Funds SA has been expanding its workforce, with FTEs increasing from 46.3 to 57.3 (24%) during the year and a corresponding increase in salaries and wages expense.

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. For details of Funds SA's objectives and functions refer 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 operates with a small staff across 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. Fund managers are used for all investment types, and there is a single custodian entity 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.

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 2019-20 included:

- investment policy and strategy approval and compliance
- investment allocation and redemption
- investment income and valuation
- custodial and fund management activities
- administration expenses.

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

We communicated our audit findings in a management letter to the Chief Executive Officer.

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	2020 $'million	2019 $'million
Total income	14.0	12.3
Total expenses	13.9	11.0
Net surplus (deficit) and total comprehensive result	0.1	1.3
Net cash provided by (used in) operating activities	(2.8)	0.9
Total assets	13.9	11.4
Total liabilities	5.0	2.6
Total equity	8.9	8.8

Funds under management	2020 $'billion	2019 $'billion
Net income	(0.3)	2.5
Net assets	34.1	34.2

Statement of Comprehensive Income

Funds SA's operating result for the year was a net surplus of $135 000 ($1.3 million).

Revenues from contracts with customers increased by $1.8 million as a result of higher fees charged for services provided to Funds SA clients. This was due in part to a higher rate charged for average funds under management of 0.045% (0.04%), and also a higher volume of funds under management for the first part of the financial year. Funds SA aims to only recover its costs and from time to time will rebate amounts charged for its services if excessive amounts are recovered. No rebate was made in 2019-20.

Expenses increased by $2.9 million mainly as a result of an increase in employee benefits costs, up $2 million, supplies and services, up $483 000, and depreciation, up $371 000.

The increase in employee benefits costs was due mainly to increased salaries and wages, up $1.5 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 in order to execute its strategic initiatives.

The increase in supplies and services was mainly due to increases in:

- information technology expenses, up $1.1 million, relating to the implementation of Funds SA's digital strategy and enhancements to investment data and technology systems and subscriptions recognised in the corporate accounts
- contractors and temporary staff, up $504 000, due to additional contractors hired for projects relating to custodian transition and new investment activities.

These increases were partially offset by decreases in:

- operating lease payments, down $281 000, as a result of the introduction of AASB 16 *Leases* from 1 July 2019. Lease payments are now recognised as a reduction in the lease liability instead of an expense in supplies and services
- human resource expenses, down $269 000, as the 2018-19 amount included additional recruitment costs for executive staff
- legal and advisory expenses, down $168 000, due to consultancies relating to human resources policy development in 2018-19
- travel and accommodation, down $130 000, due to COVID-19 travel restrictions.

The increase in depreciation is mainly due to the introduction of AASB 16 *Leases,* under which the leased right-of-use asset is capitalised and depreciated over the lease term.

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 client's investment objectives, differing time horizons and levels of acceptable risks.

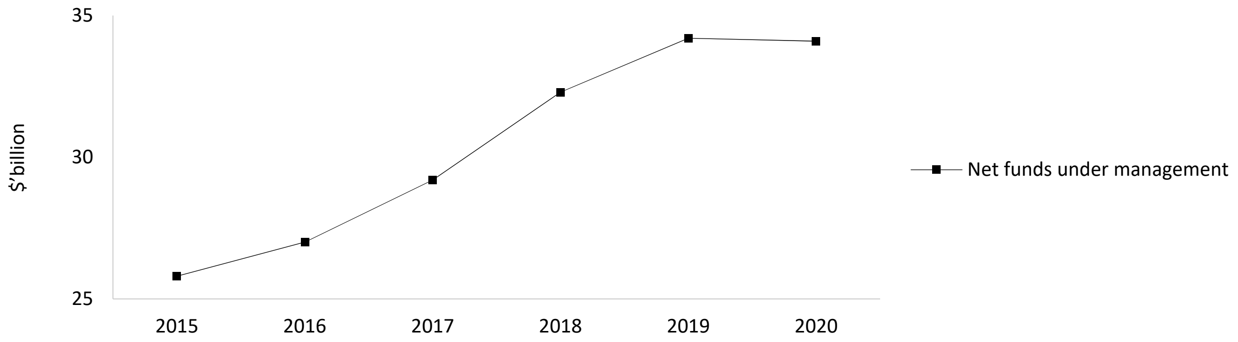
Funds SA is responsible for managing the investment portfolios it has established in line with asset allocations and investment performance reporting agreed with its clients.

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 the investment option. They receive investment performance reporting as they require to meet their responsibilities for their invested funds.

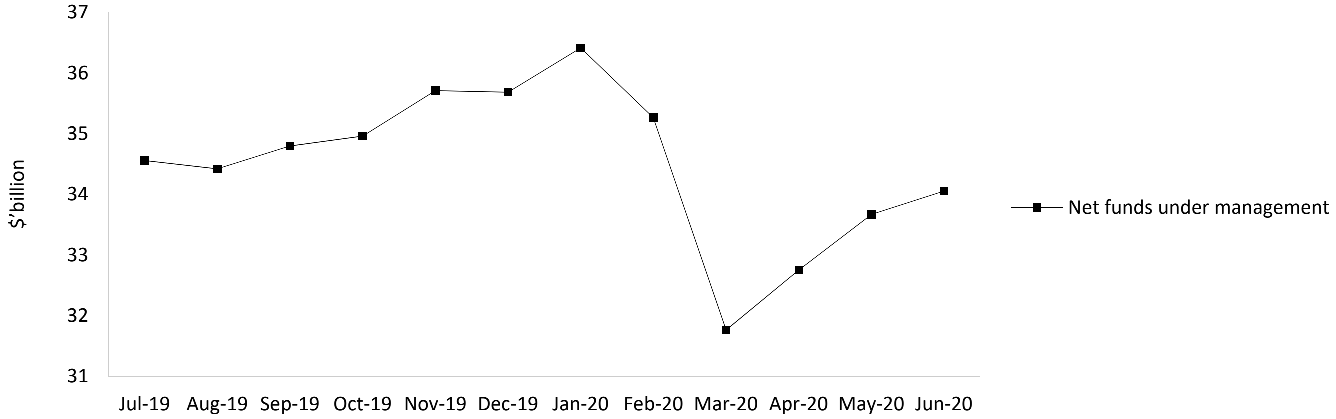
Funds under management declined in 2019-20

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 small decrease from $34.2 billion to $34.1 billion at 30 June 2020. While the chart above appears to show stability in total funds under management, there were significant movements during the year. Overall performance decreased, which is reflected in the decrease in net income (see 'Income from investments' below), however this is mostly offset by additional funds invested by clients.

Movement was volatile in 2019-20, largely as a result of the impact of COVID-19 on global economic markets. The following chart shows how funds under management fluctuated during the year.



Entities investing with Funds SA at 30 June 2020

The following table sets out the entities investing with Funds SA, the investment options used and funds under management at 30 June 2020.

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	2 554
South Australian Superannuation Fund – Old Scheme Division	Defined benefit strategy	1 504
South Australian Superannuation Fund – New Scheme Division	Various	554
Southern State Superannuation Scheme:		
Southern State Superannuation Fund	Various	19 114
Super SA Retirement Investment Fund	Various	5 163
South Australian Ambulance Service Superannuation Scheme	Balanced B	274
Police Superannuation Board:		
Police Superannuation Scheme	Defined benefit strategy	1 943
South Australian Parliamentary Superannuation Board:		
Parliamentary Superannuation Scheme	Various	244
Trustee of the SA Metropolitan Fire Service Superannuation Scheme:		
SA Metropolitan Fire Service Superannuation Scheme	Various	435
Other superannuation schemes	Various	283
Approved authorities for the purpose of investing funds with Funds SA		
South Australian Government Financing Authority	Various	779
Motor Accident Commission	Motor Accident Commission A	95
Lifetime Support Authority of South Australia	Lifetime Support Authority Strategy	847
Other authorities	Various	308

Asset allocation

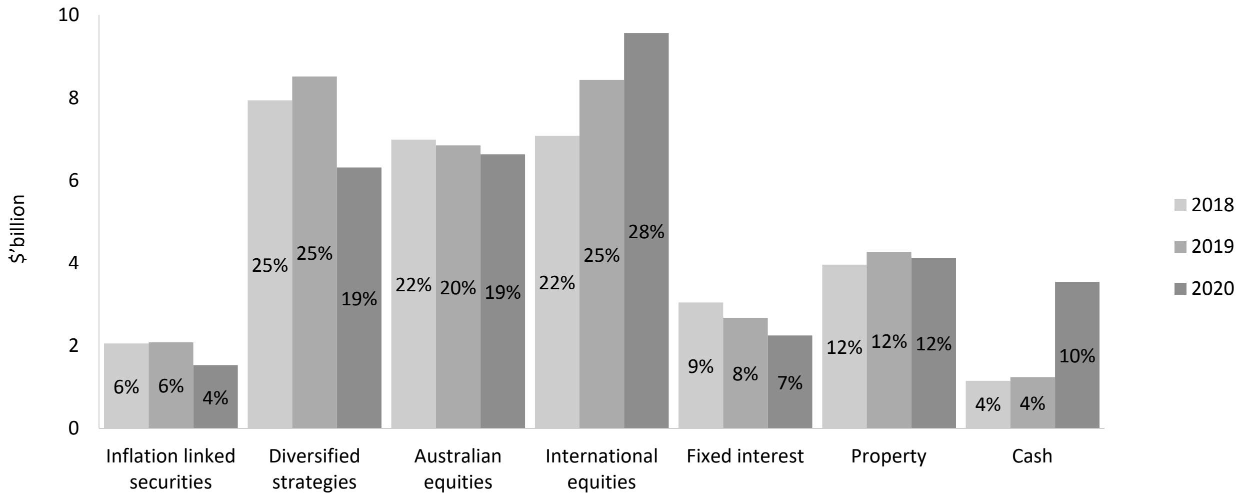
An investment policy drives decisions about how funds will be invested. Section 7 of the SFMCSA Act provides that Funds SA's objective in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for:

- 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 18 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.

Cash holdings significantly increased in value and percentage holdings in 2019-20, although performance overall for the cash asset class was 1%. In 2019-20 there was significant 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.

Australian equities was the lowest performing asset class in 2019-20, with a negative return of 5.9% for the tax exempt fund. This resulted in a decrease in value and in percentage of holdings. In comparison, the international equities asset class increased in value and percentage of holdings due to a positive return of 6% for the tax exempt fund and additional investments made during the year.

Diversified strategies (including both growth and income) asset classes decreased in value and their percentage of holdings. The diversified strategies asset classes all recorded negative returns, with diversified strategies income having the lowest performance of -5.6% relating to diversified debt and absolute return funds, and the diversified strategies growth tax exempt fund's return of -1.2% driven largely by downward revaluations of private equity investments. Diversified strategies income also had a significant amount withdrawn from the debt sector due to market volatility, which was invested in other asset classes.

Fixed interest assets had positive returns in both short-term (3.3%) and long-term (5.2%) fixed interest asset classes, however the total value and percentage holdings decreased. Inflation linked securities also experienced positive returns (3.5%), with its total value and percentage of holdings decreasing.

The positive returns are due to falls in market interest rates, increasing the value of bonds. Similar to diversified strategies income, the decreases in overall asset holdings are due to withdrawals from the debt sector to invest in other asset classes.

Property assets value and percentage holdings remained steady, although this asset class underperformed with a result of -4.5%, mainly as a result of downward revaluations of a number of asset holdings (particularly retail property holdings) largely as a result of COVID-19. This was offset by additional investments made into this asset class.

The primarily long-term nature of investment strategies means funds under management are exposed to periodic falls in financial markets as well as gains.

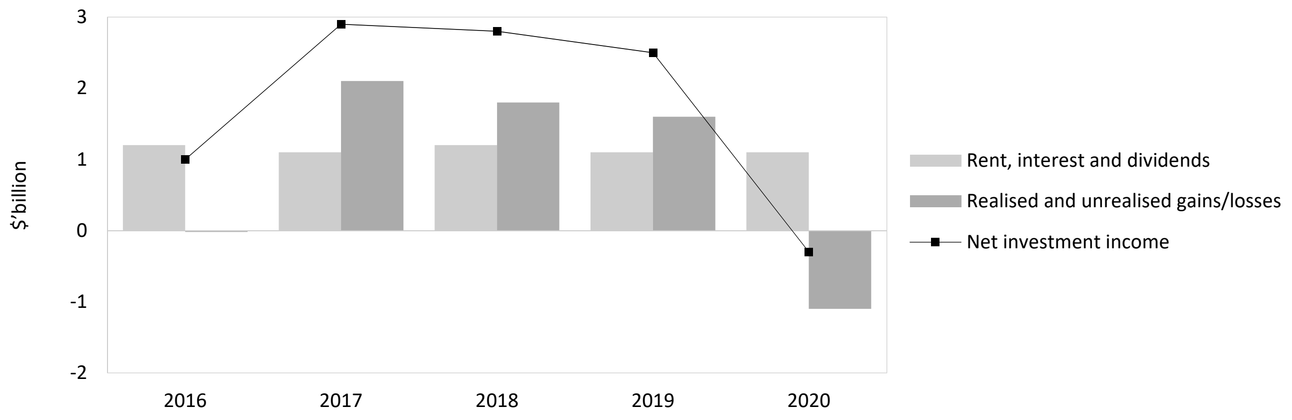
Income from investments

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 deficit of $274 million ($2.5 billion surplus). Income comprised rent, interest and dividends of $1.1 billion ($1.1 billion), realised gains of $272.7 million ($29.5 million loss) and unrealised losses of $1.4 billion ($1.6 billion gain), reduced by investment expenses of $195 million ($205.2 million).

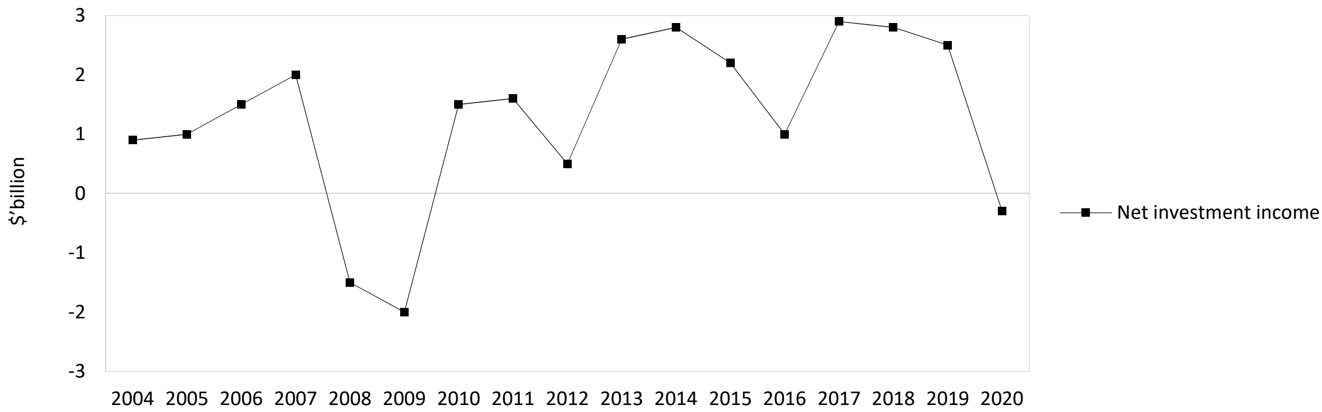
Schedule 1 of Funds SA's financial report provides full details of income earned from investment activities for each asset class.

An analysis of the investment result for funds under management for the five years to 2020 is shown in the following chart.



As can be seen from this chart, rent, interest and dividends income has remained consistent with previous years. In 2019-20, there was a significant decline in the value of investment assets leading to unrealised losses. These losses were partially offset by realised gains.

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 (GFC) resulted in significant losses. The chart below shows that the impact of COVID-19 in 2019-20 has not been as severe as the protracted losses during the GFC. For comparison, net investment income in 2009 was -16% of total funds under management, whereas in 2020 it was -1%.



The impact of the GFC extended across multiple years. The earlier chart demonstrating monthly net funds under management in 2019-20, however, shows a steep decline in March 2020 with a short-term recovery in the following months.

Funds SA's investment strategies are developed in line with the time horizon for each investment option. Each investment option 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. For more information about each investment option's return in 2019-20, refer to 'Investment option performance' below.

Income by asset class

The following table shows a structural analysis of net income earned for the five years to 2020, 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 the markets.

	2016 $'million	2017 $'million	2018 $'million	2019 $'million	2020 $'million
Inflation linked funds	28	57	81	147	55
Property	425	313	439	370	(179)
Australian equities	27	835	849	577	(470)
International equities	(125)	1 073	933	620	444
Fixed interest	162	4	72	224	106
Diversified strategies	403	566	417	533	(249)
Cash/Socially responsible/Other	50	50	34	31	19
Total net income	970	2 898	2 825	2 502	(274)
Total value of assets invested as at 30 June	26 986	29 246	32 321	34 179	34 096

All asset classes had a decrease in net income for 2019-20. Those asset classes that returned a positive net income still incurred unrealised losses, however these were offset by realised gains.

The earlier chart showing asset class holdings indicated that Funds SA's investment strategy is weighted towards international equities, which returned a positive net income result. The table above shows a decrease in income for the Australian equities and diversified strategies, reflecting their respective market performance during the year and decrease in percentage holdings.

Income from property also decreased in 2019-20. The retail sector has been in decline for a number of years which was further impacted this year by COVID-19. Income from fixed interest and inflation linked funds were also impacted by COVID-19, decreasing due to lower interest rates.

The volatile nature of these investments will cause their returns to fluctuate from year to year consistent with prevailing economic conditions.

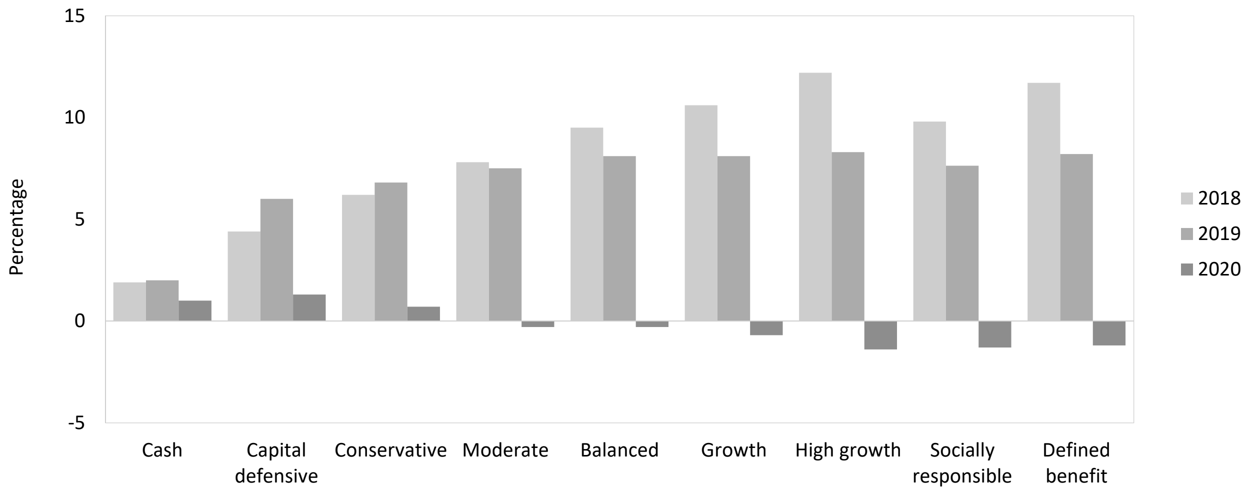
Investment expenses

In 2020 investment expenses totalled $195 million, a decrease of $10 million from the previous year. The decrease is primarily the result of lower performance fees, which is especially evident in the diversified strategies growth asset class. Total investment expenses are 0.55% (0.63%) of average funds under management.

Year	Investment expenses $'million	Average funds under management $'billion
2016	162.5	26.4
2017	208.7	28.5
2018	222.9	31.3
2019	205.2	32.6
2020	195.0	34.5

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.



The chart shows the significant decrease in returns for 2019-20. All investment options and multi-sector strategies achieved significantly lower returns than the previous year, ranging in return from 1.3% for capital defensive to -1.4% 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 both the balanced and growth (tax exempt) funds, which together account for over 50% of total funds under management. These figures were provided by Funds SA and are unaudited.

	10 years	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	% p.a.	%	%	%	%	%	%	%	%	%	%
Balanced	8.3	10.9	3.1	14.7	13.8	9.4	3.9	11.0	9.5	8.1	(0.3)
Growth	8.8	11.4	2.0	16.4	14.9	10.0	3.8	12.4	10.6	8.1	(0.7)

The performance of the balanced and growth funds for 2020 was slightly behind the median return of 0.3% and -0.5% as surveyed by Chant West. The performance over 10 years remains ahead of the median return.

Asset class performance against benchmark

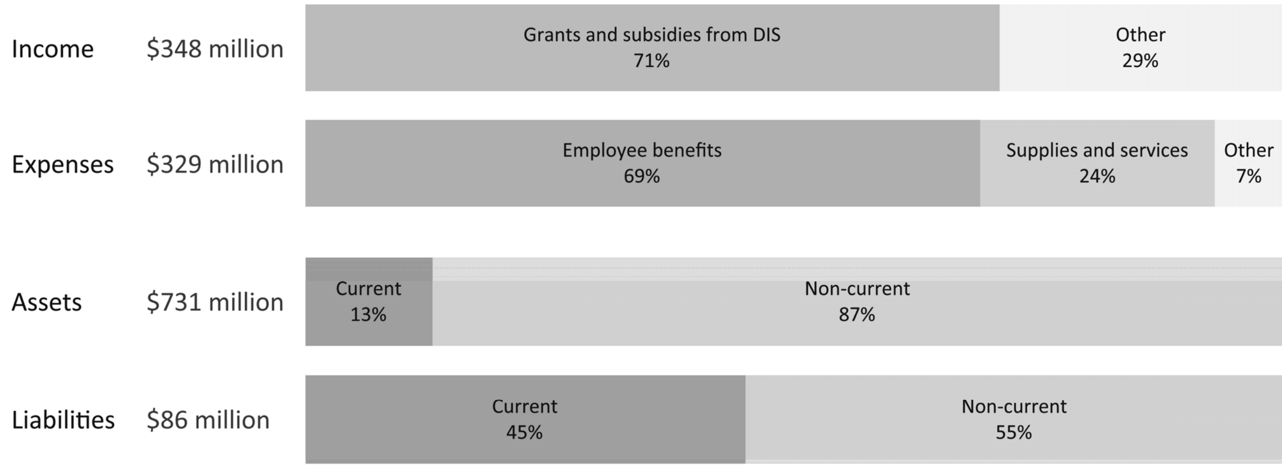
The performance against target benchmarks for certain asset classes for 2019-20 and for the three years ended 2019-20 is shown in the following table. These figures were provided by Funds SA and are unaudited.

	1 year Actual %	1 year Benchmark %	3 years Actual %	3 years Benchmark %
Cash	1.0	0.8	1.6	1.5
Short-term fixed interest	3.3	2.6	3.6	3.2
Long-term fixed interest	5.2	5.9	6.1	6.8
Inflation linked securities A	3.5	2.0	5.2	4.0
Diversified strategies income	(5.6)	2.5	0.2	3.8
Property A	(4.5)	(2.0)	5.5	5.6
Australian equities A	(5.9)	(7.6)	5.4	5.2
International equities A	6.0	3.6	9.7	9.4
Diversified strategies growth A	(1.2)	4.9	7.2	5.6
Inflation linked securities B	1.8	1.7	3.7	3.5
Property B	(4.6)	(2.0)	5.4	5.6
Australian equities B	(5.4)	(7.6)	5.4	5.2
International equities B	5.8	3.6	9.3	9.5
Diversified strategies growth B	(0.7)	4.9	7.1	5.6

The performance of asset classes against benchmark for 2019-20 varied depending on the asset class. The Australian and international equities asset classes had the strongest relative performance against the benchmark, while property and diversified strategies classes underperformed. Across a three-year time horizon asset classes performed closer to the benchmark. Inflation linked securities and diversified strategies growth have stronger performance over the three-year benchmark, while diversified strategies income has the weakest performance.

TAFE SA

Financial statistics



1845
Total FTEs*

6.3 million
Number of training hours funded by DIS

12.9 million
Total training hours

* Excluding casuals and hourly paid instructors.

Significant events and transactions

— Land and buildings associated with the delivery of TAFE SA courses valued at $621 million transferred to TAFE SA from the Urban Renewal Authority (URA) and the Department for Innovation and Skills (DIS) on 1 November 2019. TAFE SA has full control and responsibility for managing these assets for the first time since it was established as a statutory corporation in 2012.

— TAFE SA's funding arrangements with DIS changed again in 2019-20, with DIS providing total funding of $246 million.

— TAFE SA developed an Optimisation Plan to deliver cost savings and continued to make changes to its structure.

Financial report opinion

Unmodified

Controls opinion findings

TAFE SA could improve controls over administrator changes to online banking access.

Other audit findings	Hourly paid instructors continue to start working before signing letters 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 2019-20 included:

- expenditure and accounts payable
- payroll processing
- revenue including funding from DIS, student revenue and accounts receivable
- transfer of land and buildings used to deliver TAFE SA courses from the URA and DIS
- general ledger and key reconciliations.

The work of TAFE SA's internal auditors was considered in planning and conducting the audit.

Controls opinion

We reviewed controls over bank accounts and controls TAFE SA had in place over the transfer and management of land and buildings as part of our controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

We communicated our audit findings, including several that were raised in prior years, in management letters to the Chair of the TAFE SA Board. The main matters raised and TAFE SA's responses are detailed below.

Controls opinion findings

TAFE SA could improve controls over administrator changes to online banking access

TAFE SA uses an online banking system, CommBiz, to make payments and to transfer funds.

Administrators for this system can set up user access and set the number of users required to authorise a payment.

We found that at the time of our audit there was no control in place to prevent only one administrator from making these types of changes.

Where changes can be made to administrator access by one user without independent review, there is a greater risk that inappropriate access could be granted, increasing the potential for unauthorised payments to be made from the bank account.

Once we identified this issue, TAFE SA updated the settings and a second administrator must now confirm changes. The strengthened control was in place for the last three months of the financial year.

We recommended that TAFE SA conduct regular user access reviews to ensure access is assigned to appropriate employees with access levels consistent with their roles.

In response TAFE SA advised that it had implemented a process to review banking system user access twice a year to ensure access is accurate and up to date. In addition, it also established another three staff members as administrators to support the dual verification of changes.

Other audit findings

Payroll

Total salaries and wages expenses for TAFE SA employees were $183 million (including annual leave), of which $6 million was paid to hourly paid instructors (HPIs).

A number of hourly paid instructors started work without a signed contract

We have reported for a number of years that contracts for HPIs were being signed after the HPI started working with TAFE SA. In 2019-20, TAFE SA's system records indicate around 74% of its 623 HPIs accepted contracts before starting work.

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 not complying with its enterprise agreement.

TAFE SA responded that the non-complying managers have been advised that TAFE SA will have zero tolerance for not ensuring a signed contract is in place before commencing work. A weekly report will be provided to help to identify any HPIs who have not agreed to their contract. In addition, HPIs who have not signed a contract will be instructed not to attend the workplace.

Interpretation and analysis of the financial report

Highlights of the financial report

	2020 $'million	2019 $'million
Income		
Grants and subsidies from DIS	246	259
Student and other fees and charges	81	84
Intra-government transfers	11	5
Other income	10	10
Total income	348	358
Expenses		
Employee benefits	227	237
Supplies and services	81	123
Depreciation and amortisation	19	4
Other expenses	2	2
Total expenses	329	366
Total comprehensive result	19	(8)
Assets		
Current assets	95	81
Non-current assets	636	25
Total assets	731	106
Liabilities		
Current liabilities	39	47
Non-current liabilities	47	52
Total liabilities	86	99
Total equity	645	7

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 as 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 vocational education and training (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 for funding TAFE SA (MoAA) provided for a set level of funding to TAFE SA. While the MoAA continued to set targets for VET training provision, specific funds were not paid based on individual VET outcomes, with the set funding level provided across 2019-20 directly.

The 2019-20 MoAA differs from previous years where some funding was provided at set levels, while other funding was related specifically to individual VET outcomes.

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 $246 million ($259 million).

DIS funding continued to account for 71% of TAFE SA's total income in 2019-20 and is made up of the following components.

	2020 $'million	2019 $'million
Funding for specific course delivery outlined in the MoAA	128	146
Other funding	102	105
Excess staff funding	1	2
Capital funding	15	5
Other specific funding	-	1
Total income	246	259

As discussed under 'TAFE SA's governance arrangements' above, the 2019-20 MoAA provided for TAFE SA to be paid a set amount. This amount was transferred from DIS in monthly instalments.

While the MoAA contained 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 in prior years.

The MoAA was subject to a number of changes throughout 2019-20, with a final version signed in June 2020 providing for payments totalling $230 million in 2019-20. TAFE SA received the full $230 million provided for under the MoAA.

Original MoAA funding for 2019-20 was budgeted as $188 million, with the increase to $230 million a result of several amendments throughout the year. These amendments reflected, among other things, delays in achieving proposed savings, including those related to employee benefit expenses, and reduced student fees and charges income.

TAFE SA also received other specific funding from DIS totalling $16 million in 2019-20.

Previous MoAAs had included specific funding for community services programs and other items and allowed for the payment of VET training subsidy amounts based on the number of hours of training delivered.

In 2018-19, TAFE SA funding was provided at a total amount under the MoAA. The split between VET training subsidies and other funding varied according to the number of hours of training delivered. In 2019-20, this split was not a feature of the MoAA, with a total funding amount provided.

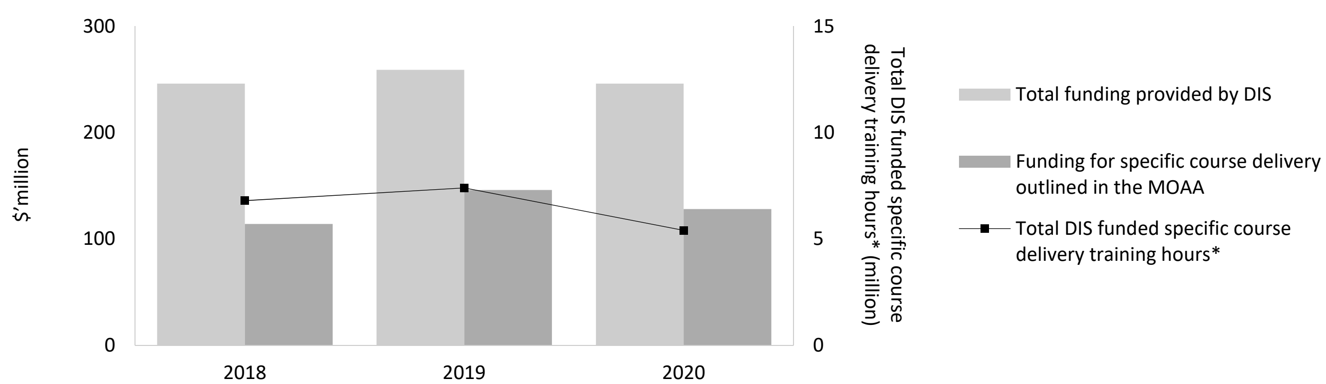
TAFE SA, as shown in the table above, continued to separately identify funding for direct course delivery, in line with MoAA categories, and other funding from DIS; although this is no longer required by the MoAA.

TAFE SA's 2018-19 and 2019-20 MoAAs did not outline an expected number of training hours to be delivered. The 2019-20 MoAA instead noted that TAFE SA had the opportunity to deliver up to 8.8 million hours for specific training purposes. TAFE SA has delivered 5.4 million of these specific training hours and on additional 900 000 hours for MoAA training without specific targets. In recent years TAFE SA has consistently delivered less training hours than budgeted or allowed for in its MoAAs.

Funding for direct VET course delivery from DIS decreased by $18 million, reflecting a decrease in training hours that was partially due to the impact of COVID-19.

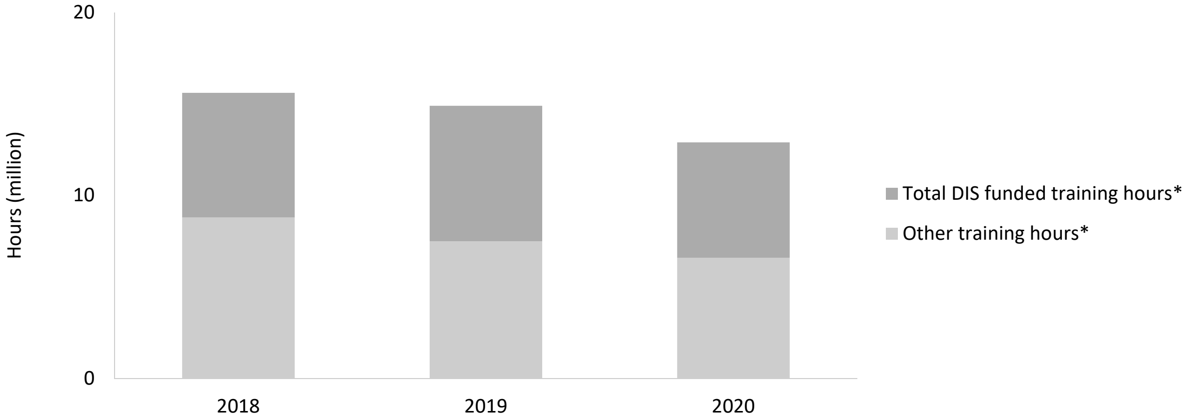
TAFE SA suspended the delivery of training to students from late March 2020 to prepare for training to be delivered off campus from 27 April 2020. Digital enabled delivery commenced for the vast majority of courses, with other training deferred. Some students had returned to campus by late May, with more than half of the qualifications having resumed some level of face-to-face on-campus training by the end of May 2020.

The following chart shows the proportion of DIS funding for direct VET course delivery as part of overall DIS funding for the past three years, along with the total number of funded training hours delivered.



* Training hours provided by TAFE SA and unaudited.

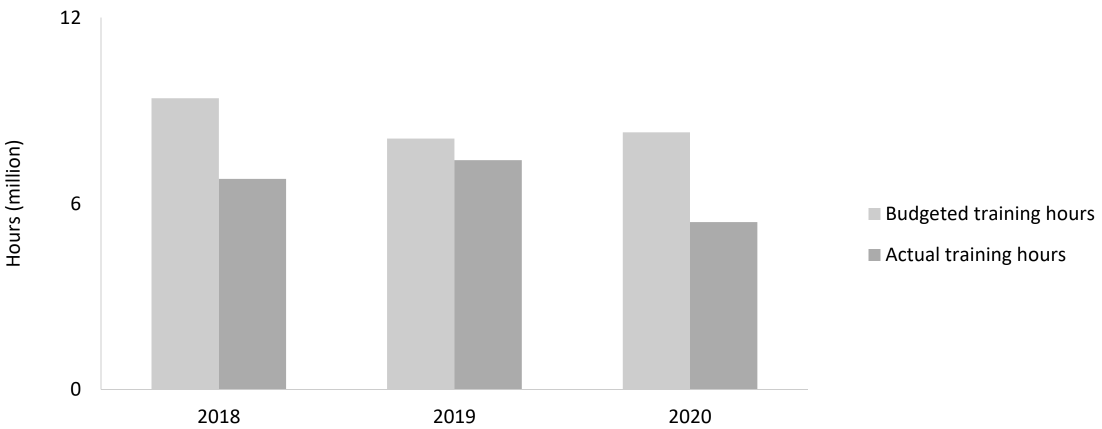
TAFE SA's overall training hours decreased in 2019-20. The following chart shows the total training hours delivered by TAFE SA over the last three years, and the proportion funded by DIS.



* Training hours provided by TAFE SA and unaudited. DIS funded training hours includes amounts related to targeted training that did not have specific target numbers of hours.

The chart highlights the overall reduction in the number of training hours delivered over the last three years. There has been a 17% overall reduction in training hours delivered across the three years, with a reduction of two million training hours in 2019-20 compared to 2018-19.

The following chart analyses the actual training hours provided by TAFE SA for specific course delivery outlined in the MOAA compared to the budgeted training hours (including opportunity hours for 2019-20) for the last three years.



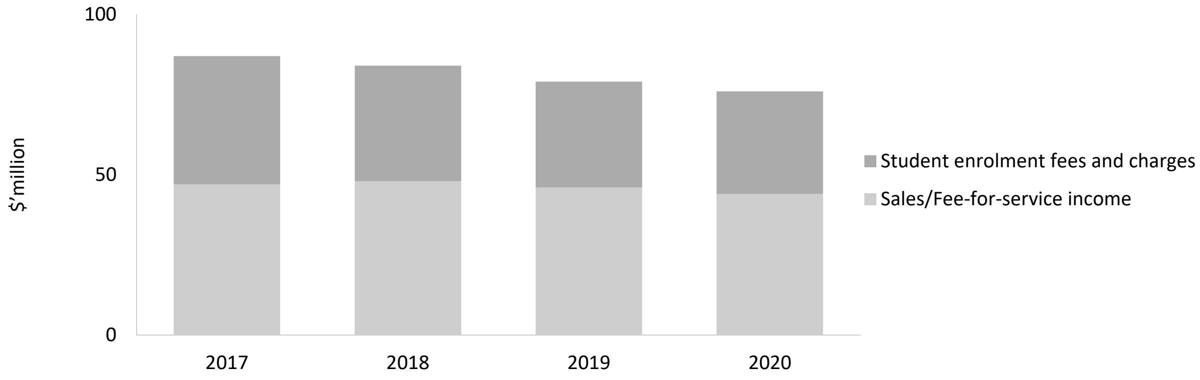
* Training hours provided by TAFE SA and unaudited. Budgeted training hours exclude targeted training without specific budget hours.

The chart shows that TAFE SA has consistently delivered less training hours than envisaged in the MoAA.

Student and other fees and charges

Student and other fees and charges totalled $81 million ($84 million) and make up 23% (23%) of TAFE SA's total income.

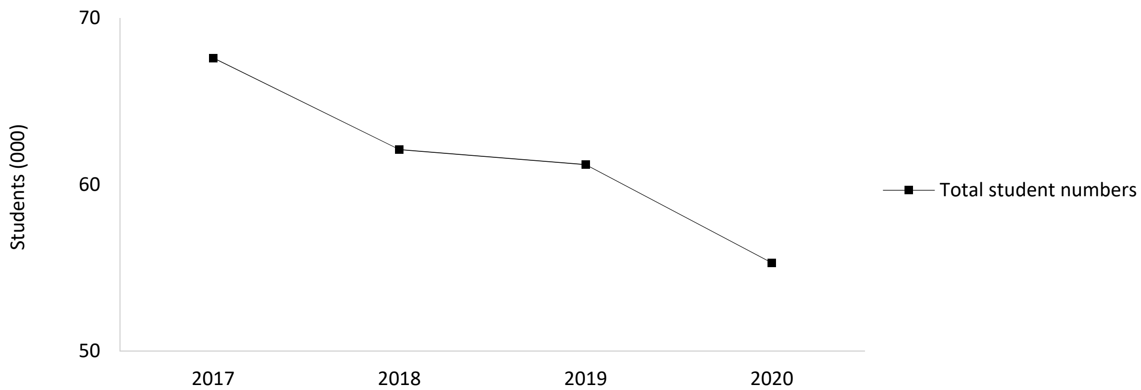
The main components of student and other fees and charges for the past three years are shown in the following chart.



The chart illustrates that sales/fee-for-service income has remained steady over this period while student enrolment fees and charges have largely stabilised following an initial decrease in 2018.

Total sales/fee for service revenue for 2019-20 was $44 million ($46 million), of which $23 million ($24 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 55 300 in 2019-20 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 $37 million, 10%, in 2019-20. This included a $40 million reduction in lease costs, partially offset by a $14 million increase in depreciation expenses as a result of the transfer of ownership of the land and buildings for TAFE SA sites to TAFE SA in 2019-20.

Optimisation Plan

In 2019-20 TAFE SA implemented an Optimisation Plan to achieve budget efficiencies and manage expenses. Savings under the plan would be achieved through an organisational review, review of courses and cost containment.

As a result of the plan TAFE SA:

- offered additional targeted voluntary separation payments (TVSPs)

- implemented tighter controls over the recruitment of HPIs
- reviewed and prioritised projects and implemented stricter controls over the procurement of contractors, consultants and travel.

Employee benefits

Employee benefits are TAFE SA's main expense, accounting for 69% (65%) of total expenses.

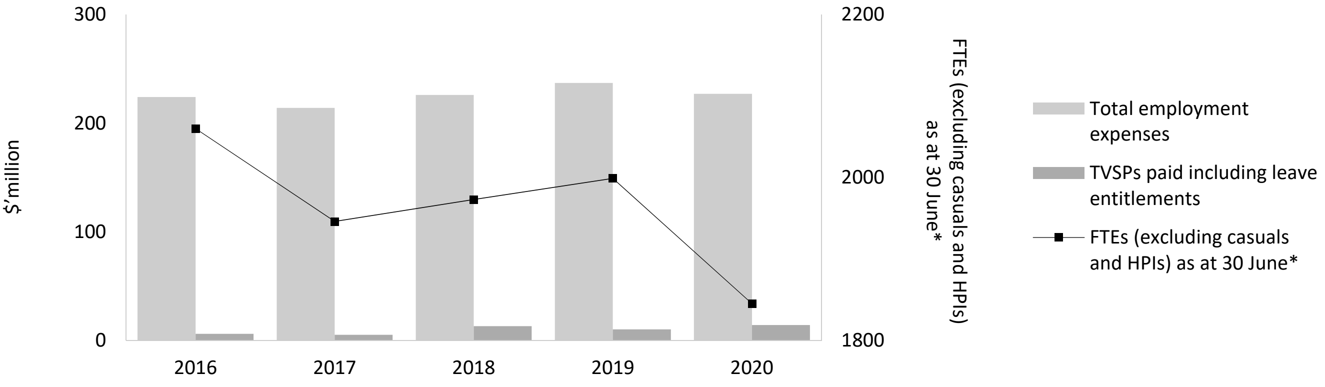
Employee benefits expenses decreased by $10 million, 4%, to $227 million in 2019-20. This was mainly due to:

- a decrease in salaries and wages of $6 million, mostly reflecting a $5 million decrease in payments to HPIs, with total HPI payments of $6 million in 2019-20
- a decrease in long service leave expenses of $6 million
- partially offset by a $3 million increase in TVSP payments.

The long service leave expense decrease is partly a result of changes in the measurement of the long service leave liability due to lower long-term salary inflation rates used in the calculation. In 2019-20 a rate of 2.5% was used (4% in 2018-19). This change, along with other changes to the measurement of the liability to reflect lower interest rates, resulted in a $2.1 million reduction in the expense.

Employee benefits expenses included payments of TVSPs and related leave of $14 million ($10 million) to 112 (99) staff.

The following chart shows total employment expenses, total TVSP payments and total FTE staff (excluding casuals and HPIs) for the last five years.



* FTE data sourced from TAFE SA and unaudited.

TAFE SA has paid 444 TVSPs paid over this period including 112 in 2019-20.

When excluding TVSPs, the chart shows that total employment expenses increased between 2017 and 2019, before decreasing in 2020.

This analysis shows that FTEs have fallen to their lowest level in five years in 2020 and total employment expenses in 2020 have almost returned to 2018 levels.

Salaried FTEs decreased from 1999 as at 30 June 2019 to 1845 this year. FTEs as at 30 June 2020 are comprised as follows.

	2020 FTEs	2019 FTEs
TAFE SA Act	990	1082
Public Sector Act	844	908
Excess staff	11	9

Supplies and services

Overall supplies and services expenses were $81 million, a decrease of $42 million or 34% from 2018-19.

The main factor in this decrease was a $40 million reduction in leasing expenses, as infrastructure assets that TAFE SA previously leased from DIS were transferred to TAFE SA on 1 November 2020. This is discussed further below.

Depreciation and amortisation expenses

Depreciation and amortisation expenses increased by $15 million to $19 million in 2019-20, reflecting TAFE SA's ownership of infrastructure assets 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.

	2020 $'million	2019 $'million
Assets		
Cash and cash equivalents	81	58
Receivables and contract assets	14	22
Property, plant and equipment	629	16
Liabilities		
Payables	16	27
Employee benefits	62	66

Assets

Cash

The increase in TAFE SA's cash balance mainly reflects the impact of the change in ownership of campus infrastructure. TAFE SA previously had to make rental payments to DIS for these assets. In 2019-20, the expenses associated with these assets were largely non-cash, depreciation and amortisation, contributing to an overall reduction in cash expenses and an increased cash balance.

Receivables

Receivables of $10 million ($22 million) as at 30 June 2020 include amounts owing from the Commonwealth Government of $3 million ($4 million) under the VET student loans schemes and Adult Migration English program. In addition, $1 million ($7 million) in GST is recoverable from the ATO.

Property, plant and equipment

Property, plant and equipment increased by $613 million to $629 million as at 30 June 2020.

The 2019-20 State Budget announced that TAFE SA campuses would transfer from the URA to TAFE SA's control in 2019-20, the first time TAFE SA would have full control of campus infrastructure since it was established as a separate statutory corporation in 2012.

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 on 1 November 2020.

TAFE SA's purchase of these assets was financed through a capital contribution of $621 million. As this was a capital contribution, it is not reflected in TAFE SA's income statement or operating result.

In addition to the assets, some DIS staff associated with managing these assets also transferred to TAFE SA in 2019-20, reflecting TAFE SA's sole responsibility for the management of these assets following the transfer.

TAFE SA will now be responsible for developing asset management plans based on information about asset condition and future use. These plans will inform future maintenance spending and help to develop budgets for asset enhancement, replacement or renewal.

Liabilities

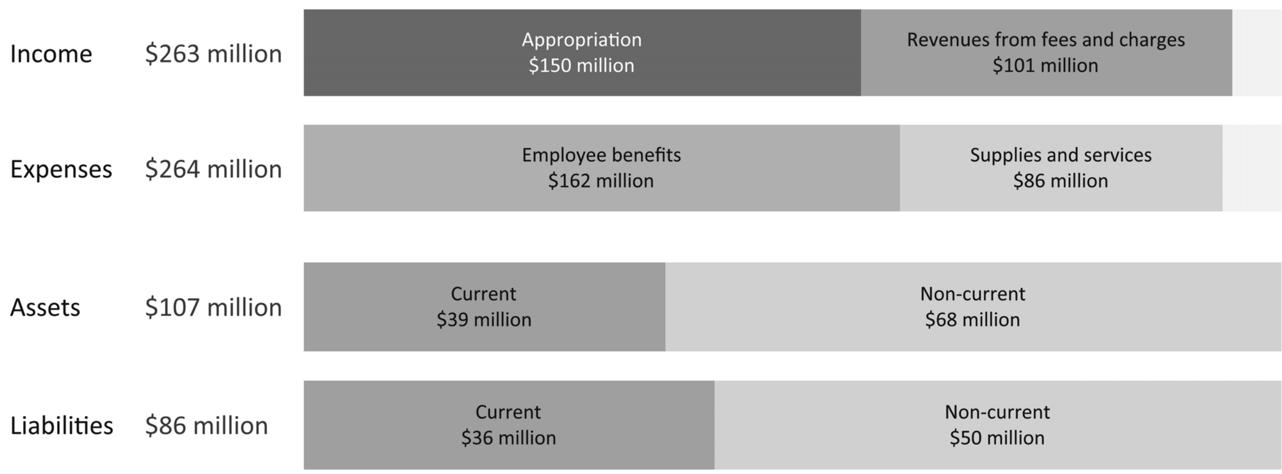
Payables decreased by $11 million in 2019-20 to $16 million. This decrease reflects:

- a decrease in accrued TVSPs of $2 million
- $2 million associated with a child care centre agreement in 2018-19
- decreases in amounts owing for facility, maintenance and ICT costs.

Employee benefits decreased by $4 million to $62 million. This reduction was mainly due to a decrease in long service leave liability of $5 million, partially offset by a $700 000 increase in accrued salaries and wages. The reduction in long service leave reflects a $2 million impact from changed measurement of the liability, principally due to a reduction in the long-term salary inflation rate applied, and other decreases reflecting the effect of TVSPs.

Department of Treasury and Finance (DTF)

Financial statistics



1512

Number of FTEs

Administered items

Significant events and transactions

— DTF has paid $312 million in grants/payments in responding to the COVID-19 pandemic, including grants for small business ($187 million) and private hospital viability payments ($89 million).

— DTF was involved in two machinery of government changes in 2019-20:

- the Health Accounting and Taxation Services business unit transferred to DTF from the Department for Health and Wellbeing (DHW) on 1 July 2019
- the Oracle Debt Management Receipting business unit transferred to DTF from DHW on 1 December 2019.

These changes resulted in the transfer of net controlled liabilities of $4.2 million to DTF.

Financial report opinion	**Unmodified**	
Controls opinion findings	—	Key payroll and accounts payable control processes at Shared Services SA (SSSA) could be strengthened.
	—	Access and password controls and some other aspects of IT general controls could be improved for some of SSSA's main IT systems.
	—	Consolidated Account reconciliation processes could be strengthened.
	—	Contract management for two significant whole of government contracts could be improved.
Other audit findings	—	No evidence that high risk network system vulnerabilities were promptly assessed and addressed.
	—	Taxation debts are outstanding for longer, with more than $35 million outstanding for over a year.
	—	Stamp duty related penalties and interest are being remitted without dual authorisation.

Functional responsibility

DTF is an administrative unit established under the *Public Sector Act 2009* and is responsible to the Treasurer.

On 1 July 2019 the Health Accounting and Taxation Services business unit transferred from DHW to DTF.

On 1 December 2019 the Oracle Debt Management Receipting business unit transferred from DHW 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.

Refer notes 1.2 and 12.1 of DTF's financial report for 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 audit attention in 2019-20 included:

- taxation revenue
- payroll
- expenditure
- procurement
- general ledger maintenance and reconciliations
- receipting and banking
- debtor follow-up
- small business grant program
- IT general controls.

Financing and insurance services

Commentary on these activities is included under '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 2020 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

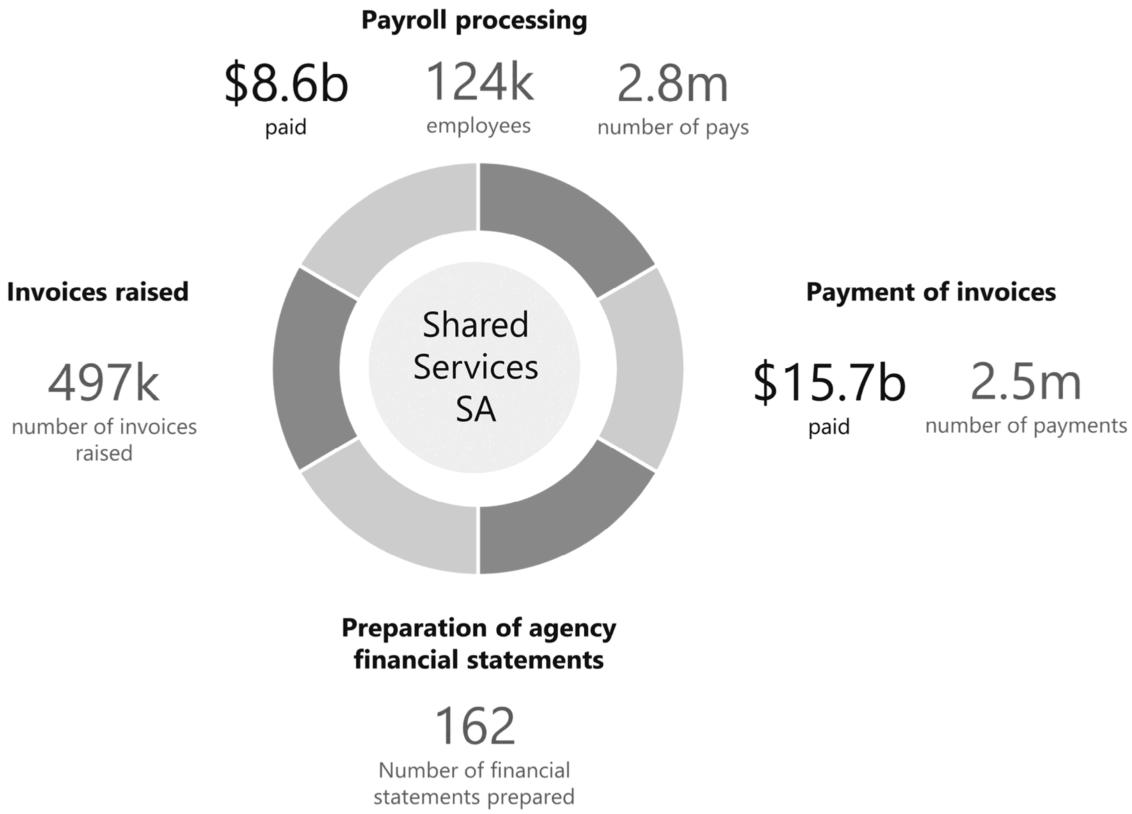
We communicated our audit findings in management letters to the Chief Executive. The main findings and DTF's responses are discussed below.

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 2.8 million employee pays using the Chris21 and VALEO payroll systems.

In addition, SSSA processes around 2.5 million invoice payments for businesses that supply goods and services to government.

In addition to Chris21 and VALEO, the main IT systems used by SSSA are:

- Readsoft – for scanning invoices
- Basware – workflow software to manage the approval of accounts payable transactions
- 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 more significant matters we identified through our payroll review and communicated to DTF and SSSA are detailed below.

— *Quality assurance checks over payroll processing could be skipped*

Data input officers have access within the payroll system to select 'No QA Required' and complete batches, meaning the quality assurance process can be skipped. This increases the risk of processing errors not being identified.

SSSA responded that the risk of batches being closed without quality assurance activities occurring is minimised as the profile set up is only for senior staff and Operational Team Leaders. It pointed out that a number of scenarios require these data input officers to close a batch without a quality assurance process.

SSSA will review the staff who can close batches to ensure that the current access arrangements are appropriate.

— *Some pay run activities were not completed before key reports were run*

We noted a number of instances where some pay run activities were not completed before key payroll reports were run. The activities still outstanding were processes that could lead to changes in the final key payroll report. While all processes were completed, when they are not performed completely before the next stage of the process there is an increased risk that some changes made will not be reviewed.

SSSA responded that the payroll reports from our findings all related to payroll processing for South Australia Police and the responsible payroll officers had been reminded to ensure that all processing requirements were completed in the correct sequence. In addition, after our audit, the South Australia Police payroll team had implemented the standard pay run process used by other Chris21 teams.

— *Final sign-off of some pay runs was not recorded before authorisation to pay was given*

We noted a number of instances where the sign-off to ensure all quality assurance 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 to ensure the accuracy of the pay run are completed.

SSSA responded that it had reminded staff of their responsibility to ensure all processing requirements were completed in the correct sequence and in line with current procedures. SSSA considers this risk will be removed with the introduction of a new automated checklist which validates that steps have been completed.

Accounts payable

SSSA processes payments on behalf of SA Government agencies. We annually review key controls over the SSSA processing environment and the main matters we identified in 2019-20 are outlined below.

— Vendor maintenance processes could be strengthened

Changes to vendor masterfile data should be subject to independent review to ensure the details changed are correct.

In prior years we have reported that the segregation of duties between the officer making adjustments to vendor masterfile data and the reviewer could be compromised as reviewers could change vendor details while reviewing changes already made.

In response SSSA developed a report that was to be independently reviewed to identify any changes made by reviewers.

In 2019-20 we identified instances where:

- there was no evidence of these reports being reviewed
- reports were reviewed by the same officer who made the vendor changes.

This increases the risk of payments being made to incorrect vendors.

SSSA responded that the current procedure would be reviewed to ensure that it clearly outlines the requirement for independent checks. In addition, the Business Systems team will review the way the report is generated to ensure all changes and verifications are correctly reported.

SSSA also advised that staff would be trained and reminded of the responsibility to follow procedures.

— Manual payment invoices were not always created in Basware promptly

We identified several instances where manual payments, which are processed directly in banking software, were not created in Basware in the 24 hour, one business day, time frame established by SSSA. Delays in creating manual payments in Basware increase the risk of a duplicate payment, where an invoice is also paid through the regular workflow.

SSSA responded that staff had been reminded of the importance of completing the activity promptly. In addition, the existing procedure was being reviewed and updated to include further checks on the status of all manual payment invoices each day, to ensure the Basware creation time frame was met.

— Some invoices were paid more than once

We identified some instances where duplicate payments had occurred.

This included a duplicate invoice that was identified on a report but was paid again as it was not removed from the batch.

In another case, the duplicate invoice was not identified as it did not appear on the report of duplicate invoices.

Where the report identifying duplicate invoices is not appropriately reviewed, or does not capture all duplicates, there is an increased risk that invoices will be paid multiple times.

SSSA responded that it would revisit the parameters of the report to ensure it captures all duplicate invoices. In addition, staff will be reminded of their responsibility to follow existing procedures for duplicate invoice checking.

IT general controls

Given the importance of SSSA's systems to SA Government transaction processing, we review IT general controls each year.

— *Basware*

We identified the following issues:

- a number of privileged user accounts were no longer required and should be removed
- patch management exceptions existed as the Basware environment was not operating on the latest version
- SSSA did not maintain an audit log of activities at the database or operating system levels
- there had not been any disaster recovery testing for the SA Health and SA Government environments since September 2016 and 2014 respectively.

We acknowledged that a Basware upgrade project was in progress and suggested that SSSA consider our findings as part of the roll out process.

SSSA responded that it had now removed privileged access for the users highlighted in our report and would continue to enhance the privileged user access management process.

SSSA also noted that the upgrade would resolve several issues including:

- the software vendor would have end-to-end responsibility for maintenance of the application and associated databases and operating systems
- appropriate reports would be created to log privileged user activities
- a new disaster recovery plan would be developed and tested under the new version of Basware.

— *Masterpiece*

We identified the following issues:

- user access process exceptions, with instances where there was no clear record of who had approved access
- insufficient review of access to locations where online banking payment files are stored
- improvement required in the patching and upgrade processes
- improvement required in disaster recovery processes.

SSSA responded that:

- it had reviewed the user account exceptions identified in our report, corrected this where required and reminded its officers to ensure that appropriate procedures are followed
- it will immediately introduce a mandatory change control process for the file directory logs noted in our report
- the external vendor has agreed to update its quarterly performance reporting to SSSA to include all details of significant patches available in its knowledge base. This will include recommendations for patch updates and timing of when updates occur
- a disaster recovery planning workshop will be scheduled to address this issue. The mainframe vendor would update the disaster recovery plan as part of a disaster recovery exercise to occur. In addition, SSSA is currently updating its business continuity and disaster recovery plan for Masterpiece.

— *CommBiz*

We identified the following issues:

- there were a number of CommBiz users with inappropriate payment limits and user access
- inappropriate privileged user access permissions were granted to sensitive network files/folders in some cases.

SSSA responded that:

- it had updated the CommBiz user management procedure to ensure active users, payment limits and inactive/dormant accounts were regularly reviewed
- it had addressed the list of users with inappropriate access and would implement an appropriate ongoing process for the review of user access.

— *Chris21*

We identified the following issues:

- improvement was required in user offboarding processes to ensure user access was removed
- a number of privileged user accounts were no longer required and should be removed
- a number of suggested changes identified by SSSA's quarterly user access review were inadvertently overlooked and not processed.

SSSA responded that:

- it has removed the user access exceptions identified in our report and business units will be reminded of the importance of removing user access to systems as part of the offboarding process
- the external vendor will update quarterly performance reporting to include details of its 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, including the management of privileged user access

- it has reminded the team responsible for user access management to ensure that documented procedures are followed in all cases and the relevant business units have been reminded to respond to each quarterly access review promptly.

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.

— *No evidence that key monthly reconciliations were independently reviewed*

We noted there was no evidence of independent review over:

- the July to December 2019 monthly Consolidated Account reconciliations
- the July 2019 to April 2020 monthly Agency Ledger Clearing Account reconciliations.

DTF responded that new processes were established to capture evidence of the independent review of key monthly reconciliations.

— *No regular reconciliation of the Treasurer's indebtedness to SAFA*

We noted that the balance of the Treasurer's indebtedness to SAFA, as recorded in the central general ledger, is not regularly reconciled to the balance recorded in the SAFA general ledger.

DTF responded that a reconciliation was undertaken at year end and that a report will be written to enable monthly reconciliations.

Whole of government procurement review findings

DTF provides strategic procurement and contract management services for whole of government contract arrangements. We reviewed a sample of these procurement arrangements and the contract management processes in place as part of our 2019-20 audit.

— *Contract management plans were not documented for two significant whole of government contracts*

Our review of a sample of whole of government contracts noted there were no contract management plans for:

- the bulk fuels and lubricants panel contract (estimated contract value $263 million)
- the electricity retail supply and services contract (estimated contract value $474 million).

DTF responded that a contract management plan for the bulk fuels and lubricants panel contract and supply of electricity contract would be developed and entered into the Procurement and Contract Management System (PCMS).

DTF acknowledged that developing contract management plans and actively managing government contracts is an essential and critical activity for ensuring contract obligations are delivered and advised this was communicated to DTF officers with contract management responsibilities.

- *Contract management activities performed for two whole of government contracts were not properly documented and may be incomplete*

The Strategic Procurement Contract Management Framework requires the PCMS to be used to schedule and track key contract deliverables and other contract management activities.

While there was documentation demonstrating contract management activities were performed for the two whole of government contracts mentioned above, there was no evidence that PCMS was being used to schedule and track contract deliverables and other contract management activities.

As contract management plans did not exist for these contracts, we could not assess whether the contract management activities performed covered all key contract deliverables, or that risks and disputes were being actively managed.

DTF responded that it will allocate appropriately qualified and experienced officers to ensure contract management activities are undertaken. It advised that all key contract establishment and management activities would be recorded on the PCMS. Monthly reports highlighting any lack of contract management administration will be provided to the Executive Director, Procurement for review.

- *Not enough time allowed for procurement processes to be finalised before the end of the current service agreement*

We found that not enough time was allowed for procurement processes to be finalised before the end of the previous whole of government mainframe applications services agreement.

DTF acknowledged that allowing sufficient time for procurement processes is important in delivering the best possible outcomes. When delivering across government contracts, it relies heavily on timely engagement and responses from agency customers to establish user requirements and inform the procurement strategy.

To assist with planning and managing the procurement process DTF has developed an in-depth activity planner that maps out future requirements. This planner is used to manage progress and highlight potential delays through regular communications and project meetings.

The development of an across government procurement activity planner is also underway, which will further enhance planning and management of procurement outcomes.

Other audit findings

No evidence that high risk network system vulnerabilities were promptly assessed and addressed

DTF's network operations are monitored by a third-party vendor, NEC Australia Pty Ltd. Each month the vendor provides a report that identifies network vulnerabilities with a rating of high or above. DTF is advised by the vendor to review the reported vulnerabilities and assess the risks to DTF.

Four vulnerabilities were identified in the December 2019 report, three of which had been reported since December 2017.

DTF could not locate documentation of its assessment of the reported vulnerabilities and proposed remedial action.

While DTF had started to address the vulnerabilities in February 2020 they continued to be reported in the March 2020 report.

DTF responded that one of the vulnerabilities reported was for a switch that was decommissioned before our audit and corrective action for the remaining vulnerabilities was completed in May 2020.

DTF also advised that a procedure would be established to record its assessment of the monthly vulnerabilities reported, together with proposed remedial action.

Taxation debts are outstanding for longer, with more than $35 million outstanding for over a year

We noted that debts for outstanding land tax, Emergency Services levies and payroll tax were outstanding for longer than they had been in the past, with more than $35 million outstanding for over a year as at 7 April 2020.

While Emergency Services levy debts over a year decreased by $749 000 (10%), land tax and payroll tax debts increased by $1.2 million (18%) and $2.7 million (15%) respectively.

DTF responded that it would review the existing debt management strategy to ensure that long overdue debts are reduced over time.

Stamp duty related penalties and interest are being remitted without dual authorisation

Under the *Taxation Administration Act 1996* the Commissioner of State Taxation has the discretion to remit interest and penalty tax payable by a taxpayer by any amount. Consistent with the Act, the Commissioner has delegated DTF officers the authority to remit interest and penalty fees in appropriate cases.

Where the value of interest and penalty fees falls within the DTF officer's delegated authority, the RevenueSA Online system automatically approves the remission without requiring a second approver to review it.

We noted 90 (49%) instances at 20 February 2020 where interest on stamp duties and related penalty fee remissions were automatically approved without a second approver. A system report that quantifies the value of these automatically approved remissions had not been developed.

DTF responded that changes to RevenueSA Online would be implemented to require all remissions of stamp duty penalty and interest to be approved by a second approver, regardless of whether the initiating DTF officer has delegation.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items*

	2020 $'million	2019 $'million
Income		
Appropriation	150	150
Fees and charges	101	104
Other income	12	68
Total income	263	322

	2020 $'million	2019 $'million
Expenses		
Employee benefits expenses	162	163
Supplies and services	86	144
Other expenses	16	15
Total expenses	264	322
Net result and total comprehensive result	(1)	-
Assets		
Current assets	39	39
Non-current assets	68	63
Total assets	107	103
Liabilities		
Current liabilities	36	30
Non-current liabilities	50	47
Total liabilities	86	77
Total equity	21	26

* Table may not add due to rounding.

Statement of Comprehensive Income (controlled items)

Income

Income decreased by $59 million to $263 million in 2020 mainly due to:

- a $47 million decrease in other income mostly due to a $55 million decrease in recoveries from the Department of Planning, Transport and Infrastructure (DPTI) of land title fees paid to Land Services SA (LSSA), reflecting that LSSA transactions ceased to be performed by DTF around April 2019. This reduction was partly offset by:
  - a $4.9 million donated asset received from DPTI in 2019-20, relating to the Port Adelaide office fitout
  - a $2.5 million recovery of the cost of laptops in 2019-20, which reflects DTF's 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 $9 million decrease in intra-government transfers.

Expenses

Expenses decreased by $58 million to $264 million in 2020 mainly due to:

- a $58 million decrease in supplies and services expenses mostly due to a $47 million decrease in land title fees paid to LSSA and a $10 million decrease in LSSA related valuation fees paid to DPTI, reflecting that LSSA transactions ceased to be performed by DTF around April 2019
- a $2 million increase in depreciation and amortisation expense, mostly due to amortisation of right-of-use assets recognised on 1 July 2019 as part of implementing new lease accounting requirements, and the full year amortisation impact of internally developed intangibles recognised in 2018-19

- a $3.5 million decrease in other expenses, mostly due to the write-off of intangibles in 2018-19.

Statement of Financial Position (controlled items)

Assets

Total assets increased by $4 million to $107 million in 2020 due mainly to:

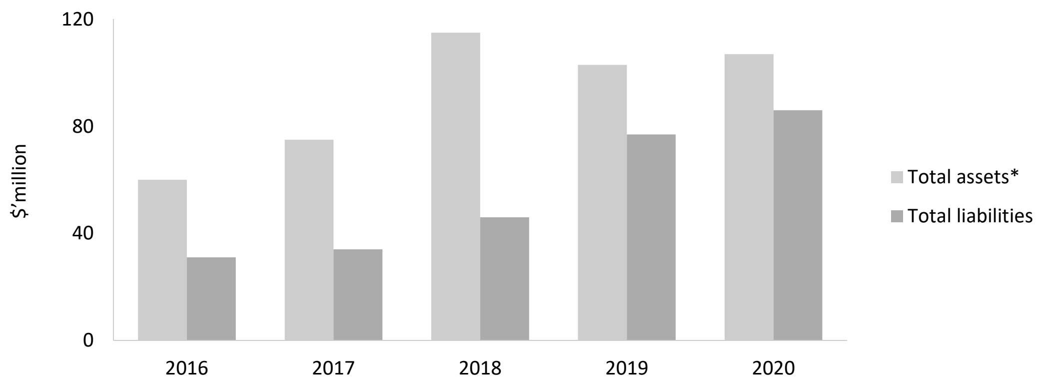
- a $5.6 million increase in property, plant and equipment mostly due to:
  - $4.9 million in building fitouts donated by DPTI
  - $2.4 million in right-of-use assets recognised as part of implementing new lease accounting requirements (which are offset by matching lease liabilities)
  - $2 million in additional work in progress recognised in 2019-20, mainly relating to building fitouts
  - $3.6 million in depreciation expense partially offsetting these amounts
- a $3.6 million increase in receivables mostly due to a $3 million increase in receivables from government entities, primarily relating to the recovery of costs of laptops from the Department for Human Services ($1.6 million) and service charges to the South Australian Fire and Emergency Services Commission ($1.1 million)
- an $834 000 increase in inventories, reflecting the value of laptops purchased to help agencies transition to remote working that had not transferred to agencies at 30 June 2020
- a $4.6 million decrease in cash
- a $1.3 million decrease in intangible assets mostly due to:
  - $4.8 million recognised for new software, developed mainly for RevenueSA and Super SA and $1.1 million for financial reporting model software licences for four years
  - $6 million in amortisation expense.

Liabilities

Total liabilities increased by $9 million to $86 million in 2020 mainly due to:

- a $4.8 million increase in employee benefit liabilities mainly as a result of the transfer of employees from DHW, offset by a $3.1 million decrease due to changes to assumptions used by the actuary to calculate the provision for long service leave
- a $1.9 million increase in payables mostly due to:
  - a $1 million increase in employment on-costs, resulting from the increased employee benefit liabilities mentioned above
  - a $1 million increase in accrued expenses
- a $1.2 million increase in lease liabilities as a result of new lease accounting requirements (offset by right-of-use assets recognised in 2019-20)
- a $1.4 million increase in workers compensation provisions as a result of the transfer of employees from DHW and changes to assumptions used by the actuary in calculating the provision.

The following chart shows DTF's asset and liability balances since 2016.



* Total assets for 2016 and 2017 include $10 million for the construction of the ANZAC Centenary Memorial Garden Walk.

Assets have increased over the last five years, reflecting the development of software for RevenueSA and Super SA and building fitouts.

The significant increase in assets in 2018 reflects the impact of the transfer of the Office of the Valuer-General and the Office of the Registrar-General to DTF.

Statement of Cash Flows

Significant changes in the cash flow amounts between 2019 and 2020 are largely attributable to the transfer of business units to and from DTF, most particularly receipts and payments processed relating to LSSA. Overall, however, there was a $4.6 million decrease in cash in 2019-20.

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 2020 is reported in the Treasurer's statements (published on the Auditor-General's Department website).

	*2020 $'million	*2019 $'million
Income		
Taxation	3 892	3 947
Commonwealth revenues	9 431	10 242
Appropriation	2 478	1 649
Other revenues	1 288	990
Total income	17 089	16 828
Expenses		
Payments to SA Government	11 285	11 792
Grants, subsidies and transfers	4 205	3 547
Other expenses	841	832
Total expenses	16 331	16 171
Net result	758	657
Changes in property, plant and equipment asset revaluation surplus	-	2
Total comprehensive result	758	659
Assets		
Current assets	2 014	1 706
Non-current assets	240	22
Total assets	2 254	1 728

	*2020 $'million	*2019 $'million
Liabilities		
Current liabilities	666	644
Non-current liabilities	727	115
Total liabilities	1 393	760
Total equity	861	968

* Table may not add due to rounding.

Statement of Comprehensive Income (administered items)

Administered revenue

Taxation revenue decreased by $55 million to $3.9 billion in 2019-20 due mostly to:

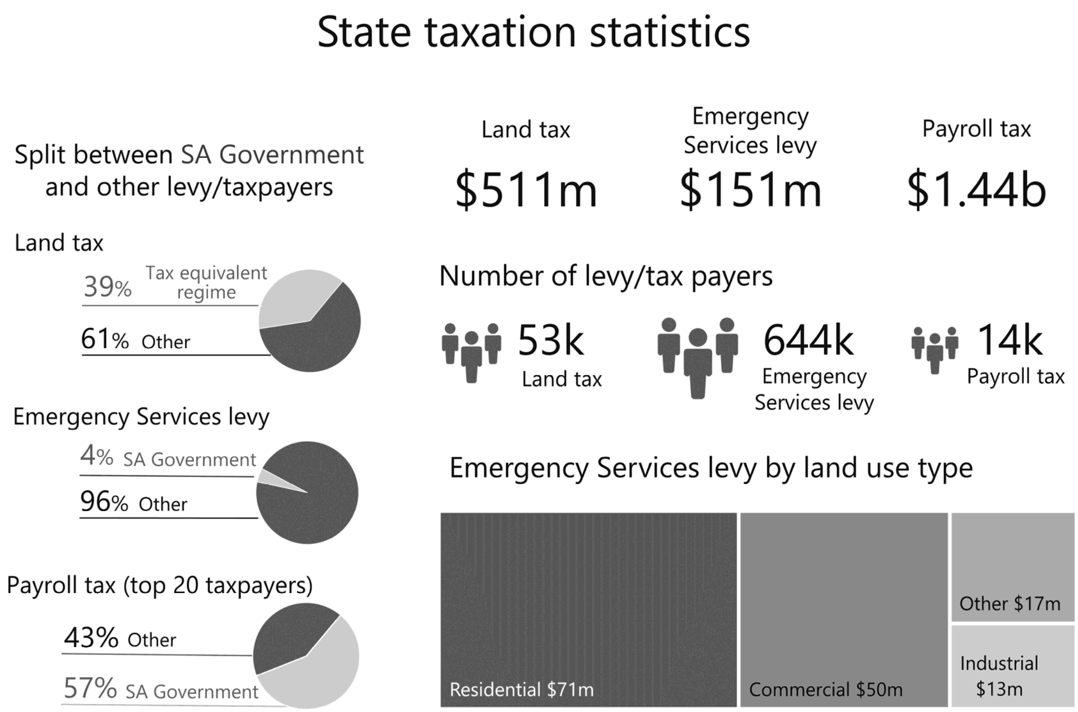
- increases of $36 million in stamp duties on property sale conveyances, $9 million in stamp duty on general insurance, $8 million in Emergency Services levies and $6 million in contributions from the Lotteries Commission of South Australia
- decreases of $77 million in payroll tax, $30 million in income tax equivalents paid by SA Government agencies and $11 million in land tax.

Decreases in payroll tax, income tax equivalents and land tax all include the impact of COVID-19. Tax deferrals and waivers were introduced by the SA Government in response to the economic impact of COVID-19, which are discussed further below.

In addition, some SA Government agencies have had reduced financial performance, resulting in less, or no, income tax equivalent payments as these amounts are calculated on accounting profit for the year.

The following table of State taxation statistics shows that SA Government agencies paid:

- 39% of land tax but only 4% of the Emergency Services levy in 2019-20
- 57% of payroll tax collected by RevenueSA from the top 20 taxpayers in 2019-20.



Commonwealth revenue decreased by $811 million to $9.4 billion in 2019-20 comprising mainly a $386 million decrease in funding received under the Inter-Governmental Agreement on Federal Financial Relations (IGAFFR), $283 million decrease in Council of Australian Government arrangements funding and $139 million decrease in GST revenue grants.

New revenue accounting standard requirements in 2019-20 resulted in the recognition of $312 million in Commonwealth revenue more than would have been the case in 2018-19. As a result of these changes, amounts that have previously been received in advance for capital projects are recognised as revenue as project stages are completed. These new requirements also resulted in the recognition of $638 million in unearned funding at 30 June 2020. These amounts will be recognised as income when capital projects progress in future years.

Appropriation from the Consolidated Account increased by $829 million to $2.5 billion in 2019-20, reflecting increased funding for DTF's administered activities, including significant amounts in response to the COVID-19 pandemic, discussed further below.

Other revenue increased by $298 million to $1.3 billion in 2019-20 due mostly to:

- a $217 million increase in revenue to recognise the transfer 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
- an $80 million increase in revenue for the write-off of a payable associated with the LSSA commercialisation agreement. Under the agreement the State was liable to repay $80 million if further decisions around other State registries were not taken or the State did not exercise an option to extend the term of the agreement. On 16 December 2019 the SA Government decided not to proceed with further commercialisation of State registries and opted to extend the term of the agreement by seven years
- a $62 million increase in the return of surplus cash from agencies to the Consolidated Account
- a $21 million increase in dividends from SA Government agencies due mostly to increases of $49 million from the South Australian Water Corporation, $19 million from the Motor Accident Commission and $8 million from HomeStart Finance, offset by decreases of $45 million from SAFA and $9 million from Renewal SA
- a $14 million increase in grants and contributions due mainly to increases in funding of $8 million to the Industry Financial Assistance account and $6 million to the Treasurer's Interest in the National Wine Centre account
- a $41 million decrease in interest revenues due mostly to lower interest rates in 2019-20
- a $36 million decrease in the return of funds from the Parliamentary Superannuation Scheme and the Judges' Pensions Scheme
- a $16 million decrease in guarantee fees.

Administered expenses

Administered expenses increased by $160 million to $16.3 billion in 2020 mainly due to:

- a $658 million increase in grants, subsidies and transfers mostly due to:
  - a $758 million increase in recurrent grants, subsidies and transfers due mainly to the transfer of increased recurrent funding from the Commonwealth under the IGAFFR to relevant SA Government agencies

  - a $312 million increase in grants/payments in response to the COVID-19 pandemic, including grants for small business ($187 million) and private hospital viability payments ($89 million)
  - a $411 million decrease in capital grants, subsidies and transfers due mainly to the transfer of reduced capital funding from the Commonwealth under the IGAFFR to relevant SA Government agencies
- a $46 million increase in employee benefits expenses, mostly due to a $45 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 $507 million decrease in payments to the SA Government mostly due to:
  - a $222 million decrease in the transfer of Commonwealth specific purpose funding under the Council of Australian Governments funding arrangements to the Consolidated Account
  - a $139 million decrease in the transfer of Commonwealth GST revenue grants to the Consolidated Account
  - a $68 million decrease in taxation revenue paid into the Consolidated Account
- a $21 million decrease in other expenses due mostly to a $6 million decrease in doubtful debts expense, $4 million decrease in repayment of borrowings, $3 million decrease in refunds and remissions and $3 million decrease in payments to the Commonwealth
- a $20 million decrease in borrowing costs mostly due to lower interest rates in 2019-20.

Administered net assets

Net assets changed from $968 million in 2019 to $861 million in 2020. This was due to:

- administered assets increasing by $526 million due mainly to:
  - a $226 million increase in cash, mostly due to a $243 million increase in deposits with the Treasurer, offset by a $12 million decrease in the DTF loans administration account and $5 million decrease in promissory notes held by the Treasurer on behalf of the Local Government Disaster Fund
  - a $216 million increase in other financial assets, due to the recognition of $217 million in shares in the State Owned Generators Leasing Company Pty Ltd by the Treasurer in exchange for the State emergency electricity generator assets being transferred to the company on 30 June 2020
  - an $84 million increase in receivables, mostly due to the recognition, as part of implementing new revenue accounting requirements, of a receivable of $85 million from the Commonwealth for funding for capital works projects already completed by DPTI
- administered liabilities increasing by $633 million due mainly to:
  - a $692 million increase in other liabilities, mostly due to unearned Commonwealth revenue for capital projects for DPTI and DHW ($638 million) recognised under revised revenue accounting requirements, and unearned revenue of $54 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

— a $60 million decrease in payables, mostly due to the write-off of an $80 million payable associated with the LSSA commercialisation agreement, offset by a $19 million increase in revenues collected but not yet paid into the Consolidated Account.

Further commentary on operations

Commonwealth Government funding arrangements

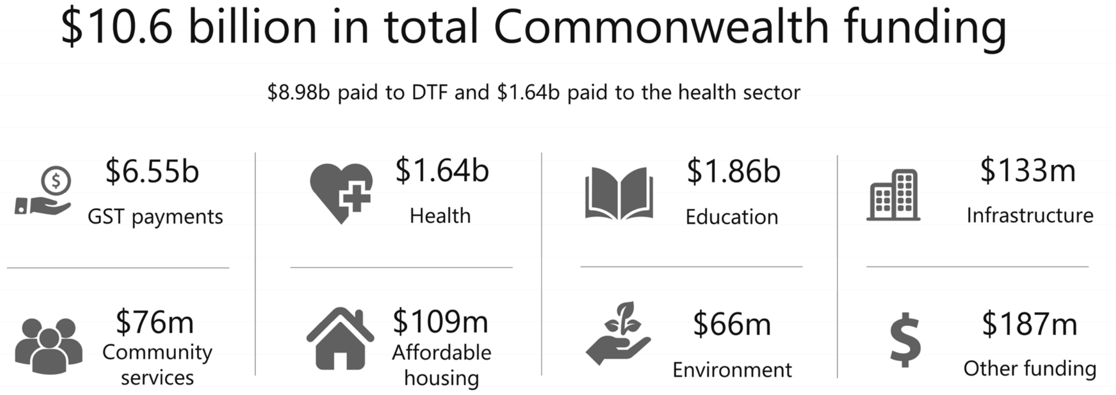
The IGAFFR is the framework for the Commonwealth's financial relations with the States and Territories. It provides for the following types of Commonwealth payments:

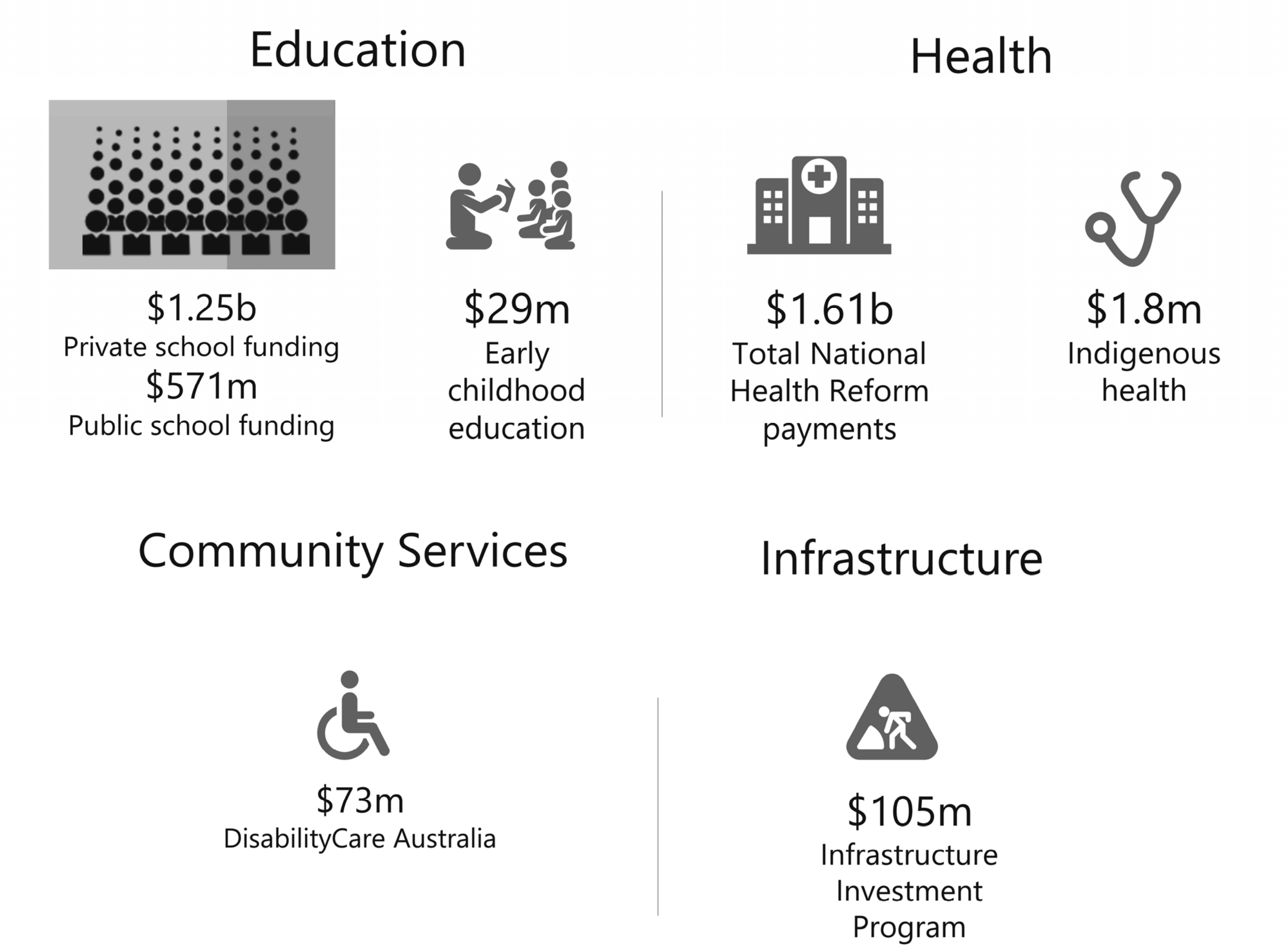
- general revenue assistance, including the ongoing provision of GST payments, to be used by the states and territories for any purpose
- national specific purpose payments to be spent in the key service delivery sectors agreed to between the Commonwealth and the States. Each national specific purpose 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 2020 was $34 million ($780 million). This represents funds that DTF is yet to transfer to other agencies.

Commonwealth funding, presented on a cash basis, was provided in 2020 for the purposes shown in the following table. The Commonwealth provided $8.98 billion to DTF and $1.64 billion directly to the health sector. Of the Commonwealth funding, 62% related to GST revenue grants of $6.55 billion that can be used for any purpose, whereas most of the remaining Commonwealth funding is for specific purposes.





Source: Australian Government GovTeams report as at 30 June 2020

Economic stimulus programs

In response to the significant bushfires starting in November 2019 and the COVID-19 pandemic, the SA Government announced a number of measures to provide relief and economic stimulus. The more significant measures delivered by DTF are discussed below.

Bushfire recovery programs

On 20 January 2020 the Commonwealth Government announced that state and territory governments would provide concessional loans of up to $500 000 for eligible small business, primary producers and non-profit organisations under the Disaster Recovery Funding Arrangements.

On 10 February 2020 the SA Government approved South Australia offering concessional loans, consistent with the announcement by the Commonwealth Government, subject to agreement being reached on cost sharing arrangements.

On 12 February 2020 agreement between governments was reached on a 50:50 cost sharing basis.

As at 30 June 2020 four loans totalling $630 000 had been paid.

COVID-19 stimulus programs

Business and Jobs Support Fund

The $300 million Business and Jobs Support Fund was established to help businesses and industry sectors facing potential collapse and the loss of jobs due to the ongoing impacts of COVID-19 and restrictions to limit its spread.

Expenditure totalling $196 million had been made from the fund as at 30 June 2020, including small business grants of up to $10 000 totalling $187 million to around 18 300 businesses.

A summary of the small business grants and our audit of these grants is included in Part A of this Report in our discussion of COVID-19.

Community and Jobs Support Fund

The $250 million Community and Jobs Support Fund was established to help community organisations, such as sporting, arts and recreational bodies, non-profit organisations and some other industry sectors. The fund also assists in training South Australians seeking new skills and employment and helps organisations to meet increased demand for services, including emergency relief.

Expenditure totalling $27 million had been made from the fund as at 30 June 2020.

Payroll tax relief

JobKeeper payment (Commonwealth)

Under existing payroll tax legislation, the Commonwealth JobKeeper payment would attract payroll tax.

The *COVID-19 Emergency Response Act 2020* included an amendment to the *Payroll Tax Act 2009* to ensure South Australian businesses whose employees qualify for the JobKeeper payment will be exempt from paying any payroll tax on the wage subsidy.

DTF advised that businesses had reported receiving around $255 million in JobKeeper payments which is excluded from the calculation of payroll tax.

Six month payroll tax waiver – businesses with Australian grouped wages up to $4 million

Businesses with Australian grouped wages of up to $4 million were not required to pay payroll tax from April to September 2020.

The estimated budget impact of this measure was $60 million and about $22 million of payroll tax payments due by 30 June 2020 had been waived for about 2000 taxpayers.

Six month payroll tax deferral – businesses with Australian grouped wages over $4 million

Businesses with Australian grouped wages above $4 million that could demonstrate they had been adversely impacted by COVID-19 were able to defer payroll tax payments that were due to be paid from April to September 2020 for six months.

The estimated budget impact of this measure was $150 million and about $71 million of payroll tax payments due by 30 June 2020 had been deferred for about 1700 taxpayers.

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 retain capacity for responding to State or Commonwealth public health requirements to both COVID-19 and non-COVID-19 activities and support viability to resume normal operations at the end of the COVID-19 pandemic.

DTF is administering the viability payment on behalf of DHW.

Hospital viability payments totalling $89 million had been made as at 30 June 2020.

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.

	2019 $'million	2018 $'million
Australian Government financial assistance	1 254	1 251
Fees and charges revenue	598	534
Employee related expenses	1 282	1 236
Assets	5 164	4 709
Liabilities	1 424	1 114

	2019 Number	2018 Number
FTEs	8 513	8 517
Students (EFTSLs)	64 045	61 801

Financial report opinions

We issued audit opinions for each university's financial report. Flinders University and the University of Adelaide received unmodified opinions.

We modified the financial report opinion for the University of South Australia in relation to comparative figures for 2018. The University applied new accounting requirements in 2019 and amounts for the period ending 31 December 2019 are materially correct. In our opinion, its accounting for grant revenue in 2018 did not comply with Australian Accounting Standards. This is further discussed below under 'Changes to the recognition of grant income' and in the University of South Australia's commentary under 'Auditor's report on the 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.

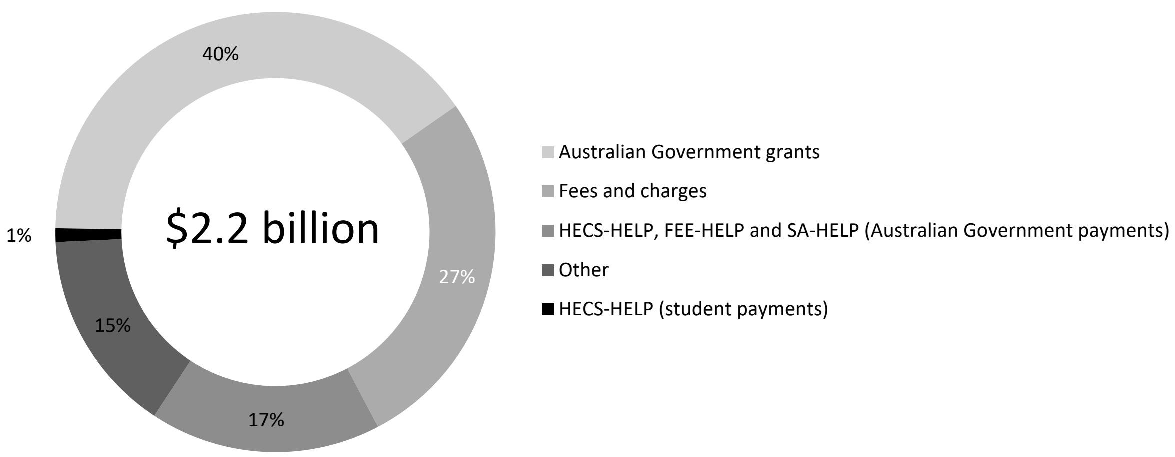
Other matters

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 2019. The sources of income are shown in the following chart.



Australian Government grants and payments

The universities are highly dependent on Australian Government financial assistance. This amounted to 57% of their total income in 2019. It comprises the Commonwealth Grants Scheme, Higher Education Loan Program (HELP) income, research grants and other funding.

Further information is included in each university's commentary under 'Statement of Comprehensive Income'.

Changes to the recognition of grant income

New accounting requirements for the recognition of revenue commenced for the universities from 1 January 2019. Where, in the past, most revenue was recognised at the time the money was received, the new requirements provide for some revenue to be recognised at the time the money is received and other revenue to be recognised over time as the performance obligations, such as deliverables due to the funding body or customer, are completed.

As a result of these changed requirements, South Australian universities collectively recognised an opening balance of around $160 million as at 1 January 2019. This amount represented the opening balance of amounts that would be recognised over time by the universities under these new requirements, as the accounting standard changes allowed for changes to be made as at that date rather than requiring them to be made to prior year information as well.

The changes mean each university now recognises contract liabilities for the amount of money received before performance obligations have been met. These amounts are then recognised as revenue when the universities meet those performance obligations.

Under this revised approach the recognition of some revenue amounts will now take place in the same year as the associated expenses. Previous requirements would have meant, in some cases, all of the funding being recognised on receipt regardless of the timing of the associated expenditure.

Fees and charges

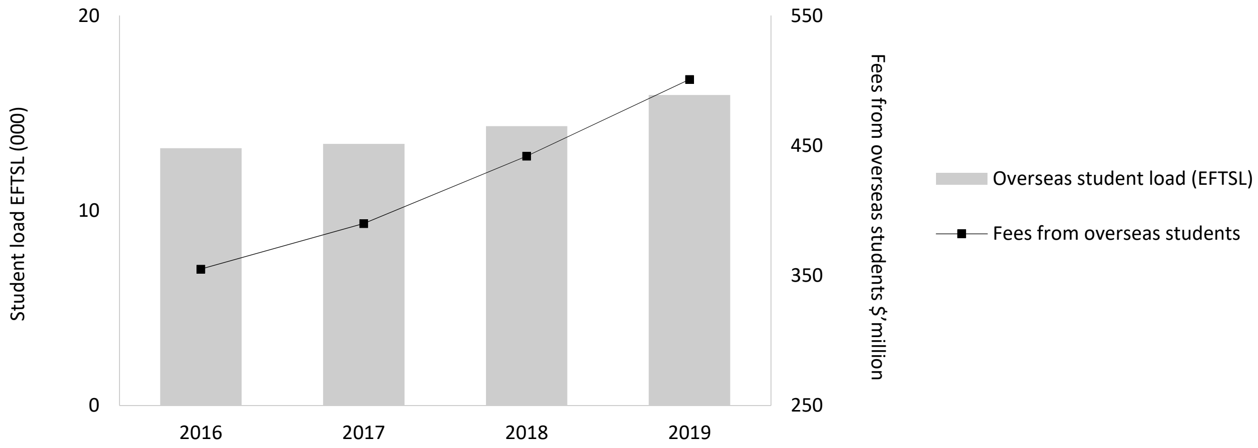
In the last four years, fees and charges across the universities increased by 32%, from $454 million in 2016 to $598 million in 2019. The main driver of this increase has been fees and charges generated from overseas students.

The following table shows that total student loads have increased by 5% over the last four years, with the sources of students changing to 75% domestic (77%) and 25% overseas (23%) in 2019.

	2016 Number	2017 Number	2018 Number	2019 Number
Domestic students	47 714	47 192	47 468	48 118
Overseas students	13 202	13 422	14 333	15 927
Total students	60 916	60 614	61 801	64 045

Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from data published by the three universities and are unaudited.

Revenue from fees and charges from overseas students increased by 41% over the last four years to $501 million in 2019. The number of overseas students increased by 21% over this time.

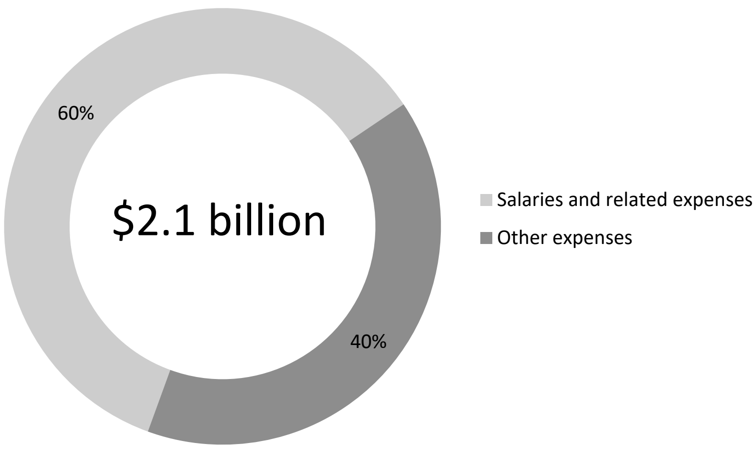


Source: Student numbers, which are based on EFTSL, were obtained from data published by the three universities and are unaudited.

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 (around 46%) and India (around 18%).

Expenditure

Total expenditure for the three universities was $2.1 billion in 2019. The sources of expenditure are shown in the following chart.



Employee related expenses

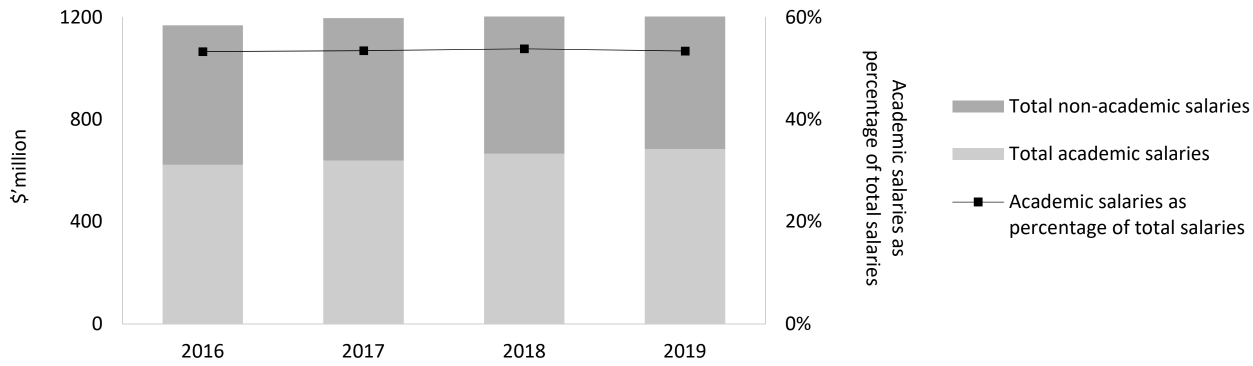
In the last four years, employee related expenses across the universities increased by 9% from $1.17 billion in 2016 to $1.28 billion in 2019.

The following table shows total staff numbers for all three universities, based on FTEs.

	2016 FTEs	2017 FTEs	2018 FTEs	2019 FTEs
Academic	3 634	3 681	3 721	3 692
Non-academic	4 700	4 705	4 796	4 821
Total FTEs	8 334	8 386	8 517	8 513
Percentage of academic staff	44%	44%	44%	43%

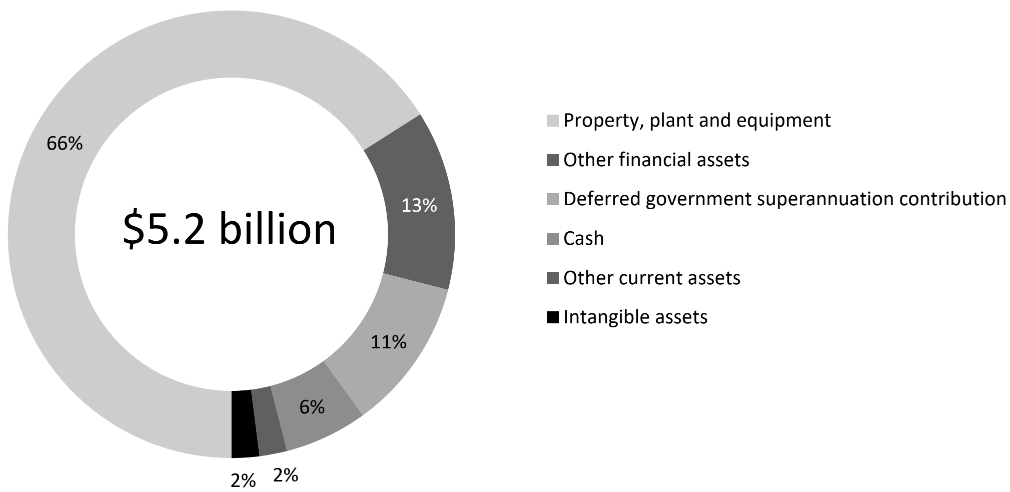
Source: Staff numbers, which are based on FTEs, were obtained from data published by the three universities and are unaudited.

The following chart shows academic salaries as a percentage of total salaries. The percentage has remained consistent at 53% since 2016.



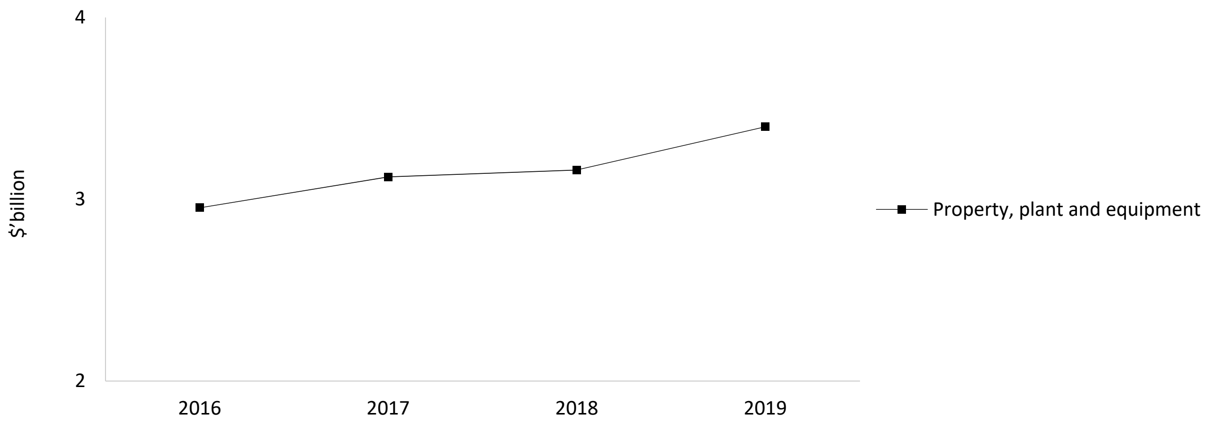
Assets

Total assets for the three universities were $5.2 billion in 2019. The categories of assets are presented in the following chart.



Property, plant and equipment

Property, plant and equipment totals $3.4 billion, which is 66% of the total value of assets held by the three universities. It primarily consists of $2.6 billion (77%) of buildings and infrastructure and land of $444 million (13%). 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 resulting from 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

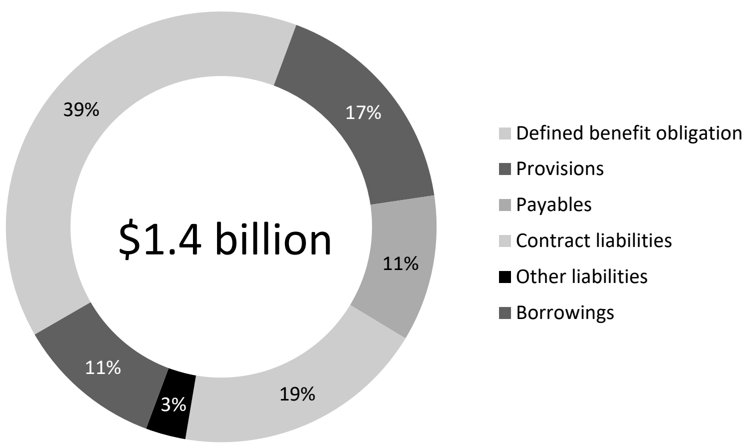
A number of present and former employees of the three universities, and their predecessor institutions, are members of State managed superannuation schemes. Under current arrangements the Commonwealth Government funds the universities on an emerging cost basis.

The defined benefit obligations of all three universities totalled $552 million, with a corresponding receivable of the same value being recognised from the Commonwealth Government. The receivables represent 11% of total assets held by the three universities.

For information on the individual schemes refer to the 2019 financial report for each university.

Liabilities

Total liabilities for the three universities were $1.4 billion in 2019. The categories of liabilities are presented in the following chart.



Defined benefit obligation

Defined benefit obligations total $552 million, 39% 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 $272 million, 19% of the liabilities held by the three universities. These liabilities were recognised for the first time in 2019 in response to the implementation of new accounting requirements in AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income for not for profit entities.*

Provisions

Provisions total $246 million, 17% of the liabilities held by the three universities. They primarily comprise $170 million in long service leave liabilities and $59 million in annual leave liabilities.

Emerging issues

COVID-19

While the financial information included in this Report relates to 2019, before the COVID-19 pandemic, all three universities included notes to their final financial reports noting 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 their studies in 2020. This impacted all three South Australian universities as they all generate significant revenue from international students – a total of just over $500 million in 2019 – as discussed above.

The exact impact of COVID-19 on South Australian universities is not yet clear. It is clear that revenue from international students has reduced as a result of travel bans, but it is not clear how long those restrictions will last and what level of take-up there may be for other study options, such as commencing study online from their home country and then transitioning to campus study at a later date.

International student fees are generated in a competitive environment, with Australian institutions competing nationally and against other countries like the United Kingdom and Canada to attract students to study here.

Extended reductions in international student numbers will increase the impact of reduced revenues for each of the South Australian universities, with each considering its own response to the impacts on its operations.

University support for students

Each of the South Australian universities has put in place support for students impacted by COVID-19, with help targeted to international students or other students suffering particular hardship.

Each university has offered assistance and options to students unable to get to South Australia to start or continue their studies – including online learning options and extended deferral options.

The support offered to students and their criteria vary, but all have offered counselling, general assistance and access to financial hardship support, including extended scholarship opportunities in some cases or hardship grants in others. The amounts provided under these programs are collectively worth millions of dollars, in response to the most significant disruption to international student education in South Australia.

SA Government support for universities

In April 2020 the SA Government announced a $13.8 million support package for South Australia's international education sector to assist with the impacts of the COVID-19.

The package includes a $10 million fund for university students significantly impacted by COVID-19 restrictions at the three universities. It also includes $500 emergency cash grants to international students enrolled in a course and living in South Australia who meet specific criteria, and one-off $200 assistance payments for students living with South Australian families.

Information from the Department of Human Services indicated payments to more than 2900 students, totalling around $1.5 million, had been made to 30 June 2020.

The SA Government has also been in ongoing discussions with the universities about trial returns of international students to South Australia in a managed approach, in consultation with the Commonwealth Government.

Commonwealth Government changes in response to COVID-19

The Commonwealth Government announced that it would guarantee domestic student funding to all Australian universities, regardless of whether there was a drop in actual domestic student numbers. It also announced that additional funding would be available for short courses for domestic students to improve skills.

The Commonwealth outlined further changes in July 2020 that are designed to help international students, 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 university sector in South Australia receives 57% 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 June 2020, the Commonwealth announced further changes to funding – with the Job-ready Graduates package. This package includes a range of proposed changes to university funding for 2021, including changing the amounts the Commonwealth 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 to students where there is deemed to be limited demand or an over-supply of students in that area 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 final form of these arrangements.

Flinders University (Flinders)

Financial statistics	Net result:	$25 million
	Australian Government financial assistance:	$341 million
	Number of FTEs:	2 005
	Number of students (EFTSLs):	17 458

Significant events and transactions

- Since 31 December 2019, the worldwide COVID-19 outbreak has impacted Flinders' financial performance and financial position. The full extent of this impact is not known at this stage. A direct impact has been a reduction in fees from international students as a result of travel restrictions.
- Flinders announced further details of its plans to develop Flinders Village as part of its strategic plan.
- Flinders applied new revenue and lease accounting requirements, recognising around $51 million in contract liabilities (reflecting funding already received with results still to be delivered) and lease liabilities and associated assets of around $9 million.

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Other audit findings

Privileged user access accounts were not regularly reviewed.

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 2019 included:

- expenditure
- research grant revenue
- cash and investments
- general ledger and reporting
- information technology general controls
- payroll
- property, plant and equipment
- Commonwealth financial assistance
- student revenue.

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

The audits of Flinders controlled entities for the year ended 31 December 2019 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

We communicated our audit findings in a management letter to the President and Vice-Chancellor and received a satisfactory response from Flinders. The main matter we raised and related response are discussed below.

Controls opinion findings

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

Other audit findings

Privileged user access accounts were not regularly reviewed

Flinders policy requires all privileged user account access to be reviewed twice a year. We found that some privileged accounts, which have more access to systems than a normal user, were not reviewed regularly to ensure the ongoing access remained appropriate. Our testing also identified two instances of users having access when it was no longer required.

Flinders responded to this issue confirming it would carry out the next review of privileged accounts by the end of March 2020, along with implementing additional access management tools for these accounts, and would review the process for these reviews by the end of September 2020.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Income		
Australian Government grants	234	233
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	107	104
HECS-HELP (student payments)	8	7
Fees and charges	126	121
Other	56	50
Total income	531	515
Expenses		
Employee related expenses	322	322
Other expenses	184	174
Total expenses	506	496
Operating result	25	19
Net cash provided by (used in) operating activities	52	61
Net cash provided by (used in) investing activities	(24)	(63)
Assets		
Current assets	119	116
Non-current assets	865	809
Total assets	984	925
Liabilities		
Current liabilities	113	90
Non-current liabilities	93	76
Total liabilities	206	166
Total equity	778	759

Income Statement

Income

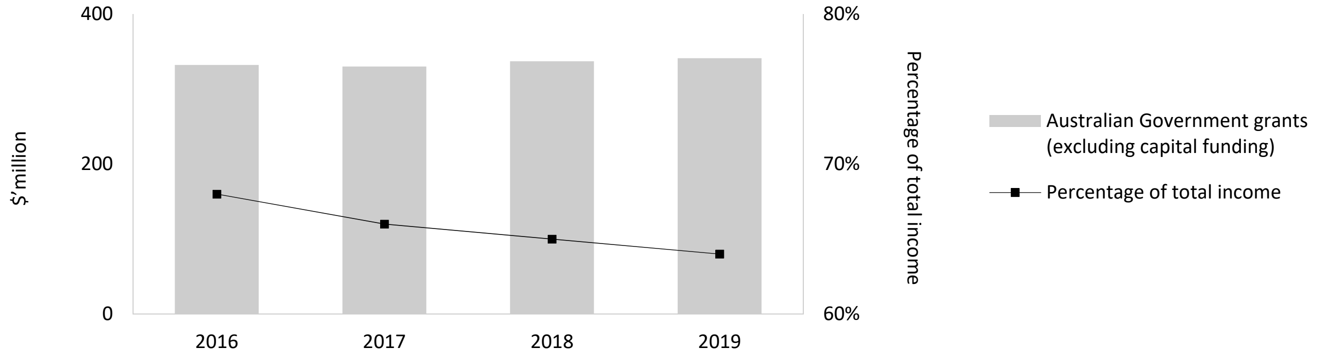
Flinders' income increased by $16 million (3%) in 2019, with increases in fees from overseas students, investment gains and Australian Government grants.

Australian Government grants and payments

The total Australian Government financial assistance Flinders received in 2019 increased by $4 million to $341 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 and has trended progressively lower in more recent years.

The decrease in 2019 reflects the continued growth in fees and charges, mainly for international student fees, for the year.

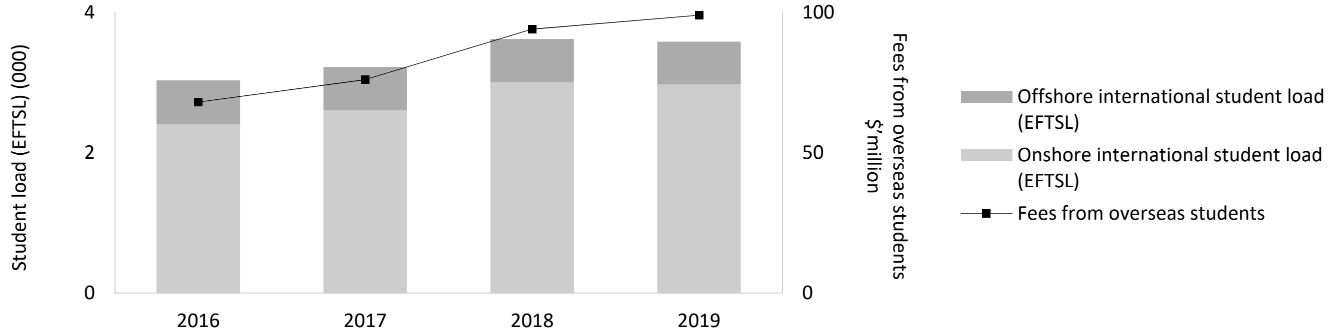


Australian Government grants and payments include the following major items:

- $107 million in Higher Education Loan Program (HELP) funding including HECS-HELP. In 2019 HECS-HELP funding increased by $1 million (1%) to $93 million, primarily due to Commonwealth supported places remaining steady and price indexation
- $54 million in Australian Government funding for research activities including competitive research grant programs and research infrastructure grants. Funding for 2019 remained consistent with the previous year
- $150 million in Commonwealth Grants Scheme funding for Commonwealth supported student places. This funding remained steady in 2019.

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 $5 million (5%) to $99 million primarily due to increases in course prices, partially offset by a 3% reduction in international student numbers.

The following table shows that total student loads increased by 2% over the last four years, with a slight reduction in domestic students and a 16% increase in overseas students.

	2016 Number	2017 Number	2018 Number	2019 Number
Domestic students	14 112	14 081	14 022	13 877
Overseas students	3 075	3 250	3 661	3 581
Total students (EFTSL)	17 187	17 331	17 683	17 458

Source: Student load data is sourced from statistics published by Flinders and is unaudited.

Investment income

Net investment income increased by $14 million to $19 million due to increases in the value of investments.

Investment returns can be volatile, with the varying impact affecting the overall operating result.

Expenses

Total expenses increased by $9 million (2%). This was primarily due to a $4 million (31%) increase in repairs and maintenance and a $4 million increase in depreciation and amortisation.

Employee related expenses

Employee related expenses totalled $322 million in 2019 and remained consistent with 2018. Increases in salaries of $3 million were offset by a $3 million decrease in redundancy expenses.

	2016 $'million	2017 $'million	2018 $'million	2019 $'million
Employee related expenses	314	310	322	322

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, which has decreased slightly.

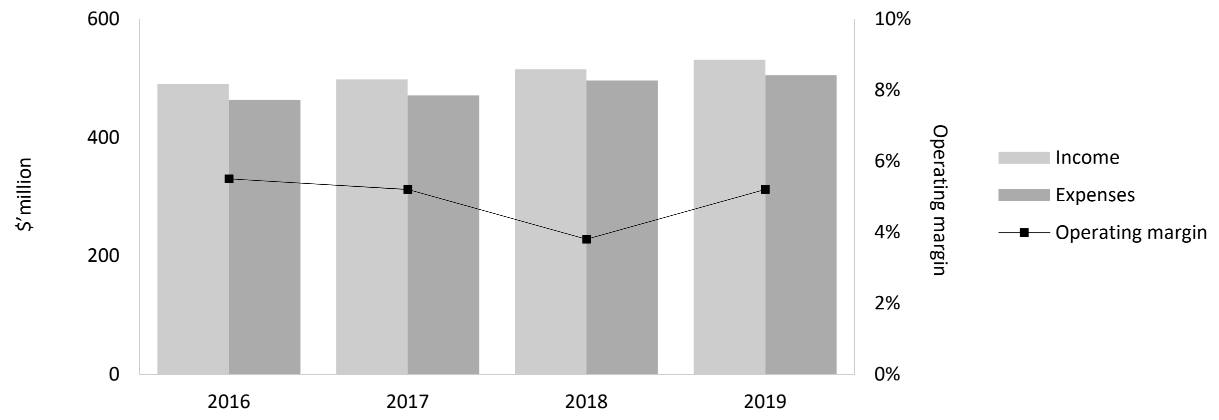
	2016 FTEs	2017 FTEs	2018 FTEs	2019 FTEs
Academic	844	827	880	832
Non-academic	1 114	1 091	1 115	1 173
Total FTEs	1 958	1 918	1 995	2 005
Percentage of academic staff	43%	43%	44%	42%

Source: Staff numbers, which are based on FTEs, were obtained from statistics published by Flinders and are unaudited.

Operating result

The operating surplus was $25 million, $6 million higher than 2018. This increase reflects the impact of the $16 million increase in revenue explained above being higher than the $9 million increase in expenditure in 2019.

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 2019.



Flinders' operating margin has largely remained steady for the past four years with a slight drop in 2018.

Statement of Financial Position

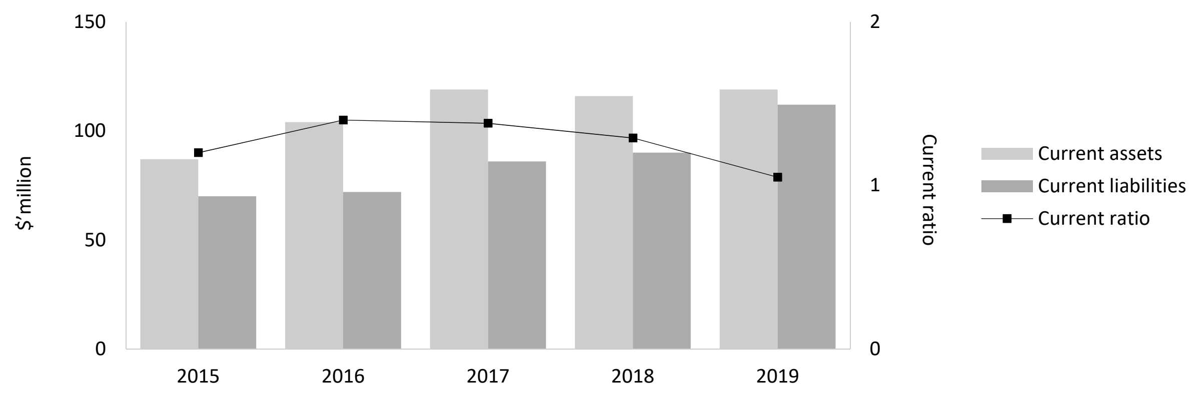
Flinders' consolidated net assets as at 31 December 2019 totalled $778 million ($759 million), an increase of $19 million.

Assets

Current assets

Flinders' cash and current financial assets (term deposits) decreased by $6 million to $86 million, primarily due to the purchase of property, plant and equipment.

The following chart shows Flinders' current assets and liabilities. The current ratio remains positive, with Flinders' current assets exceeding current liabilities by $6 million. The chart shows a slight decline in the current ratio between 2016 and 2018. This reflects significant self-funded investments in infrastructure projects and 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 64% of total assets. The carrying value of property, plant and equipment increased by $21 million to $628 million mainly due to:

- asset additions of $40 million
- recognising right-of-use assets of $9 million associated with new lease accounting requirements
- revaluation increases of $4 million
- offset by $33 million in depreciation charges.

Liabilities

Flinders' liabilities increased by $40 million to $206 million. The major items contributing to this were a $52 million increase in contract liabilities reflecting new revenue accounting requirements (associated with funding received for which outcomes will be delivered after 31 December 2019), partially offset by a $10 million decrease in trade and other payables.

Statement of Cash Flows

Cash flows from operating activities decreased by $9 million to $52 million. Cash outflows for the purchase of property, plant and equipment increased by $6 million, offset by an increase of $30 million in proceeds from the sale of financial assets. Total cash and cash equivalents increased by $26 million to $65 million.

Further commentary on operations

Impact of COVID-19

Flinders' financial statements for 2019 were finalised in May 2020. They include a note highlighting that COVID-19 has impacted it in 2020. This is particularly as a result of impacts on international students and their ability to travel, noting the extent of these impacts cannot be reliably quantified.

The impact of COVID-19 restrictions, including those on international arrivals, on Flinders' operations will depend on the types of restrictions in place and the length of time they remain.

University of Adelaide (Uni Adelaide)

Financial statistics		
	Net operating result:	$41 million
	Australian Government financial assistance:	$497 million
	Number of FTEs:	3 833
	Number of students (EFTSLs):	22 181

Significant events and transactions

- Since 31 December 2019, the worldwide COVID-19 outbreak has impacted Uni Adelaide's financial performance and financial position. The full extent of this impact is not known at this stage. A direct impact has been a reduction in fees from international students as a result of travel restrictions.
- Uni Adelaide launched a new strategic plan – Future Making – in early 2019.
- New revenue and lease accounting requirements meant Uni Adelaide recognised contract liabilities worth $150 million (reflecting funding already received with results still to be delivered) and lease liabilities and associated assets of around $50 million.

Financial report opinion

Unmodified

Controls opinion findings

- Employees working in prescribed positions without appropriate working with children clearances.
- Weaknesses in bona fide monitoring.
- Ineffective controls to monitor leave recorded.
- Asset management guidelines and strategy not finalised and asset management plans for critical assets not developed.

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

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 2019 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 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 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 Vice-Chancellor and President. The main findings and Uni Adelaide's responses are discussed below.

Controls opinion findings

Payroll

Uni Adelaide employed more than 3800 staff in 2019, with employee expenses of over $500 million – more than half of its total costs. Employee benefit liabilities exceed $90 million. Given the significance of these costs we review payroll processes and controls annually.

Employees working in prescribed positions without appropriate working with children clearances

Uni Adelaide procedures require any employee working in a prescribed position under child protection legislation to have a Department of Human Services working with children clearance as a condition of appointment, and while they work in that role. We found:

- three staff from one area had continued to work after their clearances had expired
- one staff member from a different area had worked in a prescribed position without any evidence of a working with children clearance.

Uni Adelaide responded that it would remind Faculties and Divisions of the importance of ensuring only employees with a valid and current working with children clearance are working in prescribed positions.

Weaknesses in bona fide reporting

Uni Adelaide made changes to its processes in 2019 which meant managers were no longer required to confirm the accuracy and reasonableness of the same level of employee payroll information as they had in the past. The revised approach to reviewing bona fide reports reduces the work effort for reviewers, but increases the possibility of inaccurate payments not being identified promptly.

Uni Adelaide's response indicated it considered there were compensating processes in place which reduced the risk, including pay-to-pay variation reporting introduced in October 2019.

Ineffective controls to monitor leave recorded

Uni Adelaide previously required reviewing staff to confirm whether employee leave taken, as recorded in the payroll system, reconciled with their own knowledge or internal records of when staff were absent on leave. Changes in 2019 meant that this confirmation was no longer sought from managers, with reliance placed on the online leave approval process alone.

Uni Adelaide responded that it considered its revised processes, including automatic scheduling of academic leave, were appropriate given the level of risk in the university environment.

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 not finalised and asset management plans for critical assets not developed

When we conducted our audit in late 2019, we noted that Uni Adelaide was still finalising key documents to support its asset management system. In particular, its asset management strategy and guideline were still being developed, with expected finalisation in 2020.

We also noted that Uni Adelaide had identified that individual asset management plans were required for a number of buildings but had not yet been completed, although some were drafted.

Without this documentation being completed, there is an increased risk that asset management activities will not be as effective at meeting service needs.

Uni Adelaide advised that its asset management strategy and guideline was intended to be finalised in 2020 and asset management plans for critical assets would be prioritised in 2020.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated

	2019 $'million	2018 $'million
Revenue		
Australian Government grants	375	385
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	122	119
HECS-HELP (student payments)	9	10
Fees and charges (course and non-course)	302	268
Other	183	151
Total revenue	991	933
Expenses		
Salaries and related expenses	544	517
Other expenses	406	420
Total expenses	950	937
Operating result	41	(4)
Other comprehensive income	144	6
Total comprehensive income	185	2
Net cash provided by (used in) operating activities	90	83
Net cash provided by (used in) investing activities	(69)	(71)
Net cash provided by (used in) financing activities	(21)	(10)
Assets		
Current assets	140	102
Non-current assets	2 122	1 886
Total assets	2 262	1 988
Liabilities		
Current liabilities	241	137
Non-current liabilities	321	228
Total liabilities	562	366
Total equity	1 700	1 622

Statement of Comprehensive Income

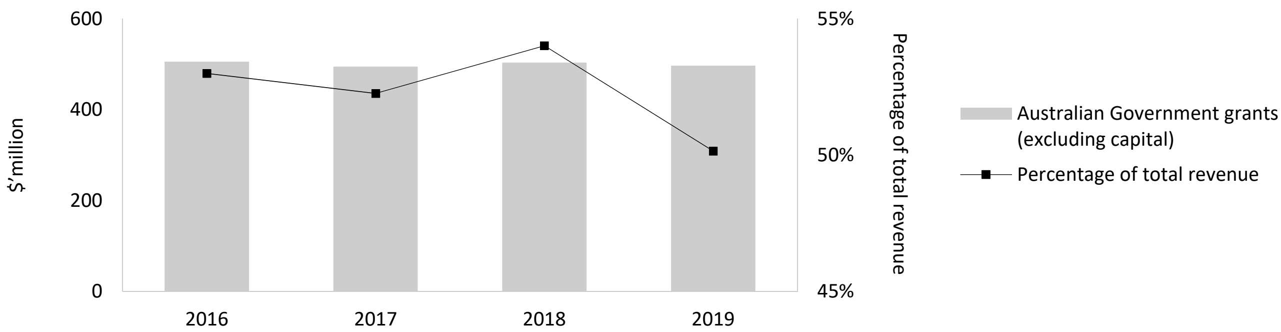
Revenue

2019 revenue totalled $991 million, a 6% increase from 2018. The increase mainly came from international student fees and charges and investment revenue.

Australian Government grants and payments

Total Australian Government financial assistance received by Uni Adelaide in 2019 decreased by $7 million to $497 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 a decrease in the proportion of non-capital Australian Government grants and payments to total income in 2019, down from 54% in 2018 to 50%. The relative decrease in Australian Government grants is a result of the improved performance of student fees and investment returns.



In 2019 Australian Government grants and payments included the following major items:

- $169 million in Commonwealth Grants Scheme funding for Commonwealth supported student places, which was consistent with 2018
- $122 million in Higher Education Loan Program (HELP) funding, which included funding for HECS-HELP. In 2019 HECS-HELP rose slightly to $109 million.

Fees and charges

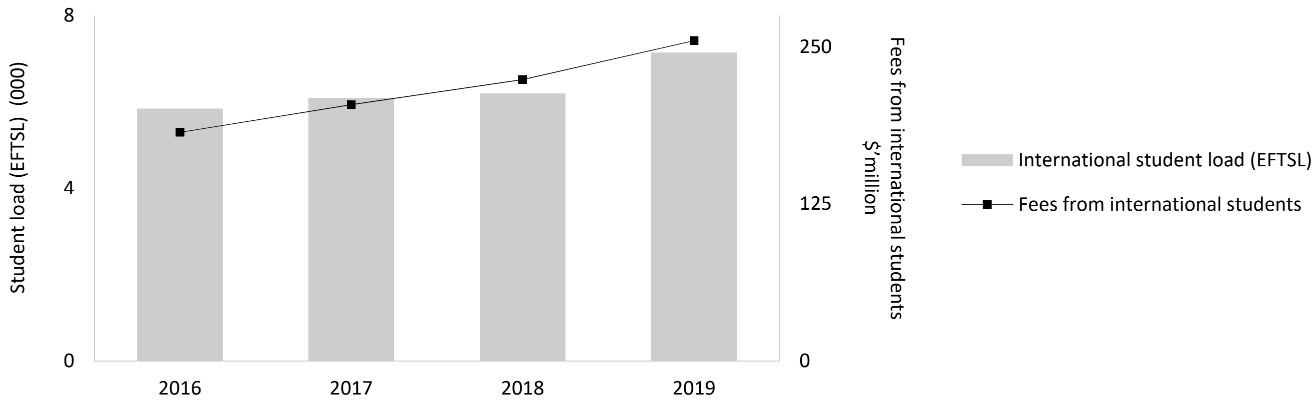
Fees and charges (course and non-course) increased by $34 million (13%) to $302 million in 2019. This increase is mainly attributable to a $30 million rise in revenue from international fee paying students.

The following table shows that the 2019 student load rose by 5% year-on-year. The composition of students has changed over the four years shown, with the proportion of international student numbers increasing by 5% over the four years.

	2016 Number	2017 Number	2018 Number	2019 Number
Domestic students	15 618	15 050	14 946	15 033
International students	5 843	6 091	6 196	7 148
Total students (EFTSL)	21 461	21 141	21 142	22 181

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 the marked upward trend in revenue received from international fee paying students over the last four years.



Source: Student numbers, which are based on EFTSL, were obtained from Uni Adelaide's annual report and are unaudited.

Fees from international students increased by $30 million (13%) to $254 million in 2019, due primarily to a 15% increase in total international fee paying student numbers and an average 4% fee increase.

Other revenue

Other revenue increased by $32 million (21%) to $183 million. The major item causing this change was a net increase of $34 million in unrealised gains on Uni Adelaide's Endowment Fund investments, mainly due to a strong recovery in world equity markets in 2019. This unrealised gain compares with an unrealised loss of $15 million in 2018.

Expenses

Expenses in 2019 totalled $950 million, an increase of $13 million (1.4%) compared to 2018. The increase mainly reflects a $27 million (5%) rise in employee related expenses, partially offset by a $15 million reduction in unrealised losses on Endowment Fund investments.

Employee related expenses

The $27 million increase in salaries and related expenses mainly reflects the impact of enterprise bargaining increases, increases in redundancy expenses ($5 million) and a rise in long service leave expenses due to changes in actuarial assumptions for the long service leave liability.

The following table shows total staff numbers, based on FTEs. In 2019 there was a small reduction in the total number of FTEs.

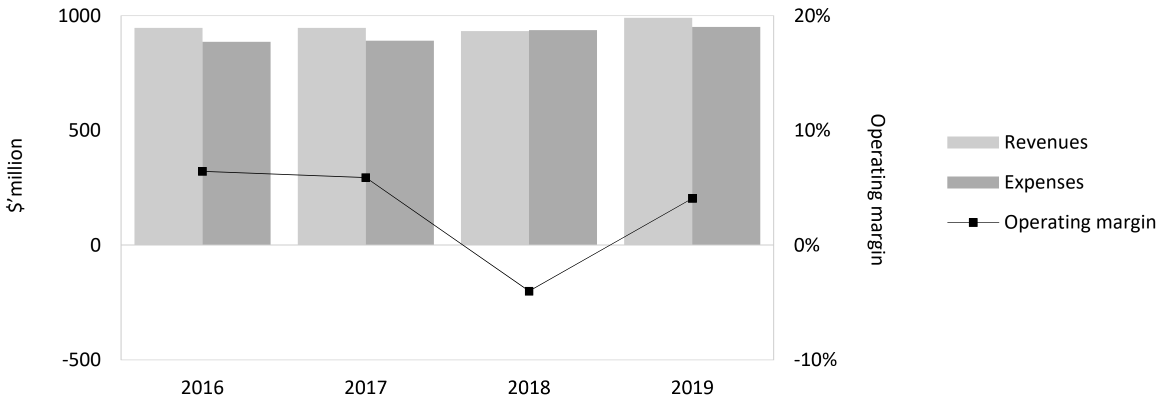
	2016 FTEs	2017 FTEs	2018 FTEs	2019 FTEs
Academic	1 729	1 732	1 710	1 717
Non-academic	2 155	2 141	2 170	2 116
Total FTEs	3 884	3 873	3 880	3 833
Percentage of academic staff	45%	45%	44%	45%

Source: Staff numbers, which are based on FTEs, were obtained from Uni Adelaide's annual report and are unaudited.

Operating result

The consolidated operating result for 2019 was a surplus of $41 million compared to a $4 million loss in 2018. The improved operating result is explained by the movements in revenues and expenses outlined 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 2019.



Uni Adelaide's operating margin was stable over 2016 and 2017 before declining sharply in 2018 due to unrealised negative returns on Endowment Fund investments. The decreased operating margin in 2018 highlights the effect fluctuations in financial investments can have on the operating result. In 2019 revenue increases, explained above, helped improve the operating margin.

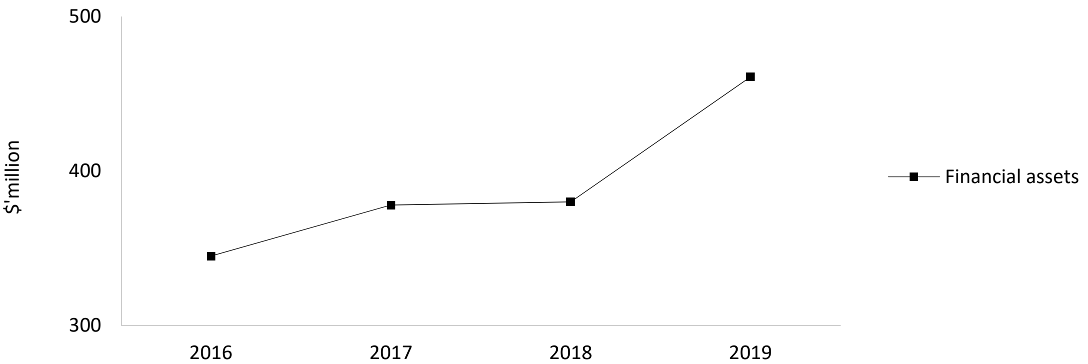
Statement of Financial Position

Uni Adelaide's consolidated net assets increased by $78 million to $1700 million as at 31 December 2019 ($1622 million).

Assets

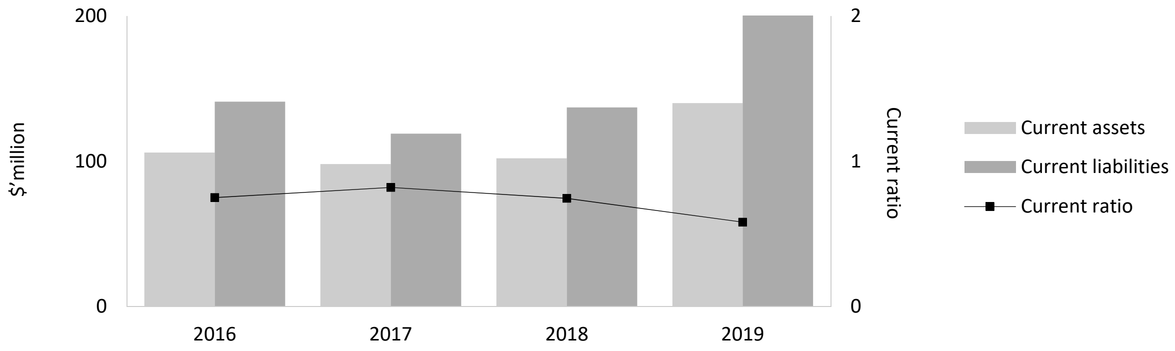
The value of Uni Adelaide's assets increased by $274 million (14%) in 2019. This was mainly the result of a $124 million increase in property values as a result of a revaluation of land and buildings, an $82 million increase in financial assets and the first-time recognition of $56 million in right-of-use assets associated with leases as a result of applying new lease accounting requirements for the first time.

Uni Adelaide has significant financial asset holdings. The chart below shows the value of cash and other financial assets for the last four years.



The investment returns on financial assets are subject to volatility in investment markets, with the effects of these movements included in the annual operating result.

As at 31 December 2019, current assets of $140 million were less than current liabilities of $241 million. The following chart shows Uni Adelaide's current assets, current liabilities and current ratio for the four years to 2019.



Uni Adelaide's current ratio deteriorated in 2019. The first-time recognition of current contract liabilities of $85 million – due to changes in revenue accounting requirements and increases in current borrowings of $30 million – were partially offset by a $38 million increase in current assets.

Liabilities

The value of Uni Adelaide's liabilities increased by $196 million (54%). This was mainly caused by the following changes in accounting rules:

- the recognition of contract liabilities of $150 million as result of the initial adoption of new revenue accounting requirements. These amounts reflect funding already received by Uni Adelaide which is associated with work that will be performed after 31 December 2019
- the recognition of $49 million in lease liabilities as result of the changed lease accounting requirements which now require most leases to be accounted for on the balance sheet. These leases are generally longstanding, for accommodation and other assets, and the expenses associated with them continue to be recorded in the Statement of Comprehensive Income.

Statement of Cash Flows

Total cash and cash equivalents at 31 December 2019 were $38 million ($38 million).

Net cash flows provided by operating activities increased by $7 million, mainly due to increases in fee paying student revenue of $39 million, combined with increases in Commonwealth and State Government financial assistance of $6 million and reductions of $3 million for student services cash outflows. These were mainly offset by increases in salary and related expenditure cash outflows of $14 million, and goods and services cash outflows of $23 million.

Net cash flows used in financing activities increased by $11 million due mainly to the repayment of lease liabilities.

Further commentary on operations

Impact of COVID-19

Uni Adelaide’s financial statements for 2019 were finalised in April 2020. They include a note highlighting that COVID-19 has impacted Uni Adelaide in 2020, particularly as a result of impacts on international students and movements in investment markets, noting that the extent of these impacts cannot be reliably quantified.

The impact of COVID-19 restrictions, including those on international arrivals, on Uni Adelaide’s operations will depend on the types of restrictions in place and the length of time they remain.

Changes in Uni Adelaide leadership

Uni Adelaide has seen significant change in its leadership in 2020:

- Uni Adelaide’s former Chancellor, the Honourable Kevin Scarce AC CSC RAN (Rtd), resigned in May 2020.
- Professor Mike Brooks commenced as the Acting Vice-Chancellor and President in May 2020.
- A new Chancellor, the Honourable Catherine Branson AC QC, was appointed as Uni Adelaide’s 17th Chancellor on 14 July 2020.
- The former Vice-Chancellor and President, Professor Peter Rathjen, resigned in July 2020.

University of South Australia (UniSA)

Financial statistics

Operating result before income tax:	$22 million
Australian Government financial assistance:	$416 million
Number of FTEs:	2 675
Number of students (EFTSLs):	24 406

Significant events and transactions

— Since 31 December 2019, the worldwide COVID-19 outbreak has impacted UniSA's financial performance and financial position. The full extent of this impact is not known at this stage. A direct impact has been a reduction in fees from international students as a result of travel restrictions.

— UniSA started to implement its Enterprise25 transformation strategy, with changes to simplify its structure. The appointment of new Executive Deans was announced in December 2019 and the program has continued in 2020.

— New revenue and lease accounting requirements meant UniSA recognised an overall increase in contract liabilities of $70 million (reflecting funding already received with results still to be delivered) and lease liabilities, offset by right-of-use assets, of $17 million.

Financial report opinion

Modified

The financial report opinion was modified in relation to the treatment of some 2018 comparative amounts.

UniSA applied the new requirements of Australian Accounting Standards AASB 15 *Revenue from contracts with customers* and AASB 1058 *Income of not-for-profit entities* from 1 January 2019, using a modified retrospective approach that did not require changes to the 2018 comparative information. As a result, the amounts reported for the period ending 31 December 2019 are materially correct.

UniSA's financial report includes $30.2 million in liabilities for unspent funding for the comparative year ended 31 December 2018 which, under the accounting requirements in place for that year, should have been recognised as income and not as liabilities as UniSA controlled those funds.

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 2019 included:

- corporate governance
- Commonwealth financial assistance
- consultancy and research income
- student fees and other revenue
- accounts receivable
- cash, investments and borrowings
- property, plant and equipment
- payroll
- expenditure
- accounts payable
- general ledger and financial accounting.

The audits of UniSA's controlled entities for the year ended 31 December 2019 were carried out by a private accounting firm.

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 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 2019 Independent Auditor's Report that outlines the qualification of UniSA's financial report.

> ***Qualified opinion***
>
> *In my opinion, except for the effects of the matter described in the 'Basis for qualified opinion' section of my report, the accompanying financial report has been prepared in accordance with the Treasurer's Instructions issued under the provisions of the* Public Finance and Audit Act 1987*, Division 60 of the* Australian Charities and Not-for-profits Commission Act 2012*, the* Higher Education Support Act 2003 *and Australian Accounting Standards.*
>
> ***Basis for qualified opinion***
>
> *For the year ended 31 December 2018 the University and its controlled entities recognised $30.2 million of unspent funding as a liability. These amounts were accounted for as income received in advance and included in 'Other Liabilities – Commonwealth and State Government Grants', 'Other Liabilities – Income in advance on incomplete projects' and 'Other Liabilities – Other' in the financial report.*
>
> *The funds represented contributions and met the recognition criteria of income in accordance with Accounting Standard AASB 1004* Contributions*. The University controlled these funds upon receipt and it was highly probable that any unspent funds would be spent in accordance with stipulated conditions. It is highly unlikely that unspent funds would need to be repaid to the granting bodies and as such funds should have been recognised as income at the time of receipt.*
>
> *As a result, the following has been misstated in the 2018 financial report:*
> - *Other liabilities was overstated by $30.2 million*
> - *Closing retained earnings was understated by $30.2 million.*
>
> *As stated in Note 1(f) of the financial report, new accounting standards AASB 15* Revenue from Contracts with Customers *and AASB 1058* Income of Not-for-Profit Entities *were adopted using a modified retrospective method of transition, with an initial application date of 1 January 2019. As a result, the amounts reported for the period ending 31 December 2019 are materially correct.*
>
> *Because the modified retrospective method of transition was adopted, comparative figures for 2018 have not been restated. Accordingly, our opinion on the current period's financial report remains modified.*

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 detailed below.

Controls opinion findings

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

Other audit findings

Grant funding

From 1 January 2019, UniSA adopted new accounting standards AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities* using a modified retrospective method of transition.

As mentioned in the 'Basis for qualified opinion' above, the amounts reported for the period ending 31 December 2019 are materially correct. However, because the modified retrospective method of transition was adopted, comparative figures for 2018 have not been restated.

Payroll

UniSA employed more than 2600 staff in 2019, with employee expenses of more than $400 million – more than 60% of its costs. Employee benefit liabilities are around $97 million. As a result, we review payroll processes each year.

No review of some casual employee timesheets

UniSA paid around $40 million in 2019 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. In 2019 UniSA was still implementing changes to address these recommendations and the changes were not complete at the time of our audit.

UniSA was introducing some process changes at the time of our audit. For 2019, before these changes were implemented, we continued to find that UniSA did not have an alternative control in place to compensate for not reviewing pre-filled timesheets. Our testing also identified two instances of overpayments to casual employees who used pre-filled timesheets during the year. Therefore, we continued to find that there was a risk that payments to casual employees could include payments for time not actually worked, as the payment is based on contracted hours, not actual time worked.

UniSA responded that it would amend the process so that pre-filled timesheets were reviewed by approvers before being submitted to payroll for processing.

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.

In 2018 we reported there was no review of APPIAN delegations to ensure they were consistent with the Vice Chancellor authorisations. Our follow-up in November 2019 found that work to address this weakness was still in progress.

We also identified instances that highlighted the risk that users in APPIAN may be able to approve casual contracts without holding the appropriate authorisation. We 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 a review of APPIAN user authorities to Vice Chancellor authorisations would be finalised by April 2020 and the review would be included in UniSA's continuous audit program 2020.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Income		
Australian Government grants	266	269
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	150	141
HECS-HELP (student payments)	10	10
Fees and charges	170	145
Other	90	93
Total income	686	658
Expenses		
Employee related expenses	416	397
Other expenses	248	241
Total expenses	664	638
Operating result before income tax	22	20
Net cash provided by (used in) operating activities	81	67
Net cash provided by (used in) investing activities	(33)	(73)

	2019 $'million	2018 $'million
Assets		
Current assets	301	259
Non-current assets	1 618	1 537
Total assets	1 919	1 796
Liabilities		
Current liabilities	227	190
Non-current liabilities	429	397
Total liabilities	656	587
Total equity	1 263	1 209

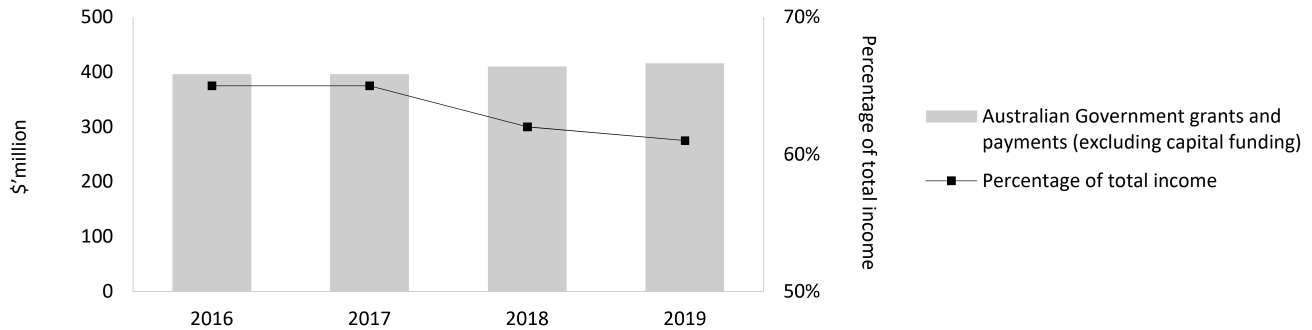
Statement of Comprehensive Income

Income

UniSA's total income increased by 4% in 2019.

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, although there was a 1% reduction in the percentage of total income in 2019, reflecting growth in other income sources.



Australian Government grants decreased by $3 million in 2019 to $266 million, mainly due to:

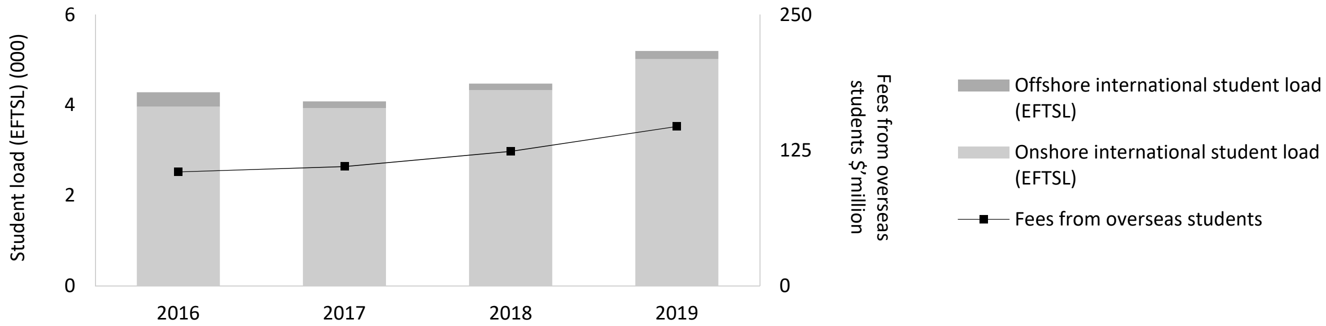
- a $1 million decrease in ARC Discovery Fellowship grants
- a $2 million decrease in other Commonwealth Government agency grants for other programs.

Fees and charges

Fees and charges increased by $25 million in 2019 to $170 million. This was mainly a result of a $23 million increase in fee-paying onshore overseas students in 2019.

The main component of fees and charges is fee-paying overseas students (87%), which represents 21% of total revenue.

The following chart shows that the fee-paying overseas student load increased by 16% in 2019. The $23 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 4% increase in student load (EFTSL) in 2018.

	2016 Number	2017 Number	2018 Number	2019 Number
Domestic students	17 984	18 061	18 500	19 208
Overseas students	4 284	4 081	4 476	5 198
Total students (EFTSL)	22 268	22 142	22 976	24 406

Source: Student numbers, which are based on EFTSL, were obtained from UniSA's annual reports and are unaudited.

Other revenue

Other revenue decreased by $3 million to $90 million in 2019 largely from:

- a $9 million decrease in investment revenue, reflecting a $9 million decrease in dividends
- a $2 million decrease in other revenue, reflecting a $5 million decrease in insurance proceeds, related to a building fire from 2016, offset by a $2 million increase in sundry income and a $1 million increase in course related excursion fees
- offset by a $7 million increase in contract research revenue, reflecting $5 million received for Australian industry projects and $2 million for international collaboration research.

Expenses

Total expenses increased by $26 million (4%) to $664 million in 2019.

The split between employee expenses (63%) and other expenses (37%) remained stable in 2019.

Employee expenses

UniSA's main expense is employee related expenses, which increased by $19 million (5%) to $416 million in 2019 resulting mainly from:

- enterprise agreement increases of $5 million
- costs for additional staff of $5 million
- increases in payments to casual employees of $3 million
- increases in long service leave expenses of $4 million
- increases in superannuation expenses of $1 million.

The following table shows the breakdown of total staff numbers between academic and non-academic staff, based on FTEs, since 2016. There was a small increase in overall staff numbers in 2019.

	2016 FTEs	2017 FTEs	2018 FTEs	2019 FTEs
Academic	1 061	1 122	1 131	1 143
Non-academic	1 431	1 473	1 511	1 532
Total FTEs	2 492	2 595	2 642	2 675
Percentage of academic staff	43%	43%	43%	43%

Source: Staff numbers, which are based on FTEs, were obtained from UniSA's annual report and are unaudited.

Other expenses

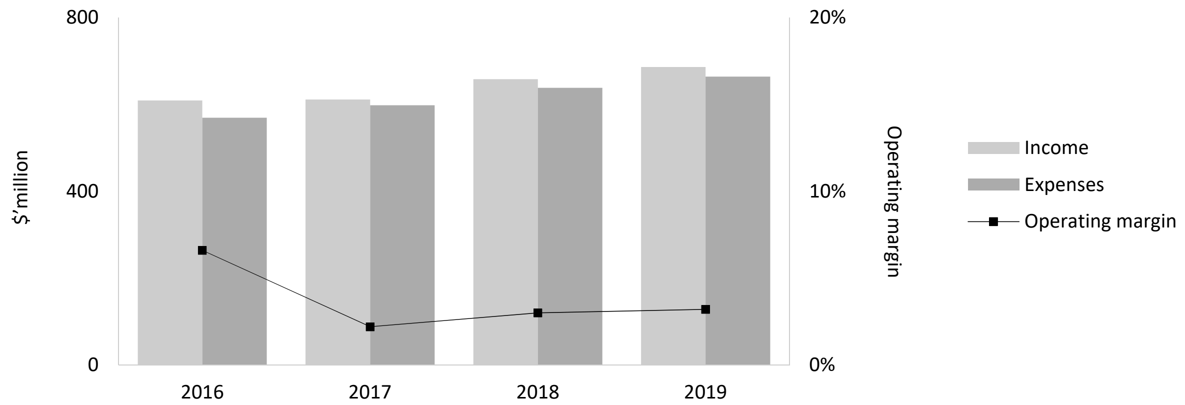
Other expenses increased by $7 million to $248 million in 2019. The main components of this change were:

- an increase of $4 million in depreciation and amortisation expenses, reflecting the impact of completed capital works projects in 2019 and the start of associated depreciation, and the recognition of depreciation for right-of-use assets resulting from implementing revised lease accounting requirements
- a $3 million increase in repairs and maintenance costs.

Operating result

The consolidated operating result before income tax for the year was a surplus of $22 million ($20 million). As mentioned in the analysis above, the increase is mainly due to an increase in total revenue of $28 million offset by an increase in total expenditure of $26 million.

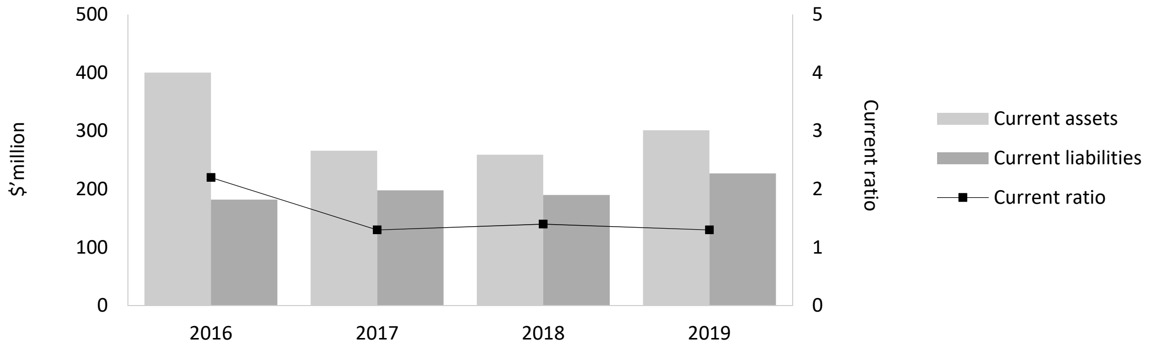
The following chart shows the movement in income, expenses and the operating margin (the operating result for the year divided by total income) for the last four years. The high operating margin in 2016 is a result of one-off receipts in that year. The operating margin increased marginally in 2019.



Statement of Financial Position

UniSA's net assets at 31 December 2019 were $1263 million ($1209 million).

The following chart shows that UniSA's current ratio has reduced since 2016 as a result of reduced cash holdings, reflecting spending on property, plant and equipment. As at 31 December 2019 the current ratio decreased marginally, with current assets exceeding current liabilities by $75 million.



Assets

Cash and cash equivalents

As at 31 December 2019 UniSA's cash and cash equivalents totalled $227 million compared to $182 million in 2018. The increase in cash holdings is largely due to increased cash inflows from student fees in 2019 and decreased payments for capital works as significant construction of major new buildings was completed in 2018.

Property, plant and equipment

The main component of UniSA's Statement of Financial Position is property, plant and equipment, representing 60% of total assets. The carrying value of property, plant and equipment increased by $44 million to $1149 million due mainly to:

- a gain on revaluation of land, buildings and infrastructure assets of $37 million
- recognition of $19 million for right-of-use assets as a result of revised lease accounting requirements
- additions of $31 million
- offset by depreciation charges of $43 million.

Capital program

While UniSA was not undertaking large infrastructure projects, it completed $21 million in capital projects and plant and equipment including:

- $14 million in projects at Mawson Lakes
- $5 million in projects at City West.

Liabilities

UniSA's liabilities increased by $69 million to $656 million in 2019. The significant components, mostly caused by changes in accounting rules, were:

- recognition of lease liabilities of $17 million as a result of revised lease accounting requirements. These lease liabilities mainly relate to longstanding arrangements, such as accommodation, with the associated expenses continuing to be recorded in the Statement of Comprehensive Income

- reclassification of unearned income amounts as contract liabilities and an increase in the amount recognised to a total of $70 million. This is a result of new revenue accounting requirements to recognise liabilities where money has been received for outcomes that will be delivered after 31 December 2019
- provisions for long service leave liabilities, which increased by $8 million to $67 million
- defined benefit superannuation obligations, which increased by $15 million to $426 million as a result of increased investment returns and a decrease in the discount rate used to calculate the liability.

Statement of Cash Flows

Net cash flows provided by operating activities increased by $14 million due mainly to increases in Australian Government grants received, receipts from student fees and other customers and consultancy and contract research, partly offset by increases in payments to suppliers and employees.

Net cash used in investing activities decreased by $40 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

Enterprise25

In July 2019, UniSA announced its Enterprise25 strategy which sets out its goals and the approach it will take to achieve them. This strategy will include an overhaul of its education program, including a simplified academic structure to direct resources into teaching, research and student support.

In the last quarter of 2019, UniSA released more detail of its new academic structure, timelines for transition, employment principles and processes. A recruitment process for new executive team positions also started, with the appointment of Executive Deans announced in December 2019. Further changes to finalise the revised approach will continue in 2020.

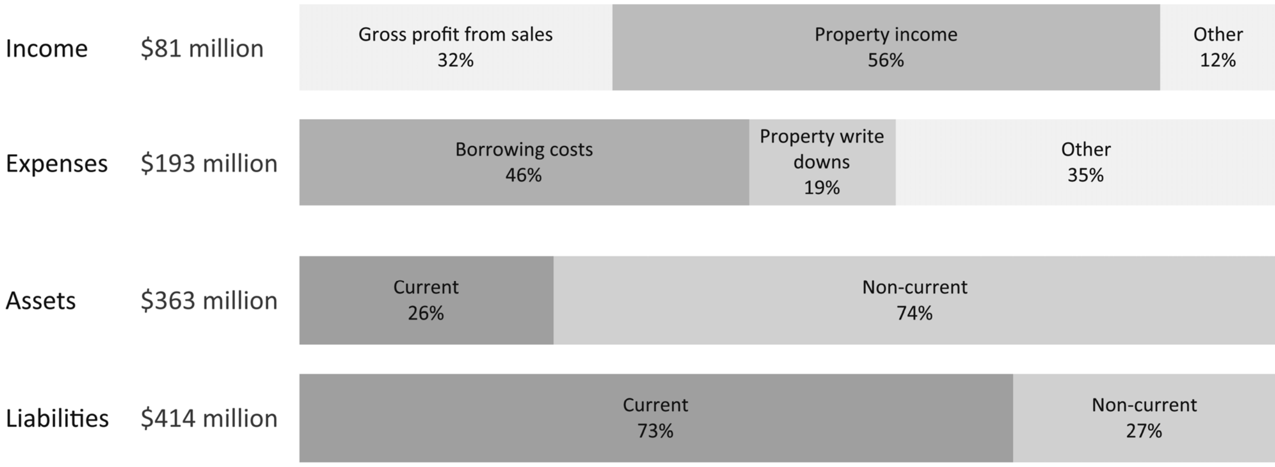
Impact of COVID-19

UniSA's financial statements for 2019 were finalised in May 2020. They include a note highlighting that COVID-19 has impacted UniSA in 2020, particularly as a result of impacts on international students and movements in investment markets, noting that the extent of these impacts cannot be reliably quantified.

The impact of COVID-19 restrictions, including those on international arrivals, on UniSA's operations in 2020 will depend on the types of restrictions in place and the length of time they remain.

Urban Renewal Authority (URA)

Financial statistics



129
Total employees

$127 million
SA Government equity contributions

$112 million
Loss before income tax equivalent

Significant events and transactions

— A portfolio of TAFE SA properties was sold to TAFE SA for their carrying amount of $601 million. These properties were initially acquired in 2017, with the URA borrowing $400 million and receiving $219 million in equity contributions from the Treasurer to fund the purchase. While proceeds from the sale were used to repay the debt acquired, the URA was not required to repay the equity contributions.

— Borrowings reduced by $577 million, largely following the repayment of debt held for the initial acquisition of the TAFE SA properties. The URA was required to pay additional borrowing costs of $69 million because of the early repayment of this debt. These additional costs were incurred to ensure that the Treasurer was compensated for the market value of the debt. The SA Government provided an equity contribution of $60 million to ensure the URA's approved gearing ratio was maintained. Without this contribution the URA would have needed to borrow further.

— The value of investment property was written down by $27 million following revised leasing arrangements for areas of the Adelaide Railway Station occupied by the Department for Planning, Transport and Infrastructure (DPTI). The areas are now leased long-term to DPTI for a peppercorn rent.

	— The provision for future development expenditure decreased by $74 million, mainly reflecting $81 million of expenditure on the Lot Fourteen project for the year. In 2018-19 the URA recognised the provision for the first time, recognising its best estimate of its obligations for the development. A further $8 million was added to the provision to reflect a decrease in the estimated net realisable value of the project. — The COVID-19 pandemic has not had a significant impact on URA's financial performance (see comments under the heading 'Interpretation and analysis of the financial report' below for key impacts). However, the longer term impacts of the pandemic on the Adelaide property market are uncertain. The URA has obtained independent external valuations and/or impairment tests for its property portfolio as at 30 June 2020, with limited evidence of detrimental impact as at that date.
Financial report opinion	**Unmodified**
Controls opinion findings	The URA's strategic plan needs revision.
Other audit findings	The Major Projects Steering Group did not perform its annual strategic review of the land bank for 2019-20.

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 Treasurer's Instruction (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 2019-20 included:

- corporate governance
- project, procurement and contract management
- land sales
- property income
- expenditure
- payroll
- 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

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

Controls opinion findings

The URA's strategic plan needs revision

The URA's strategic plan needs to be revised. Its 2015-2017 strategic plan has expired and included mandated deliverables for the URA, the South Australian Housing Trust (SAHT) and the Riverbank Authority. Since this plan was approved, the Riverbank Authority was abolished and the URA has different responsibilities in support of the SAHT.

The URA is developing a new 2020-23 strategic plan to support its future business that will take into account its revised mandate. For further details refer to 'Further commentary on operations' below.

Other audit findings

Major Projects Steering Group did not perform its annual strategic review of the land bank for 2019-20

The URA's land inventory comprises land held for sale (also known as the land bank) and development projects involving significant development costs over many years. The value of the land bank, which is measured at the lower of its cost and net realisable value, is recognised at $179 million. The fair value of this land, however, is much greater and the land represents a significant and strategic state asset. It is appropriate that the URA regularly reviews its long-term strategies for the use of this land.

The URA's Major Projects Steering Group (PSG), which is responsible for the high-level governance and strategic direction of the URA's programs and projects, did not perform its annual review of the land bank for 2019-20 to determine whether the current strategy to acquire, sell, hold or develop these assets remains appropriate given current market conditions. The previous Chief Executive expanded the role of the PSG in 2018-19 to include responsibility for reviewing the strategy for the land bank. This additional responsibility had not been included in the PSG's terms of reference.

The URA advised the following:

- The strategy for the land bank is reviewed annually as part of the budget and business planning process. This involves a review of market conditions, sales profiles and development requirements for all land holdings. The URA Board endorses the resulting five-year land sales program and associated budget.
- It will consider including the responsibility for performing an annual strategic review of the land bank in the PSG's terms of reference.

Interpretation and analysis of the financial report

Highlights of the financial report*	2020 $'million	2019 $'million
Income		
Sales	63	67
Cost of sales	(36)	(41)
Revenues from SA Government	6	8
Property income	45	81
Other revenues	3	6
Total income	81	121

	2020 $'million	2019 $'million
Expenses		
Employee benefits expenses	15	16
Operating expenditure, depreciation and amortisation, other expenses	53	51
Borrowing costs	89	41
Loss resulting from changes in value of non-current assets	37	220
Total expense	193	327
Profit (Loss) before income tax equivalent	(112)	(206)
Total comprehensive result	(112)	(206)
Net cash provided by (used in) operating activities	(220)	(47)
Net cash provided by (used in) investing activities	662	2
Net cash provided by (used in) financing activities	(451)	23
Assets		
Current assets	94	99
Non-current assets	269	897
Total assets	363	995
Liabilities		
Current liabilities	301	400
Non-current liabilities	113	660
Total liabilities	414	1 059
Total equity	(51)	(64)

* Table may not add due to rounding.

Statement of Comprehensive Income

The Treasurer has classified the URA as a for-profit entity, but it has made a profit once in the last five years.

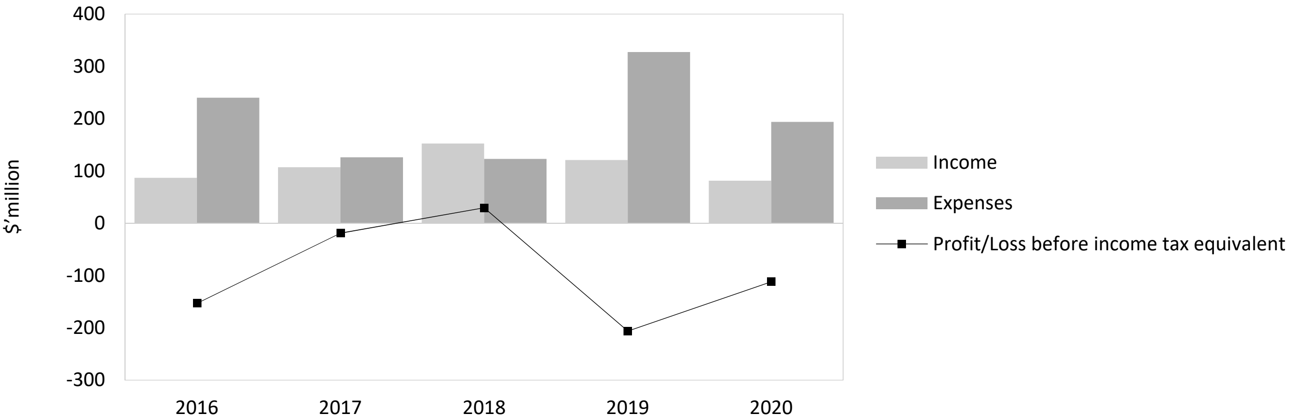
The URA's capacity to generate profits is significantly influenced by government policy. Over the past five years its financial performance has been driven by movements in the value of its major development projects (inventory) and by other policy decisions.

The initial approval and ongoing business strategies for its development projects are influenced by government policy and the need to pursue non-commercial objectives. While the URA receives funding to support the non-commercial elements of its development projects, in 2018-19 losses before income tax equivalent were impacted by the Treasurer's decision to change the classification of this funding. This decision and its impact is discussed further under 'Statement of Financial Position' below.

The URA's loss before income tax equivalent for 2019-20 was driven by the financial impact of selling TAFE SA properties to TAFE SA – these properties were initially purchased in 2016 – and the SA Government's decision to lease the Adelaide Railway Station to the Minister for Transport and Infrastructure at no cost. Both transactions are discussed further 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 2020.



The 2017-18 profit before income tax equivalent was due mainly to a $35 million increase in rental income largely resulting from the 2016-17 purchase of TAFE SA properties from the former Department of State Development for $619 million (including $24 million stamp duty). The purchase was funded from borrowings of $400 million and SA Government equity contributions of $219 million.

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 2015-16, 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 2019-20 loss before income tax equivalent of $112 million ($206 million) was due mainly to the following:

- a $34 million decrease in rental income from a reduced portfolio of investment properties. In November 2019 the URA sold its portfolio of TAFE SA properties to TAFE SA for their carrying amount of $601 million
- additional borrowing costs of $69 million to compensate the Treasurer for the market value of debt that was repaid early. This debt was incurred to finance the initial purchase of TAFE SA properties in 2016-17
- a $27 million write down in investment property values following revised leasing arrangements for areas of the Adelaide Railway Station occupied by DPTI on behalf of the Minister for Infrastructure and Transport. The areas are now leased long-term to DPTI for a peppercorn rent, which reduces its value to the URA as an investment. Ownership of the Adelaide Station Environs Redevelopment (ASER) site – which includes the Adelaide Railway Station – was transferred to the URA from the Minister in 2013. At that time the SA Government intended to create a separate allotment for the ASER rail area and transfer ownership of this allotment to the Minister. Attempts to create a separate allotment have been unsuccessful because of the logistical and regulatory complexity of the site.

The SA Government's decision for the URA to lease the site to the Minister at no cost achieves the broad intent of the 2013 decision.

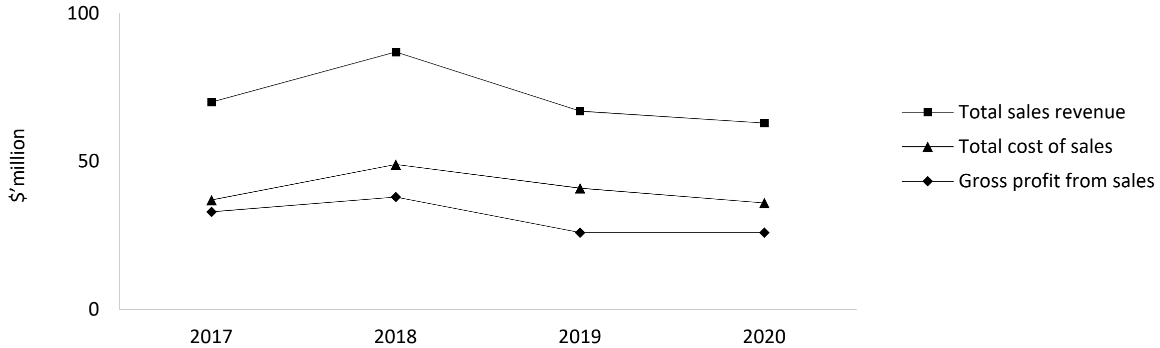
The following is a more detailed analysis of income and expenses that resulted in the 2019-20 loss.

Income

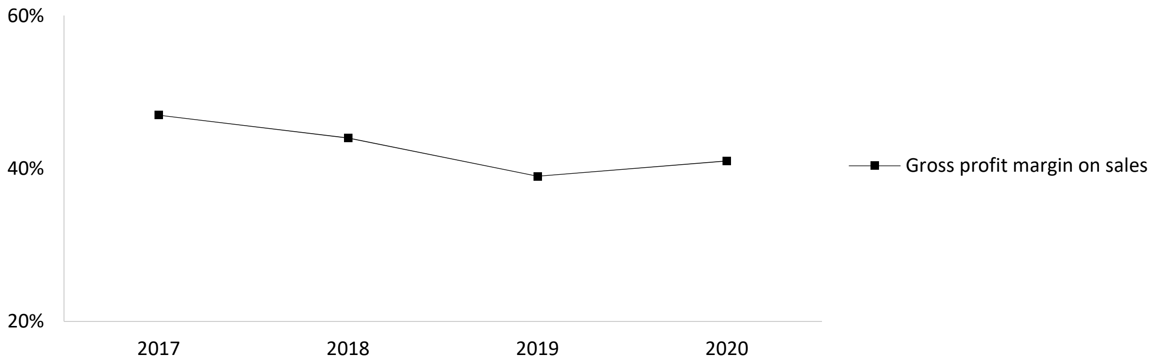
Total income decreased by $40 million to $81 million due mainly to the $34 million decrease in rental income following the sale of property back to TAFE SA. In 2019-20 the URA also provided rent relief of $1.5 million to private sector tenants of its properties who were impacted by COVID-19 restrictions. This rent relief was funded from the SA Government's Business and Jobs Support Fund.

The URA's gross profit from sales remained at $26 million. Sales decreased by $4 million to $63 million while cost of sales decreased by $5 million to $36 million. The gross profit of $26 million was driven by the sale of land held for sale including the former Caroma site, commercial property at Technology Park, the former Department for Education site at Aldinga and residential sites at Lightsview. The gross profit on these transactions totalled $19 million.

The following chart shows total land sales and cost of sales for the four years to 2020.



The gross profit margin on sales is an important driver of the URA's profitability and is influenced by market prices for land and the costs of acquisition and development. The following chart shows that the gross profit margin on sales for the four years to 2020 has remained relatively constant.



Expenses

Expenses were $193 million ($327 million). The decrease in expenses of $134 million reflected the following key movements:

- a $205 million improvement due to lower expenses caused by net losses from changes in the value of inventories. In 2019-20 inventories were revalued downwards by $9 million, compared to the $213 million loss experienced in the prior year
- a $22 million increase in expenses caused by net losses from changes in the value of investment property. In 2019-20 investment property was revalued downwards by $28 million, compared to the $6 million loss experienced in the prior year
- borrowing costs increasing by $49 million. In 2019-20 the URA sold its portfolio of TAFE SA properties to TAFE SA and repaid debt incurred to finance the initial purchase of these assets in 2016-17. The URA was required to pay additional borrowing costs of $69 million to compensate the Treasurer for the market value of debt that was repaid early. These additional charges were offset by the decrease in borrowing costs resulting from the $577 million reduction in debt.

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 2019-20.

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 from DPTI to the URA effective 30 June 2013. The Minister approved an ASER dividend payment of $1.7 million for 2019-20.

Statement of Financial Position

Total liabilities of $414 million, mainly comprising South Australian Government Financing Authority (SAFA) borrowings of $326 million, exceed total assets of $363 million. Total assets include investment properties and inventories worth $314 million.

The URA's net liability position of $51 million ($64 million) represents a $13 million improvement in its financial position and is due mainly to an equity contribution of $127 million from the SA Government. This improvement in net liabilities was partially offset by the $112 million loss before income tax equivalent.

The major movements of the Statement of Financial Position are discussed below.

Assets

Total assets were $363 million ($995 million). The $632 million decrease in total assets is mainly attributable to decreases in investment properties of $629 million and inventories of $11 million.

Investment properties

Investment properties decreased by $629 million to $78 million due mainly to:

- the sale of TAFE SA properties to TAFE SA in November 2019 for their carrying amount of $601 million (excluding GST)

- a $27 million write down in investment property values following revised leasing arrangements for areas of the Adelaide Railway Station occupied by DPTI. The site is now leased long-term to DPTI for a peppercorn rent, which reduces its value to the URA as an investment.

Inventories

The URA's primary activities involve holding and developing land inventory for sale. The value of inventory at 30 June 2020 was $237 million ($247 million). The $10 million decrease in inventory reflected:

- inventory additions comprising:
  - $29 million ($109 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
  - $5 million ($12 million) reversal of past write-downs of inventory to net realisable value
- inventory reductions mainly comprising:
  - $36 million ($41 million) of inventory sold and included in cost of sales
  - $6 million ($126 million) of write-downs of inventory to net realisable value.

The URA also incurred $81 million of capital expenditure on the Lot Fourteen project which was recorded against the provision for future development expenditure and therefore not recognised as an increase in inventory.

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 the intended use of the inventories. 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 2020 the value of land in this class was $179 million ($196 million). The reduction was due mainly to land sales, particularly the former Caroma site and commercial property at 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 CSO funding was provided as a grant. While CSO grants for capital works have 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 2020 the development projects were valued at $57 million ($52 million).

The following table shows the inventory and investment property write-downs and reversals that have occurred over the last five years.

Inventory	2016 $'million	2017 $'million	Write-downs (reversals) 2018 $'million	2019 $'million	2020 $'million	Carrying amount 30.06.20 $'million	Provision amount 30.06.20 $'million	Land area 30.06.19 Hectares	Land area 30.06.20 Hectares
Development projects:									
Tonsley	54	(2)	(1)	40	1	27	-	43	41
Playford Alive	52	-	-	(8)	(3)	14	-	309	306
Bowden	17	(3)	(1)	21	2	8	-	10	10
Woodville West	5	0.5	(5)	(1)	(2)	8	-	3	2
Lot Fourteen	-	-	-	63	-	-	27	6	6
Land held for sale	9	7	3	(1)	-	179	-	2 932	2 893
Total inventory	137	2	(4)	114	1	237	-	3 303	3 257
Investment property	6	18	1	6	28	78	-	231	114
Total inventory and investment property	43	21	(2)	120	29	314	n/a	3 534	3 372
Lot Fourteen provision for future development expenditure	-	-	-	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. After the $52 million write-down in 2016, the project, which currently has a land area of 306 hectares, has a carrying amount of $14 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 sale of investment properties to TAFE SA, which resulted in the investment property land area reducing from 231 hectares to 114 hectares.

In 2015-16, the URA wrote its inventory down by $137 million. The significant write-down related mostly to changes in its cash flow models used to determine the net realisable value of development projects. Importantly, these changes included reductions in revenue forecasts that occurred when the URA reassessed the likely outcomes of its business strategies for these projects. The revised revenue forecasts took into account the prevailing challenging market conditions and the extent to which the conditions were expected to continue into the future. In response, the URA modified its business strategies for some development projects to lower future costs. However, it considered that its revised strategies would be insufficient to fully recover the past costs of some projects, and subsequently wrote them down.

In 2016-17 and 2017-18, the URA processed inventory write-downs and reversed some prior write-downs based on changed business strategies, updated estimates of sales and capital expenditures and the retiming of project cash flows. The net impact over the two years was a $2 million net reversal of past write-downs.

In 2018-19, the URA wrote its inventory down by a net $114 million, reflecting:

- a \$95 million inventory write-down resulting 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 write downs of \$40 million for Lot Fourteen, \$25 million for Bowden and \$30 million for Tonsley
- \$19 million of inventory write downs due to revised sales and capital expenditure estimates and revised project strategies mainly due to write downs of \$24 million for Lot Fourteen and \$10 million for Tonsley, both partially offset by the reversal of past write downs for Playford of \$8 million and Bowden of \$4 million.

The Treasurer's decision to provide SA Government capital project funding for development projects as an equity contribution 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 represents 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.

In 2019-20, the URA processed inventory write-downs and reversed some previous write-downs based on changed business strategies, updated estimates of sales and capital expenditures and the retiming of project cash flows. The net impact was a write-down of \$1 million.

Inventory is valued at 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 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 \$237 million (\$247 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 \$179 million) has an estimated fair value of \$378 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 estimates made.

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 decreased by $645 million to $414 million and reflected:

- liability decreases mainly comprising:
  - a $577 million reduction in SAFA borrowings. Debt repayments were mostly funded from the sale of TAFE SA properties. Borrowings of $326 million ($904 million) comprise 79% (85%) 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
  - a $74 million net decrease in the provision for future development expenditure, with the URA incurring $81 million of capital expenditure on the Lot Fourteen project. In 2018-19 the URA created a $100 million provision for future development expenditure, reflecting its best estimate of its obligations for the Lot Fourteen development as detailed above. A further $8 million was added to the provision to reflect a decrease in the estimated net realisable value of the project
  - an $8 million decrease in payables, largely associated with the Lot Fourteen and Bowden projects
- liability increases mainly comprising:
  - lease liabilities of $16 million 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 declined by $10 million to $11 million following large movements in cash flows from operating and financing activities.

Net cash used in operating activities increased by $174 million to $220 million largely reflecting:

- a $35 million decrease in receipts from tenants following the sale of TAFE SA properties
- receipts from SA Government decreasing by $20 million driven by the SA Government's decision to replace CSO grant funding with equity contributions – equity contributions are recognised as a financing activity for reporting purposes
- an increase in interest payments of $51 million following the $69 million market rate adjustment (classified as a borrowing cost) resulting from novation of fixed rate debt assumed by the Treasurer as part of the arrangements for the sale of TAFE SA properties
- payments to the Australian Taxation Office for GST increasing by $54 million. Proceeds of $661 million received from the TAFE SA properties sale included GST of $60 million.

Net cash provided by investing activities increased to $662 million due to proceeds of $661 million received from the sale of TAFE SA properties.

Net cash used in financing activities was $451 million, a $475 million turnaround from the net cash provided by financing activities of $23 million in 2018-19. The $475 million turnaround reflected net repayment of borrowings of $577 million, partially offset by a $102 million increase in equity contributions from the SA Government.

Further commentary on operations

Revision of the URA's strategic plan

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. The URA's 2015-2020 strategic plan has expired.

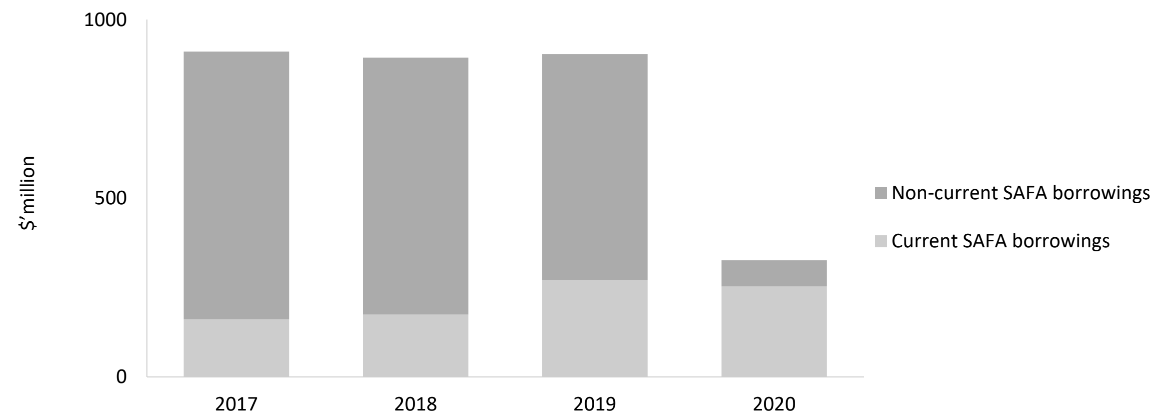
The URA advised that its draft 2020-23 Strategic Plan, prepared in consultation with stakeholders including the Minister and the Premier, will be considered by the URA Board in early 2020-21.

Borrowings, equity contributions and gearing

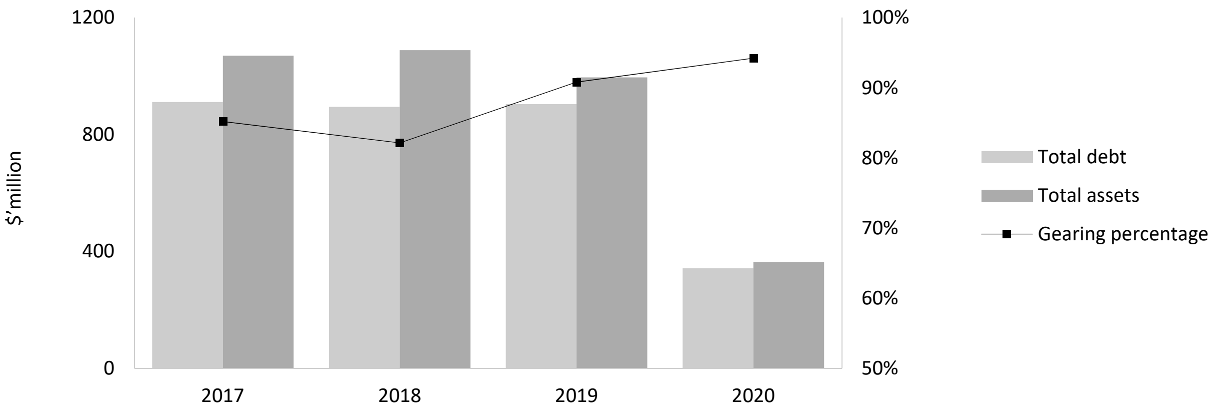
The URA's borrowings from SAFA at 30 June 2020 decreased by $577 million to $326 million.

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. In addition to these borrowings, 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 chart below shows the impact of the 2020 borrowing repayments.



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 whole debt is guaranteed by the SA Government. Gearing as at 30 June 2020 was 94.2% (90.8%). 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 and the Minister also prepared a Performance Statement for the URA for 2019-20 that sets gearing targets of 84.1% for 2019-20, 70.6% for 2020-21 and 66.9% for the following two years.

For 2019-20 the SA Government provided equity contributions of $127 million ($25 million), which improved the gearing ratio as at 30 June 2020.

The URA recognises its inventory at the lower of its net realisable value and carrying amount. If they were all measured at their net realisable value, the URA's financial position and gearing would be significantly improved.

Debt management, financial sustainability and sale of TAFE SA properties

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 2016, the former Treasurer approved the core debt facility being increased by $390 million to $930 million with the continuation of a $50 million overdraft facility. The additional borrowings, together with equity contributions from the SA Government of $219 million, were used to buy TAFE SA properties in 2016-17. The former Treasurer anticipated that these properties would provide a longer term commercial revenue stream for the URA and enable the gearing ratio to remain at prudent levels.

In June 2018 the current Treasurer increased the URA's core debt facility by $194 million to $1124 million for 2018-19 and 2019-20 to accommodate investment by the URA in the Lot Fourteen redevelopment.

The URA sold its TAFE SA properties to TAFE SA in November 2019 for $601 million and used some of the proceeds to repay borrowings. The return of the properties to TAFE SA reflected the SA Government's intent to provide TAFE SA with greater control over the use of these properties, ensuring it is financially structured to operate in a contestable training market.

In June 2020 the Treasurer approved the URA's core debt facility being reduced by $664 million to $460 million for 2020-21 with the continuation of a $50 million over draft facility.

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 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 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 estimates, as at June 2020, that it will complete its component of the project by 2027-28 at an estimated cost of $433 million.

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 capital expenditure was $81 million ($72 million) in 2019-20 while CSO funding received from the SA Government to fund the operating costs of managing the project was $3 million ($6 million). The capital expenditure of $81 million was recorded against a $100 million provision for future development expenditure created in 2018-19. A further $8 million was added to the provision in 2019-20 due to a decrease in the estimated net realisable value of the project. Once the provision of $27 million is exhausted the capital expenditures will be recognised as an increase in the value of the project.

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 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 2025-26 with sales and other costs continuing beyond this time.

Playford Alive inventory is valued at $14 million ($7 million) after reversing $3 million of previous write-downs due mainly to lower future land tax costs as a result of reductions in land tax rates. In 2016 the inventory was written down by $52 million. Income from inventory sales was $6 million ($11 million) while capital expenditure was $7 million ($4 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 project will be completed in 2026-27 with capital expenditure ending in 2024-25.

Tonsley Park inventory is valued at $27 million ($25 million) after a $1 million write-down due to reduced expected sales values. Income from inventory sales was $2 million ($6 million) while capital expenditure was $8 million ($10 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 project is expected to be completed in 2021-22 with capital expenditure ending in 2020-21.

Woodville West inventory is valued at $8 million ($7 million) after reversing $2 million of past write-downs due to improved sales forecasts. Income from inventory sales was $4 million ($9 million) while capital expenditure was $3 million ($2 million).

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 project is expected to be completed in 2026-27 with capital expenditure ending in 2025-26.

Bowden inventory is valued at $8 million ($9 million) after a $2 million write-down due to the retiming of sales to the later years of the project to reflect the challenging market conditions for the project. Income from inventory sales was $3 million ($9 million) while capital expenditure was $4 million ($14 million).