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Government
of South Australia

Report

of the

Auditor-General

Annual Report

for the

year ended 30 June 2016

Tabled in the House of Assembly and ordered to be published, 18 October 2016

Second Session, Fifty-Third Parliament

Part B: Agency audit reports

By authority: P. McMahon, Government Printer, South Australia

2016

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Part B – Agency audit reports

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Agency audit reports

Introduction

Part B: 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 statement and financial controls opinions are 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 relevant for assessing an agency's financial performance and significant financial transactions of agencies.

Agencies not included in this Report

Section 36(2) of the *Public Finance and Audit Act 1987* provides the Auditor-General with a discretionary power to exclude agencies from this Report.

The decision to exclude an agency from this Report in based on many factors including:

- the materiality of financial operations
- their significance to the operations and services of the State Government
- the materiality of any impact on the public finances
- the inclusion of a parent entity's financial report and any consolidation requirements in this Report
- the timeliness of information
- the materiality of issues arising from the audit
- 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 of this Report.

Modified Independent Auditor's Reports

Expressing an opinion on an organisation's financial report by an independent professional auditor adds credibility to that financial report 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 accordance with professional requirements and standards. The opinion I give is usually unmodified but where, 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. The reason is also explained in the commentary on each of those agencies in this Report.

Modified opinions were expressed on the financial reports of the following agencies included in this Report:

- The Legislature – Joint Parliamentary Service
- University of South Australia.

Without modifying my opinion on the financial reports of the Return to Work Corporation of South Australia and the Lifetime Support Authority, I drew attention to the inherent uncertainty in certain liabilities reported for those entities at 30 June 2016. I also drew attention to a land error correction in the administered financial statements for the Department of Environment, Water and Natural Resources.

The Independent Auditor's Reports for each agency included in Part B of this Report are presented with their financial report in the Appendix to the Annual Report.

Assessment of controls

Section 36(1)(a)(iii) of the *Public Finance and Audit Act 1987* requires me to advise Parliament whether, in my opinion, the controls exercised by the Treasurer and by public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities are sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law.

A controls opinion has been expressed for each public authority included in Part B of this Report. Where I have issued a modified controls opinion, the opinion and my reason(s) for issuing a modified opinion have been included in this Report.

Audit of the Auditor-General's Department

The *Public Finance and Audit Act 1987* requires the accounts of the Auditor-General's Department to be audited by an auditor appointed by the Governor. The audit for the financial year ended 30 June 2016 was conducted by Nexia Edwards Marshall, Chartered Accountants, who issued an unmodified Independent Auditor's Report on the Department's financial report and an unmodified controls opinion.

Adelaide Festival Centre Trust
(AFCT)

Financial statistics	Net cost of providing services:	$18 million
	Revenues from SA Government:	$17 million
	Revenues from fees and charges:	$26 million
	Net assets:	$10 million
	Number of FTEs:	342 (including casuals)
	Ticketed attendances:	505 072
	Total attendances:	1 066 935
Significant events and transactions	The SA Government announced a $90 million redevelopment of the Adelaide Festival Centre and Plaza as part of a major redevelopment of the Riverbank precinct.	
Financial statement opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

The AFCT is a body corporate established under the *Adelaide Festival Centre Trust Act 1971*. The AFCT 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 the Adelaide Festival Centre and Her Majesty's Theatre, both leased from ArtsSA. Further information on the AFCT's objectives is provided in note 1 of the financial report.

The AFCT also operates the BASS ticketing system to sell tickets primarily for artistic performances held at the Adelaide Festival Centre and Her Majesty's Theatre.

Scope of the audit

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

During 2015-16 areas of audit attention included:

- revenues from theatre services, box office, car park and catering
- construction and sale of theatre sets
- BASS ticketing system
- salaries and wages
- procurement and expenditure on supplies and services
- inventory
- fixed assets.

Audit findings and comments

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. The main matters related to improving policies to ensure the AFCT's functions are performed in the most efficient and effective manner. We recommended that:

- delegations over journals be reviewed at least annually
- the contracts register be updated to include all contracts
- the revenue policy be updated to clarify requirements regarding price variations.

The AFCT responded that the matters raised will be addressed.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Staff benefits expenses	19	18
Other expenses	25	25
Total expenses	44	43
Income		
User charges and interest	26	26
Net cost of providing services	18	17
Revenues from SA Government	17	18
Net result	(1)	1
Net cash provided by (used in) operating activities	2	-
Assets		
Current assets	17	16
Non-current assets	12	11
Total assets	29	27

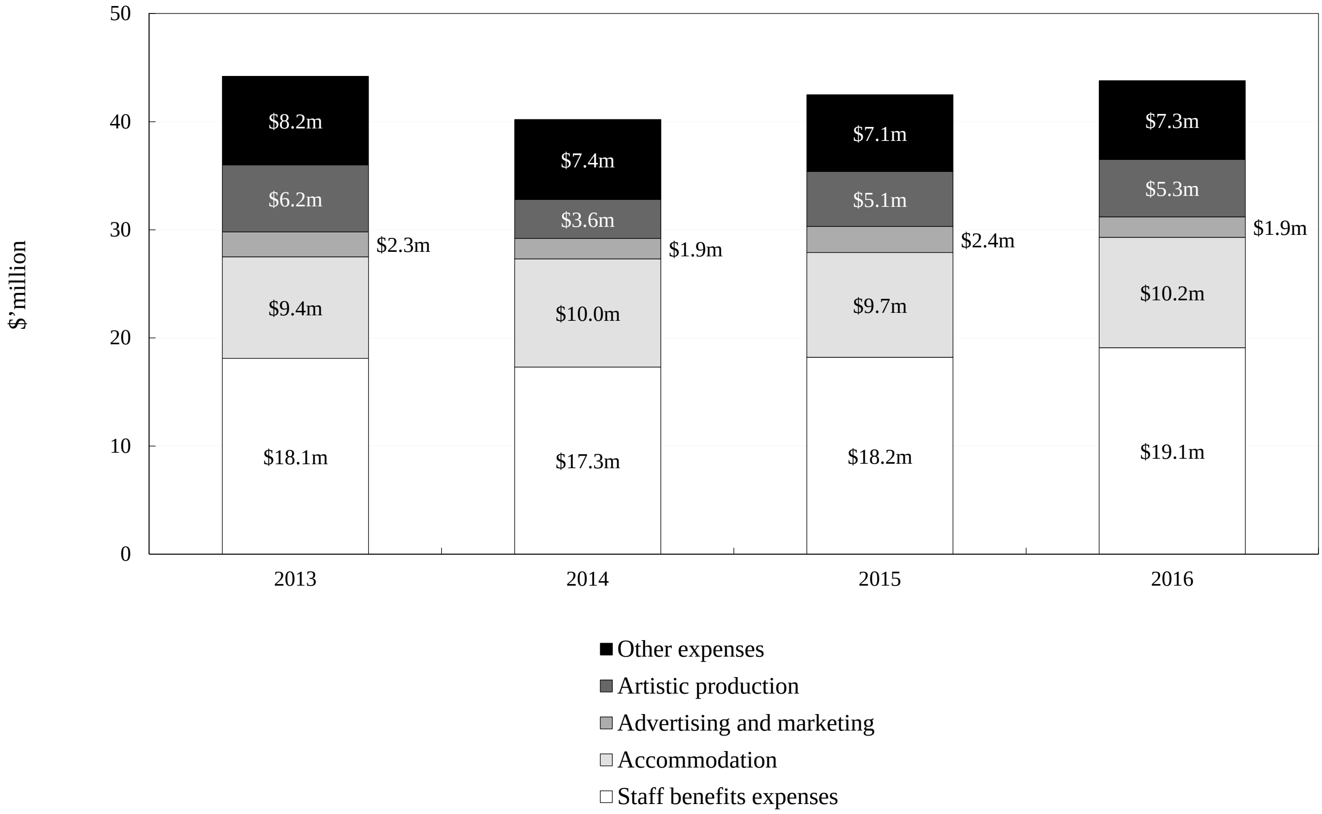
	2016 $'million	2015 $'million
Liabilities		
Current liabilities	14	12
Non-current liabilities	5	5
Total liabilities	19	17
Total equity	10	10

Statement of Comprehensive Income

The AFCT is reliant on SA Government funding to support its operations. That is, the net cost of services is met through funding provided by the SA Government. The AFCT's activities are largely dependent on the level of external demand for theatre services and the extent of AFCT 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.

Expenses

An analysis of expenses for the AFCT for the four years to 2016 is presented in the following chart.

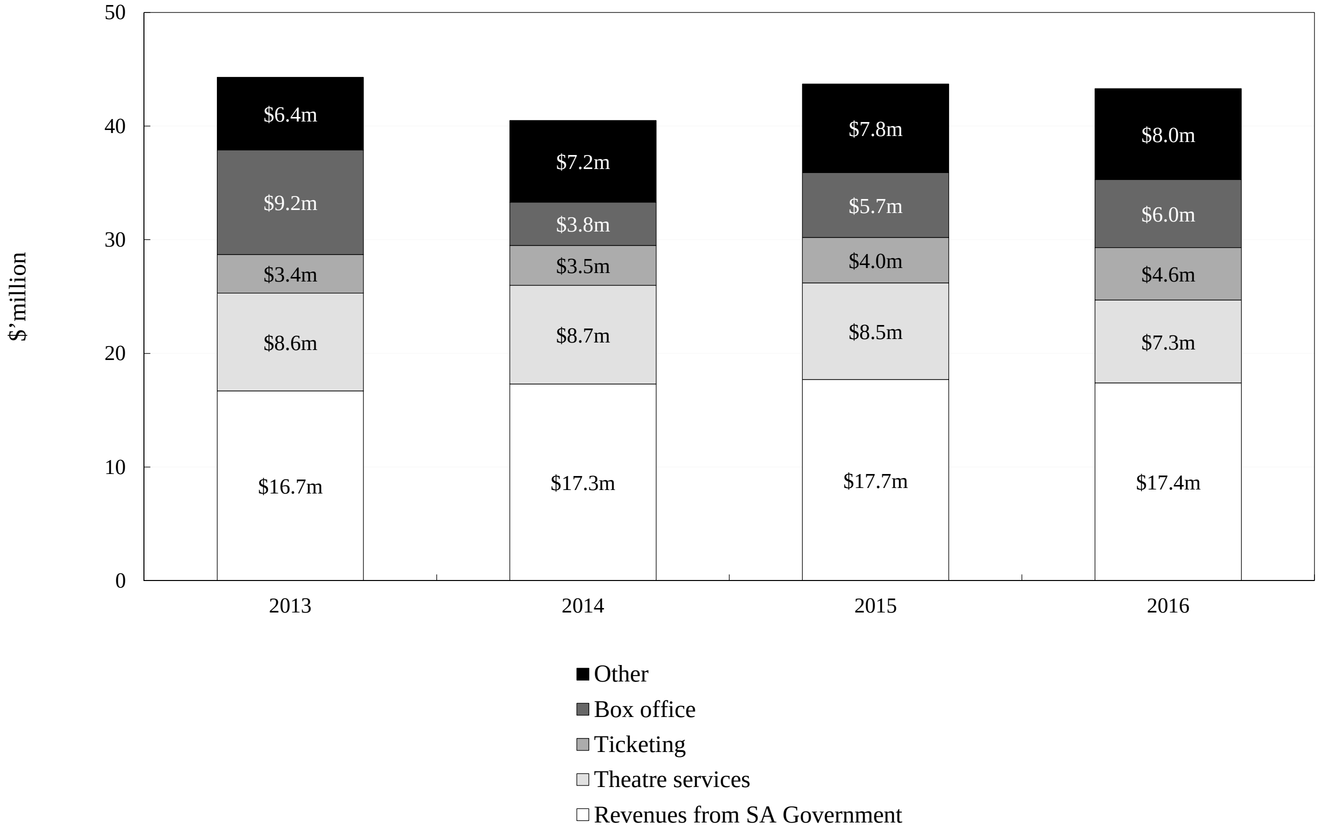


In 2016 the AFCT's expenses increased by $1.3 million to $43.8 million due mainly to:

- staff benefits expenses increasing by $816 000 to $19.1 million due to increased salaries and wages costs as a result of the AFCT employing more casuals and increased long service leave costs
- communications and information technology costs increasing by $690 000 to $1.6 million due to the AFCT implementing cloud technology during the year
- artistic production expenses increasing by $196 000 to $5.3 million due to staging a higher number of commercial musicals.

Income

An analysis of income for the AFCT for the four years to 2016 is presented in the following chart. Revenues from SA Government have been included in income for the purpose of this analysis.



In 2016 the AFCT's income decreased by $409 000 to $43.3 million due mainly to:

- theatre services income decreasing by $1.2 million from $8.5 million to $7.3 million due mainly to reduced set build sales
- revenues from SA Government decreasing by $254 000 to $17.4 million
- ticketing income increasing by $589 000 to $4.6 million due mainly to increased online bookings and associated credit card fees.

Statement of Financial Position

The AFCT's current assets of $17 million ($15.8 million) include cash of $15.1 million ($13.6 million), of which $7.1 million ($6.2 million) is proceeds from ticket sales through BASS held in trust until distributed to promoters.

Non-current assets

The AFCT's non-current assets of $12.3 million ($11.3 million) comprise:

- works of art of $6.1 million ($5.5 million). The increase is attributable to a revaluation of this class of assets resulting in a revaluation increment of $578 000
- property, plant, equipment and intangible assets of $6.2 million ($5.7 million). The increase of $444 000 is mainly attributable to purchases of theatre equipment.

Liabilities

The AFCT's liabilities increased by $2.2 million to $19.1 million due mainly to:

- staff benefits increasing by $742 000 to $5.9 million, due mainly to more days of accrued salaries and wages compared to last year, reflecting the timing of the final pay run for the year
- cash held in trust for promoters increasing by $950 000 to $7.1 million.

Adelaide Festival Corporation (AFC)

Financial statistics	Net cost of providing services: $7.4 million Total revenue from SA Government: $8.4 million Number of FTEs: 19.4* * Base level of staff as at 30 June 2016 as the AFC is only in the preparatory stage for the 2017 Adelaide Festival of Arts. The following information about the Adelaide Festival of Arts was provided by the AFC and is unaudited.

	2016 Number	2015 Number
Events	22	28
Performances	70	97
Tickets sold	62 383	29 692

Significant events and transactions

The À Fleur de Peau performance on 27 February 2016 was the largest ticketed event in the festival's history.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Bank account reconciliations not always regularly performed and independently reviewed

— Absence of current employment contracts for some staff

Functional responsibility

The AFC is a body corporate established by the *Adelaide Festival Corporation Act 1998*. The Board of the AFC is responsible to the Minister for the Arts.

The main function of the AFC is to conduct the Adelaide Festival of Arts. For details of the AFC's functions refer note 1 of the financial report.

Scope of the audit

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

Specific areas of audit attention included:

- revenue
- expenditure
- payroll
- bank reconciliations
- general ledger and financial accounting.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Adelaide Festival Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Adelaide Festival Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified during the audit were communicated in a management letter to the Chief Executive. Major matters raised with the AFC and the related responses are detailed below.

Bank account reconciliations not always regularly performed and independently reviewed

The audit of the AFC's bank reconciliation processes found:

- for five months, reconciliations of the AFC's main operating account did not contain evidence of independent review

- foreign currency bank accounts were only reconciled for July 2015, with these reconciliations not containing evidence of independent review.

These findings increase the risk that errors may not be promptly detected and corrected.

In response the AFC advised that all reconciliations would be performed on a regular basis and independently reviewed.

Absence of current employment contracts for some staff

We identified that current employment contracts were not in place for a number of staff engaged on a casual basis during the conclusion of the 2016 festival. Not having agreed terms and conditions of employment documented in an employment agreement increased the potential for disputes around hours of work or rates of pay.

The AFC indicated it would reinforce the need to document contract extensions formally with all managers.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Staff benefits expense	3.6	3.6
Supplies and services	8.8	9.2
Depreciation expense	0.1	0.1
Total expenses	12.5	12.9
Income		
Grants from non-SA Government	0.4	0.1
Box office sales	2.4	1.8
Sponsorship	1.2	1.6
Other	1.1	0.8
Total income	5.1	4.3
Net cost of providing services	7.4	8.6
Revenues from (Payments to) SA Government	8.4	8.3
Net result and total comprehensive result	1.0	(0.3)
Net cash provided by (used in) operating activities	1.3	(0.1)
Assets		
Current assets	1.7	0.4
Non-current assets	0.2	0.2
Total assets	1.9	0.6
Liabilities		
Current liabilities	0.8	0.4
Non-current liabilities	0.1	0.1
Total liabilities	0.9	0.5
Total equity	1.0	0.1

Statement of Comprehensive Income

Expenses

Expenses decreased in 2016 by $329 000 to $12.5 million. The decrease was due mainly to supplies and services decreasing by $392 000, as a result of a $598 000 decrease in event staging and contracts, offset by a $247 000 increase in artist fees and payments (refer note 5 of the financial report). Expenditure fluctuates between years as the events, artists and venues change for each festival.

Income

Income increased in 2016 by $775 000 to $5.1 million. The increase was due mainly to:

- box office sales increasing by $651 000, resulting from an increase in tickets sold for 2016 festival events

- grants from non-SA Government increasing by $297 000, principally due to $250 000 being received from the Commonwealth as funding for a 2017 festival event

- other income increasing by $303 000, resulting mainly from the Chairman's Circle membership initiative being introduced for the 2016 festival.

These increases were offset by a decrease in sponsorship of $347 000. This decrease was mainly a result of a reduction in the number of sponsors for the 2016 festival and AFC not operating an outdoor club, resulting in less income from beverage sponsors.

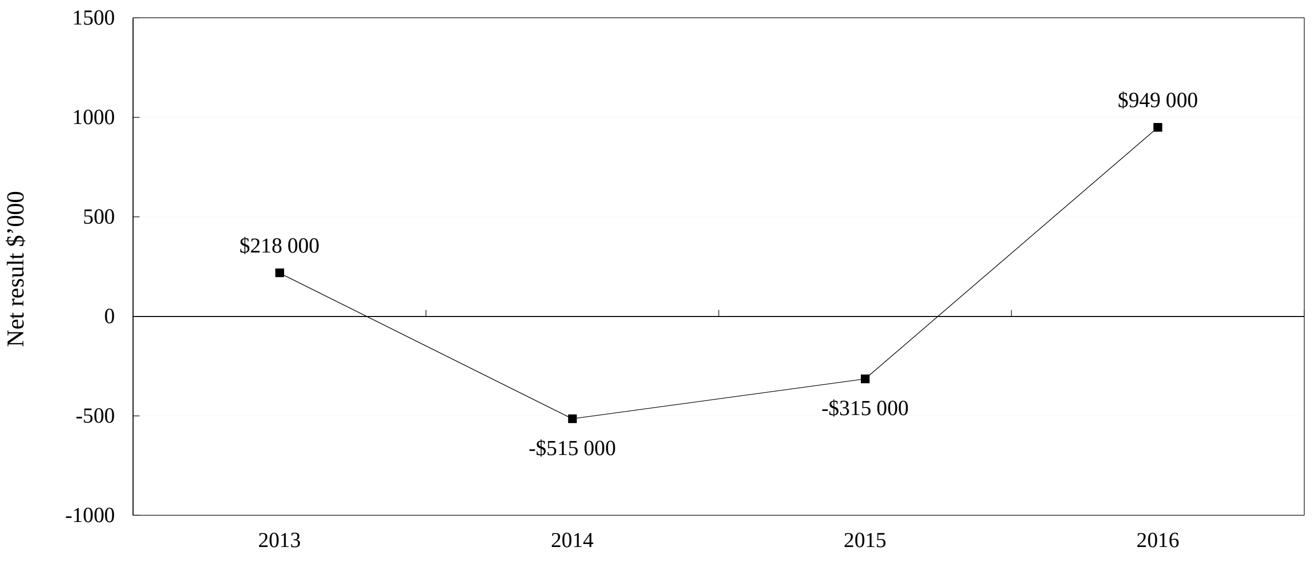
Revenues from SA Government

Revenues from SA Government increased in 2016 by $160 000 to $8.4 million.

The AFC is reliant on the State Government to fund its operations and government grants represent 62% (66%) of total revenue.

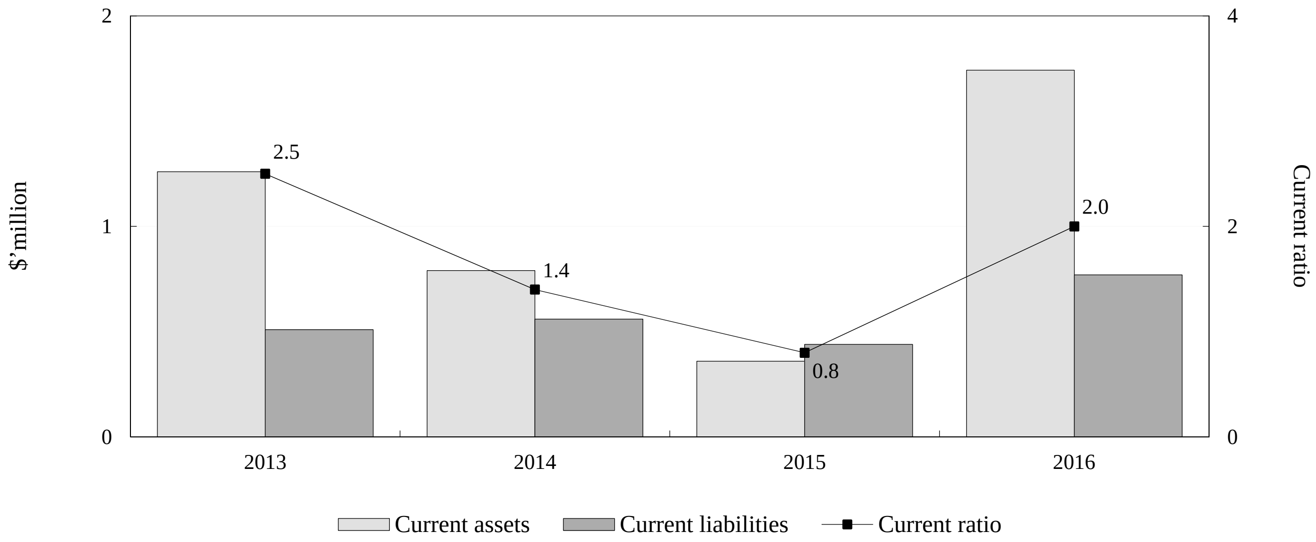
Net result

The net result for the year was a surplus of $949 000 (deficit of $315 000). The following chart shows the fluctuation in the net result for the four years to 2016.



Statement of Financial Position

The following chart shows that current assets increased by $1.3 million to $1.7 million as at 30 June 2016, mainly due to a $1.2 million increase in cash. The increase in cash is explained further under ‘Statement of Cash Flows’. Current assets exceeded current liabilities by $871 000 as at 30 June 2016.



Statement of Cash Flows

Net operating cash flows improved by $1.5 million due mainly to a $661 000 decrease in payments for supplies and services, a $651 000 increase in receipts from box office sales and a $300 000 increase in receipts from the Commonwealth Government.

Adelaide Oval SMA Limited (AOSMA)

Financial statistics	Net assets:	$3.2 million
	Loss from trading activities:	$1.2 million
	Net contributions to the SANFL and SACA from trading activities:	$1.3 million
	Monies collected as agent on behalf of the SANFL and SACA:	$19.1 million
	Monies collected as agent on behalf of parties other than the SANFL and SACA:	$15 million

Significant events and transactions

- A disputed amount of $1.8 million was settled with the State Government by Deed of Grant.
- During 2014-15 AOSMA engaged the services of a private accounting firm to perform an internal audit function from 2015-16.

Financial statement opinion

Unmodified

Financial controls opinion

Not applicable

A financial controls opinion is not required as AOSMA is not a public authority.

Functional responsibility

AOSMA is a company whose directors and members are appointed equally by the South Australian National Football League (SANFL) and the South Australian Cricket Association (SACA). AOSMA is not a public authority. It was created in December 2009 as a non-profit public company limited by guarantee.

AOSMA manages, operates and maintains the redeveloped Adelaide Oval stadium owned by the State Government and also the area closely surrounding the stadium (the precinct). AOSMA also provides various services as agent on behalf of the SANFL, SACA and 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.

During the year ended 31 October 2015 specific areas of audit attention included:

- revenue from car parks, sponsorships, service fees, sales of food and beverages and contributions from the State Government, SACA and the SANFL
- distribution of monies collected as agent on behalf of the SANFL, SACA and promoters including receipts from the sale of tickets to events, supply rights, Adelaide Oval football memberships, Stadium Club corporate seats and corporate suites
- controls for managing contracts and agreements with the SANFL, SACA, State Government, Australian Football League (AFL), Cricket Australia (CA), promoters, ticketing agent, car park operator, suppliers and various other parties
- procurement and expenditure on plant, equipment, supplies and services
- employee benefit expenses.

Audit findings and comments

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. The main matters and responses are detailed below.

Establishment of internal audit function

Last year we recommended that AOSMA establish independent internal audits of the effectiveness of its internal controls as soon as possible. In response, AOSMA advised that it would commence these audits in the 2014-15 financial year. During 2014-15 a procurement process was undertaken to secure the services of a private accounting firm to perform the internal audit function. A preferred provider has been selected and engaged for the 2015-16 year.

Other audit matters raised with AOSMA

AOSMA agreed to improve its processes and policy documentation for a range of areas including: the negotiation of prices and the documenting of amendments to contracts for functions and events held at Adelaide Oval; delegations for pricing goods and services; the checking of general ledger journals and obtaining assurance from its ticketing agent and car park operator about the completeness of transactions recorded. These recommended improvements will ensure AOSMA's functions continue to be performed in the most efficient and effective manner.

Interpretation and analysis of the financial report

Highlights of the financial report

	Year ended 31.10.15 $'000	Year ended 31.10.14 $'000
Trading activities		
Income	58 395	53 948
Expense	59 614	55 958
Profit (Loss) from trading activities	(1 219)	(2 010)
Stakeholder contributions		
Contributions from the SANFL and SACA	6 263	3 965
Contributions to the SANFL and SACA	(7 572)	(5 642)
Net contributions to stakeholders	(1 309)	(1 677)
Trading result after net contributions to stakeholders	(2 528)	(3 687)
State Government related items		
State Government grants and other contributions	3 959	15 719
Acquisition of capital assets for the State Government	(334)	(8 801)
Write off of receivable	(1 817)	-
Total comprehensive result	(720)	3 231
Net cash provided by (used in) operating activities	5 910	(3 308)
Assets		
Current assets	11 004	11 584
Non-current assets	15 038	14 849
Total assets	26 042	26 433
Liabilities		
Current liabilities	14 518	11 375
Non-current liabilities	8 333	11 148
Total liabilities	22 851	22 523
Total equity	3 191	3 910

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 monies that AOSMA collects as agent on behalf of the SANFL, SACA, AFL, CA, football clubs or promoters.

Trading activities

AOSMA incurred a trading loss of $1.2 million in the 12 months to 31 October 2015. AOSMA's trading income of $58.4 million was mainly generated from catering activities and service fees charged to the SANFL, SACA and promoters pursuant to various agreements. Sales revenue improved by $4.4 million to $46.8 million. Trading expenses increased by $3.7 million to $59.6 million and comprised employee benefit expenses, food and beverage purchases, stadium cleaning costs, security expenses and utility costs. Employee benefit expenses rose $3.2 million to $22.7 million.

Stakeholder contributions

Net contributions by AOSMA to the SANFL and SACA were $1.3 million. Under various agreements, AOSMA contributed $7.6 million of its trading income to the SANFL and SACA whilst the SANFL and SACA contributed $6.3 million to AOSMA to support its operations. The $7.6 million contributed to the SANFL and SACA was in addition to $19.1 million collected and distributed by AOSMA to the SANFL and SACA as their agent. 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.

State Government related items

State Government grants and other contributions of $3.9 million ($15.7 million) mainly comprises $1.8 million of grant income for safety, security and stadium operations provided by the State Government under a Deed of Grant agreement.

Last year AOSMA recorded $1.8 million recognised as amounts receivable from the State Government for reimbursement of costs incurred by AOSMA for the installation of perimeter ribbon boards (electronic advertising boards) and costs associated with installation of cabling and fitting out of food and beverage outlets. We had not identified appropriate evidence at the time of issuing the Independent Auditor's Report on AOSMA's financial report to substantiate that the State Government would pay the $1.8 million to AOSMA. As a result a qualified audit opinion was issued. This year the disputed amount of $1.8 million was settled with the State Government by Deed of Grant, resulting in a write-off of the receivable.

Statement of Financial Position

AOSMA's equity decreased by $700 000 in the 12 months to 31 October 2015, resulting in net assets of $3.2 million.

Current liabilities exceeded current assets by $3.5 million at balance date. Note 1 of the financial report discloses factors supporting the going concern basis. AOSMA had a net cash inflow from operating activities of $5.9 million for the year.

The major movements in assets and liabilities over the year were:

- a $1.7 million increase in the deferred income liability due to an increase in unearned income from supply right contracts and customer deposits for catering events
- a $1.7 million increase in trade and other payables reflecting increased trading activities. Included in the payables balance of $9.3 million was $1.7 million owed to the SANFL and SACA, including $680 000 of monies received on their behalf as agent awaiting distribution
- a $2.9 million decrease in loans and borrowings to fund operations resulting from the repayment of $4 million, offset by new borrowings of $1.3 million from SACA and the SANFL. Included in the loans balance of $5.6 million was a finance lease of $1 million mainly for an LED advertising board.

AOSMA's main assets comprise property, plant and equipment $14.6 million ($14.4 million) and receivables $7.2 million ($8.8 million).

Monies collected on behalf of other parties

AOSMA collects monies as agent on behalf of the SANFL, SACA, AFL, CA, football clubs and various promoters. The collection of these monies involves selling, on their behalf, tickets to events, supply rights, Adelaide Oval football memberships, Stadium Club corporate seats and corporate suites.

For the year ended 31 October 2015, AOSMA collected $19.1 million on behalf of the SANFL and SACA. This amount is disclosed as related party transactions in note 17 of the financial report. AOSMA also collected $15 million during the same period on behalf of the AFL, CA, football clubs and promoters. These collections are not disclosed in the financial report, apart from the balance awaiting distribution at 31 October 2015. Most of these collections related to tickets sold through AOSMA's ticketing agent on behalf of CA, the Port Adelaide Football Club, the Adelaide Football Club and promoters.

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

Further commentary on operations

State legislative requirements

The operations of AOSMA 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 (the Adelaide City Council), the responsible Minister, the SANFL, SACA and AOSMA
- financial and audit reporting requirements of AOSMA and the redevelopment in general
- that the Auditor-General audit 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 monies paid into and out of the fund must be provided to the Minister by 1 September of each year.

  AOSMA has established a bank account to hold sinking fund monies. AOSMA obtained a report from a project consultant that provides an estimate of the forecast non-recurrent expenditure of the Adelaide Oval over a 20 year period and the required annual sinking fund contribution.

AOSMA proposes to make its first contribution of approximately $2.7 million to the sinking fund in 2016-17. AOSMA has notified the Minister of this proposed contribution.

Leasing and licensing arrangements

AOSMA leases from the State Government the Adelaide Oval Core Area which includes the stadium. The rent payable by AOSMA to the State 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. The first payment of rent was made in July 2016. The land situated in the Adelaide Core Area is leased by the State Government from the Adelaide City Council for an equal term at $1 p.a.

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 the 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 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 State 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 State Government has sublicensed the use of this area to the SANFL, SACA and AOSMA for an equivalent term for a fee of $10 each p.a.

Insurance

AOSMA is required by the leasing and licensing requirements for the management of the Adelaide Oval to maintain certain insurance policies including public risk liability insurance and property insurance against material damage to the stadium. Relevant policies were in place for the year.

Adelaide Venue Management Corporation (AVMC)

Financial statistics

Income from trading activities:	$49.6 million
Profit from trading activities:	$11.6 million
Loss from property management activities:	$13.8 million
Net loss:	$2.3 million

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

	2016 Number	2015 Number
Adelaide Entertainment Centre:		
Events	72	78
Patrons	270 000	306 000
Coopers Stadium:		
Events	18	22
Patrons	198 000	227 000
Adelaide Convention Centre:		
Events/Functions	921	887
Patrons	280 000	264 000

Significant events and transactions

— On 1 August 2015, the Adelaide Entertainments Corporation became the AVMC and effective from this date the assets, rights, liabilities and all employees of the Adelaide Convention Centre Corporation were transferred to the AVMC.

— The Adelaide Convention Centre is currently being redeveloped. In 2015, Cabinet approved a budget increase for the redevelopment bringing the total budget to $396.8 million, of which $382.3 million will be funded from borrowings and $14.5 million from the AVMC's Future Asset Replacement account. To date $331.4 million has been spent on the redevelopment.

Financial statement opinion — **Unmodified**

Financial controls opinion — **Unmodified**

Functional responsibility

The AVMC, formerly the Adelaide Entertainments Corporation, was established by Regulations under the *Public Corporations Act 1993*. The AVMC is responsible to the Minister for Tourism.

On 1 August 2015, the assets, rights, liabilities and all employees of the Adelaide Convention Centre Corporation (ACCC) were transferred to the AVMC (refer note 31 of the financial report).

The main function of the AVMC 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 of the financial report.

Scope of the audit

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

During 2015-16 specific areas of audit attention included:

- revenue from events, restaurant, bars and car parks
- salaries and wages
- procurement and expenditure on supplies and services
- inventory
- capital work in progress.

Audit findings and comments

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive. While there were no major matters raised with the AVMC we did request an update on the status of review and amendment of policies and procedures that was being undertaken to ensure they reflect current processes and controls.

The AVMC advised that the review would be completed by 30 June 2016.

Interpretation and analysis of the financial report

As previously mentioned, the ACCC was transferred to the AVMC on 1 August 2015, and most major variances between 2015 and 2016 are due to this transfer.

Highlights of the financial report

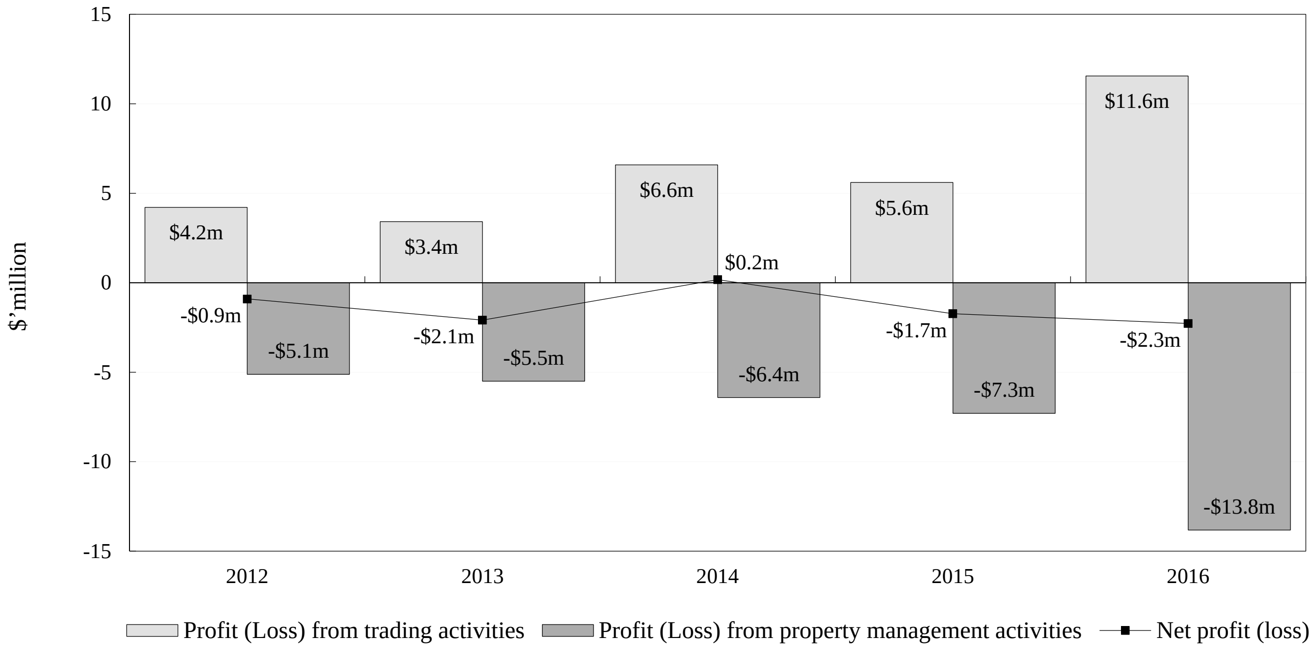
	2016 $'million	2015 $'million
Trading activities		
Expenses	38	15
Income	50	20
Profit (Loss) from trading activities	12	5

	2016 $'million	2015 $'million
Property management activities		
Expenses	34	8
Income	20	1
Profit (Loss) from property management activities	(14)	(7)
Net profit (loss)	(2)	(2)
Net cash provided by (used in) operating activities	25	5
Net cash provided by (used in) investing activities	(70)	(4)
Net cash provided by (used in) financing activities	84	(5)
Assets		
Current assets	28	10
Non-current assets	612	137
Total assets	640	147
Liabilities		
Current liabilities	29	5
Non-current liabilities	321	6
Total liabilities	350	11
Total equity	290	136

Statement of Comprehensive Income

The AVMC recorded a net loss of $2.3 million for 2016.

The following chart shows the profits (losses) from trading and property management activities and the AVMC's profits (losses) for the five years to 2016.



For the five years represented, profits from trading activities have generally been exceeded or offset by losses on property management activities. With the operations of the Adelaide Convention Centre now part of the AVMC, the chart shows that while the results from both trading and property management activities have significantly increased, the overall net result has not significantly changed.

The AVMC's income from trading activities totalled $49.6 million and mainly comprised catering revenue ($23.1 million) and venue hire revenue ($8.1 million).

Expenses from trading activities amounted to $38 million and mainly comprised employee benefits expenses ($22.4 million) and supplies and services expenses ($13.2 million).

Expenses from property management activities were $33.8 million and mainly comprised depreciation ($10.4 million) and borrowing costs ($14.1 million).

The AVMC received $18.9 million in funding from the SA Government, which fully compensated borrowing costs and contributed to property management activities associated with the common areas of the Adelaide Convention Centre.

Statement of Financial Position

Current liabilities exceeded current assets by $1.3 million at balance date.

The main item in the AVMC's Statement of Financial Position is property, plant and equipment, representing 91% of total assets. The carrying value of property, plant and equipment is $584 million, which includes land, buildings and improvements of $445 million and work in progress of $119 million related to the Adelaide Convention Centre redevelopment.

The AVMC's main assets are the Adelaide Convention Centre and the Adelaide Entertainment Centre buildings. The redevelopment of the Adelaide Convention Centre is budgeted to cost $396.8 million, with $382.3 million being funded from borrowings and $14.5 million from the Future Asset Replacement account. To date $331.4 million has been spent on the redevelopment and the project was on budget at 30 June 2016.

Liabilities as at 30 June 2016 totalled $349.7 million and mainly comprised borrowings of $314.6 million and payables of $17.9 million.

Statement of Cash Flows

The AVMC had a net cash inflow from operating activities of $25.3 million for the year while cash used in investing activities was $69.6 million, primarily for payments associated with the Adelaide Convention Centre redevelopment.

Cash provided by financing activities was $84.3 million and this was impacted by:

- additional borrowings of $55 million
- cash received totalling $46.3 million as a result of the administrative restructure
- borrowing costs of $14.9 million
- dividends paid to the SA Government of $1.6 million.

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 payment of funds held to promoters, the AVMC and other service providers. Total administered revenues for the year were $22 million and administered expenses were $29 million. The balance of funds held in trust as at 30 June 2016 was $5 million.

Art Gallery Board
(Art Gallery)

Financial statistics	Net cost of providing services:	$3.6 million
	Revenues from SA Government:	$12.2 million
	Value of heritage collections:	$753 million
	Number of FTEs:	69.8
	Number of visitors:	1 029 536

Significant events and transactions

— The Art Gallery's heritage collections were revalued as at 30 June 2016 resulting in a revaluation increase of $135 million.

— Record numbers attended the 2016 Adelaide Biennial of Art: Magic Object, with more than 220 000 visitors to the exhibition between February 2016 and May 2016, doubling the attendance figures of the 2014 Biennial.

— Funding of $200 000 was received from the SA Government to identify a preferred solution for the future storage of the Art Gallery's collection.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Incomplete service level agreement with the Department of State Development

— No risk management procedure in place detailing the Art Gallery's approach to risk management

— Untimely review of bona fide and leave reports

Functional responsibility

The Art Gallery is established by the *Art Gallery Act 1939*. The main function of the Art Gallery is to manage the Art Gallery of South Australia. For details of the Art Gallery's objectives refer note 1 of the financial report.

Scope of the audit

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

During 2015-16 specific areas of audit attention included:

- follow-up of 2014-15 audit findings
- legal compliance
- compliance with Treasurer's Instructions
- revenue
- expenditure
- payroll
- property, plant and equipment
- heritage collections, including revaluation
- cash and investments
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Art Gallery Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Art Gallery Board have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Director of the Art Gallery. Major matters raised with the Art Gallery and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Art Gallery are also described below.

Governance and compliance

Incomplete service level agreement with the Department of State Development

The Art Gallery was provided with a Service Design and Operating Level Responsibilities document by the Department of State Development (DSD) outlining the services to be provided to the Art Gallery by DSD. We note that this document was not formally signed off by both agencies as DSD considered this unnecessary. The Art Gallery also had limited opportunity to amend what was included in this document by DSD.

Our review of this document identified aspects of the relationship between DSD and the Art Gallery that were not clearly defined. For example, there are a number of activities that are performed by DSD on behalf of the Art Gallery that are not detailed in the document. These include:

- quarterly review of delegations in Basware to ensure they agree to the delegations formally approved by DSD
- six-monthly overseas travel reporting to the Minister
- annual Treasurer's Instruction 11 'Payment of Creditors' Accounts' reporting to the Department of Treasury and Finance.

We also identified a number of important control activities that were not performed throughout the year by either the Art Gallery or DSD, as responsibility is not defined in the document. These include:

- monthly review of all manual payments processed by SSSA to ensure they are valid, accurate and appropriately approved
- monthly review of all payments made under a special or super delegation to ensure they are valid and appropriate.

The risk of the Art Gallery not meeting its statutory responsibilities is increased if the relationship between the Art Gallery and DSD is not clearly defined in a service level agreement.

The Art Gallery responded that it will liaise with DSD to more clearly define roles and responsibilities of DSD and the Art Gallery in a service level agreement. Focus will be given to those areas identified as part of the audit.

No reporting of overseas travel to the Minister for the Arts

Commissioner's Determination 3.2 'Employment Conditions – Remuneration – Allowances and Reimbursements' requires that a six-monthly return must be provided to the Minister responsible for an agency showing overseas travel taken for the preceding six months.

DSD reports overseas travel to the Minister on behalf of the arts entities, but only to the administrative Minister responsible for DSD and not to the Minister for the Arts, the responsible Minister. As a result, the Art Gallery is not complying with Commissioner's Determination 3.2.

The Art Gallery responded that it was not aware that DSD was only notifying the administrative Minister for DSD, and not the Minister for the Arts. The Art Gallery will liaise with DSD to ensure that the report is also sent to the Minister for the Arts for noting.

No risk management procedure in place

In prior years we have reported that the Art Gallery did not have a risk management procedure and finalised risk register in place.

The Art Gallery made significant progress throughout the year, with a comprehensive risk register and risk policy approved by the Board in June 2016. However the Art Gallery is yet to develop a risk management procedure that supports these documents and outlines the Art Gallery's detailed approach to risk management.

Without a detailed risk management procedure in place, Art Gallery staff may be unclear about risk management practices. As a result, risks may not be identified and managed consistently and effectively.

The Art Gallery responded that now that the risk register and risk policy have been approved, work will commence on drafting a risk management procedure, in close consultation with the Audit Committee. This procedure will include the Art Gallery's approach to risk management. Although aspects of the Art Gallery's approach to risk management are already detailed in the risk register and risk policy, this information will be combined and reframed in the risk procedure.

Payroll

Untimely review of bona fide and leave reports

Our review in prior years identified instances where bona fide and leave taken reports were not reviewed in a timely manner. The Art Gallery had also not formally approved and implemented policies and procedures outlining bona fide and leave taken report review processes, including time frames for generating and reviewing reports.

The Art Gallery has now approved its bona fide report certification policy and leave taken report certification policy. Bona fide and leave taken reports must be generated and distributed within two weeks of the end of the given reporting period, and reviewed and returned by managers within two weeks of receiving the reports.

Our testing in 2015-16 identified instances of bona fide and leave taken reports not being generated and reviewed in a timely manner. We were advised that difficulty was experienced accessing and generating reports when the new CHRIS 21 payroll system was first implemented in December 2015. We understand that these issues were resolved in early 2016.

Without a timely review of bona fide and leave taken reports, invalid and inaccurate payroll payments may not be detected. As a result, it may become more time consuming and difficult to resolve pay errors and anomalies identified.

The Art Gallery responded that the introduction of CHRIS 21 was problematic and bona fide and leave taken reports could not be generated for the first months of 2016. The subsequent backlog of reports to be generated and reviewed by managers meant that reports were not signed off for some months after the given reporting period. This was outside of the Art Gallery's control and every effort was made by Art Gallery staff to have this issue remedied by DSD and SSSA payroll.

The Art Gallery also advised that there were instances, after CHRIS 21 had stabilised, where the time frames for generating and reviewing reports as outlined in the Art Gallery's policies were not met due to competing demands placed on Art Gallery staff. This will be monitored carefully and resourcing will be adjusted should this situation continue.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Art Gallery under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Staff benefits	6	6
Other expenses	13	15
Total expenses	19	21
Income		
Revenues from SA Government	12	11
Other income	15	15
Total income	27	26
Net result	8	5
Net cash provided by (used in) operating activities	2	3
Net cash provided by (used in) investing activities	(2)	(3)
Assets		
Current assets	5	5
Non-current assets	800	657
Total assets	805	662
Total liabilities	3	3
Total equity	802	659

Statement of Comprehensive Income

Income

Total income increased by $1 million to $27 million in 2015-16 mainly due to:

- a $1.2 million increase in revenues from the SA Government. Although capital grants from the SA Government decreased by $400 000 this year as no capital works were undertaken, this was offset by a $1.6 million increase in the recurrent operating grant received by the Art Gallery from Arts South Australia. This $1.6 million increase includes $200 000 to identify a preferred solution for the future storage of the Art Gallery's collection

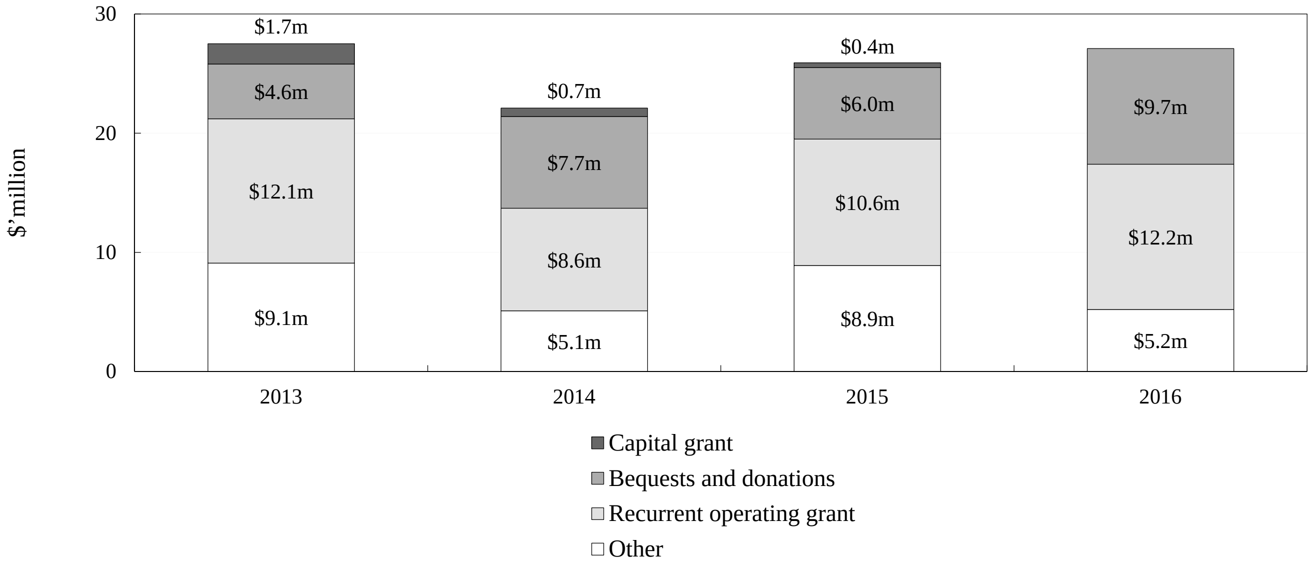
- a $3.4 million increase in donations of heritage assets. In 2015-16 a significant artwork view of the town of Sydney in the Colony of New South Wales was donated with a value of $2.4 million

- a $1.3 million decrease in sponsorships. This is due to a reduction in in-kind sponsorships received in relation to the Fashion Icons major exhibition in 2014-15. In-kind sponsorships in 2014-15 included the value of advertising ($1.6 million) and publicity and promotion ($200 000)

- a $1 million decrease in grants. This is due to a $1.4 million grant being received by the Art Gallery from Arts South Australia in 2014-15 for the BHP Billiton Aboriginal and Torres Strait Islander Visual Arts Festival held in 2015-16

- a $863 000 decrease in fees and charges. This is due to a decrease in admission fees associated with the Fashion Icons major exhibition held between October 2014 and February 2015.

For the four years to 2016, a structural analysis of the major income items for the Art Gallery is shown in the following chart.



As can be seen, the Art Gallery continues to rely on the recurrent operating grant received from the SA Government to fund the operations of the Art Gallery, which represents 45% of total income received in 2015-16.

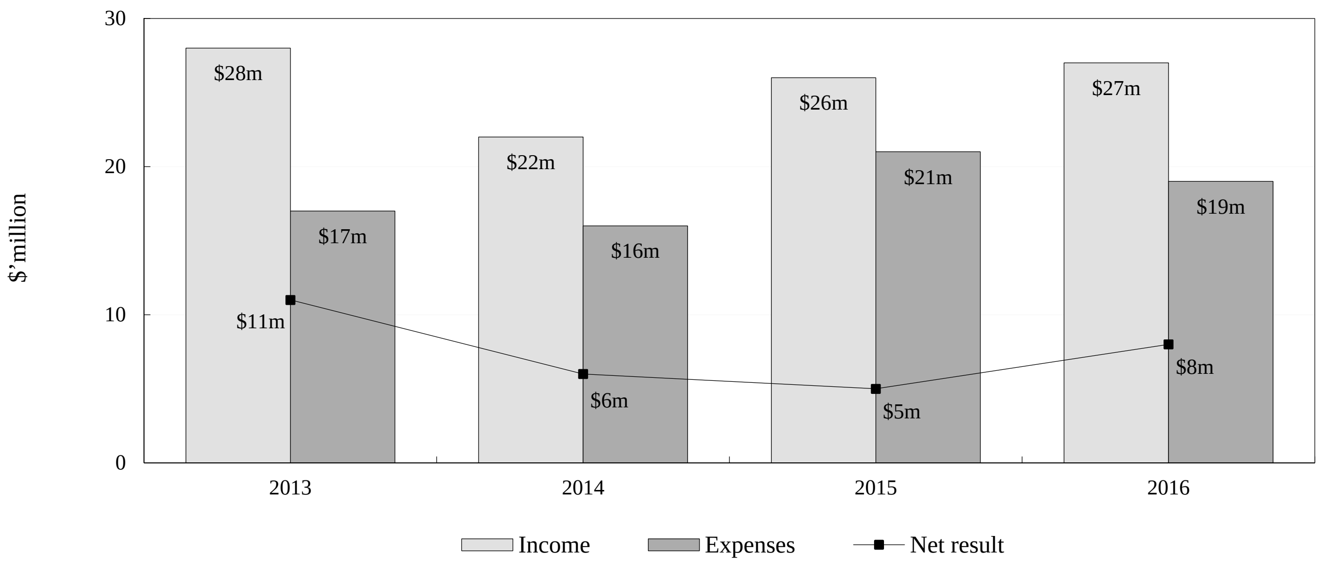
Expenses

Total expenses decreased by $2 million to $19 million in 2015-16. This is largely due to a $1.8 million decrease in supplies and services expenses resulting from costs associated with holding the major exhibition, Fashion Icons, in 2014-15. For example, in 2015-16 marketing and promotion expenses decreased by $965 000 and exhibition fees decreased by $856 000.

Net result

The net result for the year was a surplus of $8 million ($5 million).

The following chart shows the income, expenses and net results for the four years to 2016.



The net result of the Art Gallery is largely influenced by specific activities undertaken at the Art Gallery during the year. For example, major exhibitions were held in both 2013 and 2015. The 2014 and 2016 net results were impacted by significant bequests and donations of cash and heritage collection assets received throughout the year.

Statement of Financial Position

Total assets at 30 June 2016 were $805 million ($662 million), of which $753 million (94%) relates to the Art Gallery's heritage collections.

The increase in the value of the heritage collections in 2015-16 of $144 million is largely a result of the revaluation as at 30 June 2016 that was performed by RHAS, an operating division of Aon Risk Services. This resulted in a revaluation increase of $135 million. This increase is due to the strong current international and Australian art market compared to when the heritage collections were last revalued as at 30 June 2011. A weaker Australian dollar has also resulted in higher values for international works.

Attorney-General's Department (AGD)

Financial statistics	Employee benefits expenses: $156 million Net cost of providing services: $110 million Revenues from SA Government: $112.5 million Number of FTEs (includes administered): 1498.1 Administered: Taxation revenue $288 million Fines and related fees $87 million Victims of Crime levies $42 million
Significant events and transactions	State Records of South Australia, previously part of the Department of the Premier and Cabinet, joined AGD from 1 July 2015. This involved the transfer of staff and employee liabilities and assets with a net value of $1.1 million.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — No regular review, or no evidence of review, of user access to a number of systems — Key payroll reports not reviewed promptly — Instances of lack of segregation between purchasing and receiving goods and services — Business processes in Consumer and Business Services need improvement — Fines Enforcement and Recovery Unit policies needed further work and did not cover the revocation of an enforcement determination

Functional responsibility

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

The functions of AGD are to help create an inclusive, safe and fair South Australia. AGD 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(c), 4 and A1 of the financial report provide further information on AGD.

Scope of the audit

The audit covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

During 2015-16 specific areas of audit attention included:

- cash, debtors and investments
- non-current assets
- payroll and employee entitlements
- expenditure including grants and subsidies
- revenue
- taxation receipts
- statutory funds including the Crown Solicitor's Trust Account
- fines revenue and collection
- SafeWork SA revenue
- financial accounting and reporting
- governance and accountability
- financial management compliance program.

The audit took into account the controls and procedures performed by service providers including Shared Services SA (SSSA).

The work of AGD's internal auditors was considered in planning and conducting the audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Attorney-General's Department in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Attorney-General's Department have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive and other officers responsible for the governance of controlled and administered activities for AGD. Major matters raised with AGD and the related responses are detailed below.

Key payroll reports not reviewed promptly

We found AGD's bona fide reports and leave return reports were not always reviewed promptly, signed or dated to evidence prompt review by the relevant manager. This finding is consistent with prior years. We also found instances where pay point managers were unaware of the time frame for reviewing these reports.

The prompt review of these reports provides assurance that:

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

AGD advised it would adopt a new bona fide and leave return reporting tool provided through HR21, administered by SSSA. This tool will enable central monitoring of compliance.

Expenditure

Instances of a lack of segregation between purchasing and receiving goods and services

We have previously identified instances where goods were purchased and recorded as received by the same officer, inconsistent with AGD's policy. The policy requires goods to be receipted by an officer independent of the person who ordered them or approved the purchase order.

Our 2016 audit also identified instances where goods were receipted by the officer who raised the purchase order. This lack of segregation risks inappropriate transactions occurring.

AGD's Financial Services advised it would reinforce the importance of this control to key staff, including discussing it directly with business units identified through the audit.

AGD's policy documents did not fully reflect the South Australian Industry Participation Policy

We found AGD policies did not fully reflect the SA Government's Industry Participation Policy (IPP) requirements. In particular, the increase in the mandatory weighting for the employment contribution test in the procurement process from November 2015 was not reflected.

AGD's grant funding policy did not reflect the IPP requirements for grants of more than $2.5 million.

Ensuring policy documents reflect IPP requirements helps all AGD procurements and grants to comply with the IPP objectives to maximise local benefit from procurement and significant grant activity.

AGD advised it had updated internal documentation to reflect key IPP requirements. Links to IPP requirements will be included where appropriate and AGD's grant funding policy documents will be reviewed.

South Australian Government Radio Network (SAGRN)

Scheduled reviews of user access to the SAGRN asset register did not occur

The SAGRN asset management procedure requires a quarterly review of user access to the asset register. Only one user access review was performed in 2015-16. As a result, an employee who left AGD in July 2015 did not have their access revoked until May 2016.

AGD advised an annual review of user access to the SAGRN asset register was considered appropriate given the small number of users and procedures would be updated.

SAGRN policies need review

We found there was minimal guidance in SAGRN policies for a user to undertake several key processes for SAGRN assets, including processing additions and disposals and reconciling data between systems. Documented SAGRN debt recovery processes did not reflect current business practices or specify the level of documentation that should be kept as evidence of debt follow-up.

While we noted several flowcharts supporting key processes were being updated at the time of our audit, there is a risk that approved processes will not be followed when they are not documented.

In response AGD indicated SAGRN policies and procedures would be updated.

Consumer and Business Services

Our audit of Consumer and Business Services (CBS) identified:

- there were no policies or procedures covering the process to update occupational licence fees in LOGIC, no independent review of fee changes processed and no documentation of the check currently performed by the person updating the fees was kept. As a result, there is a chance incorrect fees could be updated to LOGIC
- consistent with 2014-15 there was no evidence that general ledger balances used in the LOGIC to Masterpiece reconciliation had been confirmed to the general ledger
- instances where the review of the point of sale (POS) to LOGIC reconciliation was not evident in the documentation or where supporting documentation was not included. This reconciliation confirms that occupational licensing receipts recorded in POS have been transferred completely and accurately into LOGIC
- there was no process to confirm the data exported from LOGIC had been successfully transferred to the contractor who prints and mails the occupational licensing documents on behalf of CBS, including invoices, reminders and penalty or cancellation notices. There is a risk that documents may not be processed, resulting in delays in advice to licence holders.

AGD advised a procedure covering LOGIC fee updates would be developed, requiring an independent review of fees uploaded. The LOGIC to Masterpiece reconciliation procedure would be updated and the requirements reinforced to staff.

AGD also indicated daily LOGIC reconciliation requirements would be reinforced to staff and that it would work with its contractor on a process to confirm all documents exported from LOGIC were received.

Liquor and gaming licensing

AGD's internal auditors reviewed liquor and gaming licences in 2015-16. The internal auditors identified:

- a delegation instrument for liquor licensing and *Gaming Machines Act 1992* applications was out of date, resulting in instances where licences were approved outside the delegations
- application fees were not charged on a number of liquor and lotteries licences tested, while fee waivers could be processed in LOGIC without review. AGD advised it would investigate this matter further to confirm all licences without application fees related to charitable purposes, which do not attract fees

- some licence applications processed did not have all parts of the licence checklist completed, meaning there was a lack of evidence that all elements of the approval process had been satisfied
- CBS processes to ensure compliance with Payment Card Industry requirements needed improvement.

Responding to these matters, AGD advised it would investigate updates to LOGIC to restrict licence approval and the need to manually calculate fees. It would also update policies for fee processing and fee waivers and review delegations for licence approval. Staff will be reminded of the importance of completing all elements of license checklists and CBS will review relevant policies and processes to ensure Payment Card Industry compliance.

Births, Deaths and Marriages

AGD's internal auditors also reviewed Births Deaths and Marriages' (BDM's) revenue processes. There were opportunities to improve:

- accountability for security paper (on which certificates are printed) by completing manual registers. It was also identified that alternative systems, including barcoding, could be investigated to improve this process
- data security for BDM data used by BDM contractors through better security over data transferred to the contractor and confirmation that all data used by the contractor was deleted once processed and transferred back to AGD. Physical security of manual records could also be improved
- documentation outlining indicators of potentially suspicious transactions, including documenting the escalation process to the appropriate authority.

AGD indicated it would develop revised procedures to ensure security paper was managed appropriately and consult with other Australian registries to investigate alternative options to manage security paper.

AGD also confirmed improved security measures would be implemented for data transferred to BDM's contractor for processing and that the contract with this company would be amended to require confirmation that data was deleted and that data was secured appropriately during processing.

Additionally, AGD advised it would improve physical security for manual records and develop guidelines for identifying, dealing with and escalating cases of potential suspicious transactions.

Residential Tenancies Fund

No current service level agreement (SLA) between Housing SA and CBS

At the time of our 2015-16 audit, we noted the SLA between Housing SA and CBS remained unsigned. This is consistent with our 2014-15 finding. The SLA documents the roles and responsibilities of the Residential Tenancies Fund and Housing SA for the operations of the Bond Guarantee Scheme and the Cash Bond Scheme. It also outlines the management of matters under the *Residential Tenancies Act 1995* as they relate to housing managed by Housing SA on behalf of the South Australian Housing Trust. The SLA had not been updated to reflect that the South Australian Civil and Administrative Tribunal was established in March 2015, replacing the Residential Tenancies Tribunal.

AGD advised it anticipated the SLA with Housing SA would be finalised by 30 November 2016.

Bond Management System user access reviews not performed

We reviewed quarterly user access reviews for the Bond Management System. Of the four reviews, documentation for two could not be located and the remaining two showed no evidence of the review of the user access listing.

AGD indicated staff were reminded of the requirement to undertake effective user access reviews.

Crown Solicitor's Office

Victims of Crime (VOC) payments/claims internal review process documentation can be improved

The Crown Solicitor's Office (CSO) Business Services section conducts internal reviews of VOC matters to review compliance with the 'Procedure for assessment and payment of claims under the *Criminal Injuries Compensation Act 1978* and *Victims of Crime Act 2001*' (the procedure), implemented in April 2014.

The internal reviews involve randomly selecting 10 VOC claim files each quarter and reviewing compliance with key processes outlined in the procedure. This particularly focuses on segregation of duties between assessment and payment of claims.

We identified that there was no formal procedure outlining the steps of the internal review process. The procedure was scheduled for update in March 2015, although AGD advised some processes were under review which may result in amendments to the procedure.

AGD responded that the process for the quarterly internal review of VOC claim files would be documented.

Crown Solicitor's Trust Account (CSTA) holding reports were not all reviewed promptly

Monthly reviews of the CSTA holdings are performed to ensure matters listed in the holding reports are valid and accurate, appropriate funds are lodged in the CSTA, the matters are relevant to the business and the balance reflects file records. We have previously identified issues with these reports being reviewed promptly. In response, AGD advised that holding reports would be reviewed and returned within one week.

We found that the August 2015, January 2016 and June 2016 holding reports for some areas of the CSO were not reviewed promptly. Delayed review of these reports could result in inappropriate funds being held in the CSTA but not identified, therefore misstating funds held in the CSTA, cash and liability balances.

AGD advised business units would be reminded of the need to complete the review of holding reports within the time frame provided and non-compliance would be followed-up.

Fines Enforcement and Recovery Unit

Policies and procedures still need development

Following the creation of the Fines Enforcement and Recovery Unit (FERU), work has been done to develop internal policies and procedures reflecting the FERU's business processes. Our previous audits, and work by AGD's internal auditors, have identified further work was needed to document or formally approve policies and procedures.

We noted progress in this area in 2015-16. However, as at 23 May 2016, a number of policies and procedures were still being developed or had not been approved. We understand that since July 2015 additional resources have been assigned to focus on this area.

In the absence of documented and approved policies and procedures, controls and processes may not be performed consistently or as intended by management.

AGD advised the FERU would continue to work on policies and procedures in 2016-17.

Daily close-off processes not always prompt or fully documented

FERU finance staff perform a daily close-off process for the fines system to ensure amounts received match the amounts recorded in the fines system and the amounts to be banked. This process also ensures amounts are promptly recognised and allocated against the correct outstanding amount and that receipts are banked promptly.

Our review of daily close-off processes noted instances where the:

- independent review was not performed promptly
- independent reviewer did not include the date of their review, meaning timeliness could not be assessed
- preparer had not signed and dated the reports
- close-off reports did not have any external agency supporting documentation.

The prompt independent review of daily close-off processes ensures amounts processed through the fines systems are appropriate and minimises opportunities for the misappropriation of funds.

AGD responded that the FERU would review current processes and implement a quality assurance program to monitor compliance.

Fine revocations not covered by existing policies

A Report of Pecuniary Penalties Written-off is produced daily and lists all fines that have been waived, written-off and withdrawn. Our 2015-16 audit identified instances where FERU staff had revoked fines. Fines are revoked when they should not have been charged and enforced, generally following disputes and a review.

The established delegations did not provide limits for revocations, with limits only provided for waivers and write-offs. There was no policy guidance on who can process revocations. Given revocations result in fines being removed from the system, there should be accountability for these decisions.

AGD advised the FERU would implement a separate procedure for the review of revocations of enforcement determinations. Where necessary, AGD indicated revocations would be referred back to the issuing authority.

FATE user access review not formally undertaken for 2015-16

We identified that a draft procedure had been developed for adding, deleting and modifying user access to the FATE system, including the regular review of user access, but had not been approved.

We also found that a user access review was undertaken in July 2015, based on April 2015 data. We understand that additional informal reviews of user access were performed in 2015-16, but that formal reviews were not performed.

Where user access reviews are not performed regularly there may be users with inappropriate access to FATE, potentially resulting in unauthorised changes being processed to system data. This could lead to the misstatement of revenue balances in the financial statements.

AGD responded that the procedure for the review of FATE user access would be finalised and implemented by the end of September 2016.

Transfer of VOC recovery debts from CSO to FERU could be improved

The VOC recovery section forms part of the FERU. Compensation can be paid to a victim when an offence is committed against them. Where a court judgement is obtained by the CSO against the offender(s), amounts can be recovered by the FERU for the VOC Fund.

Once judgement on a debt is obtained by the Crown, the CSO notifies the FERU that a judgement order has been made for the defendant to pay (by way of recovery) the amount of the statutory compensation paid to the victim. The VOC recovery section then contacts the defendant to establish a payment arrangement to recover the debt.

The CSO notifies the VOC recovery section about judgements and the amounts to be recovered through emails.

We noted discrepancies between the number of judgements that were considered to have been transferred by the CSO and the number received by the VOC recovery section for 2015-16.

To ensure the transfer and receipt of information is complete and accurate and that debts are collected we recommended AGD establish a consistent process for transferring judgements and recovery amounts from the CSO to the VOC recovery section.

We also recommended regular reconciliations be performed to ensure all information is transferred completely, facilitating the prompt recovery of compensation payments.

AGD responded it would document the process for the transfer of information between the CSO and the VOC recovery section by 31 October 2016. AGD also advised an interface between the CSO LawMaster system and the VOC recovery section's system had been implemented, incorporating a reconciliation of transferred data.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of AGD under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Information and communications technology and control

Information and communications technology (ICT) general controls review

We performed a high level review of AGD's ICT management arrangements. Our review noted certain ICT policies and the documented ICT strategy needed updating, and remediation of issues from previous reviews of security and change management was not complete.

AGD advised a number of policies had been endorsed by the AGD ICT Security Committee and would be distributed to staff for consultation. AGD also provided the time frames to finalise the other matters raised.

Laboratory Information Management System (LIMS) acquisition

LIMS is being implemented by Forensic Science SA to replace its legacy systems. A preferred vendor was selected in March 2012 and the cost of the system, including initial configuration and support, over 20 years amounted to $4.712 million. Actual total project expenditure reported in April 2016 was $6.086 million against a total budget of $7.074 million.

The system is being implemented in a number of stages.

We reviewed implementation progress for LIMS. We were previously advised that system implementation had been delayed from October 2015 to February 2016. More recent advice indicated that the first phase (of a two phase implementation approach) would now occur in June 2017. The second phase implementation is expected to be determined after the first phase is complete.

We recommended Forensic Science SA be more transparent in reporting the project's progress on system testing activities, especially as the implementation budget had been largely consumed. In our view, reporting should include effort expended and remaining effort to completion for system testing activities.

AGD responded that detailed reporting was provided to the project steering committee and that additional reporting on the testing phase would also be reported.

Residential Bonds Online (RBO) portal review

The RBO portal is a system used to help manage residential bonds lodged by landlords and real estate agents for rented housing. The system is also used by certain authorities to browse rental information.

We reviewed selected controls for this system including areas of security management, change management and backup and recovery.

We recommended that documentation for RBO application security be improved by including specific details of non-departmental users.

We also identified the need to improve disaster recovery documentation for the system by obtaining information from the external service provider responsible for this aspect of the system's management.

AGD advised the external service provider was expected to provide additional application security and disaster recovery information by 30 September 2016.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	156	146
Supplies and services	68	68
Other expenses	19	22
Total expenses	243	236

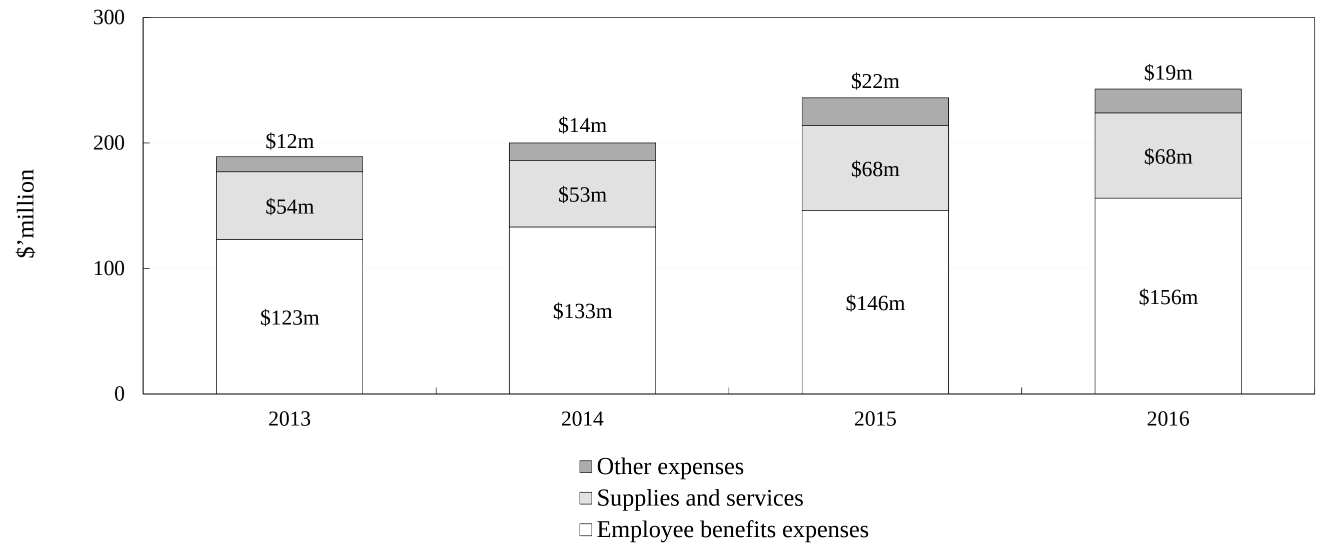
Income		
Revenues from fees and charges	103	102
Recoveries	19	16
Other	11	12
Total income	133	130
Net cost of providing services	110	106
Revenues from SA Government	112	106
Net result	2	-
Other comprehensive income	-	5
Total comprehensive result	2	5
Net cash provided by (used in) operating activities	5	12
Assets		
Current assets	49	44
Non-current assets	34	33
Total assets	83	77
Liabilities		
Current liabilities	27	29
Non-current liabilities	41	36
Total liabilities	68	65
Total equity	15	12

Statement of Comprehensive Income

Expenses

During 2015-16 total expenses increased by $6.5 million to $243 million. This included increases in employee benefits expenses of $10.3 million and depreciation of $2.2 million. These increases were offset by decreases in grants and subsidies of $2.6 million and other expenses of $3.5 million.

The following chart analyses the main expense items for AGD for the four years to 2016.



Employee benefits expenses represent 64% (62%) of total expenditure (refer note 5 of the financial report for details).

The increase in employee benefits expenses mainly reflects additional staff associated with the transfer of State Records of South Australia (State Records) ($3.6 million), the impact of enterprise bargaining agreement indexation ($3.6 million) and employing additional staff at the FERU ($964 000).

The increase in depreciation and amortisation expense is mainly due to the increased value of leasehold improvements following the 2014-15 revaluation. Amortisation expenses for intangible assets also increased due to the capitalisation of work in progress projects of $1.8 million over the last two years.

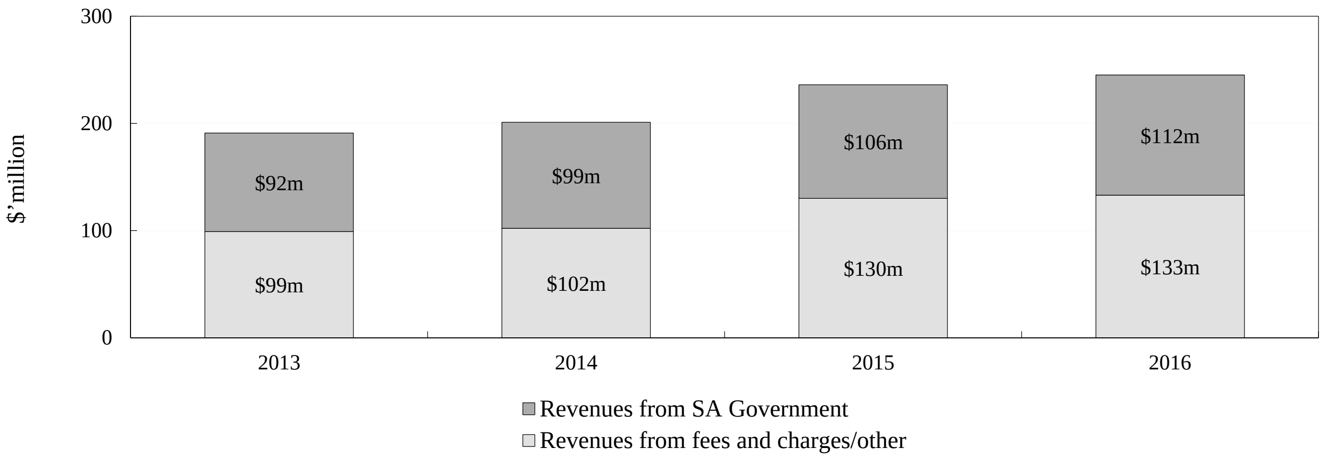
Grants and subsidies expenses decreased mainly due to one-off funding for the Safe City program ($800 000) in 2014-15 and the effect of a one-off payment of $1 million made by SafeWork SA in 2014-15.

The reduction in other expenses is mainly due to a $4 million revaluation decrement of SafeWork SA facilities in 2014-15.

The main components of supplies and services are accommodation expenses of $22.6 million and ICT expenses of $17.5 million.

Income

The following chart analyses the main sources of income, excluding donated resources, for AGD for the four years to 2016.



AGD collected $103 million in fees and charges which represents 78% of total income, excluding revenues from the SA Government. Fees and charges collected in 2015-16 mainly comprise $55.7 million of licence and regulatory fees, $22.3 million in legal services fees and $11.9 million of network services fees.

Recoveries increased by $3.1 million due to an increase in recoveries from the Industrial Relations Court and Commission of $2.9 million. This increase reflects the establishment of the South Australian Employment Tribunal.

Grants and subsidies received fell by $2.2 million due to a decrease in grants following the abolishment of Medical Panels SA.

Revenues from the SA Government increased by $6.5 million to $112.5 million, mainly due to $5.9 million in funding for State Records.

Statement of Financial Position

Total assets increased by $5.7 million to $82.7 million. This increase is mainly due to an increase in lease incentive receivable of $2.3 million and a $1.9 million increase in intangible assets.

The increase in lease incentives receivable is from the renewal of the lease for Chesser House for seven years from 1 July 2015.

The increase in intangible assets is a result of capitalising a number of IT systems: LIMS ($1.2 million), the case management system for the South Australian Employment Tribunal ($569 000) and a new fines system ($708 000).

Total liabilities increased by $2.5 million to $67.9 million mainly due to an increase in employee benefits of $6.4 million and an increase in lease incentive liabilities of $1.7 million. These increases were offset by a $5.4 million decrease in payables.

The increase in employee benefits is mainly due to the transfer of State Records employees ($963 000) and an increase in long service leave liabilities of $4.6 million. Long service leave liabilities increased mainly due to a reduction in the bond rate used in the calculation of the liability compared to 2015. The increase in the lease incentive liability relates to the renewal of the Chesser House lease mentioned above.

The decrease in payables is mainly due to a decrease in accruals and creditors of $6.2 million. These decreases are offset by an increase in employee on-costs of $814 000, driven by higher employee benefits liabilities.

Statement of Cash Flows

Cash from operating activities decreased by $7.5 million in 2016 as a result of increased employee benefits payments and payments for supplies and services due to the inclusion of State Records from 1 July 2015. Grants and subsidies decreased by $975 000 mainly as a result of one-off funding in 2014-15.

Cash inflows for fees and charges increased by $10 million, recoveries increased by $2.8 million, and there were increased receipts from the Commonwealth of $1.1 million and from the SA Government of $6.5 million. These increases were offset by a $14.6 million decrease in cash from grants and subsidies.

Highlights of the financial statements – administered items

The administered items of AGD are identified in note A1 to the administered financial statements.

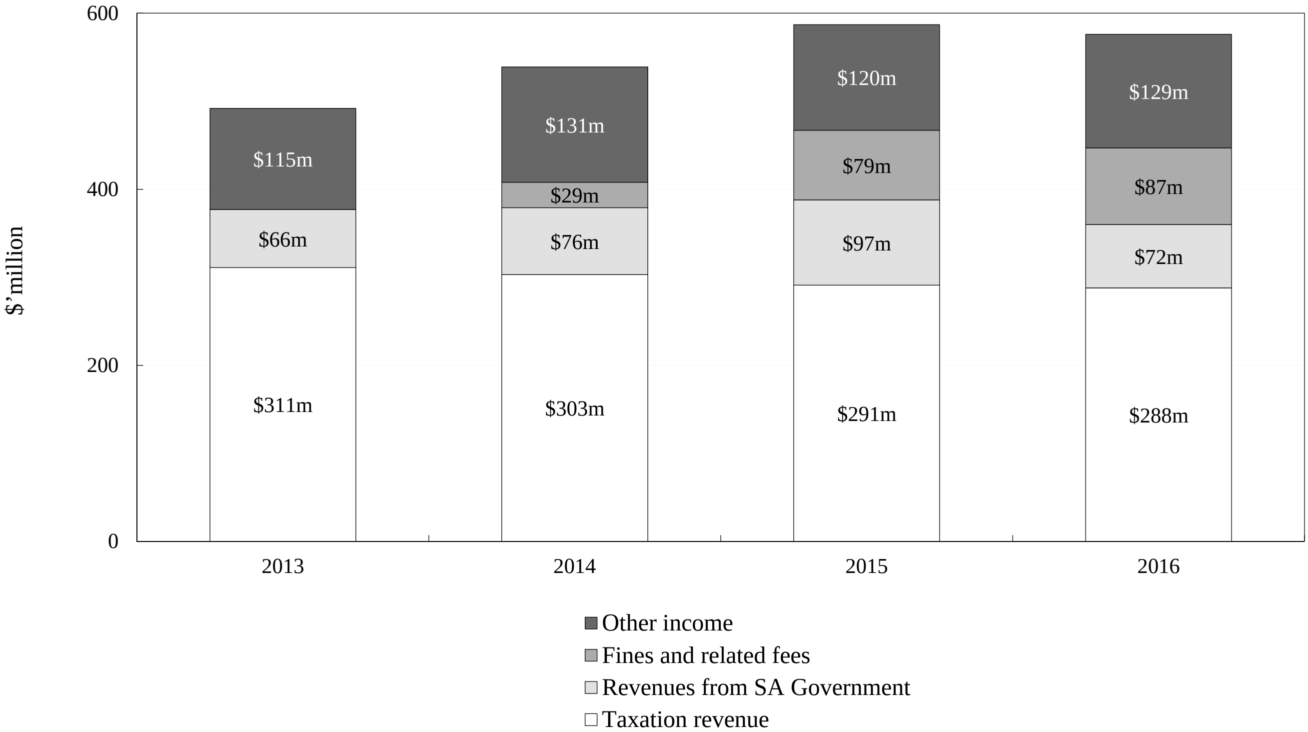
	2016 $'million	2015 $'million
Expenses		
Payments to Consolidated Account	362	358
Grants and subsidies	47	43
Other expenses	141	130
Total expenses	550	531
Income		
Taxation revenue	288	291
Revenues from SA Government	72	97
Fines and related fees	87	79
Victims of Crime levies	42	43
Other income	87	77
Total income	576	587
Net revenue from providing services	26	56
Other comprehensive income	3	3
Total comprehensive result	29	59

	2016 $'million	2015 $'million
Net cash provided by (used in) operating activities	34	56
Assets		
Current assets	582	553
Non-current assets	210	200
Total assets	792	753
Liabilities		
Current liabilities	130	127
Non-current liabilities	99	92
Total liabilities	229	219
Total equity	563	534

Statement of Administered Comprehensive Income

Income

The following chart analyses the main sources of AGD's administered income for the four years to 2016.



Total administered income decreased by $11 million to $576 million ($587 million) largely due to decreased revenues received from the SA Government of $24.5 million and taxation receipts of $3.2 million. These decreases were offset by an increase in fines and related fees of $7.7 million, an increase in SAGRN recoveries of $1.1 million and an increase in recoveries and other income of $5.4 million.

The overall decrease in revenues from the SA Government reflects:

- a $13.8 million decrease in funding for SAGRN, with this funding carried over to future years
- a $3 million decrease for the Independent Commissioner Against Corruption mainly due to lower capital program requirements in 2015-16

- a $15.9 million decrease in funding for Native Title matters as a result of a lower number of claims
- offsetting increases of $3.6 million in funding for legal aid, $3.5 million in funding to the State Rescue Helicopter Service and $2.6 million to fund the Nuclear Fuel Cycle and Child Protection Systems Royal Commissions.

AGD's administered income includes taxation receipts collected on behalf of the SA Government. These are mainly gaming tax collected under the *Gaming Machines Act 1992* (GM Act).

AGD collected $288 million in administered taxation revenue, which represents 50% of total administered income for 2015-16. AGD also collected $87 million from fines and related fees and $42 million in VOC levies, accounting for a further 22% of administered income.

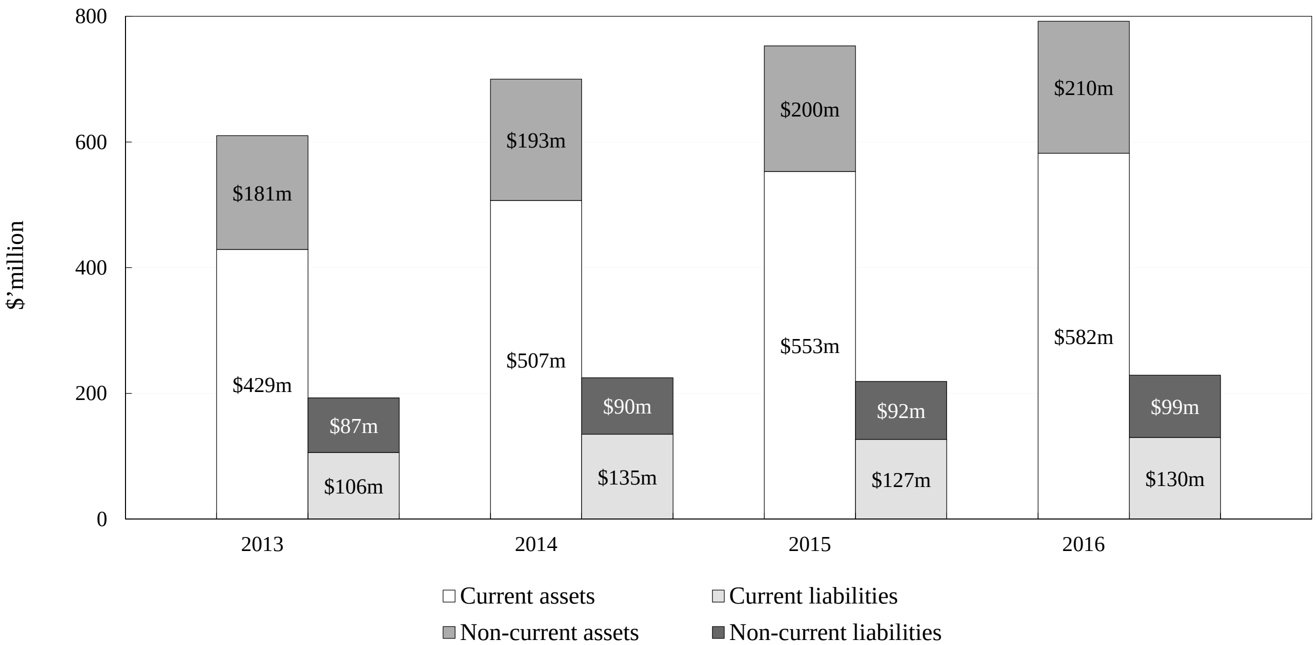
Expenses

Total administered expenses increased by $18.9 million to $550 million. Payments to the Consolidated Account of $362 million (mainly for gaming taxation) and grants and subsidies of $47 million, principally paid to the Legal Services Commission, are AGD's largest administered expenses and represent 74% of total expenditure.

The increase in total expenses is mainly due to a $3.9 million increase in payments to the Consolidated Account as a result of increased collections from outstanding fines and related fees, offset by reduced taxation revenue, a $5.1 million increase in State Rescue Helicopter Service charges and a $6.6 million increase in other expenses. The increase in other expenses is largely due to a $1.6 million increase in suitor payments, $2.3 million increase in consultant costs and gaming machine trading round disbursements of $1.8 million.

Statement of Administered Financial Position

The following chart analyses the administered assets and liabilities of AGD for the four years to 2016.



Total assets increased by $39 million to $792 million. This was mainly a result of increases in cash and cash equivalents of $17 million, an increase in investments of $18.7 million and an increase in property, plant and equipment of $1.6 million.

The cash position at 30 June 2016 is a result of increased receipts for fines and related fees, bond lodgements and other receipts. These are discussed further under the heading 'Statement of Administered Cash Flows' below.

AGD also administers investments totalling $272.5 million in common funds operated by the Public Trustee that are exposed to movements in the value of the underlying common fund assets. Investments increased by $18.7 million during 2015-16 due to a combination of additional purchases and investment market value movements.

Total liabilities increased by $10.4 million to $229 million due mainly to an increase of $9.6 million in other liabilities. This increase mainly results from a $7.7 million increase in security bonds lodged.

Statement of Administered Cash Flows

The net cash provided by operating activities decreased by $22 million to $34 million, reflecting increased cash payments and decreased cash receipts.

The decrease in cash receipts was mainly a result of a $3.2 million decrease in taxation receipts and a $24.5 million decrease in receipts from the SA Government (as discussed above). These decreases were offset by an $8.4 million increase in bond lodgements and an increase in fines and related fees of $6.5 million.

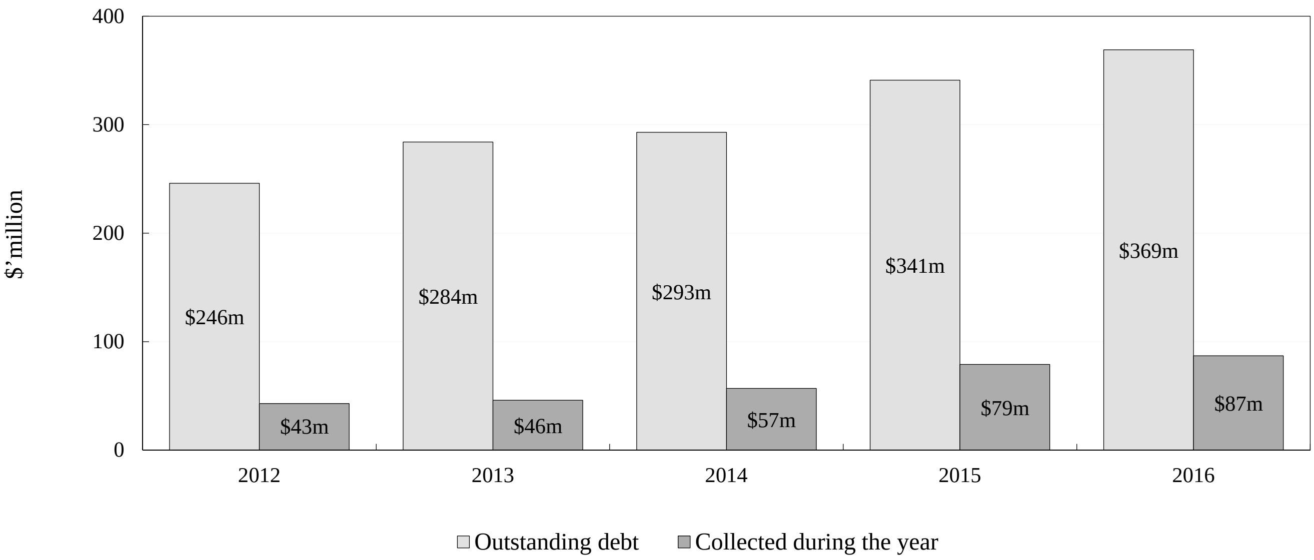
The increase in cash payments was the result of a $4.4 million increase in bond refunds and a $4.3 million increase in employee benefit payments. Other payments also increased by $13.3 million, offset by a decrease in payments to the Consolidated Account of $11.5 million due to reduced taxation receipts.

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). The FERU 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.

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



2012-13 figures represent collections by the Courts Administration Authority (previously responsible for this function), while 2014 collections were undertaken by the Courts Administration Authority until February, and the FERU after that date.

The chart highlights that, while outstanding debts have continued to increase, the level of collections since the FERU was established also increased significantly in 2015 and further in 2016. 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 2015-16 fines lodged with the FERU totalled $200 million ($191 million). Total collections of $116.1 million ($107 million) (including VOC amounts) included $99.6 million ($91 million) collected on behalf of the SA Government and $16.5 million ($16 million) on behalf of non-government entities, including local government councils.

The FERU collects VOC recoveries, which are discussed further below.

An external debt collection agency was used by the FERU to help collect outstanding amounts, particularly those that were more difficult to recover. From the start of the contract until 30 June 2016 the external debt collection agency has collected $6.1 million in outstanding amounts, and entered into payment arrangements for further repayments.

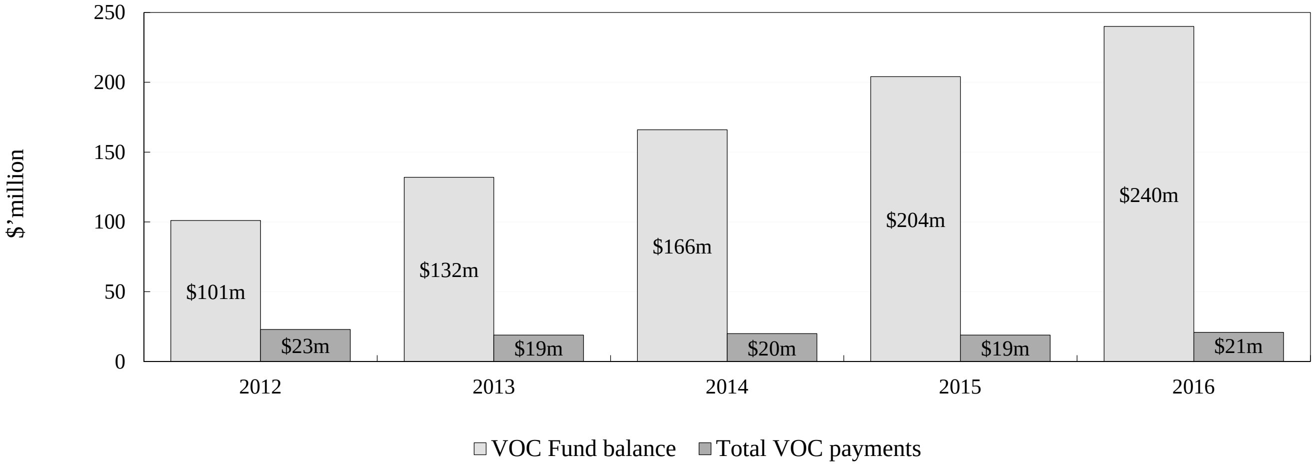
Of the $369 million ($341 million) in total outstanding debt and related payments, $321 million ($295 million) is under active management, with $161 million ($148 million) subject to payment arrangements and $42 million ($101 million) having been referred to the external debt collection agency. $48 million ($47 million) is not under active management because of the assessed difficulty of recovery.

The FERU is currently replacing the existing fines management system, with implementation expected to commence in 2017-18.

Victims of Crime Fund

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

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



The maximum compensation that can be awarded under the VOC Act is $100 000, 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 $640 000 ($770 000).
- Outstanding amounts at 30 June 2016 were $88.1 million ($89.6 million). $26.1 million ($35.2 million) of this amount is the subject of a judgement and is being actively managed. The remaining $62 million represents amounts paid in compensation for which no judgement has occurred because the offenders have either not been identified or prosecuted as yet.

A further $1.9 million ($1.5 million) was recovered from offenders under the *Criminal Asset Confiscation Act 2005*.

To supplement these funds a levy is imposed by the VOC Act on all people convicted of offences and on expiation notices. Total VOC income for 2015-16 was $56.5 million ($58 million) and included VOC levies totalling $42 million ($43 million) and revenues from the SA Government of $8 million ($8 million). Total VOC expenses for 2015-16 were $21 million ($19 million) and included compensation payments of $13 million ($13 million), grants of $4 million ($4 million) and legal and other costs incurred in the administration of the VOC Fund of $3.6 million ($3 million).

The net result for the VOC Fund was a surplus of $35.6 million. Total cash and cash equivalents as at 30 June 2016 were $240 million ($204 million).

Taxation

Taxation revenue for 2015-16 totalled $288 million ($291 million). This mainly comprises gaming machine taxes totalling $284 million ($287 million).

Gaming machine administration

Section 5 of the GM Act provides that the Liquor and Gambling Commissioner is responsible to the Independent Gambling Authority 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 prior to 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 new approved trading system was introduced to allow eligible people to purchase and sell gaming machine entitlements. Full details are prescribed in the Gaming Machines Regulations 2005.

Under the new 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 four years to 2016.

	2016 Number	2015 Number	2014 Number	2013 Number
Machines (installed as at 30 June)	12 337	12 377	12 561	12 613

	2016 $'million	2015 $'million	2014 $'million	2013 $'million
Turnover	8 000	8 055	7 966	7 911
Amount won	7 282	7 329	7 265	7 180
Net gambling revenue	719	726	731	731
Tax	284	287	288	286

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 2015-16 operations, the audit of the IGC is complete and an unmodified Independent Auditor's Report was issued for the 2015-16 financial report of the IGC.

Residential Tenancies Fund (RTF)

The *Residential Tenancies Act 1995* (RT Act) is administered by the Commissioner for Consumer Affairs and included as an administered activity of AGD. 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 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 during 2015-16 increased by $8.4 million to $96.4 million ($88 million). Security bonds refunded for 2015-16 increased by $4.4 million to $86 million ($82 million).

Investments of fund amounts totalling $211 million are held by the Public Trustee in common funds. These are exposed to movements in the value of the underlying common fund assets. Investments increased by $15.9 million during 2015-16.

Public Trustee

Financial statistics	Profit before income tax equivalents:	$14 000
	Fees and charges revenue:	$21 million
	Number of FTEs:	170.24
	Number of estates under administration:	7805
	Total value of trust funds under administration:	$1.4 billion

Significant events and transactions

Public Trustee approved a change to its investment portfolio strategic asset allocation in 2015-16, increasing the allocation of funds to the Property common fund. This change led to an increase in the value of Property common fund assets of $22 million, with a comparable decrease in assets held in the Overseas Shares common fund to rebalance the portfolio.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issue:

— Estates expenditure sample testing for appropriate authorisation not being performed

Functional responsibility

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*. 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. For information about Public Trustee's objectives refer note 1 of the corporate financial report.

Scope of the audit

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

The 2015-16 audit covered the corporate, trust and common fund operations of Public Trustee.

Specific areas of audit attention included:

- corporate governance
- expenditure
- payroll
- revenue
- cash and investments
- client assets
- fund manager reporting
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by Public Trustee in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matter outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of Public Trustee have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Public Trustee. The main matter raised and the response received is detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to Public Trustee, as part of arrangements for the Attorney-General's Department, are also described below.

Trust operations

Estates expenditure sample testing for appropriate authorisation not being performed

We have previously identified that payments for invoices with a value of less than $25 000 were not reviewed to ensure appropriate authorisation was given before processing. While evidence of approval was reviewed, no assessment was made of whether the approving officer had the appropriate delegation for that payment type or amount.

In 2014-15 Public Trustee implemented a signature register for easier identification by accounts payable officers of those officers authorising payments. In 2015-16 it implemented a sampling approach to ensure that payments for invoices under $25 000 were approved within delegation limits.

Our review of this sampling process in 2015-16 found that it was not operating as intended. The procedure requires weekly reviews of a sampled batch of payments, however the sampling batch register showed that this had not occurred weekly for the period reviewed. The audit also identified important information that was not recorded in the signature register.

Given the significant volume of transactions undertaken by Public Trustee for estates and the large number of payments for amounts under $25 000, there is a risk that inappropriate, unauthorised or invalid transactions could be processed against estate funds.

Public Trustee acknowledged that the sampling process was not effectively in place throughout 2015-16 and has reminded staff of their responsibilities for this review. Public Trustee has also accepted our recommendations to improve the information on the signature register and reminded responsible authorisers not to exceed their delegation limit.

Shared Services SA – payroll transaction processing environment

SSSA processes payroll transactions for Public Trustee as part of the overall arrangements for the Attorney-General's Department under a service level determination.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the corporate financial report

	2016 $'million	2015 $'million
Income		
Fees and charges	21	21
Other revenues	2	2
Total income	23	23
Expenses		
Employee benefits	15	15
Supplies and services	6	6
Other expenses	2	1
Total expenses	23	22
Profit (Loss) before income tax equivalents	-	1
Income tax equivalents*	-	-
Profit (Loss) after income tax equivalents and total comprehensive result	-	1
Net cash provided by (used in) operating activities	-	1
Assets		
Current assets	8	8
Non-current assets	24	25
Total assets	32	33
Liabilities		
Current liabilities	3	3
Non-current liabilities	5	6
Total liabilities	8	9
Total equity	24	24

* Income tax equivalents expense of $4000 in 2015-16 ($347 000).

Statement of Comprehensive Income

Income

Public Trustee's main source of income is fees and charges, which principally comprise commissions from managing trusts and management fees for investing common funds. Fees and charges income remained relatively stable in 2015-16.

Common fund management fees are set at 1% p.a. (charged monthly) in accordance with the *Public Trustee Act 1995*, based on the level of funds invested. These fees have increased slightly during the year as the overall average monthly value of common funds was higher in 2015-16.

The increase in management fees has been offset by lower collections of commissions, which are directly affected by the types and number of estates being administered and the nature of the assets held.

Personal estate commissions decreased as a result of a minor reduction in the number of estates and a decline in the value of Court awards administered. The number of customers under administration who are not charged fees increased slightly. Deceased estate commissions decreased due partly to the timing of receiving probate orders from the Court.

Other revenues increased by $357 000 in 2015-16 mainly as a result of increased distributions from investments.

Expenses

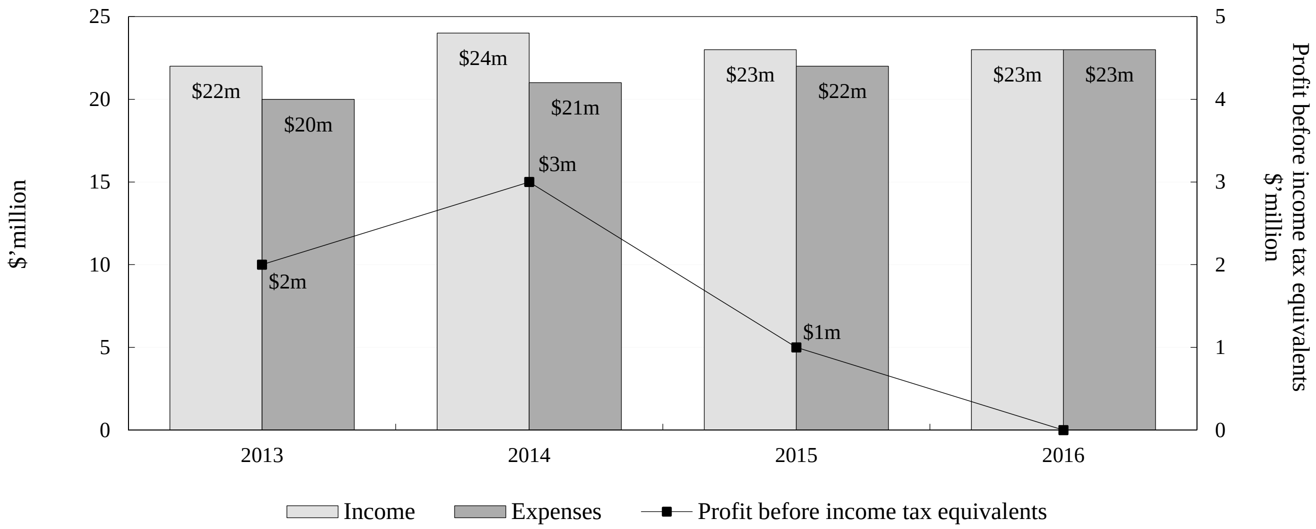
Employee benefits account for 65% of total expenses and remained relatively stable at $14.8 million in 2015-16. A 2.5% enterprise agreement increase for Public Trustee staff and an increase in the long service leave provision was offset by savings strategies implemented during the year.

Supplies and services increased by $333 000 to $6.2 million ($5.8 million). This was due to increases in accommodation costs, services paid to the Attorney-General's Department and insurance costs.

Unrealised losses on financial assets of $628 000 were incurred in 2015-16. In 2014-15 unrealised gains of $331 000 were reported. This difference was mainly due to market performance of Australian and overseas equities markets affected by international economic factors.

Net result

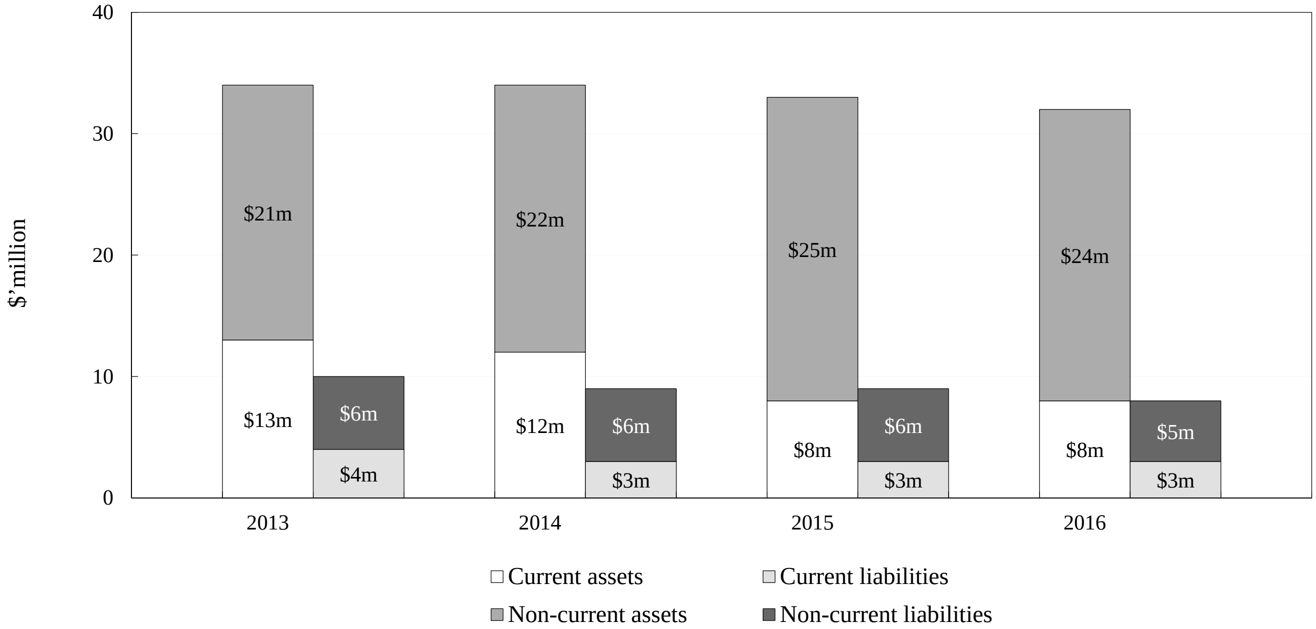
The following chart shows revenues, expenses and profit before income tax equivalents for the four years to 2016.



Profit before income tax equivalents of $14 000 ($1.2 million) decreased due to lower fees and charges revenue, unrealised losses on financial assets and higher supplies and services costs.

Statement of Financial Position

The following chart analyses assets and liabilities for the four years to 2016.



Assets

Current assets increased by $626 000 to $8.3 million during 2016, largely as a result of an increase in receivables due to the timing of receiving commissions from estates and an increase in investment income accruals.

Non-current assets decreased by $1.3 million to $24 million in 2016. This is due to a $624 000 decrease in the value of financial assets held and a net $718 000 decrease in the value of property, plant and equipment and intangible assets as a result of depreciation and amortisation expenses, partially offset by additions.

Liabilities

Current liabilities decreased by $196 000 to $2.8 million in 2016 as a result of decreased levels of accrued expenses and payables, partly offset by an increase in employee benefits liabilities.

Total non-current liabilities remained stable.

Statement of Cash Flows

Cash and cash equivalents decreased by $416 000 to $6.3 million in 2016. A payment of dividends to government of $229 000 outlined in note 13 of the financial report and payments for plant and equipment and intangibles of $204 000, offset by net cash provided by operating activities of $20 000, contributed to this decrease.

Interpretation and analysis of Statement of Trusts being Administered

The value of trust funds administered by Public Trustee in 2016 was $1.4 billion.

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

	2016 Number	2015 Number	2016 $'000	2015 $'000
Deceased estates	1 325	1 234	160 062	161 754
Trusts	1 280	1 313	120 819	123 760
Administration matters	382	356	41 595	40 620
Court award orders	836	794	387 204	398 241
Protected estates	3 400	3 332	310 322	292 454
Workers compensation awards	3	3	201	203
Powers of Attorney	306	311	57 832	60 905
Investors	273	283	315 892	301 116
	7 805	7 626	1 393 927	1 379 053

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 $313 million ($311 million) and superannuation of $112 million ($106 million).

Further commentary on operations

Common fund financial reports

Public Trustee operates seven common funds through which client funds are invested. These funds 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 following table summarises the annual net operating result and value of assets held for each common fund at 30 June 2016 and 30 June 2015.

	Net operating result		Assets	
	2016	2015	2016	2015
Common fund	$'000	$'000	$'000	$'000
Cash	8 558	10 298	*432 706	*429 088
Short-term Fixed Interest	993	1 391	49 546	52 046
Long-term Fixed Interest	3 584	3 671	91 842	94 409
Overseas Fixed Interest	1 555	1 226	44 304	38 969
Australian Shares	6 108	7 742	165 827	167 822
Overseas Shares	(2 219)	22 297	113 625	146 377
Property	9 100	4 908	75 605	49 089

* Includes $51 million ($62 million) deposited by other common funds.

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.

Public Trustee made a change to its strategic asset allocation in 2015-16, increasing the allocation of funds to the Property common fund from 5% to 7.5%. A resultant rebalancing of the strategic asset allocation led to a decrease in the allocation to the Overseas Shares common fund. This change in allocation resulted in a $20 million decrease in assets held in the Overseas Shares common fund and an increase in the value of assets held in the Property common fund of $22 million.

The table below details the performance of each SIS and its performance against Public Trustee's established benchmarks as at 30 June 2016. These figures have been provided by Public Trustee and are unaudited.

Standard investment strategy		1 year %	3 years %	5 years %
Cash	Performance	2.19	2.67	3.40
	Benchmark	1.23	1.51	2.10
Capital stable	Performance	3.35	5.31	5.64
	Benchmark	3.32	4.89	5.28
Balanced	Performance	4.27	7.58	7.70
	Benchmark	3.56	7.11	7.36
Growth	Performance	3.82	8.75	8.81
	Benchmark	2.35	7.96	8.09
Equities	Performance	1.19	9.94	9.78
	Benchmark	(0.62)	9.07	8.77

The performance of each SIS against benchmarks for 2015-16 was good overall with all exceeding the established benchmark.

Net operating result

The net operating results for all common funds except Overseas Fixed Interest and Property have decreased in 2015-16. For the Cash and Fixed Interest common funds this is due to an overall fall in interest rates compared to 2014-15.

The increase in the net operating result for the Property common fund is mainly due to an increase in the net gain on financial assets held for sale, reflecting more favourable market movements compared with 2014-15. The increase in the value of assets held in the Property common fund in 2015-16 has also contributed to this increase in net operating result through higher trust distributions.

The decrease in the net operating result for the Overseas Shares common fund represents less favourable market movements compared with 2014-15 and lower distributions because of a decrease in the number and value of assets held.

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

Assets

The common funds' assets in 2015-16 totalled $922 million, increasing by $6 million from $916 million in 2014-15.

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.

Auditor-General's Department

Financial statistics	Net cost of providing services: Total appropriation: Audit fees raised: Average number of FTEs:	$16.5 million $16.6 million $14.6 million 122
Significant events and transactions	The Department returned $1 million of surplus cash in accordance with the principles of the cash alignment policy of the Department of Treasury and Finance.	
Financial statement opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

The Auditor-General's Department operates to assist the Auditor-General in the discharge of 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 recommendation of the Treasurer, has appointed Nexia Edwards Marshall as auditor of the Department.

Nexia Edwards Marshall advised in their audit completion letter that there were no matters communicated to the Department for attention.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee expenses	12.7	11.7
Other expenses	3.8	3.6
Total expenses	16.5	15.3
Revenues from (Payments to) SA Government	15.6	16.2
Total assets	5.3	5.3
Total liabilities	5.4	4.4

Department for Communities and Social Inclusion (DCSI)

Financial statistics	Net cost of providing services:	$1.1 billion
	Total appropriation:	$1.1 billion
	Total assets:	$403 million
	Number of FTEs:	4385

Significant events and transactions

- The SA Government introduced a new Cost of Living Concession payment to replace council rate concessions. The amount paid to eligible recipients was $33 million.
- The demand for disability services continues to rise, with the net cost of providing services from the activities of Disability SA and Disability Services increasing by $65 million.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Weaknesses and failings in brokerage expenditure internal control arrangements and processes including limitations in contract management, complaints management and operational controls
- Recovery of payroll overpayments

Functional responsibility

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

DCSI ensures that all South Australians, particularly the most vulnerable and disadvantaged, have access to high quality services that protect and enhance the community’s wellbeing and provide support to people when they need it. DCSI is committed to delivering better and more connected services to the vulnerable and disadvantaged in our community, and to building engaged, socially inclusive, strong and vibrant communities.

DCSI also functions as a service provider to the South Australian Housing Trust through its Housing SA division.

For more information about DCSI’s objectives and functions refer notes 1 and 4 of the financial report.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

During 2015-16 specific areas of audit attention included:

- supplies and services
- brokerage expenditure
- concessions, grants, subsidies and client payments
- payments to non-government organisations (NGOs)
- payroll and employee entitlements
- Commonwealth and State revenues
- revenues from rent, fees and charges
- cash, banking arrangements and receivables
- non-current assets including works in progress
- financial accounting
- client trust accounts
- information and communications technology system controls
- financial management compliance program
- governance and accountability.

The audit also considered the implementation of the National Disability Insurance Scheme and its relationship with DCSI.

We also considered the nature of the review work undertaken by internal audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Communities and Social Inclusion in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of Department for Communities and Social Inclusion have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. The main matters raised with DCSI and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to DCSI are also described below.

Brokerage expenditure

DCSI purchases (brokers) services from NGOs to meet individual disability and domiciliary care services client needs.

The cost of brokerage expenditure, including domiciliary care, has increased significantly in recent years, rising from \$98 million in 2011-12 to \$168 million in 2015-16. Disability SA represents most brokerage expenditure, with \$162 million spent for the year ended 30 June 2016 on approximately 3960 clients.

Receipt of services

Past audits have recommended that DCSI improve controls to ensure that brokerage services provided by NGOs are adequately received by clients before making payment. DCSI was encouraged to consider:

- involving clients in substantiating receipt of services
- reviewing internal NGO documentation for client attendance and quality of services provided
- reviewing complaints/feedback mechanisms to target NGOs for further assessments.

During 2016, DCSI's Care Concerns Investigations Team and internal audit reviewed a particular service provider that has historically provided care and support services through brokerage arrangements. The team identified concerns about whether:

- the care provided by this service provider was in accordance with their contracted level of care

- this service provider charged for care not actually provided

- this service provider was able to adequately account for staffing arrangements to support care requirements when requested to do so.

Further services with this service provider were discontinued. The estimated amount under review for the period audited is $2.2 million.

The internal review identified weaknesses and failings in the DCSI internal control arrangements and processes, including limitations in contract management, complaints management and operational controls. We have raised many of these issues in previous correspondence with DCSI but little remedial action has been taken until recently.

We recommended that past external audit findings, together with recommendations from the ongoing internal reviews, be considered and action taken to strengthen internal controls. We acknowledged that some improvements were already implemented.

DCSI responded that it has developed and employed more controls, in addition to those implemented in response to past audit findings. The Request, Contract and Reconciliation (RCR) system's functionality has been further enhanced to allow further feedback from service recipients in relation to services that are not delivered in accordance with contracts.

Quarterly RCR system user access review

Brokerage payments are processed through the RCR system, with $162 million in expenditure for the 2015-16 financial year.

Follow-up of a prior year matter relating to the lack of regular user access checks of the RCR system revealed that work has started on a report to identify employee access permissions, to ensure only valid officers can access the system and/or make changes.

The RCR system is maintained overseas under cloud database arrangements. This presents additional access risks, as the source can be remotely accessed without passing through Disability SA databases.

We recommended that work on the RCR system access listing be finalised to ensure it provides appropriate information for checking user access. Once finalised, the report should be generated and reviewed regularly.

DCSI responded that work on the RCR system access listing is now finalised. The quarterly review of internal RCR user access is now fully operational and is embedded in operational procedures with appropriate management review.

Concessions

In past years we have raised concerns about the systems and processes used to administer concession payments to ensure that payments are only made to eligible recipients. In particular, DCSI identified that a number of overpayments were made to energy retailers where eligibility of recipients could not be validated.

In 2016 we conducted a review to quantify the extent of potential control failures and to determine whether concessions were accurate and applied only to eligible recipients. We also sought to understand whether there were any trends in validation issues by analysing data for the six years to 30 June 2015. The outcomes of this review were detailed in a Supplementary Report to Parliament tabled on 5 June 2016.

The status of matters specifically raised in last year's Report is detailed below.

Overpayments to energy retailers

DCSI is now self-generating invoices to send to energy providers. This ensures that only eligible people are receiving energy concessions. At the time of the audit, DCSI had brought to account all outstanding amounts overpaid to energy retailers. The recoveries were $2.24 million.

Reconciling payments to client records

In 2014-15 DCSI implemented a manual reconciliation process to match eligibility requirements for energy concessions. Our 2015-16 audit considered the effectiveness of this reconciliation process. We concluded that the reconciliation process is operating effectively.

Cost of Living Information system (COLIN)

An interim manual system was used to pay the Cost of Living Concession in 2015-16, while COLIN was developed and implemented. As at 30 June 2016, COLIN was still not fully implemented.

Payroll

Recovery of payroll overpayments

The timely recovery of debts is supported by SSSA's procedure for recovering overpayments, complying with Treasurer's Instruction 5 'Debt Recovery and Write Offs'.

We examined the DCSI debts as at January 2016 totalling $524 000 and noted:

- 30% of active debts have been escalated for further action
- 54% of active debts belong to current DCSI employees
- 22% of debts were at least 90 days old
- unexplained variances in reconciling the overpayments database to the general ledger.

DCSI responded it is in ongoing discussions with SSSA about overpayment recoveries. Action has been taken to follow up outstanding debts and address reconciliation issues. Where required, the Crown Solicitor's Office will be consulted about recovery items.

Other audit findings

The audit identified other areas where financial and control processes could be improved. These include:

- reviews of Basware user access to the financial authorisations register were not performed regularly throughout the year; payments in excess of delegation were identified
- CommBiz authorisation limits should be established in the banking system and documented for each affected DCSI bank account
- State Emergency Relief Fund (SERF) bank accounts were not reconciled promptly
- credit notes/adjustments were not always approved and reviewed in accordance with policy.

In response to the issues raised, DCSI advised that:

- on identifying the inconsistencies, the Basware delegations were updated to reflect the financial authorisations
- DCSI has an appropriately authorised instrument of financial delegation for general financial authorisations. DCSI has now extended the limiting of DCSI officers' authorisation access to CommBiz and will document these limits
- the SERF reconciliation identified was a general ledger reconciliation between total funds collected and the balance in the general ledger. DCSI will update the general ledger reconciliation procedure undertaken by SSSA to ensure that deposits and payments are reconciled to the SERF monthly
- DCSI is reviewing the Accounts Receivable Invoicing and Debt Management policy, which covers the raising of credit notes, to include an independent review by an appropriate delegate. DCSI is investigating with SSSA the options to change existing processes and associated forms to enforce this independent review. A DCSI update will be issued to communicate the responsibilities of officers raising and reviewing credit notes once the policy has been updated and endorsed.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DCSI under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2016 $'million	2015 $'million
Expenses		
Employee benefit expenses	402	382
Supplies, services and other expenses	352	300
Grants, subsidies and client payments	535	554
Total expenses	1 289	1 236
Income		
Rent, fees and charges	121	123
Commonwealth revenues	71	41
Other revenues	22	18
Total income	214	182
Net cost of providing services	(1 075)	(1 054)
Revenues from (Payments to) SA Government	1 062	1 055
Net result	(13)	1
Other comprehensive income	23	-
Total comprehensive result	10	1
Net cash provided by (used in) operating activities	10	39
Assets		
Current assets	198	178
Non-current assets	205	195
Total assets	403	373
Liabilities		
Current liabilities	124	108
Non-current liabilities	85	81
Total liabilities	209	189
Total equity	194	184

Statement of Comprehensive Income

Expenses

During 2015-16 total expenses increased by $53 million to $1.3 billion. This included an increase in employee benefit expenses ($19 million), supplies and services ($7 million) and other expenses ($48 million), offset by a decrease in grants, subsides and client payments ($19 million).

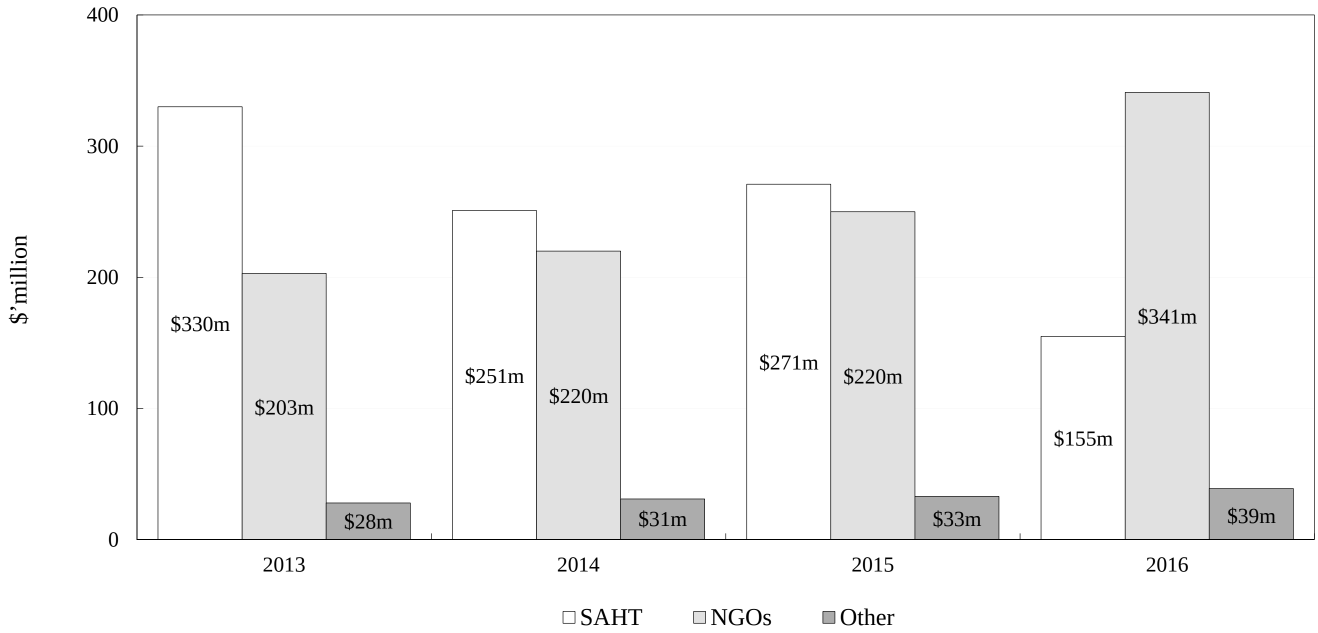
Grants, subsidies and client payments

Grants, subsidies and client payments of $535 million are DCSI's largest expenditure category. Note 8 of the financial report discloses a detailed list of grants, subsidies and client payments by program.

During 2015-16 grants, subsidies and client payments decreased by $19 million (3%). This was due to a $116 million decrease in grants paid to the South Australian Housing Trust. This is offset by the following increases:

- Specialist Homelessness Services grants of $60 million now being administered by DCSI, instead of the South Australian Housing Trust
- continued demand for disability grants, which resulted in an increase of $34 million to $258 million during the year.

The following chart highlights grants, subsidies and client payments by recipient type for the four years to 2016.



Funding to NGOs increased by $91 million and includes funding support for a number of new organisations. Refer note 8.1 of the financial report for a detailed list of NGO grants, subsidies and client payments by organisation.

Employee benefit expenses

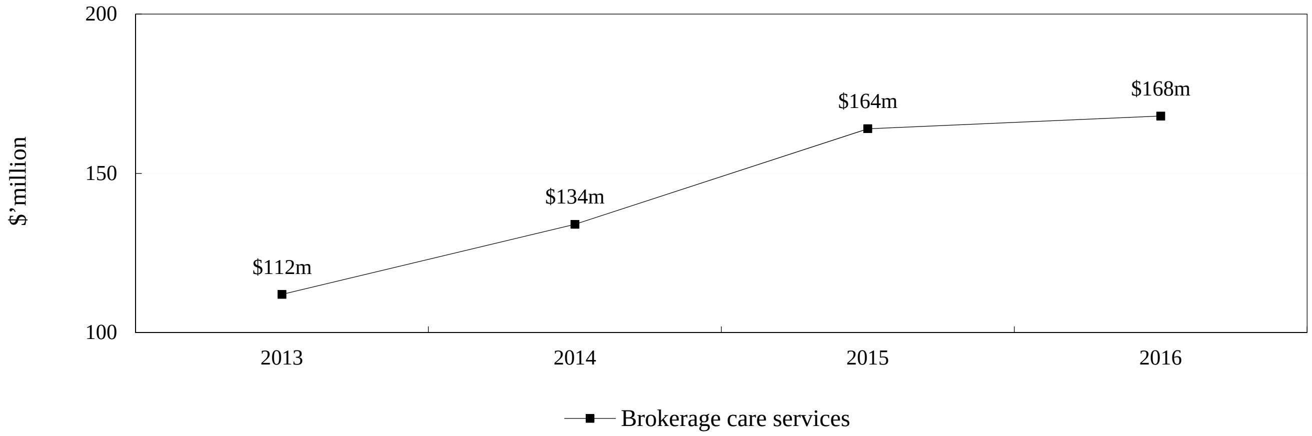
Employee benefit expenses increased by $19 million to $402 million. This is mainly due to:

- a $5 million increase in long service leave expense to account for an increase in the valuation of the long service leave provision resulting from a change in actuarial assumptions used. Such changes include a decrease in the discount rate used and an increase in the duration over which the liability is to be paid (from six years to nine years)
- a $9 million increase in workers compensation expense, as the prior year balance was abnormally low. Implementing the *Return to Work Act 2014* impacted the valuation provided by the actuaries for 2014-15. The current balance in 2015-16 is consistent with 2013-14 and previous years.

Supplies and services

During 2015-16 supplies and services expenses increased by $7 million to $273 million. Brokerage care services costs of $168 million account for 62% of this total.

The following chart highlights the continued growing demand for brokerage care services and the associated expenses for the four years to 2016.



Other expenses

The increase in other expenses is due mainly to a payment of $57 million to the Commonwealth, as part of the Aged Care and Disability Services Reform. In previous years, these payments were administered and recorded by the Department of Treasury and Finance (DTF).

Income

Commonwealth revenues

During 2015-16 Commonwealth revenues increased by $29 million to $71 million. This is due mainly to arrangements incorporated in the 'Transition to a National Disability Scheme' bilateral agreement. DCSI recognised the revenue from the Commonwealth for Specialist Disability Services of $30 million for 2015-16. Previously this revenue was recorded by DTF (refer note 11 of the financial report).

The Commonwealth revenues in the financial report only record funding received directly from the Commonwealth Government. The Commonwealth may also provide funding for DCSI programs that are received by DTF via its special deposit account or through the Consolidated Account. These revenues are included in SA Government appropriations in the financial report.

Revenues from rent, fees and charges

In 2015-16 revenues from rent, fees and charges decreased by $2 million to $121 million.

This is primarily due to a decrease in insurance recoveries of $1 million, and a decrease in fees, fines and penalties of $2 million.

Net result

The net result for 2015-16 was a deficit of $12 million, compared to a surplus of $1 million for 2014-15. This was due to an increase of $20 million in the net cost of providing services in 2015-16, offset by only a small increase of $7 million in SA Government funding.

Statement of Financial Position

Assets

Cash and cash equivalents of $141 million and property, plant and equipment of $186 million represent 81% of total departmental assets. Total assets increased by $30 million predominantly due to a full revaluation of property, plant and equipment that resulted in a revaluation increment of $24 million.

Non-current assets held for sale increased to $33 million at 30 June 2016 after the addition of identified surplus land and revaluations.

Liabilities

Total liabilities increased by $19 million to $208 million. The main reasons for the increase were:

- $23 million in employee benefits due to:
  - a $16 million increase in long service leave liability. The 30 June 2016 liability was calculated using the DTF model whereas previously DCSI used an independent actuarial assessment conducted by Mercers (Australia) Pty Ltd. Additional leave balances as well as actuarial assumptions impacted the valuation. Refer note 26 of the financial report for more information
  - a $5 million increase in accrued salaries and wages primarily for targeted voluntary separation packages approved but not paid as at 30 June
  - a $2 million increase in annual leave due mainly to increased leave balances.
- offset by a $5 million decrease in provisions due mainly to prior year provisions relating to salary underpayments being paid in full.

Statement of Cash Flows

The following table summarises the net cash flows for the five years to 2016.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Net cash flows					
Operating	9	39	36	26	61
Investing	(10)	(5)	(10)	(7)	(49)
Financing	-	-	(1)	-	-
Change in cash	(1)	34	25	19	12
Cash at 30 June	141	142	108	83	64

The movement in cash balances over the period reflects the outcome of the accrual budget process. DCSI is funded for budgeted expenses, which include non-cash items such as long service leave costs. Where the funded amounts exceed the actual amounts paid the balance is recorded as cash and held in the Accrual Appropriation Excess Funds Account with DTF.

Of DCSI's cash and cash equivalents balance of $141 million, $126 million is held in the Accrual Appropriation Excess Funds Account, which can only be used in accordance with the Treasurer's/Under Treasurer's approval.

Highlights of the financial report – administered items

	2016 $'million	2015 $'million
Expenses		
Grants, subsidies and client payments	196	191
Client trust fund payments	14	14
Other expenses	6	5
Total expenses	216	210

	2016 $’million	2015 $’million
Income		
Grants and contributions	10	12
Client trust fund receipts	14	14
Other income	5	3
Total income	29	29
Net cost of providing services	187	181
Revenues from (Payments to) SA Government	188	185
Net result	1	4
Other comprehensive income	(1)	2
Total comprehensive result	-	6
Assets		
Current assets	63	50
Non-current assets	30	31
Total assets	93	81
Liabilities		
Current liabilities	20	8
Total liabilities	20	8
Total equity	73	73

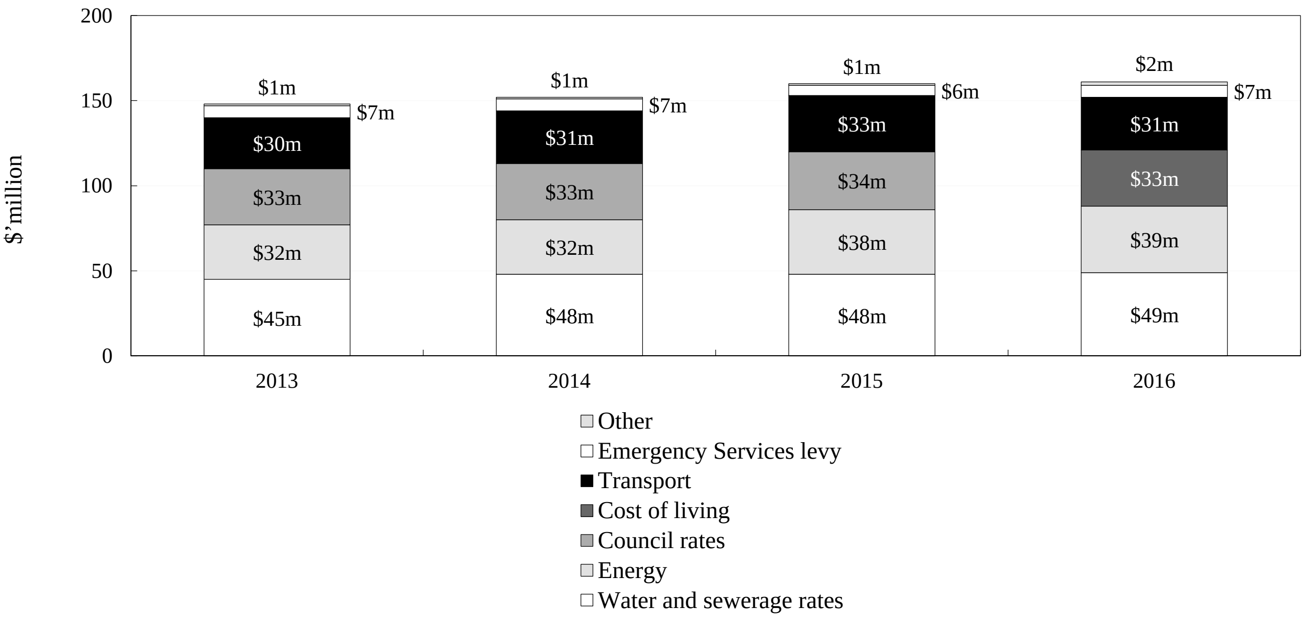
Statement of Administered Comprehensive Income

Administered expenses

Grants, subsidies and client payments of $196 million represent 91% of total administered expenditure.

Concession payments totalling $161 million comprise 82% of grants, subsidies and client payments. Concession payments remained consistent with the prior year, although the composition of concession types has changed. The Cost of Living Concession payment, which totalled $33 million, has replaced council rates concessions from 1 July 2015. Payments for all other concession types remained consistent with the previous year. Note A6 of the financial report discloses concession payments by type.

The following chart highlights concession payments by type over the four years to 2016.



DCSI estimates the following number of people received payments during 2015-16:

Concession type	Number
Transport	*
Water	170 000
Sewerage	127 000
Energy	192 000
Cost of Living (previously council rates)	183 000
Emergency Services levy	140 000
Other**	4 000

* The Department of Planning, Transport and Infrastructure advised approximately 18 million initial boardings were recorded by concession customers (excluding students and seniors) in 2015-16.

** Includes medical heating and cooling and residential parks.

There are approximately 200 000 households that received an SA Government concession in 2015-16. Some of the concession type numbers above may represent the same household and most of these households received more than one concession type during the year.

Department for Correctional Services (DCS)

Financial statistics	Net cost of providing services:	$285 million
	Total appropriation:	$285 million
	Total prisoner numbers at 30 June 2016:	2954
	Number of FTEs:	1932

Significant events and transactions

- Capital works provided an additional 230 prisoner beds, with a further 200 prisoner beds in progress and becoming operational in 2016-17.
- An equity contribution of $8 million was received in 2015-16 to fund capital projects.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Management of the Mount Gambier Prison contract:
  - no documented follow-up of discrepancies between key performance indicators in contractor's reports and DCS compliance audits
  - limited documentation of risks and risk management strategies
  - Strategic Contract Compliance policy needs review and updating
- Controls over workers compensation:
  - no reconciliation between the workers compensation and payroll systems
  - no review of income maintenance calculations
  - no documentation kept of the annual review of open claims

Functional responsibility

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

The functions of DCS include contributing to public safety by safely, securely and humanely managing offenders and providing opportunities for their rehabilitation and reintegration.

For details of DCS's functions refer note 1 of the financial report.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed about the financial report and internal controls. Specific areas of audit attention included:

- payroll
- accounts payable
- general ledger
- revenue
- fixed assets
- workers compensation
- management of the Mount Gambier Prison (MGP) contract
- governance.

We obtained an understanding of internal audit activities to identify and assess the risks of material misstatement in the financial statements and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Correctional Services in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Correctional Services have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit of DCS were detailed in a management letter to the Chief Executive. The main matters raised with DCS and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to DCS are also described below.

Management of the Mount Gambier Prison contract

The management of the MGP is contracted to G4S for five years. The contract is due to expire on 1 December 2016 and there is a right to an extension for another five years within the contract. For 2015-16 the amount paid under the contract is over $20 million.

Compliance reviews of key performance indicators

The MGP contract contains a 5% withholding fee. The contractor is entitled to the withholding fee if it meets the key performance indicators (KPIs) detailed in the contract. G4S provides monthly reports to DCS detailing its performance against the KPIs. A departmental contract compliance officer performs compliance audits to verify the data provided by G4S.

We noted discrepancies between some KPIs in the G4S reports and the compliance audits. We could not find any evidence that these discrepancies were followed up, addressed or reported to the contract manager or presented in the contract management meetings. This increases the risk of the incorrect withholding fee being paid and non-performance not being adequately addressed.

DCS responded that it has documented and implemented a process for discrepancies noted during the compliance reviews. Supporting documentation will be kept and presented in the contract management meetings.

Risk management

We noted that only one contract risk was documented and limited risk management strategies were identified. If risk management is not robust risks may not be identified, assessed, monitored and mitigated.

DCS advised it would document all risks and risk management strategies in relation the MGP contract by June 2016.

Policy and framework

We noted DCS's Strategic Contract Compliance policy, which includes the Strategic Contract Compliance Framework, was scheduled for review in April 2015, but this was not performed. It was last updated in August 2012 and several aspects were out of date. This may lead to staff being unaware of their roles and responsibilities and controls not being performed.

DCS responded that it had finalised the review of the Strategic Contract Compliance policy and the policy was to be approved and made available to staff by June 2016.

Workers compensation

DCS manages workers compensation in-house using the Self-Insurance Management System (SIMS). This system records both medical claims (payment of medical invoices) and income maintenance (salary payments). Workers compensation payments made in 2015-16 totalled $3 million.

SIMS data is used by the SA Government's actuary to determine the provision for workers compensation in the financial statements. The total workers compensation provision for 2015-16 was $10 million. The issues below mainly relate to controls in the income maintenance area.

Reconciliation between SIMS and CHRIS

Income maintenance payments are calculated manually and then sent to SSSA for processing and payment in the payroll system (CHRIS). Once paid, the administration officer enters actual income maintenance payments into SIMS based on a Payroll Summary Report from CHRIS.

We noted there was no reconciliation between CHRIS and SIMS to ensure all payments and adjustments were entered into SIMS. This increases the risk of SIMS being incorrect and incorrect payments not being identified.

DCS responded that it would implement a fortnightly reconciliation before the end of May 2016.

Review of income maintenance calculations

The administration officer is responsible for calculating the fortnightly compensation amount for an income maintenance claim. The calculations are generally complex due to various regulatory requirements. We found the calculations were not independently reviewed before being sent to SSSA for processing and payment, increasing the risk of incorrect calculations and payments.

DCS advised it would review a sample of income maintenance calculations prior to them being sent to SSSA for processing.

Annual review of open claims

Each year, prior to the actuarial assessment, the Office for the Public Sector requests that all workers compensation claims be reviewed to ensure all inactive claims are closed and all new claims have been updated to SIMS.

We have been informed the review does occur, however no evidence of the review or action taken is kept. This may result in SIMS being out of date, leading to an incorrect actuarial assessment of the workers compensation provision.

DCS responded that review documentation would be noted, dated and kept as evidence of the review.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DCS under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

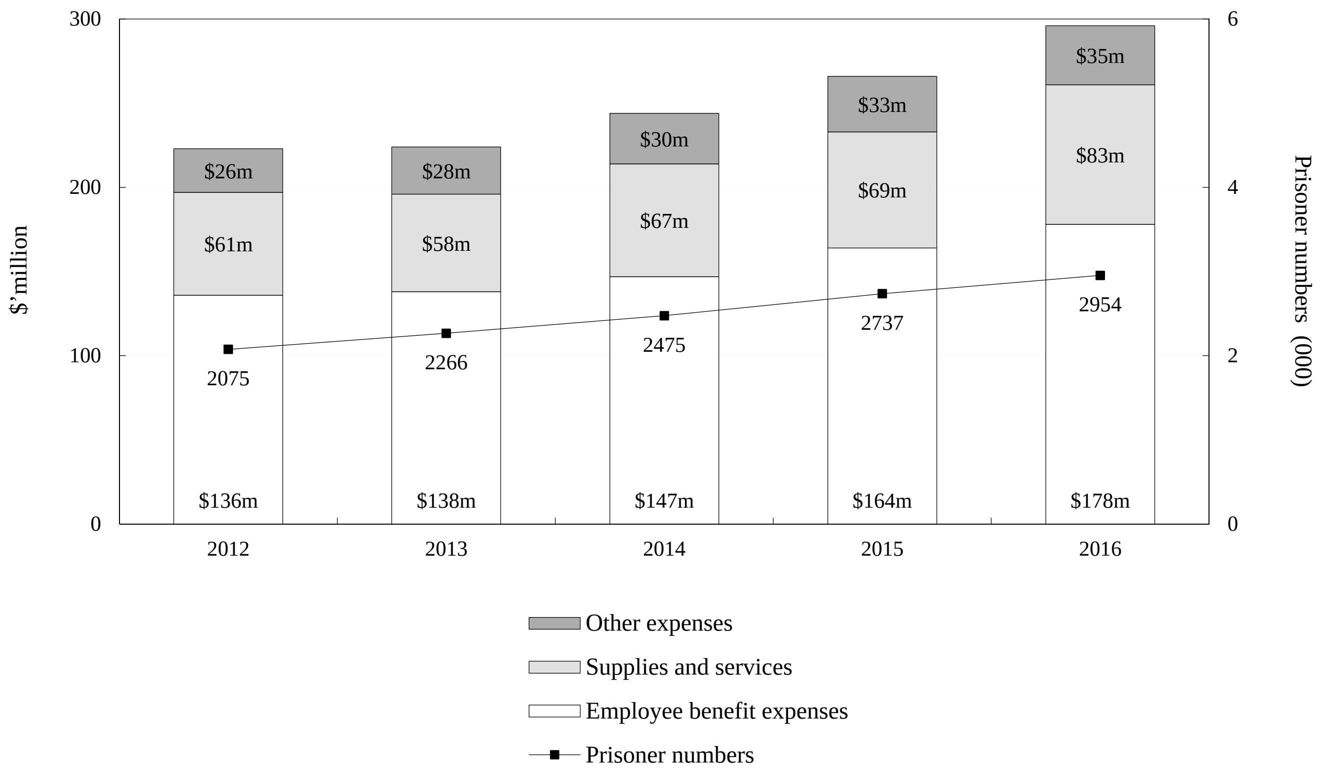
	2016 $'million	2015 $'million
Expenses		
Employee benefit expenses	178	164
Supplies and services	83	69
Other expenses	35	33
Total expenses	296	266
Income		
Income from prison labour and canteen and kitchen sales	6	5
Other income	5	6
Total income	11	11
Net cost of providing services	285	255

	2016 $'million	2015 $'million
Revenues from SA Government	285	258
Payments to SA Government	(12)	(3)
Net result	(12)	-
Total comprehensive result	4	8
Net cash provided by (used in) operating activities	6	23
Net cash provided by (used in) investing activities	(31)	(41)
Net cash provided by (used in) financing activities	8	28
Assets		
Current assets	11	28
Non-current assets	517	489
Total assets	528	517
Liabilities		
Current liabilities	36	37
Non-current liabilities	37	35
Total liabilities	73	72
Total equity	455	445

Statement of Comprehensive Income

Expenses

A structural analysis of the main expense items for DCS and total prisoner numbers for the five years to 2016 is shown in the following chart. Over this period total prison numbers as at 30 June have increased by 879 (42%) and total expenses have increased by $73 million (32%). In 2015-16 total prisoner numbers increased by 217 (8%) and total expenses by $30 million (11%).



Employee benefit expenses

The increase in employee benefit expenses of $14 million is due to $10 million for additional prisoner monitoring costs as a result of an increase in beds and prisoner population, and $4 million for the Enterprise Bargaining Agreement increase.

Supplies and services expenses

Supplies and services expenses increased by $14 million mainly due to:

- an increase in contract expenditure of $5.3 million and sundry expenses of $1.3 million for the operation of the MGP to cover an additional 120 beds added in 2016
- workers compensation claims expenses increasing by $2.5 million due to the actuarial valuation of the workers compensation provision.

Income

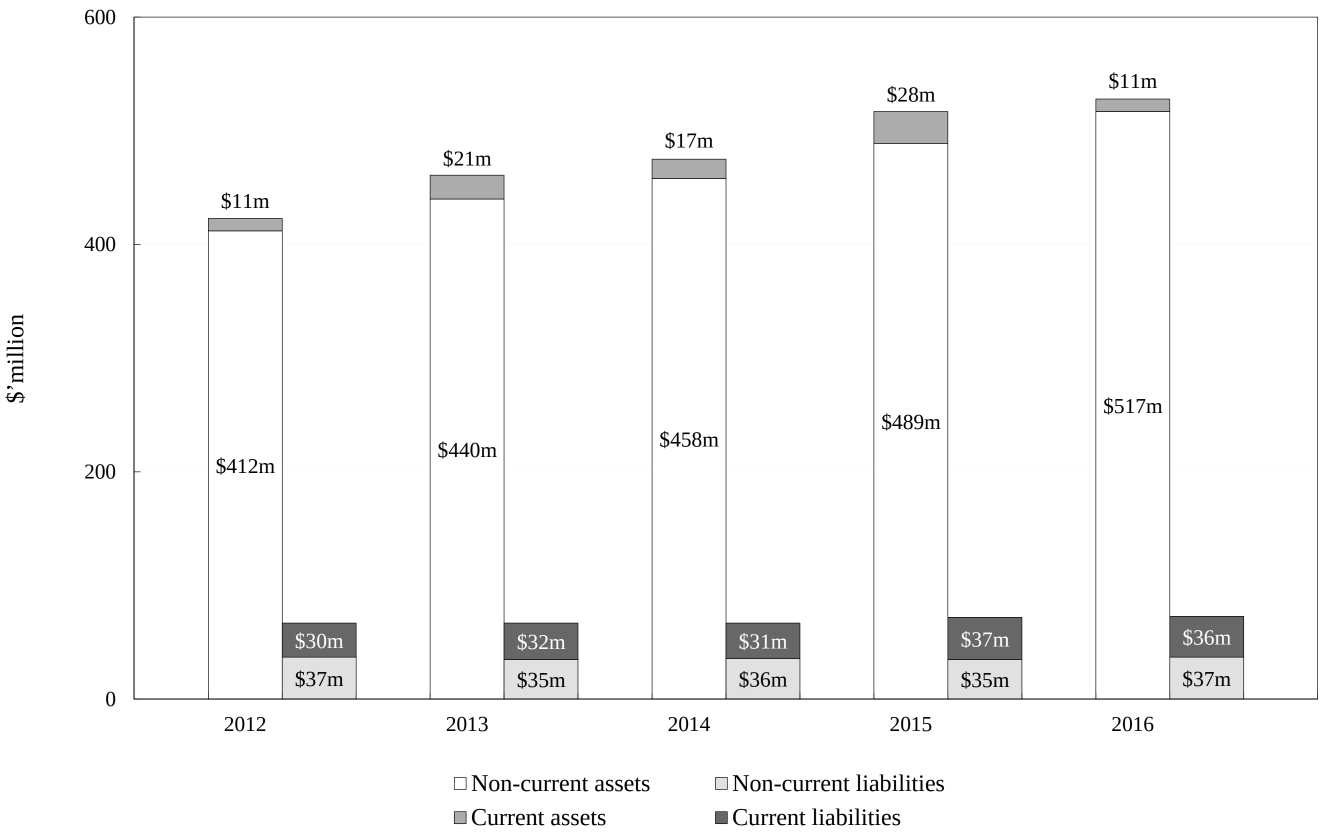
Revenues from the SA Government increased by $27 million to $285 million and is the major source of funding for DCS. $12 million was returned under the cash alignment policy.

Equity contribution

Capital contributions (or government equity contribution) from the SA Government decreased by $20 million to $8 million, bringing the total contributed capital to $98 million. This capital contribution is to fund capital works.

Statement of Financial Position

For the five years to 2016, a structural analysis of assets and liabilities is shown in the following chart.



Assets

Current liabilities of $36 million exceed current assets of $11 million. Note 37(e) of the financial report addresses liquidity risk. DCS receives its funding on a fortnightly basis, which significantly reduces the risk.

Cash and cash equivalents

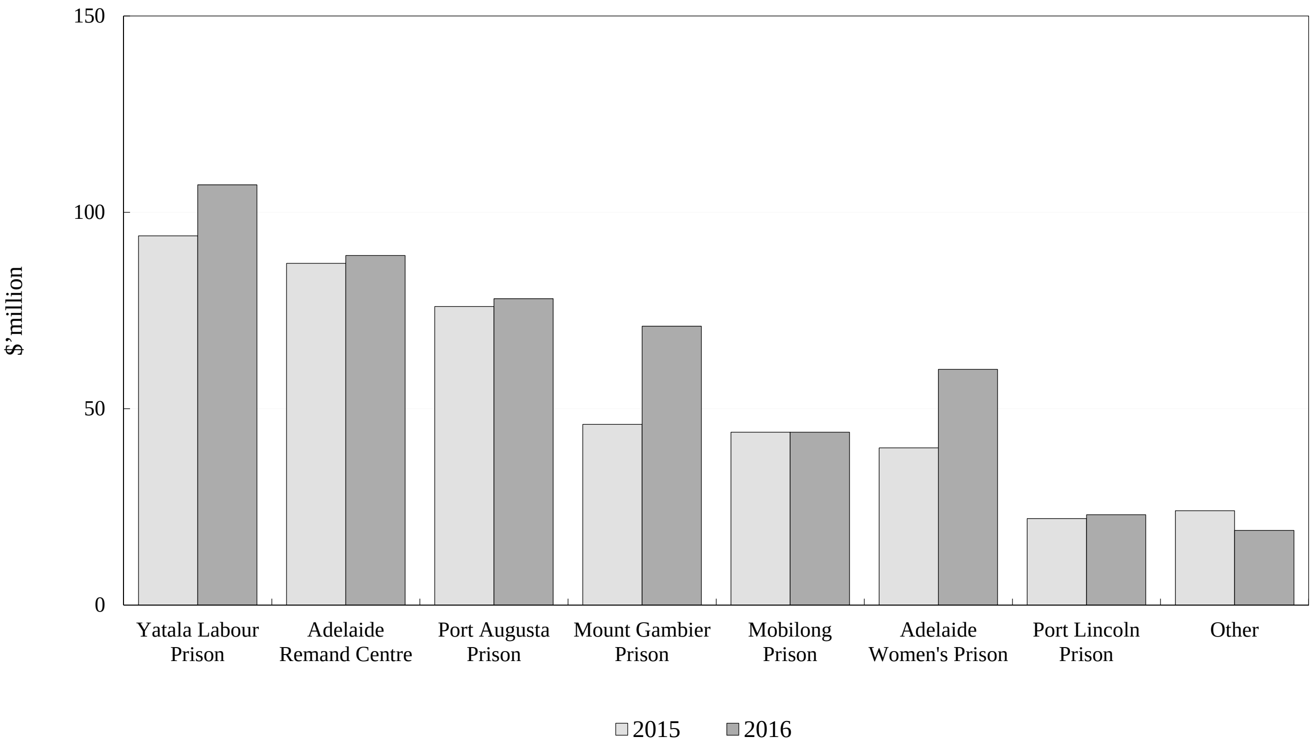
Cash and cash equivalents decreased by $17 million. The decrease in cash is predominantly due to the:

- decrease in equity contributions of $20 million
- underspending of capital funding in 2014-15 of $19 million, which was spent in 2015-16
- spending of nearly all capital funding received in 2015-16 during the year.

Property, plant and equipment

The main item of DCS's Statement of Financial Position is property, plant and equipment, representing 94% of total assets.

Within property, plant and equipment the main category of assets is land and buildings with a value as at 30 June 2016 of $491 million (93% of total assets). The following chart shows asset values for DCS's land and buildings for the last two years.



The carrying value of land and buildings increased by $57 million due to:

- a revaluation of land and buildings as at 30 June 2016 resulting in a $17 million increment in value
- $57 million in completed capital works transferred into land and buildings. The main components were for additional accommodation at the MGP and Yatala Labour Prison
- depreciation charges of $17 million, which offset the above increases to the carrying value.

There were 230 additional beds from works completed in 2015-16 for the following correctional facilities:

- Cadell Training Centre – 4 beds
- Yatala Labour Prison – 50 beds
- Mount Gambier Prison – 120 beds
- Adelaide Women's Prison – 20 beds
- Port Augusta Prison – 36 beds.

Capital works in progress

As at 30 June 2016 capital works in progress totalled $15 million. The capital works in progress include the following prisoner accommodation yet to be commissioned:

- $2 million for 72 beds at Mobilong Prison
- $6 million for 128 beds at Port Augusta Prison.

Statement of Cash Flows

The following table summarises the net cash flows for the five years to 2016.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Net cash flows					
Operating	6	23	11	17	-
Investing	(31)	(41)	(27)	(35)	(24)
Financing	8	28	13	28	6
Change in cash	(17)	10	(3)	10	(18)
Cash at 30 June	7	24	14	17	7

In 2015-16 cash decreased by $17 million. This is predominantly due to the decrease in equity contributions of $20 million to $8 million, shown in financing activities, and spending most of the investing budget in 2015-16, including the carryover funding of $19 million from 2014-15.

The table shows a history of investing cash outflows, which represent the continual capital expenditures over the period relating primarily to additional prisoner accommodation. This expenditure has been funded in part through capital contributions from the SA Government, which are reflected in the financing activities and through the normal government appropriations received through operating cash flows.

Courts Administration Authority (CAA)

Financial statistics	Net cost of providing services: $92 million Total appropriation: $94.4 million Administered total expenses: $59.4 million Number of FTEs: — Controlled 619.5 — Administered 83.1
Significant events and transactions	— A procurement process is underway for the new electronic court management system, with a total budget of $23.2 million over five years. — The Department of Planning, Transport and Infrastructure is budgeted to receive $1 million for a CBD Court facilities planning study in 2016-17, including accommodation requirements for the CAA’s criminal and civil functions.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — No procedure for recovering payroll overpayments — Leave taken not recorded in CHRIS 21 — No evidence of managers reviewing timesheets

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 the financial report.

Scope of the audit

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

During 2015-16 areas of review included:

- expenditure
- revenue and receipting
- payroll
- cash
- fixed assets
- financial accounting
- financial management compliance program
- trust accounts.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Courts Administration Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Courts Administration Authority have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the State Courts Administrator. The main matters raised and the related responses are detailed below.

Payroll

Recovering of overpayments

Our review found:

- no documented procedure for recovering overpayments
- no process to monitor that all overpayments have been recovered.

In response the CAA stated that it would review the procedure on recovering overpayments, and include in the financial management compliance program a regular check on the recovery of overpayments. In addition a register of overpayments would be implemented.

Leave recording

Our review found instances where leave recorded in the timesheet was not recorded in the CHRIS 21 payroll system. This may result in inaccurate leave records and overstated leave liability.

In response the CAA indicated that it would notify managers and pay point delegates of the importance of cross checking bona fide reports and timesheets, as well as submitting leave applications promptly after leave is taken. CHRIS 21 records were updated for the instances identified.

Review of timesheets

Our review identified timesheets with no evidence of review by the manager. This may lead to inaccurate payments being made to employees.

In response the CAA indicated that it would reinforce the timesheet procedure to all pay point managers.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	52	50
Supplies and services	35	34
Other expenses	9	11
Total expenses	96	95
Income		
Revenues from fees and charges	3	3
Other revenues	1	2
Total income	4	5
Net cost of providing services	92	90
Revenues from (Payments to) SA Government		
Revenues from SA Government	94	98
Payments to SA Government	(1)	-
Total revenues from (payments to) SA Government	94	98
Net result	2	8
Changes in revaluation surplus	-	1
Total comprehensive result	2	9
Net cash provided by (used in) operating activities	11	18
Assets		
Current assets	60	52
Non-current assets	203	209
Total assets	263	261

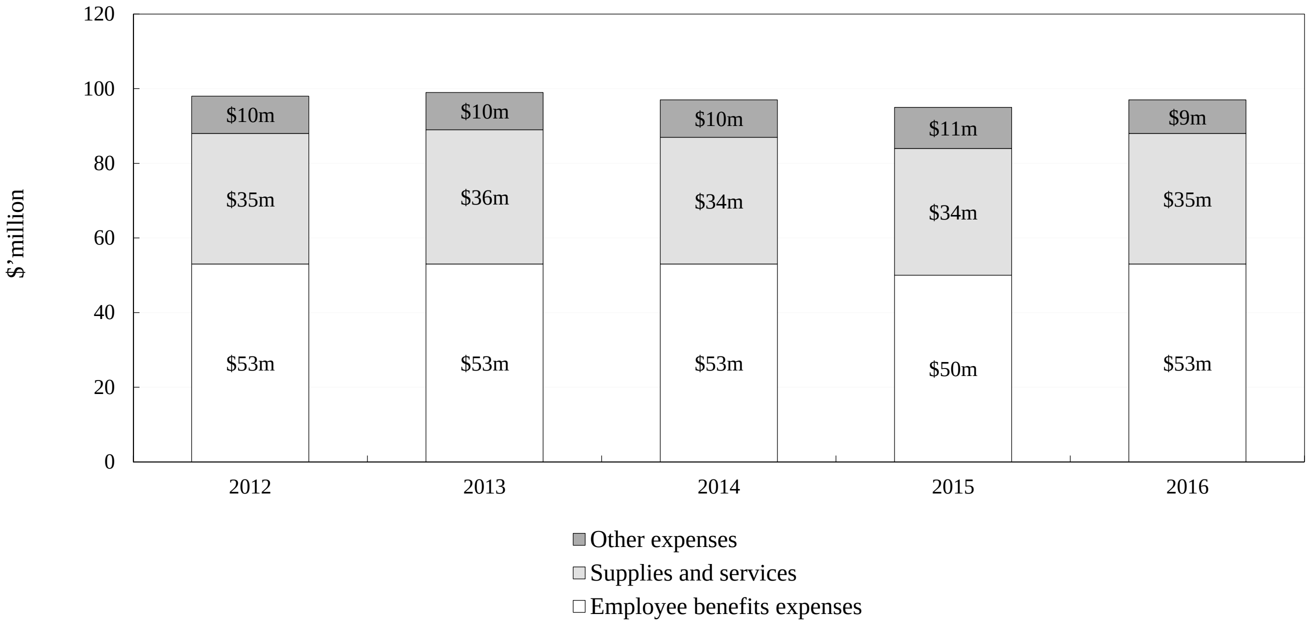
	2016 $'million	2015 $'million
Liabilities		
Current liabilities	11	10
Non-current liabilities	23	24
Total liabilities	34	34
Total equity	229	227

Statement of Comprehensive Income

The CAA's expenses reflect the costs 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.

Expenses

The following chart shows the main expense items for the five years to 2016.



Overall the chart shows that 2015-16 expenditure has increased, following a trend of reduced expenditure since 2013 due to the transfer of the Fines Payment Unit to the Fines Enforcement Recovery Unit (FERU) of the Attorney-General's Department.

Employee benefits expenses are the major expense category for the CAA, accounting for 54% (53%) of total expenses. Employee benefits expenses increased by $2.2 million in 2015-16 mainly because of a $1.9 million increase in salaries and wages resulting from a number of vacant positions being filled.

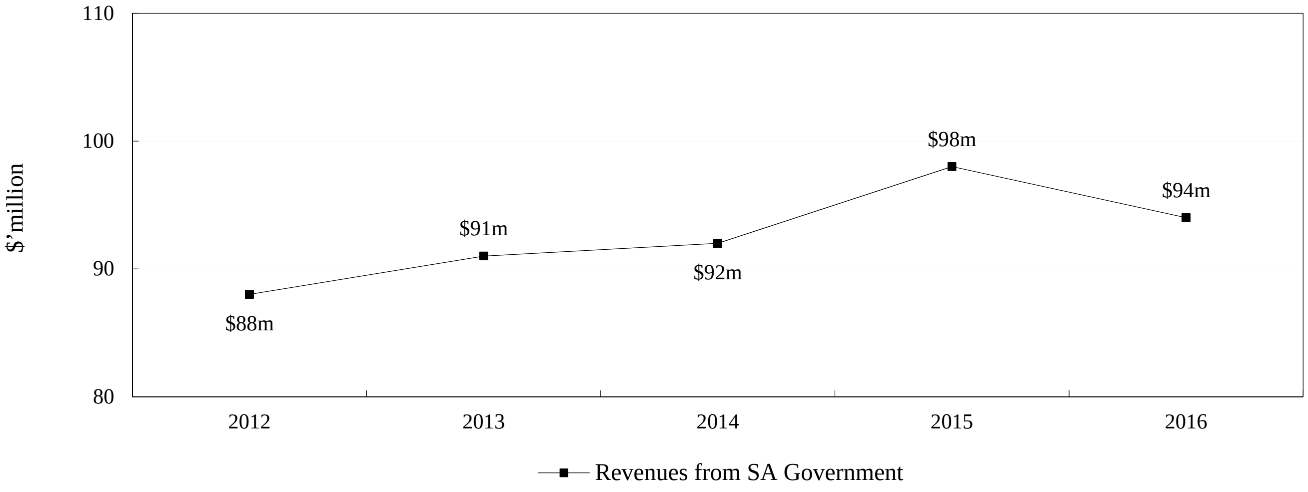
Supplies and services account for 36% (35%) of total expenses and include $14 million ($14 million) in accommodation and services expenses and $6 million ($6 million) in computing and communications expenses.

Other expenses decreased by $1.6 million due to reduced depreciation and workers compensation costs.

Income

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

The following chart shows the level of revenues from the SA Government for the five years to 2016.



Revenues from the SA Government decreased by $4 million in 2015-16. This was mainly due to additional funding received in 2014-15 from the Governor's Appropriation Fund to fund prior years' cash shortages.

Statement of Financial Position

Non-current assets mainly comprise land and buildings totalling $182 million ($185 million), which accounts for 90% (89%) of non-current assets.

Current assets mainly comprise cash and cash equivalents totalling $58 million ($51 million), which accounts for 97% (98%) of current assets.

Court facilities planning

Last year we reported that a proposal to provide modern court facilities and office accommodation for the CAA did not proceed. The purpose of the proposal was to replace existing infrastructure that is regarded by the CAA as being in disrepair, subject to inefficiencies and no longer meeting contemporary requirements.

The CAA leases the Sir Samuel Way Building. The lease expires in 2023. The CAA is responsible to the lessor to return the building in good tenantable repair, with reasonable wear and tear excepted.

The CAA has disclosed in note 27 of the financial report that it expects the cost of repair to be significant.

2016-17 Budget Paper 5 'Budget Measures Statement' reports that the Department of Planning, Transport and Infrastructure will receive $1 million for a CBD Court facilities planning study in 2016-17.

This initiative is described as the development of a business case that considers the future accommodation requirements of the criminal and civil functions of the CAA and the civil and tribunal functions of the Attorney-General's Department.

Statement of Cash Flows

Included in cash at 30 June 2016 are deposits with the Treasurer, including $53 million ($45 million) held in the Accrual Appropriation Excess Funds Account. The balance of these funds is not available for general use and can only be used with the Treasurer's/Under Treasurer's approval. Approved purposes include meeting capital spending and employee leave entitlement payments.

Interpretation and analysis of the financial report for administered activities

Highlights of the financial report – administered items

	2016 $'million	2015 $'million
Expenses		
Judicial benefits expenses	40	37
Payments to the FERU	1	10
Payments to the Consolidated Account	17	16
Other expenses	1	1
Total expenses	59	64
Income		
Revenues from SA Government	40	37
Court and transcript fees	17	16
FERU income	1	10
Other income	1	1
Total income	59	64
Net and total comprehensive result	-	-
Net cash provided by (used in) operating activities	-	(2)
Assets		
Current assets	11	9
Total assets	11	9
Liabilities		
Current liabilities	7	6
Non-current liabilities	12	11
Total liabilities	19	17
Total equity	(8)	(8)

Statement of Administered Comprehensive Income

Management of penalties imposed in the criminal jurisdiction transferred from the CAA to the FERU from 3 February 2014. This encompassed fines and Victims of Crime levies. As a result, overall administered expenditure and income has decreased.

Income is still being collected on behalf of the FERU because the CAA can receipt fines payments through its court registries. This income is subsequently remitted to the FERU.

Expenses

Payments to the Consolidated Account totalling $17 million comprise mainly court and transcript fees.

Judicial benefits expenses were $40 million, an increase of $3 million from the previous year as a result of a number of judicial officer positions being filled.

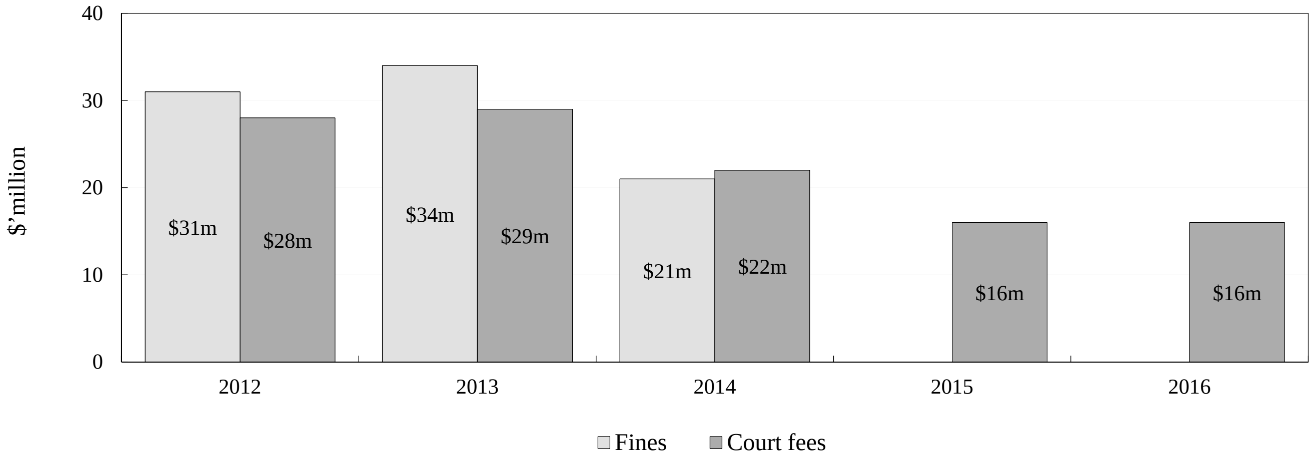
Payments to the FERU have decreased by $9 million from the previous year as a result of decreased fines collection income collected on behalf of the FERU.

Income

Fines and court fees

Fines and court fees are raised and collected by the CAA and paid directly to the Consolidated Account.

The following chart shows the income from fines and court fees for the five years to 2016.



The decrease shown in the chart above is due to the transfer of the Fines Payment Unit from the CAA to the FERU.

Revenues from SA Government

Revenues from the SA Government are received by the CAA to fund employment expenses of the Judiciary. During 2015-16 revenues of $40 million ($37 million) were received from the SA Government to pay the recurrent expenditure associated with the Judiciary.

Defence SA

Financial statistics	Net cost of providing services:	$16.9 million
	Revenues from SA Government:	$18.6 million
	Harbour and port facilities:	$211.3 million
	Land and buildings:	$28.3 million
	Number of FTEs:	30.05

Significant events and transactions

— A $1.9 million cathodic protection system, designed to prevent corrosion of the wharf and shiplift infrastructure at the Common User Facility, was completed in 2015-16.

A $606 000 office building was also completed at the Common User Facility during the year.

— Responsibility for aerospace and space functions transferred to Defence SA from the Department of State Development with effect from April 2016.

Financial statement opinion **Unmodified**

Financial controls opinion **Unmodified**

Functional responsibility

Defence SA is an administrative unit established under the *Public Sector Act 2009*, and is responsible to the Minister for Defence Industries.

The Defence SA Advisory Board provides high-level advice to the SA Government on strategy and policy required to deliver defence industry and facility growth in South Australia.

The functions of Defence SA are to:

- facilitate the development and growth of a competitive and sustainable defence industry in South Australia in line with South Australia's Strategic Plan objectives
- deliver the SA Government's commitments to the Air Warfare Destroyer project
- maximise Defence presence, including personnel and facilities, in South Australia.

Further details of Defence SA's functions are contained in note 1 of the financial report.

Scope of the audit

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

During 2015-16 specific areas of audit attention included:

- payroll
- expenditure
- revenue and cash
- general ledger
- fixed assets
- governance and financial compliance.

Audit findings and comments

Communication of audit matters

We identified one matter during the course of the audit that was communicated in a management letter to the Chief Executive, as outlined below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to Defence SA are also described below.

Service level agreement with the Urban Renewal Authority

We identified that the service level agreement between Defence SA and the Urban Renewal Authority (URA) had expired on 30 June 2015 and had not yet been renewed. It is important the roles and responsibilities of Defence SA and the URA are formally agreed to ensure there is a consistent understanding where the URA undertakes work for Defence SA.

Defence SA responded to this matter, noting it had already approached the URA to sign a proposed agreement. Defence SA indicated it would continue to work with the URA to finalise a service level agreement as soon as possible.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of Defence SA under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under ‘Department of the Premier and Cabinet’ in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report	2016 $’million	2015 $’million
Expenses		
Employee benefits expenses	5	5
Supplies and services	8	7
Depreciation and amortisation	7	7
Other expenses	2	2
Total expenses	22	21

	2016 $'million	2015 $'million
Income		
Revenues from fees and charges	5	4
Total income	5	4
Net cost of providing services	17	17
Revenues from (Payments to) SA Government		
Revenues from SA Government	19	16
Payments to SA Government	-	(2)
Net result and total comprehensive result	2	(3)
Net cash provided by (used in) operating activities	10	4
Net cash provided by (used in) investing activities	(1)	(3)
Assets		
Current assets	28	19
Non-current assets	240	248
Total assets	268	267
Liabilities		
Current liabilities	2	2
Non-current liabilities	-	-
Total liabilities	2	2
Total equity	266	265

Statement of Financial Position

Defence SA's main assets are the Techport Australia harbour and port facilities, $211.3 million ($216.2 million) and land, $22.4 million ($22.4 million).

Cash increased by $9.2 million mainly due to:

- an increase in receipts from the SA Government of $2.2 million
- decreased payments to the SA Government of $2.1 million
- a $1.4 million increase in fees and charges due to the simultaneous construction of multiple vessels and increased third party use
- a $2 million decrease in capital works during the year, partly as a result of the deferral of dredging until 2016-17.

The harbour and port facilities balance of $211.3 million relates to the Common User Facility. This asset, which includes the wharf, docking area, shiplift and supporting infrastructure, is classified as a specialised asset. This is because it has been designed and built specifically to support the construction and maintenance of large maritime vessels such as those being constructed under the Royal Australian Navy Air Warfare Destroyer program, and was designed and built as a fully integrated facility. In February 2014 the Treasurer approved the asset not being independently revalued until 2024 (refer note 2(m) of the financial report).

The land comprises $16.3 million ($16.3 million) of vacant land at fair value and $2.7 million ($2.7 million) of improvements recognised at cost, and relates to land reserved for future naval shipbuilding purposes. The vacant land has direct access to the Common User Facility as a result of infrastructure works undertaken as part of the broader construction project for Techport. As a result, this land would be suitable for any expanded large-scale naval construction activity and could be integrated with operations at the existing Common User Facility. The land was last revalued in 2012.

The remaining $3.4 million of site land recognised by Defence SA is principally land associated with the current Common User Facility.

Capital works in progress

Capital works in progress projects completed in 2015-16 totalled $2.9 million. The main completed projects were:

- a $1.9 million cathodic protection system, designed to prevent corrosion of the wharf and shiplift infrastructure at the Common User Facility
- a $606 000 office building located adjacent to the shiplift
- $300 000 for other minor works associated with the Common User Facility.

The closing balance of capital works in progress of $235 000 includes preliminary costs associated with proposed extensions to the wharf and preparation for further dredging operations.

Common User Facility expansion

Defence SA, in conjunction with the Australian Submarine Corporation, is planning to extend the existing wharf so that two large vessels can be accommodated alongside. Associated with the work to extend the wharf itself, further dredging operations will be required to allow access to the extended wharf and to maintain the current shiplift basin area. It is expected work on these areas will occur in 2016-17.

Statement of Cash Flows

Defence SA's cash at 30 June 2016 comprises a Defence SA operating account of $3.9 million ($905 000) and an accrual appropriation excess fund balance of $23.7 million ($17.5 million). The accrual appropriation excess fund is not available for general use and can only be used in accordance with the Treasurer's or Under Treasurer's approval.

Net cash provided by operating activities improved in 2015-16 by $5.4 million as a result of an increase in receipts from the SA Government of $2.2 million and a reduction in payments to the SA Government of $2.1 million, coupled with a $1.4 million increase in receipts from fees and charges due to increased activity at the Common User Facility.

Department for Education and Child Development (DECD)

Financial statistics	Net assets:	$3724 million
	Net cost of providing services:	$2658 million
	Total revenues from SA Government:	$2682 million
	Total comprehensive result:	$5 million
	Number of FTEs:	24 112
	Number of school and pre-school sites:	921

Significant events and transactions

— On 21 June 2016 the SA Government accepted an interim recommendation of the Child Protection Systems Royal Commission that a separate department be established with child protection as its primary focus.

— In August 2015 Cabinet approved DECD commencing a procurement process for a replacement education management system.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Ineffective review of key payroll reports

— Control weaknesses for Families SA expenditure regarding carer registration, commercial care payments and care and protection grant payments

— Weaknesses in managing staff with excessive annual leave balances

— No robust legal compliance framework

— Controls for minor works and maintenance expenditure did not ensure all charges were valid or accurate

— Non-compliance with purchase card policies

Functional responsibility

DECD is an administrative unit established under the *Public Sector Act 2009* and responsible to the Minister for Education and Child Development (the Minister).

DECD administers certain activities on behalf of the Minister, including making payments of Commonwealth and SA Government contributions to non-government schools. Refer note 1 of the financial report for details of DECD's functions.

On 21 June 2016 the SA Government announced its intention to transfer the Office for Child Protection (Families SA) from DECD to a new Department for Child Protection, in response to an interim recommendation by the Child Protection Systems Royal Commission (refer note 38 of the financial report).

Scope of the audit

The audit covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

Specific areas of audit attention included:

- revenue
- accounts payable
- minor works and maintenance expenditure
- payroll
- grants to non-government schools
- Families SA carer, commercial care and care and protection grant expenditure
- management and use of purchase cards
- general ledger.

The work of DECD's internal auditors was considered in planning and conducting the audit. We made use of the work performed by internal audit for:

- the audit of school enrolment data used to determine the amount of funding provided to each government school

- the audit of government schools performed by contractors appointed, managed and monitored by DECD's internal audit team.

The audit also took into account the controls and procedures performed by service providers including Shared Services SA (SSSA).

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Education and Child Development in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Education and Child Development have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified during the audit were communicated in management letters to the Chief Executive. Major matters raised with DECD and the related responses are detailed below.

In addition, matters relating to SSSA as a service provider to DECD are also described below.

Payroll

Total employee expenses exceeded $2.3 billion in 2015-16, representing 68% of total expenses. DECD had more than 24 000 FTEs at 30 June 2016. Payroll controls are accordingly included in our reviews annually.

CHRIS payroll – Families SA (FSA)

FSA payroll was processed through the CHRIS 5 payroll system on the same database as staff of the Department for Communities and Social Inclusion until late January 2016. From this date FSA payroll transitioned to the CHRIS 21 payroll system on a separate database.

The FSA payroll function is provided by SSSA.

Ineffective review of key payroll reports

We have identified and reported delays in certifying FSA bona fide reports (BFCs) and monthly leave returns (MLRs) for a number of years.

Our 2015-16 audit identified there was still no central process to follow up outstanding BFCs.

CHRIS 21 was intended to provide online access to BFCs and MLRs. We noted this did not occur and FSA staff were advised to print and manually sign reports as evidence of their review.

Our review of a sample of BFCs and MLRs since the transition to CHRIS 21 found:

- a significant proportion were not promptly reviewed by managers, including many BFCs certified more than 100 days after the end of the pay period
- instances where the FSA organisation structure was not correctly reflected in CHRIS 21, meaning reports sent to managers did not include all of their staff
- automatic escalation processes for outstanding reports used in CHRIS 5 were not available in CHRIS 21.

We noted some of the BFCs certified after significant delays identified errors, demonstrating the importance of prompt review.

Where BFCs and MLRs are not promptly checked DECD has no assurance that only valid employees are paid, that employees are paid correctly or that leave balances recorded in CHRIS 21 are accurate, impacting the reliability of associated liability balances.

The absence of escalation processes and central monitoring compounds these risks.

DECD advised that existing procedures would be updated to include internal escalation processes and reviews of non-compliant sites. DECD also advised it would continue to work with SSSA to provide online access to BFCs and MLRs.

Valeo payroll

Valeo payroll is used for all non-FSA employees.

Ineffective review of key payroll reports

As with FSA, we have raised issues about the prompt certification of BFCs and MLRs for a number of years. Our 2015-16 audit indicated continuing problems with certifying these reports. In particular:

- 6% of all BFCs for 2015-16 were outstanding at the end of April 2016 (1494 individual returns)
- 15% of BFCs for the pay period ended 10 March 2016 were outstanding, more than 30 days after the pay period
- almost 13% of 2015-16 MLRs were outstanding for the same period (1297 individual returns), including 11% of returns from November 2015 and almost 13% from February 2016.

We noted an additional control existed for DECD Corporate sites, with detailed monitoring of actual FTEs against budgets undertaken. This process only captured DECD Corporate, meaning BFCs and MLRs were the only control over the accuracy of most DECD staff payments and leave balances.

We also found the effectiveness of DECD's central monitoring of non-compliant sites varied, as some sites had not completed returns for a whole calendar year. Further, we noted that there were no documented procedures for following up outstanding BFCs and MLRs.

We noted a need to reinforce certification requirements to staff and target non-compliant sites. We also recommended site staff be told how to give other staff access to the system used for these reports, to allow a more prompt response.

In response DECD advised that existing procedures would be updated to include an internal escalation process and more frequent reviews of non-compliant sites. DECD also advised sites would be informed that the process of certifying these reports can be delegated to other staff.

Salary overpayments

Recovering of salary overpayments to DECD staff is a shared responsibility between DECD and SSSA. Overpayments are initially managed by SSSA before being transferred to the DECD Debt Recoveries Team. As at 21 April 2016 salary overpayments totalled $2.1 million (a similar level to prior years), with $1.4 million managed by SSSA and $707 000 managed by DECD.

We have previously reported that the cause and recovery of salary overpayments needed to be addressed by DECD and SSSA.

We identified significant deficiencies in the reporting capabilities of the overpayments ledgers used by DECD and SSSA. Reporting from the overpayments ledgers did not allow data to be manipulated and extracted to easily identify the age of debts, the range of debt values (including largest overpayments) and when debts were last followed up. We also noted the overall status of overpayments could not be easily monitored due to the split between SSSA's and DECD's data. As a result, there is a risk that debts may not be managed efficiently or recovered promptly.

In response DECD advised that options for improved overpayment reporting and monitoring would be discussed and agreed with SSSA.

No authority for salary loading paid to emergency relief teachers in lieu of long service leave

In 2015 we reported that DECD made payments of a 2.5% salary loading to emergency relief teachers (ERTs) that were not supported by an industrial agreement. We found further payments of this type totalling $620 823 had been paid between July 2015 and April 2016.

We also noted these payments were made to all ERTs at the top pay rate (Tier 8) of the enterprise agreement, regardless of the teacher's substantive classification.

DECD advised that the ERT loadings were originally introduced in around 2002 to allow remote country school sites to engage teachers who were on leave without pay to work occasional relief days. DECD advised the loading was intended to be a payment in lieu of long service leave while ERTs performed relief work.

We could find no legal basis for these payments in the absence of an industrial agreement requirement.

In response DECD advised that no ERT loading would be paid in 2017 until this matter had been addressed. DECD also noted an internal review had commenced including legal advice about the payments, with changes intended to be implemented for the 2017 school year.

Bus driver award rates

Award rates for DECD bus drivers are updated each year. We noted the payroll system was not updated for the August 2015 changes to pay rates at the time of our audit. As a result 397 employees were underpaid a total of $55 188 for the period tested.

DECD advised that an electronic reminder service had been established to prevent a similar situation in future.

Managing and reporting excessive annual leave balances

Our 2015-16 audit reviewed the processes implemented by DECD, including FSA, for managing and reporting excessive annual leave balances.

We analysed Valeo and CHRIS annual leave liability reports between June 2013 and October 2015 to understand the movement in excessive annual leave balances over this time. Our focus was whether effective action was taken to promptly address excessive leave balances. Our review found:

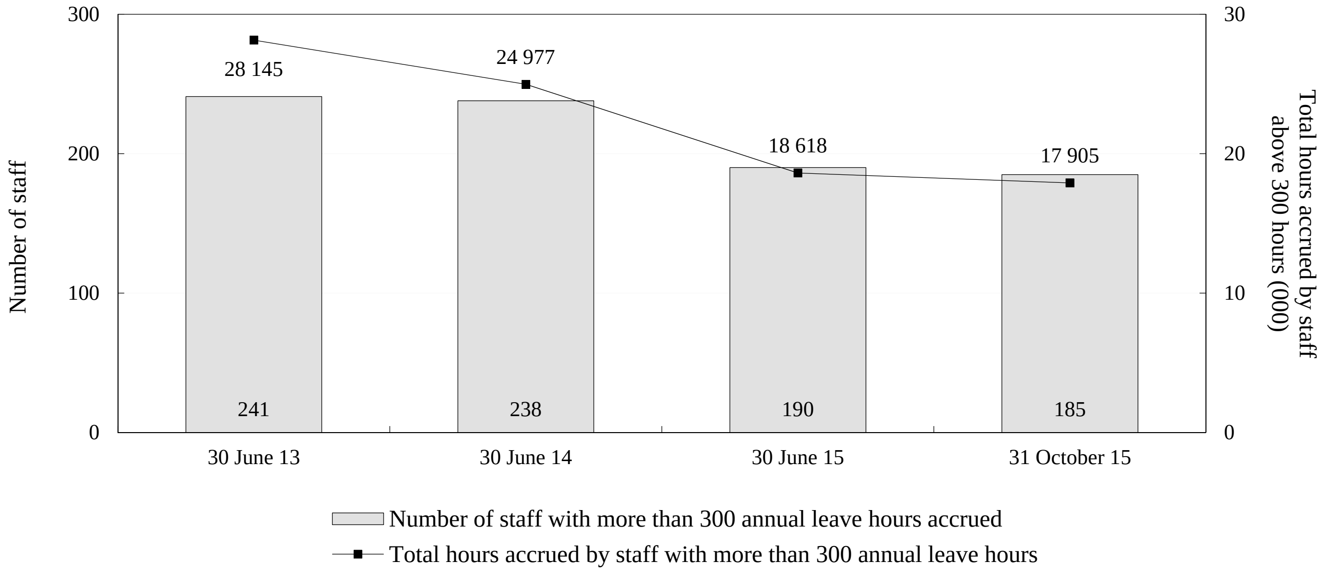
- DECD did not have its own policy setting out acceptable annual leave practices, relying on Commissioner's Determination 3.1 'Employment Conditions – Leave'. Our discussions with DECD staff indicated varying levels of understanding of these requirements
- annual letters were sent to Executive Directors of corporate divisions and site leaders detailing staff with excessive leave balances and requiring a leave plan to reduce the balance. Our review identified 31 out of 38 Corporate employees sampled did not have a leave plan recorded. We also noted three out of four schools sampled had not supplied plans to DECD Corporate HR
- after the implementation of CHRIS 21, FSA staff could not access excess leave reports online. This meant some managers did not monitor excess leave balances, as the alternative process involved accessing each employee's balance individually.

In response DECD advised an annual leave policy would not be created, but more targeted management of staff with excessive leave balances would be performed. DECD also advised leave management plans would be required for staff with excessive leave and outstanding plans would be escalated to more senior management after 14 days. DECD indicated CHRIS 21 reporting for excessive leave balances had been activated since our audit and that a similar leave plan process would apply for FSA staff as for DECD staff paid through Valeo.

DECD staff with excessive annual leave balances persist

We found there were a number of DECD staff who had accrued more than two years' annual leave entitlement, meeting the definition of an excessive leave balance.

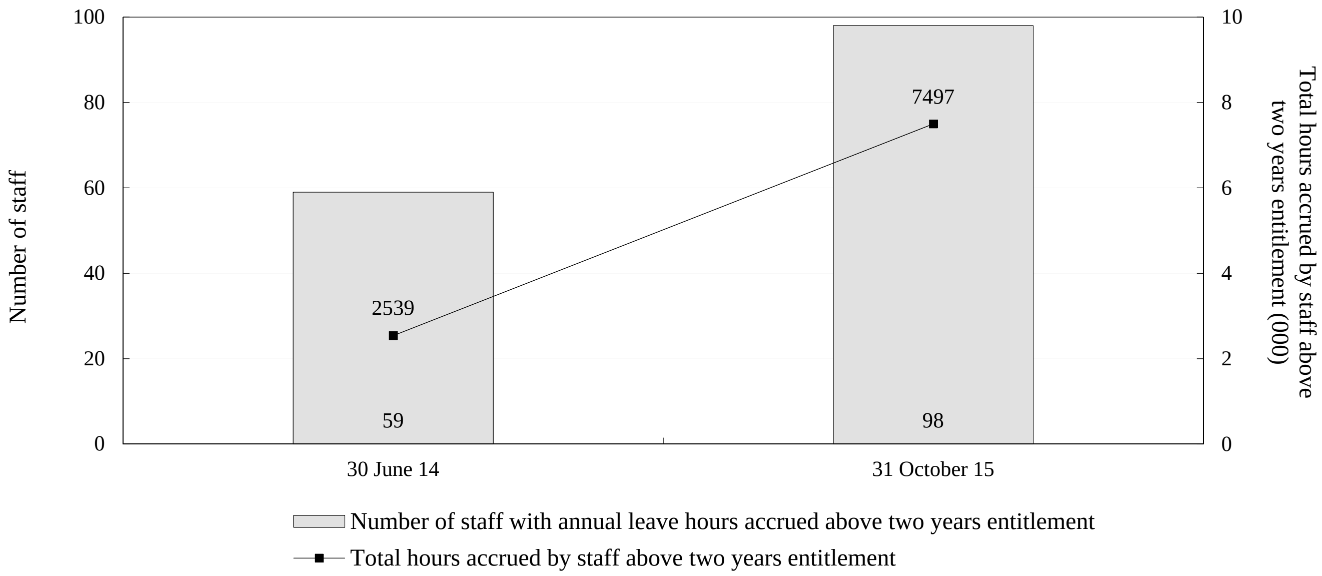
The chart below shows the number of DECD staff (paid through Valeo) who had accrued over 300 hours of annual leave and the total hours accrued by these staff above 300 hours.



While there was a reduction of 56 staff with excessive annual leave balances between June 2013 and October 2015, this was mainly due to 37 of these staff ceasing employment with DECD in this period.

Of the 241 staff with excessive annual leave balances in June 2013, 101 still had excessive balances in October 2015 and 48 had increased their accrued leave balance over this time, 15 by more than 100 additional hours.

The chart below shows the number of FSA staff (paid through CHRIS) who had accrued more than two years' annual leave entitlement and the total hours accrued above this entitlement.



We found an increase of 39 (66%) FSA staff with annual leave balances above two years' entitlement between June 2014 and October 2015.

25 of the 59 FSA staff with excess annual leave balances in June 2014 still had excess balances in October 2015, with 21 of these staff increasing their balance over this time, 11 by more than 80 hours.

Excessive annual leave balances have a cost to DECD, with accrued balances generally paid at a higher rate when an employee leaves DECD or takes the leave. There are also potential health and safety consequences for staff who do not take their annual leave and do not have extended time away from their workplace.

DECD advised that a quarterly system had been implemented to monitor excess annual leave balances, and would be used with fortnightly bona fide reports to monitor employee leave balances more effectively.

Purchase cards

Intrastate travel expensed on purchase cards approved subsequent to travel

DECD's domestic travel procedure requires approval from the relevant Executive Director, Deputy Chief Executive or the Chief Executive before travel is undertaken. We have previously reported instances where approval was not given prior to travel.

We again found instances of non-compliance in 2015-16, with travel applications approved after the trip was taken. We also noted instances of travel bookings being made before applications were approved.

Approving expenditure subsequent to travel raises the risk that travel may not be for appropriate DECD purposes.

DECD responded that compliance with the domestic travel procedure was a key focus for DECD and that it would continue to reinforce compliance through dedicated sample auditing and ongoing staff education.

Transaction splitting

Our sample testing found an instance of a purchase being split into two smaller payments which meant each purchase was within the cardholder's transaction limit.

Splitting invoices into smaller payments can occur to circumvent established authorisation levels and increases the risk of inappropriate purchases.

DECD advised staff compliance with DECD's purchase card policy would be reinforced through dedicated sample auditing and ongoing education.

Purchase card transaction limits

Treasurer's Instruction 12 'Government Purchase Cards and Stored Value Cards' (TI 12) requires chief executives to ensure employee purchase card transaction limits are the lower of the cardholder's contract authorisation or $10 000.

DECD's financial delegations provide all cardholders with contract authorisations up to their approved purchase card transaction limits. Some employees are also given general contract authorisation that does not restrict the nature of expenditure or payment method.

We consider the intent of TI 12 is that employees have a maximum contract authorisation limit, regardless of the payment method used.

Our audit found three of nine cardholders reviewed had purchase card transaction limits greater than their general contract authorisation, including two cardholders who had no general contract authorisation.

Establishing financial delegations involves assessing the risk associated with types of transactions and levels of expenditure. Where employees are provided with purchase cards they are able to both contract and pay for goods simultaneously. To limit inappropriate or invalid expenditure, the level of approval applied to purchase card purchases should be equal to the same type of transaction undertaken by other methods. Where this is not the case, there is an increased risk of inappropriate expenditure.

DECD responded that cardholder transaction limits would be reviewed against contract authorisations and amended where necessary to comply with TI 12.

Minor works and maintenance expenditure

Minor works and maintenance charges not being certified

Minor works and maintenance are performed by contracted facilities managers organised through the Department of Planning, Transport and Infrastructure (DPTI), and recorded in DPTI's Facilities Management Information System (FAMIS). If charges recorded in FAMIS are not approved or disputed by school sites within 30 days, they are automatically paid.

Our 2015-16 audit found most sites still did not validate payments before they were made to contractors.

The table below of FAMIS charges from 1 July to 31 December 2015 shows that most charges are still automatically paid. We have raised this matter for a number of years and consider that not approving these claims exposes DECD to the risk of paying for work not performed or being overcharged.

	Charges reviewed and approved by schools		Charges automatically paid by facilities managers	
Job type	$'million	%	$'million	%
Minor works	3.5	15	19.3	85
Breakdown maintenance	3.2	23	10.9	77
Preventative maintenance	1.2	21	4.6	79
Other	1.4	29	3.5	71
Total	9.3	20	38.3	80

We contacted a number of schools with high levels of automatic approval. Some staff:

- advised they were unaware of the expectation to approve claims in FAMIS before payment
- indicated they deliberately did not approve claims due to the automatic approval function and time pressures from competing priorities.

In responding to our previous findings, DECD has advised the risk of work being performed and charged outside the agreed contract rates is minimal and reduced by DPTI engaging an independent accounting firm to review a sample of maintenance charges. Our review of the reports commissioned by DPTI revealed small sample sizes and testing that was limited to a single facilities manager, providing limited assurance.

DECD has also previously advised it would pursue other system changes to assist this process. No system changes had been implemented at the time of our audit.

In response to our 2015-16 findings, DECD advised DPTI had implemented FAMIS email reminders in May 2016 with reminder emails now received daily by DECD sites, 15 days before charges are automatically paid.

DECD also advised it would monitor automatically approved invoice statistics each month.

Incorrect procurement process for maintenance works

Breakdown maintenance at schools is funded centrally by DECD. Site leaders have expenditure delegations for breakdown maintenance of $10 000 for a single transaction. Breakdown maintenance over $10 000 can only be approved by DECD Corporate.

Our sample testing found an instance of a $42 704 payment for breakdown maintenance works performed at a school not being communicated to or approved by DECD Corporate.

For all works over $20 000, facilities managers must engage subcontractors through a competitive tender process. In this case a competitive tender was not performed. We understand this was because the school increased the scope of works once the subcontractor was on site, without advising the facilities manager.

We understand both the facilities manager and DECD Corporate informed the site that work of this value needed to be completed as a minor works project to allow the facilities manager to project manage job scope, procurement and progress.

DECD may not receive value for money where competitive tender processes are not performed by facilities managers. DECD, or individual sites, are also exposed to a higher risk of additional costs where more significant and complex projects are managed at a local level by site leaders instead of staff with project management expertise.

In response DECD advised that a repairs and maintenance procedure had been developed to ensure sites are familiar with procurement processes.

Families SA expenditure

Carer registration

Delays in performing annual carer reviews

The *Family and Community Services Act 1972* and DECD's policies require that all approved foster carers are subject to regular carer reviews.

For a number of years we have noted that FSA has not confirmed that a number of registered foster carers have been annually reviewed by a foster care agency.

Our 2015-16 review noted the annual reviews for 55 carers were past due at 30 June 2016. We also noted 123 reviews were in progress but not completed. Some of these reviews had been outstanding for a number of years.

We also identified that, while lists of overdue carer reviews for the current quarter were provided to agencies, information about overdue reviews from previous quarters that were still outstanding were not included. As a complete list of all outstanding reviews was not provided to agencies each quarter there was an increased risk that carers would not be promptly reviewed. Where assessment is delayed, carers who do not meet suitability criteria may not be detected. The absence of complete and prompt monitoring and follow-up of outstanding carer reviews may result in an increased risk to children under the care of the Minister.

In response DECD advised that an annual list of reviews with due dates would be sent to each agency, in addition to quarterly lists of all overdue reviews being provided to agency chief executives.

Commercial care payments

Insufficient evidence of verification of invoiced rates

We have identified problems with the review of emergency care invoices for a number of years, including a lack of evidence that invoice rates have been verified. If rates charged are not checked by FSA staff before payment, DECD might pay for services not provided or not billed in line with contracted terms, including price.

Our 2015-16 audit indicated continuing problems with the extent of review. We noted invoices were often not verified by social workers to agreed price schedules and commercial care provider hours were not always reconciled to timesheets supplied.

We understand action taken to address this matter in 2015-16 included DECD contracting an external consultant to review commercial care invoice payment processes. The external consultant's review also found that DECD staff have difficulty verifying whether service levels on invoices received have actually been provided and, as a result, instead check that invoices match their expected levels of service provision.

We also understand a commercial care and accommodation approval work instruction was issued by DECD in March 2016 requiring each invoice page to be stamped by caseworkers to certify their endorsement for payment.

DECD responded that the external consultant's review had been completed. Findings from the review were being considered and had been provided to FSA Executive. DECD further advised that contract rates had been distributed to the FSA staff who review invoices and any changes to these rates would also be distributed.

Delayed approval for emergency care placements

DECD's financial delegations include specific authorisation for approving the estimated cumulative cost and period of placing a child in commercial care.

We found two instances where funding approval from a financial delegate for children to remain in existing commercial care arrangements was provided after the period of care. In one of these instances projected costs for the period before authorisation was provided totalled $350 000.

In March 2016 revised commercial care accommodation approval processes were issued to FSA staff, resulting in clearer instructions about the commercial care approval process.

Commercial care is an expensive placement option and we understand FSA is working to reduce its reliance on this form of care. Services are provided by commercial carers where other forms of care are not available. It is important that approval is obtained before services are provided to ensure the proposed placement of the child in care is appropriate and the projected cumulative cost impact is adequately considered by DECD.

In response DECD advised that recommendations from the external consultant's review of commercial care invoice processes had been completed and provided to FSA Executive.

Contract management plans (CMPs) – emergency care

DECD has established a panel of three commercial care service providers who contract emergency care workers to care for children and young people in short-term commercial accommodation. Payments of about $70 million were made by DECD to these providers in 2015-16.

The panel deed executed with each provider commenced on 1 January 2015 and expired on 31 December 2015. An option to extend the arrangements for another 12 months was subsequently agreed with each provider.

We reviewed whether CMPs required by DECD policy were established for these providers and if they were used to manage the services provided. We found that CMPs were established in 2016, over a year after services commenced and after the initial expiry date of 31 December 2015.

While certain contract management procedures were performed by DECD before the CMPs were established, we consider it important that CMPs are developed before services are provided. Without a CMP the mitigation of contract risks and success of contract outcomes may be reduced.

DECD advised it would ensure that CMPs were developed and approved before services were provided.

Care and protection grant payments

Payments made before executing agreements

We previously reported that care and protection service agreements were not executed before grant payment.

In 2015-16 we noted 33 care and protection service agreements expired on 30 June 2015.

The Minister was advised on 11 June 2015 that 14 new service agreements may not be in place by 1 July 2015. To ensure continuity of services the Minister approved emergency payments of $6.6 million to the non-government organisations affected, with payments made in July 2015.

We noted that a minute to the Minister stated the delay was a result of DECD's review of the agreements and service model frameworks and delays in the DECD Procurement Unit and the Cabinet approval process. We recommended DECD review the process for extending these arrangements to allow enough time before contract expiry.

Without a signed agreement, DECD may not be able to recover some of the grant payments made when services provided do not meet DECD's expectations.

DECD agreed that review of approvals for new contracts and execution of contracts was required and advised that streamlined processes would be developed for the timely execution of contracts.

Contract management plans – care payments

We reviewed three service agreements worth more than $4.4 million to determine if CMPs had been established in line with DECD policy and were being used to monitor service delivery. We found:

- two instances where CMPs were established more than a year after the service agreements had commenced and after a significant portion of the term had passed
- one CMP variation document was not approved
- risk assessments were not documented in two of the CMPs.

While certain contract management procedures were performed by DECD before the CMPs were established, it is still important to develop CMPs before services are provided to help manage contract risks and ensure contract outcomes are achieved. Without documented risk assessments and risk management strategies DECD may be exposed to financial and service delivery risks.

In response DECD advised risk assessments would be completed and that all the CMP requirements were documented in service agreements and discussed with agencies at quarterly meetings. DECD agreed that where CMPs were required they would be developed and approved at the start of the agreement.

Key performance indicator (KPI) monitoring

Service provider performance against service requirements is monitored by DECD through review of quarterly data reports.

We assessed whether service provider KPIs documented in three CMPs were adequately monitored and reviewed by DECD.

We found that many of the KPIs documented were not monitored. This included some KPIs that could not be measured as service data reports completed by service providers did not request data linked to the KPIs.

Monitoring KPIs supports effectively assessing whether key service agreement requirements, objectives and outcomes are achieved.

DECD advised that the reporting framework for specialised foster care and family support services had been revised in 2016-17 including a review of KPIs and outputs. New contracts had measurable KPIs and would be monitored quarterly. DECD would also work with non-government organisations to explore if contracts can move to results based accountability reporting measures.

Legislative compliance

DECD is involved in a wide range of activities and subject to many legal and regulatory obligations. A legal compliance framework helps ensure DECD complies with these requirements.

We noted that while a number of compliance programs exist for specific legal obligations they have not been captured or considered as part of a broader legislative compliance framework. Not having a coordinated legal compliance framework increases the risk of DECD not appropriately identifying and managing legislative and regulatory requirements and risks, potentially causing reputational loss, litigation and/or financial loss to DECD.

We consider an effective legal compliance framework includes identifying relevant legislative and regulatory requirements, assigning responsibility for compliance, reviewing processes to ensure legislative and regulatory compliance and dealing with non-compliance. The process should also include periodic reporting to senior management and the Audit and Risk Committee.

We noted DECD had taken some steps in 2016 to support its intention to establish an effective legal compliance framework. It is important that DECD builds on this process and takes further action to progress the implementation of a robust legal compliance framework.

These steps included developing a draft legislative compliance policy and completing a review of all Acts and Regulations committed to the Minister for Education and Child Development and the Minister for Child Protection Reform to identify and document the legislative responsibilities of the Ministers and the Chief Executive.

In addition to the legislation committed directly to its Ministers, DECD must comply with many other legal requirements. We consider it important that these requirements are also considered by DECD when establishing a legal compliance framework.

DECD responded that further actions to establish and implement legal compliance mechanisms and systems would include:

- finalising the DECD legislative compliance policy
- consultation with DECD executive staff to identify other key legal and regulatory provisions
- developing risk assessment criteria to help identify key legal requirements for monitoring, recording and reporting compliance to the Chief Executive
- establishing a legislative compliance procedure to inform responsible staff of their monitoring, recording and reporting obligations to the Chief Executive annually.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DECD under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report (Consolidated)

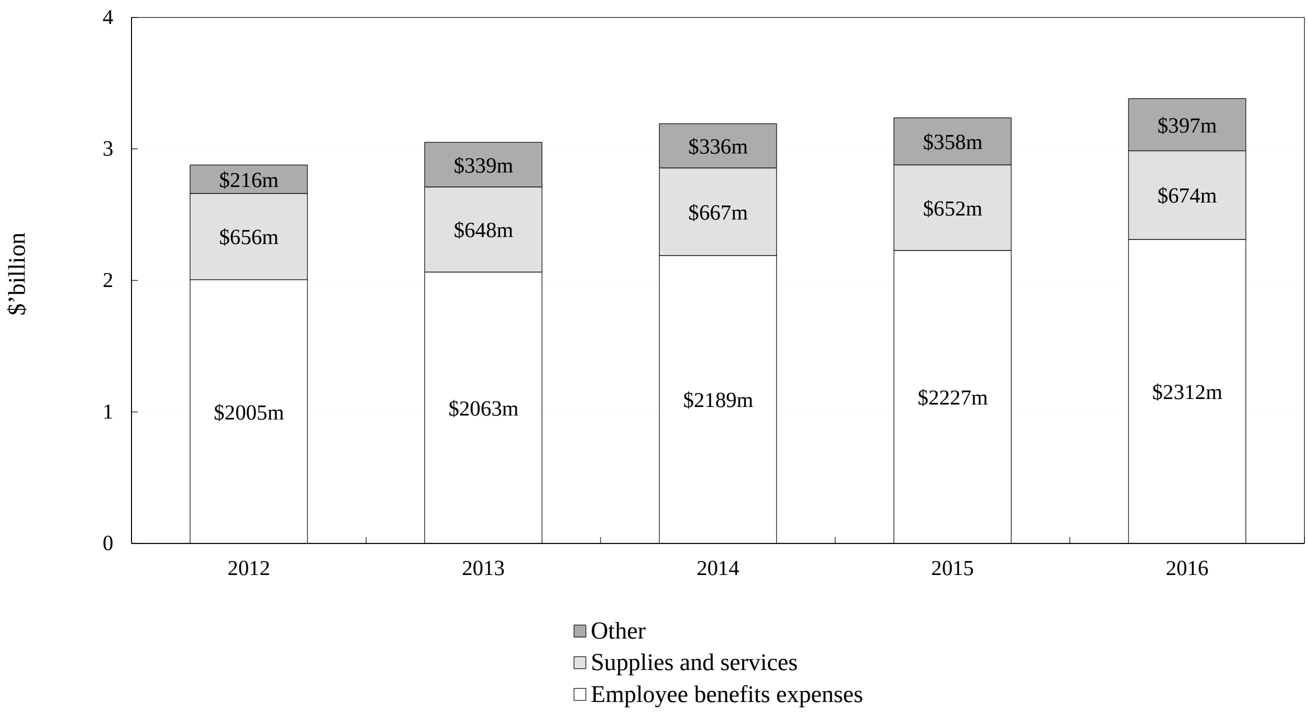
	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	2 312	2 227
Supplies and services	674	652
Other	397	358
Total expenses	3 383	3 237
Income		
Commonwealth revenues	479	455
Student and other fees and charges	151	144
Other	95	96
Total income	725	695
Net cost of providing services	2 658	2 542
Revenues from (Payments to) SA Government		
Revenues from SA Government	2 682	2 610
Payments to SA Government	(61)	(17)
Net result	(37)	51

	2016 $'million	2015 $'million
Other comprehensive income		
Changes in revaluation surplus	42	35
Total comprehensive result	5	86
Net cash provided by (used in) operating activities	15	210
Assets		
Current assets	914	922
Non-current assets	3 997	4 038
Total assets	4 911	4 960
Liabilities		
Current liabilities	369	454
Non-current liabilities	818	787
Total liabilities	1 187	1 241
Total equity	3 724	3 719

Statement of Comprehensive Income

Expenses

A structural analysis of the main expense items for DECD for the five years to 2016 is shown in the following chart.



Total expenses increased by $146 million (4.5%) to $3.4 billion. This comprised:

- an $85 million increase in employee benefits expenses reflecting:
  - a $46 million increase in salaries and wages (including annual leave) due mainly to enterprise bargaining increases during 2015-16 and FTE increases, offset by a decrease in annual leave liability

  - a $24 million increase in long service leave expense due mainly to changes in the methodology and actuarial assumptions used to value the long service leave liability (refer note 28 of the financial report) and salary and wage increases resulting from enterprise bargaining increases

  - a $7 million increase in workers compensation due principally to changes in the methodology and actuarial assumptions used to value the workers compensation liability

- a $43 million increase in grants and subsidies due mainly to a $27.5 million increase in Families SA emergency care expenditure (refer note 7 of the financial report). This increase is the result of additional children requiring commercial care

- a $22 million increase in supplies and services reflecting a $11.7 million increase in minor works, maintenance and equipment expenditure, a $4.3 million increase in rentals and leases, a $3.6 million increase in computer communications expenditure and a $3.3 million increase in management fees and charges (refer note 6 of the financial report).

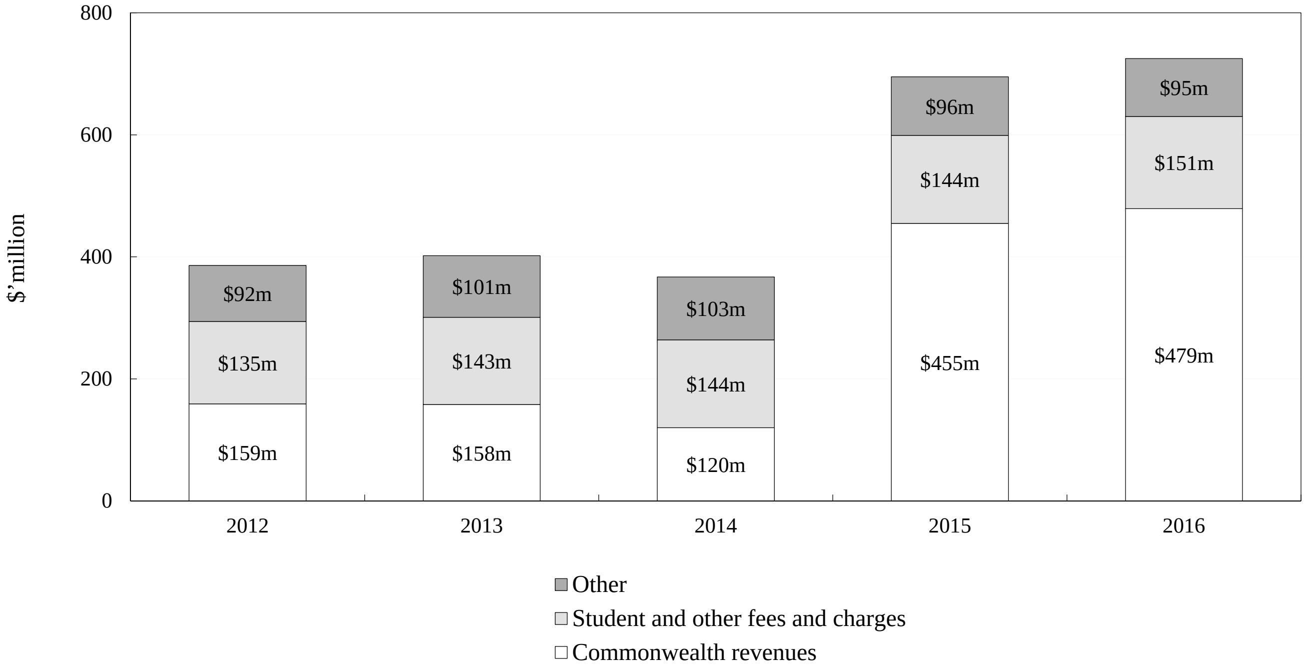
Emergency care expenditure continues to increase

The following table shows the trend in emergency care expenditure over the past four years:

	2015-16 $'million	2014-15 $'million	2013-14 $'million	2012-13 $'million
Emergency care expenditure	82.9	55.4	37.0	45.1

Income

A structural analysis of the main income items for DECD for the five years to 2016 is shown in the following chart.



The increase in Commonwealth revenues in 2015 reflects the reclassification of National Education Reform Agenda (NERA) receipts, previously recorded as revenues from SA Government.

Total income increased by $30 million (4.3%) to $725 million. This included:

- a $24 million increase in Commonwealth revenue due mainly to:
  - a $31.8 million increase in NERA funding, reflecting indexation under the new funding arrangement that commenced in 2014-15
  - a $3.3 million decrease in More Support for Students with Disabilities funding, with this national partnership ceasing and the program gradually winding down
- a $6 million increase in other income largely due to a $9.4 million increase in other revenues, a $6.4 million increase in student and other fees and charges and a $6.5 million increase in other grants and contributions, offset by a $14.3 million movement in the net loss/gain from disposal of non-current assets.

Revenues from SA Government

Revenues from the SA Government increased by $72 million (2.8%) to $2.7 billion, including a $45.7 million increase from NERA funding changes and a $36.7 million increase resulting from growth in activity for children in care.

Statement of Financial Position

Current assets decreased by $8 million to $914 million due mainly to:

- a $24.4 million decrease in cash and cash equivalents due mainly to a $61.8 million decrease in DECD's deposits with the Treasurer, offset by a $33.9 million increase in cash held by schools in SA School Investment Fund accounts (refer note 18 of the financial report)
- a $4.4 million increase in non-current assets classified as held for sale
- an $11.7 million increase in receivables, due mainly to a $6.6 million increase in prepayments and a $3.1 million increase in fees, charges and other receivables (refer note 19 of the financial report).

Non-current assets at 30 June 2016 were steady at $4 billion. The major movements within this asset category for the year were:

- asset additions of $47 million (including assets of $6 million recognised for the first time)
- a $42 million increment on revaluation of land by the Valuer-General
- annual depreciation and amortisation charges of $103 million
- asset disposals of $11 million.

As at 30 June 2016 the employee benefits and related on-cost liability of $801 million ($834 million) comprised 68% (67%) of total liabilities. Borrowings of $171 million ($172 million) relating to obligations under the finance lease for the schools' facilities Public Private Partnership agreement comprised 14% (14%) of total liabilities. The $92 million ($101 million) provision for workers compensation claims accounts for a further 8% (8%) of total liabilities.

Workers compensation payments have increased steadily between 2011-12 and 2014-15. In 2015-16 there was a slight reduction.

Movements over the past five years have been:

	2015-16 $'million	2014-15 $'million	2013-14 $'million	2012-13 $'million	2011-12 $'million
Payments	30.4	30.9	26.9	22.0	19.4
Balance of the provision	92.5	101.4	117.1	109.9	104.7

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

DECD's cash position decreased by $24 million in 2015-16 with the main movements being:

- a $194 million decrease in net operating cash flows, resulting mainly from a $160 million increase in employee benefit payments, a $70 million increase in payments for supplies and services and a $44 million increase in payments of grants and subsidies and services, offset by a $72 million increase in receipts from the SA Government and a $25 million increase in receipts from the Commonwealth

- a $23 million decrease in net cash flows used in investing activities, resulting mainly from a $38 million decrease in property, plant and equipment purchases, offset by a $15 million decrease in proceeds from the sale of property, plant and equipment.

During 2015-16 DECD returned $61 million ($17 million) of surplus cash to the SA Government under the cash alignment policy.

Cash at 30 June 2016 includes deposits with the Treasurer of $437 million (including $422 million in the Accrual Appropriation Excess Funds Account, which can only be used as approved by the Treasurer/Under Treasurer) and $369 million in cash held by schools in SA School Investment Funds accounts.

Administered items

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

- grants to non-government schools of $996 million ($962 million)

- subsidies of $13 million ($16 million) to DPTI for student travel concessions on metropolitan and country transport services

- an operating grant to the SACE Board of South Australia of $19 million ($19 million).

Grants to non-government schools included $188 million ($185 million) in State grants. The grants were based principally on the average annual enrolment of the schools and the needs of the schools and their students.

Further commentary on operations

Staffing

DECD employed the following FTE employees by category at 30 June for the past three years.

	2016 FTE	2015 FTE	2014 FTE
Department			
Education Act 1972	14 524	14 310	14 216
Schools Services Officers Award	4 791	4 520	4 347
Children's Services Act 1985	1 284	1 213	1 162
Public Sector Act 2009	2 855	2 918	2 824
Weekly paid	302	293	297
Other	356	284	290
Total	24 112	23 538	23 136
Administered activities			
Public Sector Act 2009	11	12	13
Education Act 1972	1	1	1
Total	12	13	14

Environment Protection Authority (EPA)

Financial statistics	Net assets:	$20.1 million
	Net revenue from providing services:	$5.6 million
	Total comprehensive result:	($674 000)
	Number of FTEs:	209.8

Significant events and transactions

- Solid waste levy rates increased 10% from 1 July 2015.
- $22 million of solid waste levies was transferred to the Waste to Resources Fund (Zero Waste SA).
- Surplus cash of $6.3 million was returned to the SA Government under the cash alignment policy.
- $2.2 million was transferred from capital works in progress to intangible assets to capitalise costs for five of the six Licensing Administration Modernisation Project components.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Bona fide reports were not reviewed and certified for the period February to April 2016
- A large number of incomplete and unapproved TimeWise attendance records
- Reconciliation of TimeWise leave transactions with CHRIS payroll system leave records had not been performed since December 2015
- The EPA had not signed a tenancy agreement with the Department of Planning, Transport and Infrastructure for its Netley premises and had not renewed its memorandum of understanding with the Department of Environment, Water and Natural Resources for corporate and financial services
- The majority of the EPA's purchase card holders do not have contract authorisation delegation

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 the following:

- 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 also has responsibility 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 and internal controls.

During 2015-16 areas of review included:

- waste levies revenue
- licence fee revenue
- accounts payable
- payroll
- fixed assets
- purchase cards
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the EPA in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the EPA have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. The EPA's responses indicated that appropriate actions would be taken to address the matters raised. The following outlines the notable matters that were raised with the EPA.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the EPA are also described below.

Payroll

Bona fide reports

The EPA Chief Executive exempted pay point managers from complying with the EPA's bona fide report (BFR) procedure and guidelines between February and April 2016. This exemption was provided because of issues with the accuracy of the BFRs produced by the newly upgraded CHRIS 21 payroll system.

While we appreciated the EPA's concerns with the accuracy of BFRs at that time, the period following a major system replacement or upgrade presents a heightened risk of error or fraud. We noted, however, that the EPA did not implement alternate processes to ensure the validity and accuracy of SSSA processing for the exemption period.

The EPA responded that BFRs for the period February to April 2016 will be verified by pay point managers by September 2016.

Attendance records

The EPA uses the TimeWise system to monitor employee attendance and approve leave taken. We noted:

- a large number of TimeWise attendance records were yet to be completed by EPA employees, some dating back to July 2015
- a large number of completed TimeWise attendance records were yet to be reviewed and approved, some dating back to August 2015.

We also noted that reconciliation of leave transactions recorded in TimeWise with leave records in the CHRIS payroll system had not been performed since December 2015.

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

The EPA responded that monthly reports identifying incomplete and unapproved TimeWise records will be provided to managers for action within seven days. Directors will also be advised on any non-conformance.

The monthly TimeWise to CHRIS leave reconciliations for the period January to June 2016 will be completed by September 2016.

Accounts payable

Accommodation lease agreement

We noted that the EPA had not signed a memorandum of administrative arrangement (MoAA) with the Department of Planning, Transport and Infrastructure (DPTI) for the lease of its premises at Netley.

The EPA has occupied its Netley premises since June 2014 and was provided with a final MoAA by DPTI in December 2015.

Tenancy agreements are designed to detail the agreed essential terms and conditions of the lease and outline the roles and responsibilities of the tenant.

The EPA responded that it needs to further negotiate some of the terms within the MoAA.

Department of Environment, Water and Natural Resources (DEWNR) service agreement

DEWNR provides information technology, human resource, records management, procurement and financial accounting services to the EPA.

The three year memorandum of understanding (MoU) detailing services to be provided and fees payable expired on 30 June 2015. The EPA had yet to renew the MoU.

The EPA responded that an MoU for 2015-16 has been agreed to by both parties and will be signed in September 2016. Negotiations are also well underway on an MoU for 2016-17.

Purchase cards

Contract authorisation delegation

We noted the majority of the EPA purchase card holders do not have contract authorisation delegation, as required by Treasurer's Instruction 12 'Government Purchase Cards and Stored Value Cards'. While the EPA directors were assigning cardholders with contract authorisation, the Chief Executive had not delegated his authority to provide contract authorisation delegation to directors.

The EPA responded that as part of the annual review of financial delegations to be undertaken in September/October 2016, the Chief Executive will:

- approve contract authorisation delegation to existing cardholders
- provide delegation for directors to approve contract authorisation delegation for new cardholders.

Split transactions

We noted two instances where cardholders split one purchase into two separate payments, avoiding compliance with the EPA's delegation limits for purchase card transactions. While the two transactions were not financially significant, this demonstrates the need for the EPA to remind cardholders of their obligations under Treasurer's Instructions and the EPA purchase card policy.

The EPA responded that all cardholders will be reminded of the EPA policy prohibiting split transactions.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the EPA under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	24	22
Supplies and services	8	9
Grants and subsidies	23	21
Other expenses	1	1
Total expenses	56	53
Income		
Fees and charges	60	57
Other revenues	2	2
Total income	62	59
Net revenue from providing services	6	6
Net payment to SA Government	6	7
Net result	(1)	(1)
Net cash provided by (used in) operating activities	-	-
Assets		
Current assets	24	24
Non-current assets	7	7
Total assets	31	31
Liabilities		
Current liabilities	4	4
Non-current liabilities	7	6
Total liabilities	11	10
Total equity	20	21

* Table may not add due to rounding.

Statement of Comprehensive Income

Expenses

Total expenses increased by $3.1 million in 2015-16.

Employee benefits expenses rose by $1.4 million primarily due to increases in salaries and wages, workers compensation expense, long service leave expense and targeted voluntary separation package payments (refer note 5 of the financial report).

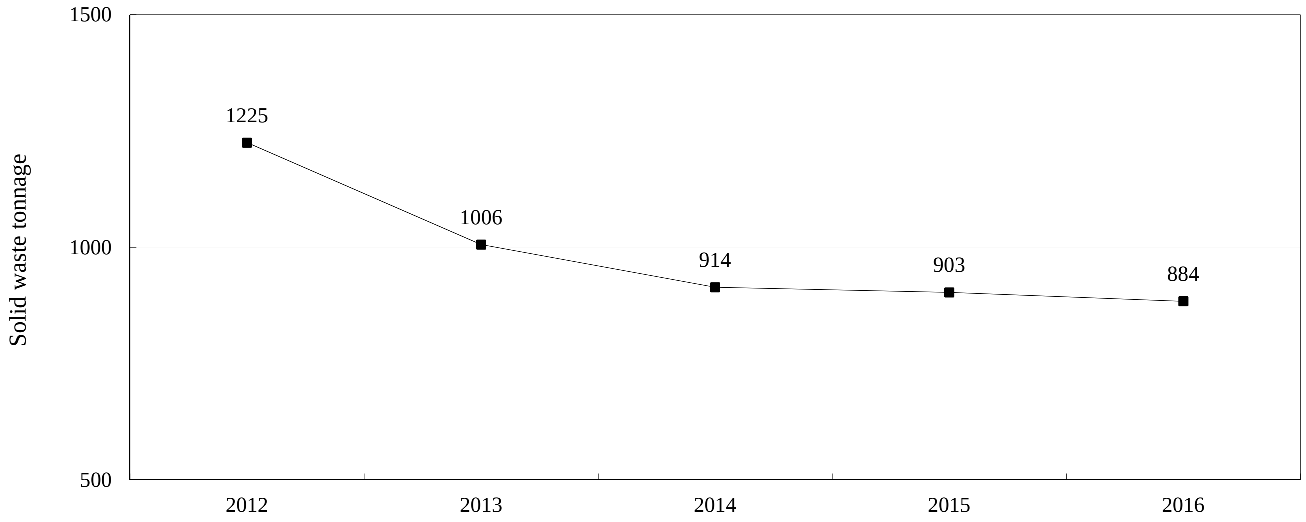
Grants and subsidies rose by $1.8 million primarily due to an increase in waste levies collected. Section 113 of the EP Act requires the EPA to raise and collect waste levies, however 50% of solid waste levies collected are subsequently transferred to Zero Waste SA (renamed Green Industries SA from 1 July 2015) under section 17 of the *Zero Waste SA Act 2004* (refer note 8 of the financial report).

Income

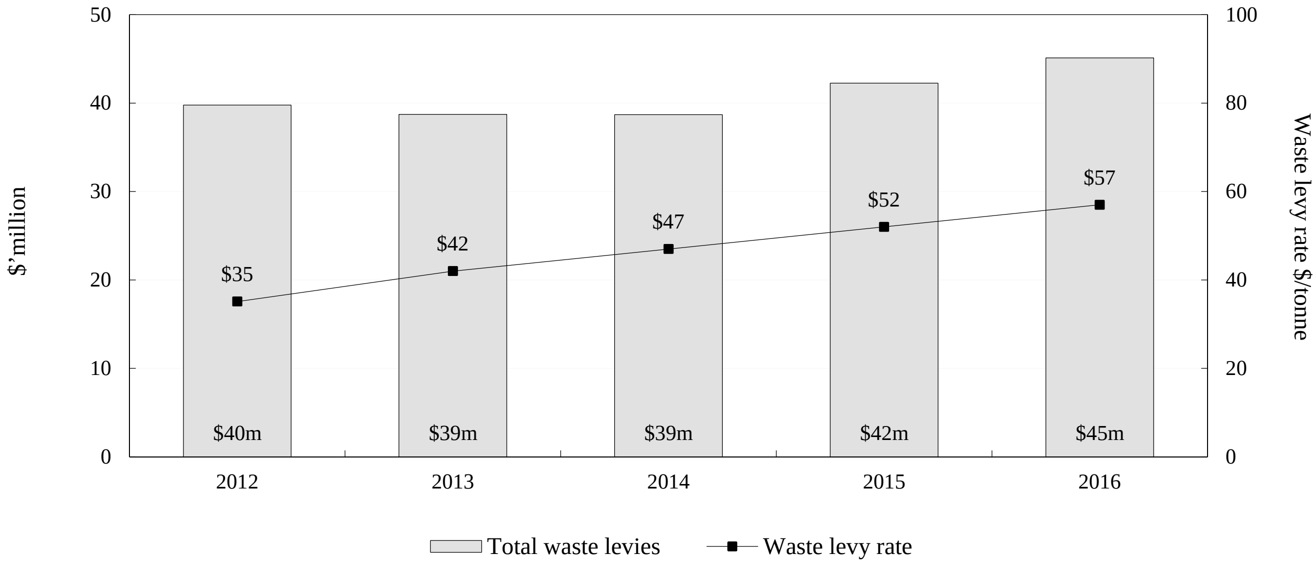
Total income increased by $2.6 million in 2015-16. This was primarily due to an increase in waste levies recognised in revenues from fees and charges.

In 2015-16 the collection of solid waste levies increased to $45.1 million ($42.2 million). There has been a decreasing trend in the solid waste tonnage that has been offset by an increase in solid waste levy rates.

As advised by the EPA, the following chart shows the decrease in solid waste tonnage from 2012 to 2016. The high solid waste tonnage in 2012 was due to the new Royal Adelaide Hospital site development.



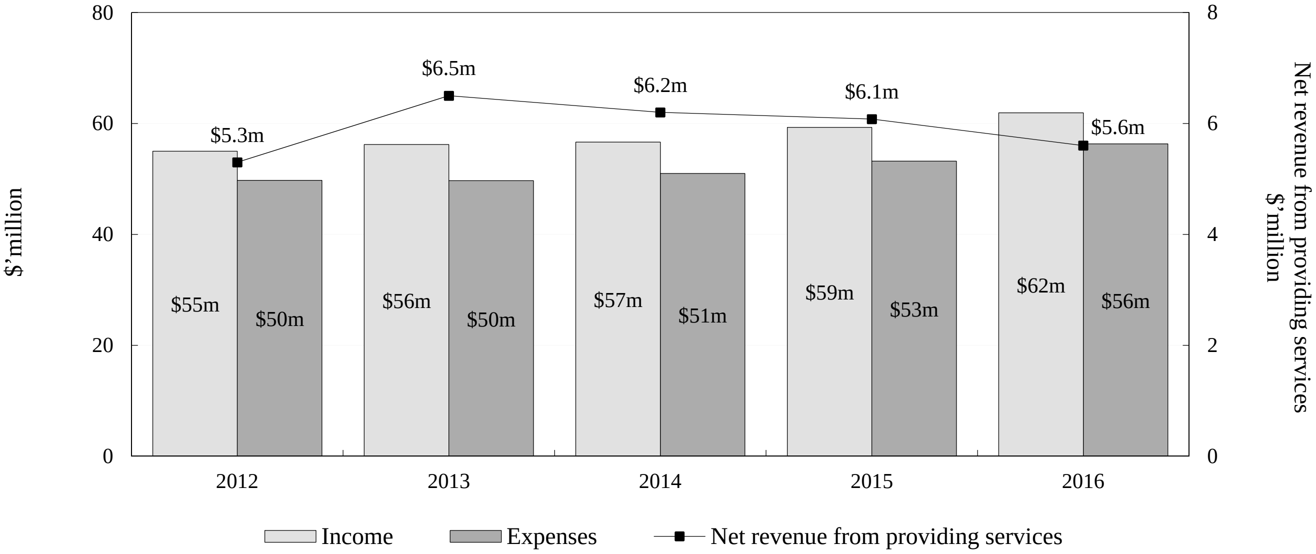
The following chart shows the amounts collected from waste levies over the five years to 2016.



Net benefit of providing services

The following chart shows the income, expenses and net revenue from providing services for the five years to 2016. The consistent level of net revenue from providing services since 2012 is mainly due to increases in waste levy rates since that date. Over the same period expenses have remained at constant levels.

Since 2014, the EPA has funded its operations through raising fees and charges and has not required any appropriation funding from the Consolidated Account. In addition, under the cash alignment policy it has returned $20 million in surplus cash directly to the Consolidated Account ($6.3 million in 2015-16, $7.3 million in 2014-15, $5.4 million in 2013-14 and $1 million in 2012-13).



Statement of Financial Position

Current assets – cash and cash equivalents

Cash and cash equivalents, $16 million ($16 million), represent 66% (67%) of total current assets and 51% (51%) of total assets. Cash and cash equivalents include the Environment Protection Fund deposit account of $7 million.

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

Non-current assets – property, plant and equipment

In 2015-16 this item makes up 14% (22%) of total assets. Furniture and fittings is the dominant item of property, plant and equipment. Furniture and fittings include leasehold improvements made to EPA premises in Victoria Square, Adelaide.

Property, plant and equipment decreased by $2.4 million due to the transfer of capital works in progress to intangibles of $2.2 million and depreciation charges of $729 000, partly offset by asset additions of $497 000. The $177 000 balance in capital works in progress relates to the public register module of the Licensing Administration Modernisation Project (LAMP), which is scheduled for completion in October 2016. The completed asset will be transferred to intangibles in 2016-17 when all expenditure has been finalised.

Notes 19 and 20 of the financial report provide further details on these items and amounts.

Further commentary on operations

Transfer of solid waste levies to the Waste to Resources Fund

The EPA receives solid waste levies from waste depots under section 113 of the EP Act. These amounts are included within fees and charges. There was an increase in solid waste levy rates of 10% (11%) from 1 July 2015. Section 17 of the *Zero Waste SA Act 2004* requires the EPA to transfer 50% of these levies to the Waste to Resources Fund. This fund may be applied by Zero Waste SA (now Green Industries SA) in accordance with the approved Zero Waste SA business plan or in any other manner authorised by the responsible Minister for the purposes of the *Zero Waste SA Act 2004*.

The EPA transferred $22 million ($20 million) to the Waste to Resources Fund during the year. This transfer is reflected within the grants and subsidies expense line.

The balance of the Waste to Resources Fund at 30 June 2016 was $86.8 million ($68.3 million).

LAMP

The LAMP project involves the development of a suite of six new and existing IT systems. Improving these IT systems is expected to result in savings for the EPA and business, since many tasks that were performed manually will be automated.

The original implementation date for LAMP was 1 July 2013 but this was delayed and postponed a number of times. Five out of six components were operational on 31 July 2015, with the Public Register module scheduled for completion in October 2016.

The LAMP project budget is $2.5 million. As at 30 June 2016 the total amount spent was $2.5 million. Some additional costs associated with user testing and staff training for the Public Register module are anticipated. The EPA will not be charged for any issues identified from this user testing.

Department of Environment, Water and Natural Resources (DEWNR)

Financial statistics	Net cost of providing services:	$135.5 million
	Total appropriation:	$156.1 million
	Employee benefits expenses:	$160.6 million
	Property, plant and equipment:	$574 million
	Number of FTEs:	1609.8

Significant events and transactions

- Land revaluation resulted in an adjustment of $48.9 million.
- A $22.1 million lease incentive was recognised for DEWNR's new CBD accommodation.
- The Save the River Murray levy was abolished on 1 July 2015.
- A $553.9 million adjustment for unallotted Crown land not previously recognised was made in the Statement of Administered Financial Position.
- There was a $27.6 million movement in joint operation assets in the Statement of Administered Financial Position.

Financial statement opinion

Unmodified

An emphasis of matter was included in the financial report opinion relating to the $553.9 million unallotted Crown land error correction in the administered financial statements.

Financial controls opinion

Modified

Key issues:

- A large number of old reconciling items on the bank reconciliation
- Financial authorisation limits approved in January 2016 were not input in the Basware system until May 2016
- Quarterly reviews of Basware user access and financial authorisation limits not completed since November 2015
- A large number of incomplete and unapproved TimeWise attendance records
- Reconciliation of TimeWise leave transactions with CHRIS payroll system leave records not performed for some branches and regions since July 2013

Functional responsibility

DEWNR is an administrative unit established under the *Public Sector Act 2009*, and is responsible to the Minister for Sustainability, Environment and Conservation and the Minister for Water and the River Murray.

DEWNR leads the management of South Australia's natural resources to ensure the protection of the environment and that healthy and productive natural resources sustain wellbeing and the economy.

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.

During 2015-16 areas of review included:

- fees and charges revenue
- grant revenue
- accounts payable
- grants and subsidies expenditure
- payroll
- cash
- fixed assets
- purchase cards
- general ledger.

Audit findings and comments

Auditor's report on the financial report

Over a number of years we have commented that:

- unallotted Crown land was not recognised in DEWNR's Statement of Administered Financial Position
- there were limitations on the base information used to value leased and licensed Crown land reported in DEWNR's Statement of Administered Financial Position
- DEWNR had not finalised an appropriate valuation methodology for all Crown land.

During 2014-15 DEWNR commenced a Crown land identification and valuation project to establish an auditable fixed asset register for Crown land. The project was finalised in 2015-16, and confirmed the completeness and accuracy of administered land information in the Tenancies and Billing System (TABS).

The State Valuation Office valued all Crown land assets as at 1 July 2015.

Crown land information was not verified or valued for prior reporting periods. Accordingly error corrections were recognised in the Statement of Administered Changes in Equity as at 1 July 2015.

Retained earnings as at 1 July 2015 were increased by $553.9 million to recognise unallotted Crown land. The asset revaluation surplus was increased by $1.9 million as at 1 July 2015 to reflect the correction in the value of leased and licensed Crown land.

The following is an extract from the Independent Auditor's Report on DEWNR's 2015-16 financial report, which is unmodified. It emphasises the correction made in the administered financial statements for unallotted Crown land assets.

> ***Opinion***
>
> *In my opinion, the financial report gives a true and fair view of the financial position of the Department of Environment, Water and Natural Resources as at 30 June 2016, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*
>
> ***Unallotted Crown land error correction***
>
> *I draw attention to note A11 which describes a $553.9 million error correction to the administered financial statements to recognise unallotted Crown land assets as at 1 July 2015. Asset information was not available for prior reporting periods to enable restatement of comparative information in the financial report. The error correction was adjusted against retained earnings as at 1 July 2015.*

Assessment of controls

In my opinion, the controls exercised by the Department of Environment, Water and Natural Resources in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Environment, Water and Natural Resources have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified in the course of the audit were detailed in management letters to the Chief Executive. The main matters raised and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to DEWNR are also described below.

Expenditure

Input of revised financial authorisations in Basware

Financial authorisation limits in the Basware expenditure system ensure that users do not exceed their delegated authority or approve their own expenditure.

Changes to DEWNR's Instrument of Authorisation, approved by the Chief Executive in January 2016, were not input in Basware until May 2016. This delay was caused by the need to realign position numbers in both the CHRIS payroll system and Basware.

DEWNR reviewed Basware expenditure since January 2016 and identified 162 payments that were approved by seven employees in excess of their delegated authority.

DEWNR advised that it has retrospectively approved all transactions identified.

DEWNR also responded that it had agreed with the SSSA Basware system support team an approach to ensure that future financial delegations updates are promptly input into Basware.

Review of Basware user access and financial authorisation limits

SSSA provides DEWNR with quarterly reports that detail Basware user access profiles and financial authorisation limits. DEWNR is required to review the accuracy of the reports and provide SSSA with written confirmation of report accuracy and details of any changes required.

We noted that DEWNR had not reviewed any Basware user access reports since November 2015.

With revised financial authorisation limits input into Basware by SSSA in late May 2016, DEWNR planned to complete the next quarterly Basware review scheduled for July 2016.

DEWNR advised that the July 2016 quarterly review was completed in early August 2016 and necessary amendments provided to the SSSA Basware system support team for action.

Manual payments

SSSA processes certain manual payments on behalf of DEWNR outside the Basware control environment. These payments mainly comprise the payment of foreign currency invoices and urgent payments.

DEWNR does not review manual payments processed by SSSA.

Regular review of the Transferred Without Delegation Check report would provide DEWNR with assurance that all manual payments processed by SSSA are valid.

We noted that one urgent payment was approved by a DEWNR officer in excess of their delegated authority.

DEWNR responded that:

- it will review the monthly Transferred Without Delegation Check report
- the identified instance of approval outside of delegated authority has been discussed with the DEWNR staff involved and the payment has been retrospectively approved
- it has communicated to all DEWNR staff that they must not exceed their financial authorisation limits, including when approving manual payment requests.

Payroll

Bona fide reports

The DEWNR bona fide policy requires pay point delegates to review and certify fortnightly bona fide reports. Certified bona fide reports are recorded on a central register. This certification provides DEWNR with assurance that only valid employees are paid and that employees are paid correctly.

We noted that about 4% of bona fide reports for the financial year were not recorded on the register as certified as at 5 May 2016.

DEWNR responded that the Chair of the DEWNR Risk Management and Audit Committee (RMAC) forwarded an email to managers reminding them of their responsibilities under the bona fide policy. DEWNR's People, Capability and Culture (PCC) branch will monitor compliance with the bona fide policy and escalate instances of non-compliance to group executive directors for action.

Attendance records

DEWNR uses the TimeWise system to monitor employee attendance and approve leave taken. We noted:

- a large number of TimeWise attendance records were yet to be completed by DEWNR employees, some dating back to July 2015
- a large number of completed TimeWise attendance records were yet to be reviewed and approved, some dating back to August 2015.

We also noted that the reconciliation of leave transactions recorded in TimeWise with leave records in the CHRIS payroll system had not been performed for all branches/regions, with some of the outstanding reconciliations dating back to July 2013.

DEWNR relies on these controls to ensure all leave taken is deducted from an employee's leave entitlement. If they are not operating effectively DEWNR'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.

DEWNR responded that the Chair of the DEWNR RMAC forwarded an email to managers reminding them of their responsibilities under DEWNR's time and attendance recording procedure and guideline. The PCC branch will monitor compliance with the procedure and report biannually to the RMAC.

The PCC branch will also finalise the outstanding TimeWise to CHRIS payroll system reconciliations before passing responsibility for these reconciliations to branches/regions. A central leave reconciliation register will be established on DEWNR's intranet to enable the PCC branch to monitor whether reconciliations are being completed.

Cash

The DEWNR bank account is used by 16 separate entities and 22 funds established to support specific Commonwealth and SA Government programs.

The bank reconciliation is a key control in DEWNR's operating environment.

SSSA performs the bank reconciliation process but requires DEWNR's assistance, particularly in relation to revenue.

We noted a large number of long outstanding reconciling items in the DEWNR bank reconciliation for March 2016, some dating back to 2009.

DEWNR responded that a review of long outstanding reconciling items was completed in June 2016 and these items have been corrected and cleared from the bank reconciliation.

Fixed assets

DEWNR's asset stocktake procedure requires stocktakes of infrastructure and plant and equipment assets to be performed over a rolling three-year period.

We noted that branches and regions had not completed required asset stocktakes in 2015-16 to verify the existence, location and condition of infrastructure, plant and equipment.

DEWNR responded that the DEWNR project and asset services team is currently developing a more robust stocktake plan, which will be rolled out during 2016-17. This stocktake plan allows for seasonal restrictions as well as resourcing constraints and will complement the current review of DEWNR asset policies and procedures scheduled for completion in 2016-17.

Purchase cards

Contract authorisation delegation

We noted a large number of DEWNR purchase card holders do not have the contract authorisation delegation required by Treasurer's Instruction 12 'Government Purchase Cards and Stored Value Cards'.

DEWNR responded that the Chief Executive will assign contracting authority to all existing cardholders. In addition, the authority to subdelegate future purchase card holders will be assigned to the Chief Finance Officer and Manager, Accounting and Procurement to enable contract delegations to be issued for future card applications.

Split transactions

We noted four instances where cardholders split one purchase into separate payments, avoiding compliance with DEWNR's delegation limits for purchase card transactions. While the four transactions were not financially significant, this demonstrates the need for DEWNR to remind cardholders of their obligations under Treasurer's Instructions and DEWNR's purchase card policy.

DEWNR responded that it had reviewed the identified incidents and warnings were issued to the cardholders. In addition, all DEWNR staff were reminded of the requirements under DEWNR's purchase card policy and procedure.

Water licence and levy revenue

Water Information and Licencing Management Application (WILMA) clearing account

We noted transactions in the WILMA clearing account that had not been investigated and cleared for a number of years.

DEWNR responded that it will investigate and clear the transactions by 30 December 2016.

Debtor reconciliations

General ledger debtor control accounts are reconciled monthly to the aged trial balance.

We noted 2015-16 debtor reconciliations contained reconciling items totalling $189 000 dating back to 2013-14.

DEWNR responded that it will investigate and clear the reconciling items.

Financial management related policies and procedures

Treasurer's Instruction 2 'Financial Management' requires DEWNR to ensure that financial management related policies and procedures are documented, reviewed regularly, revised where necessary and readily available to all relevant agency staff.

DEWNR maintains corporate policies, procedures and guidelines on its intranet. Business units are encouraged to review and update documents under their responsibilities.

We noted a number of DEWNR's financial management related policies and procedures had not been reviewed within the time frame specified on the relevant policy or procedure.

DEWNR responded that it had reviewed most financial management policies and procedures and that they are being finalised and endorsed at executive level.

Fixed asset policies and procedures are currently under review and consultation is occurring across a number of stakeholders, both internal and external to DEWNR.

DEWNR advised that it had recently developed new policy and procedure registers. All policy/ procedure content authors or responsible officers have been advised to check that their documents on the registers are up to date and to advise the Performance and Strategy branch of any that need to be replaced.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DEWNR under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	161	148
Supplies and services	84	93
Grants and subsidies	36	32
Depreciation and amortisation expense	20	21
Other expenses	5	14
Total expenses	306	308
Income		
Fees and charges	63	76
Grants revenues	66	56
Other income	42	34
Total income	171	166
Net cost of providing services	135	142
Revenues from (Payments to) SA Government	142	141
Net result	7	(1)
Other comprehensive income	49	12
Total comprehensive result	56	11

	2016 $'million	2015 $'million
Net cash provided by (used in) operating activities	30	58
Assets		
Current assets	169	151
Non-current assets	580	517
Total assets	749	668
Liabilities		
Current liabilities	39	39
Non-current liabilities	61	36
Total liabilities	100	75
Total equity	649	593

Statement of Comprehensive Income

Expenses

Total expenses decreased slightly by $1.3 million. The major items causing this change were:

- a $13 million (9%) increase in employee benefits reflecting:
  - an $8.1 million (7%) increase in salaries and wages due mainly to enterprise bargaining increases and additional FTEs to support the Riverine Recovery Program, the new Flood Warning and Flood Hazard Management program and other projects
  - a $1.9 million (45%) increase in long service leave expense due mainly to the lower discount rate used to value the long service leave liability (refer note 27 of the financial report) and salaries and wages increases resulting from enterprise bargaining increases, offset by long service leave taken
  - a $2.7 million (13%) increase in employment on-costs resulting mainly from increases in salaries and wages and employee benefits liabilities
  - a $1 million decrease in targeted voluntary separated package payments, with one package paid in 2015-16 compared to 13 in 2014-15
- a $9 million (10%) decrease in supplies and services reflecting:
  - a $4.3 million (16%) decrease in fee-for-service (FFS) expenses due mainly to a $4.9 million decrease in FFS associated with the Riverine Recovery Program as this Commonwealth-funded program is nearing completion. This decrease is partially offset by a $1.1 million increase in FFS associated with the South Australian Riverland Floodplains Integrated Infrastructure Program
  - a $3 million (42%) decrease in minor works, maintenance and equipment due mainly to a decrease in funding associated with the Patawalonga Sediment Removal program and a reduction in minor asset purchases across DEWNR
  - a $1.5 million (12%) decrease in general administration costs
  - a $1.3 million (28%) decrease in contractor expenses due mainly to the appointment of permanent staff to positions that were temporarily filled by contractors in 2014-15, and a reduction in the use of contractors on projects concluded in 2014-15

- a $1.5 million (10%) increase in accommodation and property management expenses due mainly to decommissioning costs for five tenancies and costs associated with relocating staff previously accommodated across four separate sites into a single CBD location, offset by a reduction in utilities and cleaning costs resulting from the new accommodation

- a $5 million (15%) increase in grants and subsidies due mainly to a $6 million increase in the annual contribution to the Murray-Darling Basin Authority (MDBA) and $2 million increase in funding for the Great Artesian Basin Sustainability Initiative, offset by a $3 million decrease in funding to the Goyder Institute (refer note 7 of the financial report)

- an $11 million (83%) decrease in the net loss from the disposal of non-current assets. DEWNR receives capital works funding and manages capital projects on behalf of other associated entities. In 2014-15 assets costing $10.3 million for a range of capital projects were completed and transferred to the Board of the Botanic Gardens and State Herbarium. Note 10 of the financial report provides further details.

Income

Total income increased slightly by $5 million. The major items causing this change were:

- a $10 million (18%) increase in grant revenues primarily due to an $18 million increase in funding from the Commonwealth for the SA Riverland Floodplain Infrastructure Program, offset by a $14 million decrease in funding from the Commonwealth for the Coorong, Lower Lakes and Murray Mouth – Long-Term Plan (refer note 14 of the financial report)

- a $7 million increase in other income reflecting a $7.9 million increase in water sales due to a one-off sale of water entitlements in 2015-16, the proceeds of which were returned to the Consolidated Account (refer note 17 of the financial report)

- a $13 million (17%) decrease in fees and charges reflecting:

  - a $23.5 million decrease in taxation revenue due to the abolition of the Save the River Murray Levy

  - a $6.8 million increase in income from the sale of support services due mainly to the introduction of a full cost recovery model for services provided to natural resource management boards

  - a $3 million increase in income from the sale of professional services due mainly to a number of new service agreements with other SA Government entities for services provided by DEWNR's Resource Monitoring Unit.

Statement of Financial Position

DEWNR's assets comprise two main items: property, plant and equipment and cash.

Non-current assets – property, plant and equipment

Property, plant and equipment is $574 million and represents 77% of total assets.

Land comprises $267 million of property, plant and equipment and represents national, conservation and recreation parks and wilderness protection areas and reserves. In addition, related park infrastructure amounts to $36.9 million and roads, tracks and trails total $22.9 million.

Property, plant and equipment increased by $63 million due mainly to a $48.9 million adjustment on revaluation of land, a $22.1 million increase in leasehold improvements and additions of $16.3 million, offset by $19.2 million in depreciation charges.

Refer note 23 of the financial report for an analysis of this significant disclosure item.

Current assets – cash

This item, $147 million ($134 million), represents 87% (89%) of total current assets and 20% (20%) of total assets. DEWNR's cash at 30 June 2016 comprises operating deposit accounts of $88 million ($83 million) and an Accrual Appropriation Excess Funds Account of $59 million ($51 million). Access to the latter account is subject to the Treasurer/Under Treasurer's approval.

Liabilities

Total liabilities increased by $25 million (33%) to $100 million. The major item causing this change was a $22.5 million increase in other liabilities due mainly to the recognition of a lease incentive liability associated with DEWNR's new CBD office accommodation. This liability recognises the aggregate cost of incentives provided and is amortised over the lease team, reducing rental expense.

Administered items

DEWNR's administered activities include:

- the Caring for our Country grant program
- the Natural Resources Management Fund
- the State's joint interest in the MDBA.

The Schedule of Administered Expenses and Income attributable to Administered Activities provides further details on these items and amounts.

Caring for our Country grant program

The Caring for our Country Program (South Australia) is administered by the Commonwealth and SA Governments under section 19(2) of the *Natural Heritage Trust of Australia Act 1997* (Cwlth) and section 5 of the *Natural Resources Management (Financial Assistance) Act 1992* (Cwlth).

The goal of Caring for our Country is to provide an environment that is healthy, better protected, well managed, resilient and provides essential ecosystem services in a changing climate.

The Caring for our Country items administered by DEWNR include grant revenues from the Commonwealth Government of $14.1 million ($17.2 million), grant expenses of $14.2 million ($17 million) and a cash balance of $536 000 ($660 000).

Natural Resources Management Boards and Natural Resources Management Fund

DEWNR has primary responsibility for helping the Minister to administer the *Natural Resources Management Act 2004* (NRMA). The main purpose of the NRMA is to promote sustainable and integrated management of the State's natural resources and to provide for the protection of the State's natural resources.

The NRMA provides for a range of entities with specific responsibilities, including eight regional Natural Resource Management Boards (NRMBs).

Water levies are collected by DEWNR for prescribed water resources within specific natural resources management regions under section 101 of the NRMA. The levies are subsequently paid to the regional NRMBs under section 116(1)(a)(ii)(A).

In 2015-16, $14.6 million ($17.3 million) in water levies, penalties and expiation fees was transferred to the NRMBs from DEWNR. DEWNR also received $3 million ($2.9 million) in appropriation funding for the NRMBs.

Payments to NRMBs from the Natural Resources Management Fund during the year were $18.4 million ($16.6 million). These payments relate to water levies and out of council land levies invoiced and collected by DEWNR. The NRMA requires that the Minister issues the levies and collects the revenue into the Natural Resources Management Fund. The Minister then distributes funds collected to the NRMBs based on receipts.

Murray-Darling Basin Authority

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

The MDBA's functions are to:

- prepare, implement, monitor and enforce the Basin Plan
- implement the decisions of the Ministerial Council and Basin Officials Committee.

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

The recognition of MDBA infrastructure assets and water rights is in accordance with the following agreements signed by the Commonwealth, the states of NSW, Vic and SA, the 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.

For further information refer note A12 to the administered financial statements.

Flinders University of South Australia (FUSA)

Financial statistics	Net result:	$14 million
	Australian Government financial assistance:	$323 million
	Number of FTEs:	2 081
	Number of students (EFTSLs):	16 104
	Research revenue:	$66 million

Significant events and transactions

- In late 2015, the $63 million plaza redevelopment and student hub reached technical completion, opening in semester 1, 2016.
- The Lincoln Marine Science Centre, valued at $6 million, was transferred to the SA Government for $0 consideration.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- No probity plan for major infrastructure projects
- Supervisor review of payroll payments not performed with sufficient regularity
- Insufficient process to detect and follow up all employees who fail to submit leave forms
- A need to strengthen segregation of duties in a number of systems including fixed assets, revenue and payroll

Functional responsibility

FUSA is established by *The Flinders University of South Australia Act 1966*.

The functions of FUSA 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

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

During 2015 specific areas of audit attention included:

- payroll
- expenditure
- major projects
- Commonwealth financial assistance
- student fees revenue
- research grant revenue
- cash and investments
- property, plant and equipment
- general ledger and reporting.

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

The audits of the controlled entities for the year ended 31 December 2015 were carried out by private accounting firms.

Audit findings and comments

Auditor's report on the financial report

Assessment of controls

In my opinion, the controls exercised by the Flinders University of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Flinders University of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Vice-Chancellor. The main matters raised with FUSA are detailed below. Some of these matters are similar to issues reported to FUSA in previous years. FUSA has responded to all matters raised in the management letter.

Major projects

No probity plan for major infrastructure projects

FUSA's Major Project Governance Framework describes the types of projects for which the appointment of a probity auditor is required. These include where the project is of significant size or complexity. Our review found that no assessment of the need for a probity auditor for the plaza redevelopment and student hub had been documented, nor had a probity plan been established.

We consider FUSA should have prepared a probity plan and formally assessed the need for a probity auditor or adviser. A probity plan would have allowed FUSA to better demonstrate how it managed impartiality, accountability and transparency and attained value for money.

In its response, FUSA noted its oversight to not fully document the discussion and decision on the management of probity. FUSA's response also expressed the view that its appointment of independent external advisors to assist, combined with the open book nature of the contract and internal governance processes, in effect replaced the need for a probity auditor.

Payroll

Supervisor review of payroll payments not performed with sufficient regularity

The audit of payroll considered the effectiveness of supervisors' review of payroll reports to provide assurance that only bona fide employees are paid for work performed and at the correct rates. We consider that FUSA's requirement for twice yearly positive confirmation was not sufficiently regular to identify invalid, inaccurate or incomplete processing of payments through the payroll system.

FUSA indicated that the matter had been carefully considered making reference to results of testing, internal audit findings and other controls and, following the review and agreement by FUSA's Audit Committee, it concluded that the current approach was sufficient to manage the above risk.

Leave recording policy not updated

As we have reported in prior years, FUSA places responsibility with, and reliance on, supervisors to ensure employees submit leave forms. We found that processes employed by supervisors to identify and follow up employees who failed to submit leave forms varied across FUSA. In some cases supervisors reconciled their records of attendance to leave forms, while other supervisors used ad hoc processes. In addition, FUSA did not monitor the performance of supervisors regarding these responsibilities. An updated leave reporting policy was intended to give greater clarity on what was required by supervisors to manage leave. The leave reporting policy was not updated in 2015.

FUSA responded that the existing flexible working hours policy had a requirement for supervisors to ensure leave forms are processed. FUSA indicated the policy was being updated to provide greater clarity of responsibilities for both staff and supervisors in this area.

Payroll policies and procedures

Policies and procedures provide the basis for an internal control environment by establishing the intended internal controls that should operate and who should perform them. Where policies and procedures are not reviewed promptly, the policies may not reflect current practices, meaning staff may be following incorrect processes. We noted that existing payroll policies and procedures had not been reviewed for a number of years and that a draft policy had been developed in November 2015 and was awaiting approval.

FUSA responded that while the draft policy had been prepared it required further amendments before approval. FUSA indicated it would undertake the necessary amendments to finalise the policy.

Other payroll matters

Our audit also identified other matters where controls over payroll processes could be improved including:

- 99 employees with annual leave balances greater than 40 days

- first year employees with negative annual leave balances
- no reporting on academic employees who cancelled their default block booked leave and did not always reschedule an alternative date as required by FUSA policy.

FUSA responded to the specific audit findings and provided details of actions to address the matters raised.

A need to strengthen segregation of duties in a number of systems

We identified a need to strengthen the segregation of duties in some of FUSA's systems and processes. In particular, we noted:

- payroll staff have the ability to add and remove employees and process overtime and leave adjustments, causing potential segregation of duties concerns
- staff who maintain fixed assets records have the ability to change both the asset register and the general ledger and to approve stocktake adjustments
- some roles in the student system allowed access to multiple functions that we believe should be separated.

FUSA responded to each of these matters and indicated that there were mitigating detective controls in place to manage risks or that further reviews would be undertaken.

Grants

Grant income

In prior years we have recommended that FUSA implement guidelines that require a uniform and consistent approach to tracking grant revenues, ensuring invoices are raised and monies received when due. FUSA agreed and responded that it would establish guidelines. Follow-up review in 2015 found that FUSA was yet to establish guidelines. Consistent with prior years we found the methods of grant monitoring were inconsistent.

FUSA responded that investigations into the use of an electronic based planner system have been underway and FUSA would continue to develop and explore options to upgrade to a web-based system.

Interpretation and analysis of the financial report

Highlights of the financial report

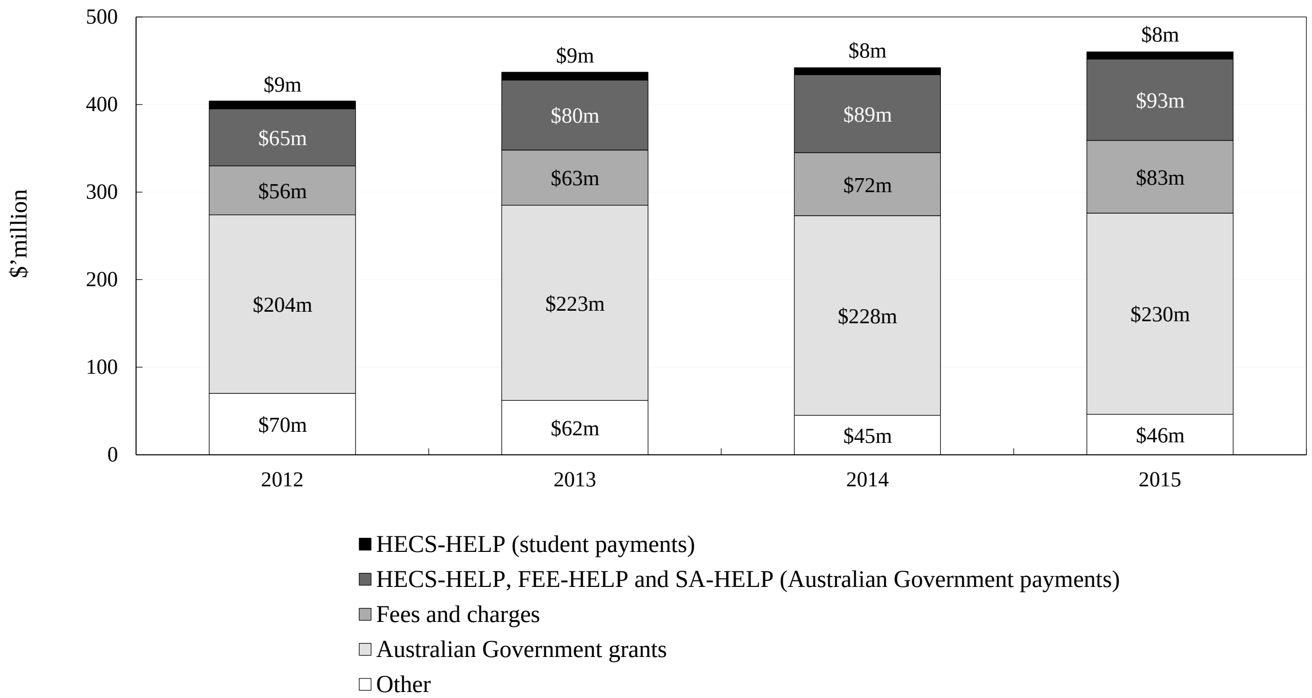
	2015 $'million	2014 $'million
Income		
Australian Government grants	230	228
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	93	89
HECS-HELP (student payments)	8	8
Fees and charges	83	72
Other	46	45
Total income	460	442

	2015 $'million	2014 $'million
Expenses		
Employee related expenses	294	290
Other expenses	152	140
Total expenses	446	430
Operating result	14	12
Net cash provided by (used in) operating activities	56	40
Net cash provided by (used in) investing activities	(36)	(36)
Assets		
Current assets	87	110
Non-current assets	725	676
Total assets	812	786
Liabilities		
Current liabilities	70	62
Non-current liabilities	82	84
Total liabilities	152	146
Total equity	660	640

Income Statement

Income

A structural analysis of operating income for FUSA for the four years to 2015 is presented in the following chart.



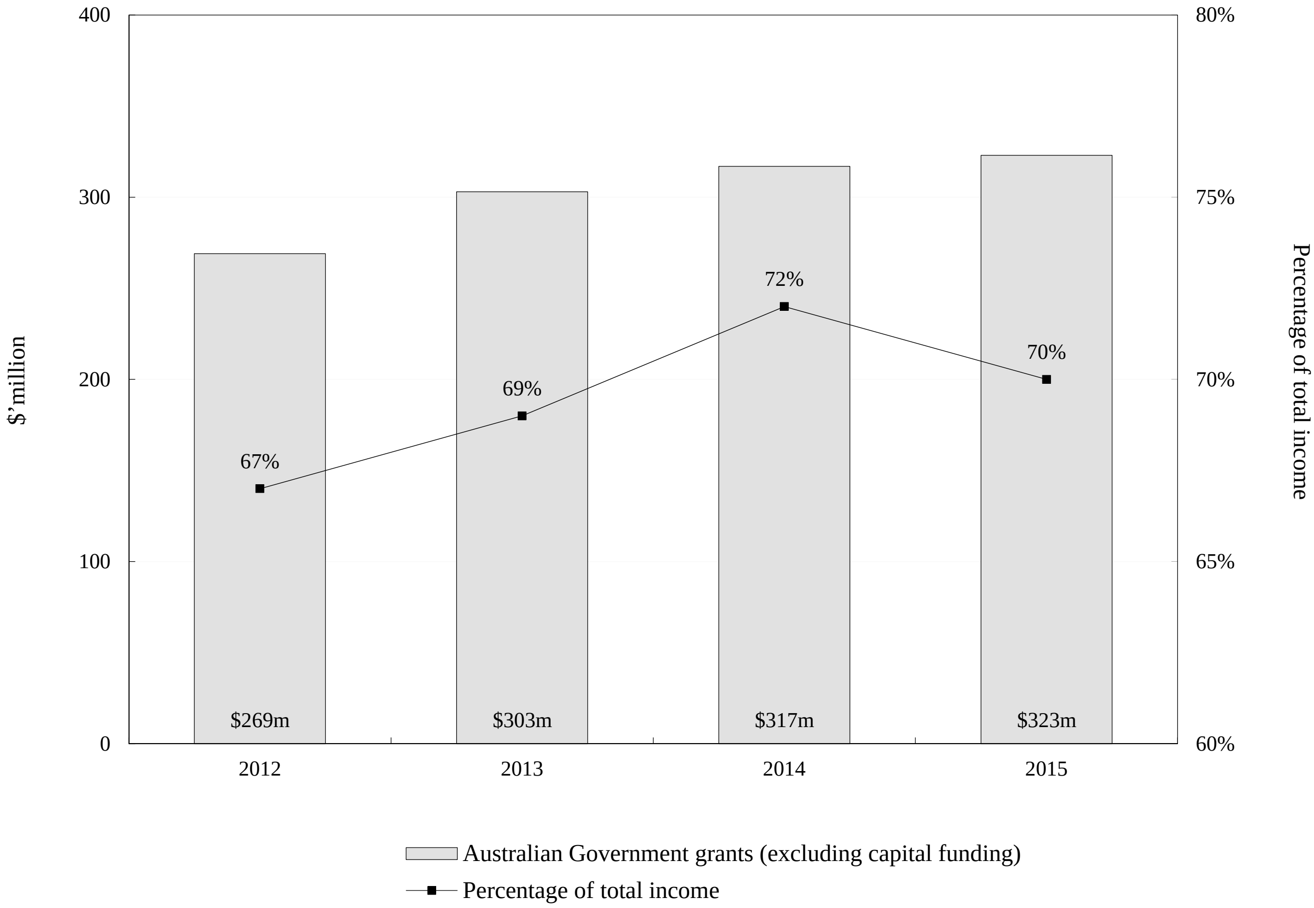
The chart shows that FUSA is largely dependent on financial assistance from the Australian Government.

Australian Government grants and payments

The total Australian Government financial assistance received by FUSA during 2015 increased by $7 million to $323 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 in the last four years the proportion of non-capital Australian Government grants and payments to total income has grown, peaking in 2014.

The small decrease in 2015 reflects the proportionate growth in fees and charges for the year.



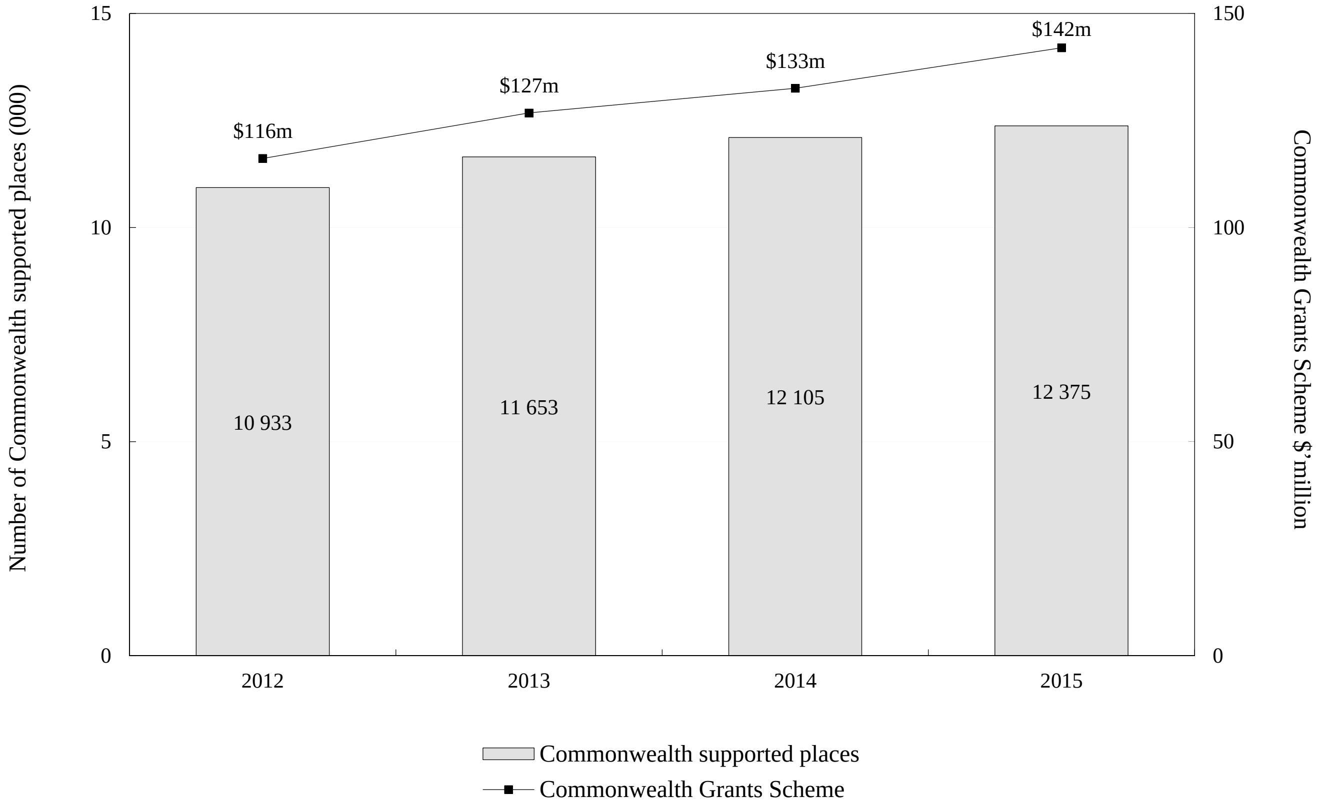
Australian Government grants and payments include the following major items:

- $93 million Higher Education Loan Program (HELP) funding including for HECS-HELP. In 2015 HECS-HELP funding increased $3 million (4%) to $84 million, which is primarily due to growth in Commonwealth supported places (4%), price indexation and growth in the proportion of students opting to defer their contribution through the HELP program

- $59 million Australian Government funding for research activities including competitive research grant programs and research infrastructure grants, which was a $3 million decrease in funding for 2015

- $142 million Commonwealth Grants Scheme funding for Commonwealth supported student places. Commonwealth Grants Scheme funding increased $9 million (7%) primarily due to a 3% increase in the number of Commonwealth supported students.

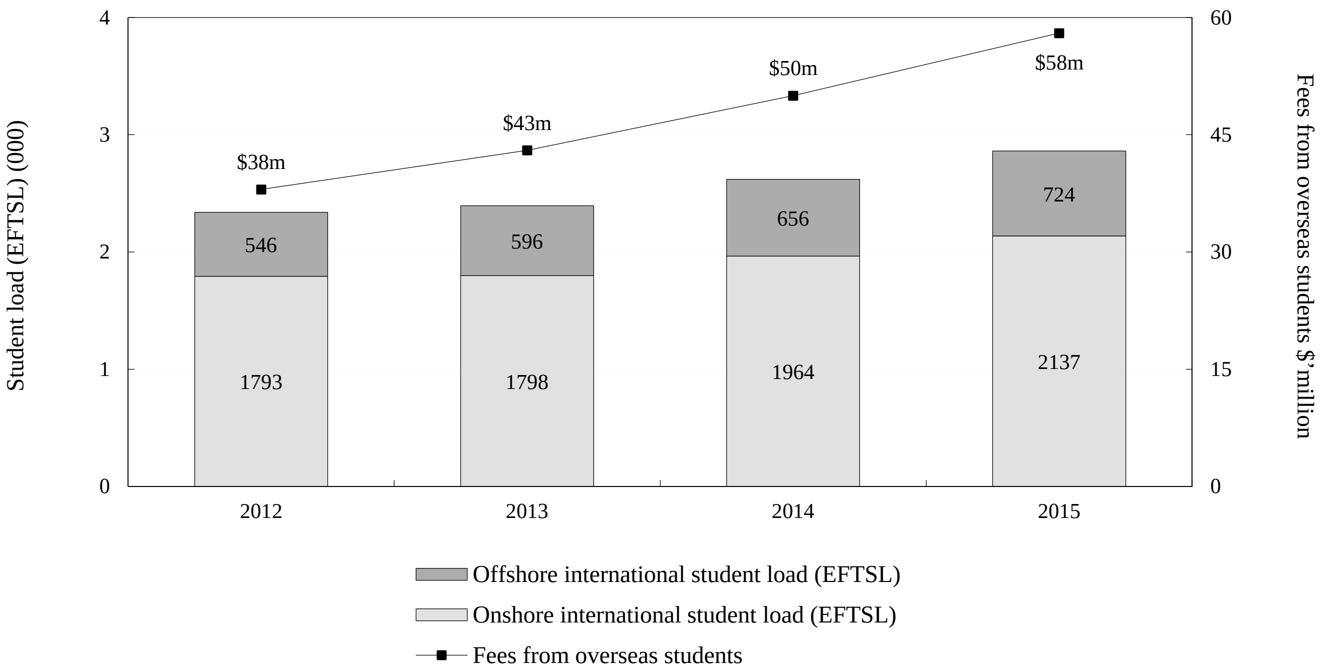
The following chart highlights the upward trend in Commonwealth Grants Scheme funding and supported places.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from the Department for Education and Training statistics website (uCube) and are unaudited figures.

Fees and charges

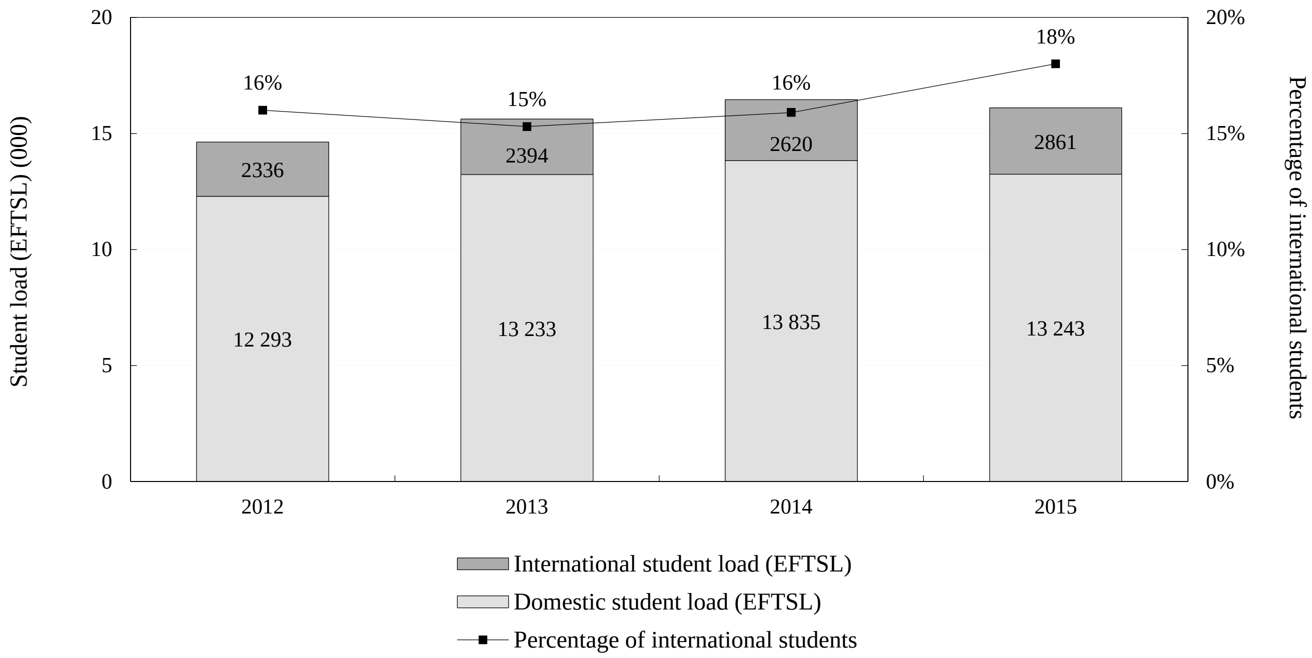
The following chart shows fees from overseas students together with international student numbers.



Source: Student numbers, which are based on EFTSL, were obtained from FUSA and are unaudited figures.

Fees from overseas students increased $8 million (16%) to $58 million primarily due to a 9% growth in international student numbers together with price increases.

The following chart illustrates that international students as a percentage of total students has remained relatively consistent in recent years, rising in 2015.



Source: Student numbers, which are based on EFTSL, were obtained from FUSA and the Department for Education and Training statistics website (uCube) and are unaudited figures.

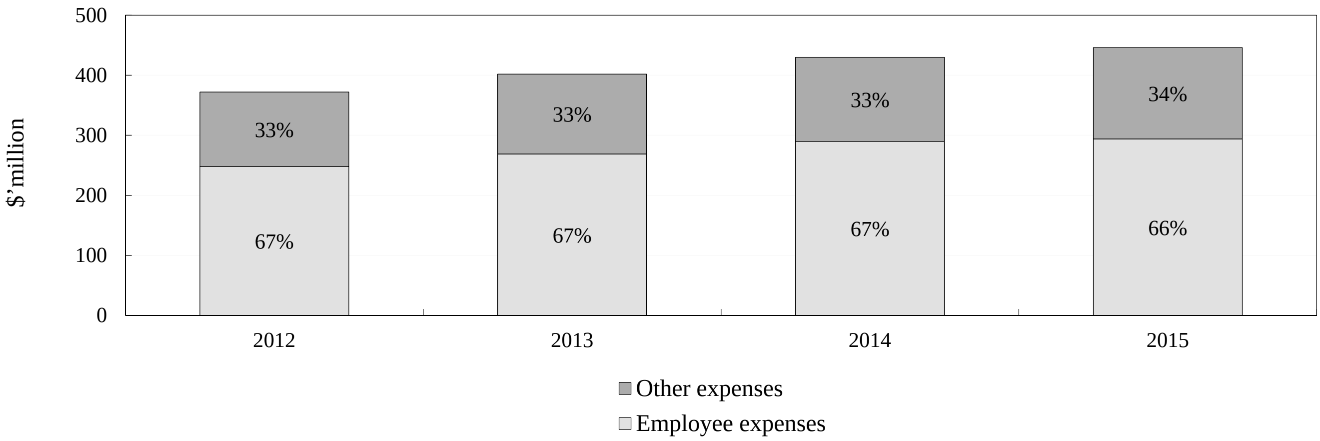
Investment revenue and income

Investment revenue and income (net of losses) remained steady at $6 million. Increases in dividend revenues were offset by reduced interest revenue and movements in the fair value of investment properties.

Expenses

Total expenses increased by $16 million (4%). This was primarily due to a $7 million (30%) increase in depreciation expense mainly due to the Tonsley Park Precinct and a $6 million increase in loss on disposal of assets relating predominantly to the Lincoln Marine Science Centre (LMSC), which was transferred to the SA Government for $0 consideration. Employee related expenses increased by $3 million (1%).

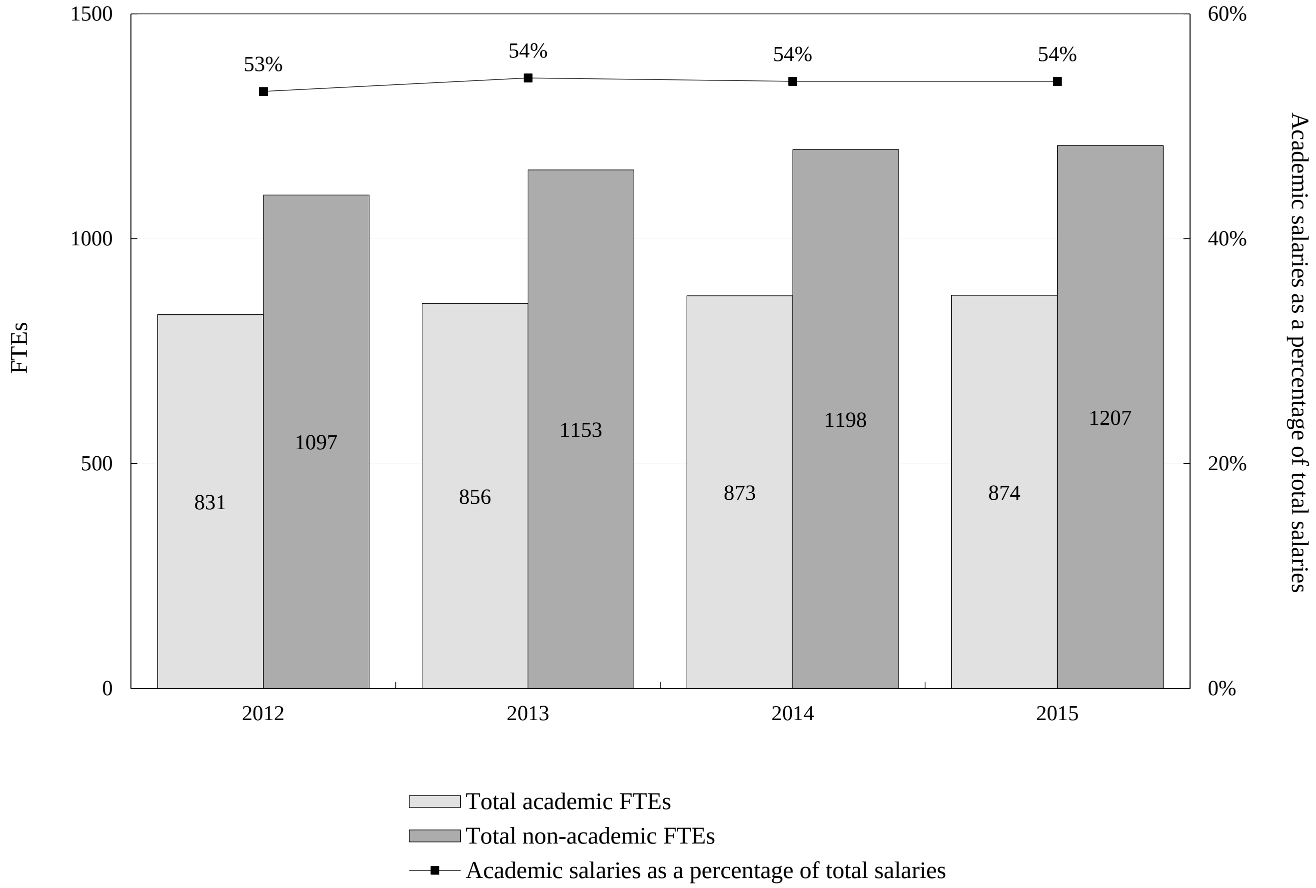
The following chart shows the proportion of employee and other expenses to total expenditure over the four years to 2015.



Employee related expenses

FUSA had 874 academic employees and 1207 non-academic employees in 2015 (FTEs). Academic employees comprised 54% of total salaries and related expenses in 2015.

The following chart shows that the proportion of academic staff salaries as a percentage of total salaries has remained relatively constant over the four years to 2015.



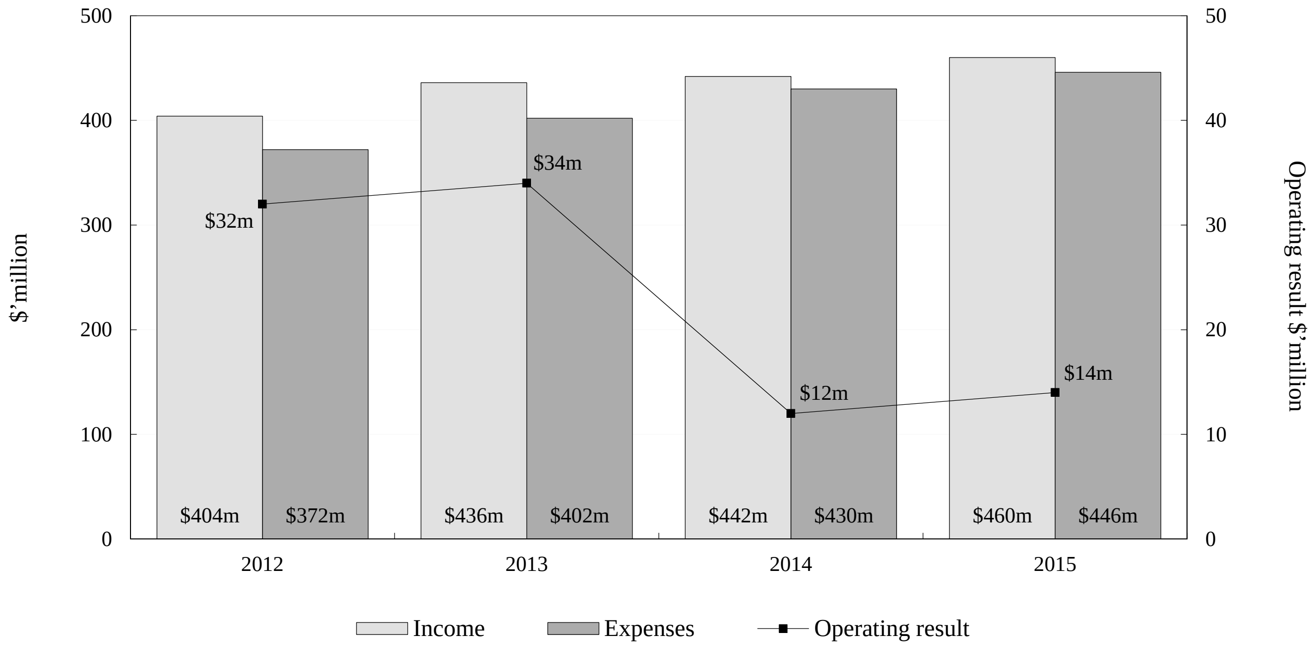
Source: Staff numbers, which are based on FTEs, were obtained from FUSA's published statistics and are unaudited figures.

Operating result

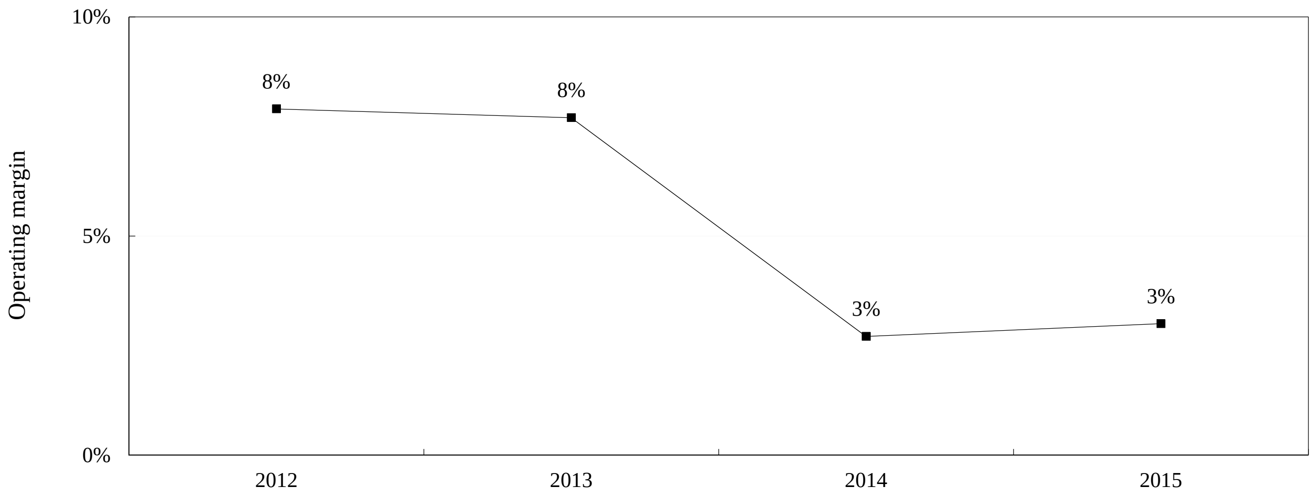
The operating surplus increased slightly by $2 million to $14 million. Contributing to the increased surplus was:

- an $11 million increase in fees and charges as a result of an increase in fees from overseas students
- a $7 million increase in Australian Government financial assistance as a result of higher grants and higher HELP payments
- a $6 million increase in loss on disposal of assets due to the transfer of the LMSC to the Department of Primary Industries and Regions
- a $7 million increase in depreciation and amortisation mainly due to the capitalisation of the Tonsley Park Precinct
- a $3 million increase in employee related expenses as compared to last year.

The following chart shows the operating income, operating expenses and operating result for the four years to 2015.



The chart below shows FUSA's operating margin (the operating result for the year divided by total income) over the four years to 2015.



The chart shows the operating margin reduced since 2013 but has remained consistent with 2014.

Statement of Financial Position

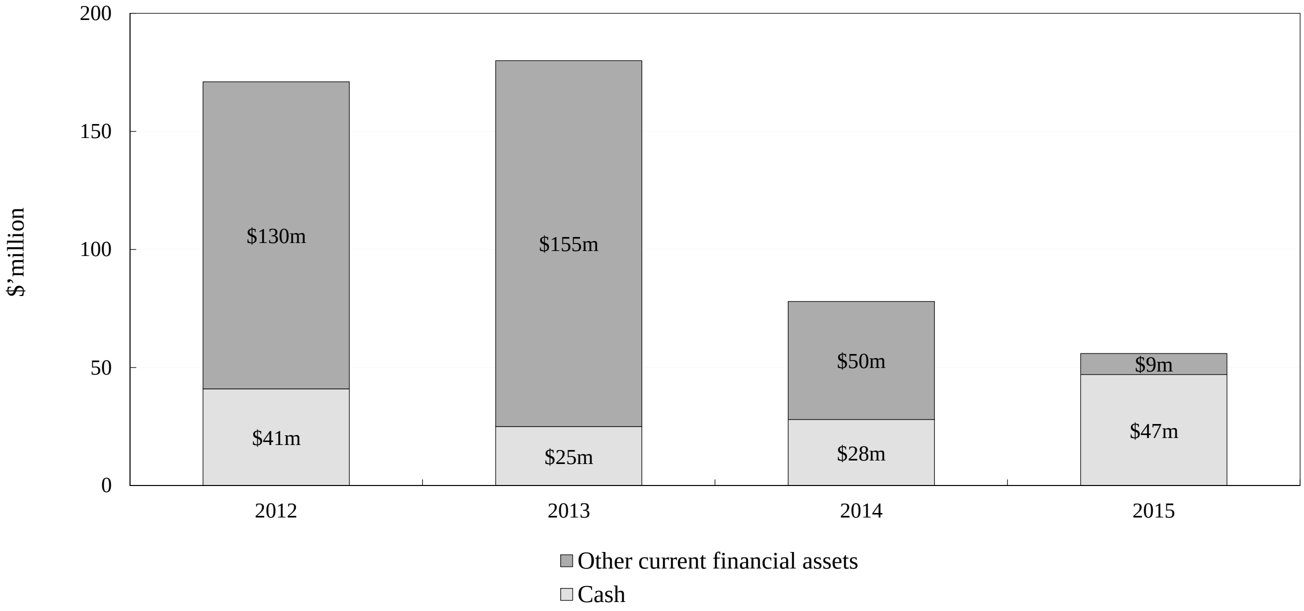
FUSA's consolidated net assets as at 31 December 2015 totalled $661 million ($640 million), an increase of $21 million.

Assets

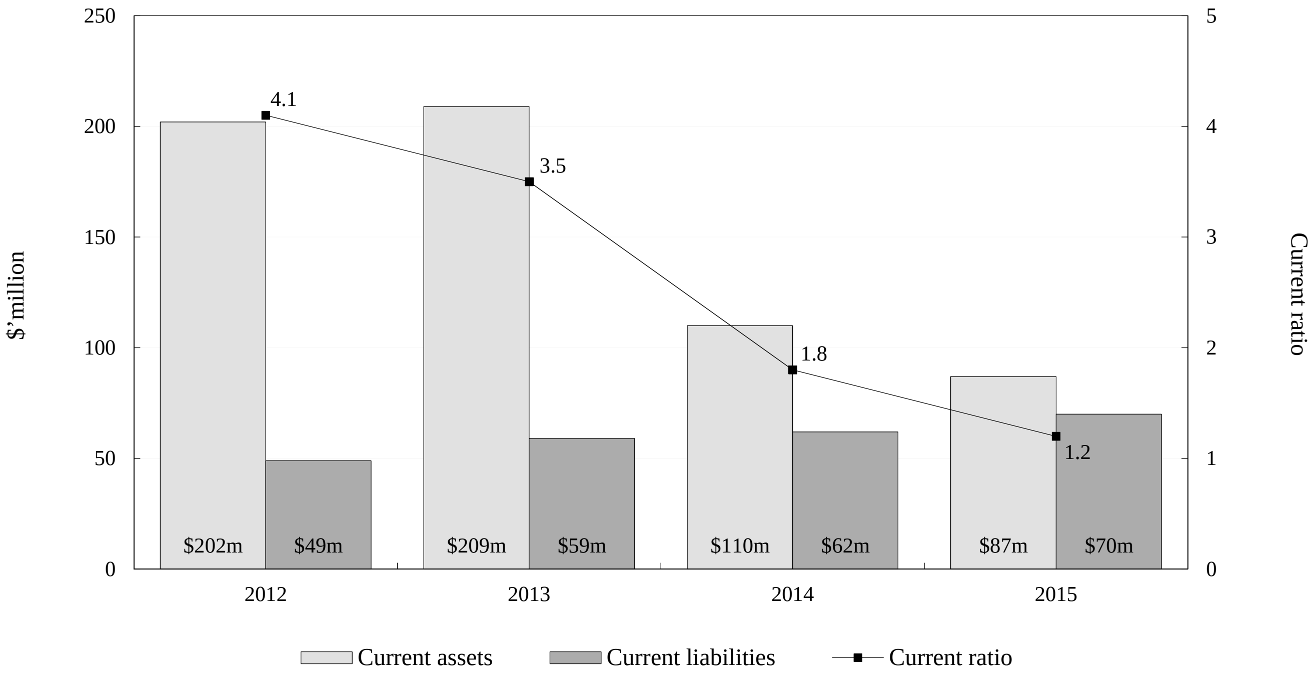
Current assets

FUSA's cash and current financial assets (term deposits) decreased by $22 million to $56 million, primarily due to payments for major infrastructure projects.

The following chart shows cash and term deposits over the four years to 2015.



The following chart shows FUSA's current assets and liabilities. The chart shows a continued decline in FUSA's current ratio reflecting significant self-funded investments in infrastructure projects during 2015. The current ratio remains positive, with FUSA's current assets exceeding current liabilities by $17 million.



Non-current assets

The main item of FUSA's Statement of Financial Position is property, plant and equipment, representing 72% of total assets. The carrying value of property, plant and equipment increased by $41 million to $587 million mainly due to:

- $62 million expenditure on capital infrastructure for construction work mainly associated with the plaza redevelopment and student hub major infrastructure projects
- other asset additions of $13 million.

These increases were offset by $27 million in depreciation charges and $6 million by transfer of LMSC to the SA Government.

Major capital works – Tonsley Park

During March 2015, the Tonsley Park campus building was opened as planned, in time for the new student year. This building is a $112 million teaching and research facility co-locating its School of Computer Science, Engineering and Mathematics with the Medical Device Research Institute, Centre for Nanoscale Science and Technology, Flinders' commercialisation agent, Flinders Partners and the New Venture Institute. It is designed to house 150 staff and 2000 students.

Major capital works – plaza redevelopment and student hub

The new plaza redevelopment and student hub had a total budgeted cost of $63 million. Construction commenced in November 2014 and was completed in March 2016. As at 31 December 2015 FUSA's financial report recognises a $55.1 million construction in progress asset for the project.

The project includes over 11 000 square metres of new facilities, including an enclosed mall and a four-storey administration building, as well as a new terraced plaza space featuring an amphitheatre.

Liabilities

FUSA's liabilities increased by $6 million to $152 million. The major item contributing to this increase was a $6 million increase in trade and other payables associated with the plaza redevelopment and the student hub.

Statement of Cash Flows

Cash flows from investing activities include $77 million payments for property, plant and equipment. Further details of these payments are included under the 'Non-current assets' heading above.

Health sector activities

Structure of this section of the Report

Collectively the Department for Health and Ageing (DHA), the local health networks (LHNs) and the SA Ambulance Service Inc (SAAS) are known as SA Health or the Health sector.

This section of the Report includes Health sector commentary and/or financial information for the following matters:

- comment on some health sector challenges
- an overview of governance arrangements
- health sector staffing and patient activity data – unaudited.

Health sector challenges

The Health sector is undergoing a significant reform agenda including major infrastructure changes, replacement of IT systems and a significant transformation of the health care system. Individually these are major, generational projects. Combined, the reform agenda's scale and interdependencies present many challenges and risks to achieving intended health care and productivity outcomes and improved financial sustainability.

Some of the most significant challenges faced by SA Health are discussed below.

The new Royal Adelaide Hospital project

Construction of the Public Private Partnership project, the new Royal Adelaide Hospital, is in progress. The estimated total value of the contractual arrangement provides for a capital cost for design and construction of $1.85 billion (nominal). The budget for State funded works is $476.5 million, of which $268 million has been spent as at 30 June 2016.

The date the State accepts the handover of the facility from the contractor (commercial acceptance) is uncertain but has been significantly delayed from its original date of April 2016. This uncertainty during 2015-16 has impacted contractual arrangements and SA Health's capacity to plan and address risks associated with its transition to the new hospital.

Our Supplementary Report for the year ended 30 June 2015 'New Royal Adelaide Hospital report: November 2015' summarised some of the key challenges requiring ongoing focus and management attention.

We continue to review aspects of the project and contract arrangements through to project delivery. The project continues to experience significant risks and challenges that require effective management.

Summary comments are included in the section of this Report titled 'Central Adelaide Local Health Network Incorporated'. Specific comments on this project will be contained in a future Supplementary Report.

Transforming Health

In November 2014 the SA Government announced its intention to transform the South Australian health care system through the Transforming Health program. Transforming Health is described as the biggest transformation of South Australia's health care system ever planned for the State.

The Transforming Health reforms were initiated based on emerging evidence that the configuration and performance of the State's health care system did not optimise the safety and quality of patient care, and was not financially sustainable into the future.

SA Health's planning identified that the scale, timeline and interdependencies for the program created significant risk to achieving its aims, including realising productivity outcomes and improving financial sustainability. We were advised that although productivity improvements were achieved in 2015-16, the LHNs did not translate this into financial savings.

We have reviewed aspects of governance and financial management arrangements for the Transforming Health program. Findings and recommendations from the review are discussed in Part A of this Report in the section titled 'Transforming Health'. As the Transforming Health program is a significant program of change for SA Health across a number of years, we will continue to monitor outcomes as the program progresses.

Information technology and system change

Over a number of years, DHA has progressed replacing a range of legacy IT systems used to support financial and health related services, such as patient administration and clinical functions. Many of these replacement systems and their dependencies are critical for the successful operations of the new Royal Adelaide Hospital. They include:

- Enterprise Patient Administration System (EPAS)
- Enterprise System for Medical Imaging (ESMI)
- Oracle Corporate System (OCS) and the One Procurement Solution (OPS)
- Enterprise Pathology Laboratory Information System (EPLIS)
- pharmacy systems.

Developing and implementing these systems concurrently with other major projects, including the new Royal Adelaide Hospital and Transforming Health, presents SA Health with challenges, including managing interdependencies and resources. Identifying and addressing these challenges will be important to successfully achieving the improved health service delivery performance, financial management and control and accountability expected under the health reform agenda.

Major IT developments and their associated systems within DHA and the various LHNs has continued as an area of audit focus in 2015-16. In particular, we continued to monitor the implementation progress of the EPAS, ESMI and OCS programs/projects. We also performed selected operational control and usability testing of these systems at selected health sites.

Results and recommendations from our review of the EPAS program were included in our Supplementary Report for the year ended 30 June 2015 'Enterprise Patient Administration System: June 2016'. In that report we highlighted a number of ongoing challenges in implementing a system that not only meets hospital requirements, but is also implemented in a timely and cost effective way. We note that until EPAS is fully implemented at all in-scope sites, the full costs and benefits to be realised cannot be accurately determined.

The outcomes of our 2015-16 review of IT systems development, particularly for ESMI and OCS and usability testing of EPAS and ESMI, will be communicated in an upcoming Supplementary Report to Parliament.

In 2016-17 we intend to monitor the implementation progress of EPLIS across SA Health and pharmacy systems at the new Royal Adelaide Hospital.

In addition to implementing these new systems, SA Health continues to operate a number of legacy systems including patient administration and revenue systems. These legacy systems present a number of support and security challenges. A notable example is the legacy Chiron System which has been used as a patient administration system at over 60 Country Health SA Local Health Network Incorporated hospital sites for the past 20 years. The system is currently unsupported and as a consequence DHA is planning for its eventual replacement.

Financial sustainability and budget

We have noted in past Reports that SA Health has not achieved savings targets or has experienced other service demands that have necessitated additional funding. Hospital expenditure growth remains a highlighted risk in the 2016-17 State Budget.

That Budget provided SA Health an additional $144.4 million for 2015-16 and a further $526.8 million for the next four years to address expected funding shortfalls and to support ongoing reforms in the State's health care system.

Specific comments on SA Health's savings targets will be provided in the Supplementary Report for the year ended 30 June 2016 'State finances and related matters' in October 2016.

Property infrastructure and investment

The Health reform agenda includes changing some of the locations in which health services are to be provided. These changes have resulted in significant infrastructure investments including the new Royal Adelaide Hospital, Glenside campus redevelopment and significant infrastructure works at the Flinders Medical Centre and the Lyell McEwin Hospital.

Consequently, certain significant property assets have been vacated or will soon be vacated, becoming redundant for hospital purposes. The major property sites affected are discussed below.

Existing Royal Adelaide Hospital site

Land associated with the existing Royal Adelaide Hospital site continues to be valued using a market approach adjusted to reflect various restrictions, including it being parkland. Certain buildings and improvements at the site have been recognised at $0 value, reflecting the uncertainty of their future use. The ultimate value and application of these existing Royal Adelaide Hospital property assets will be determined after Cabinet's decision on its future use.

Repatriation General Hospital site

In May 2016 Cabinet selected the RSL's submission of $15 million as the successful proposal for the future use of the Repatriation General Hospital site. In 2015-16 the Southern Adelaide Local Health Network Incorporated recognised an impairment loss of $47.3 million and a revaluation decrement of $10.7 million for this site.

Glenside site

As at 30 June 2016 a portion of the previous hospital site at Fullarton Road, Glenside, valued at $26 million, was recognised as held for sale in DHA's financial statements. This reflects Cabinet's decision to sell the property.

Discussion on the status of the sale or future use of these assets is summarised in this Report under the relevant LHN.

Governance arrangements

Health care legislation

The *Health Care Act 2008* (the Act) provides the legislative framework for the South Australian health sector. Provisions in the Act encompass hospitals and other health services administration and consultative councils; systems to support the provision of high-quality health outcomes; licensing systems for ambulance services and private hospitals; providing laboratory services and facilities associated with veterinary science; and other purposes.

Minister for Health and the Chief Executive have specific functions and responsibilities

The Minister for Health and the Chief Executive have specific functions in connection with the operation of the Act.

The Minister's functions include to:

- ascertain the community's health and health services requirements and how to meet those requirements to the best advantage of the community
- plan, implement or support a system of health services that is comprehensive, coordinated and readily accessible to the public
- establish health services within the community
- ensure that hospitals established under the Act, or that hospitals or other health services established, maintained or operated by or with the assistance of the SA Government, are operated in an efficient and economical manner
- ensure resources are properly allocated to health services established under the Act
- establish mechanisms to keep the policies and standards of health and health services developed by DHA under evaluation and review.

The Chief Executive's functions include to:

- assist the Minister in administering the Act and exercise statutory powers conferred by the Act
- be responsible to the Minister for the overall management, administration and provision of health services within the Minister's portfolio
- assume direct responsibility for administering incorporated hospitals
- ensure that DHA has a leadership role in administering health services
- ensure appropriate standards of patient care and service delivery are adopted and applied in delivering of health services
- facilitate the efficient and economic operation of the public health system
- advise the Minister on the operation or administration of the Act, the provision of health services within the State, or the protection or promotion of public health within the State.

Neither the Minister or the Chief Executive can give a direction concerning a person's clinical treatment.

The Chief Executive may, by instrument in writing, appoint a specified person, or a person occupying a specified office or position, as the chief executive officer of an incorporated hospital.

The Department for Health and Ageing

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

DHA is responsible to the Chief Executive, DHA and is a funder or service purchaser, policy setter and strategic planner and provider of services.

DHA is charged with broad ranging policy and administrative responsibilities associated with health.

Local health networks

National Health Reform Agreement

In August 2011 the Commonwealth, State and Territory Governments entered into the National Health Reform Agreement (NHRA). The NHRA establishes governance, funding and financial management arrangements for the delivery of public hospital services and other health services.

The NHRA required the States to establish LHNs to directly manage the delivery of public hospital and other health services. An LHN can contain one or more hospitals, and is usually defined as a business group, geographical area or community. Every Australian public hospital is part of an LHN. These requirements were to place responsibility and accountability for health service delivery to local health areas.

South Australian local health networks

LHNs are incorporated hospitals and body corporates established under the Act.

The LHNs are responsible to the Minister for Health and the Chief Executive, DHA.

Chief executive officers at LHNs have significant accountabilities

The Chief Executive, DHA has appointed chief executive officers at LHNs. They work to an annual service level agreement (SLA) which assigns accountability for the high level outcomes required for the term of the agreement. It also sets out the parties' respective statutory and other legal functions and obligations.

The SLAs are comprehensive agreements. Some key financial management responsibilities are:

- the LHN chief executive officers are responsible for providing safe, high quality health care services within agreed financial parameters and managing the LHN budget and performance outcomes as determined by DHA in accordance with the SLA
- the Chief Executive, DHA is responsible for allocating the financial resources provided by the SA Government to the health service providers and support service providers in a fair and transparent way
- where an LHN chief executive officer considers they cannot manage within their budget constraints they are required to report to DHA through established monthly monitoring processes.

LHN boards of management have a statutory advocacy role

LHNs have Health Advisory Councils (governing councils) appointed under section 15(1) of the Act.

Under the Act, the councils have an advocacy role on behalf of the community, to provide advice, and to perform other functions as determined under the Act.

LHNs operating in South Australia

In 2015-16 the following LHNs operated in South Australia:

- Central Adelaide Local Health Network Incorporated (CALHN)

  The principal units within CALHN were Royal Adelaide Hospital, The Queen Elizabeth Hospital, Hampstead Rehabilitation Centre, GP Plus Health Care Centres and primary, subacute and mental health services located in the local area. CALHN also includes state-wide clinical support services covering pharmacy, medical imaging and pathology.

- Southern Adelaide Local Health Network Incorporated (SALHN)

  The principal units within SALHN were Flinders Medical Centre, Repatriation General Hospital, Noarlunga Hospital, GP Plus Health Care Centres and primary, subacute and mental health services located in the local area, and drug and alcohol services.

- Northern Adelaide Local Health Network Incorporated (NALHN)

  The principal units within NALHN were Lyell McEwin Hospital, Modbury Hospital, GP Plus Health Care Centres and primary, subacute and mental health services located in the local area.

- Country Health SA Local Health Network Incorporated (CHSALHN)

  CHSALHN provided a network of hospitals and health services located throughout regional South Australia.

- Women's and Children's Health Network Incorporated (WCHN)

  The principal unit within WCHN was the Women's and Children's Hospital.

SAAS has operated since 1992 and was not affected by the requirements for change under the NHRA. SAAS is the principal provider of emergency ambulance services in South Australia.

The following table highlights total expenditure and total assets of the SA Health entities.

	DHA $'million	CALHN $'million	SALHN $'million	CHSALHN $'million	NALHN $'million	WCHN $'million	SAAS $'million
Total expenses	*4 951	2 216	1 042	872	608	439	266
Total assets	549	963	610	1 015	476	287	127

* Includes grants to incorporated hospitals of $4.2 billion.

Consolidated financial statements

In accordance with AASB 10 'Consolidated Financial Statements', DHA prepared financial statements for the consolidated entity which comprises DHA, the LHNs and SAAS.

Health sector staffing and patient activity data – unaudited

The following staffing and patient activity information was provided by DHA in response to our request and is unaudited.

Health sector staffing statistics

The following table details the staffing levels as at 30 June in the health sector, excluding staff of DHA and SAAS, over the past three years.

Health sector FTE mix (unaudited)

	2016 Number	2015 Number	2014 Number
Staff categories:			
Nurses and midwives	12 471	12 598	12 609
Medical staff	2 938	3 001	3 028
Scientific and technical	1 092	1 121	1 165
Administrative and clerical	4 168	4 249	4 232
Allied health, hotel and other staff	6 689	6 705	6 623
Total staff	27 358	27 674	27 657
Increase (Decrease)	(316)	17	(27)
Percentage increase (decrease)	(1.1%)	0.06%	(0.1%)

Department staffing statistics

The following table details the staffing levels of DHA as at 30 June over the past three years.

Department for Health and Ageing FTE (unaudited)

	2016 Number	2015 Number	2014 Number
Total staff	2 036	2 096	2 175

The decrease in DHA’s FTEs is mainly attributable to reductions in eHealth systems, Corporate Governance and Policy and Procurement and Supply Chain Management staff.

SA Ambulance Service Inc staffing statistics

The following table details the staffing levels of SAAS as at 30 June over the past three years.

SA Ambulance Service Inc FTE (unaudited)

	2016 Number	2015 Number	2014 Number
Total staff	1 244	1 219	1 213

Hospital activity statistics

The tables below indicate the trends over past years in respect of inpatient activity (unweighted), length of hospital stay, and casualty and outpatient activity (unweighted). The data in the tables below has been sourced from the reporting systems of DHA and has not been audited.

Inpatient activity (unaudited)

	2016 Number	2015 Number	2014 Number
Metropolitan hospitals:			
Overnight stay	175 870	170 559	169 092
Same day	153 785	144 935	142 499
Total	329 655	315 494	311 591
Country hospitals:			
Overnight stay	51 496	52 036	51 393
Same day	56 326	54 543	52 794
Total	107 822	106 579	104 187

Average length of overnight hospital stay (unaudited)

	2016 Days	2015 Days	2014 Days
Metropolitan hospitals	5.1	6.3	6.4
Country hospitals	4.5	4.7	4.7

Emergency Department and public outpatient activity (unaudited)

	2016 Number	2015 Number	2014 Number
Metropolitan hospitals:			
Emergency Department attendances	394 946	384 315	382 823
Outpatient occasions of service	1 058 024	1 037 222	1 068 455
Country hospitals:			
Emergency Department attendances	179 124	173 946	170 784
Outpatient occasions of service	155 197	154 450	140 656

Department for Health and Ageing (DHA)

Financial statistics	Total expenses:	$4951 million
	Net cost of providing services:	$3239 million
	Total appropriation:	$3120 million
	Employee benefits liability and related on-costs:	$63 million
	Workers compensation liability:	$3.1 million
	Number of FTEs:	2036

Significant events and transactions

- DHA progressed its Transforming Health reforms to the health care system.
- As at 30 June 2016 DHA holds $33 million of property assets classified as held for sale, including a portion of the previous Glenside hospital site and a property on Osmond Terrace, Norwood.
- DHA's provision for insurance, which estimates DHA's liability for professional indemnity, including medical malpractice and general public liability, increased $22 million to $122 million.
- In August and September 2016 DHA's Chief Executive and two deputy chief executives ceased employment.
- The net consolidated result was a $317 million deterioration from the original budget.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Processes were not adequate to ensure consistent and appropriate management of medical officers' professional development entitlements
- Biomedical and clinical equipment asset management database was incomplete
- Agency nursing contracts were not managed according to agreements
- Payroll delegations and authorisations were not reviewed as intended
- Breakdowns in controls that ensure the accuracy and completeness of employee payments
- Expenditure system access and approval profiles were not regularly reviewed
- Inventory records adjusted without required approval

Functional responsibility

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

DHA is a funder or purchaser of health services, policy setter and strategic planner and provider of services. Note 1 of the financial report provides details about DHA's objectives.

DHA is charged with broad ranging policy and administrative responsibilities associated with health. One of the functions delegated to the Chief Executive of DHA under the *Health Care Act 2008* is to ensure that there is proper allocation and use of resources between health regions and health services incorporated under the *Health Care Act 2008*.

In accordance with AASB 10 'Consolidated Financial Statements', consolidated financial statements have been prepared comprising DHA, the local health networks (LHNs) and SA Ambulance Service Inc (SAAS).

Collectively DHA, the LHNs and SAAS are known as SA Health or the Health sector.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

Financial services are provided through a mix of:

- central services provided by DHA for LHNs and SAAS through an integrated finance service model
- services provided by Shared Services SA (SSSA).

During 2015-16 specific areas of audit attention included:

- payroll
- accounts payable
- cash
- general ledger
- funding to health services
- grants to not-for-profit organisations
- interstate patient transfers
- non-current assets
- inventory management
- revenues received from the Commonwealth
- insurance services
- information and communications technology developments
- professional development entitlements
- agency nursing contracts
- maintenance of biomedical and clinical equipment
- financial management compliance program.

Internal audit activities were also reviewed to assess the risks of material misstatement in the financial report and to inform the design of audit procedures

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department for Health and Ageing in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department for Health and Ageing have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive of DHA. The main matters raised and the related responses are outlined below.

Findings from our review of processes undertaken by SSSA are outlined below under the respective areas of payroll and accounts payable.

Professional development

SA Health's enterprise agreements establish medical officers' professional development (PD) entitlements. These entitlements include paid leave and reimbursement of expenses incurred in obtaining PD. Entitlements vary under each enterprise arrangement. For example, certain medical officers are entitled to:

- up to 20 days PD leave over any two-year period
- a cumulative reimbursement, for eligible PD expenditure over any two-year period, up to a maximum of $43 000.

In 2015-16 we reviewed SA Health's management of medical officers' PD entitlements. Our review considered LHN processes to ensure PD leave and reimbursements were only taken or paid when approved and within the limits established by SA Health enterprise agreements.

DHA did not provide adequate central direction to LHNs to ensure consistent and adequate management of medical officers' PD entitlements

We found DHA does not have an SA Health-wide policy to provide adequate direction to LHNs to ensure consistent and appropriate management of medical officers' PD entitlements. We recommended DHA establish a central policy framework to provide direction to LHNs to ensure the consistency and adequacy of control processes and to address the matters reported to LHN chief executive officers, as discussed below.

LHN registers of PD reimbursement entitlements were not reliable

Our review of PD record keeping at LHNs found that registers of PD reimbursement entitlements were not complete. The registers were not reliable records for ensuring PD leave and reimbursement entitlements were only paid within caps established by SA Health enterprise agreements.

We recommended LHNs maintain a record of all PD reimbursements. We also recommended the LHNs regularly reconcile the registers to the PD expenses recorded in the general ledger.

In their responses the LHNs indicated their plans to implement improved registers and establish reconciliation processes.

The payroll system did not maintain a PD leave entitlement balance

Our review of PD leave records found each employee's PD leave entitlement is not maintained on the CHRIS payroll system or in any other centralised record. We recommended LHNs establish a process to record PD leave entitlements so that leave applications can be properly assessed against the established caps in the enterprise agreements.

In response DHA indicated that there is currently no capacity to manage PD leave in its payroll system, CHRIS 5. It indicated it would work with SSSA to consider options to include this as an enhancement to its planned new payroll system, CHRIS 21.

PD in excess of entitlement

Our review of leave and PD reimbursements records indicated that some medical officers may have received PD leave and reimbursement in excess of entitlement.

We recommended LHNs establish processes to monitor medical officers' PD leave and reimbursement entitlements so that applications can be properly assessed against the established entitlements in the enterprise agreements.

DHA responded that on further investigation it was satisfied that PD payments were within the entitlement cap provided by the enterprise agreements.

PD payments for business class international airfares and accommodation in expensive hotels

Our review of reimbursements identified a number of payments for business class international airfares and accommodation in expensive hotels.

We recommended DHA establish formal criteria to describe its expectations regarding costs, including business class flights and expensive accommodation, which may be seen as disproportionate to reasonable alternatives. While policies must be consistent with enterprise agreements, we consider that formal criteria, describing DHA's expectations and required senior management approval, would help ensure accountability and value for PD costs.

DHA responded that no policy can override entitlements prescribed in the enterprise agreement and that prescribing expectations would be in conflict with the enterprise agreement. It also indicated that it would consider options available to achieve greater consistency with whole-of-government policy and reporting.

Local PD policies at LHNs require improvement

We recommended LHNs improve their PD policies and procedures as we found they did not adequately establish a framework for effectively managing PD entitlements.

In their responses the LHNs indicated that they would review local procedures and checklists.

Maintenance of biomedical and clinical equipment

Procedure for managing biomedical technology still in draft

SA Health's management of biomedical technology policy was approved in May 2016. We found the procedure to support this policy was still being developed and was expected to be approved and communicated shortly. We understand the procedure will consolidate existing site-based procedures and give staff guidance on work practices to ensure a consistent record of biomedical asset maintenance.

DHA responded that the policy guidelines are in draft and undergoing a wider consultation process. It indicated the guidelines will be finalised by November 2016.

AssetPlus asset management database incomplete

Our review noted that a new asset management database, AssetPlus, was commissioned in June 2015. Transition to AssetPlus involved transferring information held in numerous legacy registers throughout the LHNs. We found that while details of most material assets are recorded, details of maintenance work performed was not completely uploaded from previous legacy registers. We also found that some lower value assets purchased at local sites were not recorded on AssetPlus.

DHA responded that it would transfer all relevant scanned documents from the legacy registers into AssetPlus to ensure maintenance records are available into the future.

It also responded that it had instigated a pilot program to address procurement and authorisation processes for low volume, standardised minor medical equipment to further reduce the likelihood of purchases being completed without appropriate approval and ensure all assets are recorded in AssetPlus.

Agency nursing and midwifery staff services panel contract review

In October 2015 the Minister for Health awarded panel contracts for the provision of temporary nursing/midwifery staff across SA Health to the following panel providers:

- Healthcare Australia
- Your Nursing Agency.

The contracts are for an initial three-year term (commencing 19 October 2015) with two options for 12 month extensions. The total estimated value of the contracts is $152 million (including GST) over five years.

Our review found there is scope for DHA and the LHNs to improve controls over managing the temporary nursing/midwifery staff panel contracts. The significant findings from our review are summarised below.

No process to detect use of non-panel providers

The State Procurement Board's Panel Contracts Guideline requires public authorities managing a panel contract to monitor the use of non-panel providers, to ensure that only suppliers from the panel contract are used.

SA Health had not implemented processes to detect and take action where LHNs are using non-panel providers.

In response DHA advised that, commencing September 2016, it will establish monthly reporting on supplier spend. If any leakage is identified, the Procurement and Supply Chain Management (PSCM) unit will contact the business unit concerned to implement an improved service plan.

LHNs using non-panel providers without approval

Our review of a sample of payments across SA Health noted that LHNs were engaging non-panel providers to meet their nursing/midwifery needs, without approval from PSCM. SA Health policy requires PSCM approval before LHNs engage agency staff outside of the panel contracts.

DHA advised that PSCM will communicate with:

- all LHN site booking managers/administrators to confirm the contract exemption process and policy
- the Nursing and Midwifery Agency Panel Management and Monitoring Committee to confirm LHN contract exemption obligations.

Committee established by SA Health to monitor the management of agency nursing panel contracts not operating effectively

The Nursing and Midwifery Agency Panel Management and Monitoring Committee established to monitor the management of the agency nursing panel contracts did not operate effectively as:

- membership representation at meetings was consistently below the number required for a quorum
- the committee was not provided with reports to effectively monitor and review panel provider performance in line with agreed key performance indicators (KPIs).

In response DHA advised that:

- PSCM will communicate with each LHN to reinforce the importance of these meetings
- meetings with LHN representatives have been reset to occur six-monthly to improve attendance
- in the absence of the nominated LHN representative, PSCM will request proxies to attend meetings.

DHA also advised that the Category Manager will meet with the two panel providers to request changes to supplier reports and will improve the summary contract management information reported to the committee.

Contract management plan is inconsistent with elements of the agreements

We found there were variations between the contract management plan and the signed agreements, including KPIs and the frequency of reporting by panel providers.

In response SA Health advised that the contract management plan will be updated.

Agency nursing providers not reporting in accordance with panel contracts

We found that agency nursing providers did not provide the mandatory evidence/compliance reports quarterly as required by the agreements. These reports provide important information about whether providers:

- are financially viable and have adequate insurance
- have maintained accreditation under quality standards
- engage nursing staff that have appropriate qualifications and experience
- engage nursing staff who are appropriately immunised and have passed criminal history checks.

DHA responded that it will collect detailed quarterly reports from the panel providers.

Limited evidence that performance reviews were undertaken

The agreements require DHA to undertake a performance review, including reviewing the level of achievement of KPIs, every three months. We noted there was limited evidence that performance reviews were performed every three months as:

- DHA did not have a process to collect data on all KPIs, or receive reports from agency nurse providers detailing their performance for all KPIs

- there was no report outlining the results of the performance review and any issues identified.

In response DHA advised that PSCM will:

- continue to meet with panel providers quarterly to review contract performance
- request changes to the reporting provided.

Audits not conducted

DHA had not arranged or conducted any audits to provide assurance over the achievement of KPIs and selected elements of the services provided. The contract management plan and SA Health's Agency Nursing and Midwifery Panel Buyers Guide require audits to be undertaken every six months.

In response DHA advised that PSCM will review the audit requirement in consultation with its Risk and Assurance Services division and, subject to the outcome of the review, amend the documentation or undertake audits as required. The contract management plan and buyers guide will be updated.

Payroll

Employee benefit expenses are a significant cost, totalling $196 million at DHA and $3.7 billion across the consolidated entity in 2015-16.

Payroll services are provided through a mix of:

- central payroll services provided by DHA for SA Health
- central payroll services provided by SSSA for SA Health
- payroll activities located within each LHN.

A summary of our findings for payroll activities located at LHNs can be found under 'Communication of audit matters' in the sections of this Report relating to each LHN.

Findings relating to the central and DHA specific payroll services provided by DHA and SSSA are reported below.

Payroll (relating to DHA and LHNs)

The same officer can input data and perform a quality assurance review

Our review of payroll considered how CHRIS user access profiles support the appropriate segregation of duties. We found that the CHRIS user access profile assigned to HR Hub employees allows both employee payroll data input and quality assurance review of data changes. Consequently, an employee who reviews input data can make changes without further independent review, increasing the opportunity for errors and/or fraud. We recommended DHA limit system access so that officers responsible for important review functions are not able to both process and review changes.

In response DHA indicated that the workload of its data input unit prevents it from splitting security access to input data from access to review, however it had implemented processes so that all data input is reviewed and countersigned by an independent checking officer.

Delegations and authorisations not reviewed as intended

We reviewed DHA's Human Resource Instrument of Delegations and Schedule of Authorisations and found current delegations had not been updated and approved since November 2012.

In response DHA indicated it had drafted a delegation instrument that was awaiting review and the Chief Executive's approval.

No check for appropriate authorisation on manual forms (relates to both SSSA and DHA)

Many SA Health payroll requests are made via manual forms which are signed as approved. Our review found neither SA Health or SSSA have processes to prevent processing inappropriately authorised manual payroll forms. We recommended that SSSA and SA Health work together to implement an approach to ensure only payroll forms that are authorised by an appropriate delegate are processed.

In response DHA indicated implementation of CHRIS 21 will introduce smart forms, which will dramatically reduce the need for manual forms.

Payroll (relating to DHA only)

Bona fide certificates not reviewed

We have previously reported breakdowns in DHA's review of bona fide certificates to ensure the accuracy and completeness of employee payments.

In September 2015, DHA implemented changes to the way bona fide reports were distributed and certified. Our review of the register of returned bona fide certifications found many certifications are returned late or not at all. Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments. We recommended bona fide certificates be reviewed and returned within five working days, as required by DHA policy.

In response DHA indicated its implementation of the CHRIS 21 payroll system by November 2017 will automate the bona fide follow-up process. In the meantime it would undertake an analysis to understand the reasons for non-compliance.

Leave reports not reviewed

Our audit of payroll considered DHA's processes to ensure employee leave entitlements are reduced when leave is taken. We found management's review of leave reports was delayed or not performed at all.

We also noted there were a number of DHA employees with either negative leave or excessive leave balances.

DHA responded that the implementation of CHRIS 21 will automate follow-up where leave taken is not reviewed. In the meantime it would undertake an analysis to understand the reasons for non-compliance.

CHRIS access profiles not regularly reviewed

Our review found that CHRIS user assess reports were not reviewed quarterly by an appropriate delegate in accordance with SSSA's user access policy guideline.

Failure to detect inappropriate user access permissions may allow processing of unauthorised transactions, potentially resulting in financial loss. We recommended DHA review quarterly CHRIS user assess reports in accordance with policy.

DHA responded that it had undertaken a review of CHRIS access profiles and established a health specific profile. It also responded that it had drafted a procedure to assist in the ongoing review of CHRIS permissions.

Accounts payable

Accounts payable services are provided to DHA, LHNs and SAAS by SSSA under service level determinations.

System-based expenditure approval profiles not regularly reviewed

Our review of the Oracle and Basware expenditure systems found financial delegations assigned to users within the systems were not regularly compared to approved financial delegations.

Consequently, management may not detect employees with approval capacity outside of their job responsibilities, resulting in the potential for invalid or unauthorised payments.

DHA’s response acknowledged the audit finding and indicated it would introduce regular reviews.

Inconsistent review of Oracle access

Our review found improvements are necessary to ensure user access to Oracle is restricted to authorised officers and permissions are only provided where necessary to meet each user’s responsibility. We found the review of access profiles was inconsistently performed. Failures in controls surrounding user access increase the risk of invalid or unauthorised transactions.

DHA responded that it would develop guidelines or procedures that require the consistent review of user access.

Super delegate, special delegate and manual transactions are 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 Basware system approval processes and they are generally of a higher value and/or higher risk.

Our review identified instances where the expected independent review of these payments did not occur, as the transaction reports were not distributed to the relevant DHA reviewing officer.

DHA responded that it had distributed the report for independent review since April 2016.

Vendor master data quality requires improvement

Our testing of accounts payable data found multiple instances where invalid, incomplete and/or duplicate vendor information existed in the vendor masterfile, highlighting an opportunity to improve vendor management controls.

Where vendor details in the system are incomplete or inaccurate there is an increased risk that the vendor might not be a valid supplier, potentially allowing invalid or duplicate payment transactions to occur.

In its response DHA indicated it would review vendor records.

Accounts payable – SSSA

Adjustments to vendor details can be made without independent review

We reviewed SSSA's processes to ensure only valid and approved changes are made to vendor masterfile details. We found that adjustments to vendor details could be made without independent review. SSSA responded that it had adjusted its procedure so that independent review always occurs.

Purchase cards

Delayed acquittal of purchase card transactions

DHA's purchase card policy requires cardholders to confirm each purchase card transaction within 14 days. This acquittal confirms transactions are for business purchases and are supported by compliant documentation. Our audit found that acquittals were often delayed beyond 30 days.

DHA responded that it would remind cardholders of their responsibility and will follow up instances where acquittals are delayed beyond 14 days.

Purchase cards – SSSA

Our review of SSSA's processes for DHA's purchase cards identified the following concerns:

- the purchase card register was not reconciled to details reported by the bank
- a transaction limit change was made with inadequate approval.

SSSA acknowledged the findings and advised its intended actions to address audit recommendations.

Inventory management

Inventory records adjusted without required approval

Our audit of inventory management considered whether all adjustments to inventory records were approved by an officer with delegated authority and independently reviewed. We identified the following:

- instances where adjustment approval forms were signed off by officers without delegation to approve inventory adjustments
- adjustments made without the appropriate approval forms
- the manner in which adjustments were retrospectively approved was inconsistent with DHA policy.

Unauthorised adjustments increase the risk of misappropriation of stock.

We also found that management review of adjustment reports was often delayed, impacting management's ability to identify trends and ensure all adjustments are valid.

DHA advised actions to address the concerns, including reiterating to staff the requirements to approve adjustments and review management reports promptly.

Governance and accountability

Legal compliance framework not in place

Last year we reported that DHA had not implemented recommendations arising from its legislative compliance internal audit review, including developing an overarching legislative framework for application across SA Health.

This year we found DHA had worked to develop a draft legislative compliance framework but it was not completed by 30 June 2016 as intended.

In its response DHA advised that a scoping exercise has been completed and a legal compliance policy directive and guideline would be in place in the first half of 2016-17.

Comprehensive register of interests not established

Last year we reported that DHA did not have a specific conflicts of interest policy detailing how conflicts of interest are to be reported and monitored. We also reported that DHA did not have a register of all declared interests.

Our follow-up of these matters identified that DHA established a Conflict of Interest – Declaration and Management Policy Directive on 1 July 2016. However, a comprehensive conflicts of interest register had not been established, preventing important review processes such as oversight by the Risk Management and Audit Committee.

DHA responded that it had established a register that would be fully populated and presented to the Risk Management and Audit Committee by the end of September 2016.

Commonwealth and interstate patient revenues

Delayed recovery and payment of interstate patient transfers

DHA recognises large interstate patient transfer receivables and payables with other states and territories. Interstate patient transfers result from payments for South Australian resident patients treated in other jurisdictions and vice versa. The arrangements are established through agreements between governments and are based on patient activity records provided by the Independent Hospital Pricing Authority and the national efficient price. As at 30 June 2016 interstate patient receivables were $112 million and payables were $73 million, a net receivable of $39 million.

We understand that recovery cannot occur earlier than the Independent Hospital Pricing Authority confirmation of activity levels, which occurs in January for the previous financial year. Our review found delays in settling interstate patient transfers, with all transfers for 2014-15 yet to be settled with other jurisdictions.

DHA advised it had provided all jurisdictions with activity data within the agreed time frames and is committed to prompt settlement. It indicated it does rely on the cooperation of other jurisdictions in order to reach settlement and will continue to promote efficient resolution of outstanding receivables and payables.

Contract for services

Procurement and Contract Management System (PCMS) not reconciled to Oracle accounts payable

Contracted health services payments and grant funding to not-for-profit organisations are managed in the PCMS and paid via Oracle accounts payable. Last year we reported the interface between PCMS and Oracle was not reconciled to ensure completeness of the data transfer. Without a formal review the data transfer may be incomplete, resulting in payments outside of contract terms.

Our follow-up of these matters found that while staff now reconcile the total number of payments transferred they did not regularly reconcile the dollar value of interfaced data. DHA responded it will ensure data interface reconciliation processes includes a dollar value reconciliation.

Contracts not disclosed on the SA Government's website

Department of the Premier and Cabinet Circular PC027 'Disclosure of Government Contracts' requires both eligible and significant contracts to be disclosed on the SA Government's Tenders and Contracts website. We identified that a number of eligible contracts were not disclosed on the website, resulting in non-compliance with the disclosure requirements of PC027.

DHA responded that, where required, contracts will be disclosed.

Information and communications technology and control

Our audit included a review of IT controls within DHA's central financial management system, Oracle Corporate System (OCS) including:

- follow-up of matters raised with DHA in 2014-15
- examining the operational effectiveness of key business processes, including expenditure, revenue, inventory, fixed assets, cash management and general ledger
- aspects of general IT and security controls applied at the overall OCS enterprise level.

We found that while DHA addressed a number of matters arising from our 2014-15 review, some matters remain outstanding and require attention. These include:

- excessive user access privileges granted across various business processes
- potential segregation of duties conflicts related to OCS business roles and responsibilities
- no formalised specifications relating to backup and recovery of critical organisation data
- certain IT general security controls require strengthening.

IT control weaknesses increase the risk of inappropriate or unauthorised access, potentially resulting in a loss of confidentiality, integrity or availability of SA Health's financial data.

DHA responded that it had addressed a number of our concerns including those associated with excessive user access privileges, segregation of duties and general IT controls testing of specific business processes. It also advised it would address the remaining matters, including those relating to strengthening of IT general security controls and backup and recovery procedures, by 31 October 2016.

Interpretation and analysis of the financial report

Highlights of the financial report – Department for Health and Ageing

	2016 $'million	2015 $'million
Expenses		
Employee benefit expenses	196	212
Supplies, services and other expenses	542	490
Grants, subsidies and client payments	4 213	4 010
Total expenses	4 951	4 712
Income		
Fees and charges	319	312
Grants and contributions	1 324	1 216
Other	68	52
Total income	1 711	1 580
Net cost of providing services	3 240	3 131

	2016 $'million	2015 $'million
Revenues from (Payments to) SA Government		
Revenues from SA Government	3 121	3 191
Payments to SA Government	(44)	(27)
Total revenues from (payments to) SA Government	3 077	3 164
Net result	(163)	33
Other comprehensive income		
Property, plant and equipment revaluation	-	3
Total comprehensive result	(163)	36
Net cash provided by (used in) operating activities	(203)	24
Assets		
Current assets	405	359
Non-current assets	145	150
Total assets	550	509
Liabilities		
Current liabilities	197	198
Non-current liabilities	171	151
Total liabilities	368	349
Total equity	182	160

Statement of Comprehensive Income

Expenses

Grants and subsidies

Grants and subsidies include recurrent and capital funding to incorporated health services of $4.2 billion ($4 billion) and funding to not-for-profit organisations of $15 million ($16 million).

Employee benefit expenses

Employee benefit expenses decreased by $16 million to $196 million. Contributing to the decrease was the transfer of staff from various divisions to the LHNs and SAAS.

The number of employees whose remuneration received/receivable exceeded base executive level ($145 000) totalled 81 (88), comprising 41 executive, 31 non-medical and nine medical, nursing and operational employees. Total remuneration for these employees was $18 million ($19 million).

Supplies and services expenses

Supplies and services expenses amounted to $492 million ($444 million). Significant components of supplies and services were:

- contract of services – $105 million ($115 million)
- cost of sales to incorporated health services – $96 million ($77 million). The increase reflects the full year effect of inventory functions transferred to DHA from the LHNs during 2014-15
- computing costs – $66 million ($69 million)

- insurance – $58 million ($42 million). The increase is due mainly to the effect of the increased provision for insurances, reflecting the cost of claims incurred and not reported and current claim values as assessed by an actuary as at 30 June 2016
- repairs and maintenance – $21 million ($5 million). The increase is due mainly to repairs and maintenance activities previously undertaken by LHNs and now the responsibility of DHA
- consultants – $21 million ($11 million). The increase is due mainly to consultants engaged for the Transforming Health program.

Revenues

Income

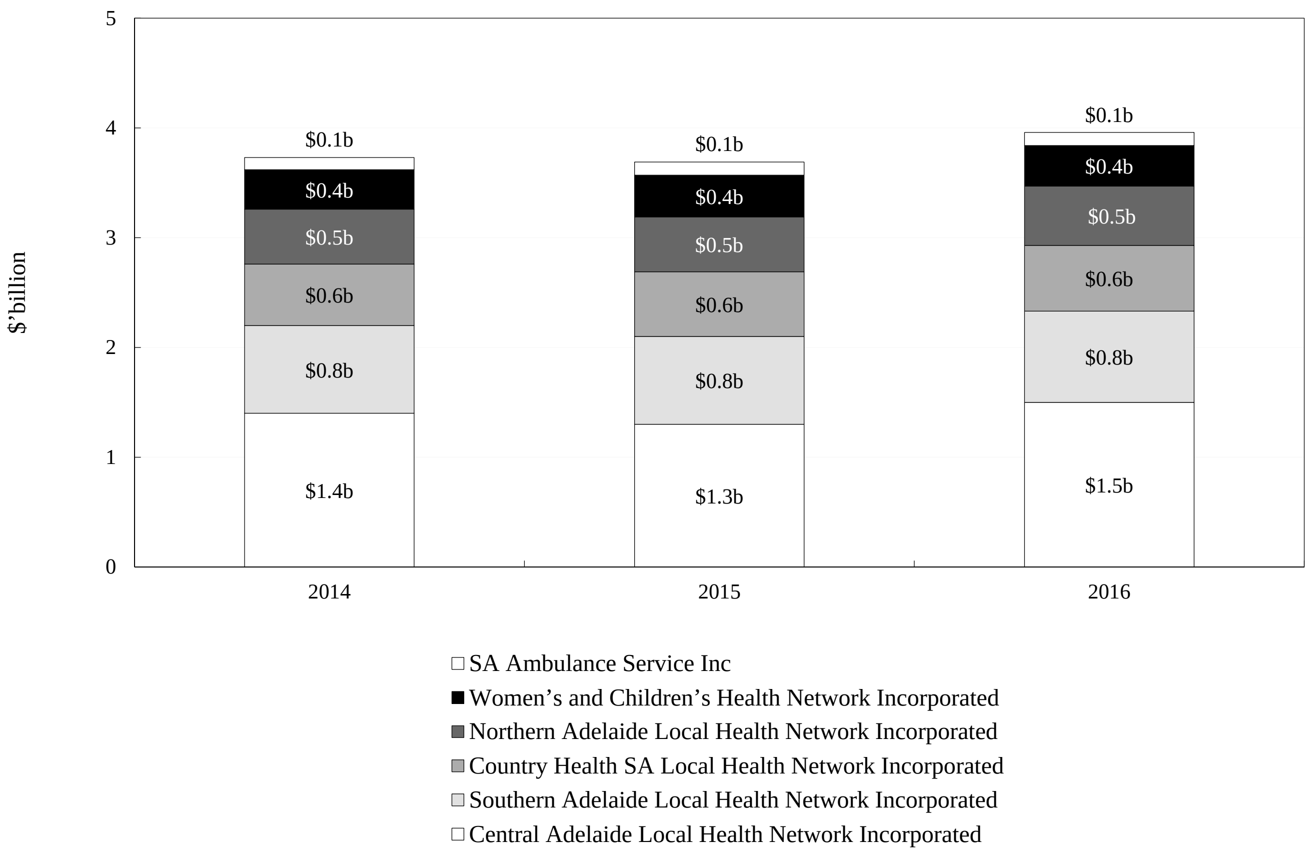
Income for 2015-16 amounted to $1.7 billion ($1.6 billion) and principally comprised Commonwealth Government grants of $1.3 billion ($1.2 billion). DHA receives Commonwealth Government grants paid from the State Pool account in line with the revised funding agreement under the National Health Reform Agreement rather than via the Department of Treasury and Finance through SA Government appropriation.

Revenues from the SA Government decreased by $71 million to $3.1 billion.

The payments to the SA Government of $44 million relate to the return of surplus cash under the Department of Treasury and Finance's cash alignment policy.

Recurrent funding to incorporated health services

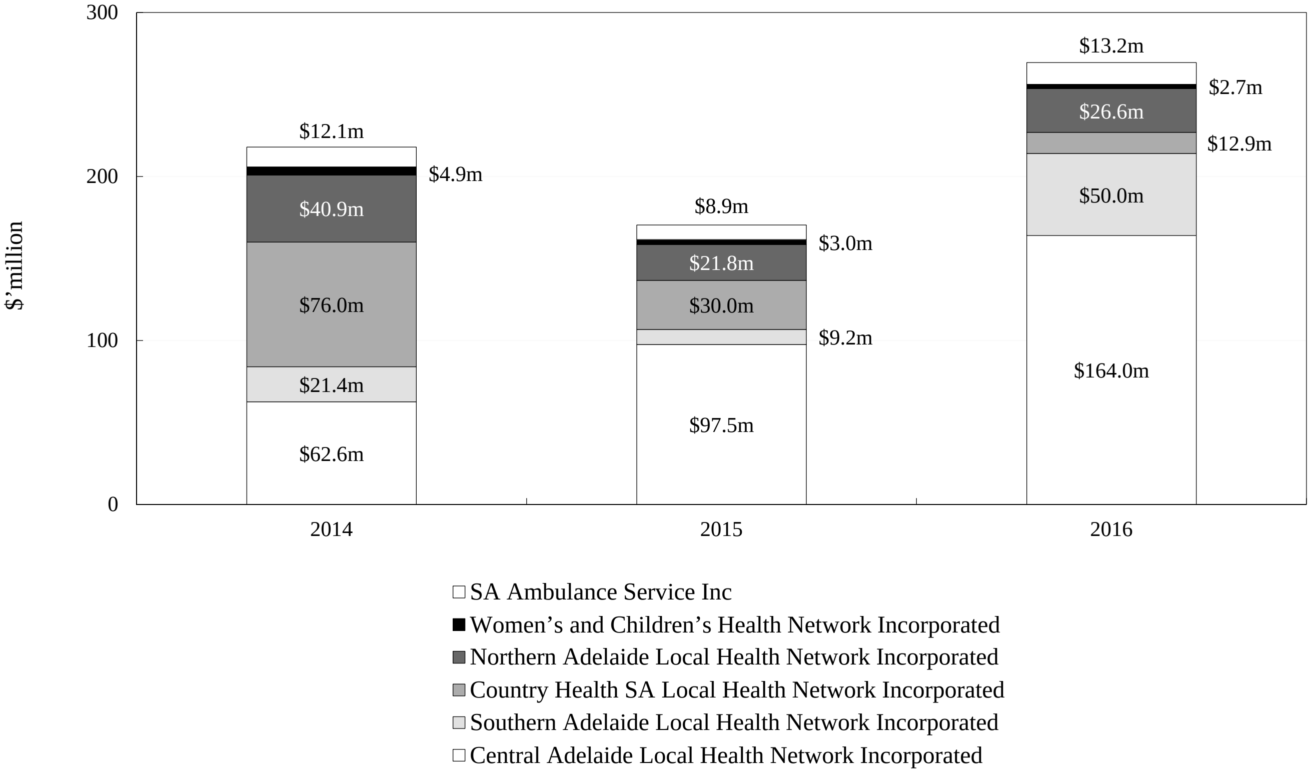
The following chart shows recurrent funding to incorporated health services for the three years to 2016.



The chart shows that total recurrent funding has increased over the three years, from $3.8 billion in 2014 to $3.9 billion in 2016 (refer note 8 of the financial report).

Capital funding to incorporated health services

The following chart shows capital funding to incorporated health services for the three years to 2016.



The chart highlights that total capital funding in 2016 increased by $99 million to $269 million. The increase in capital funding is due mainly to funding for State works associated with the new Royal Adelaide Hospital (CALHN) and Transforming Health capital projects, including at the Flinders Medical Centre (SALHN) (refer note 8 of the financial report).

Statement of Financial Position

DHA's total liabilities were $368 million at 30 June 2016. The significant components of liabilities were:

- payables, $169 million ($173 million)
- provision for insurance, $122 million ($100 million)
- employee benefits liabilities and related on-costs, $63 million ($60 million)
- provision for workers compensation, $3 million ($3 million).

The provision for insurance estimates DHA'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 accordance with AASB 1023 'General Insurance Contracts' and is determined by taking into account prudential margins, inflation, taxes, claims incurred but not reported and current claim values (refer note 2.33 of the financial report).

As at 30 June 2016, DHA had a net assets position of $182 million ($160 million). During the year DHA received an equity contribution by the SA Government of $178 million ($6 million) relating to its capital program.

Highlights of the financial report – the consolidated entity

	2016 $'million	2015 $'million
Expenses		
Employee benefit expenses	3 665	3 439
Supplies, services and other expenses	1 867	1 712
Depreciation and amortisation	189	178
Grants, subsidies and client payments	56	55
Total expenses	5 777	5 384
Income		
Fees and charges	574	562
Grants and contributions	1 656	1 502
Other	94	88
Total income	2 324	2 152
Net cost of providing services	3 453	3 232
Revenues from (Payments to) SA Government		
Revenues from SA Government	3 121	3 191
Payments to SA Government	(44)	(27)
Total revenues from (payments to) SA Government	3 077	3 164
Net result	(376)	(68)
Other comprehensive income	(48)	(17)
Total comprehensive result	(424)	(84)
Net cash provided by (used in) operating activities	11	175
Assets		
Current assets	916	872
Non-current assets	3 061	3 121
Total assets	3 977	3 993
Liabilities		
Current liabilities	1 002	926
Non-current liabilities	875	722
Total liabilities	1 877	1 648
Total equity	2 100	2 346

Statement of Comprehensive Income

Expenses

Total expenses were $5.8 billion and principally comprised employee benefit expenses of $3.7 billion and supplies and services expenses of $1.7 billion.

Employee benefit expenses

The number of employees whose remuneration received/receivable exceeded base executive level ($145 000) totalled 2833 (2814), comprising 109 executive, 133 non-medical and 2591 medical, nursing and operational employees. Total remuneration for these employees was $747 million ($722 million).

Supplies and services expenses

Significant components of supplies and services were:

- fee-for-service payments to medical practitioners – $139 million ($128 million)
- medical, surgical and laboratory supplies – $298 million ($284 million)
- contractors – agency staff – $74 million ($71 million)
- drug supplies – $232 million ($184 million).

Other expenses

Other expenses increased by $65 million to $160 million. Key items contributing to this increase were:

- a $56 million impairment expense relating to the write-down of assets including the Repatriation General Hospital
- a $36.5 million payment associated with a deed of settlement with the builders of the new Royal Adelaide Hospital.

Income

Income for 2015-16 amounted to $2.3 billion ($2.2 billion) and principally comprised Commonwealth Government grants of $1.6 billion ($1.4 billion). DHA receives Commonwealth Government grants paid from the State Pool account in line with the revised funding agreement under the National Health Reform Agreement rather than via the Department of Treasury and Finance through SA Government appropriation.

Revenues from the SA Government decreased by $71 million to $3.1 billion.

Statement of Financial Position

Liabilities

Employment liabilities make up $1.3 billion of the consolidated entity's total liabilities at 30 June 2016, comprising:

- employee benefits liabilities and related on-costs, $1.2 billion ($1 billion)
- provision for workers compensation, $100 million ($97 million).

As at 30 June 2016, the consolidated entity had a net assets position of $2.1 billion.

Assets

The consolidated entity's financial position is dominated by non-current property, plant and equipment assets, representing 73% of total assets.

The main categories of property, plant and equipment were:

- land, $383 million
- buildings and improvements, $2.4 billion
- capital work in progress, $208 million
- plant and equipment, $184 million.

Key items of note during the year were:

- additions of $215 million including State works associated with the new Royal Adelaide Hospital and Transforming Health capital projects, including at the Flinders Medical Centre

- impairment losses of $56 million relating to a write-down of assets, including for the Repatriation General Hospital.

It is also important to note that certain buildings and site improvements at the existing Royal Adelaide Hospital site have been recognised at $0 value, reflecting the uncertainty of their future use. The existing Royal Adelaide Hospital land continues to be valued using a market approach, adjusted to reflect various restrictions, including it being parkland. We acknowledge that the ultimate market value and application of these existing Royal Adelaide Hospital assets will be determined after Cabinet's decision on its future use.

Non-current assets classified as held for sale of $33 million include the following property assets:

- a portion of a previous hospital site at Fullarton Road, Glenside – $26 million
- the former Warinilla Clinic at Osmond Terrace, Norwood – $6 million.

Other commentary on operations

Comparison of actual expenses to original budget

Note 44 of the financial report provides budgetary reporting information, including explanations of major variances between DHA's original budget provided to Parliament and actuals reported in the financial statements. Total actual expenses exceeded the 2015-16 State Budget by $482 million while total actual revenue exceeded budget by $94 million. The net result is a deterioration of $317 million against the original budget. It is important to note that the budget process is not subject to audit.

Central Adelaide Local Health Network Incorporated (CALHN)

Financial statistics

Total expenses:	$2216 million
Net cost of providing services:	$1676 million
Revenues from SA Government:	$1619 million
Staff benefits liability and related on-costs:	$431 million
Workers compensation liability:	$28 million
Number of FTEs:	10 778

Significant events and transactions

- The new Royal Adelaide Hospital (RAH) Public Private Partnership project continued.
- Under the terms of a Deed of Settlement and Release (the Deed) signed in September 2015, the dates of technical completion and commercial acceptance were extended to 4 April 2016 and 3 July 2016 respectively.
- The State paid an amount of $30 million in October 2015 for site remediation and modification costs consistent with the Deed.
- The State issued a major default notice on 5 April 2016 for failing to meet the revised technical completion date, and further major default notices have since been issued.
- $36.5 million was paid to SA Health Partnership Nominees Pty Ltd (SAHP) in August 2016, consistent with the Deed.
- The State and SAHP are currently before the Supreme Court of South Australia over contractual matters.
- Construction of the new RAH is at an advanced stage of completion. It is expected to be completed in 2016-17.
- Assets worth $31.3 million were transferred to the Department for Health and Ageing prior to their sale, including parts of the Glenside site.
- Expressions of interest in the old RAH site closed in October 2015, with the outcome yet to be finalised.
- A number of Statewide Clinical Support Services transactions and balances were reallocated to CALHN from other local health networks, accounted for as a prior period error.

Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Inadequate review of employee payroll and leave information — System access (including delegations) not adequately reviewed — Completeness of revenue — Instances of duplicate payments — Nursing agency contract compliance

The new Royal Adelaide Hospital

New Royal Adelaide Hospital Public Private Partnership arrangement

Construction of the Public Private Partnership project, the new RAH, is in progress. The estimated total value of the contractual arrangement provides for a nominal capital cost for design and construction of $1.85 billion. The budget for State funded works is $476.5 million, of which $268 million had been expended as at 30 June 2016. The total nominal cost of the project is $2.3 billion.

Deed of Settlement and Release agreed between the State and SAHP

Consistent with a Cabinet submission approved on 14 September 2015, the Minister for Health and SAHP executed a Deed of Settlement and Release (the Deed) which revised certain contractual arrangements between the State and SAHP. The Deed, which was executed on 17 September 2015, provided for commercial settlement of a number of matters including SAHP releasing the State from claims relating to:

- contamination remediation
- clinical equipment related modifications
- modifications
- other matters.

In addition, under the Deed the Minister for Health agreed to exercise the State's right to unilaterally extend the date for technical completion and the date for commercial acceptance by 76 days.

The State makes payments to SAHP under the Deed

Under the terms of the Deed the State paid $30 million in October 2015 for contamination remediation and modifications, and paid a further $36.5 million in August 2016 for prolongation fees and to extend the date of technical completion (4 April 2016) and commercial acceptance (3 July 2016). The remaining amount of the Deed, $2.1 million, has not yet been paid.

Under the original terms of the agreement, if commercial acceptance was achieved the State would have commenced estimated average annual service payments of $395 million ($323 million for financing and $72 million for service payments, cleaning, security etc).

Major default notices issued and legal action in progress

SAHP did not meet the revised date for technical completion in April 2016. As a result, the State issued a major default notice under the contractual arrangements on 5 April 2016. The State has since issued further major default notices.

The State and SAHP are currently before the Supreme Court of South Australia over contractual matters.

Date of completion and further reporting

The date the SA Government accepts the handover of the facility from the contractor (commercial acceptance) is uncertain. It is expected the new RAH will be completed in 2016-17.

My Supplementary Report for the year ended 30 June 2015 'New Royal Adelaide Hospital report: November 2015' provided a summary of some key challenges requiring ongoing focus and management attention. Further reporting is subject to resolution of court proceedings.

Functional responsibility

CALHN is established under the *Health Care Act 2008*.

The powers and functions of the CALHN are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing (DHA) assumes direct responsibility for administering incorporated hospitals. This includes appointing the Chief Executive Officer of CALHN. The Chief Executive, DHA cannot give a direction concerning a person's clinical treatment.

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 CALHN are provided through a mix of:

- central services provided by DHA through an integrated finance service model
- finance services located within CALHN
- services provided by Shared Services SA (SSSA).

The audit included review of systems and completing audit work at DHA's central services, CALHN 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.

During 2015-16 specific areas of audit attention included:

- governance

- payroll
- expenditure and accounts payable
- inventory
- patient billing and sundry revenue
- private practice revenue
- grants and contributions revenue
- accounts receivable and other revenue
- property, plant and equipment
- general ledger
- cash and online banking
- SA Pharmacy
- SA Pathology
- medical officers' professional development allowances
- management of agency nursing contracts.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Central Adelaide Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Central Adelaide Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive Officer, CALHN and copied to the Chief Executive, DHA. SSSA matters were reported to the Chief Executive, Department of the Premier and Cabinet.

Audit findings for CALHN relating to common findings reflecting central services and/or systems and SSSA matters can be found under the heading 'Communication of audit matters' in the section of this Report titled 'Department for Health and Ageing'. Major matters arising during our audit at CALHN are detailed below.

Payroll

Inadequate review of payroll information

Last year we recommended CALHN implement processes requiring business unit managers or team leaders to regularly review the accuracy and completeness of employee-level pay information, sourced from the CHRIS payroll system. CALHN advised employee-level pay information was available through the financial reporting portal.

Our subsequent discussions with a selection of Directorate Managers revealed they did not receive employee level reports for review. Further, we considered these reports did not contain enough information for managers to certify employee-level CHRIS payroll payments.

We considered the mere capacity to review employee-level pay information through the financial reporting portal did not ensure the employee payments were reviewed. There was still no requirement (policy or procedure) for CALHN staff to review reports or employee information, and no mechanism to ensure they were actually checked.

Consistent with our previous findings, we found CALHN business unit managers/supervisors did not certify the validity of:

- employees paid
- employee classification levels
- long-term allowances.

CALHN's response acknowledged the recommendation and outlined its requirement for directorates to monitor FTEs and actual costs against budget. It also indicated that it was considering a bona fide system and procedures across local health networks (LHNs) as part of the CHRIS 21 implementation.

Inconsistent timesheets and leave form formats

We identified employee timesheets and leave forms in a number of different formats that did not contain the same information. These inconsistencies can cause confusion and difficulty when interpreting, approving and processing employee time records.

We noted a standard leave form had not been developed. Standard leave forms are expected as part of CHRIS 21 implementation in 2016-17.

CALHN responded that standard timesheets and leave forms would be reviewed and implemented as part of the CHRIS 21 implementation for CALHN.

Delays in processing employee timesheets

Last year we found that there was no specific process to ensure timesheets were submitted promptly. CALHN responded that SSSA had been requested to contact managers about missing timesheets. However, the service level agreement with SSSA did not assign SSSA this responsibility.

In 2015-16, we found managers were not informed when employees had not submitted timesheets and they did not monitor and follow up missing timesheets. As employees are generally paid based on their timesheet any delays can cause large lump sum catch-up payments.

Testing revealed that timesheets were sometimes received by payroll for processing many months after the time was worked.

CALHN responded that SSSA informs CALHN when timesheets are missing. CALHN immediately follows up these instances with the employee or manager. CALHN also noted it was the responsibility of the individual directorates to send information to SSSA promptly.

Expenditure

Accounts payable vendor masterfile maintenance not performed

The Oracle accounts payable system has an in-built control to prevent duplicate payments by comparing invoice numbers against the vendor ID prior to payment, excluding duplicates from the payment run.

We used data analytics to review CALHN's vendor masterfile and identified approximately 6000 possible duplicates: different vendor IDs with matching parameters of vendor name, ABN and address.

CALHN's response noted SSSA was responsible for maintaining the vendor masterfile and CALHN understood SSSA would implement a project to review masterfile information as part of standardising vendor records.

Duplicate invoices processed and paid

Our invoice data analytics review identified duplicate payments made in 2015-16. These payments may have occurred due to the existence of multiple vendor details in the masterfile, preventing Oracle system controls from working.

CALHN responded that investigation by SSSA had found that the specific instances highlighted by the audit were a result of different vendor details being used for each of the invoices processed. CALHN also advised it would work with SSSA to investigate the root cause of duplicate payments and review the remaining high risk potential duplicates.

Inconsistent financial delegations

Our review of system financial authorisation profiles considered the use of high level (super and special) delegations for approving expenditure.

Our review found instances where the super/special delegate approval limits did not match the Chief Executive Officer's approved financial delegations. Consequently, there was a risk that invoices may be inappropriately authorised for payment, leading to inappropriate payments being made.

CALHN responded it would continue to review delegations regularly and would clarify the use of special delegations.

Contracts were not established with significant suppliers

CALHN has developed a procurement framework (policies and procedures) which requires acquisition plans, approved by an authorised delegate, for purchases of more than $22 000. Our review of CALHN expenditure found significant expenditure with five suppliers with no associated contract. No procurement process had been completed to ensure that the goods/services provided to CALHN represented the best value for money.

CALHN advised staff would be reminded of the need to follow procurement policies and procedures. It also advised information would be requested from procurement about vendor spend profiles to assist vendor engagement and contract management and development.

Inadequate review of delegations in Basware

Basware allows the electronic approval of payments by CALHN. The approval is based on established access and delegation profiles. Our review of the delegations established in the system found there was no review of the delegation limits in Basware to ensure they agreed to the CALHN financial delegations.

Where established delegations in online systems are not adequately reviewed, or do not agree to the approved delegations, unauthorised or inappropriate payments could be made.

In response CALHN advised it would review Basware delegations quarterly. CALHN also advised it was removing Basware access for those who did not use or need it after three months.

Overseas travel diaries not always provided

All employees who have undertaken funded (fully or partially) overseas travel are required to provide an overseas travel diary. The diary should record days spent flying to and returning from the destination, weekends, study leave and personal leave taken in conjunction with the travel. Our review of 10 expenditure transactions for overseas travel noted that only five were supported by a travel diary as required by CALHN policy.

CALHN advised a review of overseas travel approval would be conducted and staff would be reminded of their obligations.

No process to ensure agency nursing contracts are used for all agency nurses

A new panel contract arrangement for agency nursing staff was established in 2015-16 and applies to all LHNs. Our review of the management of this contract at CALHN revealed there was no formal process to monitor the use of nurses from suppliers who were not on the panel contract. We found payments for nursing agency staff to non-panel suppliers totalling $692 497 in 2015-16.

We understand the use of suppliers outside of the panel contract is acceptable if a Request for Contract Exemption Form has been approved. No forms to support these exceptions could be provided. CALHN staff were unaware of the need to formally request an exemption if the panel contract providers could not provide specialist nurses.

CALHN's response indicated there were times when exemptions from the panel contract were needed. CALHN advised staff would be reminded of the need to only use contracted providers and the need for formal approval of exemptions would be reinforced.

Service level agreements – Statewide Clinical Support Services

CALHN is both a service provider and receiver to a number of health entities through Statewide Clinical Support Services (SCSS), including SA Pathology, SA Medical Imaging and SA Pharmacy. No formal service level agreement had been documented covering the governance arrangements, responsibilities and associated costs for 2015-16.

CALHN's response advised CALHN and SCSS would work together to document and authorise appropriate service level agreements.

SA Pharmacy

Ineffective user access review

We have previously reported issues about the effectiveness of iPharmacy user access reviews. DHA's response to those issues indicated a revised state-wide inventory management policy had been implemented and that it reinforced requirements for appropriate segregation of duties, including when undertaking stock counts.

New user access profiles were introduced by SA Pharmacy in June 2016. The number of profiles was reduced from more than 60 to 16, with each profile designed for the user's position. As this change only occurred late in the year, the previous risks associated with the old profiles applied for most of 2015-16.

We also identified that the officer responsible for granting, editing and amending user access at some sites was also responsible for the quarterly user access review. As the user access review was not independently reviewed, there was no appropriate segregation of responsibilities.

SA Pharmacy responded that the new profiles introduced in June 2016 provide clear segregation of duties and that quarterly reviews of site supervisor access and redundant accounts would occur.

User access forms not standardised

We have previously found there was no official user access/amendment form for iPharmacy. The use of standard user access request and amendment forms provides:

- the opportunity to formally document/justify the rationale for assigning a particular access profile in iPharmacy

- an audit trail supporting the granting/amending/deleting of user access, including who approved the access and who processed the access request in iPharmacy.

While this risk remained for the most of 2015-16, we noted SA Pharmacy had developed and implemented standard access forms in June 2016.

Inventory adjustments and write-offs require delegated authority

Pharmacy stock records are regularly adjusted for damaged, obsolete or expired pharmaceuticals. We found that while senior SA Pharmacy employees reviewed stock adjustments, there were instances where no evidence of the approval for stock disposals was recorded. We also found instances where the officer approving disposals did not have the authority to write off stock under the Chief Executive Officer’s delegations as required by Treasurer’s Instructions.

SA Pharmacy noted our recommendation.

Monitoring access to pharmacies requires improvement

Our previous review considered security over pharmaceuticals and how pharmacy access was restricted to ensure stock was safe. We identified monitoring of swipe card access and after-hours access to pharmacies needed to be improved.

In 2015-16 we found that a formal review of pharmacy access at some sites, required by SA Pharmacy procedures, had not been performed. We also found that no reconciliation of after-hours access had occurred for some sites and there was no evidence that after-hours log reports were reviewed.

SA Pharmacy advised it would continue to work with LHNs to establish a robust monitoring process.

Improved stocktake procedures needed

Our review of monthly stocktakes found instances where stocktake forms were only signed by one person and in other cases there was no evidence of the independent review of stocktake results. Stocktake processes require two staff to perform the stocktake and an independent review of the results.

SA Pharmacy noted our recommendations.

Stock received not matched to purchase orders

Our testing of pharmaceutical purchases found instances where:

- the price and quantity of goods received were not matched to the original purchase order
- authorisation of purchase orders happened after stock was already ordered

- purchase orders could not be found.

SA Pharmacy responded that a policy on goods receipt and invoice processing was released in August 2016 and addressed our findings.

Pharmaceutical Benefits Scheme (PBS) claims logged were not reconciled to receipts

Last year we reported that LHNs did not reconcile PBS subsidy claims to receipts from the Commonwealth Government (Medicare). Our follow-up review found that pharmacy system reporting errors continued to prevent an effective reconciliation with receipts from Medicare. This year, we found some reconciliations had not been performed, others had no evidence of independent review and some had unexplained variances that were being investigated. Consequently, LHNs cannot be certain they have received their entitled PBS subsidy.

SA Pharmacy responded it had implemented a process in April 2016 to allow the reconciliation of claims to occur and that it was developing a guideline for the consistent management of discrepancies.

Other matters

Other matters identified in the SA Pharmacy audit included:

- changes processed to the iPharmacy supplier masterfile were not independently reviewed for validity, accuracy and completeness

- the SA Pharmacy stock management policy was overdue for review.

SA Pharmacy advised the stock management policy would be reviewed and agreed with our recommendation that supplier masterfile changes be independently reviewed.

SA Pathology

Improvements needed to ensure billing is complete

We found improvements were needed to ensure billing was complete and accurate. We found management did not effectively:

- monitor or follow up pathology services completed that have not yet been invoiced
- reconcile its laboratory system, Ultra, records to Homer billing records.

Unbilled pathology charges that are not followed up may result in delayed or lost revenue.

SA Pathology’s response advised it was working with Hospital Revenue Services to develop a report of unbilled services, noting current limitations in Ultra. It advised a policy and procedure would be developed to support the process once the report was available and it would ensure revised processes were adopted with the implementation of the Enterprise Pathology Laboratory Information System (EPLIS).

Ineffective management of user access to Ultra

For a number of years, we have reported concerns about SA Pathology’s review of user access to Ultra. Consistent with last year, we found that access profiles and changes to profiles were not regularly monitored. Control failures over user access increase the risk of invalid or unauthorised transactions.

SA Pathology advised access to Ultra was granted based on appropriate approval and was supported by user administration requirements. SA Pathology also noted the confidentiality provisions of the *Health Care Act 2008* applied to Ultra data and were considered in granting access. SA Pathology advised the current process would continue until the introduction of EPLIS.

Inaccurate Medicare Benefits Scheme (MBS) rates

SA Pathology performs an annual price review for MBS items. Electronic rate updates are uploaded to create online price lists for pathology tests. This list is referred to as the test catalogue. We found there was no independent review to ensure that the pricing data uploaded agreed to the test catalogue.

We also found the test catalogue was not updated to reflect the current MBS rates. As a result, some invoices were rejected and written off by Revenue Billing as the rates were not correct. We note there was no documented policy or procedure for these write-offs, but we understand more material amounts were approved by the SCSS Director of Finance.

SA Pathology advised it was developing a procedure to ensure changes to MBS rates were processed promptly, and noted the responsibility for these changes had recently moved. SA Pathology also noted the process would change with the adoption of EPLIS.

SA Pathology responded that debt write-off policies and procedures were expected to be developed by the end of October 2016. SA Pathology noted the responsibility for the follow-up of debts had recently changed.

Patient billing

Completeness of billing

Past audits have reported concerns about the completeness of invoices for prosthesis services, including prosthetic devices used. There was no common database or system to record prosthesis services provided to patients and the prosthetic devices used. Improvements to the timing of invoices and the process to ensure outpatient revenue was invoiced were necessary to ensure billing was complete and accurate.

CALHN previously advised it was reviewing the hTRAK scanning system to capture prosthetic and high cost consumables. Our 2015-16 review found that hTRAK was yet to be implemented.

CALHN’s response advised hTRAK had been implemented for the RAH cardiovascular service and further implementation would be considered as part of the transition to the new RAH.

Inadequate review of revenue system access levels

For a number of years, we have reported concerns regarding CALHN’s review of user access to its revenue systems. This year, we found that a detailed review of FIMS access was performed in February 2016, resulting in 16 out of 70 users having their access removed. A review of HOMER access at The Queen Elizabeth Hospital was not performed until June 2016 as part of the transition to the Enterprise Patient Administration System (EPAS) on 28 June 2016. Inappropriate user access may allow processing of invalid or unauthorised transactions, potentially resulting in financial loss.

CALHN responded that reviews of FIMS and EPAS user access would be performed every six months. Homer would now be decommissioned with the recent implementation of EPAS at The Queen Elizabeth Hospital.

Debt management

Our review of 2015-16 CALHN Debt Management Reports (up to 31 May 2016) found:

- total debts outstanding had increased by $8.1 million or 19%
- debts outstanding for over 90 days had increased by $5 million or 29%.

Delays in effectively managing debts increase the likelihood of not recovering the amount owed.

CALHN advised it had written to DHA, who performs debt management on its behalf, seeking information about current debt management and preventative steps CALHN can take to improve outcomes.

Private practice billing

Private practice revenues are billed on behalf of salaried medical officers and subsequently distributed to the LHNs, DHA and salaried medical officers according to private practice agreements.

Our review of controls at CALHN for raising private practice invoices found the following.

Ineffective sample review of fees

In previous years we have identified weaknesses in controls over the accuracy of private practice invoicing. We found that the established review process did not ensure that the private practice invoices raised in HOMER agreed to documents from consultants/doctors. We found:

- the Supervisor Private Practice and Hospital Billing reviewed invoices after they had been issued to external parties
- the review sample size of five invoices was not based on any specific risk assessment
- the review was not supported by a policy or procedure.

We understand no review of the current process was performed in 2015-16 to address prior issues, and the current process was not formally documented.

CALHN advised staff resource constraints had delayed a review of existing processes but that an appropriate sample size would be determined in 2016-17.

Private practice audits

We have previously noted specialist private practice agreements allow for the Chief Executive, DHA, through DHA, the LHNs or the engagement of an independent auditor, to conduct a review (including audits of):

- specialists’ private practice
- amounts transferred to CALHN under a Private Practice Agreement
- accounts rendered by the specialist or on behalf of the specialist.

CALHN has previously responded that a risk based approach would be considered but a regular program of review/audit of specialists’ private practice had not been established. CALHN has only performed one audit of private practice payments in March 2016 for two DHA employed consultants.

CALHN advised a formal plan would be implemented for 2016-17, focusing on private practice specialists with non-CALHN provider numbers (based on Medicare data).

Interpretation and analysis of financial report

Highlights of the financial report

	2016		2015	
	Consolidated $’million	Parent $’million	Consolidated $’million	Parent $’million
Expenses				
Staff benefit expenses	1 345	1 339	1 261	1 256
Supplies and services	704	701	650	647
Depreciation and amortisation	60	60	64	64
Other expenses	106	106	135	134
Total expenses	2 215	2 206	2 110	2 101
Income				
Revenue from fees and services	313	305	301	293
Grants and contributions	186	186	142	142
Other income	40	38	37	36
Total income	539	529	480	471
Net cost of providing services	1 676	1 677	1 630	1 630
Revenues from SA Government	1 619	1 619	1 489	1 489
Net result	(57)	(58)	(141)	(141)
Other comprehensive income	(8)	(7)	(43)	(43)
Total comprehensive result for the year	(65)	(65)	(184)	(184)
Assets				
Current assets	218	207	217	207
Non-current assets	745	740	730	724
Total assets	963	947	947	931
Liabilities				
Current liabilities	319	317	274	273
Non-current liabilities	259	259	222	221
Total liabilities	578	576	496	494
Net assets	385	371	451	437

Correction of prior period errors

On 1 July 2012, SA Pharmacy and SA Medical Imaging became a state-wide service, under CALHN. During 2015-16, it was identified that transactions, assets and liabilities were reflected at each LHN where a service was being provided rather than in CALHN. Net expenses valued at $61 000 and net liabilities valued at $9.1 million were identified and corrected as a prior year adjustment.

Northern Adelaide Local Health Network Incorporated assets to the value of $21.6 million that were previously reflected in CALHN’s fixed asset register were corrected as a prior period error.

Women’s and Children’s Health Network Incorporated net liabilities of $346 000 relating to the transfer of the Child and Adolescent Mental Health Service that were previously reflected in CALHN were corrected as a prior period error.

Further details for these prior year errors can be found in note 2.39 of the financial report.

Statement of Comprehensive Income

Expenses

During 2015-16 total expenses increased by $105 million to $2.2 billion (5%), with the main items being:

- staff benefit expenses, up $84 million to $1.3 billion
- supplies and services, up $54 million to $704 million
- other expenses, down $24 million to $98 million.

Staff benefit expenses

Staff benefit expenses, $1.3 billion, represent 61% of CALHN's total expenses.

The increase in staff benefit expenses is mainly due to:

- wage rises associated with enterprise agreements
- a $44 million increase in long service leave liabilities mainly due to a reduction in the discount rate used in 2016 (1.90%) from that used in 2015 (2.85%) and an increase of the salary inflation rate from 3% to 4%.

During 2015-16 targeted voluntary separation packages of $1.5 million ($2.9 million) were paid to 10 (35) employees.

The number of employees whose remuneration received/receivable exceeded base executive level ($145 000) totalled 1111 (1099), comprising 953 medical, 83 non-medical, 49 nursing and 26 executive employees. Total remuneration for these employees was $313 million ($300 million).

Supplies and services expenses

Supplies and services expenses increased by $54 million (8%) to $704 million. Significant components of supplies and services expenses were:

- drug supplies, which increased by $43 million (30%) to $187 million
- medical surgical and laboratory supplies, which increased by $5 million (4%) to $155 million.

Other expenses

Other expenses decreased by $24 million to $98 million. Significant components of other expenses were:

- deed of settlement fees totalling $36.5 million associated with the builders of the new RAH, SAHP
- surplus property assets valued at $31 million transferred to DHA, including part of the Glenside site.

Revenues

CALHN is dependent on revenue from the Commonwealth and SA Governments.

CALHN received $1.619 billion in funding from the SA Government. This included capital funding of $164 million, an increase of $67 million (69%). The increased capital funding mainly reflects amounts required for the State works associated with the new RAH.

Commonwealth grants and contributions received directly by CALHN increased by $42 million to $170 million, due mainly to an increase of $44 million in the PBS Commonwealth subsidies to $164 million, offset by a decrease of $2 million in Commonwealth grants and donations.

The $42 million increase in Commonwealth funding offsets the increase in drug supplies costs in 2015-16.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represent 73% of total assets.

The carrying value of property, plant and equipment increased by $7 million to $702 million. Significant movements in property, plant and equipment in 2015-16 were:

- revaluation decrements and impairment losses associated with surplus assets to be transferred to DHA for sale totalling $8.8 million, and the transfer of these assets to DHA for $31.3 million
- $114 million in additions, mainly associated with work in progress for State works for the new RAH
- depreciation and amortisation expenses of $60 million.

There were also additions totalling $12 million to CALHN's intangible assets in 2015-16. These additions include amounts associated with developing ESMI and EPLIS software.

Valuation of assets – existing Royal Adelaide Hospital

The existing RAH land and buildings were independently revalued by Australian Valuation Solutions Pty Ltd as at 1 June 2015. Due to the upcoming completion of the new RAH, there is uncertainty about the future use of buildings and site improvement assets at the existing RAH site. As these buildings are specialised, it is difficult to reliably measure the asset value.

Due to this uncertainty, management decided to value the buildings and site improvements at $0 for the RAH site as at 30 June 2015 and the Frome Road Dental Hospital as at 30 June 2016. It is acknowledged that the ultimate market value and application of these RAH site assets will be determined at the conclusion of the current expression of interest process and Cabinet decision.

The RAH land is still valued using a market approach adjusted to reflect various restrictions, including it being parkland.

CALHN will need to revise the fair value of the RAH site assets in future accounting periods to reflect the outcomes of future Cabinet decisions. This will determine the underlying value of the land and buildings on the RAH site.

For more information refer notes 2.21 and 22 of the financial report.

New Royal Adelaide Hospital State works

In addition to the works and services provided by SAHP under the Public Private Partnership arrangement, the State is required to deliver and finance important elements of the project including core clinical equipment, information and communications technology hospital enterprise systems, precinct works, project and contract management costs, and transition costs. The budget for State funded works is $476.5 million, of which $268 million had been expended as at 30 June 2016. Refer note 33.3 of the financial report for further details about the nature of State funded works expenditure incurred to date.

The $476.5 million budget for State funded works did not include $35.2 million of the $36.5 million in settlement fees paid by CALHN in 2015-16.

Liabilities

Current liabilities increased by $45 million to $319 million during the year and exceeded current assets of $218 million at balance date. Staff benefits are the largest element of current liabilities, totalling $186 million at 30 June 2016, and include leave entitlements expected to be taken within 12 months. Total liabilities increased by $82 million to $578 million, mainly due to an increase in employee benefits liabilities of $58 million and an increase in payables of $28 million.

Staff liabilities and associated on-costs make up $459 million of CALHN's total liabilities at 30 June 2016, comprising:

- staff benefits liabilities and related on-costs, $431 million ($371 million)
- provision for workers compensation, $28 million ($31 million).

The movement in staff liabilities mainly relates to increases in salary rates, and the impact of salary inflation rates and discount rates used calculating outstanding liabilities at 30 June 2016.

Country Health SA Local Health Network Incorporated (CHSALHN)

Financial statistics	Total expenses:	$872 million
	Net cost of providing services:	$662 million
	Revenues from SA Government:	$618 million
	Employee benefits liability and related on-costs:	$163 million
	Workers compensation liability:	$19 million
	Number of FTEs:	5495

Significant events and transactions

- In August 2016 the Department for Health and Ageing (DHA) agreed to pay a $5 million fee over five years for a perpetual license to use the Chiron patient administration system to 31 March 2020 and $600 000 each subsequent year for the ongoing use of Chiron.
- The Chief Executive, DHA approved the transfer of 61 operational employees within the Workforce division of DHA to CHSALHN effective 1 July 2015.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Insufficient review of payroll information
- Medical officers' claims are not always matched to records of service provided
- Chiron system access not restricted to ensure incompatible tasks are segregated

Functional responsibility

CHSALHN is an incorporated hospital established under the *Health Care Act 2008.*

The powers and functions of CHSALHN are to provide health services in rural areas of South Australia.

Under the *Health Care Act 2008* the Chief Executive, DHA assumes direct responsibility for administering incorporated hospitals. This includes appointing the Chief Executive Officer of CHSALHN. The Chief Executive, DHA cannot give a direction concerning a person's clinical treatment.

The consolidated accounts of CHSALHN include the assets, liabilities, revenues and expenses of the Health Advisory Councils (HACs). The HACs were established under the *Health Care Act 2008* 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 *Health Care Act 2008*.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

Financial services for CHSALHN are provided through a mix of:

- central services provided by DHA through an integrated finance service model
- finance services located within CHSALHN
- services provided by Shared Services SA (SSSA).

CHSALHN continued to operate some legacy systems. Consequently, the audit included review of new and legacy systems and completing audit work at DHA's central services, CHSALHN 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 CHSALHN.

During 2015-16 specific areas of audit attention included:

- payroll
- accounts payable
- patient revenue including accounts receivable
- fee for service
- Enterprise Patient Administration System (EPAS) Port Augusta
- property plant and equipment
- cash
- general ledger
- medical officers' professional development allowances
- management of agency nursing contracts.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were also reviewed to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Country Health SA Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Country Health SA Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer CHSALHN and copied to the Chief Executive, DHA. SSSA matters were reported to the Chief Executive, Department of the Premier and Cabinet.

A summary of our findings for centralised processes performed by DHA and SSSA can be found under the heading 'Communication of audit matters' in the section of this Report titled 'Department for Health and Ageing'.

Major matters raised with CHSALHN and the related responses are detailed below.

Payroll

Insufficient review of payroll information

We found CHSALHN supervisors or team leaders did not always review payroll reports to ensure the accuracy and completeness of employee payments. Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments.

We recommended management implement a process to ensure supervisors regularly review employee-level pay information. CHSALHN responded that its introduction of a roster management system for most staff will reduce the opportunity for error or fraud. It also advised DHA is considering implementing a bona fide system across all local health networks (LHNs) and it would support that system when it is made available.

Payments to medical practitioners – fee-for-service

CHSALHN pays medical practitioners in accordance with the terms of the South Australian Medical Schedule of Fees and the Rural Health Enhancement Package. Our review identified a number of opportunities to improve control processes relating to fee-for-service payments.

Medical officers' claims are not always matched to records of services provided

Our review found fee-for-service payments claimed by medical officers are only matched to medical records where the procedure related to life threat or complicated delivery. Fees for services claimed by medical officers for other procedures are paid without matching to medical records. Treasurer's Instruction 2 'Financial Management' provides that the chief executive must ensure that any expenditure is paid only where goods are received and services are provided.

We recommended CHSALHN develop processes to ensure claims are matched to records of services received prior to payment. CHSALHN responded that Chiron does not have the system functionality to electronically match fee-for-service payments to medical records. CHSALHN indicated that it reviews claims for characteristics that may signal an error, for example multiple consults claimed in a short period of time. It also advised it would introduce an ongoing reporting function to enable additional review of claims.

Staff can override fee-for-service rates on the system

Fee-for-service payments are generated automatically by Chiron based on code rates maintained in the system. We found staff can manually override these code rates, increasing the opportunity for error or fraud.

We recommended CHSALHN restrict the ability for officers to manually override code rates. CHSALHN responded that Chiron system limitations mean it cannot restrict access in this way, however it would investigate the potential for reporting and monitoring of instances where codes have been manually over ridden.

Supplies and services expenditure

Invoices received are not always matched to purchase orders

Our review of payments noted instances where invoices were not matched to the purchase order prior to payment. 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. In addition the associated expense records may be overstated.

CHSALHN's response indicated it had commenced ongoing training and review of transactions to mitigate the risk.

Purchase card holder forms not always kept on file

We found instances where purchase card holders' registration and agreement forms were not on file as required by policy and the Treasurer's Instructions.

CHSALHN responded that it had commenced an exercise to ensure all required forms for purchase card holders are maintained on file.

Revenue

Incompatible roles not adequately segregated

Our review of patient billing found the following instances where employee tasks were not adequately segregated:

- staff responsible for billing patients could modify admission and discharge dates and charge rates, impacting the amounts charged
- at certain sites, the officer responsible for invoicing patients also had access to receipt payments.

We recommended that staff responsible for invoicing patients should be restricted from modifying dates and charge types and should not perform the receipting. CHSALHN responded that Chiron system limitations prevent certain access restrictions, indicating the risk will continue until a new patient administration system is implemented. The response also indicated controls exist to prevent a staff member receipting payments for invoices they raise.

Policies and procedures

In recent years we have reported to CHSALHN that policies and procedures for patient invoicing, aged care residential fees and sundry invoicing processes were not documented. Although we noted some progress, opportunities for improvement remain. We also found instances where control practices were inconsistently performed. CHSALHN's response provided detail of controls expected and indicated that procedures will be developed by 30 June 2017.

Other information

Chiron

Last year we reported that DHA made a contingency disclosure for legal proceedings filed against the Crown for alleged breaches of contract and infringement of copyright over the ongoing use of the Chiron patient administration system. Chiron has been used as a patient administration system at over 60 Country Health SA hospital sites for the past 20 years. On 2 August 2016, DHA agreed to pay a $5 million fee over five years for a perpetual licence to use Chiron to 31 March 2020 and $600 000 each subsequent year for the ongoing use of Chiron. We note that Chiron is an unsupported legacy system and that DHA is planning for its eventual replacement.

Interpretation and analysis of financial report

Highlights of the financial report

	2016		2015	
	Consolidated $'million	Parent $'million	Consolidated $'million	Parent $'million
Expenses				
Employee benefit expenses	532	532	492	492
Supplies and services	278	278	289	289
Depreciation and amortisation	35	19	29	16
Other expenses	27	29	28	32
Total expenses	872	858	838	829
Income				
Revenue from fees and services	76	76	77	77
Grants and contributions	129	131	126	128
Other income	5	2	6	4
Total income	210	209	209	209
Net cost of providing services	662	649	629	620
Revenues from SA Government	618	618	612	612
Net result	(44)	(31)	(17)	(8)
Other comprehensive income	-	-	91	27
Total comprehensive result for the year	(44)	(31)	74	19
Assets				
Current assets	157	143	147	134
Non-current assets	857	443	884	454
Total assets	1 014	586	1 031	588
Liabilities				
Current liabilities	191	192	166	166
Non-current liabilities	114	114	109	109
Total liabilities	305	306	275	275
Net assets	709	280	756	313

Statement of Comprehensive Income – Consolidated

Expenses

During 2015-16 total expenses increased by $34 million to $872 million. This was due mainly to:

- a $39 million increase in employee benefit expenses. Contributing to this increase were a $10 million increase in long service leave expenses, enterprise agreement increases and the impact of staff transferred to CHSALHN from DHA

- a $6 million increase in depreciation and amortisation

- an $11 million decrease in supplies and services.

Employee benefit expenses

Employee benefit expenses, $532 million, represent 61% of CHSALHN's total expenses. The number of employees whose remuneration received/receivable exceeded base executive level ($145 000) totalled 107 (99), comprising 63 medical, 27 nursing, 13 executive and four non-medical employees. Total remuneration for these employees was $29 million ($26 million).

Supplies and services expenses

Supplies and services expenses decreased by $11 million to $278 million due mainly to an $8 million decrease in costs for transferred DHA staff now employed at CHSALHN.

Significant components of supplies and services were:

- fee-for-service payments to medical practitioners – $79 million ($78 million)
- medical, surgical and laboratory supplies – $39 million ($36 million)
- contractors – agency staff – $14 million ($15 million)
- patient transport – $19 million ($17 million)
- repairs and maintenance – $22 million ($21 million).

Revenues

Revenues from SA Government

CHSALHN is principally funded by DHA. In 2015-16, funding of $618 million comprised recurrent funding of $605 million and capital funding of $13 million.

Statement of Financial Position – Consolidated

Property, plant and equipment

Property, plant and equipment represents 84% of CHSALHN's total assets. The carrying value of property, plant and equipment decreased by $26 million to $852 million. This decrease is due mainly to $35 million of depreciation and amortisation expense, partly offset by additions of $10 million including capital work in progress.

Liabilities

Current liabilities increased by $26 million to $191 million during the year and exceeded current assets of $157 million at balance date.

Cash and cash equivalents of $48 million are sufficient to meet current payables of $44 million.

Total liabilities increased by $31 million to $305 million, mainly due to a $14 million increase in employee benefits liabilities for long service leave and a $15 million increase in residential aged care bonds.

Employee liabilities make up $182 million of CHSALHN's total liabilities at 30 June 2016, comprising:

- employee benefits liabilities and related on-costs, $163 million ($150 million)
- provision for workers compensation, $19 million ($22 million).

Contributing to the increase in employee liabilities was a decrease in the discount rates applied in calculating outstanding long service leave liabilities at 30 June 2016.

Northern Adelaide Local Health Network Incorporated (NALHN)

Financial statistics	Total expenses:	$608 million
	Net cost of providing services:	$576 million
	Revenues from SA Government:	$563 million
	Staff benefits liability and related on-costs:	$118 million
	Workers compensation liability:	$12 million
	Number of FTEs:	3231

Significant events and transactions

— NALHN started the $32 million Modbury Hospital Transforming Health project to upgrade facilities and significantly expand elective surgery capacity.

— Errors were identified in 2015-16 for leave liabilities and property, plant and equipment, recognised as a prior period adjustment.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Control weaknesses in the ProAct time recording system used by nurses

— Inadequate review of employee level payroll information

— Review of Basware system access (including delegations) needs to improve

— No review of user access to Homer revenue system

— Duplicate invoices processed and paid

Functional responsibility

NALHN is an incorporated hospital established by the *Health Care Act 2008*.

The powers and functions of NALHN are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing (DHA) assumes direct responsibility for administering incorporated hospitals. This includes appointing the Chief Executive Officer of NALHN. The Chief Executive, DHA cannot give a direction concerning a person's clinical treatment.

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 NALHN are provided through a mix of:

- central services provided by the DHA through an integrated finance service model
- finance services located within NALHN
- services provided by Shared Services SA (SSSA).

NALHN continued to operate some legacy systems. Consequently, the audit included review of new and legacy systems and completing audit work at DHA's central services, NALHN and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- SSSA matters
- matters for individual health services.

During 2015-16 specific areas of audit attention included:

- governance
- payroll
- accounts payable
- property, plant and equipment
- hospital billing
- cash and online banking
- general ledger
- medical officers' professional development allowances
- management of agency nursing contracts.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were also reviewed to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Northern Adelaide Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Northern Adelaide Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive Officer, NALHN and copied to the Chief Executive, DHA. SSSA matters were reported to the Chief Executive, Department of the Premier and Cabinet.

A summary of our findings for centralised processes performed by DHA and SSSA can be found under 'Communication of audit matters' in the section of this Report titled 'Department for Health and Ageing'. Major matters arising during our audit at NALHN are detailed below.

Payroll

Control weaknesses in the ProAct time recording system used by nurses

The ProAct rostering and time recording system is used to initiate payroll payments to nurses across the various areas of NALHN. Our review of controls for ProAct found the following areas required improvement:

- ProAct timesheets were not always approved prior to submission to SSSA for processing into the CHRIS payroll system. Processing unauthorised timesheets into CHRIS increases the risk that employees are paid for actual hours not actually worked.

- The reconciliation of daily allocation sheets to ProAct rosters to ensure ProAct reflects actual time worked was not always performed. Our testing identified four instances where employees had leave recorded on the daily allocation sheet, but no corresponding leave recorded in the CHRIS payroll system.

- Certain password control settings within ProAct were not consistent with the SA Health User Access Specification and accepted best practice. The failure to maintain adequate password controls may result in inappropriate access to ProAct and its data.

In response NALHN advised:

- that it will generate the unauthorised timesheet report before generating the ProAct timesheet file to address our observations

- it will reinforce with rostering managers the need to reconcile their allocations daily

- the password settings in ProAct are an SA Health-wide matter for referral to the ProAct User Group.

Inadequate review of employee-level payroll information

Consistent with prior years, we found business unit managers/team leaders did not review the accuracy of employee pay information. We found NALHN managers did not certify the accuracy of information about the staff who had been paid, including their classification and the ongoing relevance of long-term allowances. Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments.

In response NALHN advised that processes have been implemented requiring divisions to regularly review the accuracy and completeness of employee level pay information sourced from CHRIS. NALHN will look at options to maintain evidence of the review and any follow-up action taken.

In 2015-16 we requested NALHN's advice on whether there were any alternative cost effective internal controls that allow NALHN to meet its responsibility for ensuring payroll transactions were valid, accurate and complete.

NALHN advised that it supported implementing bona fide reports and will explore this further after CHRIS 21 is implemented.

Accounts payable

Invoice receipts not always matched to purchase orders

Our review of payments noted instances where invoices were not matched to the purchase order receipts prior to payment. Where this occurs there is an increased risk that payments may be made for goods/services not received or not at the agreed price. In addition the associated expense records are overstated.

NALHN's response acknowledged that invoices are not always matched to purchase order receipts prior to payment.

NALHN advised that it has tried to address this issue through education. In addition, SA Health Procurement and Supply Chain Management is reviewing the reasons for the non-matching of invoices to purchase order receipts to identify system and/or other fixes that can be applied across SA Health.

Duplicate invoices processed and paid

Data analysis identified 652 potential duplicate payments. Our review of nine of these potential duplicates identified five duplicate payments totalling $2000.

In response NALHN advised that it will follow up the remaining potential duplicate payments and seek to recover any overpayments. Further, NALHN will determine the root cause of these duplicate payments and implement improved controls where possible and practicable.

Review of Basware system access (including delegations) needs to improve

Basware is SSSA's online invoice approval system. Invoices are approved in Basware by users based on established access and delegation profiles.

SSSA provides NALHN with a quarterly Basware user access listing report that details all users in the NALHN Basware pay group, including their profiles and delegations. SSSA requires NALHN to review this report to ensure user access, including delegation profiles, is correct.

We found this control activity did not operate as intended throughout the year. Specifically:

- the review performed by NALHN for July 2015 did not involve reviewing user's Basware access levels (including delegations) on the report to NALHN's financial delegations and/or other reports (ie payroll reports detailing position changes/terminated employees)
- the November 2015 Basware user access listing report was not reviewed by NALHN
- the March 2016 Basware user access listing report was not reviewed within required time frames.

Further, 42 employees were identified with a Basware delegation limit different from their delegated authority.

These matters increase the risk that invoices are not approved in accordance with delegations.

In response NALHN advised that the quarterly Basware user access listing report will be reviewed more promptly.

Review of transactions that bypass electronic approval controls in Basware

Certain NALHN transactions are not processed through Basware, including urgent payments. SSSA provides a monthly report of all NALHN transactions processed by SSSA that were not electronically certified and approved through Basware.

We found:

- NALHN was only checking a sample of these payments. The SSSA procedure requires all payments listed to be checked for validity
- no evidence that any payments were checked for a period of three months
- no documentation to evidence who performed the check of payment transactions or when these checks were performed for seven months.

In response NALHN advised that business support officers check a sample of anticipated payment transactions and all payment transactions that are not routinely expected to appear on the report. NALHN considers this checking to be sufficient. Further, NALHN advised that since June 2016 the reviewing officer has evidenced this check.

Patient billing

No review of Homer revenue system user access

We found that NALHN has not implemented a regular review of user access to the Homer revenue system, and did not review user access during 2015-16. Failure to regularly review user access to financial systems increases the risk of users making invalid or unauthorised changes to data.

In response NALHN advised that it will perform a review to ensure access to the Homer revenue system is valid and appropriate. Further, NALHN will ensure future requests for Homer access are reviewed and authorised.

Compensable outpatient invoices checked after invoice distribution

We found that of the 645 compensable outpatient invoice batches raised during 2015-16, 166 (26%) were not checked until after invoices were issued. This delay in checking invoice batches reduces the effectiveness of a control designed to ensure errors are identified and resolved before invoices are issued.

In response NALHN advised that invoices are no longer distributed to billable parties until the checking process has been completed.

Interpretation and analysis of financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Staff benefit expenses	412	381
Supplies and services	167	172
Depreciation and amortisation expense	27	24
Other expenses	2	1
Total expenses	608	578
Income		
Revenue from fees and charges	25	27
Grants and contributions	3	4
Other income	4	5
Total income	32	36
Net cost of providing services	576	542
Revenues from SA Government	563	548
Net result	(13)	6
Other comprehensive income	-	(21)
Total comprehensive result for the year	(13)	(15)
Assets		
Current assets	29	30
Non-current assets	447	451
Total assets	476	481
Liabilities		
Current liabilities	71	75
Non-current liabilities	69	57
Total liabilities	140	132
Net assets	336	349

Statement of Comprehensive Income

Expenses

During 2015-16 total expenses increased by $30 million to $608 million (5%). This was mainly due to an increase in employee related expenses.

Staff benefit expenses

Staff benefit expenses of $412 million represent 68% of NALHN's total expenses. These costs have increased by $31 million (8%) which is primarily attributable to:

- wage rises associated with enterprise agreements
- a $10 million increase in long service leave liabilities due mainly to a reduction in the discount rate used in 2016 (1.97%) from that used in 2015 (2.95%) and an increase in salary inflation rate from 3% to 4%.

The number of staff whose remuneration received/receivable exceeded base executive level ($145 000) totalled 312 (326), comprising 281 medical, seven executive, 21 nursing and three non-medical employees. Total remuneration of these staff was $90 million ($90 million).

Supplies and services expenses

Supplies and services expenses decreased by $5 million in 2015-16 to $167 million. Significant components of supplies and services were:

- medical, surgical and laboratory supplies – $47 million
- housekeeping – $22 million
- contractors – agency staff – $17 million.

Contractors – agency staff decreased by $2 million due to decreases in the use of:

- agency nursing staff
- outsourced medical practitioners in northern mental health
- consulting medical practitioners in the areas of anaesthesia, cardiology, gastroenterology and orthopaedics.

Revenues

Revenues from SA Government

NALHN is principally funded through recurrent and capital funding from DHA. In 2015-16, NALHN received recurrent funding of $537 million and capital funding of $27 million.

The capital funding in 2015-16 was for the following major capital projects:

- Lyell McEwin Hospital Stage C Redevelopment ($13 million)
- Modbury Hospital Transforming Health Redevelopment ($9 million).

Recurrent funding increased by $10 million.

Statement of Financial Position

Correction of prior period errors

NALHN assets to the value of $22 million that were previously reflected in the Central Adelaide Local Health Network Incorporated (CALHN) asset register were recognised for the first time and disclosed as a prior period error.

The review of employee data when preparing to implement the CHRIS 21 payroll system identified errors resulting in an understatement of leave liabilities for a number of employees. The understatement of employee leave liabilities of $6 million was recognised as a prior period adjustment, as the error occurred before 2014-15.

On 1 July 2012, SA Pharmacy and SA Medical Imaging became a state-wide service, under CALHN. During 2015-16, it was identified that transactions, assets and liabilities were reflected at each local health network where a service was being provided rather than in the CALHN. Net expenses valued at $45 000 and net liabilities valued at $604 000 were identified and corrected as a prior year adjustment.

Further details for these prior year errors can be found in note 2.32 of the financial report.

Property, plant and equipment

Property, plant and equipment assets represent 93% of total assets.

The carrying value of property, plant and equipment decreased by $3 million to $445 million. The major movements in property, plant and equipment during 2015-16 were asset additions ($25 million), depreciation ($27 million) and disposals ($1 million).

Asset additions for 2015-16 included the project payments for the Lyell McEwin Hospital Stage C Redevelopment and the Modbury Hospital Transforming Health Redevelopment.

Liabilities

Current liabilities decreased by $4 million to $71 million during the year and exceeded current assets of $29 million. NALHN works with DHA to ensure sufficient funding is provided to NALHN to meet expected cash flows for its administration and program delivery. Cash and cash equivalents of $19 million are sufficient to meet current payables of $16 million.

Staff benefits are the largest element of current liabilities, totalling $51 million at 30 June 2016. They mainly comprise leave entitlements expected to be taken within 12 months. Total liabilities increased by $8 million to $140 million, due mainly to an increase in staff benefits liabilities.

Staff liabilities make up $130 million of NALHN's total liabilities of $140 million at 30 June 2016, comprising:

- staff benefits liabilities and related on-costs, $118 million ($108 million)
- provision for workers compensation, $12 million ($12 million).

The movement in staff liabilities principally relates to increases in long service leave liability due a decrease in the discount rate and an increase in the salary inflation rate used to calculate the outstanding liabilities at 30 June 2016.

SA Ambulance Service Inc
(SAAS)

Financial statistics	Total expenses: Net cost of providing services: Revenues from SA Government:	$266 million $133 million $128 million
	Employee benefits liability and related on-costs: Workers compensation liability:	 $125 million $8 million
	Number of FTEs:	1244
Significant events and transactions	An actuarial assessment of SAAS's defined benefits superannuation scheme significantly increased the value of the associated liability by $33 million to $61 million.	
Financial statement opinion	**Unmodified**	
Financial controls opinion	**Modified** Key issues: — Insufficient review of payroll information — Revenue subsidiary system was not regularly reconciled to the general ledger	

Functional responsibility

SAAS is a body corporate constituted under the *Health Care Act 2008*.

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 *Health Care Act 2008* the Chief Executive, Department for Health and Ageing (DHA) assumes direct responsibility for administering SAAS. This includes appointing the Chief Executive Officer of SAAS. The Chief Executive, DHA cannot give a direction concerning a person's clinical treatment.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

Financial services for SAAS are provided through a mix of:

- central services provided by DHA through an integrated finance service model
- finance services located within SAAS
- services provided by Shared Services SA (SSSA).

The audit included review of new and legacy systems and completing audit work at DHA'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 in the audit of SAAS.

During 2015-16 specific areas of audit attention included:

- payroll
- accounts payable
- revenue
- accounts receivable
- fixed assets
- general ledger
- cash.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were also reviewed to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the SA Ambulance Service Inc in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the SA Ambulance Service Inc have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer of SAAS and copied to the Chief Executive, DHA. SSSA matters were reported to the Chief Executive, Department of the Premier and Cabinet.

A summary of our findings for centralised processes performed by DHA and SSSA can be found under the heading 'Communication of audit matters' in the section of this Report titled 'Department for Health and Ageing'.

Major matters raised with SAAS and the related responses are detailed below.

Payroll

Insufficient review of payroll information

We found SAAS supervisors or team leaders did not always review payroll reports to ensure the accuracy and completeness of employee payments. Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments. We recommended management implement a process to ensure supervisors regularly review employee-level pay information.

SAAS responded that it has some mitigating measures to reduce the risk of payroll error. It indicted that improved bona fide reporting is intended through the whole-of-health migration to a new CHRIS 21 platform. It also highlighted improvements to control processes that were to be investigated and introduced.

Revenue

Revenue subsidiary system was not regularly reconciled to the general ledger

Our audit of revenue included a review of processes to ensure the accuracy of revenue records in the general ledger and financial reporting. The review found that during 2015-16 SAAS did not regularly reconcile the revenue system, AMBS, with the general ledger, Oracle. We recommended that SAAS implement a regular reconciliation.

SAAS responded that from July 2016 a changed interface process was implemented and that it would confirm that in-built validation processes are working by reconciling the systems.

Improvements necessary to ensure the validity of changes made to patient transport charges

Our review of revenue made the following recommendations to ensure the validity of changes made to patient transport charges:

- alter system access profiles to prevent billing officers from amending charge codes
- ensure all adjustments to revenue information are independently reviewed regularly.

SAAS responded with proposals to address these concerns, including reviewing circumstances in which changes are made and the staff delegations to perform certain functions.

Supplies and services expenditure

Invoices received are not always matched to purchase orders

Our review of payments noted instances where invoices were not matched to the purchase order prior to payment. 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. In addition, the associated expense recorded may be overstated.

SAAS acknowledged the control deficiency and indicated it had previously raised concerns with DHA. The response also stated that it had reviewed all unmatched purchase orders as at 30 June 2016 to ensure no material expense duplication. SAAS indicated the matter would also be addressed through ongoing training.

Interpretation and analysis of financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee benefit expenses	173	158
Supplies and services	64	63
Depreciation and amortisation expense	11	9
Other expenses	18	16
Total expenses	266	246
Income		
Revenue from fees and charges	125	114
Other income	8	3
Total income	133	117
Net cost of providing services	133	129
Revenues from SA Government	128	127
Net result	(5)	(2)
Other comprehensive income	(29)	(1)
Total comprehensive result for the year	(33)	(3)
Assets		
Current assets	41	36
Non-current assets	86	80
Total assets	127	116
Liabilities		
Current liabilities	49	45
Non-current liabilities	89	48
Total liabilities	138	93
Net assets	(11)	23

Statement of Comprehensive Income

Expenses

During 2015-16 total expenses increased by $20 million (8%) to $266 million. This was due mainly to a $15 million increase in employee related expenses.

Employee benefit expenses

Employee benefit expenses of $173 million represented 65% of SAAS's total expenses. Salaries and wages rose $8 million to $122 million and long service leave expense increased by $5 million to $11 million. The increased salaries and wages are due mainly to increased activity, paid staff to cover volunteer shortfalls and 2417 crewing at Renmark and Naracoorte stations.

The number of employees whose remuneration received/receivable exceeded the base executive level ($145 000) totalled 297 (304), comprising 286 operational, nine executive and two non-medical employees. Total remuneration for these employees was $51 million ($51 million).

Supplies and services expenses

Significant components of supplies and services were:

- contractors – agency staff – $15 million ($13 million)
- patient transport – $15 million ($13 million)
- motor vehicles – $4 million ($4 million)
- medical, surgical and laboratory supplies – $3 million ($4 million).

Revenues

Revenues from SA Government

In 2015-16 total revenues from DHA of $128 million comprised recurrent funding of $115 million and capital funding of $13 million.

Capital funding was primarily for the Northfield and Noarlunga ambulance stations and MedSTAR aeromedical facility project.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 65% of SAAS's total assets. The carrying value of property, plant and equipment increased by $7 million to $83 million. This increase is due mainly to:

- $12 million additions to capital work in progress
- $4 million for replacing defibrillators.

These items were partly offset by depreciation and amortisation of $9 million.

Liabilities

Staff benefits increased significantly by $45 million to $120 million. This increase was primarily due to:

- a $33 million increase in defined benefits superannuation scheme liabilities reflecting an actuarial assessment as at 30 June 2016. Major factors impacting the increase were changes in assumptions used to calculate the defined benefit liability, including a 1% reduction in the discount rate and a 1% increase in predicted salary inflation rate
- a $10 million increase in long service leave liabilities. Contributing to the increase was a decrease in the discount rates and an increase in predicted salary inflation rates applied in calculating the liability at 30 June 2016.

Current liabilities, $49 million, exceeded current assets, $41 million, at balance date. Cash and cash equivalents of $20 million are sufficient to meet current payables of $6 million.

Equity

Total liabilities, $137 million, exceeded total assets, $127 million, resulting in a negative equity balance of $11 million. The main factor contributing to SAAS's negative equity position was the growth in employee defined benefits superannuation liabilities.

SAAS is funded to meet expected cash flows for its current program delivery. Costs such as long service leave and superannuation are funded in the year they are paid not when they are incurred. As a consequence, as at 30 June 2016 its large employee liabilities significantly exceed its assets causing its negative equity position.

Note 2.30 of the financial report discloses a working capital deficiency of $8 million. It also states the SA Government has consistently demonstrated a commitment to the ongoing funding of SAAS.

Southern Adelaide Local Health Network Incorporated (SALHN)

Financial statistics

Total expenses:	$1042 million
Net cost of providing services:	$965 million
Revenues from SA Government:	$882 million
Staff benefits liability and related on-costs	$226 million
Workers compensation liability:	$24 million
Number of FTEs:	5293

Significant events and transactions

— Construction of the new $170.5 million Flinders Medical Centre Transforming Health project facilities started in October 2015.

— In May 2016 the $15 million RSL Repat Park proposal was approved for the future use of the Repatriation General Hospital site.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Inadequate review of payroll information and leave management reports

— Control weaknesses in the system to record nurses time

— No process to ensure medical officers' timesheets are approved and submitted

— Inadequate review of financial delegations in Oracle and Basware

— Contracts were not established with significant suppliers

— No review of user access for EPAS or Homer revenue systems

— EPAS billing validation reports not followed up

— EPAS private practice billing rejection report not fully actioned

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Functional responsibility

SALHN is established under the *Health Care Act 2008*.

The powers and functions of SALHN are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing (DHA) assumes direct responsibility for administering incorporated hospitals. This includes appointing the Chief Executive Officer of SALHN. The Chief Executive, DHA cannot give a direction concerning a person's clinical treatment.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

Financial services for SALHN are provided through a mix of:

- central services provided by DHA through an integrated finance service model
- finance services located within SALHN
- services provided by Shared Services SA (SSSA).

SALHN continued to operate a legacy revenue system at the Flinders Medical Centre. Consequently, the audit included review of new and legacy systems and completing audit work at DHA's central services, SALHN 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.

During 2015-16 specific areas of audit attention included:

- governance
- payroll
- expenditure and accounts payable
- property plant and equipment
- patient billing and sundry revenue
- cash and online banking
- inventory
- general ledger
- medical officers' professional development allowances
- management of agency nursing contracts.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were also reviewed to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Southern Adelaide Local Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Southern Adelaide Local Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the 2015-16 audit of SALHN were detailed in management letters to the Chief Executive Officer, SALHN and copied to the Chief Executive, DHA. SSSA matters were reported to the Chief Executive, Department of the Premier and Cabinet.

A summary of our findings for centralised processes performed by DHA and SSSA can be found under the heading 'Communication of audit matters' in the section of this Report titled 'Department for Health and Ageing'. Major matters arising during our audit at SALHN are detailed below.

Payroll

Inadequate review of payroll information

Consistent with our previous years' findings, business unit managers or team leaders did not review the accuracy of staff pay information. SALHN managers did not always certify the accuracy of information about the staff who had been paid, including their classification and the ongoing relevance of long-term allowances.

Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments, resulting in a financial loss to SALHN or additional processing costs where overpayments occur and/or manual payments are required.

In 2015-16 we requested SALHN's advice on whether there were any alternative cost effective internal controls that allowed SALHN to meet its responsibility for ensuring payroll transactions were valid, accurate and complete.

SALHN responded that it was waiting for the roll-out of CHRIS 21 across SA Health to assess whether bona fide or similar reports would be available. SALHN also advised Workforce and Finance would develop a local procedure to meet the requirement to monitor staff pay information in the interim. SALHN noted interim arrangements would have resource implications and that it would discuss these with stakeholders.

Inadequate review of leave management reports

Last year we identified SALHN did not have a consistent process to ensure leave management reports were reviewed and action taken where necessary. We found there was no central process to ensure these reports were reviewed promptly and no evidence was maintained that reviews were performed. Not undertaking a review of the leave management report increases the risk that leave details may not be appropriately recorded in CHRIS.

In 2015-16 we noted Workforce had reminded managers of the requirement to review the report, however a central process to monitor those reviews did not exist. Therefore the risk of inaccurate leave balances remained. We also noted the review process was still not documented in SALHN's policies or procedures.

We identified there were a number of SALHN staff members with negative leave balances or excessive annual leave balances.

SALHN advised that DHA did not have a portfolio-wide policy on leave management for local health networks (LHNs) to use. It noted it would review the current annual leave management procedure and develop a mandatory corporate process to monitor leave reports and record evidence of their review.

Control weaknesses in the system used to record nurses time

Salaries and wages for nursing staff account for over 45% of the total salaries and wages expense. The ProAct rostering and time recording system is used to initiate payments to nursing staff across SALHN. Our review of ProAct controls noted some improvements during 2015-16, however improvement was still required in the following areas:

- there was no process to ensure all user access reviews were performed and returned for actioning
- ProAct timesheets were not always approved prior to submission to SSSA for processing
- ProAct did not require complex user passwords.

Without these controls, unauthorised or inaccurate payments may be made to staff.

In response SALHN advised that:

- the Nursing Quality Information Systems office would monitor compliance with ongoing security access reviews. The Nursing Director of Corporate Services would be notified if an area did not respond and they would be followed up

- the business rule for signing off timesheets would be updated to include the fortnightly audit process and follow-up of unsigned timesheets, and to include the responsible officers

- an enhancement request would be submitted through the ProAct State User Group to strengthen the minimum password standard for ProAct, with the expectation this would be considered for future ProAct versions or updates.

No process to ensure medical officers' timesheets are approved and submitted

We have previously identified there was no monitoring process to ensure all medical officers submit timesheets and accompanying leave forms for approval. In 2015-16 we found this situation had not changed and that the risk of incorrect staff payments remained.

Consistent with our previous findings there were still no documented policies or procedures setting out what needs to be checked for medical officers' timesheets at SALHN.

Where a complete review of outstanding timesheets and associated leave forms is not performed there is a risk that incorrect payments may be made to staff and/or leave taken may not be captured. This issue is of particular importance where medical officers are automatically paid by the payroll system, regardless of whether a timesheet is submitted, as is normally the case for consultants and senior medical officers.

SALHN indicated it would identify a strategy to improve the governance over medical officer timesheets. It advised this process would cover accuracy, approval and submission to SSSA and would be in line with existing DHA policy.

Accounts payable

Invoices not always matched to purchase orders

For the last two years we have reported that receipted goods or services ordered through purchase orders have not always been matched to invoices. This has resulted in the potential duplication of expenses and liabilities, as a liability has remained although the associated invoice may already have been paid. In June 2016 the outstanding liability for unmatched purchase orders waiting to be cleared was $2.5 million.

SALHN's response advised:

- the Oracle support team would be asked for a work instruction explaining how an unmatched invoice could be matched to a purchase order
- the Chief Finance Officer would communicate the requirement
- the Oracle training team would be asked to include this function in the user training program.

Inadequate review of delegations established in Oracle and Basware

Oracle and Basware allow the electronic approval of payments by SALHN. The approval is based on access and delegation profiles established in both systems. Our review of the delegations established in these systems found:

- there was no review of the delegation limits in Basware to ensure they agreed to SALHN's financial, contract and procurement authorisations. Our review identified inconsistencies with the delegations, including Basware users with financial authorisations who were not included in SALHN's delegations
- Oracle user access reviews did not require the delegations in the system to be reviewed.

Where established delegations in online systems are not adequately reviewed, or do not agree to the approved financial, contract and procurement authorisations, unauthorised or inappropriate payments could be made. Our 2015-16 review identified four transactions authorised by staff without the appropriate delegation.

In response SALHN advised:

- a quarterly Basware user access list would be requested from the Basware support team and the delegations reviewed against SALHN's finance, contract and procurement authorisations. This process would be documented in a procedure
- the current Oracle user access review would be expanded to include review of financial delegations, with all users covered over a full financial year.

Contracts were not established with significant suppliers

Our review of 2015-16 expenditure found significant expenditure with five suppliers that SALHN did not have a formal contract with. Negotiating a contract with major suppliers can provide opportunities to reduce prices or improve service delivery.

SALHN indicated it would seek support from SA Health's Procurement Supply Chain Management (PSCM) eBusiness team to generate a six-monthly report to analyse its goods and services spend. Assistance would be sought from the PSCM team for projects valued over $220 000.

Not all manually approved transactions were reviewed

Some accounts payable transactions bypass the electronic invoice approval controls in Basware. SSSA provides SA Health with a monthly report detailing all SALHN transactions processed by SSSA that were not electronically approved through Basware. We found that only a sample of transactions were reviewed each month.

Invalid or unauthorised payments processed by SSSA may not be detected where all transactions processed outside of Basware are not reviewed.

SALHN advised it had appointed a senior finance officer who would be responsible for reviewing these transactions.

No process to ensure agency nursing contracts are used for all agency nurses

A new panel contract arrangement for agency nursing staff was established in 2015-16 and applies to all LHNs. Our review of SALHN’s management of this contract found there was no formal process to monitor instances where nurses were sought from a supplier who was not on the panel contract. We understand the need to use panel contactors has been reinforced to responsible officers in the absence of a formal process.

Our review noted the use of non-panel suppliers totalling $154 866.

We understand there is a process to use other suppliers, outside of the panel contract, if a Request for Contract Exemption Form has been approved. SALHN could not provide forms to support the exceptions we identified.

SALHN advised it would request a quarterly report on the agency nursing spend and the use of non-panel suppliers would be raised in the Divisional Performance Meeting. SALHN also indicated it would communicate the process to follow if an exemption from the contract was required.

Management of goods on consignment is inconsistent

Last year our review of inventory items held on consignment across SALHN hospitals noted that management of these goods and checking of items invoiced was inconsistent between locations and sites, potentially resulting in incorrect payments. In 2015-16 there was still no process to consistently manage goods on consignment across SALHN.

In response SALHN advised it would develop a work instruction about the contractual, ordering and invoice reconciliation processes for consignment stock. It advised the work instruction would be communicated across SALHN and put on the SALHN intranet.

Hospital billing – Enterprise Patient Administration System (EPAS)

Our audit covered the major financial functions for hospital billing (including administered private practice). Currently EPAS is used for patient billing at the Repatriation General Hospital (RGH) and Noarlunga Hospital (NHS), and Homer is used for patient billing at the Flinders Medical Centre.

No review of EPAS user access

In 2014-15 we identified that an EPAS user access report, listing all EPAS users and their user profiles, had not been established. As a result, there had not been a review of user access since the implementation of EPAS at the RGH and NHS. We also noted there was no documented policy or procedure for the review of EPAS user access.

We found there was now a process to remove EPAS access for terminated and inactive users. A user access listing was established in 2015-16, however there was no regular review to assess that user profiles were appropriate for staff needs. This is consistent with the overall findings in the EPAS operational testing results that will be formally reported separately.

Without a regular review of EPAS user access, inappropriate access could result in inaccurate or unauthorised changes being made to data.

SALHN advised EPAS user access reviews should be managed centrally by eHealth systems and include a process for eHealth systems to send periodic user listings to the sites for review, along with a policy to ensure the listings were reviewed and actioned. SALHN stated it would follow up with the EPAS program about implementing the audit recommendation.

EPAS does not automatically generate charges for compensable and non-Medicare outpatients

In 2014-15 we reported that since EPAS was implemented, charges could not be generated for compensable and non-Medicare outpatients. At the time of the audit there was no data available about the number of affected outpatient visits and the amount of charges not invoiced could not be quantified. We understand private health funds and Medicare will reject claims after two years. Accordingly, there was the potential for these amounts not to be recovered, requiring them to be written off.

My Supplementary Report for the year ended 30 June 2015 ‘Enterprise Patient Administration System: June 2016’ reported that RGH Hospital Revenue Services was manually reviewing the Billing Discharge Report to identify any billable outpatients. If identifiable, a manual process was required to trigger EPAS to generate a charge for each outpatient.

The Billing Discharge Report became available in May 2016 and lists any patient activity occurring for Outpatients and Emergency. Hospital Billing run the report both daily and monthly (for the current month), to identify any transactions entered late and/or backdated where charges need to be manually triggered.

We noted there were still charges that had not been billed since EPAS went live. We were advised that a backlog project to review these unbilled transactions was underway.

In response SALHN advised it would continue to manually review the report to identify any billable outpatients. If identified, a manual process would trigger EPAS to generate charges for each outpatient.

EPAS billing validation reports not followed up

Billing teams run four different validation reports to identify billing exceptions each week. These reports list any billing orders in EPAS that have failed to generate, have not been released or which, for various reasons, have not changed in status from ‘unbilled’ to ‘billed’.

Last year we identified there was no follow-up to ensure the exceptions noted on the reports were actioned by the relevant hospital department and the validation reports were run for a set period, meaning exceptions not previously actioned would not be captured again in subsequent reports.

In 2015-16 we noted validation reports were now run from the date EPAS went live to the current week, so that all exceptions were included in the report. We also noted there were still held billing orders for EPAS sites, with some of these exceptions dating back to 2014. There was no escalation process for exceptions not actioned by the relevant hospital department.

Where billing order exceptions and data entry errors are not followed up and actioned promptly there may be delays in charges being raised or, in some cases, charges being missed, with a consequent financial loss for SALHN or private practice doctors.

SALHN responded it would implement a process to ensure validation reports were reviewed and actioned promptly and an escalation process would be developed.

EPAS private practice billing rejection report not fully actioned

The Universal Billing Rejection report is run each week and lists items rejected for payment by Medicare, and the reasons why the claim(s) were rejected. Last year we found the report had not been routinely actioned since EPAS was implemented. In 2015-16 we identified that the report was actioned for outpatients but was not finalised for inpatients.

Where timely action is not taken to address the Medicare rejections listed, there is a risk the transfer of cash will be delayed if claims require resubmission. Where the rejections are valid and resubmission is not possible, these amounts can result in an overstatement of receivables balances.

SALHN agreed with the finding and advised that inpatient rejections were a work in progress and that a process similar to that for outpatients would be implemented.

Hospital billing – Homer

Inadequate review of Homer user access

In 2015-16 SALHN was not provided with a Homer user access data extract for review. A central process involving both eHealth systems and LHNs was not yet implemented as we were advised in 2014-15.

Without a regular review of access to the Homer revenue system, inaccurate or unauthorised changes to data may occur. If the information required to perform an adequate review of user access is not available there is a risk that segregation of duties may not be managed appropriately.

SALHN responded that eHealth systems provided them with a list of Homer users for review in July 2016, that this list was reviewed and that eHealth systems was advised of users whose access needed to be removed.

Private practice audits

For the past two years we have raised that there was no specific SALHN process to ensure all private practice fees collected from the provision of private practice services outside of SALHN (off-site billing) were transferred to SALHN as required by the terms of the private practice memorandum of agreement.

During 2015-16 we were advised that audits of private practice specialists were not planned until 2016-17. Without this review, specialists could undertake and invoice for private practice outside of SALHN and not transfer all the private practice receipts to SALHN.

In response SALHN advised it would perform an audit of off-site billing to capture any off-site billing approved for specialists by SALHN where no regular rights of private practice earnings for off-site billing were received.

Interpretation and analysis of financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Staff benefit expenses	692	636
Supplies and services	255	251
Depreciation and amortisation	30	29
Other expenses	65	12
Total expenses	1 042	928
Income		
Revenue from fees and charges	61	66
Grants and contributions	7	8
Other income	9	19
Total income	77	93
Net cost of providing services	965	835
Revenues from SA Government	882	829
Net result	(83)	(6)
Other comprehensive income	(11)	7
Total comprehensive result for the year	(94)	1
Assets		
Current assets	57	66
Non-current assets	553	603
Total assets	610	669
Liabilities		
Current liabilities	140	128
Non-current liabilities	142	118
Total liabilities	282	246
Net assets	328	423

Statement of Comprehensive Income

Expenses

During 2015-16 total expenses increased by $114 million (12%) to $1 billion.

Staff benefit expenses

Staff benefit expenses of $692 million represent 66% of SALHN's total expenses. These costs have increased by $56 million in 2015-16 due to:

- wage rises associated with enterprise agreements and the transfer of staff from DHA. Salaries and wages rose 5.7% to $538 million ($509 million)
- a $21.4 million increase in long service leave liabilities, mainly due to a reduction in the discount rate used in 2016 (1.95%) from that used in 2015 (2.85%) and an increase in the salary inflation rate from 3% to 4%

- workers compensation liabilities increased by $6.9 million predominantly due to a change in the approach to allocating the provision for seriously injured workers. Costs for seriously injured workers are now allocated directly to the employing entity.

The number of staff whose remuneration received/receivable exceeded the base executive level ($145 000) totalled 533 (523), comprising 499 medical, 22 nursing, five non-medical and seven executive staff. Total remuneration for these staff was $144 million ($138 million).

Supplies and services expenses

Supplies and services expenses increased by $4 million (2%) to $255 million in 2015-16. Significant components of supplies and services were:

- medical surgical and laboratory expenses, which increased by $4.3 million (6%) to $74.4 million
- drug supplies, which increased by $2.1 million (13%) to $19 million
- fee-for-service, which increased by $2.5 million (9%) to $31.7 million
- repairs and maintenance, which decreased by $3.7 million (22%) to $12.9 million
- contractors – agency staff, which remained stable at $15.1 million.

Other expenses

Other expenses increased by $53 million as a result of the impairment of the RGH buildings and site improvements of $47.3 million, together with an increase in assets transferred to DHA of $10.5 million. This was offset by a decrease in the bad and doubtful debts expense, due to a change in the provision for doubtful debts estimate, and a decrease in other expenses.

Revenue

SALHN is dependent on revenue from the Commonwealth and SA Governments.

Revenues from the SA Government have increased by $52.4 million (6%) in 2015-16 to $882 million. This was mainly due to a $40 million increase in capital funding, mostly for the Flinders Medical Centre Transforming Health capital works.

Revenue from fees and charges has decreased by $5.3 million (8%) mainly due to a reduction in the recoveries ($4 million) as a result of the expiry of the Adelaide Institute for Sleep Health agreement recoveries and the transfer of some Aged Care Assessment Team members to other LHNs.

Other income has decreased by $10 million mainly due to the once-off impacts in 2014-15 of a $5.8 million reversal of an asset revaluation decrement processed through income and the initial recognition of an investment in another entity of $2.1 million.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 90% of SALHN’s total assets. The carrying value of property, plant and equipment decreased by $49 million to $546 million. This decrease is due mainly to:

- the RGH buildings and site improvements impairment of $47.3 million and $10.6 million of associated land revaluation decrements

- depreciation and amortisation expense of $29.5 million

- disposal of assets totalling $11.6 million including the transfer of two properties to DHA
- offset by additions of $49.6 million.

Liabilities

Current liabilities increased by $12 million to $140 million during the year and exceeded current assets by $83 million at balance date. SALHN works with DHA to ensure sufficient funding is provided to SALHN to meet expected cash flows for its administration and program delivery. Cash and cash equivalents of $31.3 million are sufficient to meet current payables of $26.9 million. Staff benefits are the largest element of current liabilities, totalling $103 million at 30 June 2016. Total liabilities increased by $36 million to $282 million, mainly due to an increase in staff benefits liabilities for long service leave and the workers compensation provision.

Staff liabilities make up $250.1 million of SALHN's total liabilities at 30 June 2016, comprising:

- staff benefits liabilities and related on-costs, $225.8 million ($194.5 million)
- provision for workers compensation, $24.3 million ($17.4 million).

The movement in staff liabilities mainly relates to increases in salary rates, a decrease in the discount rates applied and an increase in the salary inflation rates used to calculate outstanding liabilities at 30 June 2016.

Women's and Children's Health Network Incorporated (WCHN)

Financial statistics	Total expenses: Net cost of providing services: Revenues from SA Government: Employee benefits liability and related on-costs: Workers compensation liability: Number of FTEs:	$439 million $390 million $377 million $99 million $5 million 2561
Significant events and transactions	The Chief Executive, Department for Health and Ageing approved the transfer of operational employees within the Department's Workforce division to local health networks including WCHN.	
Financial statement opinion	**Unmodified**	
Financial controls opinion	**Modified** Key issues: — Insufficient review of payroll information — Human resources delegations not documented — Changes to patient class codes not independently reviewed — Revenue system access rights not reviewed	

Functional responsibility

WCHN is an incorporated hospital established under the *Health Care Act 2008*.

The functions of WCHN include the provision of health services to women and children. The principal unit within WCHN is the Women's and Children's Hospital.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Ageing (DHA) assumes direct responsibility for administering incorporated hospitals. This includes appointing the Chief Executive Officer of WCHN. The Chief Executive, DHA cannot give a direction concerning a person's clinical treatment.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

Financial services for WCHN are provided through a mix of:

- central services provided by the DHA through an integrated finance service model
- finance services located within the WCHN
- services provided by Shared Services SA (SSSA).

Consequently, the audit included review of new and legacy systems and completing audit work at DHA'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.

During 2015-16 specific areas of audit attention included:

- payroll
- accounts payable
- patient revenue including accounts receivable
- property, plant and equipment
- cash
- general ledger
- medical officers' professional development allowances
- management of agency nursing contracts.

Review of the financial management compliance program was addressed through the audit of DHA.

Internal audit activities were also reviewed to assess the risks of material misstatement in the financial report and to inform the design of audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Women's and Children's Health Network Incorporated in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Women's and Children's Health Network Incorporated have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer WCHN and copied to the Chief Executive, DHA. SSSA matters were reported to the Chief Executive, Department of the Premier and Cabinet.

A summary of our findings for centralised processes performed by DHA and SSSA can be found under the heading 'Communication of audit matters' in the section of this Report titled 'Department for Health and Ageing'.

Major matters raised with WCHN and the related responses are detailed below.

Payroll

Insufficient review of payroll information

We found WCHN supervisors or team leaders did not always review payroll reports to ensure the accuracy and completeness of employee payments. Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments. We recommended management implement a process to ensure supervisors regularly review employee-level pay information.

WCHN acknowledged the inconsistency in bona fide reporting. It responded that DHA is considering implementing a standard bona fide system across all local health networks (LHNs) as part of the implementation of a new CHRIS 21 payroll system before the end of 2016-17.

Human resources delegations not documented

Our review of payroll considered controls that ensure transactions are only approved by an authorised delegate. We found that human resources delegations were not formally documented.

WCHN acknowledged these concerns and indicated it had drafted a revised human resources delegations document for endorsement and implementation by the Chief Executive Officer.

Supplies and services expenditure

Invoices received are not always matched to purchase orders

Our review of payments noted instances where invoices were not matched to the purchase order prior to payment. 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. In addition, the associated expenses recorded may be overstated.

WCHN advised its monthly review of goods received but not yet invoiced greater than 90 days old mitigated the potential for duplicated records of expenses. It also advised it would engage with DHA's Procurement and Supply Chain Management division to identify measures to address the concern and assist in providing targeted training and education to its staff.

Patient billing

Changes to patient class codes not independently reviewed

How or whether a patient is charged depends on their class code, for example as a private patient, public patient or compensable patient. Our review of patient billing considered WCHN's processes for ensuring the correct class code is recorded on the patient billing system, Homer.

Admission officers (ward clerks) are primarily responsible for allocating an account class code to each patient in Homer. We found that revenue officers are subsequently able to change the account class codes and these changes are not independently reviewed. This increases the risk that an inappropriate change will not be detected.

WCHN accepted our recommendation to independently review all changes in class codes.

Changes to fees and charges rates table not reviewed independently from the revenue team

Our review of patient billing considered WCHN's processes to ensure patients are charged according to approved fee schedules. We found that adjustments made to the fees and charges masterfile were processed and reviewed by officers from the patient billing team. We recommended that an officer independent from the patient billing function either process or review all changes to fees and charges rates in the masterfile.

WCHN accepted the recommendation and advised that an independent review outside the patient billing team would occur.

Revenue system access rights not reviewed

Our review of patient billing found no regular review of user access to the Homer revenue system.

Without a regular review of user access there is a risk that segregation of duties may not be managed appropriately, increasing the risk of inaccurate or unauthorised changes to revenue transactions.

WCHN advised that the Chief Finance Officer will review a monthly report of finance user access in Homer.

Interpretation and analysis of financial report

Highlights of the financial report	2016 $'million	2015 $'million
Expenses		
Employee benefit expenses	327	308
Supplies and services	104	105
Depreciation and amortisation expense	7	7
Other expenses	1	2
Total expenses	439	422
Income		
Revenue from fees and charges	35	37
Grants and contributions	7	6
Other income	8	5
Total income	50	48
Net cost of providing services	389	374
Revenues from SA Government	377	380
Net result	(12)	6
Other comprehensive income	-	1
Total comprehensive result for the year	(12)	7
Assets		
Current assets	32	31
Non-current assets	255	257
Total assets	287	288
Liabilities		
Current liabilities	58	55
Non-current liabilities	59	50
Total liabilities	117	105
Net assets	170	183

Statement of Comprehensive Income

Expenses

During 2015-16 total expenses increased by $17 million to $439 million (4%). This was due mainly to a $19 million (6%) increase in employee benefit expenses.

Employee benefit expenses

Employee benefit expenses, $327 million, represent 74% of WCHN's total expenses. The number of employees whose remuneration received/receivable exceeded the base executive level ($145 000) totalled 221 (231), comprising 201 medical, nine nursing, five non-medical and six executive employees. Total remuneration for these employees was $63 million ($62 million).

Supplies and services expenses

Supplies and services expenses remained relatively constant at $104 million. Significant components of supplies and services were:

- medical, surgical and laboratory supplies – $22 million ($20 million)
- drug supplies – $9 million ($8 million)
- contractors – agency staff – $9 million ($8 million)
- housekeeping – $10 million ($11 million).

Revenues

Revenues from SA Government

WCHN is principally funded by DHA. In 2015-16, funding of $377 million comprised recurrent funding of $375 million and capital funding of $2 million.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 83% of WCHN's total assets. The carrying value of property, plant and equipment decreased by $3 million to $238 million. This decrease is due mainly to $7 million of depreciation and amortisation expense, partly offset by additions of $4 million.

Liabilities

Current liabilities increased by $3 million to $58 million during the year and exceeded current assets of $32 million at balance date. Cash and cash equivalents of $23 million are sufficient to meet current payables of $15 million.

Employee benefits are the largest element of current liabilities, totalling $40 million at 30 June 2016. They mainly comprise leave entitlements expected to be taken within 12 months.

Total liabilities increased by $12 million to $117 million, mainly due to an increase in employee benefits liabilities for long service leave.

Employee liabilities make up $104 million of WCHN's total liabilities at 30 June 2016, comprising:

- employee benefits liabilities and related on-costs, $99 million ($91 million)
- provision for workers compensation, $5 million ($5 million).

Contributing to the increase in employee liabilities was a decrease in the discount rates applied in calculating outstanding long service leave liabilities at 30 June 2016.

Health Services Charitable Gifts Board (HSCGB)

Financial statistics	Total income:	$13 million
	Total assets:	$117 million
	Total trust assets:	$15 million

Significant events and transactions

— During the year the HSCGB disposed of an investment property for proceeds of $4.1 million. A loss of $50 000 was recognised in the Statement of Comprehensive Income.

— The Minister for Health advised the HSCGB in August 2016 that Cabinet had approved the transfer of the role of Trustee of the South Australian Health and Medical Research Institute Charitable Health Trust from the HSCGB to a new trustee at the South Australian Health and Medical Research Institute.

Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Functional responsibility

The HSCGB is established under the *Health Services Charitable Gifts Act 2011* (the HSCG Act). The HSCG Act was proclaimed on 30 June 2011 for commencement on 1 July 2011.

The functions of the HSCGB are to prudently manage the charitable assets vested in the HSCGB and apply these assets for the benefit of public health entities or otherwise in accordance with the HSCG Act. Note 1 of the financial report provides further explanation regarding the HSCGB's functions and responsibilities. In addition, note 18 of the financial report discloses details of funds held on behalf of public health entities at 30 June 2016.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

During 2015-16 specific areas of audit attention included:

- gifts to public health entities vesting in the HSCGB
- investment revenues
- rental revenue
- trust income

- administrative expenses and payables
- employee benefits and liabilities
- funds distributed to public health entities and prescribed bodies
- cash and cash equivalents
- investments and investment properties
- financial management compliance programs
- governance, accountability and reporting.

Audit findings and comments

Communication of audit matters

The audit did not identify any notable matters requiring formal communication to the HSCGB.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Income		
Gifts to public health entities vesting in the HSCGB	7	12
Investment revenue	3	9
Rental and other revenue	3	3
Total income	13	24
Expenses		
Funds distributed to public health entities	7	10
Other expenses	1	1
Total expenses	8	11
Other comprehensive income	-	(6)
Total comprehensive result	5	7
Net cash provided by (used in) operating activities	3	8
Net cash provided by (used in) investing activities	(3)	(30)
Assets		
Current assets	10	7
Non-current assets	107	106
Total assets	117	113
Liabilities		
Current liabilities	-	1
Total liabilities	-	1
Total equity	117	112

Statement of Comprehensive Income

The HSCGB recorded a net profit of $5 million ($13 million) and a total comprehensive result of $5 million ($7 million) during 2015-16.

The decrease in the net profit reflects a decrease in gifts to public health entities vesting in the HSCGB, down $5 million to $7 million. Gift revenue varies from year to year depending on the nature and value of amounts provided by third parties. Funds distributed to health units decreased by $3 million to $7 million and are impacted by total gifts, funds held and approved claims for application of the funds.

The net profit also reflects a decrease in investment income during 2015-16 of $6 million to $3 million. This is mainly due to the HSCGB realising $7 million from the gain on the disposal of shares in listed companies and investing funds in unlisted unit trusts in 2014-15.

Statement of Financial Position

Assets and liabilities

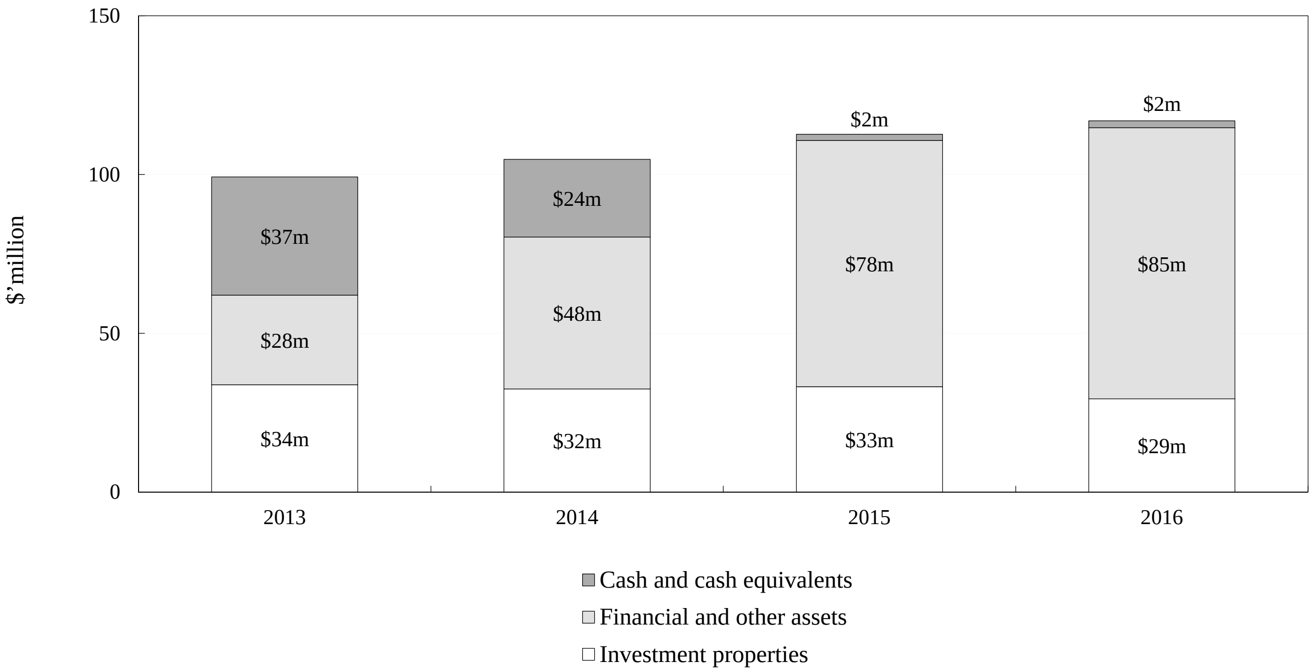
The HSCGB's main assets consist of units in unlisted trusts totalling $70 million ($61 million), investment properties of $29 million ($33 million), a long-term loan of $15 million ($15 million) and short-term deposits of $2 million ($2 million). There are no material liabilities recognised by the HSCGB.

During 2014-15, as part of a revised investment strategy, the HSCGB invested in unlisted unit trusts managed by the Superannuation Funds Management Corporation of South Australia. Previously the HSCGB self-managed cash and cash equivalents, shares in listed companies and term investments with various third parties. As part of this investment decision, shares in listed companies totalling $27 million and short-term deposits of less than three months of $24 million were redeemed to invest in unit based funds.

During 2013-14 the HSCGB provided a loan of $15 million to the South Australian Health and Medical Research Institute to establish a cyclotron facility in South Australia. The loan is for a period of 15 years and interest only is repayable for the first five years (refer note 11 of the financial report).

The HSCGB continues to hold significant investment properties for return. In 2015-16 the HSCGB disposed of a Greenhill Road investment property for $4.1 million. This was offset by a carrying value of $4.1 million, with a $50 000 loss recognised.

A structural analysis of assets and funds held for the four years to 2016 is shown in the chart below.



Over the four years net assets have increased by $18 million to $117 million.

In addition to these assets, the HSCGB as trustee holds $15 million in other trust funds.

Statement of Cash Flows

During 2015-16, cash and cash equivalents remained stable at $2 million ($2 million).

In 2014-15, as mentioned under the heading ‘Assets and liabilities’ above, the HSCGB redeemed significant shares and short-term deposits, which were reinvested in unit trusts through the Superannuation Funds Management Corporation of South Australia. In 2014-15 there was a net decrease in cash due to the purchase of investments totalling $54 million, offset by the proceeds from the sale of shares and short-term investments ($24 million) and net cash provided by operating activities ($8 million).

Further commentary on operations

Section 21 of the HSCG Act enables the HSCGB to act as a trustee or co-trustee. Financial reports for the trustee arrangements are included at the end of the HSCGB’s financial report.

Ray and Shirl Norman Cancer Research Trust

The HSCGB assumed the role as sole trustee of the Ray and Shirl Norman Cancer Research Trust in 2011. All income derived from this Trust is to be used for preventing and curing cancer.

The balance of the trust funds as at 30 June 2016 was $6.6 million ($6.5 million).

South Australian Health and Medical Research Institute Charitable Health Trust (the Trust)

During 2013-14 the HSCGB was appointed trustee of the Trust. The Trust was established by ministerial direction and an initial sum was provided to the HSCGB by the Minister for Health. The funds are to be used for health and medical research and infrastructure.

The balance of the trust funds at 30 June 2016 was $8.4 million ($12.3 million). In accordance with a spending policy approved by the HSCGB, the approximate income of the fund together with an agreed capital amount totalling $4 million were paid from the Trust to the South Australian Health and Medical Research Institute during 2015-16 (refer note 5 of the Trust’s financial report).

On 3 August 2016 the Minister for Health advised the HSCGB that Cabinet had approved the transfer of the Trust to a new trustee at the South Australian Health and Medical Research Institute.

Dorothy E Brown Charitable Trust

The Dorothy E Brown Charitable Trust was established by Deed Poll during 2014-15 as the result of money left in a will for health-related treatment. The Supreme Court determined that the residual money in this estate, previously held by the Department for Health and Ageing, be managed by the HSCGB as trustee.

The money was paid to the HSCGB in December 2014. The balance of the trust funds at 30 June 2016 was $300 000.

HomeStart Finance (HomeStart)

Financial statistics	Loans and advances:	$1.8 billion
	Short-term borrowings:	$241 million
	Long-term borrowings:	$1.5 billion
	Profit before income tax:	$17 million
	Dividends paid:	$27.1 million
	Number of FTEs:	93.6
	Number of loans outstanding at 30 June:	12 957

Significant events and transactions

— An interim dividend of $20 million was approved in October 2015, and paid in June 2016, from retained earnings, following a recommendation by the HomeStart Board and approval by the Minister for Housing and Urban Development and the Treasurer. This dividend represents a return of capital to the SA Government after an assessment of HomeStart's ongoing capital requirements.

— A further dividend of $7.1 million, relating to HomeStart's operating profit for the year, was paid in June 2016 following a recommendation from the Board and approval by the Minister and Treasurer.

Financial statement opinion — **Unmodified**

Financial controls opinion — **Unmodified**

Functional responsibility

HomeStart is a statutory corporation established by Regulation under the *Urban Renewal Act 1995.* It has a Board of Management appointed by the Minister for Housing and Urban Development 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

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

During 2015-16 specific areas of audit attention included:

- lending, including arrears management and allowance for impairment
- investments
- purchases and payments
- payroll
- treasury
- regulatory framework
- general IT controls.

The audit considered the work of HomeStart's internal auditors. Internal audit activities were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Communication of audit matters

Matters noted during the course of the audit were outlined in a management letter to the Chair of the HomeStart Audit Committee.

The matters raised were opportunities to enhance the management and review of user access to application systems.

HomeStart advised that it would update procedures and processes to ensure appropriate controls were in place.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Interest income	98	106
Interest expense	(41)	(50)
Net interest income	57	56
Other income	14	13
Other expenses	(27)	(26)
Government guarantee fee	(27)	(27)
Profit (Loss) before income tax equivalents	17	16
Income tax equivalents expense	(5)	(5)
Profit (Loss) after income tax equivalents expense	12	11

	2016 $'million	2015 $'million
Other comprehensive income	(1)	-
Total comprehensive result	11	11
Assets		
Loans and advances	1 768	1 734
Other assets	125	126
Total assets	1 893	1 860
Liabilities		
Borrowings	1 713	1 666
Other liabilities	23	21
Total liabilities	1 736	1 687
Total equity	157	173

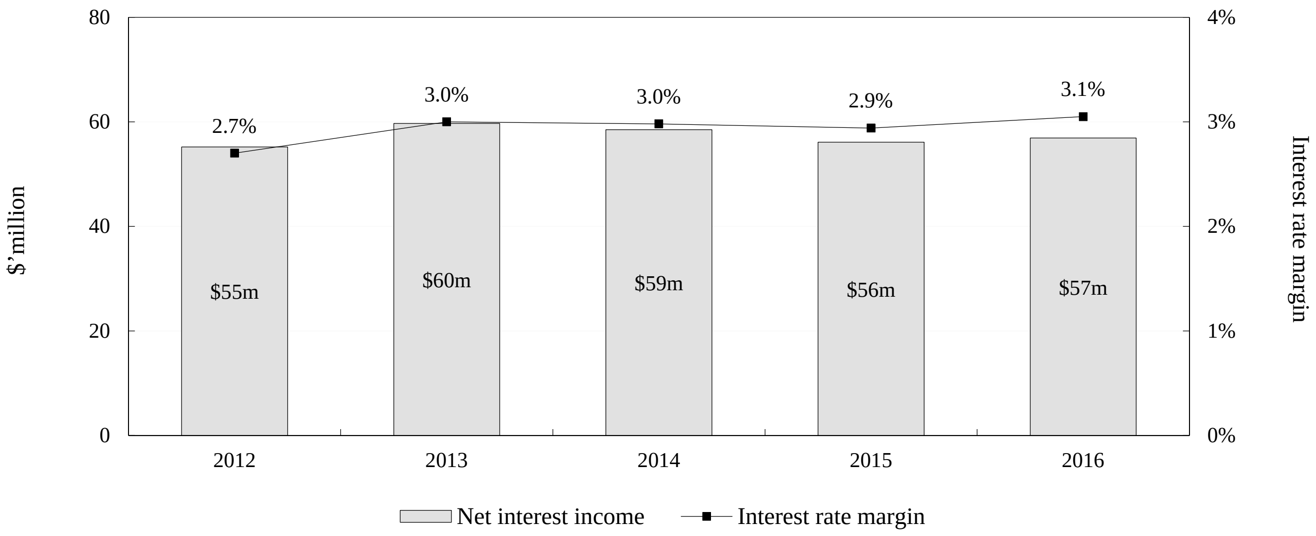
Statement Comprehensive Income

Profit for the year

Profit before income tax equivalents increased by $1.4 million to $17 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 (1.6% for 2016).



Net interest income increased by $750 000 (1%) to $56.9 million. The increase mainly reflects a 1.9% increase in net loans and advances during the year.

The chart shows the interest rate margin between loans and cost of funds has increased steadily by a total of 0.4% between 2012 and 2016.

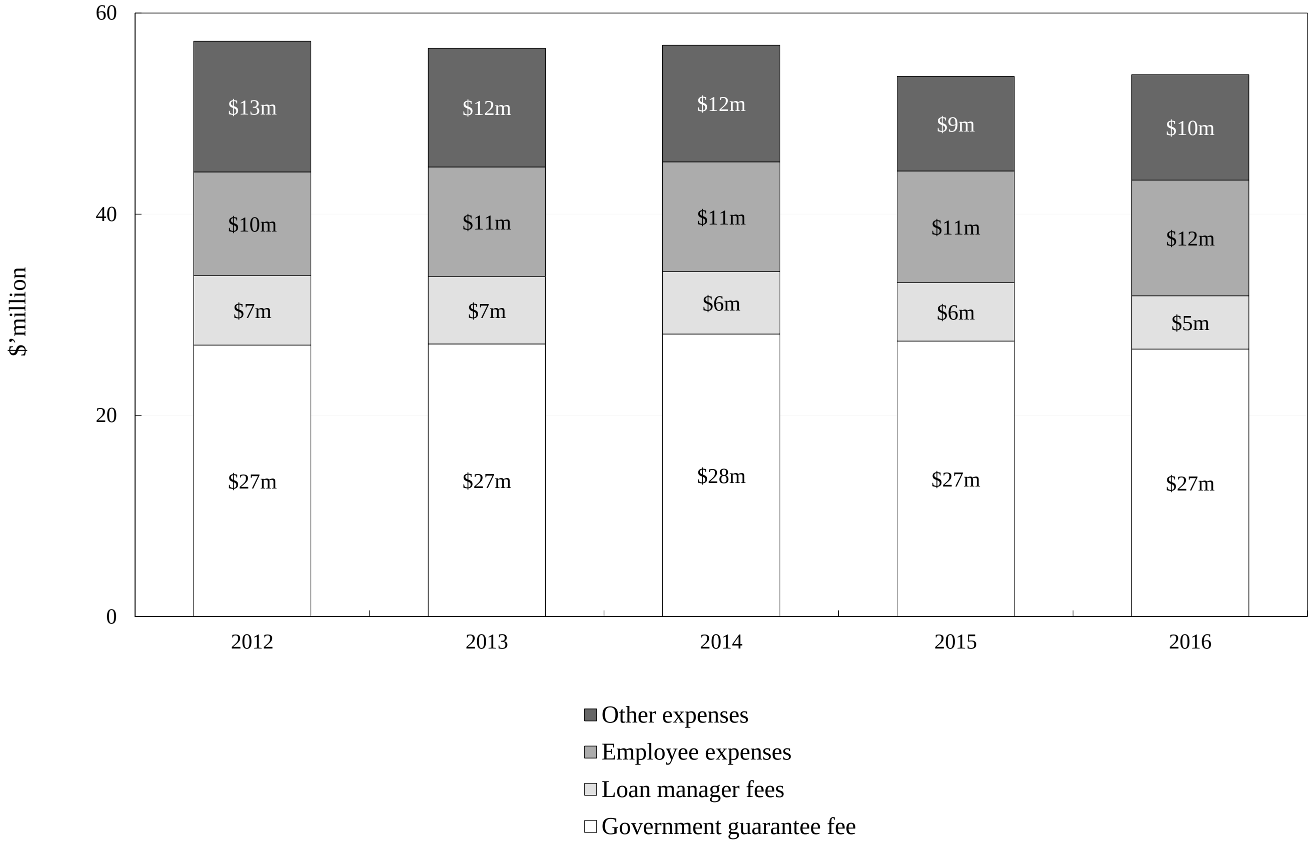
Other income

Other income increased by $725 000 to $13.9 million. This increase was mainly due to a larger increase in the unrealised gain in the fair value of breakthrough loans in 2016, $1.75 million compared to $565 000 in 2015. This $1.2 million increase reflects the higher growth in general housing values during 2016. Further analysis on breakthrough loans is provided below.

The increase is partially offset by a decreased return from investments in term deposits and managed funds, reflecting lower interest rates and lower investment market returns.

Expenses other than interest

The movement in expenses other than interest over the last five years is illustrated in the following chart.



Expenses have declined marginally since 2012, with a slight increase in 2016. More significant movements in 2016 were:

- loan manager fees decreased by $564 000 as a higher percentage of loans were written internally by HomeStart rather than by external loan managers
- other expenses increased by $1 million due to:
  - an increase of $943 000 in bad and impaired loans expense
  - an increase of $454 000 in other expenses due to increased spending on IT and marketing
  - a decrease in depreciation and amortisation expense of $366 000 due to the effect of additional depreciation on leasehold improvements from HomeStart's previous office in 2015.

Further analysis of the bad and impaired loans expense is provided below.

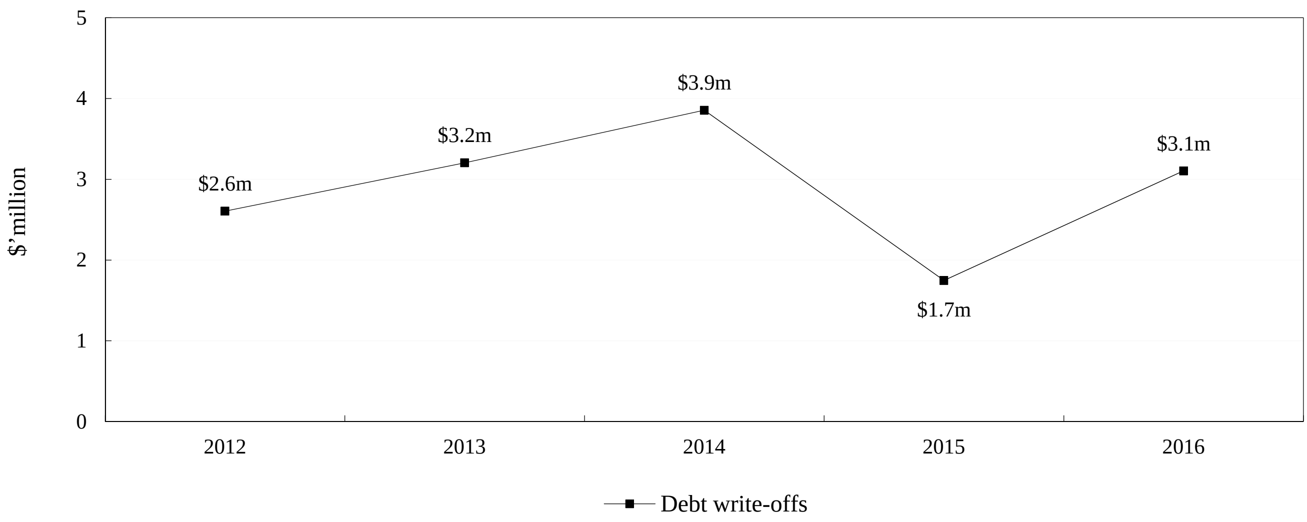
In 2016 the government guarantee fee rate remained at 1.6%, with the expense decreasing by $837 000 due to a reduction in average borrowings. The $1 million increase in the guarantee fee shown in the chart above for 2014 was a result of an increase in the fee rate to 1.6% in that year.

Bad and impaired loans expense

The bad and impaired loans expense for the year was $2.4 million ($1.5 million). The increase in this expense is explained by:

- a $453 000 increase in the bad debts written off through the income statement
- a $490 000 increase in the general provision, discussed further below, as a result of an increase in the overall loan portfolio on which the provision is calculated.

The total provision for impairment as at 30 June 2016 was $17.3 million ($18 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 shows that for the years 2012 to 2014 there was an increasing level of actual bad debts, reflecting the softer property market and increasing loan portfolio. The reduction in bad and impaired loans expense and bad debts written off in 2015 was partly attributable to a change in the approach to recognising unearned income for impaired loans, ceasing to accrue interest as income for loans already in arrears. Higher total debt write-offs in 2016 were mainly attributable to a $904 000 increase, to $2.3 million ($1.4 million), in the write-off of loans previously identified in the specific provision for impaired loans.

The higher level of write-offs is attributable to:

- a number of high value losses on long-held regional properties that were sold in 2016
- an increase in costs from the mid-north regional areas where there was an overall increase in mortgagees in possession, combined with a drop in property values, resulting in larger losses.

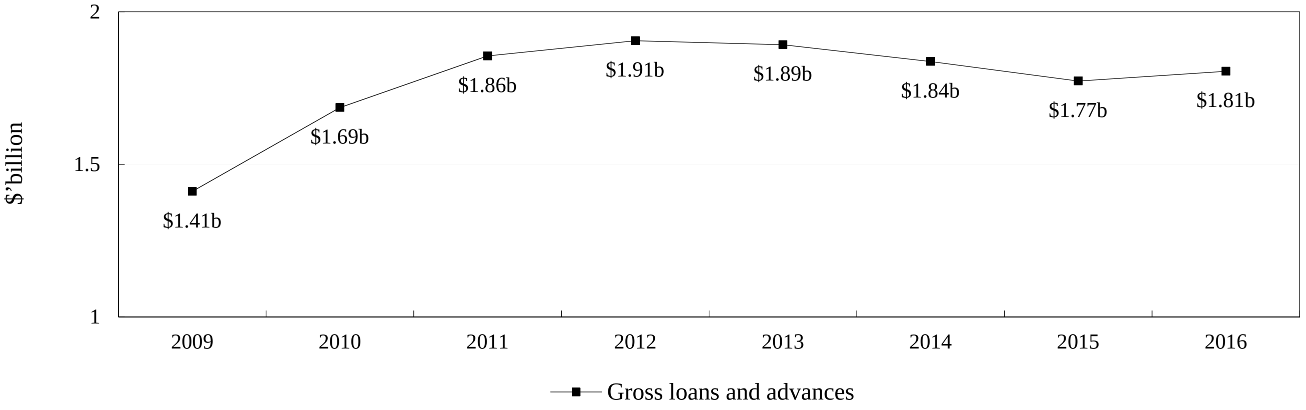
The change in provisioning is discussed further under the heading 'Statement of Financial Position' below.

Statement of Financial Position

Loans and advances

As at 30 June 2016 gross loans and advances amounted to $1.8 billion, an increase of $32 million from the previous year. This increase was mainly a result of an $84.3 million increase in graduate loans, partially offset by decreasing balances for other loan products. Graduate loans now total $303 million.

The following chart shows the value of gross loans and advances over the past eight years.



HomeStart had a significant increase in the value of lending over the period to 2012, reflecting a range of factors including:

- approval from the SA Government for HomeStart to grow its asset base
- market acceptance of new products
- the increase in the average value of loans settled in line with the general increase in property values
- additional first home owner incentive grants from the Commonwealth and SA Governments from 2009 to 2011
- a reduction in the number of non-bank lenders and tighter lending practices by other financial institutions.

Between 2012 and 2015 gross loans reduced, reflecting higher levels of loan discharges. This was driven by refinancing as a result of lower market interest rates from other lenders and higher loan repayments and discharges due to lower interest rates allowing faster repayment of outstanding principal amounts.

The increase in gross loans again in 2016 is primarily the result of the growth in graduate loans discussed above. HomeStart changed the lending criteria for these loans in 2016, providing for higher maximum loan sizes and revised eligibility criteria, meaning it is easier to meet the employment requirements.

Breakthrough loans

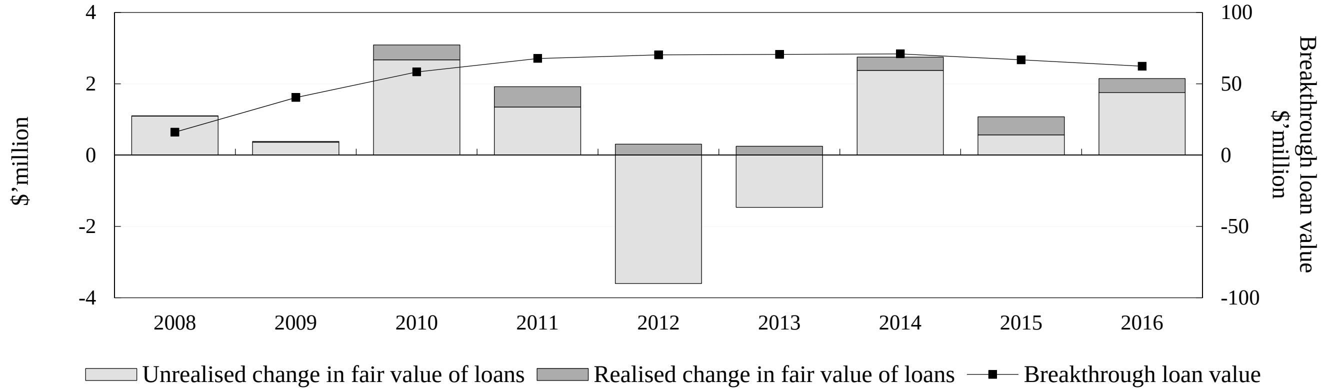
HomeStart offers a breakthrough loan facility to customers, which has two components:

- a standard loan component with standard interest rates and repayments. This portion is included within normal loans and advances
- a shared appreciation component where the loan is repaid along with a percentage of the increase in property value when the property is sold (refer note 2.10.4.1 of the financial report).

The value of the shared appreciation component of breakthrough loans was $62.4 million ($66.7 million) at 30 June 2016. HomeStart recognises this component at market value in the Statement of Financial Position based on valuations of the properties concerned (refer note 14 of the financial report). Refer to further commentary under the heading 'Investments' below.

In 2016 a net $2.1 million gain ($1.1 million gain) was recognised for this product, comprising a $1.8 million gain ($565 000 gain) recognised from revaluation and a $395 000 gain ($507 000 gain) recognised on discharge of breakthrough loans. The movement in the value of the shared appreciation component, and the impact of these loans on the operating result, follows general property market movements for the areas in which the properties are located.

The chart below shows the impact of the breakthrough loans on the operating result of HomeStart and the total value of loans since 2008.



HomeStart has specific risk management strategies in place for breakthrough loans, recognising the impact that the shared appreciation component has on the operating result. One of those strategies is placing a cap on the total value of breakthrough loans that will be written or outstanding at any given time.

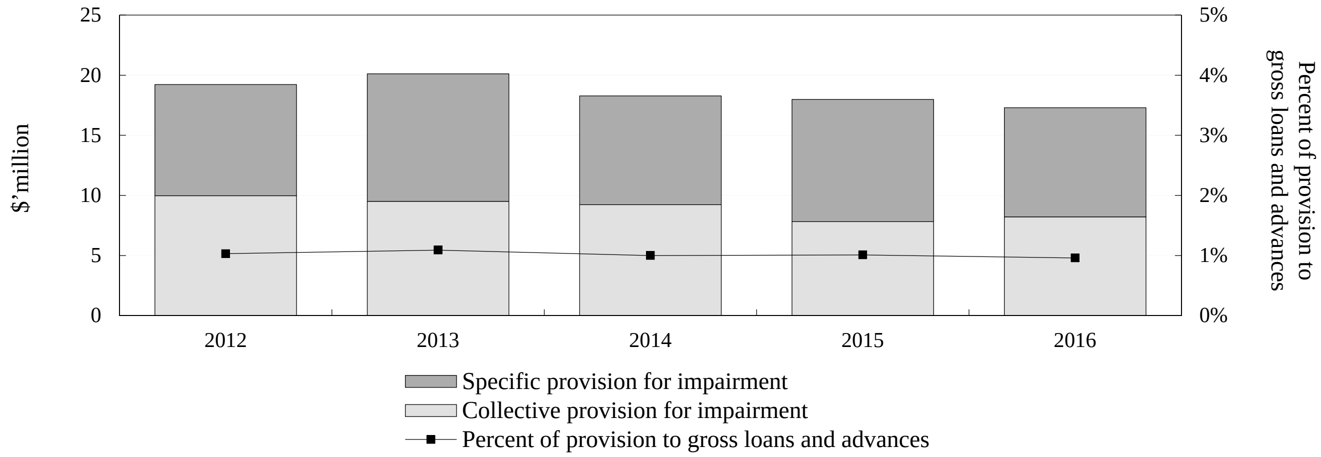
Provisions for impairment

HomeStart assesses whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired at each balance date. Note 2.10.3 of the financial report details HomeStart's policies for determining the provision for impairment.

The total provision for impairment has decreased by $701 000 to $17.3 million. The total provision for impairment has two components:

- the specific provision – representing loans and advances that are individually assessed as impaired. As at 30 June 2016 this was $9.1 million ($10.2 million)
- the collective provision – this arises where HomeStart determines that no objective evidence of impairment exists for an individually assessed financial asset. As at 30 June 2016 this was $8.2 million ($7.8 million). To calculate this provision, assets are included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

The following chart shows the level of the total provisions and their composition over the past five years.



The chart shows the overall level of provisioning has remained at a similar proportional level to gross loans and advances across the years.

In 2016, while the overall provision has only reduced marginally, the proportions have changed, with the specific provision decreasing and the collective provision increasing.

The decrease in the specific provision was mainly a result of the $904 000 write-off during the year. The average loan balance in arrears has also decreased to $62 000 from $177 000 last year.

The increase in the collective provision, which uses the loss rate approach as a percentage of loans, was a result of the loan portfolio increasing overall.

General reserve for credit losses

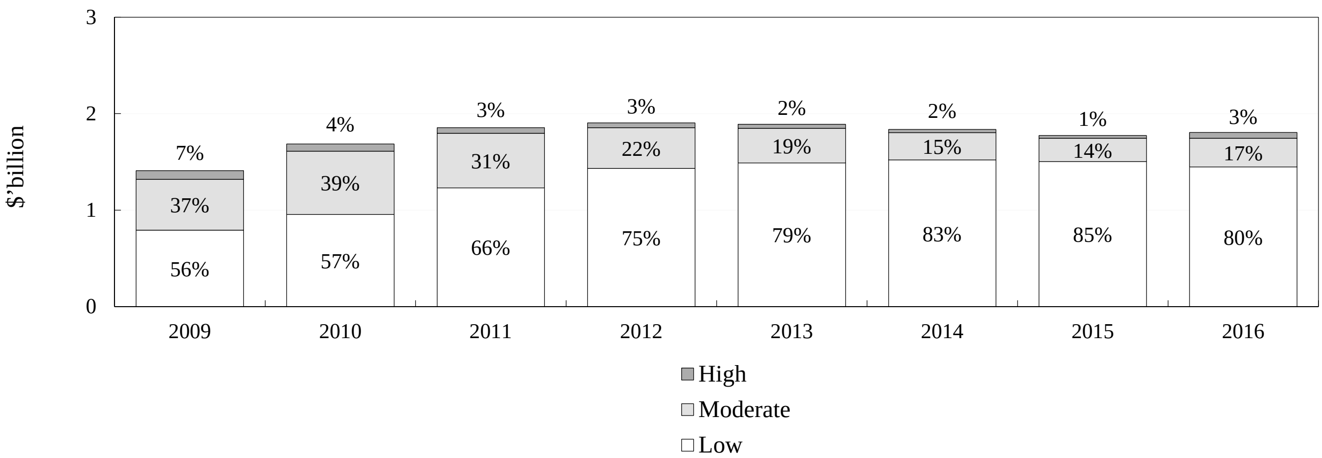
The general reserve for credit losses is used to set aside additional funds in excess of the specific and collective provisions determined under AASB 139 'Financial Instruments: Recognition and Measurement'. Maintaining this reserve is consistent with the Australian Prudential Regulation Authority's prudential risk management requirement to retain sufficient retained earnings for capital adequacy purposes.

The balance of the reserve at 30 June 2016 was $8 million ($7.5 million).

The combined provisions for impairment and general reserve for credit losses take the total amount set aside for potential losses to $25.3 million ($25.5 million), representing 1.4% (1.4%) of gross loans and advances.

Loan quality

HomeStart has assessed the gross value of loans and advances to customers by credit risk grading (refer note 33.2.1(d) of the financial report). The following chart summarises that assessment.



The chart shows the proportion of high and moderate credit risk category loans has reduced over time, with the majority of loans written now assessed as low credit risk. There has been a small increase in high credit risk loans in 2016. This increase was mainly the result of changes to credit risk assessment processes which meant more loans were classified as high credit risk.

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 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 mortgage insurance because HomeStart self-insures losses incurred.

As outlined in note 33.2.1(b) of the financial report, HomeStart has some geographic areas where there is a greater concentration of its loans. 33% of loans by value are secured against properties in the City of Playford and the City of Salisbury. A further 24% 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 predominantly to individual owner-occupiers, HomeStart 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 associated 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.

As discussed above, HomeStart seeks to manage the risks associated with loan quality by maintaining a specific provision, a general provision and a general reserve for credit losses.

HomeStart also seeks to maintain appropriate capital reserves to cover any significant losses arising from loan defaults.

Investments

HomeStart's financial investments amounted to $114 million ($117 million).

The shared appreciation component of the breakthrough loan product amounted to $62.4 million ($66.7 million) or 55% (57%) of total financial investments. The discharge of a breakthrough loan is at the discretion of the property owner through refinancing or sale. Consequently, HomeStart cannot liquidate these investments to meet any future potential funding requirements.

The remaining financial investments include term deposits, $37 million ($28.5 million), bonds, $10.8 million ($12 million) and an investment in the South Australian Government Financing Authority (SAFA) cash management fund of $3.6 million ($2.5 million).

Liabilities

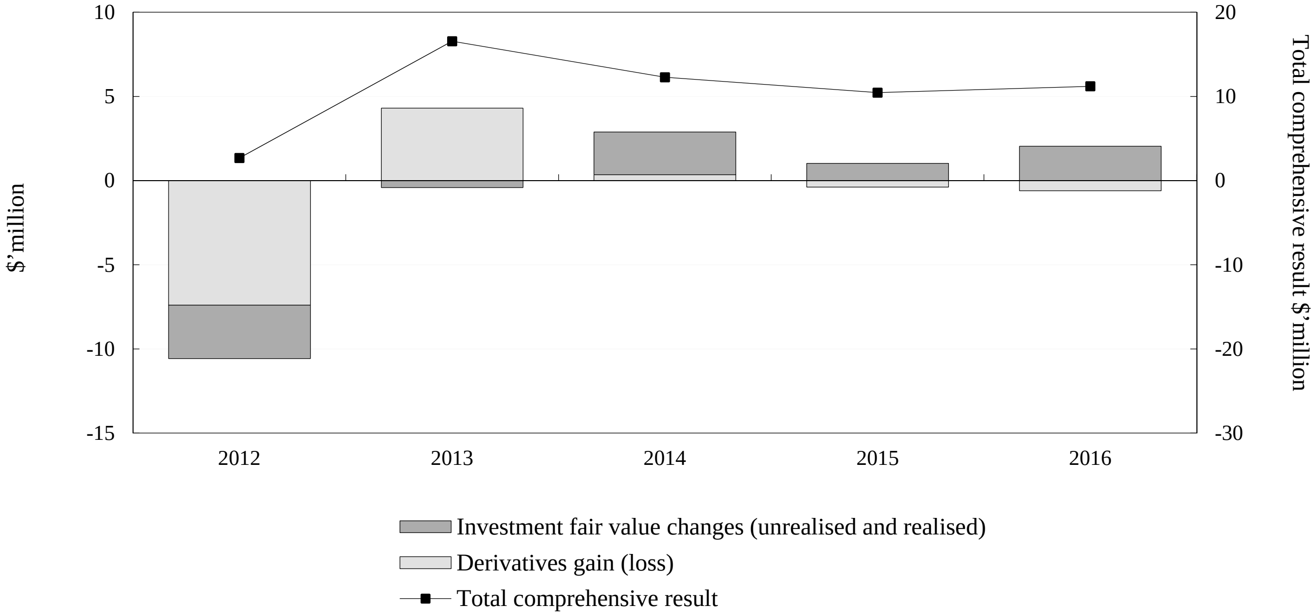
Borrowings at 30 June 2016 were $1.7 billion ($1.7 billion) and represent 99% (99%) of HomeStart's liabilities. HomeStart is required to use SAFA as its sole counterparty for all funding transactions. At 30 June 2016, HomeStart had a current approved borrowing limit of $2.1 billion ($2.1 billion). Note 33.3 of the financial report provides information on HomeStart's exposure to liquidity risk.

Fair value and comprehensive result

HomeStart recognises derivatives and certain investments, including the breakthrough loan product, at fair value. The changes in market value of these items can significantly impact HomeStart's Statement of Financial Position and Statement of Comprehensive Income.

Derivatives are used to hedge changes in interest rate risks. Whilst 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 investments at fair value are recorded in other expenses or income 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 $743 000 to $11.2 million. The chart below shows the impact of the changes in the fair value of derivatives and investments on HomeStart's total comprehensive result for the last five years.

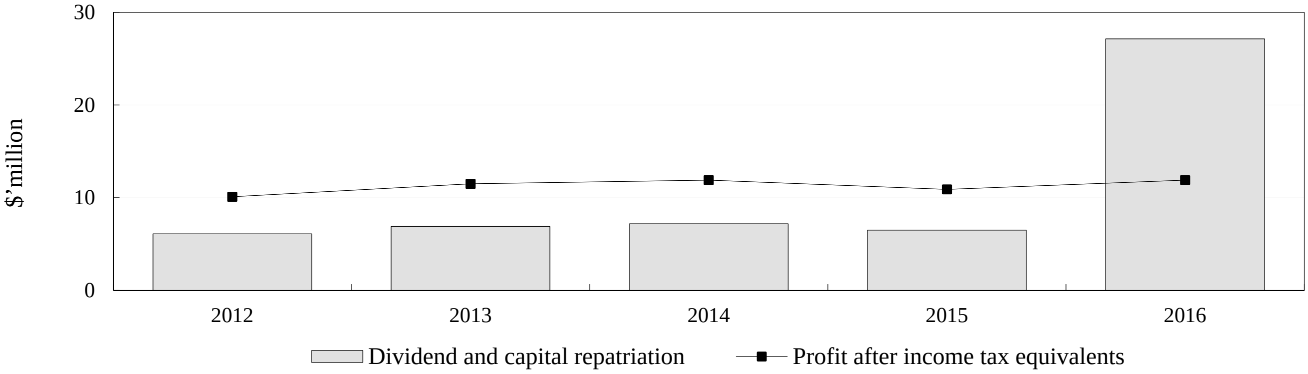


The total comprehensive result in 2012 reflects the fair value loss for the breakthrough loans. Since 2012 derivative fair value changes have been minimal.

It is important to appreciate that the financial report combines the financial assets and financial liabilities measured at either fair value or at cost. Note 34.1 of the financial report shows the fair value of net financial assets is $151.6 million ($171.8 million), while the carrying value of net financial assets is $153.7 million ($171.9 million). The slight increase in the margin between fair value and carrying value is mainly due to the increased volume of fixed interest rate loans, accounted for at amortised cost, in 2016.

Distributions to government

The following chart shows profit after income tax equivalents and distributions made for the past five years, highlighting HomeStart's sustained profit performance over that period.



In 2016 HomeStart's dividends were $27.1 million ($6.5 million). This included:

- a dividend of $7.1 million based on 60% of the 2015-16 after tax profit
- an interim dividend of $20 million.

HomeStart aims to return dividends to the SA Government on a regular basis, in line with its established performance statement and the requirements of the *Public Corporations Act 1993*. Dividends have to be recommended by the Board and then approved by the Minister for Housing and Urban Development and the Treasurer.

On 24 July 2015 the Minister for Housing and Urban Development wrote to the Chair of the HomeStart Board asking the Board to recommend an interim dividend of $20 million. This figure was determined by the SA Government based on HomeStart confirming it retained sufficient capital to meet all agreed operating, capital adequacy ratio and gearing targets. Accordingly, at its August 2015 meeting, the Board recommended payment of the dividend, which was approved by the Treasurer in October 2015. HomeStart's retained earnings as at 30 June 2016 were $155.6 million ($171.3 million).

In addition to dividends HomeStart pays guarantee fees and income tax equivalents.

In return for providing certain categories of loans, HomeStart receives community service obligation (CSO) funding.

The following table summarises these transactions with the SA Government for the four years to 2016.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million
SA Government:				
Dividend	27	7	7	7
Tax	5	5	5	5
Government guarantee fee	27	27	28	27
Total to SA Government	59	39	40	39
CSO income	(6)	(6)	(5)	(5)
Net amount provided to SA Government	53	33	35	34

The table shows the net amount provided to the SA Government was consistent over the previous three years and reflects the $20 million interim dividend, paid in 2016, in the net amount provided to the SA Government of $53 million.

Statement of Cash Flows

Net cash flows

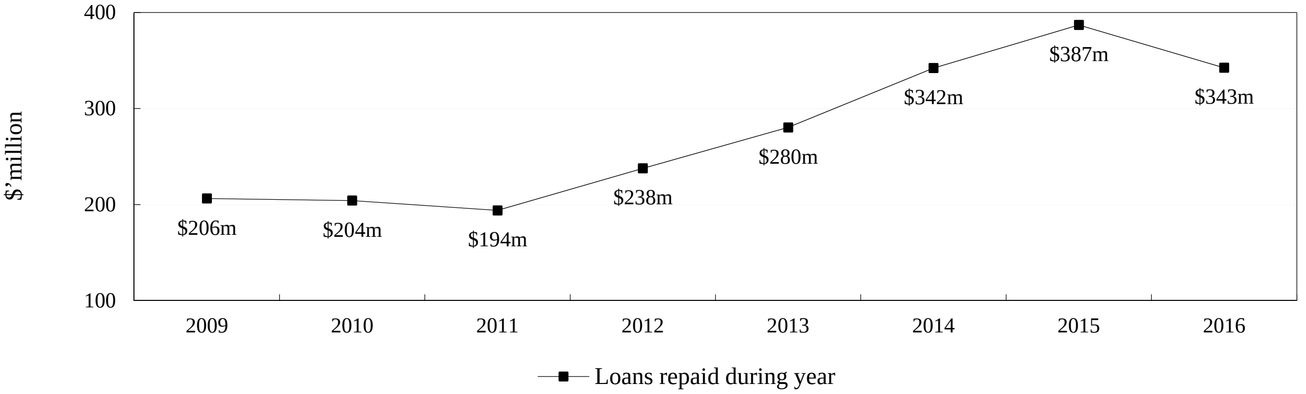
The following table summarises the net cash flows for the four years to 2016.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million
Net cash flows:				
Operating	10	6	8	9
Investing	(29)	71	61	11
Financing	19	(78)	(70)	(19)
Change in cash	-	(1)	(1)	1
Cash at 30 June	2	2	3	4

Investing activities relate primarily to the provision of loans to customers. In 2016 there was a net $30.8 million cash outflow ($67.5 million cash inflow) for customer loans, and this corresponded to the increase in gross loans and advances. The net financing cash inflow of $19 million ($78 million net outflow) reflects new borrowings taken out with SAFA which exceed the repayment of borrowings, partially offset by the payment of the interim dividend during the year. The increase in net operating cash flows reflects the decrease in interest income being less than the decrease in borrowing costs paid.

Customer loans repaid

The repayment of customer loans is shown in the chart below.



Customer repayments increased substantially from 2012 to 2015. The increase was due largely to the reduction in interest rates 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.

In the second half of 2016 new lending increased while discharges decreased in comparison to the prior year. Discharges in 2016 were $262 million ($302 million), a reduction of $40 million.

HomeStart operating parameters

Cabinet approved revised operating parameters for HomeStart in April 2012. The purpose of reviewing the parameters was to enable a higher degree of certainty in HomeStart's business operations and delivery of home ownership opportunities.

Cabinet also approved HomeStart preparing a charter and performance statement, to be approved annually by the Treasurer and the Minister for Housing and Urban Development. The charter and performance statement for 2015-16 were approved in April 2015.

Performance targets

HomeStart's performance targets compared to actual results are detailed below.

	Cabinet approved operating parameters	Performance statement target for 2016	2016 result	2015 result
Operating profit before tax	n/a	$15.4 million	$17.0 million	$15.6 million
Return on equity	9%	9.3%	10.3%	9.09%
Cost to income ratio	55%	56.7%	55.9%	59.9%
Capital adequacy ratio	12%	13.2%	15.5%	16.9%

To enable HomeStart to meet the return on equity target of 9%, the April 2012 Cabinet approval included a new CSO payment which will phase out over time. No CSO receipts of this type have occurred since $4.4 million was received in 2012.

The cost to income ratio for 2015 includes the impact of relocation costs associated with HomeStart moving offices. These costs are not reflected in 2016, resulting in a lower ratio.

Significant factors contributing to HomeStart's above-parameter return on equity in 2016 were the strong net interest income and the continuing gains in the fair value of the breakthrough loan product.

Dividend payout ratio

Cabinet approved a dividend payout ratio of 60%, based on after tax profit. The Treasurer approved a dividend based on this ratio in June 2016 (refer note 25 of the financial report).

Borrowing limit

In April 2012 Cabinet approved increased borrowing limits for HomeStart, to a maximum of $2.5 billion in 2016, subject to the Treasurer's approval. These increases were to reflect the projected long-term house price growth rate.

The borrowing limit approved by the Treasurer was increased to $2.105 billion from 1 July 2012 and it has not changed since.

Independent Commissioner Against Corruption (ICAC)

Financial statistics	Net cost of providing services:	$9.7 million
	Total appropriation:	$7.6 million
	Number of FTEs:	42

Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Functional responsibility

The Independent Commissioner Against Corruption (the Commissioner) and the Office for Public Integrity (the 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 (the Independent Commissioner Against Corruption (ICAC)) for financial reporting purposes.

The primary functions of the Commissioner 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 evaluation of practices, policies and procedures.

The primary function of the OPI is to receive and assess complaints and reports about public administration, corruption, misconduct and maladministration and to make recommendations for the action to be taken on those complaints and reports.

Note 1 of the financial report further explains the objectives and functions of the Commissioner and the OPI.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed with respect to the financial report and internal controls.

During 2015-16 specific areas of audit attention included:

- governance
- expenditure
- payroll
- revenue

- cash
- general ledger journal processing.

Audit findings and comments

Communication of audit matters

The audit did not identify any notable matters requiring formal communication to ICAC.

Shared Services SA – financial systems and transaction processing environments

Shared Services SA (SSSA) processes financial transactions on behalf of ICAC under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

These matters do not relate to ICAC's transaction processing.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	6.0	5.0
Supplies and services	2.9	2.7
Other expenses	0.8	0.6
Total expenses	9.7	8.3
Net cost of providing services	9.7	8.3
Revenues from SA Government	7.6	10.6
Net result and total comprehensive result	(2.1)	2.3
Net cash provided by (used in) operating activities	(1.1)	2.6
Net cash provided by (used in) investing activities	(0.6)	(1.9)
Assets		
Current assets	3.4	5.5
Non-current assets	5.4	5.2
Total assets	8.8	10.7
Liabilities		
Current liabilities	1.2	1.0
Non-current liabilities	1.1	1.1
Total liabilities	2.3	2.1
Total equity	6.5	8.6

Statement of Comprehensive Income

Expenses

The expenses of ICAC increased by $1.4 million to $9.7 million. The main causes of the increase were:

- employee benefits expenses increased by $1 million to $6 million due mainly to an increase in the number of employees required for complex investigations
- depreciation and amortisation expense increased by $260 000 to $832 000 due mainly to the depreciation and amortisation on $3.5 million of additional assets acquired in 2015 and 2016.

Income

The income of ICAC is predominantly appropriations from the SA Government. Appropriations decreased by $3 million to $7.6 million.

Net result

The net result for ICAC changed from a net gain of $2.3 million in 2015 to a net loss of $2.1 million in 2016, which is a $4.4 million decrease. This is primarily due to a decrease in appropriation revenue of $3 million and an increase in employee benefits expenses of $1 million.

Statement of Financial Position

Assets

The assets of ICAC decreased by $1.8 million to $8.8 million. The major items causing this change were:

- cash and cash equivalents decreased by $1.8 million to $3.3 million due mainly to an increase in employee benefit payments and reduced appropriations from the SA Government
- property, plant and equipment increased by $298 000 to $5.4 million reflecting asset additions of $1.1 million, partly offset by depreciation and amortisation of $832 000
- receivables decreased by $371 000 to $114 000 due mainly to the receipt in 2016 of a lease incentive recognised last year as a receivable.

Liabilities

The liabilities of ICAC increased by $275 000 to $2.3 million. The major items causing this change were:

- employee benefit liabilities increased by $314 000 to $1.1 million due mainly to an increase in the accumulated long service entitlements of employees
- lease incentives for ICAC's accommodation decreased by $116 000 to $930 000, reflecting the recording of lease incentives as a reduction of rental expense over the lease term on a straight-line basis.

Statement of Cash Flows

Cash and cash equivalents at 30 June 2016 were $3.3 million ($5 million). Net cash used in operating activities was $1.1 million due mainly to an increase in employee benefit payments and reduced appropriations from the SA Government.

Net cash used in investing activities was $640 000, down $1.3 million from 2014-15 due mainly to a reduction of $869 000 in payments made for the purchase of property, plant and equipment, and $434 000 received as a lease incentive for ICAC's accommodation.

Legal Services Commission (LSC)

Financial statistics	Net cost of providing services:	$38 million
	SA Government grant:	$21.4 million
	Commonwealth grant:	$15.8 million
	Number of FTEs:	186.7
	Number of in-house cases:	5164

Significant events and transactions

20 employees received a targeted voluntary separation package in 2015-16, worth $1.5 million in total.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Lack of user access approval and reviews over systems such as CHRIS 21 and Finance One

— Outdated and untested business continuity plan

— Missing attendance records/timesheets, with no follow-up process in place

Functional responsibility

LSC is a body corporate established under section 6(1) of the *Legal Services Commission Act 1977* (LSC Act). Section 6(3) of the LSC Act states that LSC is not an instrumentality of the Crown and is independent of the SA Government.

The functions and principles of LSC are detailed in sections 10 and 11 of the LSC Act. Core functions and principles include:

- providing or arranging for the provision of legal assistance and determining the criteria under which that assistance is granted
- ensuring legal assistance is provided in the most efficient and economical manner, and making the best endeavours to make legal assistance available to people throughout the State.

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.

During 2015-16 areas of review included:

- revenue and receivables
- expenditure and accounts payable
- private practitioner services
- property, plant and equipment
- payroll and employee benefits
- cash and cash equivalents
- financial accounting
- governance
- information and communications technology.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Legal Services Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Legal Services Commission have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising from the audit were detailed in a management letter to the Chairman. The main matters raised and the related responses are detailed below.

Information and communications technology

Outdated business continuity plan

The business continuity plan (BCP), which requires an annual performance review, ensures the LSC's critical business functions continue in the event of a disaster or disruption. The current BCP has not been updated or tested since May 2013.

LSC accepted the recommendation to revise the BCP and will commence the review within six months, aiming to complete it within 12 months.

Payroll

Missing attendance records/timesheets

We identified that not all timesheets had been recorded in the attendance register. We recommended that LSC follow up missing timesheets promptly.

LSC responded that finance officers follow up the outstanding timesheets/attendance records promptly at the end of each period. LSC will hold further training to ensure that all employees submit attendance records and will escalate non-compliance to managers promptly.

Financial accounting

User access approvals and review

We noted there were no policies or procedures about user access reviews for Finance One and CHRIS 21, while the LAW Office system policy was in draft. Without documented policies and procedures staff may not be aware of the need to conduct regular reviews of system access and this may result in inappropriate system access.

We also noted there were no policies or procedures to formalise the access approval requirements for Finance One.

LSC responded that it will formulate a formal policy/procedure for user access reviews for the Finance One and CHRIS 21 systems. LSC will also ensure that the LAW Office system user access review policy/procedure is finalised and approved.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	19	18
Private practitioner services (including expensive cases)	18	19
Other expenses	7	7
Total expenses	44	44
Income		
Legal Practitioners Act 1981 revenue	3	3
Other income	3	3
Total income	6	6
Net cost of providing services	38	38
Revenues from governments		
Commonwealth Government	16	16
SA Government	21	18
Total revenues from governments	37	34
Net result and total comprehensive result	(1)	(4)
Net cash provided by (used in) operating activities	-	(4)
Assets		
Current assets	14	14
Non-current assets	11	12
Total assets	25	26
Liabilities		
Current liabilities	3	3
Non-current liabilities	6	6
Total liabilities	9	9
Total equity	16	16

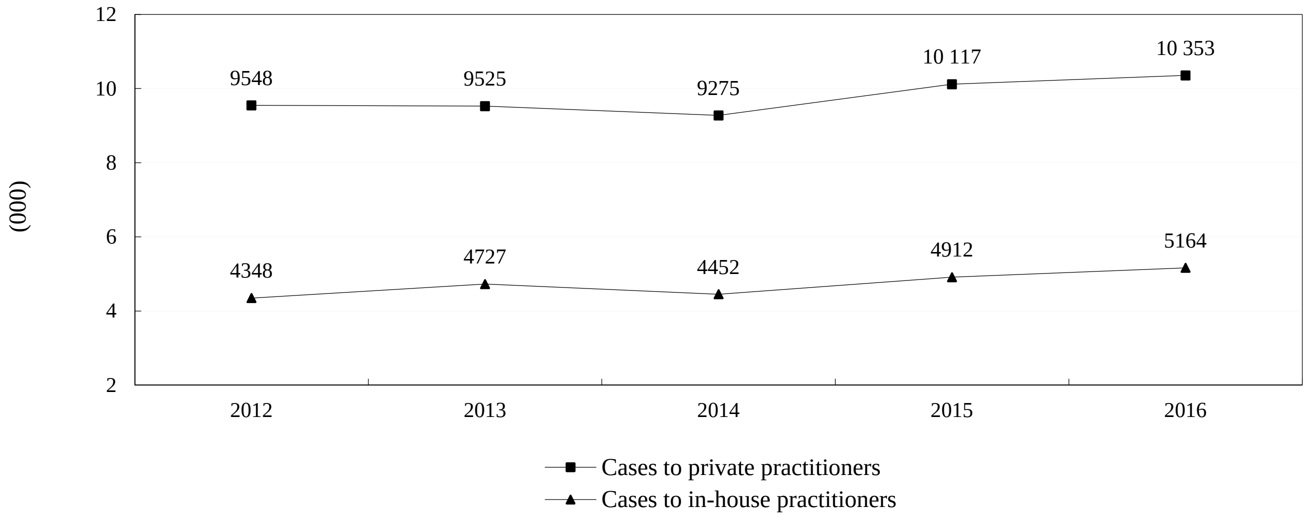
Statement of Comprehensive Income

Operating expenses

Referrals to private and in-house practitioners

Legal aid is provided by either LSC's practitioners or private practitioners.

The following chart details the split between approved cases assigned to private and in-house practitioners over the past five years. This data was provided by LSC and is unaudited.



Applications assigned to in-house practitioners totalled 5164 (4912) cases or 33% (33%) of new case applications approved. Private practitioner assigned cases totalled 10 353 (10 117) or 67% (67%) of new case applications approved. Fees to private practitioners for these cases (private practitioner services) amounted to $18 million ($19 million) and comprised 41% (42%) of total LSC expenditure.

In interpreting the relationship between case numbers and the cost of representation, LSC has advised that a grant of legal aid for serious crime matters has a significant time lag, generally more than one year, before actual costs are incurred. Therefore, timing differences between the case numbers reported and the reporting of the costs associated with those cases may occur.

Note 22(a) of the financial report explains legal expense commitments on legal cases referred to private practitioners, which were $6.3 million ($6.7 million) at 30 June 2016.

Income

Commonwealth and SA Government funding

Commonwealth and SA Government grant payments to LSC form part of the administered activities of the Attorney-General's Department. The Attorney-General's Department initially receives the annual grant funding from the Commonwealth which, together with the SA Government component, is paid to LSC.

Commonwealth Government grants

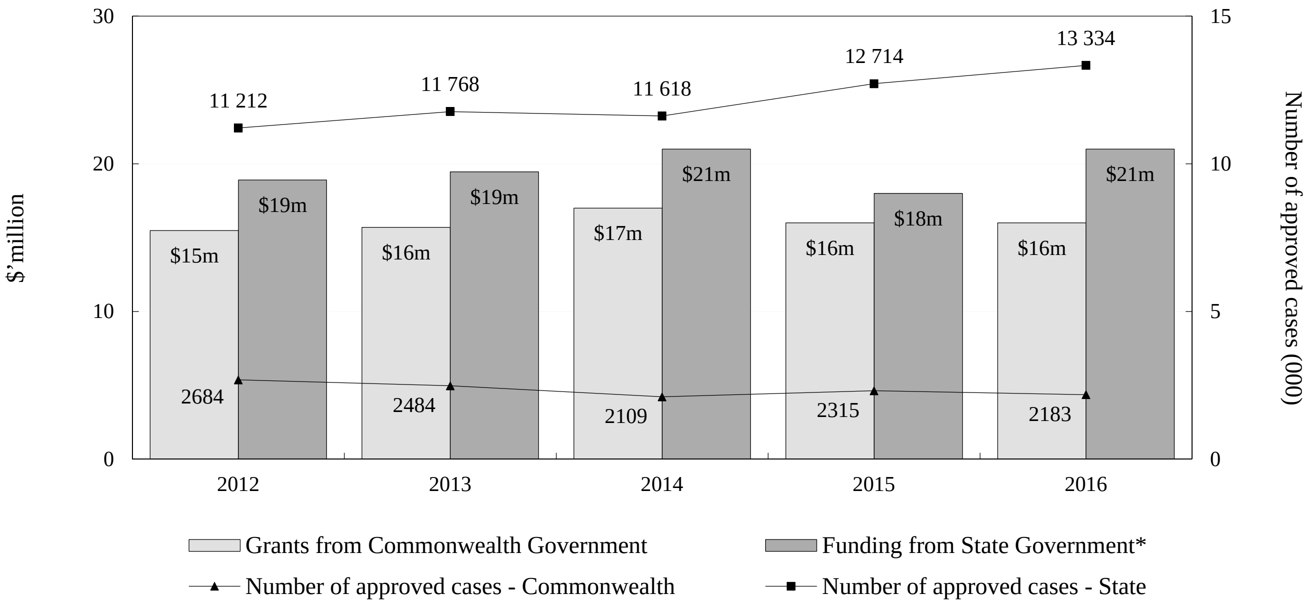
Legal assistance is provided in South Australia for matters arising under Commonwealth law. The matters are predominantly in the area of family law and, to a lesser extent, criminal and specific civil matters. In meeting the cost of providing this legal aid, LSC receives funding from the Commonwealth Government under an agreement between the Commonwealth and SA Governments. Grants received must be spent in accordance with the agreement.

Grants from the Commonwealth Government totalled $15.8 million ($16.2 million) and comprised 37% (40%) of total LSC revenue.

SA Government funding

The amount of SA Government funding provided is determined through the budgetary processes. SA Government funding totalled $21.4 million ($18.2 million) and comprised 50% (45%) of LSC's total revenue. This funding is expended on State law matters, which are predominantly criminal cases.

The following chart shows the amount of Commonwealth and SA Government funding (not including expensive case funding) provided to LSC for the past five years. It also shows the number of approved cases that relate to Commonwealth and SA Government funding.



* Excluding expensive case grants

Net result

The net result for 2015-16 was a deficit of $650 000 compared with a deficit of $4 million in 2014-15. The improvement in the net result is mainly attributable to increased SA Government funding of $3.3 million.

Statement of Cash Flows

The reduction in cash held by LSC of $432 000 reflects stability in the cash and cash equivalents balance. Net cash used in operations decreased by $3.3 million mainly due to increased SA Government funding.

The Legislature

Financial statistics

	House of Assembly $'million	Legislative Council $'million	Joint Parliamentary Service $'million
Net cost of services	15.1	9.1	22.1
Total appropriation	15.1	9.0	11.0
Members' salaries and allowances	9.5	5.0	n/a

	House of Assembly Number	Legislative Council Number	Joint Parliamentary Service Number
Members	47	22	n/a
Employees (FTEs)	26	18	68

Significant events and transactions

— The abolition of certain travel benefits and fees to ordinary members on Parliamentary committees became effective on 1 January 2016. They were replaced with a common allowance to all members of $30 294 p.a. A Shadow Minister's allowance was also introduced on 1 January 2016.

— The revaluation of land, buildings and library assets resulted in a revaluation decrement of $15.9 million. Of this, an $11.1 million decrement was recognised as an expense in the Statement of Comprehensive Income.

Financial statement opinion

Modified

The Auditor-General has issued a disclaimer of opinion on the Joint Parliamentary Service's financial report as we were not provided with unrestricted access to:

— the minutes of the Joint Parliamentary Service Committee meetings
— catering division financial information.

Unmodified

The Auditor-General has issued unmodified opinions on the financial reports of the House of Assembly and the Legislative Council.

Financial controls opinion

Not applicable

A financial controls opinion is not required because the House of Assembly, Legislative Council and Joint Parliamentary Service are not public authorities.

Functional responsibility

The Legislature, for the purposes of this Report, comprises the:

- House of Assembly established under the *Constitution Act 1934*
- Legislative Council established under the *Constitution Act 1934*
- Joint Parliamentary Service (JPS) established under the *Parliament (Joint Services) Act 1985*.

The House of Assembly and the Legislative Council constitute the Parliament of South Australia. The main purpose of Parliament is to legislate for peace, order and responsible governance of South Australia.

The JPS provides services to Parliament including Hansard reporting, library facilities, catering, financial administration and building accommodation. The JPS is administered by the Joint Parliamentary Service Committee comprising the Speaker and two Members of the House of Assembly and the President and two Members of the Legislative Council.

Scope of the audit

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

During 2015-16 specific areas of audit attention included:

- Members' salaries and allowances
- employees' salaries
- accounts payable and procurement
- general ledger
- asset register.

Audit findings and comments

Auditor's report on the financial reports

Joint Parliamentary Service

The following is an extract of the Auditor-General's Independent Auditor's Report, which expresses a disclaimer opinion over the financial report of the JPS.

> ***Basis for Disclaimer of Opinion***
>
> *The Members of the Joint Parliamentary Service Committee are responsible for the management of the Joint Parliamentary Service. The Members have not provided unrestricted access to the minutes of their meetings. As a result, I cannot assess whether matters deliberated and decided by the Members that have financial consequences have been recognised or disclosed in the financial report.*
>
> *The Members of the Joint Parliamentary Service Committee are responsible for the control and management of the dining and refreshment services of Parliament House. Certain income from the provision of these services and certain associated expenditure has been omitted from the financial report. The Members have not provided access to this financial information to enable the effect of the omission on the financial report to be quantified.*

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion. Accordingly, I do not express an opinion on the financial report.

We also issued a disclaimer on the JPS's general purpose financial statements in 2014-15. Our disclaimer results from a limitation of scope of audit (granting of access to service records, including catering records) and the limitation in the completeness of disclosures in the financial report relating to the dining and refreshment services of Parliament House.

Our inability to perform a complete audit of the functions and financial activity of the JPS as a result of this restriction was again raised with the Joint Parliamentary Service Committee. We have been advised that there is no change in the Committee's position of not providing us access to the Committee's minutes of meetings and to the records and accounts relating to the catering division trading account activities.

In our opinion, the financial accountability and auditability of the JPS falls short of that adopted and applied to the public accounts and the financial operations and accounts of public authorities.

Communication of audit matters

Matters arising during the course of the audit were provided in a management letter to the Secretary, Joint Parliamentary Service Committee. The matters raised with the Secretary included the need to segregate responsibility for processing vendor masterfile changes from staff responsible for payment processing and to ensure that purchases for goods and services are authorised in accordance with financial delegations. We also noted that the Legislature had not produced or certified bona fide reports since March 2016. Certified bona fide reports provide the Legislature with assurance that only valid employees are paid and that they are paid in accordance with their terms of employment. We were advised by Legislature staff that technical issues unique to the Legislature's upgraded payroll environment had meant that bona fide reports were only made available again from 30 June 2016. The Secretary responded indicating appropriate action has or will be taken to address these matters.

Interpretation and analysis of the financial reports

Highlights of the financial report

House of Assembly	2016 $'million	2015 $'million
Expenses		
Employee benefits	2.7	2.5
Members' salaries and allowances	9.5	8.4
Other expenses	2.9	3.0
Total expenses	15.1	13.9
Revenues from SA Government	15.1	14.0
Net result	-	0.1
Total assets	3.7	3.6
Total liabilities	1.6	1.6

Legislative Council	2016 $'million	2015 $'million
Expenses		
Employee benefits	2.2	2.1
Members' salaries and allowances	5.0	4.8
Other expenses	1.9	1.7
Total expenses	9.1	8.6
Revenues from SA Government	9.0	8.6
Net result	(0.1)	-
Total assets	2.8	2.7
Total liabilities	2.0	1.8

Joint Parliamentary Service	2016 $'million	2015 $'million
Expenses		
Employee benefits	6.5	6.2
Other expenses	16.2	5.2
Total expenses	22.7	11.4
Total income	0.6	0.3
Net cost of services	22.1	11.1
Revenues from SA Government	11.0	10.9
Net result	(11.1)	(0.2)
Total assets	81.0	96.7
Total liabilities	3.3	3.1

House of Assembly

The increase in Members' salaries and allowances of $1.1 million was driven from 1 January 2016 by the replacement of certain travel benefits and fees to ordinary members on Parliamentary committees, with a common allowance to all members of $30 294 p.a. A Shadow Minister's allowance was also introduced on 1 January 2016. Only the salaries and allowances of Members who are not Ministers are recorded in the House of Assembly's financial report. Ministers' salaries and allowances are paid for and recorded in the relevant Department's financial report.

Legislative Council

The balances presented in the financial report of the Legislative Council remained relatively stable compared to the previous year. The increase in total expenses is in line with the level of activity within the Legislative Council during the year.

Joint Parliamentary Service

The highlights of the financial report and the detailed financial report for the JPS needs to be viewed in the context of the Disclaimer of Opinion that has been issued on the financial report.

In June 2016 land, buildings and library assets were revalued downwards by $15.9 million. The $4.8 million decrement for land was recognised in other comprehensive income, reducing the amount accumulated in equity and held in the asset revaluation surplus.

Buildings and library assets were revalued downwards by $11.1 million. Australian Accounting Standards require the JPS to recognise the asset revaluation surplus by class of asset. With no amounts recognised in equity arising from previous revaluations of building and library assets, the revaluation decrement of $11.1 million was recognised as an expense in the Statement of Financial Performance. This revaluation decrement was the main reason for the $11.3 million increase in total expenses for 2016.

The primary reasons for the devaluation of land and buildings were:

- buildings are specialised heritage facilities listed on the South Australia Heritage Register. Fair value has been estimated based on a depreciated replacement cost as there was no sales data for heritage listed assets

- land was discounted to account for, and to reflect, the restrictive Parliamentary use covenant by discounting this value to reflect a likely diminution in value resulting from this restriction.

Libraries Board of South Australia
(Libraries Board)

Financial statistics	Net cost of providing services:	$34.4 million
	Revenues from SA Government:	$33.1 million
	Subsidies to public libraries:	$11.2 million
	Staff benefit expenses:	$13.1 million
	Research and heritage collections:	$141.7 million
	Property, plant and equipment:	$63.2 million
	Number of FTEs:	139.9

Significant events and transactions

Research and heritage collections were revalued this year resulting in an increase in their value of $29.2 million.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Lack of clear responsibility for reviewing manual payments and Basware financial delegations

— Inconsistent review of bona fide reports and leave booked reports for Public Library Services

Functional responsibility

The Libraries Board is established under the *Libraries Act 1982* and is responsible for administering the State Library of South Australia and Public Library Services. For details of the Libraries Board's functions refer note 1 of the financial report.

Scope of the audit

The audit covered major financial systems and was directed primarily to obtaining sufficient evidence to enable an opinion to be formed on the financial report and internal controls.

During 2015-16 specific areas of audit attention included:

- payroll
- accounts payable

- revenue and cash
- general ledger
- fixed assets
- governance and financial compliance.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Libraries Board of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Libraries Board of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Director of the State Library. Major matters raised with the Libraries Board and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Libraries Board are also described below.

Lack of clear responsibility for reviewing manual payments and Basware delegations

It was not clear whether the review of manual payments made for the Libraries Board should be performed by the Libraries Board or by Arts South Australia (as part of the Department of State Development). We identified a similar issue in 2014-15.

Not undertaking a review of all manual payments processed by SSSA for the Libraries Board may result in inaccurate or invalid payments not being detected.

The Libraries Board agreed there was a need to clarify responsibility and indicated it would suggest to the Department of State Development that reviews, including a retrospective review of 2015-16 manual payments, should be undertaken by the Libraries Board through its Finance and Audit Sub-Committee. The response also advised this change would be reflected in the service level agreement.

We noted a similar lack of clarity about responsibility for the review of Basware user access and financial delegations for the Libraries Board. Responsibility for this review was not identified in the service level agreement.

We recommended the responsibility be formally documented to ensure the review was performed.

The Libraries Board agreed that responsibility for reviewing Basware user access and financial delegations needed to be formally documented in the service level agreement and indicated this matter would be addressed with Arts South Australia.

Inconsistent review of bona fide reports and leave booked reports – Public Library Services

Libraries Board staff transitioned to a new payroll system, CHRIS 21, in December 2015.

Our testing identified that prior to this transition, no records were retained to evidence the monitoring of bona fide reports or leave booked reports being checked for Public Library Services. A number of reports were not returned to the responsible officer, and some reports had not been reviewed.

We also identified that up until March 2016, these reports were not available from CHRIS 21 for Libraries Board staff to review.

Ineffective review of the bona fide reports and leave booked reports increases the risk that important changes are not identified and actioned, which can result in incorrect payments not being detected and rectified promptly.

The Libraries Board indicated that it would retrospectively review all outstanding reports and monitor the review of these reports in future.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Libraries Board under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

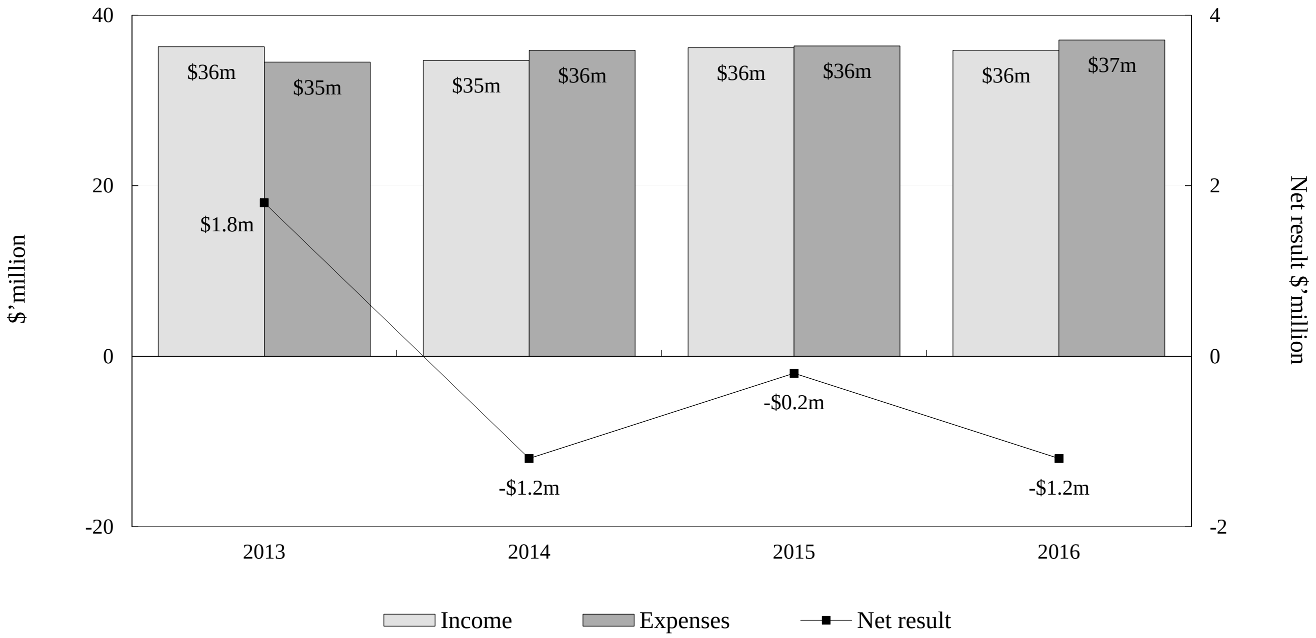
	2016 $'million	2015 $'million
Expenses		
Staff benefits	13	13
Subsidies to public libraries	11	11
Other expenses	13	12
Total expenses	37	36
Income		
State Government grants	33	34
Other income	3	2
Total income	36	36
Net cost of providing services	(1)	-
Other comprehensive income	29	-
Total comprehensive result	28	-
Net cash provided by (used in) operating activities	-	2
Net cash provided by (used in) investing activities	(1)	(2)

	2016 $'million	2015 $'million
Assets		
Current assets	7	7
Non-current assets	213	185
Total assets	220	192
Liabilities		
Current liabilities	2	2
Non-current liabilities	3	3
Total liabilities	5	5
Total equity	215	187

Statement of Comprehensive Income

Net result

The following chart shows the income, expenses and net result for the four years to 2016.



The chart shows that the level of activity has remained consistent over the four year period.

The main expenses are staff benefits of $13.1 million ($13 million) and subsidies to public libraries of $11.2 million ($11.1 million). These expenses have remained relatively stable over the past four years.

The Libraries Board is dependent on revenues from the SA Government which amounted to $33.1 million ($33.9 million) and represent 92% (93%) of total income.

Statement of Financial Position

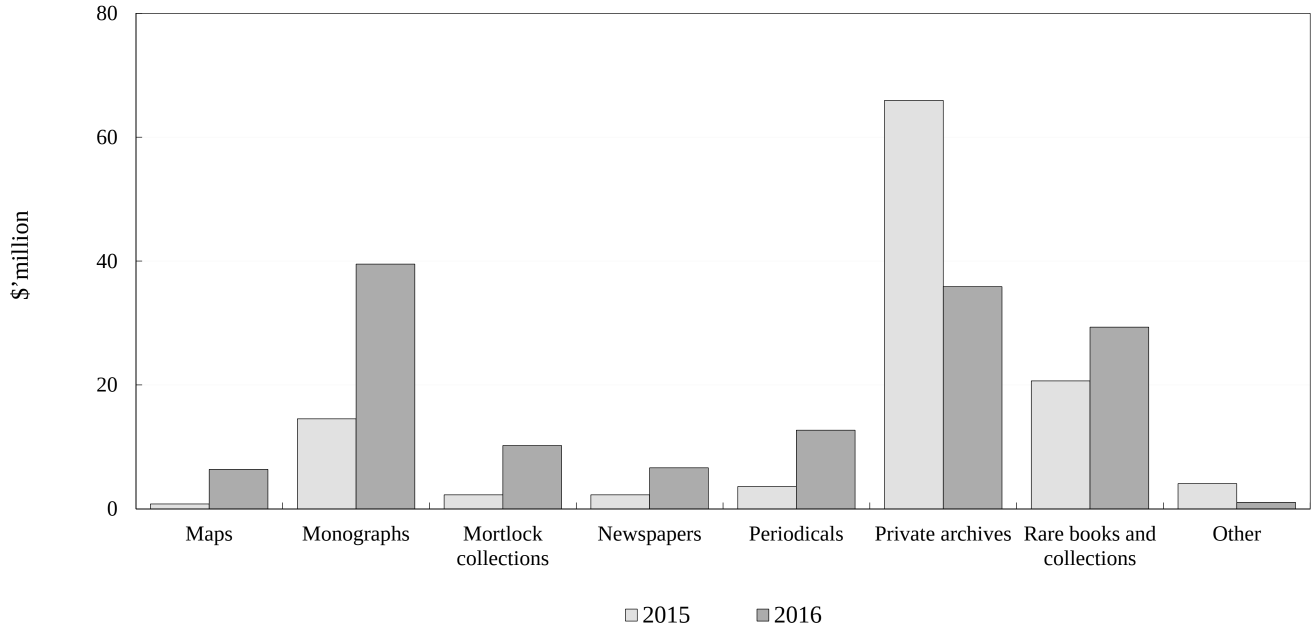
Current assets

The Libraries Board's main current asset is cash deposits with the Treasurer of $5.3 million ($6.3 million), representing 80% (87%) of current assets.

Non-current assets

Total non-current assets of the Libraries Board amounted to $213.4 million ($184.7 million) comprising mainly research and heritage collections of $141.7 million ($111.8 million) and land, buildings and improvements of $63.1 million ($64.9 million).

Research and heritage collection assets were revalued this year resulting in an increase of $29.2 million. The previous valuation took place in 2011. The chart below shows the values of the different categories within the research and heritage collections in 2015 and 2016.



Categories within the research and heritage collection that had significant movements were:

- private archives: now valued at $35.9 million ($65.5 million), decreased by $30.1 million with the current valuation including a more detailed assessment against other institutional averages
- monographs: now valued at $39.5 million ($14.5 million), increased by $25 million due to a significant increase in the average prices paid for these items over the last three years
- rare books and collections: now valued at $29.3 million ($20.7 million), increased by $8.7 million due to market movements since the last valuation, based on data from other institutions
- maps: now valued at $6.4 million ($783 000), increased by $5.6 million as the average price of maps has significantly increased compared to the previous valuation
- newspapers: now valued at $6.6 million ($560 000), increased by $6 million based on the application of current average industry values
- periodicals: now valued at $12.6 million ($3.5 million), increased by $9.1 million based on the assessment of average values for items in the collection.

Lifetime Support Authority of South Australia (LSA)

Financial statistics	Provision for future costs of current participants:	$203 million
	Lifetime Support Scheme Fund levy net of duty:	$131 million
	Investments:	$293 million
	Net assets:	$90 million
	Number of FTEs:	18.1
	Number of interim participants as at 30 June:	66
	Number of lifetime participants as at 30 June:	10

Significant events and transactions

- The provision for the future cost of caring for current participants more than doubled, increasing by $110 million to $203 million.
- The total number of participants increasing from 39 in 2014-15 to 76 in 2015-16.
- The LSA made an operating surplus of $15 million and has net assets, meaning the Lifetime Support Scheme remains fully funded at 30 June 2016.

Financial statement 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 participants' treatment, care and support services because of the long-term nature of the provision and limited participants' experience to date.

Financial controls opinion

Unmodified

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 needed to pay for the treatment, care and support of participants and other costs of operating the Scheme.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

During 2015-16 specific areas of audit attention included:

- processes for determining applications from people injured through motor vehicle accidents
- procurement of service providers
- payment for service providers according to service plans tailored to the needs of each participant
- salaries and other administrative expenses
- investments
- service level agreements with other SA Government agencies.

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

Audit findings and comments

Auditor's report on the financial report

Below is an extract from the Independent Auditor's Report issued for the LSA's 2015-16 financial report, which is unmodified but notes a significant inherent uncertainty relating to the provision for participants' treatment, care and support services. Details about the provision are included under the heading 'Liabilities' below.

> ***Opinion***
>
> *In my opinion, the financial report gives a true and fair view of the financial position of the Lifetime Support Authority of South Australia as at 30 June 2016, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*
>
> ***Significant inherent uncertainty – provision for participants' treatment, care and support services***
>
> *Without qualification to the opinion expressed above, attention is drawn to notes 2.11 and 20 of the financial report. There is significant inherent uncertainty surrounding the estimate of the provision for participants' treatment, care and support services because of the long-term nature of the provision and limited participants' experience to date. This uncertainty will remain until sufficient participants' experience is available.*

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive. Matters raised related to enhancing existing controls within the entity. We recommended that:

- a policy for the independent review of delegation reports be formalised
- a periodic review of vendor creation forms be undertaken
- consideration be given to consolidating existing contracts registers.

The LSA responded that the matters raised will be addressed.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the LSA are described below.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the LSA under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for SSSA's main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Participant treatment, care and support expenses	118	95
Duty on LSS Fund levy	14	14
Other	8	6
Total expenses	140	115
Income		
LSS Fund levy	145	141
Investment revenue	9	5
Other	1	-
Total income	155	146
Net cost of providing services	15	31
Net result	15	31
Total comprehensive result	15	31
Net cash provided by operating activities	117	120
Net cash used in investing activities	118	160

	2016 $'million	2015 $'million
Assets		
Current assets	3	4
Non-current assets	294	166
Total assets	297	170
Liabilities		
Current liabilities	12	9
Non-current liabilities	195	86
Total liabilities	207	95
Total equity	90	75

Statement of Comprehensive Income

This is the third year of operation of the LSA and the second year of the LSS. The level of financial activity of the LSA rose as more participants entered the Scheme and the investment base increased.

Net result

The LSA achieved a surplus of $15 million, meaning the levy set for 2015-16 was sufficient to meet Scheme expenses for the year. Actual outcomes during 2015-16 were better than estimated in the following areas:

- the LSS Fund levy received was $1.9 million over the $143.2 million estimate
- actual LSS costs were $2.7 million below the $143.2 million estimate.

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 participants' 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 the headings 'Liabilities' and 'Required fund contribution' below).

Expenses

The LSA's expenses of $140.5 million ($115.2 million) comprised:

- $117.8 million ($95.1 million) for participant treatment, care and support expenses, of which $110.2 million was the increase in the estimate of future expenses for participants injured in motor vehicle accidents up to 30 June 2016

- $14.4 million ($14 million) paid to the SA Government for the 11% duty on the LSS Fund levy payable under the *Stamp Duties Act 1923*

- $3.4 million ($2.6 million) for brokerage fees and premiums paid to reinsurers who provide cover for significantly larger than expected liabilities for estimated future participant care costs

- $4.9 million ($3.6 million) for general operating expenses including $2.6 million ($2.2 million) for employee benefits, and $595 000 ($0) for research, education and programs.

Income

The LSA's income of $155.5 million ($146.6 million) mainly comprised:

- $145 million ($141 million) of LSS Fund levy on South Australian motor vehicle registrations. No GST is payable on the levy

- $9.5 million ($5.5 million) of investment revenue, which includes $9.5 million of net unrealised gains. There were no changes in Fund strategy during the financial year

- $809 000 included in other revenues for recoveries from re-insurance providers.

Statement of Financial Position

The LSA's financial position depends significantly on the value of its investments exceeding the provision for the participants' treatment, care and support services. The LSA's net assets increased by $15 million to $89.9 million and reflect the net result from operations discussed under the heading 'Net result' above.

Assets

The LSA's assets of $297 million consist mainly of cash and investments. Cash reduced from $2.5 million to $900 000 due mainly to money being invested with Funds SA.

Investments

At 30 June 2016 the LSA had $292.9 million invested in the Funds SA Untaxed Moderate Fund.

The LSA must maintain investments to fund its present and likely liabilities for participants' treatment, care and support services. The LSA decided that investing in the Funds SA Untaxed Moderate Fund was appropriate given 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 Untaxed Moderate Fund earned a return of 3.7% in 2015-16.

Liabilities

The LSA's liabilities of $207.2 million consist mainly of the provision for participants' treatment, care and support services.

Provision for participants' treatment, care and support services

The provision was estimated to be $203 million at 30 June 2016, a rise of $110 million.

The main reason for the increase was the almost doubling of the number of participants during the year from 39 in 2014-15 to 76 in 2015-16. The inflation rate and investment return rate used in the actuarial calculation remained the same as in 2014-15. Other assumptions such as the weighted mean term (estimated length of claim) have increased only marginally over 2014-15. Refer note 20 of the financial report for further details.

The Board of the LSA determined the value of the provision after considering a report from an independent actuary. The LSA appointed the 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 2016, including claims incurred but not yet reported.

Information relating to the actuarial estimation is provided in notes 2.11 and 20 of the financial report.

Significant inherent uncertainty in the provision

The LSA's financial report refers to the significant inherent uncertainty surrounding the actuarial estimation and the sensitivities of the estimation to changes in key assumptions, and comments on the long-term nature of the liabilities and volatility around the number of participants and their injury severity. In estimating the liability at 30 June 2016, the actuary noted that the LSS is 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 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 benchmarks for defining the lifetime care and support needs of participants, including models of expected cash flows for an individual of a specific age with a specific injury

- future inflation levels for services, especially increases in attendant care hourly rates. Changes in best practice treatment also mean liabilities could increase significantly

- final stable severity for each participant's injury. The current assessment for each participant is at very early duration since injury.

The sensitivity analysis in note 20 of the 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 \$10.4 million and a 1% increase in the long-term discount rate can reduce the provision by \$29.5 million (refer note 20 of the financial report).

Note 20 also indicates the time frame over which the LSA must manage claims. The uninflated, undiscounted weighted mean term is 22 years.

Independent reviewing actuary

The LSA had the actuarial estimate confirmed by an independent reviewing actuary, who noted that the valuation results were not unreasonable 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. Consistent with similar interstate schemes, the LSA has not applied a risk margin to its central estimate.

Probability of sufficiency

As at 30 June 2016 the probability of sufficiency for the LSS was 69%. The LSA has adopted a target minimum probability of sufficiency of 65% (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 2016 current liabilities exceeded current assets by $9.4 million. The LSA is able to access funds from its Funds SA investments if required.

Required fund contribution

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 accordance with a report from an independent actuary engaged by the LSA after consulting the Treasurer. The LSA must report its determination to the Minister 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 $143.2 million including duty was required to cover the costs of operating the Scheme in 2015-16 and probable liability at 30 June 2016.

The following table sets out the required fund contribution and levy for the past three years.

	2017	2016	2015
Required fund contribution:			
LSA recommended ($'million)	145.8	142.3	137
Minister approved	Yes	Yes	Yes
Average levy ($)	102.54	102.49	98.50
Average increase per vehicle over previous year ($)	0.05	3.99	-

The estimated 2015-16 levy was based on an actuarial estimate at 31 December 2014 when the LSS was only six months old and was subject to some significant uncertainties. These included likely investment revenue and the likely number of participants entering the Scheme over the next year, their injury severity and estimated cost of long-term treatment, care and support services.

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.

2016-17 levy

The estimated 2016-17 levy was based on an actuarial estimate at 31 December 2015.

Statement of Cash Flows

The Statement of Cash flows reflects the investment of $118 million with Funds SA using the LSS Fund levy of $144.8 million. The LSA will use these investments to meet the costs of treatment, care and support services over the life of the Scheme participants.

Local Government Finance Authority of South Australia (LGFA)

Financial statistics	Net loans and advances:	$680 million
	Profit before income tax equivalents:	$6.2 million
	Income tax equivalents:	$1.9 million
	Bonus payments to councils and local government bodies:	$2 million
	General reserve:	$62 million
	Number of FTEs:	5.4
Financial statement opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

The LGFA is established by the *Local Government Finance Authority Act 1983* (the LGFA Act). It is managed and administered by a Board of Trustees.

The main functions of the LGFA are to develop and implement borrowing and investment programs for the benefit of councils and prescribed local government bodies. For more information about the LGFA's functions refer note 1 of the financial report.

Liabilities incurred or assumed by the LGFA in line with the LGFA Act are guaranteed by the Treasurer under section 24(1) of the LGFA Act. For this the LGFA pays an annual guarantee fee to the Treasurer.

Scope of the audit

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

Specific areas of review included:

- investments
- borrowings
- deposits

- derivatives
- payroll.

To comply with Treasurer's Instruction 2 'Financial Management' and Treasurer's Instruction 28 'Financial Management Compliance Program' the LGFA engages an external party to execute a financial management compliance program (FMCP). The FMCP checks compliance with documented policies, procedures and internal controls.

The 2015-16 FMCP was considered and reviewed to assist in the planning, conduct and assessment of specific areas of the review of the LGFA's operations.

Audit findings and comments

Communication of audit matters

No matters were identified during the audit that required communication in a management letter to the Chief Executive.

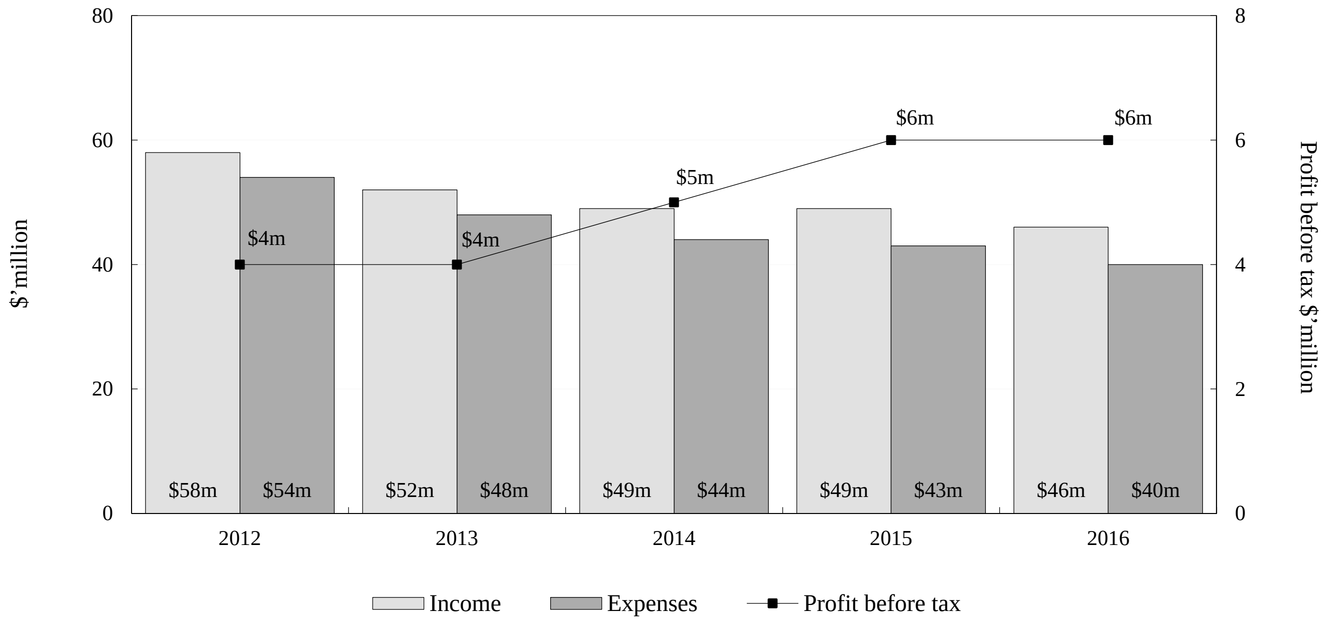
Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Income		
Interest and other income	46	49
Expenses		
Interest expense	37	40
Guarantee fee and administration expenses	3	3
Total expenses	40	43
Profit before income tax equivalents	6	6
Income tax equivalents	2	2
Total comprehensive result	4	4
Net cash provided by (used in) operating activities	5	4
Assets		
Net loans and advances	680	696
Other assets	47	57
Total assets	727	753
Liabilities		
Deposits and borrowings	612	651
Other liabilities	53	42
Total liabilities	665	693
Total equity	62	60

Statement of Comprehensive Income

The following chart shows the income, expenses and profit before income tax expense for the five years to 2016.



Income

As the LGFA is a financial institution servicing local government, its main operating revenue is interest income, with other income being insignificant.

Interest income from loans and advances decreased by $2.5 million from the previous year mainly reflecting a $2 million decrease in cash advance interest due to lower average daily cash advances and interest rates.

Interest income from investments decreased by $1.1 million to $1.2 million due to lower average daily investment balances and interest rates.

Expenses

The LGFA's main operating expense is interest expense, with guarantee fees and administration expenses being less significant.

Interest expense reduced by $4.2 million from the previous year mainly due to:

- a $2.4 million decrease in interest on borrowings as a result of lower average daily borrowings and lower interest rates
- a $1.6 million decrease in interest paid on deposits due to the impact of lower interest rates, offset by higher average daily deposits.

Profit before tax

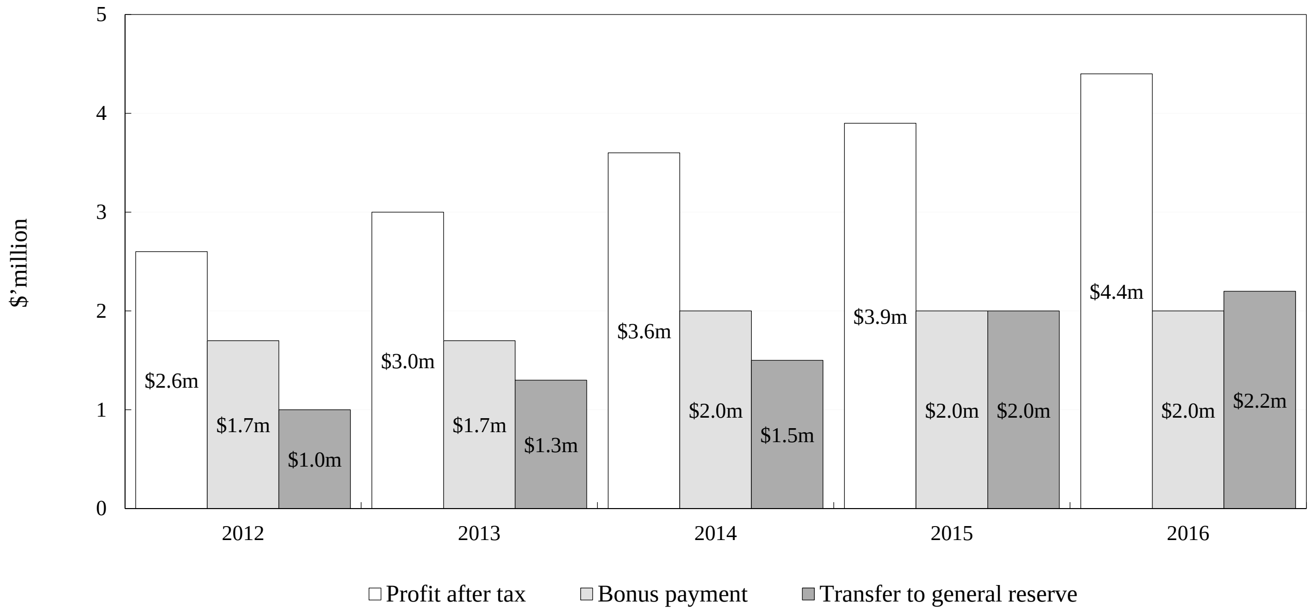
Profit before tax increased by $601 000 to $6.2 million. The improvement results from a $4.1 million decrease in expenses and a $3.5 million decrease in income, as previously discussed.

Tax equivalent payments

The LGFA is required to make payments equivalent to company income tax under the taxation equivalent payments system. The amounts are paid into an account established with the State Treasurer titled 'Local Government Taxation Equivalents Fund'. The funds are available for local government development purposes as recommended by the Local Government Association of South Australia and agreed by the Minister for Finance in accordance with section 31A of the LGFA Act. For this financial year, the amount payable for income tax equivalent was $1.9 million.

Net profit and distributions

In 2016 the LGFA achieved a profit after tax of $4.4 million ($3.9 million), which was available for distribution or transfer to a general reserve. The profit and principal distributions for the past five years are presented in the following chart.



Under section 22(2) of the LGFA Act, the LGFA has discretion to make distributions from the surplus for the year to councils and local government bodies. These distributions are recorded as bonus payments in the financial report. In 2016 the LGFA provided $2 million ($2 million) for bonus payments.

The LGFA also transferred $2.2 million ($2 million) to a general reserve.

Statement of Financial Position

Assets and liabilities

The Statement of Financial Position shows net assets of $62.7 million ($60.3 million).

Total assets decreased by $26.3 million from the previous year, mainly due to:

- a $15.6 million reduction in net loans and advances, comprising a decrease of $20.6 million in advances and a $5.2 million decrease in term loans, offset by a net movement in the fair value adjustment for certain hedged loan assets of $10.2 million (refer note 10 of the financial report)

- a $10.2 million decrease in investment securities.

Total liabilities decreased by $28.6 million from the previous year, principally due to:

- a $57 million decrease in deposits from customers, as the 2014-15 deposits included substantial financial assistance grants paid in advance to councils, which was not the case for 2015-16
- an $18.1 million increase in borrowings due to less deposits being available for lending
- a $10.7 million increase in derivatives, due mainly to a net movement in the fair value adjustment for derivative liabilities of $10.5 million (refer note 15 of the financial report).

Equity

Total equity of $62.7 million is predominantly the balance of the general reserve ($62 million). The general reserve, which increased by $2.2 million in 2016, has accumulated from profits earned by the LGFA, providing a strong financial position and a safeguard against the risk of future adverse conditions (refer note 2(n) of the financial report).

Asset quality

The LGFA primarily lends to councils and local government bodies on a secured basis. The security is by debentures providing a charge over the council's general revenue. Refer notes 2(g) and 23(c) of the financial report for more detail.

The LGFA has not experienced defaults or losses associated with these loans. Consequently there is no provision for doubtful debts against the assets.

Liabilities of the LGFA

The LGFA funds loans to customers through customer deposits, borrowings or from its own accumulated reserves.

To mitigate interest rate risk the LGFA hedges its interest rate exposures using interest rate swap agreements and futures contracts. Note 23(b)(i) of the financial report refers to the LGFA's interest rate risk management.

Lotteries Commission of South Australia (LCSA)

Financial statistics	Sales revenue:	$464 million
	Prizes:	$280 million
	Master Agent fee:	$57 million
	Gambling tax:	$75 million
	Number of FTEs:	6

Significant events and transactions

A new lottery, Set for Life, commenced operation in August 2015.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— In 2014 the LCSA identified that Tatts was not complying with certain requirements of the *State Lotteries Act 1966* by calculating gambling tax based on Keno prizes payable instead of prizes paid, and not making sufficient contributions into the Keno Prize Reserve. On 25 June 2014 the previous Chief Executive instructed Tatts to address this. Tatts has disputed and not complied with the instruction. The LCSA has not escalated these matters in accordance with the framework in the transaction documents.

— The LCSA has processes for checking compliance by Tatts with the gaming rules, transaction documents and the *State Lotteries Act 1966*. The LSCA has not documented its procedure for completing these processes.

Functional responsibility

The LCSA is a statutory authority established under the *State Lotteries Act 1966* (the Lotteries Act) with the principal function of promoting and conducting lotteries for South Australia.

The LCSA, in conjunction with the Master Agent (Tatts Lotteries SA Pty Ltd (Tatts)), administers and promotes the following lotteries in South Australia:

- Saturday X Lotto
- Keno
- Powerball
- Oz Lotto
- Monday and Wednesday X Lotto
- Instant Scratch-Its tickets

- Super 66
- The Pools
- Set for Life.

The LCSA has entered Bloc arrangements with interstate lottery operators for all of its lotteries except Keno and Instant Scratch-Its tickets. Bloc arrangements allow the various lottery organisations throughout Australia to pool money to provide larger prizes to players. The licensing structure and operations of each operator remain independent and autonomous.

Appointment of Tatts as exclusive Master Agent of the LCSA

On 26 November 2012 the SA Government appointed Tatts as the exclusive Master Agent to operate the LCSA's brands and products for a term of 40 years in return for an upfront payment of $427 million. The Master Agent arrangements commenced on 11 December 2012 with the transition period for full implementation ending on 10 June 2014. The terms and conditions of the appointment and its ongoing operation are governed by a number of transaction documents.

As exclusive Master Agent, Tatts has responsibility:

- for the sale of entries into all lottery games operated by the LCSA and payment of prizes associated with those entries
- to appoint retail agents
- to authorise the premises at which retail agents may sell tickets.

Tatts receives a Master Agent fee in accordance with the transaction documents. The calculation basis for this fee is outlined in note 7 of the financial report.

The LCSA has control of the Lotteries Fund established under section 16(1) of the Lotteries Act. As a result, the LCSA is responsible for reporting all activity through the Lotteries Fund in its financial report. The Lotteries Fund reflects all activity related to gaming operations.

The transaction documents require Tatts to hold and operate the Lotteries Fund for and on behalf of the LCSA.

The LCSA has an ongoing responsibility to monitor whether the Master Agent's operations are conducted in compliance with all applicable laws, regulations, codes of practice, contractual agreements and policies to ensure the LCSA's compliance with the Lotteries Act and the transaction documents. The LCSA must also maintain necessary processes to ensure the effectiveness of Tatts' internal controls over the financial reporting of gaming activity and the Lotteries Fund.

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.

During 2015-16 areas of review included:

- transaction documents contract management arrangements
- information and communications technology
- gaming revenue
- prize payments
- payroll

- expenditure
- general ledger.

Internal audit activities and reports were also reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Lotteries Commission of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matter raised in relation to non-compliance with the *State Lotteries Act 1966* outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Lotteries Commission of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified during the course of the audit were detailed in a management letter to the Commissioner. The LCSA's response to the letter indicated that appropriate action would be taken to address the matters raised. The main matters raised with the LCSA and the related responses are provided below.

Non-compliance with the Lotteries Act

In 2014 the LCSA identified that Tatts was not complying with certain requirements of the Lotteries Act. On 25 June 2014 the previous Chief Executive instructed Tatts to:

- calculate gambling tax on Keno based on prizes paid instead of prizes payable as required by sections 16(3)(d) and 16(5) of the Lotteries Act. The use of theoretical amounts results in under or over payments of gambling tax that may not even out over extended periods
- increase the contributions into the Keno Prize Reserve to achieve the proportions required by the Lotteries (Keno) Rules approved by the Minister under section 18 of the Lotteries Act. Making insufficient contributions into the Keno Prize Reserve increases the likelihood of an insufficient reserve to cover the guaranteed prize amount, and the jackpot amount to be offered to Spot 10 players.

Tatts has disputed and not complied with the previous Chief Executive's instruction. We noted that the LCSA had not escalated these matters in accordance with the framework in the transaction documents.

The LCSA advised that it will seek legal advice on the best course of action to take to resolve the issue of Tatts using theoretical amounts to calculate gambling tax. Further, the LCSA advised that Tatts recently asserted that SA Government representatives had advised in the lead-up to entering the transaction documents that contributions into the Keno Prize Reserve were discretionary. The LCSA also advised that it has requested documentation from Tatts to support its assertion, and if such documentation is not provided it will seek legal advice on the best course of action to resolve this matter.

Compliance procedure not documented

The LCSA has processes for checking compliance by Tatts with the gaming rules, transaction documents and the Lotteries Act. The LSCA has not documented its procedure for completing these processes.

We recommended the LCSA document and distribute to all relevant staff this procedure including the methods, timing and officers responsible for collecting evidence to check Tatts' compliance. The lack of a documented procedure increases the likelihood of staff not being aware of the evidence required to confirm Tatts' compliance.

The LCSA responded that it is currently formulating a compliance monitoring procedure.

Information and communications technology and control

On 7 April 2014 the TattsTech system was implemented to process all South Australian gaming transactions. The TattsTech system was internally developed by Tatts and is used in other Australian jurisdictions where Tatts has gaming operations.

In 2015-16 the LCSA's internal audit function reviewed the Tatts IT control environment and TattsTech system. We subsequently reviewed the internal audit report and performed a high level review of Tatts IT operations.

Our high level review of Tatts IT operations indicated the overall control environment was effective. In particular, we noted Tatts has a formal security management regime based on internationally accepted security standards that is subject to ongoing independent review by an external party.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Master Agent fee	57	53
Supplies and services and employee benefits expenses	1	3
Total expenses	58	56
Income		
Sales revenue	464	442
Cost of sales	(407)	(388)
Total income	57	54
Net cost of providing services	1	2
Revenues from SA Government	-	3
Net result	(1)	1
Net cash provided by (used in) operating activities	-	3
Assets		
Current assets	54	55
Non-current assets	2	1
Total assets	56	56
Liabilities		
Current liabilities	38	41
Non-current liabilities	18	13
Total liabilities	56	54
Total equity	-	2

Statement of Comprehensive Income

Expenses

Total expenses increased by $2.8 million to $58.6 million mostly due to:

- the Master Agent fee increasing by $3.7 million to $57.1 million
- employee benefits expenses decreasing by $742 000 to $875 000, reflecting a decrease in the number of employees from nine to six FTEs and no contributions required for the LCSA's defined benefit superannuation plan, which terminated on 30 September 2014.

Master Agent fee

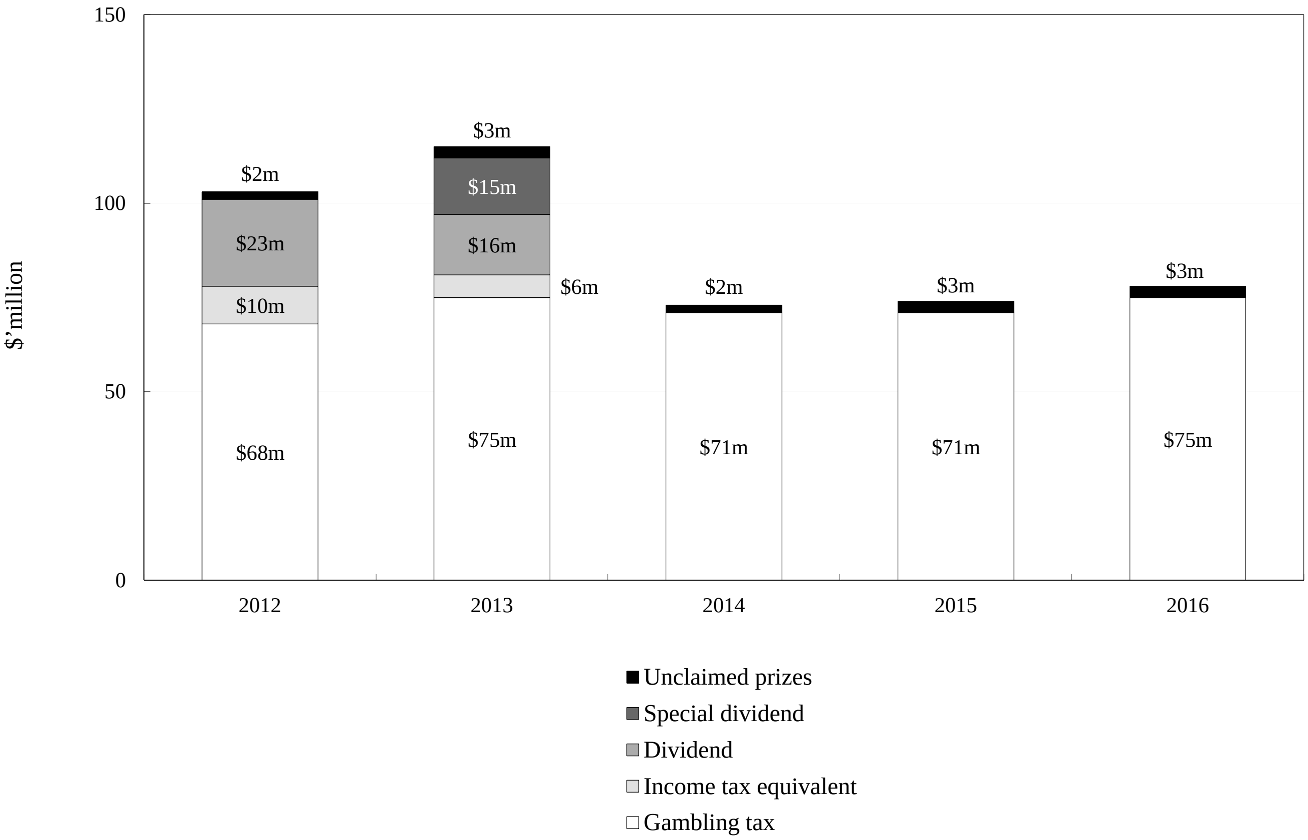
The Master Agent fee of $57.1 million is payable to Tatts as the LCSA's exclusive Master Agent for operating the LCSA's brands and products. The fee calculation is shown in note 7 of the financial report. The fee depends mostly on the value of net gambling revenue (ie gross sales less total prizes paid). The fee increased in line with the increase in net gambling revenue.

Distributions to government

The LCSA made payments to the SA Government in accordance with the requirements of the Lotteries Act, which are detailed in notes 2(k) and 22 of the financial report.

The amount provided for distribution to government increased by $4.2 million to $78 million. The increase comprises a $4.2 million increase in gambling tax, while unclaimed prizes remained about the same. Gambling tax is calculated as 41% of net gambling revenue. The gambling tax increased in line with the increase in net gambling revenue.

The following chart details the distributions provided to government for the five years to 2016.



The chart highlights that, after the Master Agent arrangements with Tatts started on 11 December 2012, distributions to government have been solely comprised of gambling tax payments and paying 50% of unclaimed prizes.

Income

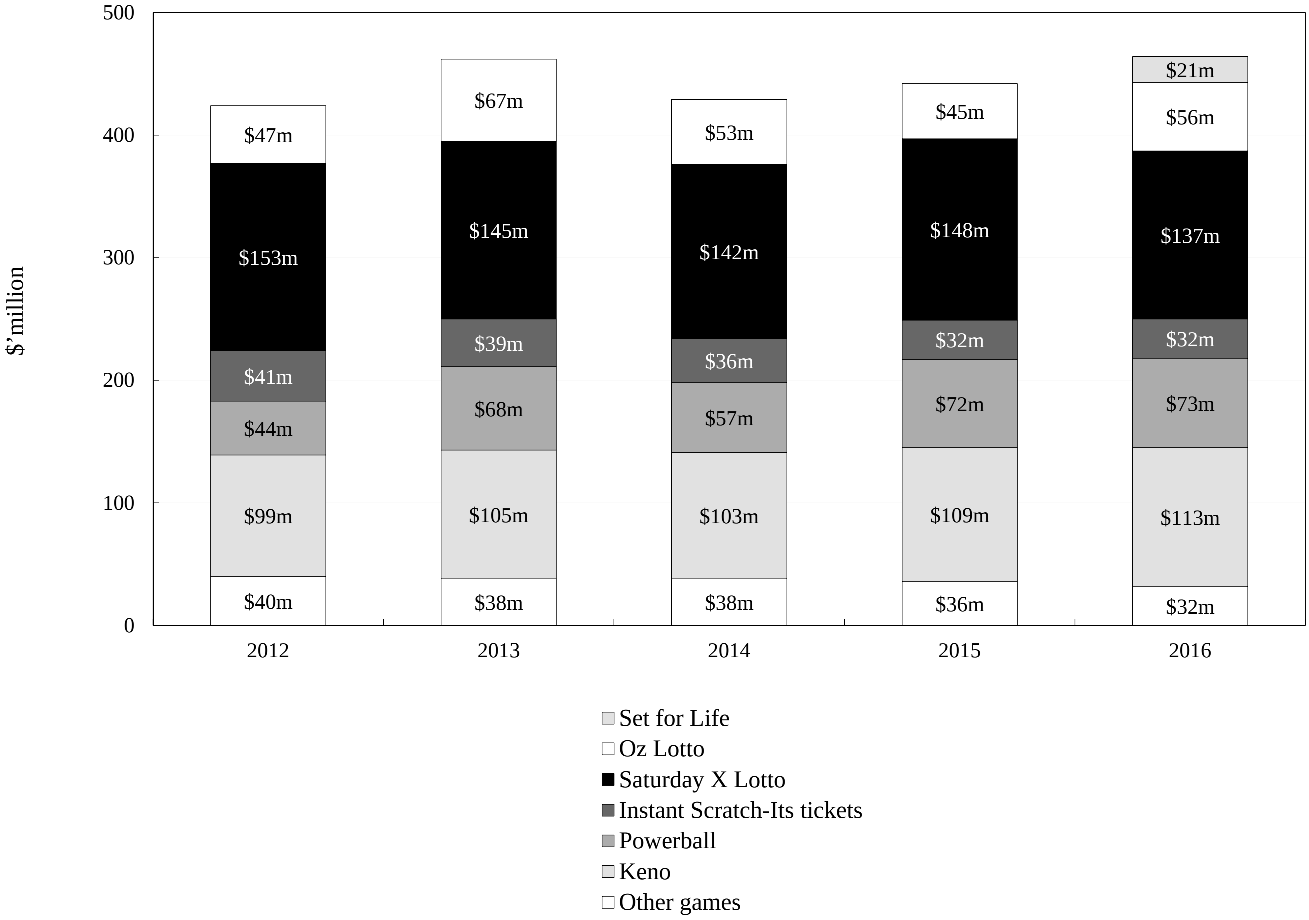
Total income increased by $3.6 million to $57.1 million due to:

- sales increasing by $22.3 million to $463.9 million due mainly to $20.7 million of sales generated from a new lottery, Set for Life, which commenced operation in August 2015. Other major movements in sales were Oz Lotto sales increased by $11.1 million while Saturday X Lotto sales decreased by $11 million

- cost of sales increasing by $18.6 million to $406.8 million due mainly to prizes paid increasing by $11.8 million and gambling tax increasing by $4.3 million.

Sales revenue

A structural analysis of sales revenue generated by the LCSA's lottery products in the five years to 2016 is presented in the following chart.



The games that make up the largest proportion of sales are Saturday X Lotto (30%), Keno (24%), Powerball (16%) and Oz Lotto (12%). Sales activity for the various games is primarily driven by the frequency and amount of high value jackpots.

The following table sets out key changes in sales and jackpot activity and amounts between the current and prior year.

Game	Sales increase (decrease)	Key changes in jackpot activity
Saturday X Lotto	($11 million)	Superdraw sales underperformed
Keno	$3.7 million	Higher jackpot amounts
Powerball	$501 000	Two $70 million jackpots in 2016 compared to one $70 million jackpot in 2015
Oz Lotto	$11.1 million	One $60 million jackpot and three $40 million jackpots in 2016 compared to one $40 million jackpot in 2015

Sales of Monday and Wednesday X Lotto also decreased by $2.7 million.

Revenue from SA Government

All gambling taxes and unclaimed prizes are distributed to the SA Government. To fund its operations the LCSA receives subsidies from the SA Government. No subsidies were received by the LCSA in 2016 as it had sufficient cash to fund its operations. In 2015 the LCSA received a subsidy of $3.3 million.

Statement of Financial Position

Assets

Total assets increased by $662 000 to $56.3 million. The major items causing this change were as follows:

- Cash and cash equivalents increased by $203 000 to $49.6 million mostly due to:
  - funds held by the Master Agent increasing by $1.7 million to $48.9 million. These funds represent the Lotteries Fund bank account which is managed by Tatts on behalf of the LCSA. Variations in the Lotteries Fund balance are primarily attributable to differences in the timing and amount of retail agent bank account sweeps, Bloc receipts and payments and prize payments
  - a decrease of $1.5 million in deposits held at call due mainly to the LCSA not receiving a subsidy from the SA Government to fund its operations.
- Receivables increased by $499 000 to $6.6 million mostly due to:
  - an increase in retail agent debtors of $1.6 million due to the timing of retail agent bank account sweeps. Lotteries sales revenues held in retail agent bank accounts are swept twice weekly into the Lotteries Fund bank account
  - a decrease of $2.5 million in prize settlements receivable from Blocs. Prize settlements receivable from Blocs have decreased as there were lower prize amounts won by South Australian customers in draws towards the end of 2016 compared to 2015
  - receivables from the Master Agent increasing by $1.3 million to $2.2 million resulting from timing differences that occur when calculating gambling tax on net gambling revenue, GST payable on net gambling revenue and prizes payable, for Keno and Instant Scratch-Its.

Liabilities

Total liabilities increased by $2.1 million to $55.9 million due mainly to prize reserves increasing by $2.1 million to $27.1 million. This reflects unclaimed prizes and the timing of payments from reserves that are accumulated in accordance with the Lotteries Act and the Game Rules approved by the Minister. The unclaimed prizes reserve increased by $1.1 million, while there was an increase of $1 million in the other prize reserves.

There was also a decrease in current prizes payable of $4.8 million due to lower prize amounts won by South Australian customers in draws towards the end of 2016 compared to 2015. There was an increase of $4.2 million in non-current prizes payable due mainly to a division 1 winner in South Australia for the Set for Life game. The prize payout for this game is $20 000 each month for 20 years. The non-current prizes payable for this game will increase each year as new winners receiving prize payouts over 20 years accumulate. Tatts holds the funds used to pay these winners. Interest on the funds is retained by Tatts.

Statement of Cash Flows

Net cash provided by operating activities decreased by $2.6 million primarily due to a decrease in the SA Government subsidy of $3.3 million. There was also an increase in receipts from customers of $15.6 million, offset by a net increase of $14.5 million in payments for prizes, Master Agent fees, gambling tax, suppliers and employees.

Motor Accident Commission (MAC)

Financial statistics	Outstanding claims liability:	$1712 million
	Other financial assets:	$1922 million
	Assets held for sale:	$588 million
	Net result:	$313 million
	Number of FTEs:	36.1
	Compulsory Third Party (CTP) Fund assets exceeded the targeted solvency level by $406 million (119% of the targeted level).	
Significant events and transactions	— From 1 July 2016 MAC ceased its role as the provider of CTP insurance. — MAC made a $448.5 million payment to the Highways Fund as a return of capital. — The outstanding claims liability reduced by $166 million. — MAC's investment property portfolio was offered for sale through an expression of interest. — $120 million of premiums received by MAC before 1 July are recognised as payables to the four new private insurers and the CTP insurance regulator.	
Financial statement opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

MAC is established under the *Motor Accident Commission Act 1992* (the MAC Act).

Until 1 July 2016 the main function of MAC was to provide CTP insurance to motor vehicle users in South Australia.

MAC's principal objectives in providing CTP insurance were to:

- achieve and maintain a sufficient level of solvency in the Compulsory Third Party Fund (CTP Fund)

- minimise premium charges, having regard to MAC's objective of achieving and maintaining a sufficient level of solvency in the CTP Fund
- deal with claims for compensation in accordance with law as quickly as possible.

MAC's charter, in accordance with section 18 of the MAC Act, enabled MAC to undertake CTP insurance and financial risk insurance.

MAC has a new role from 1 July 2016

In the 2014-15 State Budget the SA Government announced it would open the provision of CTP insurance to the private sector in South Australia from July 2016. As part of this initiative MAC has ended its role as the sole provider of CTP insurance in South Australia. The SA Government has entered into agreements with four private sector insurers to provide CTP insurance from 1 July 2016.

As a result, MAC ceased writing new CTP insurance policies from 1 July 2016 and will run off its claims against policies issued up to and including 30 June 2016. MAC will continue its role as nominal defendant and in promoting road safety awareness.

In effect, MAC's role has now changed from that of a traditional insurer, with income from new insurance policies and investments being balanced against claims expenses, to a focused role of managing the claims run-off process effectively, such that costs are contained within the estimates included in the outstanding claims liability.

There are risks to be monitored and managed during the run-off process including:

- the cessation of premium income
- withdrawal of capital by the SA Government as owner
- estimation of the claims liability
- investment market exposure and performance.

These are discussed in the following commentary in this section.

MAC's solvency position, discussed further below, provides a margin of $406 million more than the established sufficient solvency target at 30 June 2016. A key to the margin above the solvency target is the reliability of the outstanding claims liability. The liability has been estimated by one actuary and that assessment was peer reviewed by another, in line with good practice for a liability of this type and size.

As MAC no longer has new premium income, continued focus will be needed on managing the existing claims and the monitoring of emerging cost pressures. MAC's existing arrangements with its contracted claims manager and internal monitoring practices reflect the need for this focus. Most of the liabilities are expected to be settled within the next 10 years.

A CTP insurance regulator was appointed on 16 June 2016

As a consequence of the revised arrangements, a CTP insurance regulator (the CTP Regulator) has been established as an independent statutory regulator under the *Compulsory Third Party Insurance Regulation Act 2016*. From 1 July 2016, the CTP Regulator is responsible for the oversight, monitoring and reporting of approved CTP insurer activities in the South Australian market, including oversight of the CTP insurance premium setting process.

Return of capital – payment to the Highways Fund

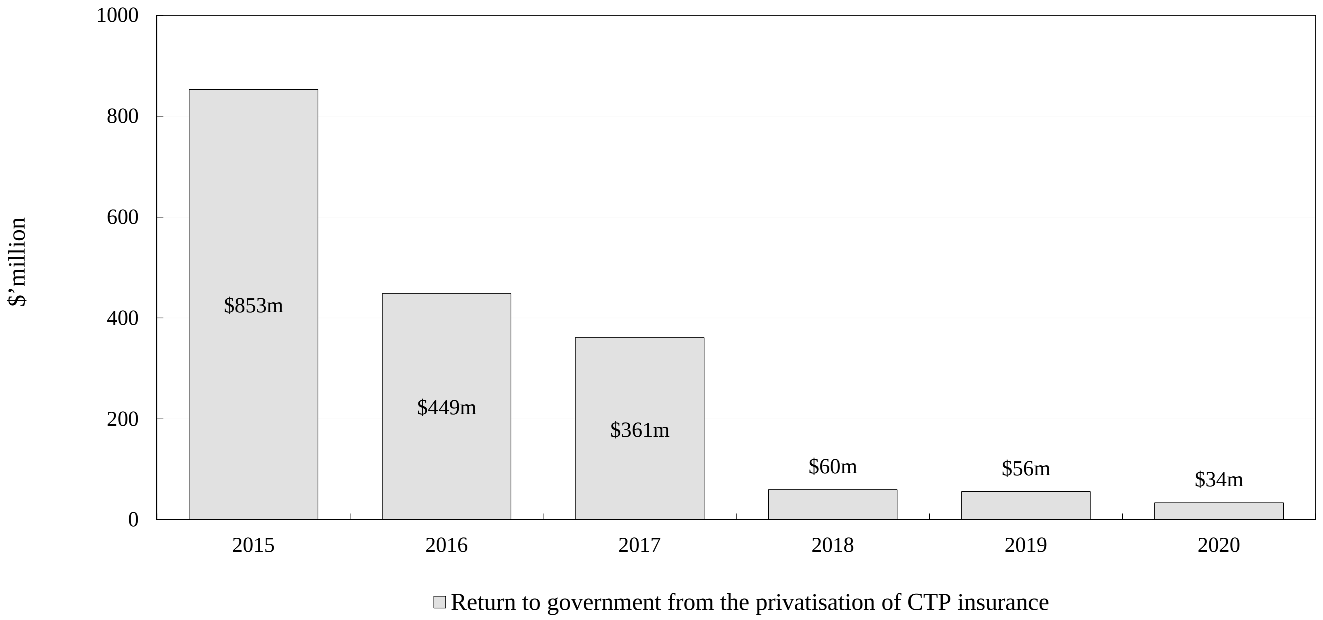
The 2014-15 State Budget identified that, after ceasing to be the sole provider of CTP insurance for South Australia, MAC would be able to return surplus net assets to the Highways Fund to improve road safety.

In June 2016 MAC paid $448.5 million ($852.9 million) to the Highways Fund. This payment was made out of the net assets in excess of the level required for sufficient solvency of MAC, according to a formula approved by the Treasurer.

The payment was consistent with section 26(2) of the MAC Act which provides for payments to the Treasurer, or as the Treasurer directs, to be made where a surplus exists in the CTP Fund. In this instance, consistent with the prior year, the Treasurer directed that the payment be made to the Highways Fund, which is administered by the Department of Planning, Transport and Infrastructure (refer note 25 of the financial report).

As the payment has been made from surplus net assets of MAC as directed by the Treasurer, the payment has been treated as a return of capital in the financial report and is recorded as a reduction in the assets of MAC and a reduction in total equity. Accordingly, this payment is not reflected in the net result or total comprehensive result of MAC for 2015-16.

The following chart demonstrates that the 2016-17 State Budget projects that a total of $1.8 billion will be returned to government by MAC from 2014-15 to 2019-20. This includes the payments of $1.3 billion already made by MAC to the Highways Fund and a budgeted payment of $361 million in 2016-17.



Further capital returns are projected

As noted above, at 30 June 2016 there is a $406 million margin above MAC's sufficient level of solvency. The projected return of a further $361 million, as outlined in the 2016-17 State Budget, will reduce this margin, but this is expected to be offset by reductions in outstanding claims as they are finalised.

It will be important for MAC to focus on managing claims within the established estimates to maintain a margin above solvency, and to provide for further returns in future years.

Scope of the audit

The audit covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

Specific areas of audit attention in 2015-16 included:

- investment assets
- investment income
- claim payments
- outstanding claim liabilities
- premiums
- return of capital.

Audit findings and comments

Communication of audit matters

No matters were identified during the audit that required communication in a management letter to the Chief Executive.

Shared Services SA – financial systems and transaction processing environments

Shared Services SA (SSSA) processes financial transactions on behalf of MAC under service level determinations. The main systems and control environments include accounts payable, payroll and accounts receivable functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of MAC's consolidated financial report*

	2016 $'million	2015 $'million
Underwriting result		
Net premium	455	430
Net claims	(142)	(121)
Underwriting expenses	(108)	(104)
Contributions	(12)	-
Underwriting profit (loss)	193	204
Investment result		
Net investment revenue	41	47
Investment market value movements	79	173
Revenue from investment activities	120	220
Total comprehensive result	313	425

	2016 $'million	2015 $'million
Net cash inflows (outflows) from operating activities	302	760
Assets		
Current assets	1 050	240
Non-current assets	1 488	2 644
Total assets	2 538	2 884
Liabilities		
Current liabilities	460	528
Non-current liabilities	1 390	1 533
Total liabilities	1 850	2 061
Equity	688	823

* Table may not add due to rounding.

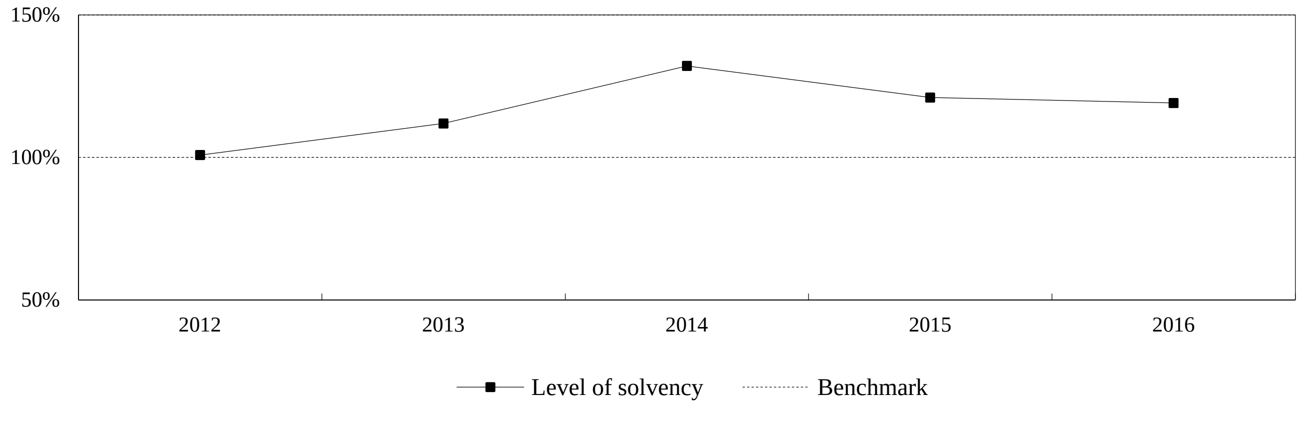
Solvency level is above the target level

Section 13A of the MAC Act requires MAC to seek to achieve and maintain a sufficient level of solvency for the CTP Fund in accordance with a formula determined by the Treasurer. Note 29 of the financial report provides further details on the formula and target rate.

As at 30 June 2016 the target level of assets, determined by application of the formula, was $2131.1 million. The assets of the CTP Fund as at that date were $2537.2 million, $406.1 million above the target level. This equates to 119.1% (121%) of the target level of solvency.

The marginal reduction in the level of solvency in 2016 is principally due to the $448.5 million return of capital, offset by the $166 million reduction in outstanding claims liability.

The following chart shows the level of solvency achieved over the past five years.



As discussed above, the level of solvency has increased importance given MAC has ceased writing new CTP policies and is now running off existing claims. Any shortfalls or deterioration in claims experience cannot be met by future premiums.

Impact on MAC's financial report from its changing role

The matters previously discussed under 'MAC has a new role from 1 July 2016' have resulted in a number of changes in the accounting treatments used in MAC's 2015-16 financial report.

Unearned premium and premiums held for other entities

Due to the transition of existing CTP insurance policies to private insurers on 1 July 2016, at 30 June 2016 MAC ceased having an entitlement to premiums collected but not yet earned. These amounts in prior years have been recognised as unearned premiums.

The amount of $120 million as at 30 June 2016 that had been received by MAC as premium income, but was not yet earned, is recognised as a liability for premiums held for other entities. This amount was payable to the Department of Treasury and Finance, for subsequent payment to four private insurers and the CTP Regulator (refer notes 18 and 19 of the financial report).

Since 1 July 2016, the Treasurer has directed MAC to pay $105 million to the Department of Treasury and Finance for distribution to these entities. It is anticipated that the balance of this liability will be subject to future directions from the Treasurer.

Unexpired risk expense and liability

AASB 1023 ‘General Insurance Contracts’ requires a liability adequacy test, which is an assessment of expected future claims relating to the unexpired risk period represented by the unearned premium. As MAC is no longer writing new policies, this test was no longer required. As a result, the existing unexpired risk liability of $16.1 million as at 30 June 2015 has been reversed in 2016 (refer note 10 of the financial report).

Assets held for sale

MAC’s property portfolio, previously recognised as investment properties, was classified as assets held for sale with a value of $588 million at 30 June 2016. This reclassification reflects that the properties were offered for sale through an expression of interest during 2015-16.

Changes in MAC’s Charter, reflecting MAC’s revised role, require MAC to transition to a higher proportion of defensive assets in its investment portfolio, while achieving a portfolio of investments with characteristics that allow MAC to meet identifiable claims as and when they become due. As a result of these changes, and a need for greater liquidity during the claims run-off process, the property portfolio was offered for sale.

Statement of Comprehensive Income

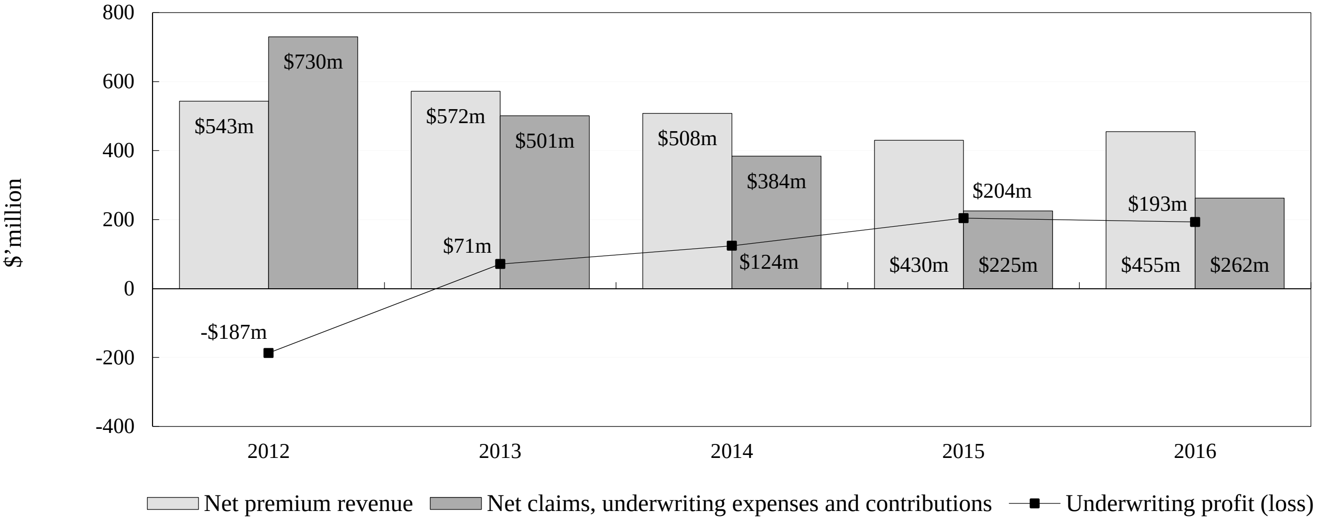
MAC’s financial performance is significantly influenced by two interrelated aspects of its business as outlined below:

- Underwriting result – underwriting operations are influenced by premium income, the number of claims and the estimated costs of settling those claims. The underwriting result is determined as premium revenue less claims expense (after the cost and recoveries associated with reinsuring a portion of the insurance portfolio’s risk with third parties), other underwriting costs and contributions.
- Investment result – investment operations are an integral part of any insurance business as the estimated return on invested funds is a significant component of the pricing strategy employed by the business.

AASB 1023 requires that market value accounting be adopted in the valuation of investments. This means that the investment result includes not only interest and related income received, but also changes in the market values of investments held at balance date. Changes in the market values of investments can be subject to wide fluctuations and it is important to emphasise that investment market value movements recognised in MAC’s financial report are unrealised. That is, until the investments are sold, no gain or loss is actually received or incurred by MAC.

Underwriting result

An analysis of MAC's underwriting result for the five years to 2016 is presented in the following chart.



The underwriting result for 2016 was a profit of $193 million compared with a profit of $204 million in 2015. The main components of this result are outlined below.

The small reduction in result was predominantly due to a $12 million contribution to SA Health in 2015-16 for construction of the SA Ambulance Service Inc's MedSTAR facility at the Adelaide Airport. The Treasurer directed this contribution be made in accordance with sections 25(5)(d) and 26(2) of the MAC Act (refer note 8 of the financial report), consistent with an agreement between MAC and SA Health.

Net premium revenue increased by $25 million to $455 million. This increase is attributable to two main items:

- a 2% increase in the premiums charged for CTP insurance, discussed further under the heading 'Third Party Insurance Premiums'
- a $15.7 million increase in premium revenue from the recognition of amounts for licence fees (stamp duty) which would previously have been classified as unearned premiums. These amounts would normally have been recognised over the subsequent months, but the recognition has been brought forward as MAC will not be responsible for new insurance claims from 1 July 2016.

The full amount of the unexpired risk expense, $16 million, was written back in 2015-16. This was a $7 million improvement on the write-back from 2014-15 (refer note 10 of the financial report). The full write-back of this amount reflects that MAC had no policies providing cover beyond 30 June 2016, meaning the obligation to ensure that net unearned premium reserves are sufficient to cover future claim expenses no longer applies.

Claims expense is a combination of actual claim payments and the movement in the outstanding claims liability. The claims expense for 2016 was $140 million ($122 million) and comprised gross claim payments of $306 million ($327 million), offset by the decrease in the outstanding claims provision of $166 million ($205 million decrease), which is explained further under the heading 'Outstanding claims'.

Other underwriting expenses increased by $10 million primarily as a result of the $15.7 million write-off of the prepaid licence fees (stamp duty), offsetting the amount recognised in premium revenue discussed above.

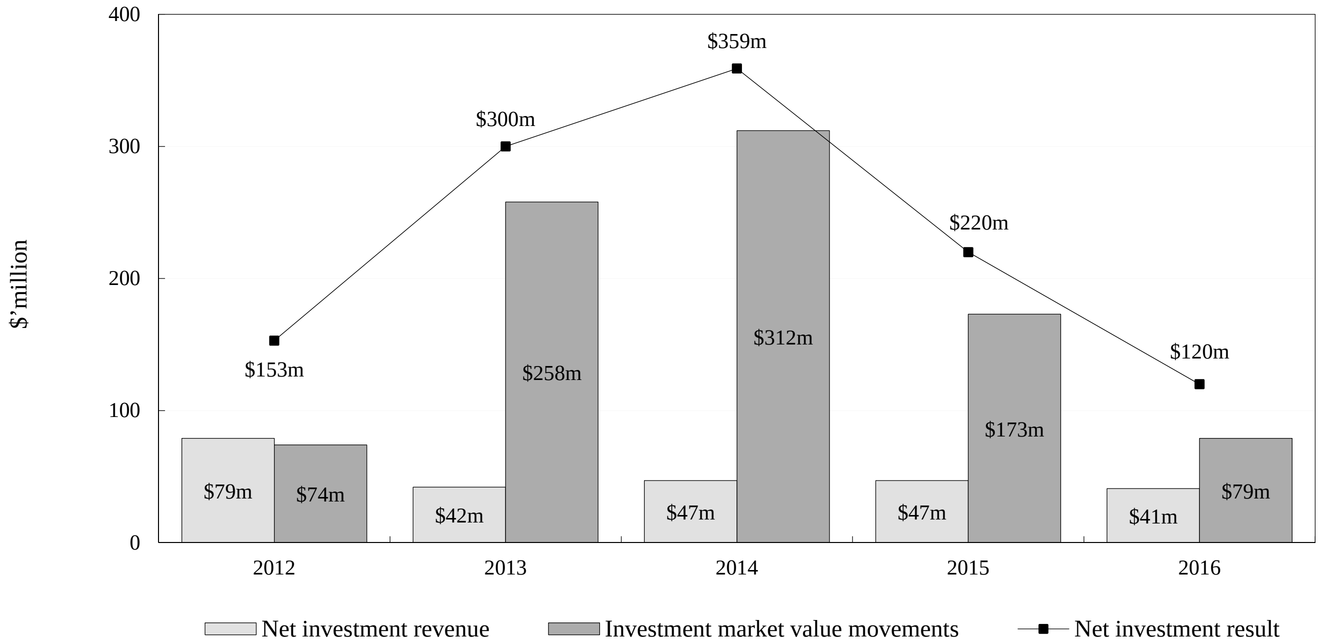
Investment result

The net investment result this financial year was a surplus of $120 million compared with $220 million the previous year. The net investment result is a combination of net investment revenue and investment market value movements. The reduced result reflected a decline in investment markets and a reduced investment pool due to the $448.5 million return of capital during the year. Net investment revenue decreased by $6 million due mainly to a $6.6 million decrease in interest received on term deposits, as a result of MAC transferring funds from term deposits into other investments, and lower interest rates. The market value movement for the year was $79 million, down $94 million primarily due to a $106 million deterioration in the contribution from MAC's equities portfolio, reflecting a lower overall investment in equities and lower market performance.

Since 2008-09 MAC has used the Superannuation Funds Management Corporation of South Australia (Funds SA), the SA Government investment body, to manage most of its investment portfolio. MAC holds investments in unit trusts within Funds SA where the majority of income is derived through movements in the value of unit holdings rather than through direct receipt of interest and dividend income.

MAC also receives rental income from its investment properties. This income remained steady in 2016 at $46 million. In 2016 the market value of investment properties decreased by $16.7 million, compared to a $2 million increase in value in 2015, as assessed by independent valuations. As previously mentioned these investment properties were offered for sale in 2016 (refer note 14 of the financial report).

An analysis of MAC's investment result for the five years to 2016 is shown in the following chart.



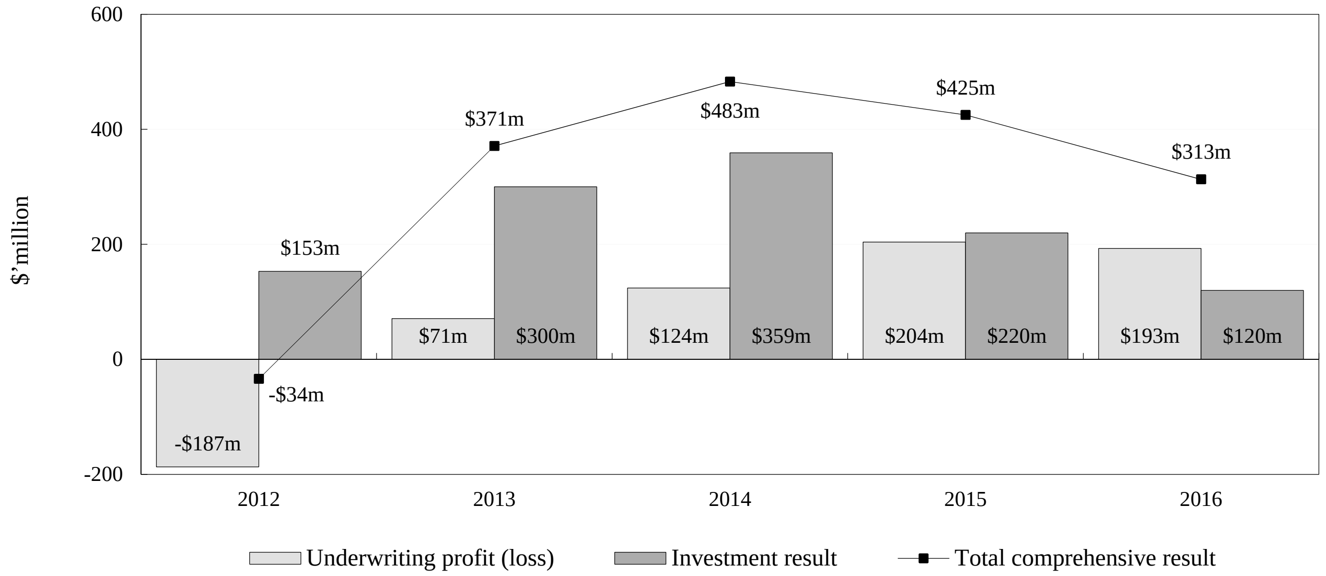
The chart highlights the volatility of investment markets in recent years. Note 23(6) of the financial report explains market risk and illustrates the effect of market movements. Examples of the impact of market risk are:

	Movement %	Financial impact $'million
Interest rates	1.0	(50.1)
Australian equities	(5.0)	(8.5)
International equities	(5.0)	(8.3)

Total comprehensive result

MAC's total comprehensive result for 2016 was a profit of $313 million compared to a $425 million profit in the previous year. The $112 million decrease is a result of a number of factors and largely attributable to the $94 million investment market value movement, as previously discussed.

The following chart provides a breakdown of the contribution of the underwriting and investment results to the total comprehensive result.

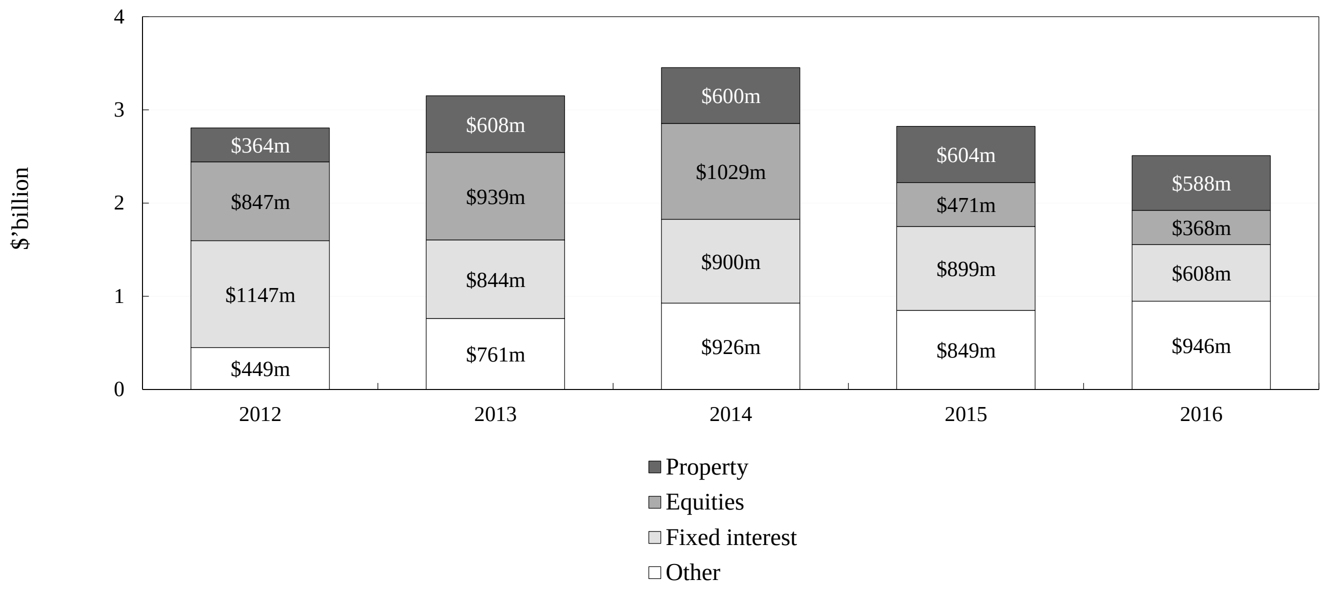


Statement of Financial Position

Investments

MAC does not directly hold investments such as equities but rather has interests in Funds SA's pooled investment portfolios. MAC is responsible for setting the investment objectives and strategic asset allocation for the various investment sectors. Funds SA is responsible for managing the investment portfolios in accordance with the agreed asset allocations and regularly reporting investment performance to MAC.

For the five years to 2016 a structural analysis of investment assets (excluding cash) is shown in the following chart.



The chart shows the steady increase in total investment assets, excluding cash, to a high of $3.5 billion in 2014 before falling to $2.8 billion in 2015 and $2.5 billion in 2016. The decrease of $312 million in 2016 was principally due to the return of capital of $448.5 million (refer note 25 of the financial report) offset by investment market value increases totalling $79 million (refer note 5 of the financial report).

At 30 June 2016 the actual asset allocation of investments managed by Funds SA was a 44.1% allocation to growth assets and a 55.9% allocation to defensive assets.

MAC aims to increase the proportion of defensive assets

In May 2016 the Treasurer approved MAC's 2016-17 asset allocation, which consists of a 20% allocation to growth assets and 80% to defensive assets. The transition to the intended 80% exposure to defensive assets is dependent on the sale of the MAC investment property portfolio. The move to an increased allocation to defensive assets reflects the need to carefully manage existing holdings while running down the outstanding claims.

Outstanding claims

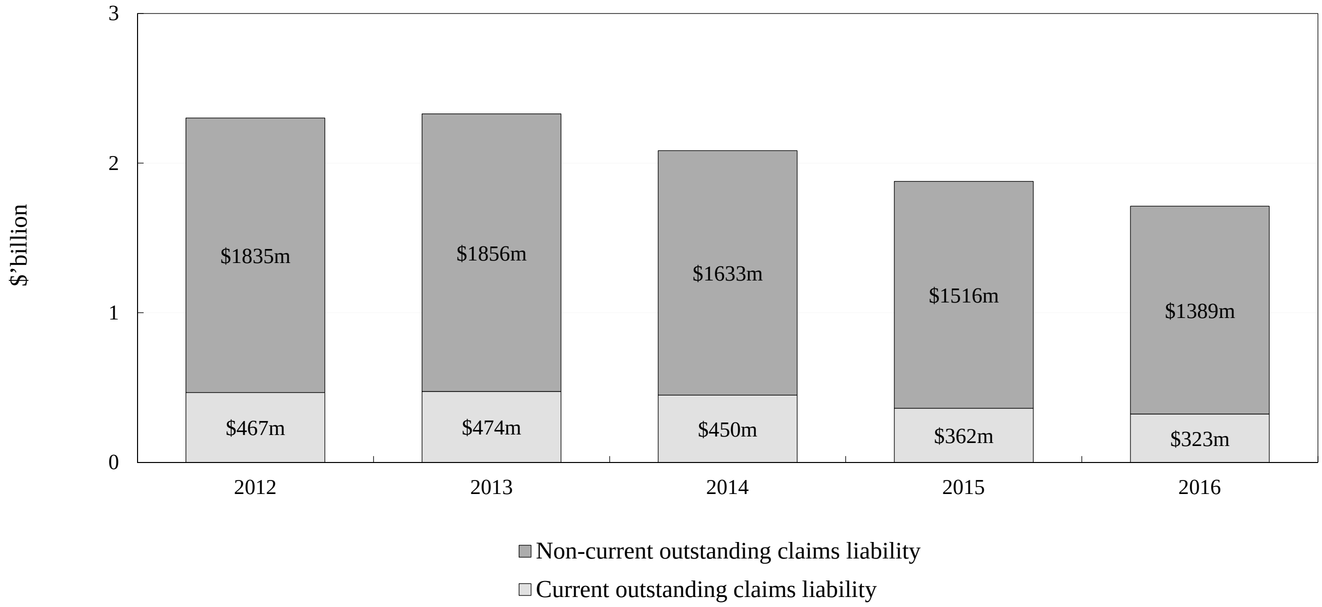
MAC's primary liability is for outstanding claims. The liability covers claims reported but not yet paid, claims incurred but not yet reported, the anticipated direct and indirect costs of settling those claims and estimated reinsurance and other insurance costs.

Calculation of the liability is an estimation process and a range of factors, including economic assumptions, affect the calculation. As a result, there is a need for professional actuaries to undertake the calculation and, for reporting purposes, that detailed disclosure of a range of the assumptions made in the calculation be included in the notes of the financial report.

The liability is calculated and reviewed by independent actuaries for MAC. For 2015-16 MAC's primary independent actuary was Finity Consulting Pty Ltd (Finity), consistent with the prior year. Details of the actuary's calculation are provided in notes 2(e) and 20 of the financial report.

In 2016 the liability decreased by $166 million ($205 million decrease) to $1.7 billion. The movement in the liability is a combination of the estimated cost of settling claims incurred in 2016, any changes in the estimated cost of settling claims incurred in previous years and any payments made to settle claims.

The following chart sets out details of the outstanding claims liability for the five years to 2016.



Factors considered by the actuary that impact the estimate of amounts required to settle 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.

Examples of the potential impact of changes to these assumptions are included in note 20 of the financial report. Some of these are:

Change in assumption	Impact on provision %	Financial impact $'million
Average size of large claims increased by 18% (old scheme)	4.0	67.7
Number of claims involving a settlement decreases by 25% (new scheme)	(9.8)	(166.7)
Discount rate increased from 1.8% to 2.3% p.a.	(1.5)	(26.4)

The risk margin achieves 80% probability the provision is adequate

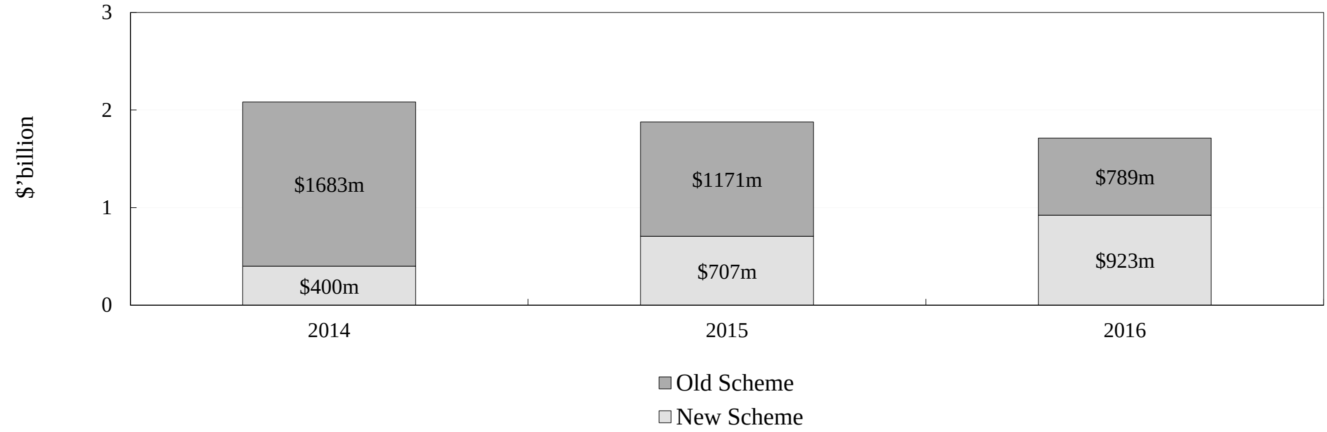
Also impacting on the calculation of the outstanding claims liability are the solvency requirements determined by the Treasurer under the MAC Act that require a risk margin to be included in the provision to achieve an 80% probability that the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority's nominated target of 75% probability of sufficiency, as set out in Prudential Standard GPS 320 'Actuarial and Related Matters'.

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. Legislative reform from 1 July 2013 changed scheme entitlements.

The $166 million decrease in the liability at 30 June 2016 was predominantly due to:

- a $64 million reduction from favourable claims experience, mainly due to quicker settlement of smaller old scheme claims than expected at a lower cost and reduced case estimates for new scheme claims
- further changes to estimates for new scheme claims resulted in a $52 million reduction from assuming fewer settlements, partially offset by increased average settlement sizes
- arrangements where MAC was bulk billed for unallocated hospital, ambulance and helicopter costs ceasing from 30 June 2016, resulting in a $32 million reduction in the liability as the expected provision had assumed this liability would continue to be met by MAC.

An element within the overall decrease has been the increasing proportion of outstanding claims that relate to the new scheme – CTP claims from 1 July 2013 as per the chart below.



As at 30 June 2016, CTP claims under the new scheme represent 54% (38%) of the outstanding claims liability. Claim numbers and values have been lower under the new scheme than expected so far and the calculation of the outstanding claims liability has therefore been adjusted to reflect this experience to date.

While the higher proportion of new scheme claims has a role in the reduction of the outstanding claims liability, as expected from the introduction of scheme reform, there is a higher level of uncertainty regarding these claims due to the limited claims experience to date. Accordingly, MAC has included a higher risk margin, increasing the estimated liability, for the new scheme, when compared to the risk margin applied to the older claims, in calculating the outstanding claims liability.

The claim estimate process is externally peer reviewed

As was the case in 2015, the calculation of the claims liability in 2016 was subject to external peer review by Taylor Fry Consulting Actuaries. The independent reviewing actuary reported that:

- nothing had come to their attention that would lead them to believe that the actuarial assessment conducted by Finity was unreasonable
- they consider the methodology and analysis undertaken by Finity to be reasonable and noted the valuation provides a balance between optimistic and cautious assumptions and therefore represents a reasonable central estimate
- Finity placed significant reliance on case estimates of large claims and recommended that a more detailed review of the development of case estimates over time be undertaken
- as claims run off in future years they would expect the risk margins to increase (in percentage terms).

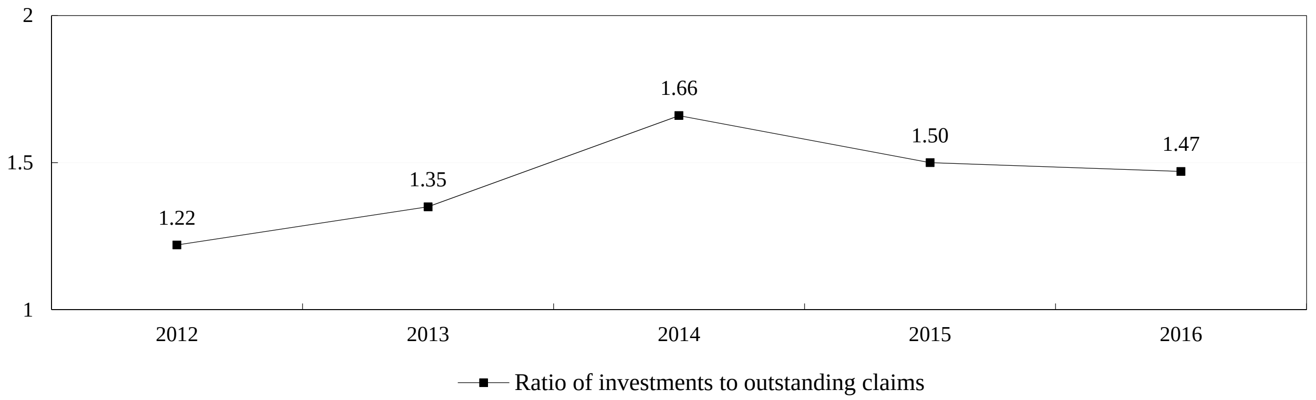
Estimated timing of the settlement of claims

The estimated timing of payments to settle claims is:

Up to 1 year $'million	2-4 years $'million	5-9 years $'million	10-14 years $'million	15-19 years $'million	20-24 years $'million	Later $'million	Total $'million
321.6	937.4	362.3	66.5	15.5	1.2	-	1 704.5

Investments exceed estimated liability

The ratio of investments, excluding cash, to outstanding claims liability is shown in the following chart. The ratio shows that the value of MAC's investments is sufficient to cover the value of its outstanding claims at 30 June 2016. The decrease in the ratio in 2016 reflects the $312 million decrease in the value of investments relative to the smaller $166 million reduction in outstanding claims liability.



Third party insurance premiums

The recent history regarding the implementation of premium changes recommended by the Third Party Premiums Committee (TPPC) is outlined below.

	2016	2015	2014	2013	2012
	%	%	%	%	%
TPPC:					
Recommended rise (effective for the year ending 30 June)	2.0	(9.3)	2.0	4.63	2.4
Actual rise	2.0	(9.3)	(20.3)	4.63	2.4
Difference	-	-	22.3	-	-

As can be seen from the table, the Treasurer/Minister for Finance approved the premium increases recommended by the TPPC in all years, except for 2014. On 20 May 2013 the Minister for Finance approved a decrease in premiums for 2014 to reflect the impact of scheme reform brought about by the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013*. The TPPC had not considered scheme reform when it finalised its recommendation for premium increases on 18 April 2013.

The 9.3% reduction in premiums for 2014-15 reflected the continued impact of reforms to CTP insurance. Premiums are set with reference to expected claims and the need to maintain the solvency of the CTP Fund. The 2014-15 premium reflected lower expected claims payments, and associated outstanding claims liabilities, as a result of changes to the CTP insurance arrangements introduced from 1 July 2013. The impact of these changes, which limit payments for some claims, was factored in as a result of modelling of the impact of the changes and the claims experience in 2013-14.

Statement of Cash Flows

MAC’s cash position decreased by $147 million. This reduction was $54 million higher than 2015 due to:

- a $458 million decrease in net operating cash flows, resulting mainly from a $454 million decrease in interest and other investment income (predominantly relating to the redemption of Funds SA investments to fund the $448.5 million return of capital – refer note 25 of the financial report)

- a $404.4 million improvement in net cash flows used in financing activities, relating to the reduced return of capital in 2016 compared to 2015 (refer note 25 of the financial report).

Cash at 30 June 2016 includes deposits at call of $22 million.

Museum Board (Museum)

Financial statistics	Net cost of providing services:	$9.9 million
	Total revenues from SA Government:	$11.5 million
	Value of heritage collections:	$288 million
	Number of FTEs:	76
	Number of visitors:	730 223

Significant events and transactions

- The Museum's heritage collections were revalued as at 30 June 2016 resulting in a revaluation decrease of $79 million.
- Opals, a major exhibition, was held at the Museum from September 2015 to February 2016. Following this exhibition, a number of significant opals were donated to the Museum's heritage collections.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Incomplete service level agreement with the Department of State Development
- Non-compliance with aspects of Treasurer's Instruction 28 'Financial Management Compliance Program'
- Untimely review of bona fide and leave taken reports
- Significant delay in request for funding under a subcontract agreement

Functional responsibility

The Museum is established by the *South Australian Museum Act 1976*. The main function of the Museum is to manage the South Australian Museum. For details of the Museum's functions refer note 1 of the financial report.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

During 2015-16 specific areas of audit attention included:

- follow-up of 2014-15 audit findings
- legal compliance
- compliance with Treasurer's Instructions
- revenue
- expenditure
- payroll
- property, plant and equipment
- heritage collections, including revaluation
- cash and investments
- general ledger.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Museum Board in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Museum Board have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified during the course of the audit were detailed in a management letter to the Director of the Museum. Major matters raised with the Museum and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to the Museum are also described below.

Governance and compliance

Incomplete service level agreement with the Department of State Development

The Museum was provided with a Service Design and Operating Level Responsibilities document by the Department of State Development (DSD) outlining the services to be provided to the Museum by DSD. We note that this document was not formally signed off by both agencies as DSD considered this unnecessary. The Museum also had limited opportunity to amend what was included in the document by DSD.

Our review of this document identified aspects of the relationship between DSD and the Museum that were not clearly defined. For example, there are a number of activities performed by DSD on behalf of the Museum that are not detailed in the document. These include:

- quarterly review of delegations in Basware to ensure they agree to the delegations formally approved by DSD

- six-monthly overseas travel reporting to the Minister

- annual Treasurer's Instruction 11 'Payment of Creditors' Accounts' reporting to the Department of Treasury and Finance.

We also identified a number of important control activities that were not performed throughout the year by either the Museum or DSD, as responsibility is not defined in the document. These include:

- monthly review of all manual payments processed by SSSA to ensure they are valid, accurate and appropriately approved
- monthly review of all payments made under a special or super delegation to ensure they are valid and appropriate.

The risk of the Museum not meeting its statutory responsibilities is increased if the relationship between the Museum and DSD is not clearly defined in a service level agreement.

The Museum responded that it will work with Arts South Australia to continue to liaise with DSD and request that the Service Design and Operating Level Responsibilities document is updated to reflect clear roles and responsibilities. The Museum is extremely keen to have an agreement in place that is formally signed and agreed by both parties and will continue to pursue this outcome.

Non-compliance with aspects of Treasurer's Instruction 28

We have previously reported and recommended that the Museum update its financial management compliance program (FMCP) to ensure all documentation is complete and complies with the requirements of Treasurer's Instruction 28 'Financial Management Compliance Program' (TI 28).

Although the Museum has made significant progress in developing and implementing its FMCP throughout the year, at year end there were still aspects of TI 28 that the Museum did not comply with. For example no FMCP framework, policy and procedure had been developed outlining:

- how the FMCP will be implemented across the Museum
- who is responsible for the FMCP and its outcomes
- how FMCP failures will be dealt with
- how the Director of the Museum will be kept informed on all relevant financial management compliance and governance matters.

The Museum's response noted that our finding relates primarily to the framework and processes of the Museum's FMCP. The operational assessment aspect of the FMCP was successfully completed during the year and the Museum now has a robust point of reference to commence FMCP framework development. An administrative services restructure took place in 2015-16 and as a result a dedicated finance resource will be in place during the 2016-17 financial year to develop the FMCP framework, policy and procedure.

No reporting of overseas travel to the Minister for the Arts

Commissioner's Determination 3.2 'Employment Conditions – Remuneration – Allowances and Reimbursements' requires that a six-monthly return must be provided to the Minister responsible for an agency showing overseas travel taken for the preceding six months.

DSD reports overseas travel to the Minister on behalf of the arts entities, but only to the administrative Minister responsible for DSD and not to the Minister for the Arts, the responsible Minister. As a result, the Museum is not complying with the requirements of Commissioner's Determination 3.2.

The Museum responded that it will advance this matter through Arts South Australia to ensure that the Minister for the Arts receives reports on overseas travel taken by Museum staff.

Payroll

Untimely review of bona fide and leave taken reports

Our review in 2015-16 identified that since the implementation of the CHRIS 21 payroll system in December 2015, not all areas of the Museum were generating and reviewing bona fide and leave taken reports. We identified that reports were not generated and reviewed for all staff in the Science directorate of the Museum (who form a large percentage of the Museum's total staff) since December 2015. We are satisfied, however, that other areas of the Museum (for example, Directorate) were generating and reviewing reports throughout 2015-16.

Without a timely review of bona fide and leave taken reports, invalid and inaccurate payroll payments may not be detected. As a result, it may become more time consuming and difficult to resolve pay errors and anomalies identified.

The Museum responded that difficulties in the transition to CHRIS 21 contributed to the Museum's delayed response in implementing its bona fide and leave taken report reconciliation processes. The Museum's recent administrative services restructure aims to ensure consistency across the Museum. The newly created Museum Administration Group has already implemented consistent internal bona fide and leave taken report reconciliation processes, which will ensure that each area is performing tasks in the same way, and in a timely manner.

Revenue

Significant delay in request for funding under a subcontract agreement

In May 2014 the Museum entered into a subcontract agreement to provide services to the Commonwealth Scientific and Industrial Research Organisation for a project. This agreement specified that in return for the supply of a part-time Museum resource on the project, the Museum would receive the following payments:

- $30 000 plus GST on execution of the agreement
- $30 000 plus GST on 1 January 2015.

Our review in 2015-16 identified that the invoice for the payment receivable by the Museum on 1 January 2015 was only sent in March 2016. This is despite email correspondence between Museum employees in April 2015 identifying that the amount still needed to be invoiced by the Museum.

Without processes in place to ensure all funding due to the Museum is invoiced, revenue may be lost.

The Museum responded that this instance of a delayed invoice request has been reported to the Manager, Corporate Services, who oversees the Museum Administration Group. The Museum Administration Group, along with senior managers and the dedicated finance personnel, will be asked to develop processes to ensure that all invoices are raised in a timely manner.

Expenditure

No current agreement in place for use of storage location

The Museum has an offsite storage location for its heritage collection assets. Our review in the prior year identified that there was no current agreement in place for the Museum's use of this storage location. Follow up in 2015-16 identified that there continues to be no agreement in place. We understand that there were a number of incidents which occurred at the storage location during the year (for example, flooding) and the Museum is unwilling to enter into an agreement for what it considers is sub-standard accommodation.

If obligations of both parties for use of the storage location are not agreed upon and formally documented, disagreements between the two parties may result. This could create additional risks to the safety and security of the Museum's heritage collection assets held at the storage location.

The Museum responded that although the Board was presented with a number of agreements relating to its occupancy of this storage location in April 2016, the Board did not support the execution of the agreements as it considered doing so would commit the Museum to occupying a storage location it considers inadequate. The Board's views have also been expressed to the Minister for the Arts and the Premier.

The Museum will continue to work with Arts South Australia, the Department of Planning, Transport and Infrastructure and the building owner to address the Museum's most pressing concerns.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the Museum under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

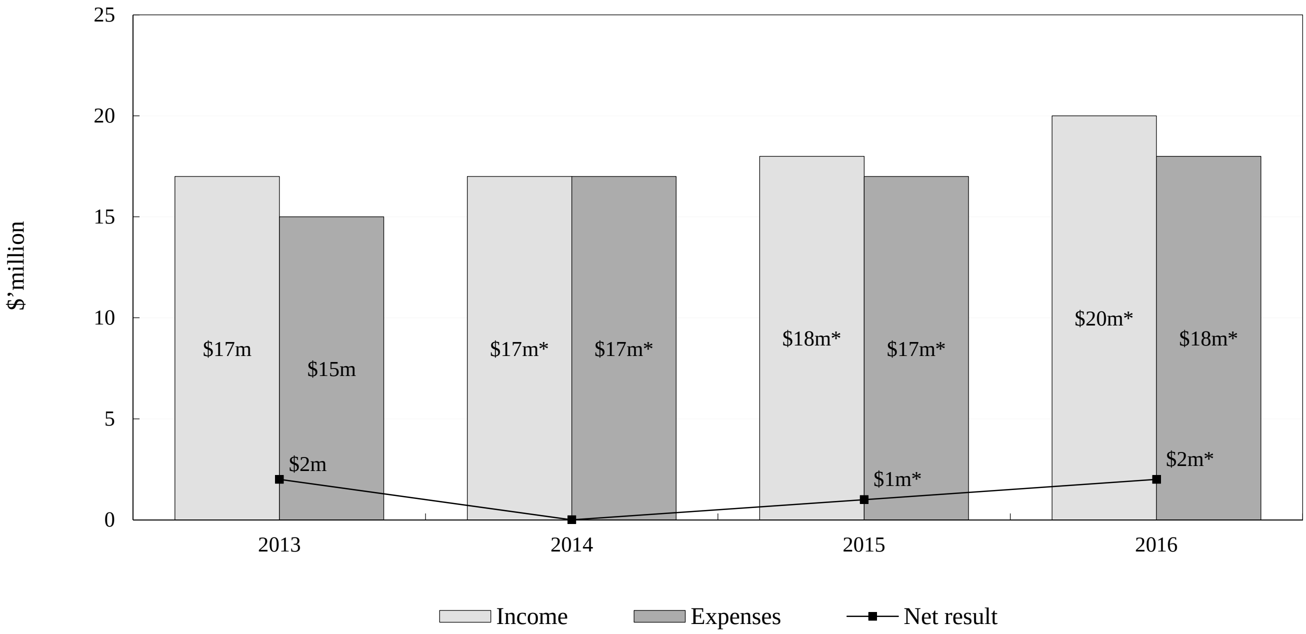
	2016 $'million	2015 $'million
Expenses		
Staff benefits	8	8
Other expenses	10	9
Total expenses	18	17
Income		
Revenues from SA Government	12	11
Other revenue	8	7
Total income	20	18
Net result	2	1
Net cash provided by (used in) operating activities	1	1
Net cash provided by (used in) investing activities	(2)	-
Assets		
Current assets	5	5
Non-current assets	329	406
Total assets	334	411

	2016 $'million	2015 $'million
Liabilities		
Current liabilities	2	2
Non-current liabilities	2	1
Total liabilities	4	3
Total equity	330	408

Statement of Comprehensive Income

Net result

The following chart shows the income, expenses and net result of the Museum for the four years to 2016.



* Includes transactions relating to the South Australian Museum Foundation Incorporated and the South Australian Museum Foundation Fund.

The Museum's operations are generally consistent across years, unless there are one-off transactions that occur. For example a capital grant of $2.4 million was received in 2013 for the entomology project and security system upgrades and $1.5 million in opals were donated as part of the opals exhibition in 2015-16. The consistent net result highlights that the Museum only spends what it receives, and largely operates on a break-even basis.

Statement of Financial Position

Total assets at 30 June 2016 were $334 million, of which $288 million (86%) relates to the Museum's heritage collections. The Museum's heritage collections were revalued as at 30 June 2016 by Aon Risk Solutions. This resulted in a decrease in value of the Museum's heritage collections of $79 million. The valuer advised that this decrease is due to a substantially more thorough valuation taking place as at 30 June 2016 compared to when the heritage collections were last revalued as at 30 June 2011. New valuation methodologies and calculations also significantly influenced the revaluation outcome.

Office of the National Rail Safety Regulator (ONRSR)

Financial statistics	Revenues from fees and charges:	$32.3 million
	Service level agreement expenses:	$19.4 million
	Number of FTEs:	63
Significant events and transactions	— Western Australia joined the ONRSR in November 2015. — Preparation continued for the transition of regulation in New South Wales to be performed directly by the ONRSR, rather than under a service level agreement.	
Financial statement opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

The ONRSR is a body corporate established under the *Rail Safety National Law (South Australia) Act 2012* (RSNL Act).

The Schedule to the RSNL Act sets out the Rail Safety National Law (the Law) to apply to a participating jurisdiction (state or territory). The RSNL Act applies the Law to South Australia.

The principal function of the ONRSR is to facilitate the safe operations of rail transport in Australia through regulation of the rail industry in accordance with the Law, supporting regulations and policies and the promotion of safety as a fundamental objective in the delivery of rail transport services. For details of the ONRSR's functions refer note 1 of the financial report.

Scope of the audit

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

Specific areas of audit attention included:

- corporate governance
- payroll
- expenditure
- revenue, receipting and banking
- general ledger.

Audit findings and comments

Communication of audit matters

A management letter to the Chief Executive identified some opportunities for improvement to the ONRSR's business practices. The matters raised and the related responses are detailed below.

Update of policies and procedures

The audit of the ONRSR identified a number of policies or procedures that required updating as they did not reflect current practices.

This resulted in an increased risk that staff may not adequately understand their required roles and responsibilities, particularly where responsibilities change.

The ONRSR indicated that a review of finance policies and procedures would be undertaken with priority given to those areas assessed as higher risk. The ONRSR also noted its ongoing commitment to the review of policies and procedures.

Compliance with procurement policy

Our 2015-16 review of expenditure transactions identified an instance where the procurement policy was not followed, as a single supplier was engaged directly without evidence of alternative quotes to provide the service.

Not having evidence to support that a competitive procurement process has been undertaken increases the risk that the procurement decision was not based on complete information about potential suppliers and costs.

The ONRSR indicated that the Chief Executive would now sign and approve all new contracts and extensions.

National reform progress

The ONRSR was established on 1 July 2012 and commenced regulatory activities on 20 January 2013. As at 30 June 2016, the ONRSR is the rail safety regulator for rail activities under the RSNL Act in New South Wales, Victoria, Western Australia (from November 2015), South Australia, Tasmania, the Australian Capital Territory and the Northern Territory. Specific regulatory duties are undertaken in New South Wales and Victoria by the Independent Transport Safety Regulator and Transport Safety Victoria pursuant to service level agreements between those organisations and the ONRSR.

It is anticipated that during 2016-17 New South Wales will transition to direct ONRSR delivery of regulatory services, moving away from the current service level arrangement. The Victorian State Government is currently undertaking a review of the service level arrangements in Victoria.

Subject to the passage of legislation, it is also expected that Queensland will come within the regulatory framework of the ONRSR for the first time during 2017. It is anticipated that service delivery in Queensland will be directly by the ONRSR from the date of transition.

Interpretation and analysis of the financial report

As the transition to national regulation continues, the financial report of the ONRSR also changes. 2015-16 includes, for the first time, the impact of Western Australia being regulated by the ONRSR.

As outlined above, further change is anticipated in 2016-17 as service delivery in New South Wales changes to being directly through the ONRSR, rather than through a service level agreement. A further impact will be the anticipated transition of Queensland during 2017.

In the longer term it is also expected that the ONRSR will move to being fully funded by industry contributions, rather than predominantly by state government contributions.

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	8	7
Service level agreement	20	20
Supplies and services	4	3
Total expenses	32	30
Income		
Revenues from fees and charges	33	31
Total income	33	31
Net result and total comprehensive result	1	1
Net cash provided by (used in) operating activities	5	4
Assets		
Current assets	13	11
Non-current assets	3	2
Total assets	16	13
Liabilities		
Current liabilities	7	5
Total liabilities	7	5
Total equity	9	8

Statement of Comprehensive Income

Expenses

Employee benefits expenses have increased by $1 million due to additional staff numbers following the transition of Western Australia joining the ONRSR in November 2015. Service level agreement expenses have remained constant as service level arrangements for the New South Wales Independent Transport Safety Regulator and Transport Safety Victoria remain largely unchanged.

Income

Revenues from fees and charges have increased by $2 million to $33 million due to industry fees being received for the first time from Western Australia in 2015-16.

Revenues from fees and charges are represented by $20.5 million ($22.3 million) from Australian state and territory governments and $11.7 million ($8.3 million) from rail industry operators. Revenues from rail industry operators reflect the increase from the new Western Australian office and increased charges to industry operators as they move towards full cost recovery, offset by a reduction in state government contributions for a number of states.

Department of Planning, Transport and Infrastructure (DPTI)

Financial statistics	**Controlled** Total expenses: $1601 million Net cost of providing services: $265 million Net revenues from SA Government: $869 million Equity contributions from SA Government: $298 million Capital expenditure: $653 million Total non-current assets: $24 billion Number of FTEs (excluding Rail Commissioner): 2397 **Administered** Total income: $1151 million Disbursements to third parties: $928 million Payments to Consolidated Account: $183 million
Significant events and transactions	— $449 million was paid into the Highways Fund from the Motor Accident Commission. — Commonwealth revenues of $244 million were received for road related capital projects. — A gain on revaluation of network assets of $328 million was largely offset by a loss on revaluation of property of $305 million. — Procurement transformation and project governance framework development progressed.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Modified** Key issues: — Further opportunities to improve procurement and contract management — Further improvements required in project delivery and governance arrangements — No contract management framework or plan for the new across government facilities management arrangement — Risk management processes need further development — Legal compliance management framework was not fully established — Improvements in the administration of authorised officers remain unresolved — Accounts payable policies and procedures were inadequate — Responsibility for purchase card administration not assigned — Payroll controls did not ensure all payments were bona fide and accurate, and that all leave was recorded

Functional responsibility

DPTI is an administrative unit established under the *Public Sector Act 2009* and has diverse responsibilities for transport systems and services, infrastructure planning and provision, sporting infrastructure and strategic land use for South Australia.

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.

During 2015-16 specific areas of audit attention included:

- accounts payable
- management of purchase cards
- bus contract payments
- grants and subsidies
- registration and licence fees
- Metrocard revenue
- other revenue
- accounts receivable
- Commonwealth certificates
- bank reconciliations
- governance
- fixed assets including:
  - network assets
  - land, buildings and facilities
  - plant and equipment
  - capital works
  - rental and other properties.

In addition, we considered internal audit activities to identify and assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of Planning, Transport and Infrastructure in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Planning, Transport and Infrastructure have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. Major matters raised and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to DPTI are described below.

Further opportunities to improve procurement and contract management

Procurement and contract management is a significant aspect of DPTI's operations, with DPTI spending around $2 billion on goods, services and construction annually.

Since August 2014 DPTI has undergone a significant organisational restructure and commenced reform processes over its operations. As part of these changes, DPTI began a procurement transformation program.

DPTI identified need for improvements in April 2015

DPTI has identified serious issues to be addressed with respect to procurement and contact management. Two major reviews instigated by DPTI in April 2015 and July 2016 found:

- DPTI operated as a collective of silos
- a lack of strategic procurement capability
- a lack of centralised overview
- fragmented IT systems
- no common procurement policy and framework
- disjointed structure
- poor capability and processes.

DPTI has established two senior procurement committees each chaired by a senior executive (one for goods and services and the other for construction contracting).

Progress at September 2016

In September 2016, DPTI provided an update of the procurement transformation process and advised:

- governance arrangements were reviewed and a Procurement Future State Steering Committee and a Procurement Transformation Implementation Team were established. In addition, the status of the procurement modernisation is reported to DPTI's Portfolio Management Office on a monthly basis

- business units were being reviewed to identify all current procurement and contract management functions with a view to centralising them

- all policies and procedures will be reviewed and amended to provide a consistent approach to procurement and contract management practices across DPTI

- procurement categories were developed for strategic management.

Further improvements required in project delivery and governance arrangements

In 2015-16, DPTI spent $674 million (including GST) on construction and purchasing assets and $267 million (including GST) on building projects for other SA Government agencies.

As part of a significant organisational restructure, DPTI has started to change how it manages project and program delivery.

DPTI identified gaps in May 2015

DPTI engaged an external firm to help develop a new project delivery governance framework. The review in May 2015 made numerous observations on DPTI's delivery governance, including:

- For portfolio governance and accountability there was:
  - no single approach to project governance across DPTI
  - an inconsistent approach to applying existing project governance arrangements
  - no regular structured forum to adequately consider project issues from a whole-of-department perspective
  - a lack of clarity around roles and responsibilities for project planning and delivery
  - an inconsistent approach to governance and accountability of key stakeholders through the life cycle of a project
  - no formal staged approval process for major projects.
- For project delivery:
  - there was a large amount of rework, duplication and inefficiency, due to the siloed approach
  - steering groups were not common for major projects
  - original project objectives and ongoing operational/maintenance issues were of less importance than construction issues.
- For performance measurement there was:
  - a lack of high level independent scrutiny of project progress
  - no consistent or structured reporting framework that considers all elements of good project monitoring
  - a lack of focus on benefits realisation
  - often no post-delivery reviews performed.

The report also included observations on strategic planning and alignment, project planning, asset management, and training and skills development.

DPTI consultant made recommendations

The report made a range of recommendations to improve governance delivery, which were intended to apply across all aspects of DPTI's operations and cover projects, programs operating expenditure and projects delivered on behalf of other SA Government agencies. These included recommendations to:

- define organisational structure, roles and responsibilities

- establish a Portfolio Management Office (PMO)
- develop ongoing project status reporting
- implement a consistent project management framework
- establish a tiered approach to governance
- mandate the use of a structured approval process at strategic stages of the project cycle
- establish an executive oversight framework
- update the Portfolio Management Committee's terms of reference.

We noted subsequent reform activities included establishing a PMO in November 2015 to manage the portfolio of projects and business improvement initiatives across DPTI. The PMO established the Road Map and Project Charters document outlining its purpose and objective in February 2016, developed a draft Portfolio Governance Framework in April 2016 and updated the Portfolio Management Committee's terms of reference.

At the time of our audit the PMO was still developing detailed templates and guidance to further direct the processes outlined in the framework.

Progress at September 2016

In September 2016, DPTI provided an update of the program delivery transformation process. DPTI advised it has:

- updated a road map of activities and presented it to the PMO Steering Committee for endorsement

- implemented a project reporting framework, process and reporting tool that is being progressively applied across DPTI. Monthly status reports are prepared for the portfolio of investing projects, annual programs and operating projects

- established a steering committee for high risk and high value projects with the Portfolio Management Committee overseeing lower risk projects, established the role of program sponsors for annual programs, commenced a gap analysis on the existing project management systems and developed a draft framework for benefits realisation management

- commenced a portfolio management approval process to provide transparency of decision-making

- commenced an independent review of the effectiveness of change management to identify gaps

- provided training to staff on project reporting, benefits realisation and business case development

Across government facilities management arrangements

DPTI is responsible for managing outsourced across government facilities management arrangements (AGFMA). These arrangements provide SA Government agencies with access to planned and unplanned maintenance, minor works and other services. Services are provided to the SA Government by an outsourced contractor for central and northern Adelaide regions and are coordinated by DPTI for southern Adelaide and country South Australia regions.

No contract management framework or plan for the outsourced provider

In 2015-16 payments for work performed across the central and northern Adelaide regions by the outsourced provider were $123 million. The contract management and governance arrangements for the contract with the outsourced provider started in July 2015.

Our review of contract management processes found that DPTI had not established a contract management framework and had not finalised a comprehensive contract management plan for the current contract. State Procurement Board guidelines recommend that a contract management plan be established as an important contract management tool.

We noted that a contract administration manual was prepared by the Crown Solicitor's Office, however, it did not include all the important elements of a contract management framework and plan.

Without an established contract management framework and plan there is a risk that the contractual relationship will not be properly managed, deliverables will not be provided to the required standard and within the agreed time frame, and parties may not meet their contractual obligations.

DPTI responded that a contract management framework was in development and that the draft contract management plan was being reviewed, with these documents due to be completed in June 2016.

Inadequate contract management practices for the AGFMA

Other observations from our review of the contract management and governance processes were:

- service level agreements with client agencies were not finalised and executed
- the composition of the Facilities Management Governance Group approved by Cabinet was not finalised. This group supports the implementation and operation of the AGFMA
- DPTI's independent audit process for the outsourced provider's transactions did not include all types of work performed, results were not always actioned or communicated to the appropriate level and DPTI's approved Audit Framework did not outline who was responsible for actioning the matters identified or how they were to be considered in the performance review process. Transactions not subject to DPTI's audit coverage in 2015-16 totalled $78 million (62%)
- the organisational structure of the unit overseeing the contract had only recently been finalised and some key facilities management positions were not filled
- subcontractors used by the outsourced provider were not approved by the AGFMA team as required by the contract. Approximately $115 million worth of work was undertaken by subcontractors in 2015-16.

In our view inadequate contract management processes increase the risk that performance issues are not promptly identified and actioned.

DPTI's management agreed with the recommended actions and advised they had or would implement appropriate corrective actions.

A significant number of invoices are automatically approved for payment

Agencies are required to certify goods and services received from the outsourced and internal facilities management services providers prior to payment. In previous years we have reported that an unacceptably high percentage of facilities charges are automatically approved for payment without certification from agencies receiving the service.

Our 2015-16 review found that $79 million (42% of the total amount) were automatically approved by the system. Agency compliance with review and certification requirements therefore remains a concern.

Payments to suppliers based on automatically approved works increases the risk that payments were made for goods and services not provided or work not completed to the required standard.

In response DPTI advised that, from May 2016, a daily system generated email would be sent to approvers for job claims with 15 days remaining before automatic approval. The AGFMA team advised it would compare the number of automatic approvals before and after this initiative, track its effectiveness and implement an ongoing strategy.

Facilities management fee input and transaction documentation needed improvement

Our review of the processes to manage payments for work completed by the outsourced provider and recoveries from client agencies found:

- the management and recovery fees entered into the system were not checked by an independent officer. Without this check client agencies could be charged incorrect fees
- supporting documentation was missing for some outsourced provider transactions. These findings were consistent with the independent audit findings. Non-compliance with established procurement and documentation requirements may result in payments for services not provided. The outsourced provider may also be in breach of their contract.

DPTI’s response advised:

- an independent officer would review the fees and maintain evidence of the review. It also advised that procedures would be reviewed and updated to reflect current practice and the responsibilities of the independent reviewers
- that the AGFMA team would continue to remind the outsourced provider of the contractual requirements. DPTI also advised that its audit process looks at supporting documentation for transactions.

Facilities Services improvements required

Facilities Services manages jobs for southern and regional Adelaide, with expenditure of $99 million for these regions in 2015-16. The significant findings from our review were as follows:

- The Facilities Management Services Framework was not finalised and approved, increasing the risk that roles and responsibilities may not be clearly understood and key objectives may not be met.
- Suppliers not registered on the approved supplier listing were allocated work totalling approximately $6 million, increasing the risk of conflicts of interest and work not being performed to the expected standard.
- Reviews of system user access were ineffective and evidence of the reviews was not kept, increasing the risk of inappropriate transactions being processed and impacting the accuracy and completeness of reported financial information.
- Some finance processes were not adequately segregated. Where one individual is responsible for all elements of the finance function, with no requirement for independent approval, there is an increased risk of fraud or error.

In response DPTI advised:

- the Facilities Management Services Framework would be reviewed with expected finalisation in late 2016
- staff were instructed not to issue work to contractors not on the approved list, and a new platform for the listing is planned to assist with compliance and auditing
- a review of user access had commenced and annual reviews were planned for the future
- existing finance processes were being reviewed for clarity to strengthen segregation of roles.

Risk management processes need further development

Prior year reviews of DPTI's risk management framework and system identified incomplete and inconsistent data within the risk management system, inadequate reporting of risks to senior management and the lack of approved risk management process documents.

Our follow-up in 2015-16 found that DPTI had established a risk management framework. This framework includes a formal reporting process for extreme and high level risks and their treatment strategies to the Audit and Risk Committee. However, we noted that full implementation of an effective and robust risk management system was still in progress. Issues identified included completing the risk management action plan, annual review of risk management processes and implementing risk registers for business sections.

DPTI advised of actions to progress risk management including:

- completing a review of existing processes, which contributed toward a risk management road map and action plan
- commencing a program of briefings and consultations across DPTI to review and progress the implementation of risk registers and ensure consistency with DPTI's risk management policy
- progressing the review and update of DPTI's risk management policy.

Legal compliance management framework was not fully established

DPTI's operations are diverse and cover a wide range of responsibilities. It administers approximately 80 statutes and is bound by many other legal requirements.

Last year we found that DPTI had no formal legislative compliance framework or program to monitor compliance with its legal and regulatory obligations. The absence of a coordinated legal compliance framework increases the risk that DPTI will fail to identify and effectively manage legislative and regulatory requirements and risks. DPTI may also fail to effectively apply resources to meet its legislative responsibilities.

Our review in 2015-16 found that DPTI was still establishing a legal compliance and legislative review program and had not implemented mechanisms to record and report detected breaches, and monitor actions taken to ensure compliance.

DPTI responded that it has taken the first steps to implement a legislative compliance program and that action taken included:

- reviewing compliance for 12 statutes considered high risk. A report was completed and tabled at the Audit and Risk Committee in June 2016. The report identified that of the 225 obligations reviewed, 64 were non-compliant, with 24 of these assessed as major. An action plan was developed to address the non-compliant matters

- a new draft Legislative Compliance Policy and Framework was being developed.

Improvements in the administration of authorised officers remain unresolved

In November 2013 we reported on the outcome of our review of processes for appointing and approving authorised officers across a number of SA Government agencies, including DPTI. Our findings for DPTI included that authorised officers were not appointed in accordance with delegations, documented policies and procedures for appointing and approving authorised officers were inadequate, DPTI had not adopted standard practices and there was no formal regular review of authorisations.

In July 2014 an internal audit review highlighted partially ineffective controls over the administration of appointments of authorised/prescribed officers and observed:

- there was no regular review of or formal revocation processes for authorised/prescribed officers
- there was no centralised register
- examples where documentation was not adequately retained or was outdated
- legislative process gaps for issuing of identity cards.

Last year DPTI decided to defer action to address the matters identified in the internal audit report to focus on its organisational restructure.

Our follow-up in 2015-16 found that no further work had been undertaken and the issues raised in 2014-15 remain unresolved.

Without a cohesive and coordinated approach to administering the appointment of internal and external authorised/prescribed officers, DPTI may not properly authorise individuals under legislation, which can expose DPTI to litigation and subsequent losses.

DPTI responded it has started to establish a system for the control and management of authorised officers, including the establishment of a central register.

Accounts payable policies and procedures were inadequate

DPTI is responsible for ensuring payment transactions are valid, accurate and complete. This includes ensuring expenditure is approved in accordance with delegations, for goods/services received and paid at the correct amount.

Documented policies and procedures provide the foundation for an effective control environment. They detail management’s expectations on the nature, scope and extent of internal control, and identify the staff responsible for performing these controls.

Where policies and procedures are not documented or current, staff may be unaware of their responsibilities, resulting in inconsistent practice and a breakdown in internal controls.

DPTI has not documented policies and procedures for managing and using the Basware system, covering key areas such as:

- managing and reviewing user access and delegations

- transaction processing, including the use of purchase orders, receiving of transactions, and certifying and approving invoices

- monitoring transactions that bypass standard Basware authorisation controls, including manual payment, special delegate, super delegate and foreign currency transactions.

When assessing DPTI's control over expenditure, we identified inadequate practices that could be improved by appropriate documentation and training. These included:

- Basware user access was not regularly reviewed. We identified instances of inappropriate user access levels
- inconsistencies across DPTI in the understanding of responsibilities for certifying and approving invoices, using purchase orders and receiving good/services
- checking of urgent manual payments, special delegation and super delegation transaction reports was not timely. In addition, foreign currency transactions (processed manually by SSSA) were not reviewed at all
- the vendor masterfile was not reviewed to ensure that duplicate and inactive vendors were removed.

DPTI responded that the matters identified from the audit will be addressed through documentation of relevant procedures, which will be in place by December 2016.

Responsibility for purchase card administration not assigned

At the time of our review DPTI had about 700 purchase cards.

The Administration Centre Controllers perform key control procedures at the directorate level, including reviewing the validity of cardholders, ensuring transactions are processed on a timely basis, reviewing for transaction splitting and managing supporting documentation.

A key finding was that DPTI could not identify the officers assigned the role of Administration Centre Controller or the specific cards that they are responsible for administering. This issue is fundamental to the effective management of purchase cards and was identified in 2014-15.

Our audit also found:

- purchase card charges were not always certified on time by cardholders
- instances where the description of items purchased was insufficient to convey the nature or purpose of the purchase
- policy and guidance on expenditure for entertainment, and staff rewards and recognition could be improved by specifying the circumstance, nature, approval limits and documentation requirements for such expenditure.

The control environment for purchase cards relies on the work of Administration Centre Controllers. The absence of officers performing this role increases the risk that purchase cards are used for inappropriate purposes.

DPTI responded that the Administration Centre Controllers group has been re-established, with the first meeting held in July 2016. In addition, action was planned to review cardholder certification and descriptions, and to review policies relating to entertainment, and staff rewards and recognition.

Payroll controls did not ensure all payments were bona fide and accurate, and that all leave was recorded

SSSA provides payroll processing services to DPTI under a service level determination.

While SSSA is responsible for the complete and accurate processing of the payroll data it receives, DPTI has ultimate responsibility for ensuring payroll transactions are valid, accurate and complete.

To meet these responsibilities DPTI has two separate bona fide review processes:

- the bona fide process that requires responsible managers to review and certify the validity, completeness and accuracy of information reported on bona fide reports. About 33% of pay points use this approach to monitor payroll processing

- the interim bona fide check, where changes in payroll details from the previous fortnight are identified and checked for validity and accuracy. This process is used by the other 67% of pay points.

Previous payroll audits identified the interim bona fide check did not ensure all employees and payments were valid. We also noted concerns with the timely and complete review of reports and the follow-up of exceptions identified under the bona fide process.

The main issues from the 2015-16 audit were consistent with our findings from previous years and include the following:

- The interim bona fide process did not ensure that the relevant payroll details for all employees are checked.

- Between November 2015 and March 2016 reports required to support the interim bona fide process were not distributed to pay points for checking.

- Departmental statistics available at the time of our audit (to December 2015) indicated that 29% of pay point managers had either not returned certified bona fide reports or returned them late.

- There was no management monitoring to ensure the follow-up of exceptions identified from the review of bona fides was occurring.

- There were instances where leave recorded on local attendance records was not recorded in the CHRIS payroll system.

- Controls did not ensure all allowances and overtime were valid, appropriately approved and correctly paid.

DPTI responded it would continue to use the current bona fide processes and will consider the use of the CHRIS 21 electronic bona fide process when CHRIS 21 is implemented. DPTI advised CHRIS 21 will commence from 3 October 2016 and the electronic bona fide process from mid-November 2016.

Improvements for managing construction projects for other SA Government agencies

The project services function delivers major building construction projects for other SA Government agencies and DPTI. Our audit found that:

- most projects identified as having expenditure exceeding the approved funding level had no strategy and time frame documented to address the excess, resulting in an increased risk that DPTI will not fully recover its expenditure

- procurement panel members external to the SA Government were not required to document and sign a conflict of interest declaration, increasing the risk that DPTI does not effectively manage conflicts of interest

- policies and procedures could be improved by including guidance on the approval process to charge additional fees, documenting responsibilities and checking procedures for the accounts payable process, and updating the contents to reflect changes in staff responsibilities. Insufficient policies and procedures increase the risk of control processes not being performed consistently and in accordance with management expectations.

DPTI responded to the audit findings and provided details of actions to address the matters raised, including establishing a formal working group to review excess expenditure, formalising conflict of interest declarations for external procurement panel members and updating policies and procedures.

Government office accommodation management weaknesses

DPTI manages the SA Government's office accommodation, including leases in privately owned buildings, government owned office buildings and day-to-day property management, including payment and collection of rent. Our audit found:

- Department of the Premier and Cabinet (DPC) Circular PC018 'Government Office Accommodation Framework' setting out the policy adopted by Cabinet to govern office accommodation has not been updated since the Government Office Accommodation Committee ceased in October 2014. The Committee was responsible to the Minister and its endorsement of major accommodation proposals was required as part of the approval process. The committee was abolished as part of a major reform of government boards and committees. The approval for the abolishment indicated PC018 would be updated and submitted to Cabinet. As a result there is a risk that office accommodation is not being reviewed and controlled in accordance with Cabinet's requirements

- instances where lease agreements and memorandums of understanding were not executed, noting that the process for following up the completion of outstanding leasing documents could be improved. The risk of not appropriately documenting and signing agreed terms and conditions is that lease disputes with tenants may be difficult to resolve, potentially resulting in financial loss

- debtor follow-up was not operating for the full financial year and there were a number of debtor accounts with unexplained credit balances, some existing for several years. The ineffective follow-up of debtors may result in difficulty collecting outstanding debts

- the officer responsible for entering accounts payable transactions for ad hoc invoices does not check the payment approval.

DPTI advised it will work with DPC to finalise the review of PC018, redesign the reporting and review of outstanding leasing documents, and update procedures for the regular follow-up of outstanding debtors and the roles and responsibilities for authorisation of payments.

The Highways Fund delegation to one officer

The Highways Fund was created under the *Highways Act 1926*. The main sources of money include driver's licences and motor registration fees and State and Commonwealth funding. The *Highways Act 1926* sets out how money in the Fund may be applied. The main expenditure is for the construction and maintenance of roads and bridges. In 2015-16 the Highways Fund included a transfer from the Motor Accident Commission of $449 million ($853 million). The balance of the Highways Fund at 30 June 2016 was $1.7 billion.

We noted the Commissioner of Highways had only delegated his powers to a single officer in DPTI, resulting in employees approving payments under the *Highways Act 1926* without delegated authority from the Commissioner.

DPTI responded that the delegation instrument will be reviewed.

Other matters raised

Other matters raised included the following:

- Policies and procedures for numerous areas, including accounts receivable and general ledger, were either overdue for review or needed updating. Out-of-date procedures increase the risk of control processes not being performed consistently and in accordance with management expectations.
- Land Services system reports used predominately for reconciliation were found to be inaccurate. This increases the risk of not identifying incomplete or inaccurate transactions. DPTI have reviewed the system reports and advised that systematic issues of inaccurate reporting will be addressed.
- Not all contracts were published on the SA Government's Tenders and Contracts website as required by DPC Circular PC027 'Disclosure of Government Contracts'. Consequently transparency and accountability requirements for departmental activity were not met. DPTI advised that mandated disclosures have now been published and that the required publishing time frames have been noted.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DPTI under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Information and communications technology and control

Metrocard system matters outstanding

The Metrocard system is the ticketing system for the public transport system in Adelaide.

Our 2013-14 Metrocard review found that improvements were required in the areas of change management, documenting system security profiles, reducing administrative access to the system, and controlling vendor access to the system. We also identified a number of test transactions in the production environment and improvements were needed to business continuity arrangements, including testing of recovery.

In 2014-15 we sought an update on progress to address these audit findings and were informed that action was in progress or had been completed.

In 2015-16 we performed a further follow-up review and found two matters still outstanding. These were the need for more control over the vendor's access to the system and improving the system's reconciliation capability.

DPTI responded that logging of vendor access has been implemented. To improve system reconciliation the Metrocard Unit was working with its finance section to finalise processes. DPTI also reviewed documentation and reporting practices and has sought a quotation from the system vendor for additional data extracts from the system.

South Australian Integrated Land Information System (SAILIS) application needed improvement

DPTI implemented the SAILIS application in April 2015. A third party service provider performs application support and infrastructure hosting of the SAILIS application.

There has been ongoing refinement of operations through regular release and software updates since the SAILIS application was implemented.

Notwithstanding these ongoing application refinements, we reviewed the SAILIS application. We identified the need to develop and refine IT policies and procedures, risk register, and the disaster recovery plan, and ensure that passwords are adequately safeguarded. Also, pre-implementation defects still needed to be resolved, along with timely change management operational verification and testing. Accompanying this was the need to ensure that application source code and contractual agreement expectations were clearly understood.

DPTI responded to the observations identified in the SAILIS review and confirmed that all matters raised would be remediated by December 2016.

National Electronic Conveyancing (NEC) initiative progress update

The NEC initiative occurred in conjunction with the implementation of the SAILIS application. This involved the connection to a national platform, known as the Property Exchange Australia (PEXA) Initiative, that allows conveyancing documentation to be remotely lodged within Australia to each state's and territory's land information systems.

The NEC initiative within South Australia went live in July 2016. This occurred following Parliamentary approval and royal assent of the Real Property (Electronic Conveyancing) Amendment Bill 2016 in June 2016.

To comply with the NEC model operating requirements a PEXA annual compliance report is performed, which includes an independent expert certifying the PEXA system and processes. This confirms that risk management, information security management system and business continuity, and disaster recovery management programs across the PEXA system are fit for purpose. This was expected to occur in August 2016, but has yet to commence.

DPTI has confirmed that the PEXA annual compliance report is yet to commence, but is expected to be finalised by December 2016.

Other commentary

Adelaide Oval redevelopment

On 29 September 2011 the *Adelaide Oval Redevelopment and Management Act 2011* (the AORM Act) came into operation. The primary purpose of the AORM Act is to facilitate the redevelopment of Adelaide Oval and to provide for the future care, control and management of Adelaide Oval. DPTI has the principal construction management role and responsibility for the project development.

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 Adelaide Oval. Six-monthly reports are provided to the Parliament discharging the requirements of the AORM Act. The first Report was provided to the Parliament on 29 February 2012 and the most recent Report was on 31 August 2016.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee benefit expenses	230	246
Supplies and services	826	813
Depreciation and amortisation	394	376
Grants and subsidies	109	85
Other expenses	42	39
Total expenses	1 601	1 559
Income		
Fees and charges	614	598
Commonwealth revenues	244	134
Sale of goods and services	142	143
Rental income	215	214
Other income	121	137
Total income	1 336	1 226
Net revenue from (cost of) providing services	(265)	(333)
Revenues from (Payments to) SA Government		
Revenues from SA Government	875	1 222
Payments to SA Government	(6)	(80)
Total revenues from (payments to) SA Government	869	1 142
Net result	604	809
Other comprehensive income		
Changes in revaluation surplus	32	163
Total comprehensive result	636	972
Net cash provided by (used in) operating activities	1 057	1 227
Assets		
Current assets	2 492	1 740
Non-current assets	24 355	24 066
Total assets	26 847	25 806
Liabilities		
Current liabilities	296	213
Non-current liabilities	169	144
Total liabilities	465	357
Total equity	26 382	25 449

Statement of Comprehensive Income

Expenses

Expenses for the year totalled $1601 million ($1559 million) and are mainly attributable to:

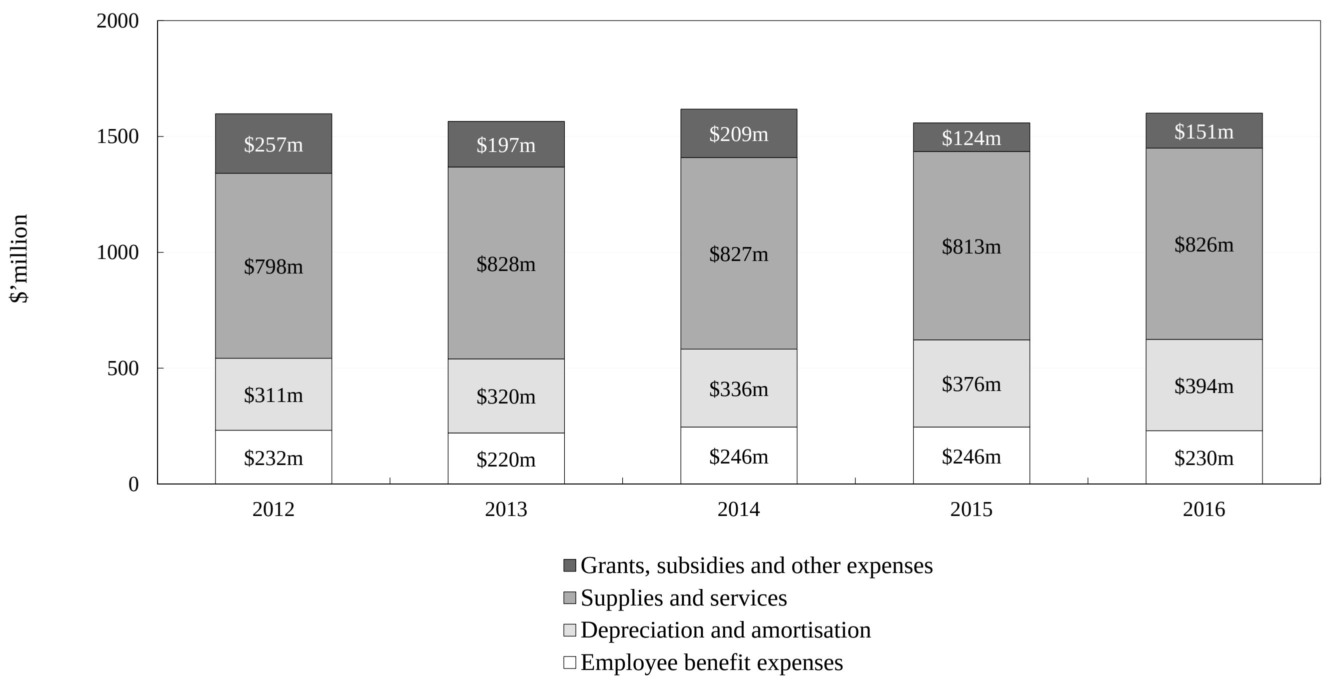
- employee benefit expenses of $230 million (14%)

- supplies and services expenses of $826 million (52%), of which $195 million (24%) was for bus service contract payments, $167 million (20%) was for operating lease expenses, $142 million (17%) was for operating costs of major infrastructure maintenance and other service contracts and $114 million (14%) was for property expenses
- depreciation and amortisation expense of $394 million (25%), of which $259 million (66%) was for network assets, $77 million (20%) was for plant and equipment and $50 million (13%) was for buildings and facilities.

Total expenses increased by $42 million (3%) to $1601 million. The more notable variances were:

- employee benefit expenses decreasing by $16 million to $230 million, due mainly to a reduction in employee numbers over the past two years from departmental restructuring. Targeted voluntary separation packages amounted to $10 million ($15 million) and the number of packages during the period was 152 (210)
- operating leases expense increasing by $11 million, due mainly to the sale and lease back of some properties owned in the previous year and increases in property rents from market and indexation increases
- depreciation and amortisation expenses increasing by $18 million, due mainly to the review of useful lives of rolling stock assets
- grants and subsidies increasing by $24 million due mainly to additional grants by the Office for Recreation and Sport, including $10 million to the Football Federation of South Australia to develop eight pitches and upgrade soccer facilities across the State.

For the five years to 2016, a structural analysis of the major expense items for DPTI is shown in the following chart.



Income

Income (excluding revenues from the SA Government and changes in the revaluation surplus) for the year totalled $1336 million ($1226 million) and comprised mainly:

- fees and charges of $614 million (46%), of which $462 million is for driver and vehicle registration income and $90 million is for Metroticket income

- rental income of $215 million (16%), including $183 million for office accommodation and $27 million for residential accommodation

- sale of goods and services income of $142 million (11%), of which $104 million was for facilities maintenance services provided to SA Government agencies and $38 million attributable to sales of other goods and services

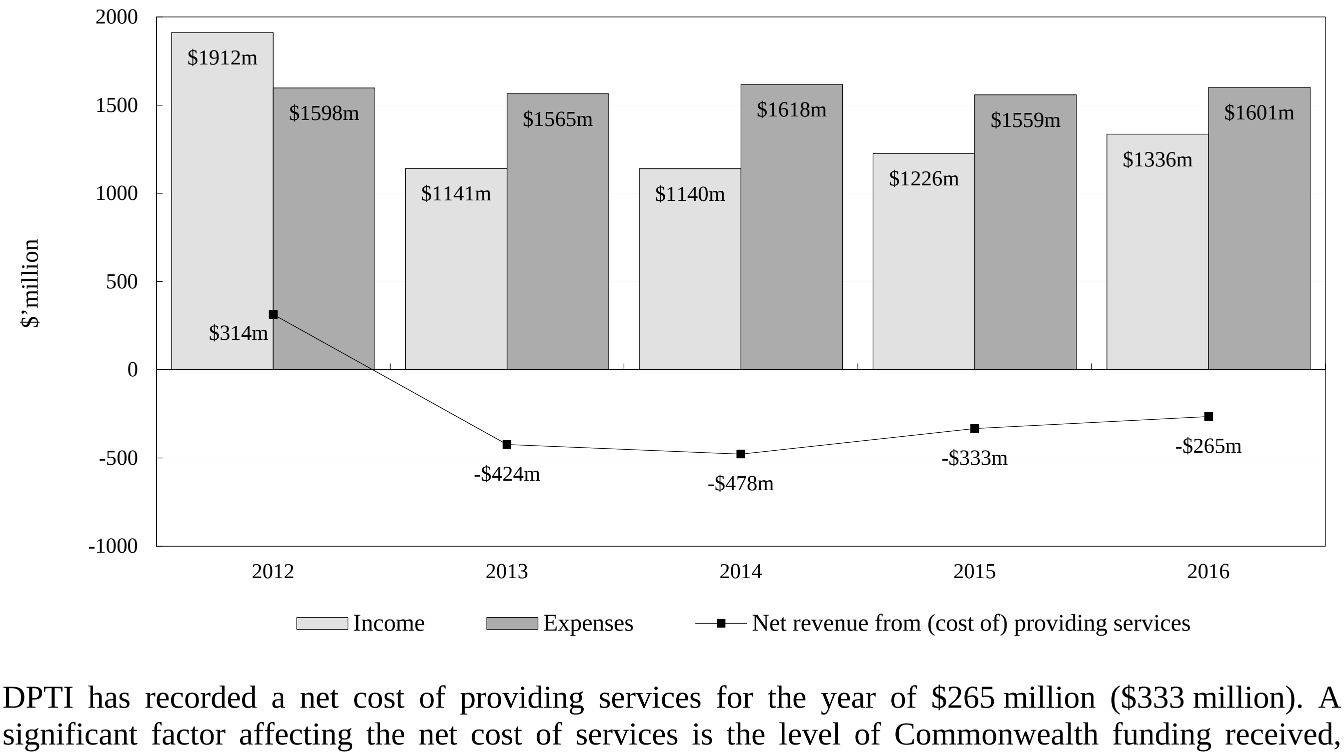
- Commonwealth revenues of $244 million (18%), including $111 million for the South Road Upgrade (Torrens Road to River Torrens) project, $50 million for the North-South Corridor Darlington Upgrade, $28 million for road maintenance programs and $18 million for Anangu Pitjantjatjara Yankunytjatjara lands main access road upgrade

- grants and subsidies of $58 million (4%), of which $57 million is for passenger transport concessions.

Total income (excluding revenues from the SA Government and changes in the revaluation surplus) for the year increased by $110 million (9%). The increase mainly reflects a $110 million increase in Commonwealth funding predominantly for road projects (refer to comments above).

Net revenue from (cost of) providing services

The following chart shows the income, expenses and net revenue from (cost of) providing services for the five years to 2016.



DPTI has recorded a net cost of providing services for the year of $265 million ($333 million). A significant factor affecting the net cost of services is the level of Commonwealth funding received, which increased by $110 million to $244 million ($134 million). Commonwealth funding is mainly for capital projects.

Revenues from (Payments to) SA Government

Net revenues from the SA Government decreased by $273 million from $1142 million to $869 million. Revenues from the SA Government include a transfer of $449 million ($853 million) from the Motor Accident Commission. Further details are included in the commentary under 'Motor Accident Commission' in this Report.

Payments to the SA Government totalled $6 million ($80 million). In 2015 payments to the SA Government included a $74 million transfer of the proceeds from the disposal of 60 Wakefield Street, Netley Commercial Park, 21 Divett Place and 11 Penny Place properties.

During 2016 DPTI received an equity contribution from the SA Government of $298 million ($188 million). Equity contributions are recognised in the Statement of Changes in Equity.

Statement of Financial Position

Total assets of DPTI as at 30 June 2016 were $26.8 billion ($25.8 billion), which includes network assets of $20.2 billion ($20 billion), land, buildings and facilities of $2.6 billion ($2.9 billion) and cash of $2.1 billion ($1.4 billion).

The increase in total assets of $1 billion mainly reflects:

- an increase of $702 million in cash due mainly to the receipt of $449 million from the Motor Accident Commission
- non-current asset additions of $653 million and net revaluation increments of $32 million, which were offset by depreciation and amortisation of $394 million
- an increase in other assets of $42 million resulting mainly from new lease incentives provided to tenants and prepayments for capital works projects
- an increase in receivables of $32 million due mainly to an increase in lease incentives receivable from landlords.

DPTI's liabilities amounted to $465 million ($357 million) and mainly comprised payables of $255 million ($157 million), employee benefits of $99 million ($104 million) and lease incentives of $56 million ($32 million). Payables increased due mainly to increased accrued expenses for capital projects.

Network assets

Network assets amounted to $20.2 billion and represented 83% of total non-current assets. Network assets comprise roads with a written down value of $16 billion (79%), structures with a written down value of $2.3 billion (11%) and rail and bus track assets with a written down value of $2 billion (10%).

The written down value of network assets increased by $222 million to $20.2 billion. The increase is attributable to the net impact of:

- the capitalisation of network projects totalling $109 million
- a net revaluation increment of $328 million, comprising a $273 million increment for roads, a $113 million increment for structures and a $58 million decrement for rail and bus track assets. For further details of the valuation model and key assumptions for road network assets, refer note 31 of the financial report
- a reclassification of assets of $43 million to rail and bus tracks from buildings and facilities, identified as part of the rail assets revaluation
- depreciation charges of $259 million, comprising $172 million for roads, $42 million for structures and $45 million for rail and bus tracks.

Capital works in progress

The value of capital works in progress increased by $383 million to $723 million. The major movements in capital works were:

Projects	Carrying amount 01.07.15 $'million	Additions $'million	Transfer to assets $'million	Closing balance 30.06.16 $'million
South Road Upgrade (Torrens Road to River Torrens)	93	199	-	292
Darlington Upgrade	15	77	-	92
O-Bahn Extension	6	44	-	50
Northern Connector	-	31	-	31
Port Bonython Jetty Refurbishment	15	2	-	17
Bald Hill and Southern Freeway Intersection	4	13	-	17
Railcar Replacement	17	15	(32)	-

In addition to the above works, land acquisitions during 2015-16 for projects included $30 million ($7 million) for the Darlington Upgrade project, $15 million ($42 million) for the South Road Upgrade (Torrens Road to River Torrens) project and $14 million for the Northern Connector project.

Land, buildings and facilities

The value of land, buildings and facilities decreased from $2.9 billion to $2.6 billion. The main movements affecting this decrease were:

- a net revaluation decrement of $305 million, comprising mainly:
  - a decrement of $301 million in land for metropolitan rail stations, yards and corridors. The Valuer-General discounted the valuation to include restrictions in rail land use
  - an increment of $30 million for recreation and sport land
  - a decrement of $34 million for recreation and sport infrastructure
- a reclassification of assets of $43 million to rail and bus tracks from buildings and facilities
- depreciation charges of $51 million
- disposals of $17 million comprising mainly various parcels of rail land assets
- asset additions from purchases, transfers from capital works in progress and assets received free of charge amounting to $103 million. Major additions included the $30 million purchase of buildings for the City High School project, $30 million of land for the Darlington Upgrade project, $15 million of land for the South Road (Torrens Road to River Torrens) project, and $14 million of land for the Northern Connector project.

Plant and equipment

Plant and equipment totalled $730 million, a decrease of $17 million from the previous year. The main movements for the year were:

- asset additions and transfers from capital works in progress of $55 million, including $32 million for rail rolling stock and $13 million for the bus purchase program
- depreciation expense of $78 million.

Non-current assets held for sale

The Statement of Financial Position includes separate disclosure for non-current assets held for sale of $140 million ($142 million). The main assets held for sale were commercial properties.

Statement of Cash Flows

Cash increased by $702 million to $2.1 billion. The main contributing factors were the receipt of $449 million from the Motor Accident Commission and timing in expenditure for capital works programs.

The cash outflows used in investing activities increased by $199 million to $674 million, reflecting an increase in DPTI's capital works program.

The net cash flows from financing activities increased by $110 million to $295 million, due mainly to an increase in the equity contribution from the SA Government from $188 million to $298 million.

Gross cash flows from the SA Government amounted to $1.2 billion ($1.4 billion) comprising the transfer of $449 million ($853 million) from the Motor Accident Commission, operating receipts of $427 million ($369 million) and equity contributions of $298 million ($188 million).

Administered items

DPTI's administered activities include $1.1 billion of revenue and expenses. The main administered activities are for the collection and disbursement of monies to other SA Government entities and the Consolidated Account.

The main administered activities are:

- Compulsory Third Party insurance collected with motor vehicle registrations on behalf of the Motor Accident Commission of $482 million ($478 million)
- regulatory land services fees on land transactions to be paid to the Consolidated Account of $184 million ($177 million). The increase is due mainly to increased activity in the property market and an increase in fees
- stamp duties charged with motor vehicle transactions and paid to the Department of Treasury and Finance of $159 million ($156 million)
- the Lifetime Support Scheme levy collected with motor vehicle registrations on behalf of the Lifetime Support Authority of South Australia of $145 million ($141 million)
- amounts collected with motor vehicle transactions and paid to the Department of Treasury and Finance for the Hospital Fund of $69 million ($68 million)
- the Emergency Services levy charged with motor vehicle transactions and paid to the South Australian Fire and Emergency Services Commission of $43 million ($41 million).

Department of the Premier and Cabinet (DPC)

Financial statistics	Net cost of providing services:	$73.5 million
	Total appropriation:	$79.1 million
	Number of FTEs:	1409.87

Significant events and transactions

- Shared Services SA began transitioning agencies to the CHRIS 21 payroll database.
- 118 FTE's in a number of business units including State Records of South Australia and Department of Treasury and Finance ICT, transferred out of DPC.
- The net cost of providing services decreased by $18.7 million.
- Expenses decreased by $27.3 million as a result of internal restructures and machinery of government changes.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Corporate:
  - Processes for procuring film services from 57 Films were inadequate
  - Certification of purchase card purchases by cardholders was not performed promptly
  - No or inadequate documentation to support purchase card transactions
- Shared Services SA:
  - Pay variation reports were not checked to ensure all variances were reviewed
  - Independent review of the Pay Run Checklist needs to improve
- CHRIS 21 migration project:
  - Reconciliation of leave balances between CHRIS 5 and CHRIS 21 was not performed promptly
  - Change management processes for tools used to migrate data needed to improve
  - Explanation of leave balance variations were not accurate and did not fully identify causes

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 notes 1 and 5 of the financial report.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

During 2015-16 specific areas of audit attention included:

- accounts payable
- purchase cards
- payroll
- revenue
- bank reconciliations
- fixed assets
- financial accounting
- financial management compliance
- Shared Services SA (SSSA) and Service SA.

The audit also considered the nature of the review work undertaken by internal audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of the Premier and Cabinet in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of the Premier and Cabinet have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. The significant matters raised and the related responses are detailed below.

Corporate

Procurement processes for 57 Films were not adequate

We audited procurement processes for film services from the company 57 Films. The total value of procurements to 57 Films from May 2015 to March 2016 exceeded $446 000 (including GST). DPC also met travel and accommodation costs for 57 Films exceeding $45 000.

We found DPC's approach to procuring film services did not consider acquisition planning at the outset to develop a strategic approach. We also found instances of non-compliance with DPC procurement policies including not preparing simple acquisition plans (SAPs) and purchase recommendations, not documenting how compliance with the South Australian Industry Participation Policy was met and not including travel or accommodation costs, met by DPC, in quotes from 57 Films. We found areas where improvements could be made in documenting procurement justification decisions.

We did not find evidence of a conflict of interest.

Specific significant findings included:

- no procurement process was undertaken for a Shandong in-bound delegation in September 2015
- the procurement process for a 2015 Paris trip was inadequate by not following DPC requirements. State Procurement Board guidelines require that an SAP is approved before going to market, and again after selecting a preferred supplier. The same dates were recorded on the SAP, recommendation to purchase and first invoice, showing the procurement process was not followed. We noted the DPC Accredited Purchasing Unit also found this process was not compliant with DPC's policy on simple procurements
- justification was not provided in the SAP for the single sourcing of a supplier to support DPC's decision not to seek three quotes.

We also found that risk assessment, declaration of potential conflicts of interest, identifying evaluation criteria and documenting the evaluation for the procurement process for Shandong out-bound and in-bound delegations in 2016 could have been improved.

In response DPC acknowledged our findings and advised that they would conduct procurement training workshops, to be completed by December 2016.

Purchase cards

Our review of controls over purchase cards considered the requirements of Treasurer's Instruction 12 'Government Purchase Cards and Stored Value Cards' and DPC's policies and procedures. Significant matters and control weaknesses were raised for management attention, notably:

- instances where the certification of credit card purchases by cardholders was not performed promptly in accordance with departmental policy, increasing the risk of cardholders not being able to substantiate purchases
- instances where the cardholder did not provide any supporting documentation for purchases, increasing the risk of financial reporting errors and non-compliance with taxation legislation
- instances where the account code allocated by the cardholder did not align with the description of the purchase, increasing the risk of financial reporting errors
- instances where purchase cards were not cancelled promptly, increasing the risk of unauthorised use of the purchase card.

In response DPC advised it had recently introduced the ANZ Expense Manager System to handle purchase card transactions electronically. This system will send weekly reminders to cardholders to code and approve their transactions, and has a built-in workflow control that requires the attachment of a compliant tax invoice before the transaction can be workflowed to a supervisor for approval. DPC also advised that the return of purchase cards by cardholders is included in DPC's exit checklist process.

Revenue – information communications and technology

Our review found that supporting documentation for some charges was not included in a key reconciliation between the Telecommunication Billing System and Masterpiece accounts receivable (MPAR). This increases the risk that revenue recorded in MPAR may be incomplete or incorrect.

In response DPC indicated that it would generate a new report to include all charges.

Our review found that no supporting documentation was maintained to ensure that the annual CPI increase was correctly updated in the revenue system. This could lead to DPC not recovering the complete cost of providing the service.

In response DPC indicated that it would keep documentation to evidence the annual pricing update.

Shared Services SA – financial systems and transaction processing controls

SSSA processes financial transactions on behalf of a large number of SA Government agencies under service level determinations. The main systems and control environments include accounts payable, accounts receivable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Our review and evaluation of controls for the SSSA main accounts payable systems and environment concluded that controls met a generally satisfactory standard for 2015-16.

The specific matters relating to controls are outlined in more detail below.

Shared Services SA – payroll controls

Introduction

SSSA processes payroll transactions specific to the CHRIS payroll system on behalf of a large number of SA Government agencies in accordance with service level determinations.

During 2015-16, SSSA began to transition agencies from CHRIS 5 to CHRIS 21. This two-year project involves migrating 27 CHRIS 5 databases and three existing standalone CHRIS 21 databases into the new CHRIS 21 environment, resulting in the maintenance of only two databases spread between the SA Government's general agencies and the Department for Health and Ageing (SA Health).

The first transition took place in December 2015 and included the Department of Treasury and Finance and DPC.

As at 30 June 2016, 21 agencies on seven CHRIS 5 databases have transitioned onto the shared sector CHRIS 21 database, and six agencies on five CHRIS 5 databases have transitioned onto the SA Health CHRIS 21 database.

The transitions will continue throughout 2016-17, with planned completion in May 2017.

The 2015-16 audit considered the controls over the CHRIS 21 payroll system.

In addition our review considered the adequacy of controls supporting the migration of agencies onto the new CHRIS 21 environment (refer to commentary under the heading 'CHRIS 21 migration project' below).

The audit of payroll transactions considered the payroll process and internal controls of SSSA and the external bureau provider of the CHRIS payroll service to SSSA, Frontier.

SSSA payroll functions include:

- payroll maintenance comprising processing changes to employee master data and salaries
- processing employee pays through CHRIS
- calculating payroll payments (via CHRIS)
- disbursing payroll payments (via CommBiz)
- identifying and managing overpayments
- terminating employees (ie calculating termination payments).

The SSSA teams that perform these functions comprise the following functional streams: work management, payroll data input, quality assurance, customer service, pay run processing and technical specialist.

We found that SSSA has put considerable effort into improving controls over processing payroll transactions in the CHRIS 21 payroll environment. We did, however, identify weaknesses in internal controls that require attention by management to ensure effective management and controls over payroll processing. As a result we concluded that not all controls were effective for 2015-16.

Audit review of controls

Our review of payroll functions raised the following control weaknesses.

Paycheck Variation Reports not checked and returned

- Pay run officers did not ensure all Paycheck Variation Reports were returned from data input officers.

- Pay run officers did not perform an overall check to ensure all variances in the reports were reviewed and explained.

In response DPC indicated that it is developing a new procedure requiring the Data Input Team to consolidate all reports after they have been split and checked to ensure all variations have been validated. The report would then return to the Pay Run Team to validate that checks have been completed and sign off the pay run checklist control. As part of this control check, the Pay Run Team will file the control report in a clearly specified folder. A new pay run filing structure will ensure that all control reports are properly stored and easily identified through a consistent naming convention for all reports.

Payrun Variation Checking Report

The Payrun (3rd Cal) Variation Checking Report, which identifies changes to employees pay occurring after input close-off and before final close of the pay run, had either not been generated or not been reviewed to ensure that all variances in the report were explained.

In response DPC advised that all variation reports were provided to audit upon follow up. Due to the transition to the new CHRIS 21 process, it is acknowledged that SSSA had not effectively stored all of the validation reports. The new pay run filing structure should ensure that all control reports are properly stored and easily identified through a consistent naming convention for all reports.

Pay Run Checklist not independently reviewed

The Pay Run Checklist includes a sign-off tab that must be completed by the Data Integrity Officer (DIO) to ensure that payroll tasks are completed and independently reviewed prior to pay disbursement. We found instances where the review performed by the DIO was not done prior to pay disbursement.

We were advised that there have been problems with the electronic sign-off tab, including issues with date formats, access to the sign off tab and activities that should occur after pay disbursement needing to be completed before signing off. We are aware that the Pay Run Checklist has now been separated into a pre-activity and post-activity Pay Run Checklist.

Our review also found a checklist task that was signed off by the DIO, who also signed off as independent reviewer, and a checklist that was signed off by the DIO without all tasks completed.

In response DPC advised that SSSA identified that the newly created Pay Run Checklist had specific limitations to prevent the DIO completing the required closing activities that related to pre-disbursement tasks. Nevertheless, all validation reports have been filed and checked. Due to this limitation, SSSA has implemented an updated Pay Run Checklist that splits the checklist into two separate validation checks, a pre-disbursement and a post-disbursement sign off, to ensure pay disbursements are correct.

DPC also advised that as specified by the checklist, the DIO is responsible for checking that all activities have been completed in line with the checklist procedures. The DIO has been reminded of their responsibility to ensure that all control checks are completed accurately prior to sign-off. SSSA acknowledges that it encountered transition issues with the electronic sign-off capability of the checklist in the initial pay runs in CHRIS 21. This issue has now been resolved.

Large Gross Exception Reports not evidenced

We noted instances where the fourth category Large Gross Exception Report, which identifies data input changes, had additional entries with no documentary evidence of follow-up.

In response DPC indicated that the current processes have been reviewed and the second Large Gross Pay Report was found to be duplicated by the Payroll (3rd CAL) Variation Checking Report where all variations are validated. SSSA will remove the second Large Gross Pay Report and update the checklist and procedures to reflect this change.

Increment Reports not retained

An Increment Report is generated by Frontier to identify employees who are due for an increment. Data input officers review each employee’s history details in CHRIS to ensure that the employee is entitled to the increment progression. Quality assurance officers independently review the Increment Report.

Our testing of 12 pay runs found that 11 Increment Reports could not be located. We were advised that the reports had been archived by employee (by selecting an employee from the report) and Increment Reports will now be stored on-site at SSSA by pay run number.

In response DPC indicated that employees have been reminded to ensure that all documentation is actioned and filed appropriately.

Timesheets and leave forms not being agreed to system generated reports

A Timesheet/Leave Report is generated overnight by Frontier and sent to the Pay Run Team who are required to send the reports to the Quality Assurance Team. Our review found that these system generated reports are not being sent to the Quality Assurance Team and as a result are not being used in quality assurance testing.

In response DPC advised that as part of SSSA’s quality control processes, the quality assurance officer checks timesheets and leave forms against the payroll system to ensure they have been processed correctly. The quality assurance procedures will be updated to include the checking requirements.

Termination Checklist quality checking procedures

A Termination Checklist is used for each termination. It provides a number of check boxes and a final sign-off for the preparer and reviewer to complete. Our review found:

- checklists where not all check boxes had been completed by the preparer and reviewer
- checklists where the reviewer did not sign and date the final sign-off
- terminations where a termination checklist could not be provided.

In response DPC advised that the termination checklist is used as a reference guide when processing an employee’s termination. Termination procedures have been updated to reflect this requirement. SSSA employees have been reminded to ensure that all documentation is actioned and filed appropriately.

CHRIS 21 migration project

The CHRIS 21 project involves three phases which incorporate the initial scope and design, preliminary testing and the progressive management and transition of each existing database into the new CHRIS 21 environment.

The project is seeking to standardise general configuration settings and significantly reduce the number of processes in the new CHRIS 21 environment.

Our review of the CHRIS 21 project considered the adequacy of controls supporting the migration of agencies onto the new CHRIS 21 environment. We found a number of key IT project weaknesses.

Change management processes needed improvement

The migration tool (MACRO) assists in migrating data from the legacy CHRIS databases to the new CHRIS 21 environment, including data conversion and validation. The MACRO tools also assist the comparison of fortnightly pay and leave balances. This occurs after data is extracted from the legacy databases and loaded into both the CHRIS 21 parallel run test environment and production environment.

We acknowledge that the MACRO tool is continually changing. It has undergone a number of modifications associated with the data migration of each unique agency database as it is transitioned into the new CHRIS 21 environment. Our review found that:

- limited records were kept of the changes to the MACRO besides a brief description in the MACRO programming code

- there was no detailed change register that recorded information on the MACRO version history, overview of change, reasoning and effect behind the MACRO change specific to the respective agency database being transitioned

- limited formal change management processes were applied to MACRO amendments made between October 2015 and February 2016.

In response DPC indicated that a more robust change management process has been incorporated into the Data Migration Plan to ensure ongoing changes to the MACRO are clearly documented and suitably authorised. In addition DPC advised that all changes made to the MACRO are now to be tested by a project team member not responsible for the change. A record of the testing activities for each change and associated outcomes will be detailed in a change register.

Policies and procedures tabled and not endorsed

We confirmed that most CHRIS 21 project specific policies and procedures developed have been tabled with the CHRIS 21 Project Board for endorsement. At the time of our review certain documentation was still in draft.

In response DPC indicated that document templates for key policies and procedures have been updated.

Testing performed did not meet required standards

Testing of the CHRIS 21 project covers a broad range of areas. These include data migration, parallel run, re-performance of CHRIS 21 general processing and dealing with matters associated with functionality considerations.

We identified that a formal Phase 3 test plan had not been developed. We also found that some staff conducting testing did not have the right skills. Consequently, the testing performed did not meet the standard required, and the tester had to be replaced and the test re-performed to validate the adequacy of the process.

In response DPC indicated that the Phase 3 test plan and testing process would be reviewed and all testers would receive CHRIS 21 navigation training and be inducted before starting any testing.

Lack of timely completion of close-out summary reports

After migrating an agency from the legacy CHRIS 5 environment to the new CHRIS 21 environment, a certificate of acceptance is completed and signed by the Project Director, Executive Director SSSA and the Director Payroll. A close-out summary report is also prepared to acknowledge to the Project Board the end of the transition for that agency, migration outcomes, status of any unresolved issues, lessons learnt and agency benefit realisation.

We noted that the close-out summary reports for a large number of transitioned agencies were not submitted to the Project Board promptly.

In response DPC indicated that the Project Team will follow up all outstanding closure reports and seek sign-off from the appropriate delegates before 30 September 2016. For future migrations, the Project Team will ensure closure report sign-off occurs within one month of the go-live date.

CHRIS 5 to CHRIS 21 leave balance reconciliation not completed promptly

To verify the accuracy of leave balances, closing leave balances in CHRIS 5 are reconciled to opening leave balances recorded in CHRIS 21 at the date of transition.

Our review found that the reconciliations were not timely. The first database transitioned in December 2015 however the reconciliations were not performed until May 2016.

In response DPC indicated that a process has been implemented to ensure that leave balance reconciliations are completed promptly.

Explanation for leave variations are not accurate

Our review of the leave reconciliations prepared by the Payroll Change Team found instances where the explanation for the variation was not accurate and did not always fully identify the cause of the variation. We also found that the preparer did not document or evidence the reasons for each variation in the reconciliation.

In response DPC indicated that the leave liability balance reconciliation process has been refined.

Shared Services SA – accounts payable controls

SSSA processes payments on behalf of SA Government agencies. The SSSA accounts payable function employs several systems to make these payments, including the e-Procurement system for ordering, receiving and invoice processing and the Masterpiece system for payment transaction processing through EFT and cheques and general ledger maintenance.

In 2015-16, we reviewed key financial systems to assess the adequacy of IT security controls managed by SSSA covering user access, segregation of duties, management of IT security policies and procedures and general controls surrounding access to online banking system. The review did not identify any significant issues.

Shared Service SA – accounts receivable controls

SSSA continues to process receipts on behalf of SA Government agencies and the SSSA accounts receivable function uses the Masterpiece system for processing these transactions. In 2015-16 we reviewed the adequacy of these arrangements and did not identify any issues over user access, segregation of duties, management of IT security policies and procedures and general controls surrounding access to online banking system.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2016 $'million	2015 $'million
Expenses		
Employee benefits	139	157
Supplies and services	115	121
Grants and subsidies	7	10
Other expenses	10	10
Total expenses	271	298
Income		
Fees and charges	194	201
Grants	1	2
Other	3	3
Total income	198	206
Net cost of providing services	73	92
Revenues from (Payments to) SA Government		
Revenues from SA Government	79	93
Payments to SA Government	(2)	(5)
Total revenues from (payments to) SA Government	77	88
Net result and total comprehensive result	4	(4)
Net cash provided by (used in) operating activities	19	1
Net cash provided by (used in) investing activities	(7)	(2)
Net cash provided by (used in) financing activities	-	(6)

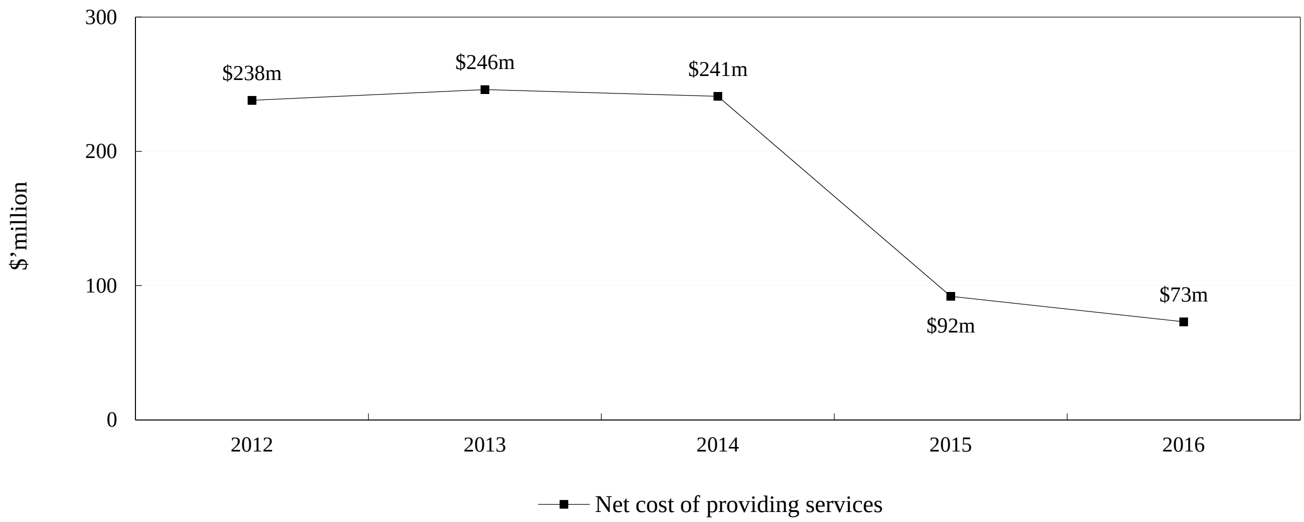
	2016 $'million	2015 $'million
Assets		
Current assets	89	82
Non-current assets	34	38
Total assets	123	120
Liabilities		
Current liabilities	36	36
Non-current liabilities	33	33
Total liabilities	69	69
Total equity	54	51

Statement of Comprehensive Income

Net cost of providing services

As a result of internal restructures and machinery of government changes over the last two financial years, DPC has achieved a significant decrease in the net cost of providing services.

The following chart shows the net cost of providing services for the five years to 2016.



Expenses

Total expenses for the year decreased by $27 million (9%). Employee benefits expense decreased by $18 million (12%). This is due to a decrease in salaries and wages costs of $13 million as a result of lower employee numbers during 2015-16. The amount of the decrease attributable to the 118 transferred out employees is $8.4 million. The amount of targeted voluntary separation packages also decreased by $3 million as less packages, 13 costing $1 million, were taken (57 costing $4.2 million in 2014-15).

Supplies and services decreased by $5 million (4%). This was mainly due to a $4 million decrease in accommodation charges. The amount of the decrease attributable to the transferred out business units is $2.5 million. The balance of the decrease was due to a reduction in accommodation space required.

Grants and subsidies decreased by $3 million (31%). This was due to a $7.5 million decrease in grants paid to the Tailem Bend Motorsport Park, offset by a number of new grants paid totalling $3.8 million.

Depreciation and amortisation expenses decreased by $2 million (21%) as a result of State Records of South Australia transferring out of DPC.

Income

Total income (excluding revenues from the SA Government) for the year decreased by $9 million (4%). The decrease is due to reduced charges for the provision of corporate services to DTF, reflecting the transfer out of DTF ICT.

Net revenues from the SA Government decreased by $11 million (13%). This is due to reduced appropriations received as part of the 2015-16 budget process and reflects the cost savings achieved by DPC over the past two years.

Statement of Financial Position

Net assets increased by $2 million (5%) as a result of increased cash holdings, offset by decreased receivables and fixed assets. Cash holdings increased by $13 million to $68 million as a result of decreased expenditure. The cash balance includes $10 million ($9 million) in the Accrual Appropriation Excess Funds Account, which is not available for general use.

Highlights of the financial report – administered items

	2016 $'million	2015 $'million
Expenses		
Disbursements on behalf of third parties	406	434
Supplies and services	2	2
Payments to SA Government	3	-
Other expenses	1	1
Total expenses	412	437
Income		
Collections on behalf of third parties	406	434
Revenues from SA Government	2	3
Total income	408	437
Net result	(4)	-
Total comprehensive result	(4)	-
Net cash provided by (used in) operating activities	(4)	-
Net cash provided by (used in) financing activities	-	(37)
Assets		
Current assets	5	8
Total assets	5	8
Liabilities		
Current liabilities	2	2
Total liabilities	2	2
Total equity	3	6

Statement of Administered Comprehensive Income

Disbursements and collections on behalf of third parties

DPC, through Service SA, collects various fees on behalf of third parties and disburses them to the responsible recipient agency. The main amounts collected and disbursed related to registrations, licences and other fees collected on behalf of the Department of Planning, Transport and Infrastructure (DPTI) ($350 million) and expiation notices and firearms licences on behalf of South Australia Police ($52 million).

Collections decreased by $28 million with DPTI collections decreasing by $19 million and South Australian Police collections decreasing by $9 million. This is largely due to a decrease in over-the-counter motor registration and licence transactions (online transactions of motor registration and licence are accounted for directly by DPTI) and lower transaction volumes for expiation notices.

Department of Primary Industries and Regions (PIRSA)

Financial statistics	Net cost of providing services:	$87 million
	Revenues from SA Government:	$105 million
	Total property, plant and equipment:	$112 million
	Total cash:	$156 million
	Number of FTEs:	871.28

Significant events and transactions

- $84 million was received from the Commonwealth for the South Australian River Murray Sustainability Program (SARMS) and $68.1 million was paid in SARMS grants.
- $38 million in advances and grants was received by the South Australian Research and Development Institute.
- $20 million was received from the Commonwealth for the Drought Concessional Loans Scheme and Drought Recovery Concessional Loans Scheme.
- $17.6 million was paid in Regional Development Fund grants.
- PIRSA received the Lincoln Marine Science Centre, valued at $9.2 million, free of charge from The Flinders University of South Australia.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Inconsistent review of key payroll reports
- Some human resources delegations were not updated
- The management of user access to Basware and PIIMS could be improved
- Some grant variations were not approved in line with delegations
- Policies and procedures need to be updated or established for a number of systems

Functional responsibility

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

PIRSA's main responsibilities include implementing and coordinating the State's economic priority for premium food and wine. PIRSA also has a lead role in coordinating and delivering regional development initiatives across government.

For more information about PIRSA's role and objectives refer note 1 of the financial report.

Scope of the audit

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

During 2015-16 specific areas of audit attention included:

- financial accounting and reporting
- payroll and employee entitlements
- non-current assets
- expenditure including grants and subsidies
- cash, debtors and receipting
- governance arrangements
- advances and grants – including the South Australian Research and Development Institute, Rural Solutions SA and SARMS
- fisheries licence income.

The audit considered control arrangements implemented by PIRSA and Shared Services SA (SSSA).

We also considered PIRSA's internal audit work.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of Primary Industries and Regions in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Primary Industries and Regions have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to PIRSA's Chief Executive and those responsible for governance within SSSA. Major matters raised and the related responses are detailed below.

Expenditure

Policies and procedures

We found a number of policies and procedures that did not reflect current practices or requirements and needed to be updated. In particular the:

- procedure for reviewing super and special delegation reports did not reflect the monthly process to assess whether these delegations had been exercised appropriately
- procedure covering the check between PIRSA's financial delegations and quarterly SSSA reports on delegations loaded into the Basware system did not include the process to investigate discrepancies
- procurement policies used by PIRSA needed updating for consistency with the South Australian Industry Participation Policy. PIRSA's procurement policy had not been updated for changes made to the Industry Participation Policy in November 2015 and PIRSA's policies did not reflect requirements for grants over $2.5 million.

PIRSA responded it would review and update the policies and procedures to include the matters we identified.

Process to remove Basware user access was not always followed

We identified instances where managers had not followed the process set out in PIRSA's policies to remove Basware access for departing employees. User access in these instances was removed as a result of other processes, but initially remained active after the employees had left.

PIRSA indicated it would remind staff of their responsibility to complete and authorise the required documents for changing user access.

Purchase cards

Our sampling found an instance where the purchase card authorisation limit for a card was higher than the employee's approved delegation. A review of purchase card transactions for this officer did not identify any instances where the purchase card had been used to purchase items higher than their delegation.

PIRSA responded that it would remind staff to comply with their financial delegations and that it would work with SSSA to ensure consistency between PIRSA's financial delegations and purchase card limits.

PIRSA's purchase card procedure requires purchase cards to be returned to a supervisor when an employee is on extended leave, or absent from their role for more than 90 continuous days. SSSA's purchase card team should also be advised to immediately reduce the card's transaction limit.

We identified two instances where staff who were absent from PIRSA for more than 90 continuous days did not have their authorisation limits reduced to $1, although the cards had been returned to their supervisors.

We also found one instance where no supporting documentation was provided for accommodation expenses incurred on a purchase card. PIRSA's purchase card procedure requires cardholders to attach supporting documentation to their monthly statements and forward them to a supervisor for review and approval. The documentation was provided following our request.

PIRSA advised it would remind staff of the purchase card procedure requirements.

We also noted a number of inconsistencies between the purchase card procedure and current practices, and also with the SSSA Service Level Design document.

PIRSA responded it would remind staff of the purchase card procedure and work with SSSA to make changes during the next review of the Service Level Design document for purchase card administration.

Payroll

Inconsistent review of key payroll reports

Our review of PIRSA's payroll controls identified inconsistent practices for the review of bona fide certificates and leave return reports. In particular, some certificates and reports were not reviewed promptly and some were not dated to evidence the time taken to review them. These findings were consistent with those identified in prior years.

The prompt review of these reports provides assurance that payments to employees are valid and authorised and leave records are complete and accurate.

PIRSA advised that management of the areas identified through the audit would be contacted to reinforce the requirements for the review processes they perform.

Reconciliations between TimeWise and CHRIS were not prompt

PIRSA performs a quarterly reconciliation between TimeWise, used to record employee time and attendance, and the CHRIS payroll system. This ensures leave recorded in TimeWise has been completely and accurately updated to CHRIS. This reconciliation should be performed within six weeks of the end of each quarter.

We identified that the July to September 2015 reconciliation was not completed until early December 2015 and that at the time of our audit in March 2016 the October to December 2015 reconciliation had not been performed. We also noted there was no procedure documenting the quarterly reconciliation process.

PIRSA advised it would ensure the 2016-17 quarterly reconciliations were completed within six weeks and finalise a procedure for the reconciliation.

Divisional human resources delegations were not all updated

PIRSA's Chief Executive delegates his human resources powers and functions to a range of PIRSA officers. Directors for each PIRSA division may further subdelegate their authority, with these delegations documented in each division's Register of Delegations. We found two divisions had not updated their registers for 2015-16.

PIRSA advised that all divisional registers had been updated since the audit and that HR Consultants would review registers annually to ensure they were updated.

Fisheries licensing revenue

User access review could be improved

We previously recommended PIRSA regularly review access to the fisheries system (PIIMS) and develop a policy or procedure for the review process. In 2015-16 we noted PIIMS user access had been reviewed, however no policy or procedure had been developed covering the requirement and process for the review.

PIRSA responded it had developed a procedure for the process, including a check with individual business areas about staff movements within teams. PIRSA was also investigating a way to automatically notify staff changes, which may include the addition of a PIIMS access area in exit interview checklists.

We also found a number of amendments identified in the September 2015 PIIMS user access review were not implemented until January 2016. Delayed changes could result in inappropriate access levels in PIIMS leading to unauthorised or invalid changes to licence holder and licence fee details.

PIRSA advised it would ensure PIIMS user access reviews were finalised promptly.

Debtor follow-up

Our review of fisheries licences identified one instance where payments for a licence had not been received since 2010, resulting in an outstanding debt of $12 106. Follow-up action was not documented and we understand that, after several attempts, the licence holder could not be located.

We note that although the licence was suspended in 2011, the licence holder continued to incur an annual licence fee in line with the *Fisheries Management Act 2007,* which does not provide for licences to be cancelled in these circumstances.

We identified debts for all outstanding fisheries and aquaculture licences have resulted in $547 000 worth of debtors, of which $390 000 has been allocated against the allowance for doubtful debts.

PIRSA advised the licence holder in the instance we identified had since been in contact and processes started to recover the debt and surrender the licence. PIRSA acknowledged the *Fisheries Management Act 2007* did not provide the power to cancel a fishing licence and it was investigating other options to address longstanding debtors.

Fixed assets

Strategic Asset Management Information System to fixed asset reconciliation

The Department of Planning, Transport and Infrastructure maintains the Strategic Asset Management Information System (SAMIS) database. This database provides data about assets for planning and coordinating building maintenance and associated functions, such as maintenance billing.

PIRSA uses SAMIS to ensure the completeness of the fixed asset register for buildings and infrastructure. For some years, PIRSA has had difficulty agreeing SAMIS information to its fixed asset register. Further, the two systems have not been reconciled.

We noted progress on matching data between the two systems in 2015-16. However, PIRSA had not established a procedure to reconcile SAMIS and the fixed asset register.

PIRSA responded it would document the reconciliation process between SAMIS and the fixed asset register.

South Australian River Murray Sustainability program

Grant agreement variations not approved in line with delegations

PIRSA’s SARMS contract manual includes delegations for approving variations to grant agreements. The delegations vary according to the amount of time a milestone is extended by and whether there has been a change in the scope of the associated project.

We identified instances where variations had not been approved in line with delegations. PIRSA’s delegations require higher level review for more significant delays or changes. Where these delegations are not followed there is a risk the impact on the overall SARMS program may not have been appropriately considered.

PIRSA responded it would remind contract coordinators of their responsibility as delegates under the SARMS program. PIRSA also advised that a weekly report would be provided to the SARMS contract manager listing all approvals for their review and that the contract manual had been updated.

Reconciling items from the general ledger to PlanView reconciliation not addressed promptly

Our review of reconciliations between the general ledger and PlanView, the system used to monitor SARMS projects, found no evidence of the contract manager's review, variances were not followed up promptly and the work instructions for the reconciliation did not require the contract manager's review or follow-up of reconciling items.

PIRSA advised the work instructions for the reconciliation had been updated to reflect the contract manager's responsibilities. PIRSA also advised that all reconciling items would be addressed each month.

Financial accounting

Review of nominated officers list not performed

We found the nominated officers list, which records staff able to approve general ledger journals, was reviewed in June and October 2015, but not for the December 2015 quarter.

Following the audit, a review of the nominated officers list occurred in March 2016.

SSSA advised that the responsibility for initiating the review of the nominated officer list would form part of a monthly task list, although the actual review would be performed by PIRSA. SSSA noted PIRSA's policy would need to be updated and agreed to discuss the required changes with PIRSA officers.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of PIRSA under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	92	89
Supplies and services	55	52
Grants and subsidies	110	66
Other expenses	7	7
Total expenses	264	214

	2016 $'million	2015 $'million
Income		
Fees and charges	14	16
Advances and grants	58	54
Commonwealth revenues	86	49
Other income	19	9
Total income	177	128
Net cost of providing services	87	86
Revenues from (Payments to) SA Government		
Revenues from SA Government	105	94
Payments to SA Government	(1)	(1)
Net result	17	7
Other comprehensive income	-	1
Total comprehensive result	17	8
Net cash provided by (used in) operating activities	16	25
Assets		
Current assets	179	173
Non-current assets	126	111
Total assets	305	284
Liabilities		
Current liabilities	62	61
Non-current liabilities	32	29
Total liabilities	94	90
Total equity	211	194

Statement of Comprehensive Income

Employee benefits expenses

Employee benefits expenses increased by $2.8 million to $92 million. This was mainly due to a $1.9 million increase in salaries and wages from enterprise bargaining agreement wage rises.

Supplies and services

Supplies and services increased by $3.1 million to $55 million due to increases in:

- professional and technical services of $2.4 million for contractor payments, temporary operational staff payments and marketing and promotion costs
- administrative and operating costs of $1.9 million for purchases of chemicals, laboratory supplies and vaccines and the purchase, repair and hire of property, plant and equipment.

These increases were offset by decreases of $627 000 in computing and communication costs and $484 000 in utility and property costs.

Grants and subsidies expense

Total grants and subsidies increased by $43.9 million to $110 million mainly due to $68.1 million ($41.4 million) paid to SARMS grant recipients, an increase of $26.6 million from 2014-15. There was also a $15.4 million increase in grants paid from the Regional Development Fund (RDF).

South Australian River Murray Sustainability Program

In August 2013 a National Partnership Agreement between the Commonwealth and SA Governments was signed, allocating $265 million to SARMS over six years, with the aim of returning 40 gigalitres of water to the River Murray. Of the $265 million total, $240 million has been allocated to the Irrigation Industry Improvement program and $25 million has been allocated to regional economic development. These components are designed to provide a comprehensive set of programs supporting regional research, economic diversification and development in River Murray communities.

There is further discussion about the projects approved during 2015-16 under the heading ‘Commonwealth revenues’ below.

Regional Development Fund

Grant funding from the RDF is to support the SA Government’s efforts to grow stronger, sustainable and competitive regions. Grants are intended to support economic growth, improved infrastructure and job creation in the regions.

Since the current program’s inception PIRSA has approved the following grant funding:

- RDF Round 1 – in 2014-15 $18.19 million was committed to 40 projects. These projects involve direct investment of around $334 million and aim to create 653 direct, ongoing FTE jobs.

- RDF Round 2 – In 2015-16 $14.736 million was committed to 26 projects. These projects involve direct investment of around $156 million and aim to create 289 direct, ongoing FTE jobs.

Total payments for the year were $17.6 million ($2.2 million) as funds are not paid on approval, but over time as projects are delivered.

Revenues from fees and charges

Fees and charges decreased by $2 million to $14 million in 2015-16, mainly because of reductions in consultancies and services fees from Rural Solutions SA.

Commonwealth revenues

Commonwealth revenue increased by $37 million largely due to $84 million ($48.5 million) received for SARMS. As discussed above, SARMS is delivered through a National Partnership Agreement.

During 2014-15 PIRSA approved the following SARMS grant funding:

- Irrigation Industry Improvement program:
  - Round 1 – 108 projects worth $102 million of grant funding were approved returning 19.8 gigalitres of water to the River Murray
  - Round 2 – 60 projects approved worth $66 million of grant funding were approved returning 14.2 gigalitres of water to the River Murray.

- Round 1 of the Regional Economic Development program:
  - five projects worth $1.8 million were approved for the Industry-led Regional subprogram
  - six projects worth $4.8 million were approved for the Regional Development and Innovation Fund.

During 2015-16 PIRSA approved the following grant funding:

- Irrigation Industry Improvement program:
  - Round 3 – 25 projects worth $13 million of grant funding were approved returning approximately two gigalitres of water to the River Murray.

In total $177 million has been approved and accepted for the Irrigation Industry Improvement programs, with grants going to 186 South Australian River Murray-based irrigators. Some recipients withdrew following approval.

Based on approvals to date, a total of 35 gigalitres of water will be available for environmental use in return for the opportunity for irrigators to improve their businesses. This is currently five gigalitres short of the 40 gigalitre overall target.

- Regional Economic Development program – Industry-led Research subprogram:
  - Round 2 – four projects worth $1.1 million of grant funding were approved.

  A total of $2.9 million of funding has been offered to nine projects.

- Regional Development and Innovation Fund:
  - Round 2 – six projects worth $4.6 million of grant funding were approved
  - Round 3 – two projects worth around $400 000 of grant funding were approved.

  A total of $9.8 million of funding has been offered to 14 projects.

Total payments for the year were $68.1 million ($41.4 million) as funds are not paid on approval, but over time as projects are delivered.

Revenues from SA Government

Revenues from the SA Government increased by $11.2 million, mainly due to additional funding for payments from the RDF.

Statement of Financial Position

Assets

Assets increased by $21 million to $305 million. The increase is mainly due to an $8.2 million increase in cash, a $14.1 million increase in property, plant and equipment and a $1.8 million increase in intangible assets. These increases were offset by a $2.1 million decrease in receivables.

The increase in cash is represented by a $9.5 million increase in Commonwealth funds held for SARMS and a $1 million decrease in cash held for the various drought concessional loans schemes.

An additional $20 million was received in 2015-16 from the Commonwealth for the Drought Concessional Loans Scheme and the Drought Recovery Concessional Loans Scheme. This was offset by the repayment to the Commonwealth of funds held at 30 June 2015 for the Farm Finance Concessional Loans Scheme of $10 million and Drought Concessional Loans Scheme of $7.9 million.

The increase in property, plant and equipment is mainly due to the transfer, free of charge, of the Lincoln Marine Science Centre from The Flinders University of South Australia. The land and buildings were transferred at a value of $9.2 million. PIRSA has been using part of the Centre since it was built and now assumes full ownership. Additional asset acquisitions of $9.8 million were offset by depreciation of $5 million during 2015-16.

The decrease in receivables was mainly due to a $1.7 million decrease in loans receivable following the repayment of $5.1 million of loans to a cooperative scheme, offset by additional loans advanced of $3.4 million, mainly for the concessional loan scheme.

Liabilities

Liabilities increased by $4.3 million to $94 million. This increase is mainly the result of a $2.1 million increase in payables, a $2.7 million increase in employee benefits and an increase of $2.3 million in other liabilities. These increases were offset by a $2.7 million decrease in borrowings.

The increase in payables is mainly due to a $1.8 million increase in accrued expenses. Employee benefits increased due to a reduction in Commonwealth Government bond rates used to discount the long service leave liability, resulting in an increase in the liability. The increase in other liabilities is due to a $1.2 million increase in unearned revenue for the South Australian Research and Development Institute and an increase in the lease incentive liability of $1.2 million following the renewal of the lease at 25 Grenfell Street.

Concessional Loans Schemes

Borrowings from the Commonwealth are represented by the Farm Finance Concessional Loans Scheme, Drought Concessional Loans Scheme and Drought Recovery Concessional Loans Scheme. The Commonwealth pays the funds in advance in agreed amounts, which are held in a special deposit account until paid to approved applicants.

The farm finance concessional loans were used by applicants to restructure their debt. This scheme closed on 30 June 2015.

Drought concessional loans are used by applicants for debt refinancing, to meet operating expenses and to meet the costs of drought recovery and readiness activities. Drought recovery concessional loans are used by applicants for new debt for planting and restocking activities or refinancing an existing drought concessional loan originally provided for operating expenses or drought recovery and readiness. The closing date for these schemes has been extended until 31 October 2016.

Loans drawn down as at 30 June 2016 totalled:

- Farm Finance Concessional Loans Scheme – $450 000
- Drought Concessional Loans Scheme – $2 962 500
- Drought Recovery Concessional Loans Scheme – $142 000.

Statement of Cash Flows

Cash provided by operating activities decreased by $9.3 million. This overall decrease is the result of:

- a $58.6 million increase in cash used in operations. This was mainly a result of a $43.4 million increase in grants and subsidies payments and a $5.8 million increase in payments for supplies and services

- a $38.3 million increase in cash generated from operations, mostly due to a $28 million increase in funding from the Commonwealth and a $6.7 million increase in advances and grants

- a $11 million increase in revenues from the SA Government, mainly to fund additional payments from the RDF.

Cash used in investing activities increased by $7.4 million mainly due to an increase in the purchase of property, plant, equipment and intangible assets of $4.7 million and an increase in loans advanced to the rural sector of $3 million.

Cash used in financing activities increased by $8.3 million due to increased repayment of borrowings of $8.6 million.

Administered items

PIRSA administers 18 funds that are reported in the administered financial statements. The main administered revenues are the collection of industry contributions and aquaculture and fishing licence fees. These are then paid as grants and subsidies to support promotion, research and development and other activities to benefit the different groups who have paid the contributions.

Total fees and charges revenue, including industry contributions and aquaculture and fishing licences, was $26 million ($26 million) and total grants and subsidies were $30 million ($30 million).

PIRSA also received $5 million ($5 million) in revenues from the SA Government for the administered activities. $4.1 million of this amount is for payments to the South Australian Forestry Corporation for community service obligations.

Cash holdings of $21 million ($24 million) are the major asset for the administered activities.

Return to Work Corporation of South Australia (RTWSA)

Financial statistics	Total comprehensive result: Premium revenue: Net claims paid:	(\$44 million) \$495 million \$560 million
	Outstanding claims liability: Net assets:	\$2.5 billion \$325 million
	The number of workers receiving income support for a year or more decreased by 36.6%, and for less than a year increased by 8.8%.	
	The average premium rate was 1.95% in 2015-16.	
	Number of FTEs:	273
Significant events and transactions	— The 2015-16 financial year is the first year of operation of the *Return to Work Act 2014*. — RTWSA achieved a funding ratio of 112.9%, meaning the Return to Work Scheme is fully funded. — Premium revenue decreased by \$150 million to \$495 million. — Net claims paid increased by \$74 million to \$560 million.	
Financial statement 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.	
Financial controls opinion	**Modified** Key issues: — Decisions to accept claims are not independently reviewed — Errors in income support calculations by claims agents and lack of supporting evidence for calculations — Lack of supporting evidence for waivers granted to employers	

Functional responsibility

RTWSA was established under the *Return to Work Corporation of South Australia Act 1994*.

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 liability 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 will focus 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% will receive income support until 30 June 2017, unless they exit the Scheme earlier.

Under previous legislation, a worker's income support was reduced by 10% at 13 weeks 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.

Overview of Return to Work Scheme

Employers must pay a premium to RTWSA based on remuneration provided to their workers and, for certain employers, their claims experience. 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. Small employers are not required to pay a premium, while self-insured employers must pay a fee instead of a premium.

Uncertainty with estimate of outstanding claims liability

Under previous legislation, RTWSA often stopped income support to claimants with some capacity to work. When this occurred, many claimants successfully disputed the decision on the grounds of being unable to find suitable work, then received income support until retirement age. Under the new legislation, existing short-term claimants with a WPI below 30% will stop receiving income support by 30 June 2017. This was the main reason for the reduction in outstanding claims liability in 2014-15. The Scheme's independent actuary noted that the robustness of the WPI assessment rules under the new legislation has not been tested in practice, and if these rules do not operate as intended, the cost implications may be significant. Uncertainties with the estimate of the outstanding claims liability are covered in more detail below.

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.

During 2015-16 specific areas of audit attention included:

- premiums
- investments
- actuarial estimates of outstanding claims liabilities
- determination of claims for workers compensation
- workers compensation payments such as income support, lump sums and medical costs
- general operating expenses such as payroll and other administrative expenses
- information and communications technology infrastructure and systems.

Internal audit activities were reviewed to assist the planning, conduct and assessment of RTWSA's control environment.

Audit findings and comments

Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report on RTWSA's 2015-16 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 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 2016, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated 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 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 7.*

Assessment of controls

In my opinion, the controls exercised by the Return to Work Corporation of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Return to Work Corporation of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive Officer. The main matters raised and related responses are provided below.

Claims are accepted without medical certificates

The RTW Act requires claims to be supported by a medical certificate. Certificates provide expert opinion on the extent of the purported injury and incapacitation, and whether the injury is consistent with the stated cause and capacity. In past years, RTWSA required all claims to have a medical certificate before a determination was made. We noted that in the interest of promptly determining claims, this is no longer a requirement. Claims agents currently accept claims before receiving the certificates for closed period claims and claims for medical expenses only. By not verifying the claim against a medical certificate, there is an increased risk that claims that do not meet the eligibility requirements of the RTW Act are accepted.

RTWSA advised that a risk based approach has been taken to achieve early and fast acceptance of simple, low risk claims to keep the focus on returning people to work and minimising disputes. Evidence about pre-existing injuries can be obtained after the claim has been accepted to limit compensation to the new work injury.

Decisions to accept claims are not independently reviewed

The RTW Act provides tighter eligibility requirements for an injury to be compensable under the Scheme. In the past, all eligibility assessments were independently reviewed before issuing a determination. In 2015-16 we observed that decisions to accept claims are no longer independently reviewed; only rejected claims are reviewed to ensure the correct determination was made. There is therefore a risk that claims are accepted without satisfying the eligibility requirements of the RTW Act. We recommended that RTWSA consider reviewing decisions to accept more complex claims before the determination is issued.

RTWSA agreed that decisions should be reviewed for more complex claims. Claims agents have access to RTWSA's legal providers to seek pre-determination advice as needed. RTWSA will discuss with claims agents the processes and controls to identify and review complex claims before accepting them.

Key claims information within Curam will be validated

RTWSA has implemented a phone based injury notification and assessment process that enables communication between claimants and claims agents before accepting a claim. From January 2016, claimants can submit claims by telephone, and claim details are directly entered into the phone reporting screens within RTWSA's claims management system, Curam. All calls were recorded from April 2016. To ensure key information is correctly entered, we recommended that RTWSA include the checking of key information against phone recordings in the various reviews performed by the claims agents or by RTWSA.

RTWSA agreed with the recommendation to check key claims information against phone recordings and will work with the claims agents to implement appropriate claims data quality reviews.

Waivers granted without supporting evidence

Employers who satisfy certain reporting obligations to RTWSA are required by legislation to have their obligation to pay the first two weeks of income support waived. The information required by claims agents to assess whether the waiver applies is often on the manual claim form. However, due to the introduction of phone reporting, we noted instances where the waiver was granted but there was no supporting evidence that the employer had met the legislative requirements. We further noted an inconsistency between claims agents in applying the waiver. We recommended that RTWSA provide claims agents with clear guidance on the prerequisites for waivers and confirm what evidence is required to support a waiver.

RTWSA agreed with our recommendation to clarify with claims agents the requirements for waivers, including the recording of evidence to support the waiver.

Income support – reimbursement to employers without documentation

Income support is paid either directly to injured workers or as reimbursements to their employers. Employers request these reimbursements by submitting forms showing the worker's earnings and hours worked. We found several instances where payments were not supported by the required documentation, such as payslips and average weekly earnings (AWE) calculations. The lack of supporting evidence for calculations may result in setting an incorrect AWE calculation for injured workers. We recommended that RTWSA discuss with claims agents the importance of sound practices for managing supporting data.

RTWSA agreed with our recommendation and will ensure claims agents implement appropriate AWE quality reviews to adequately manage supporting evidence and data.

Contracts for some home care providers not in place

We observed that formal contracts are not in place for some home care providers for seriously injured workers. We recommended that RTWSA review whether a formal contract is needed to ensure services are provided on agreed terms and conditions.

EnABLE, the unit of RTWSA that manages seriously injured workers, acknowledged that agreements with some providers should be considered. A standard carer's service agreement is being developed to outline service obligations for client care. EnABLE expects this agreement to be finalised by 31 December 2016.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Underwriting result		
Premium revenue from registered employers	495	645
Net claims paid	(560)	(486)
Decrease (Increase) in net outstanding claims liability	51	1 302
Claim management fees	(73)	(101)
Other underwriting expenses	(23)	(15)
Underwriting result	(110)	1 345

	2016 $'million	2015 $'million
Net investment and other income		
Net investment profit	122	223
Other income	13	17
Net investment profit and other income	135	240
Operating expenses		
Employee benefit expenses	(33)	(36)
Other expenses	(33)	(47)
Total operating expenses	(66)	(83)
Result from operating activities	(41)	1 502
Other comprehensive income		
Re-measurements of defined benefit liability	(3)	(1)
Total comprehensive result	(44)	1 501
Net cash provided by (used in) operating activities	(156)	86
Net cash provided by (used in) investing activities	57	(47)
Assets		
Investments	2 750	2 863
Other assets	100	98
Total assets	2 850	2 961
Liabilities		
Outstanding claims	2 481	2 518
Other liabilities	44	73
Total liabilities	2 525	2 591
Total equity	325	370

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 received 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
- the market value of its investments.

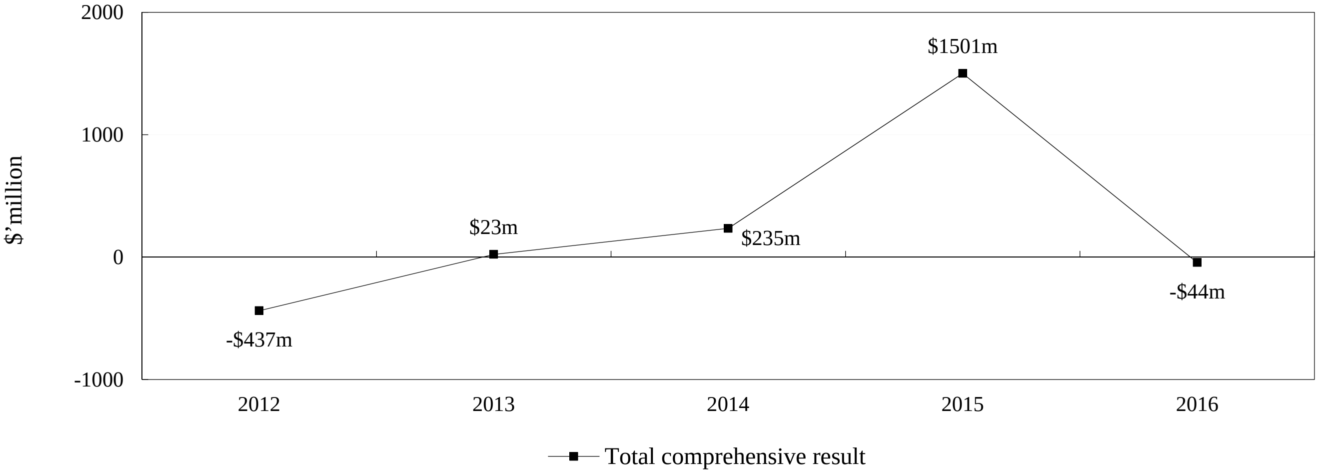
The total comprehensive result for the year was a loss of $44 million (profit of $1.5 billion in 2014-15). The decrease of $1.5 billion in the total comprehensive result was due mainly to:

- premium revenue decreasing by $150 million to $495 million, mainly because the average premium rate reduced from 2.75% in 2014-15 to 1.95% in 2015-16

- the smaller movement in the net outstanding claims liability. In 2014-15, the outstanding claims liability decreased by $1.3 billion, compared to a decrease of $51 million in 2015-16. 2014-15 was the first year the impact of the new legislation had been recognised in the estimate, hence the large decrease in the outstanding claims liability

- net investment profit decreasing by $101 million, due to adverse movements in market values of investments (refer to commentary under the heading 'Investment profits' below).

The following chart shows RTWSA's total comprehensive result for the five years to 2016.



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.

There was a loss of $110 million in the underwriting result compared to an underwriting profit in 2014-15 of $1.3 billion. The $1.4 billion deterioration in the underwriting result reflects:

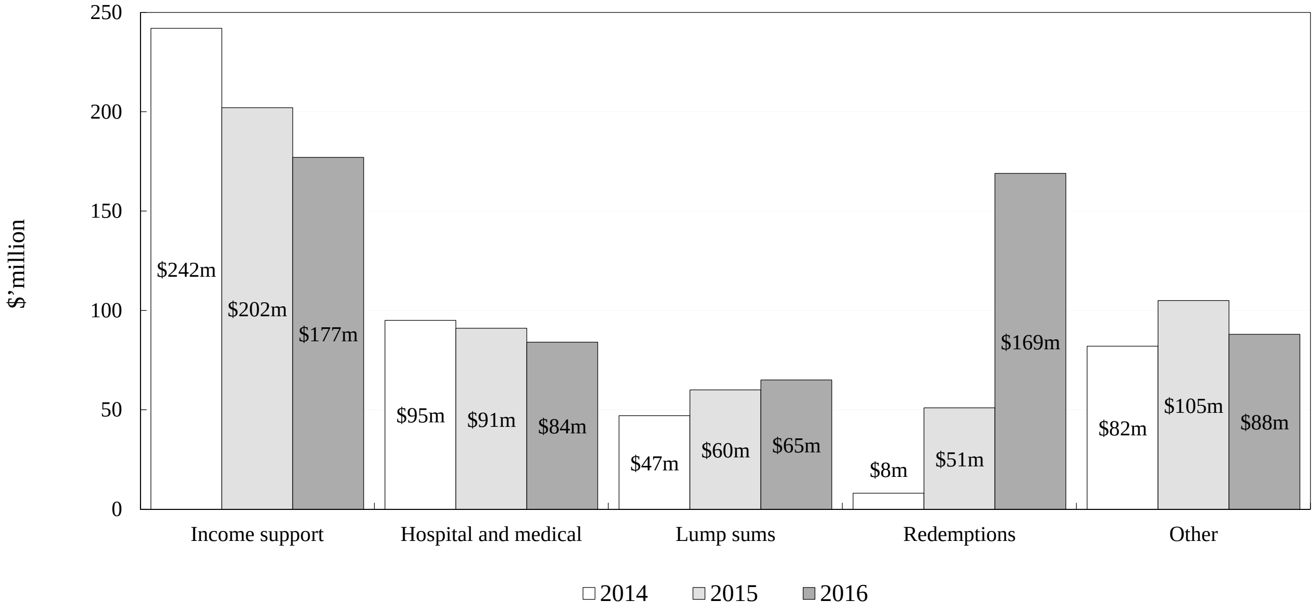
- a $75 million increase in claim payments due mainly to:
  - redemptions paid to claimants increasing by $118 million to $169 million on agreeing to exit the Scheme. According to RTWSA, the number of income support redemptions increased from 489 in 2015 to 2294 in 2016. The redemption amount in each case was largely calculated as the income support the claimant would have received up to 30 June 2017. The redemption represents only a change in timing (bringing forward) of payments that would have been received in the future, and had only a minor impact on the Scheme's estimated outstanding liabilities
  - offset by a $24 million reduction in income support to $177 million as a result of less claimants receiving income support, due mainly to RTWSA's initiatives to get claimants back to work sooner
  - further offset by a $10 million decrease in medical treatment expenses

- a $150 million decrease in premiums due mainly to the reduction of the average premium rate from 2.75% in 2014-15 to 1.95% in 2015-16

- a $51 million decrease ($1.3 billion decrease) in the actuarial assessment of the net outstanding claims liability.

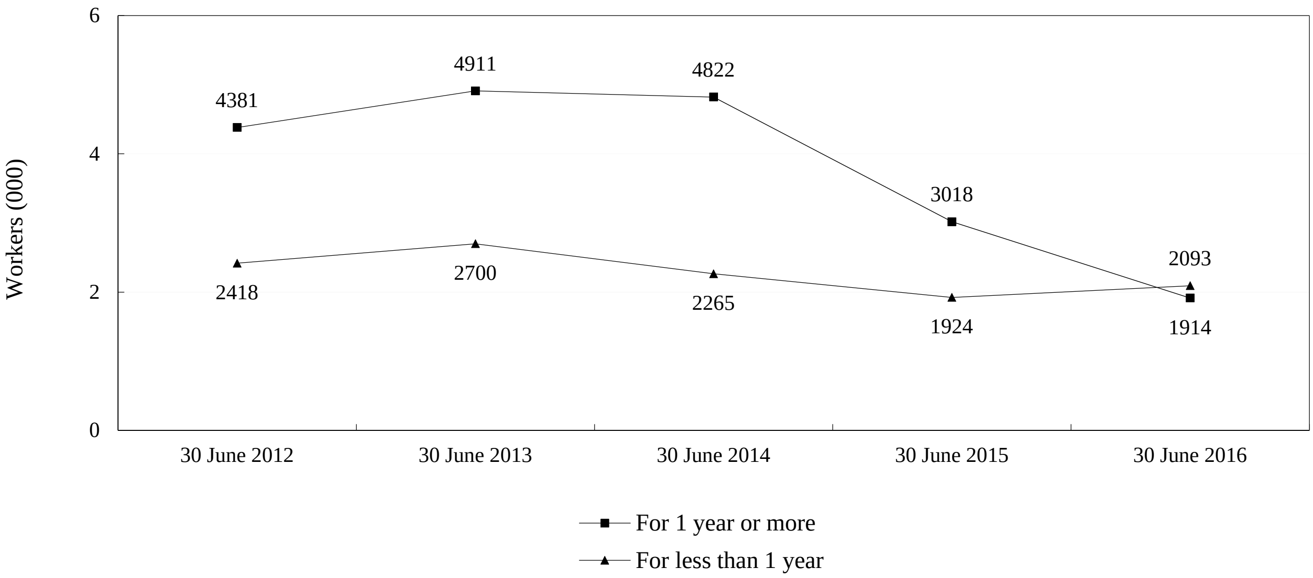
Claim payments

The following chart analyses claim payments for the three years to 2016.



The above chart shows the downturn in income support and medical expenses in 2016 due mainly to RTWSA's new initiatives, such as early intervention by mobile case managers. The increase in redemptions reflects RTWSA closing out some cases sooner.

The change in the number of workers receiving income support for the five years to 2016 is reflected in the following chart.

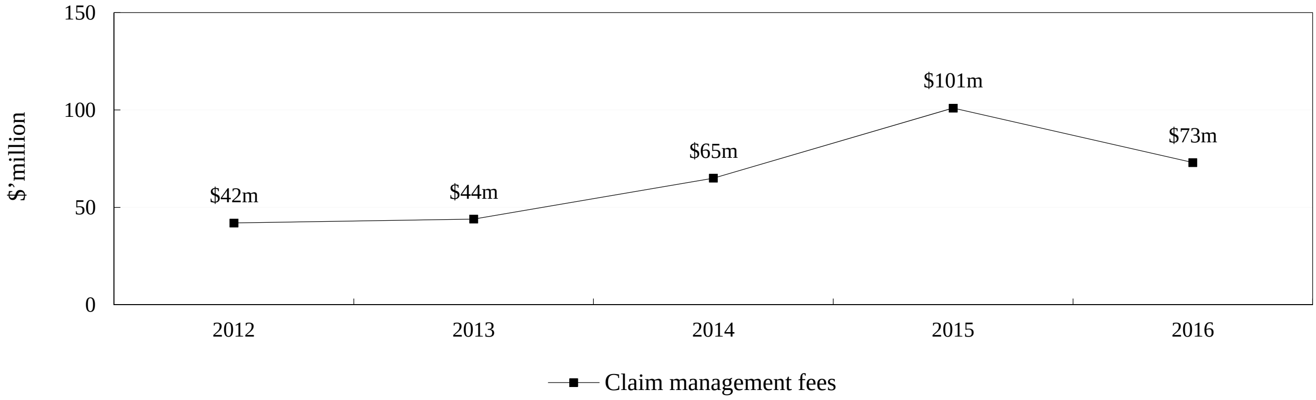


The numbers shown in the above chart were provided by RTWSA and are unaudited.

This chart shows that up until 2013 the number of workers receiving income support was increasing but began to reduce in 2014. In 2016 the number of workers receiving income support for a year or more (long-term claims) decreased by 36.6%, and for less than a year increased by 8.8%. RTWSA's actuary has attributed the reduction in the number of workers receiving income support for one year or more to an increase in the number of claimants paid redemptions and other settlements to exit the Scheme.

Claim management fees

The following chart shows claim management fees for the five years to 2016.



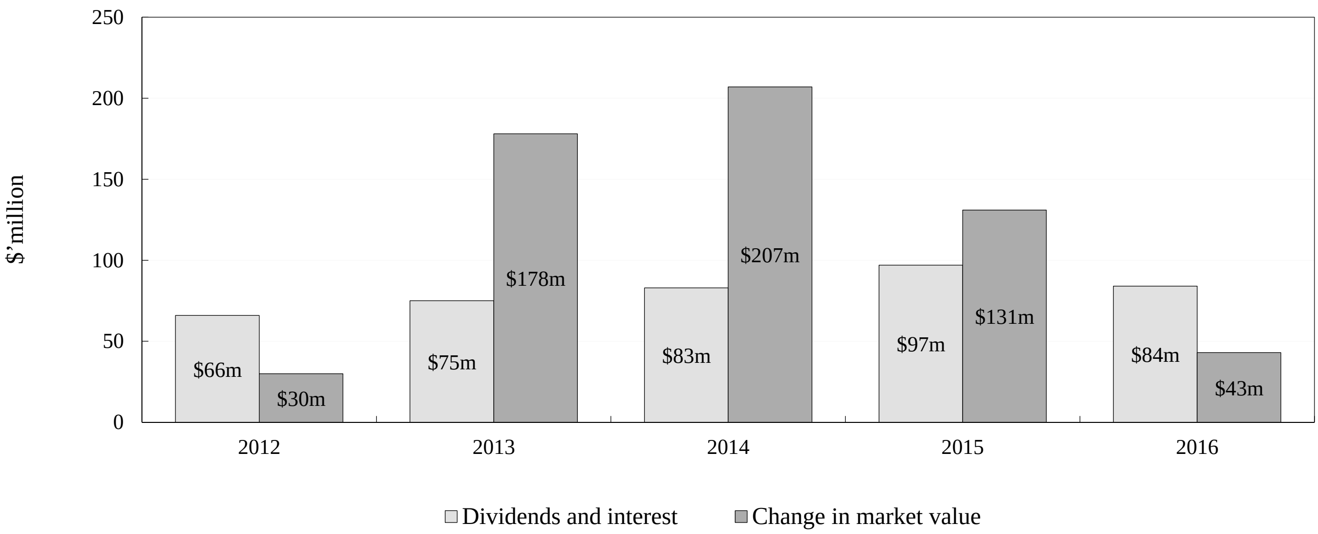
Claim management fees are paid to RTWSA's two claims agents for managing workers compensation claims.

Claim management fees have increased over recent years due mainly to new incentives for managing RTWSA's initiatives for getting claimants back to work. The total amount paid in 2014-15 was significantly higher than other years due to additional payments made by RTWSA to cover the extra costs incurred by the agents due to Scheme reform. The change in legislation also resulted in certain fees being brought forward and paid in 2014-15.

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. Financial markets improved significantly since 2013 compared to 2012. After 2015, there was a downturn in investment markets affecting investment returns.

The following chart shows RTWSA's investment income for the five years to 2016.



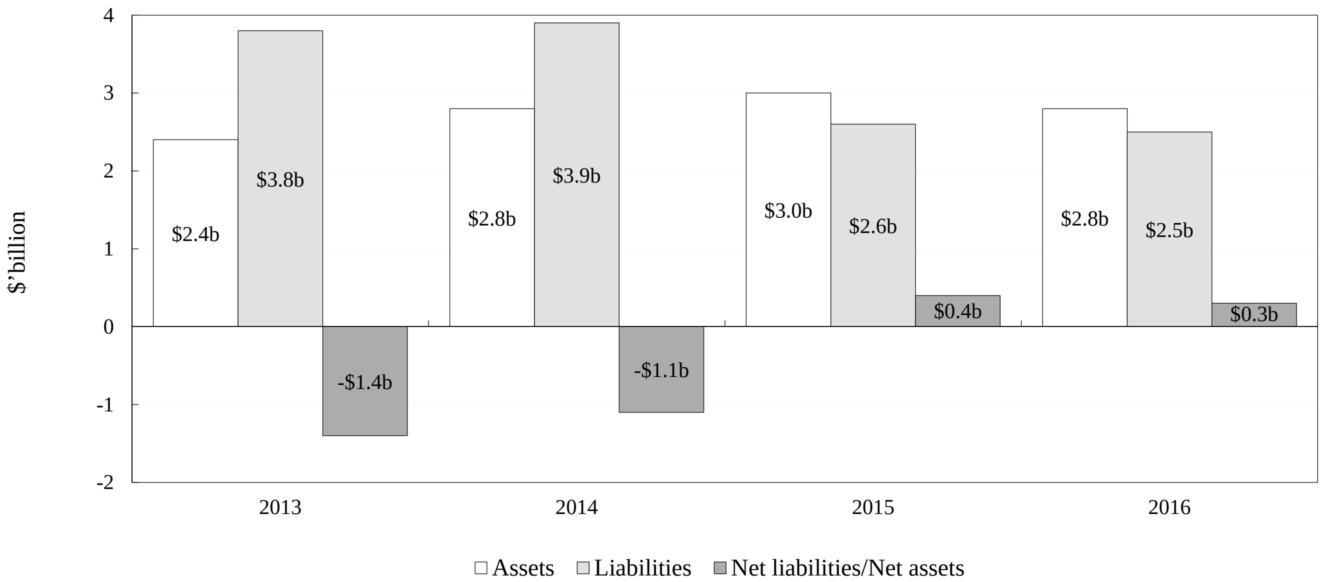
As shown, dividend and interest income has remained relatively stable over the five year period. The market value of RTWSA's investments has declined since 2014 as a result of the downturn in investment markets.

Statement of Financial Position

In 2016 there was a reduction in net assets of $44 million due mainly to investments decreasing by $113 million to $2.7 billion as a result of decreases in the market values of investments. This was offset by:

- estimated outstanding claims reducing by $37 million to $2.48 billion
- payables decreasing by $31 million to $23 million due to less accrued claims agents fees.

The following chart analyses RTWSA's assets and liabilities for the four years to 2016.



The chart reflects the impact on RTWSA's financial position of the 2014 legislative changes and RTWSA's initiatives to get claimants back to work sooner. In 2014-15 the Scheme became fully funded for the first time in many years. The funding ratio (assets divided by liabilities) was 114.3% in 2014-15 and is 112.9% in 2015-16.

Liabilities

Outstanding claims – Compensation Fund

Outstanding claims for the Compensation Fund comprised 95% (95%) 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. Relevant information relating to the actuarial estimation of outstanding claims liabilities is provided in notes 4 and 10 of the financial report.

The net central estimate of outstanding claims liabilities was $2176 million at 30 June 2016. The net outstanding claims provision was $2328 million at 30 June 2016, including a risk margin of $152 million intended to achieve a 65% probability of sufficiency.

The net central estimate of outstanding claims liabilities has decreased from $2238 million at 30 June 2015 to $2176 million at 30 June 2016. The $62 million decrease can be attributed to:

- a $426 million increase in claims incurred during the year
- a $192 million increase due to economic assumptions reflecting reductions in risk free long-term discount rates. A decrease in the discount rate leads to an increase in the liability. Although changes to discount and inflation rate assumptions are impacted by events outside of RTWSA's control, the actuary determines the rates with reference to market practice. The actuary reduced the discount rate from 4.06% in 2015 to 3.28% in 2016
- a $542 million decrease in expected payments during the year
- a $139 million decrease due to improved claims performance reducing the number of claimants receiving income support, which stems from RTWSA's management actions to get claimants back to work more promptly.

The liability for long-term claims may extend for many years beyond the current year, causing the liability to grow. The reduction in short-term claims has resulted in long-term claims becoming a greater proportion of total claims. This is reflected in the weighted average expected term to settlement of claims increasing from 13 years in 2015 to 15 years in 2016 (refer note 10(a) of the financial report).

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 114.3% in 2014-15 and is 112.9% in 2015-16. Given the improved financial results, RTWSA reduced the average premium rate from 2.75% in 2014-15 to 1.95% in 2015-16. The total liability for outstanding claims has remained consistent at $2.5 billion in 2015-16. The average premium rate for 2016-17 will remain at 1.95%.

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 the 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:

- WPI assessments – are the gateway to lifetime benefits for serious injury claimants and new lump sum benefits for economic loss. The robustness of the WPI assessment rules under the legislation has not been tested in practice. If these rules do not operate as intended, the cost implications may be significant.
- Future cost escalation – future cost growth in medical treatment and personal care is a particular risk for the lifetime benefits payable to serious injury claimants.
- Return to work – the potential improvements to Scheme culture as a result of new hard boundaries may encourage earlier return to work for short-term claims. Counter to this, the potential for benefits to continue while claims are in dispute may encourage further disputes and worsen return to work experience up to the two year cut-off.

- Outcomes for claims with current disputes – the valuation basis assumes a high level of success on currently disputed claims.
- Management actions – the extent to which activity over the transition period will ultimately act to reduce the number of claims that remain on long-term benefits.

Audit approach to the estimate of outstanding claims liability

Due to the nature and significance of the Scheme estimate of outstanding claims liability, the audit approach has 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 2016 should be adjusted in any material way. The inherent uncertainty associated with the new Scheme arrangements, however, prevents the degree of certainty over the estimate that would warrant no comment or clarification to the audit opinion.

The key valuation uncertainties in this valuation are: the eventual outcomes from operational strategies; resolution of existing disputes; future cost growth in medical and treatment related expenditure items for long-term claim; actual experience for two-year income support claims; and WPI assessments and actual experience for serious injury claims. The uncertainties may have favourable as well as unfavourable outcomes for the Scheme.

Probability of sufficiency

As disclosed in note 10 of the financial report, the estimate of outstanding claims liability is determined by reference to a 65% probability that the provision for outstanding claims will be adequate. Given the greater uncertainty with the estimate, RTWSA increased the risk margin from 6.5% at 30 June 2015 to 7% at 30 June 2016, so that the net liability is adequately provided to approximately a 65% probability of sufficiency. RTWSA's performance statement, authorised by the Treasurer and the Minister for Industrial Relations, 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. It is noted that the Motor Accident Commission uses 80% and some other schemes in Australia use 75%.

Using a 75% probability of sufficiency for the outstanding claims liability would result in an increase of $120 million as shown in note 10(f) of the financial report.

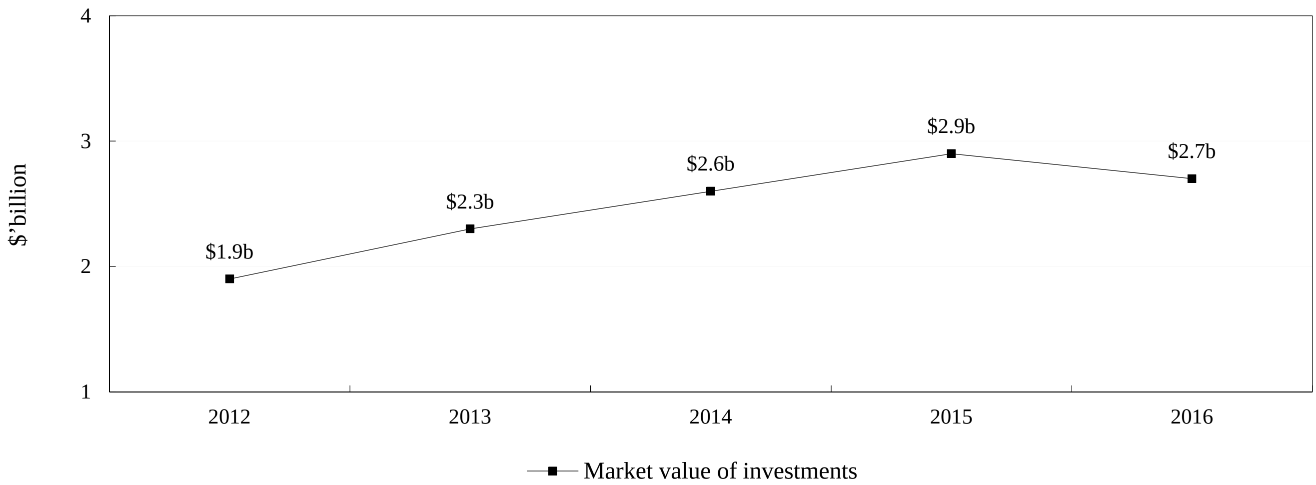
Investments

RTWSA's investment portfolio of $2.7 billion ($2.9 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.

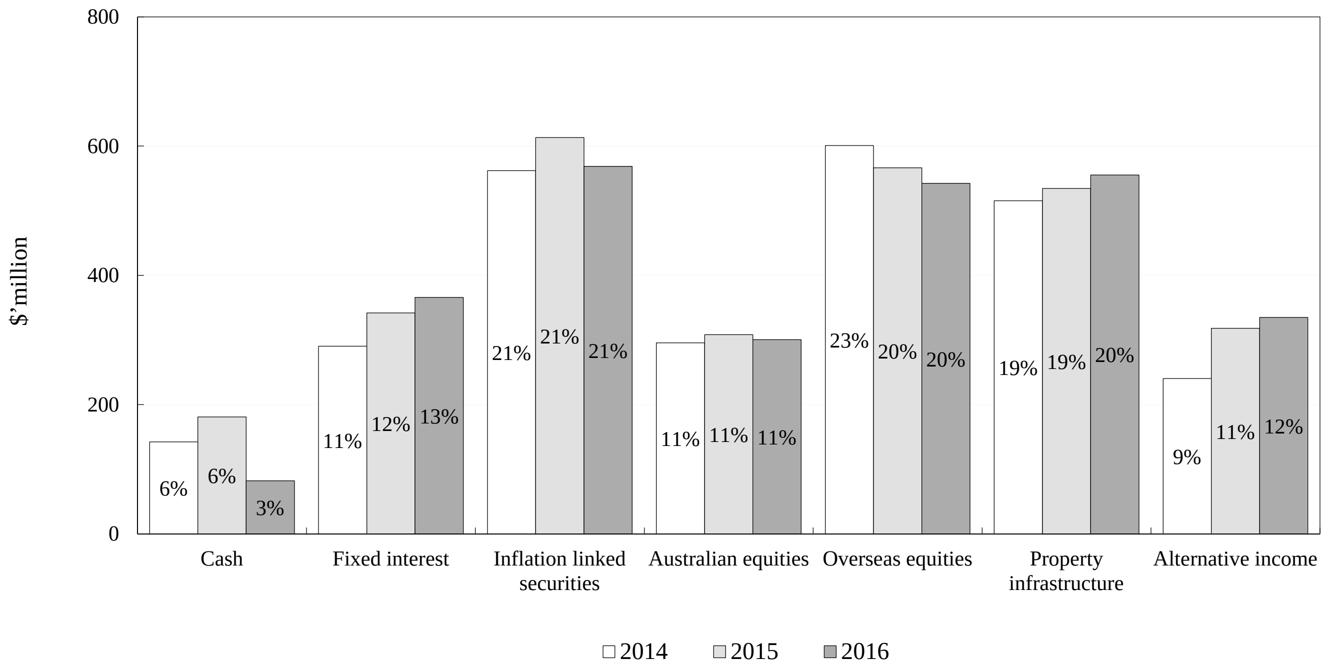
Investment decisions

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 2016.



The following chart shows the RTWSA's investments by asset class for the three years to 2016.



According to RTWSA, the return on investments measured in accordance with Australian Investment Performance Standards for the last five years to 2016 were:

	2016	2015	2014	2013	2012
Return on investments	4.6%	8.6%	12.6%	13.1%	5.5%
RTWSA Board of Management approved targeted return	4.5%	5.0%	6.5%	n/a	n/a

For the last three years, RTWSA's Board of Management approved a targeted return of CPI plus 3.5% p.a. The actual return on investments has exceeded these targets.

South Australia Police (SAPOL)

Financial statistics	Employee benefits expense:	$663 million
	Net cost of providing services:	$790 million
	Total revenues from SA Government:	$798 million
	Property, plant and equipment:	$347 million
	Employee benefits liability and related on-costs:	$295 million
	Workers compensation liability:	$77 million
	Number of active FTEs:	
	Police Act 1998 employees	4616
	Protective Security	123
	Unsworn employees	932
	Total	5671
	Administered items:	
	Revenue from expiation fees	$70 million
	Revenue from Victims of Crime levy	$12 million

Significant events and transactions

- Work is continuing on Stages 2 to 4 of the Shield Business Transformation program. Program costs incurred to date totalled $25 million out of a total estimated program cost of $58 million.
- During the year SAPOL revalued its non-current assets, resulting in a $13 million increase in revaluation surplus within equity.
- $30 million was returned to the Consolidated Account under the cash alignment policy.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Lack of controls to ensure missing timesheets and leave forms are submitted to Shared Services SA for processing
- Certain payroll reports and leave forms were either not reviewed or not reviewed promptly
- Inadequate review of workers compensation payments
- Position titles and payment approval limits in the workers compensation Self-insured Management system do not align with delegated authority
- Local Service Areas have not advised the Expiation Notice Branch of the current status of a large number of missing traffic infringement notices
- Instances where Shared Services SA was not notified of identified errors in Basware system delegations

Functional responsibility

SAPOL is an administrative unit established under the *Public Sector Act 2009* and operates under a legislative framework prescribed by the *Police Act 1998*. SAPOL is responsible to the Minister for Police.

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

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

During 2015-16 areas of review included:

- payroll
- workers compensation
- expiation revenue
- revenue from fees and charges
- expenditure
- government purchase cards
- procurement and contract management
- police records management system – Shield Business Transformation program.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by South Australia Police in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under ‘Communication of audit matters’, are sufficient to provide reasonable assurance that the financial transactions of South Australia Police have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Commissioner of Police. The main matters raised with SAPOL and the related responses are detailed below.

Payroll

Key findings from our review were as follows:

- SAPOL has not implemented controls to ensure that all missing timesheets and leave forms are subsequently submitted to Shared Services SA (SSSA) for processing.

- The Separations reports for sworn officers are not being reviewed. A number of New Employees and Separations reports were reviewed late.

- There were instances of leave forms for commissioned officers being either submitted or approved late.

- Some commissioned officers' leave reports were not reviewed by their supervisor. Leave reports are used to certify the officers' attendance and leave taken for the period.

- There is no documentation to evidence the quarterly Human Resources Management system user access reviews.

In response, SAPOL advised that it will implement measures to address the findings, including:

- investigating whether reports can be produced listing all outstanding timesheets and leave forms at a point in time

- implementing new standard operating procedures for the review of New Employees and Separations reports

- undertaking a communication strategy to reinforce the need to comply with internal procedures for reviewing leave forms and reports

- updating existing procedures to require retention of evidence of Human Resources Management system access reviews.

Workers compensation

Key findings from our review were as follows:

- Income support payment adjustments are not reviewed and approved by a delegated SAPOL officer before they are sent to SSSA for processing.

- Payment approvers do not check payment details in the Self-insured Management system back to supporting documents to ensure the validity and accuracy of the claim payment.

- The position titles and payment approval limits in the Self-insured Management system do not align with delegated authority.

SAPOL responded to our recommendations and noted the following:

- Due to system limitations, it is not possible to review and approve income support payment adjustments before they are sent to SSSA for processing. Instead, SAPOL will implement a quality assurance review over income support adjustments.

- SAPOL's view is that it is not practical for payment approvers to agree payment details in the Self-insured Management system back to supporting documents given the large volume of transactions involved. Instead, each month it will audit a sample of workers compensation invoices approved by case managers against the information entered in the Self-insured Management system.

- SAPOL will reconcile the position titles and payment approval limits in the Self-insured Management system with delegated authority by 30 September 2016.

Expiation revenue

Key issues raised with SAPOL were as follows:

- Local Service Areas have not advised the Expiation Notice Branch of the current status of a large proportion of missing traffic infringement notices. Valid expiation fees may be forfeited if no follow-up is made within six months of the date the missing notices were issued.

- The regular review of Expiation Notice System user access does not include all user types.

SAPOL responded that it will actively follow up missing traffic infringement notices, and it has updated the scope of its Expiation Notice System user access reviews to include other user types.

Revenue from fees and charges

We raised the following key findings during our audit:

- SAPOL has not implemented formal controls for approving or regularly reviewing user access to the Bizgate system. Bizgate is used by SAPOL to process cash and credit card receipts and allows authorised users to process payments.

- Consistent with our 2014-15 audit, a number of banking and shift close-offs were not completed promptly and the prescribed close-off sheets were not used in all instances. This increases the risk of inaccurate or incomplete revenue and cash balances.

SAPOL responded that:

- Bizgate was replaced with the SA Police Point of Sale (SAPPOS) system in June 2016. SAPOL will review user access to SAPPOS every six months.

- SAPPOS automatically generates a close-off audit sheet each time a close-off is initiated. SAPOL has updated the General Order which now requires completion of the SAPPOS audit sheet for each close-off.

Expenditure

Key findings raised during our review of the expenditure business cycle were as follows:

- We noted instances where SSSA was not notified of identified errors in system delegations, and an instance where a change in SAPOL's delegations was not reflected in Basware until seven months after the approved change.

- SAPOL's review of CommBiz user access does not cover SSSA staff on the SAPOL profile.

SAPOL responded that:

- it will implement measures to ensure delegation limits in Basware are updated promptly, such as attaching modify user forms to the Basware quarterly user review return submitted to SSSA for processing.

- SAPOL will include SSSA user access in the scope of its CommBiz user access review.

Government purchase cards

SAPOL has 360 active purchase cards issued to staff as at 30 June 2016 with a total spend of $1.5 million for 2015-16. Purchase cards offer a range of benefits including processing efficiency and detailed transaction recording and reporting. The use of purchase cards also presents a number of inherent risks including the potential use of purchase cards for non-work related expenses, purchases of restricted items, non-compliance with internal SAPOL policies and errors in recording purchase card transactions. SAPOL uses the ANZ Expense Manager system to manage the use and processing of purchase card transactions.

Key findings from our review were as follows:

- We noted instances where purchase cards were not cancelled promptly following the termination of staff.
- Several restricted items were purchased using purchase cards. SAPOL has designated that certain items must be purchased by submitting a purchase requisition in the Basware system through the Procurement and Contract Management Services Branch. Items are designated as 'restricted' due mainly to the specific risks they pose, such as risks to personal safety or network security, and include computing, photographic and road safety equipment and accessories.
- Several purchase card transactions were not certified and approved within 30 days as required by SAPOL policy.

SAPOL responded positively to our observations and noted that ANZ Expense Manager system-generated emails will be sent to account holders and supervisors/managers to reinforce their responsibilities. SAPOL will also implement sanctions for non-compliance with the General Order on the purchase of restricted items.

Information and communications technology and control

Police records management system – Shield Business Transformation program (Shield program) status

In September 2009 Cabinet approved a submission for a police records management system, Niche RMS, now referred to as the Shield program. The submission included the implementation of Stage 1 (custody management and criminal associations) at an approved budget of $13 million. A further Cabinet submission in November 2013 approved $45 million to implement Stages 2 to 4 of the Shield program.

At the time of our review Stage 1 was completed, with work continuing on Stages 2 to 4.

As at 30 June 2016 the program-to-date capital investment expenditure totalled $18 million, while total operating and recurrent expenditure to date amounted to $7 million.

The remaining budget for capital investment expenditure is $21 million, while the remaining budget for operating and recurrent expenditure is $10 million.

Shield program follow-up review

In 2014-15 we reviewed the implementation status of the Shield program and raised a number of findings, including the lack of a formal review of certain roles in the Niche RMS, deficiencies in the segregation of duties matrix testing, the lack of timely notification of separation advice, and the absence of evidence of discussing and endorsing implementation approach changes.

During 2015-16, we completed a follow-up review of the Shield program and found that SAPOL has addressed all of the issues identified in 2014-15, except for the lack of formal review of certain roles in the Niche RMS. We were advised that SAPOL has engaged with the vendor to resolve this issue.

Additional work-related injury insurance arrangements for police officers

Following the commencement of the *Return to Work Act 2014* on 1 July 2015, the Police Association of South Australia (PASA) campaigned for additional insurance arrangements for police officers. As a result, the PASA and the SA Government entered into a Heads of Agreement, which provides for the inclusion of an Injury and Income Protection Policy in the South Australia Police Enterprise Agreement 2016 (Enterprise Agreement) for police officers who suffer a work-related injury.

The Enterprise Agreement included a Reserved Matter clause where the PASA and the SA Government agreed to take all reasonable steps to finalise an outcome by 1 July 2016. However, not all components of the Heads of Agreement were finalised by 1 July 2016. This matter remained unresolved at the time of this Report.

Interpretation and analysis of the financial report

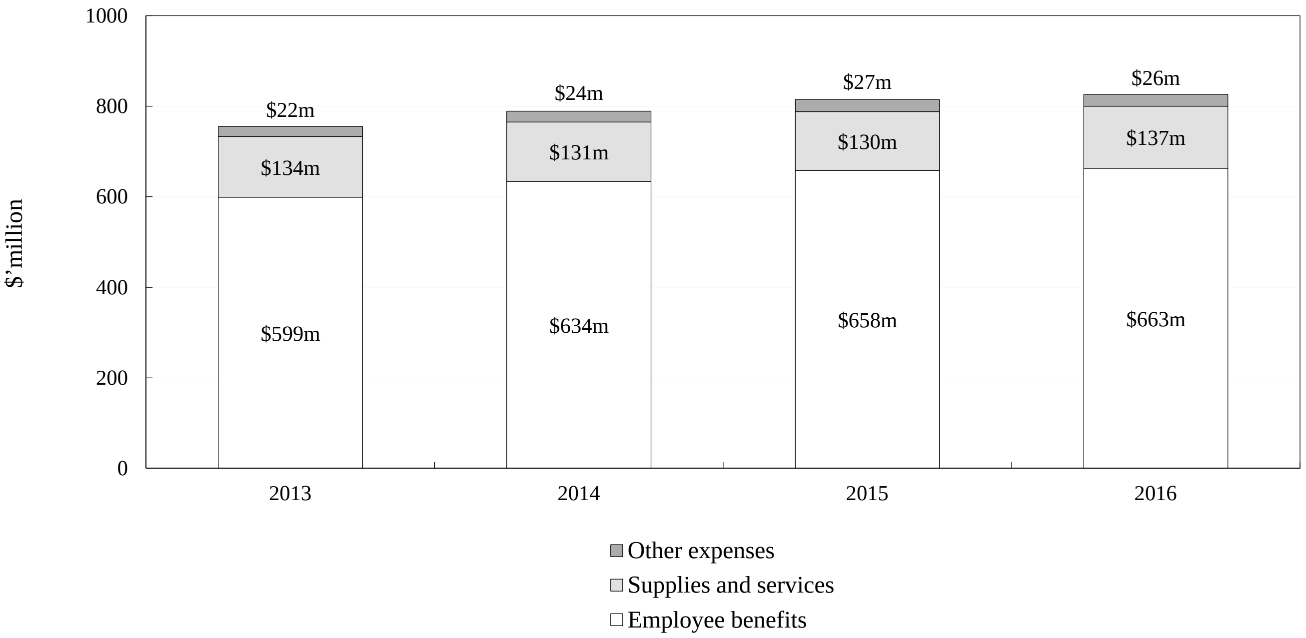
Highlights of the financial report

	2016 $’million	2015 $’million
Expenses		
Employee benefits	663	658
Supplies and services	137	130
Other expenses	26	27
Total expenses	826	815
Income		
Fees and charges	26	26
Other revenues	10	9
Total income	36	35
Net cost of providing services	790	780
Revenues from (Payments to) SA Government	798	795
Net result	8	15
Other comprehensive income	13	-
Total comprehensive result	21	15
Net cash provided by (used in) operating activities	11	75
Assets		
Current assets	156	142
Non-current assets	384	375
Total assets	540	517
Liabilities		
Current liabilities	117	108
Non-current liabilities	274	281
Total liabilities	391	389
Total equity	149	128

Statement of Comprehensive Income

Expenses

The following chart shows the main expense items for the four years to 2015-16.



Employee benefits account for 80% of total expenses and increased by $5 million during 2015-16. This movement was mainly due to:

- an increase in salaries and wages of $21 million
- an increase in annual leave expense of $2 million
- a decrease in long service leave expense of $5 million
- a decrease in police service leave expense of $8 million
- a decrease in superannuation on-costs of $6 million.

The increase in salaries and wages and annual leave expense were mainly driven by the Enterprise Agreement, which included provisions for a 2.5% increase effective 1 July 2015 and a one-off organisational reform allowance of $4.5 million.

Long service leave expense reflects long service leave payments of $14 million, and an $8 million increase in long service leave liability resulting from the annual actuarial assessment of the liability at 30 June 2016.

In 2014-15 SAPOL recognised, for the first time, a liability for police service leave of $8 million. The police service leave expense for 2015-16 of $268 000 reflects the costs accrued for the year.

The decrease in superannuation on-costs was due mainly to the reduction in SAPOL's contributions to the Police Superannuation Scheme. This is consistent with the continued decline in the Scheme's membership since it closed to new members in June 1990. During the year, SAPOL also reduced its estimated superannuation on-costs on annual leave and long service leave provisions to align with the rates prescribed by the Accounting Policy Framework issued by the Department of Treasury and Finance.

Supplies and services account for 17% of total expenses and include:

- $32 million for accommodation and property related expenses

- $26 million for communication and computing expenses
- $23 million for motor vehicle related expenses.

Supplies and services expenses increased by $7 million in 2015-16, mainly driven by:

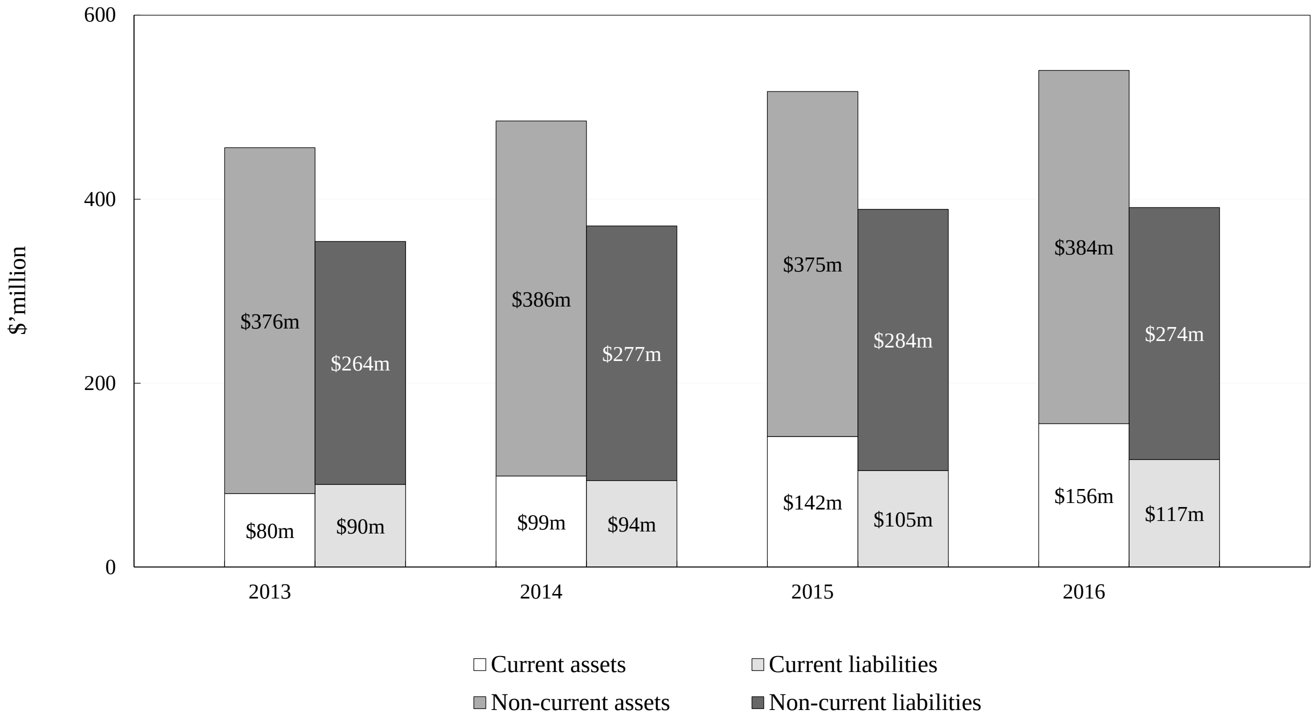
- an increase in accommodation and property related expenses of $1 million resulting from the annual increase in rent payable on leased properties
- an increase in helicopter costs of $3 million including $2.2 million in once-off contributions to upgrade State rescue helicopters controlled by the Attorney-General's Department. SAPOL uses State rescue helicopters for crime prevention activities, search and rescue operations and pursuing motor vehicles and suspects
- an increase in minor equipment of $3 million due mainly to the acquisition of additional crime prevention equipment such as conducted electrical weapons (taser guns).

Income

SAPOL receives government funding based on annual budgeted expenditure, less estimated revenues from fees and charges and other sources. Revenues from the SA Government increased marginally by $3 million to $798 million.

Statement of Financial Position

For the four years to 2015-16, a structural analysis of assets and liabilities is shown in the following chart.



Assets and liabilities

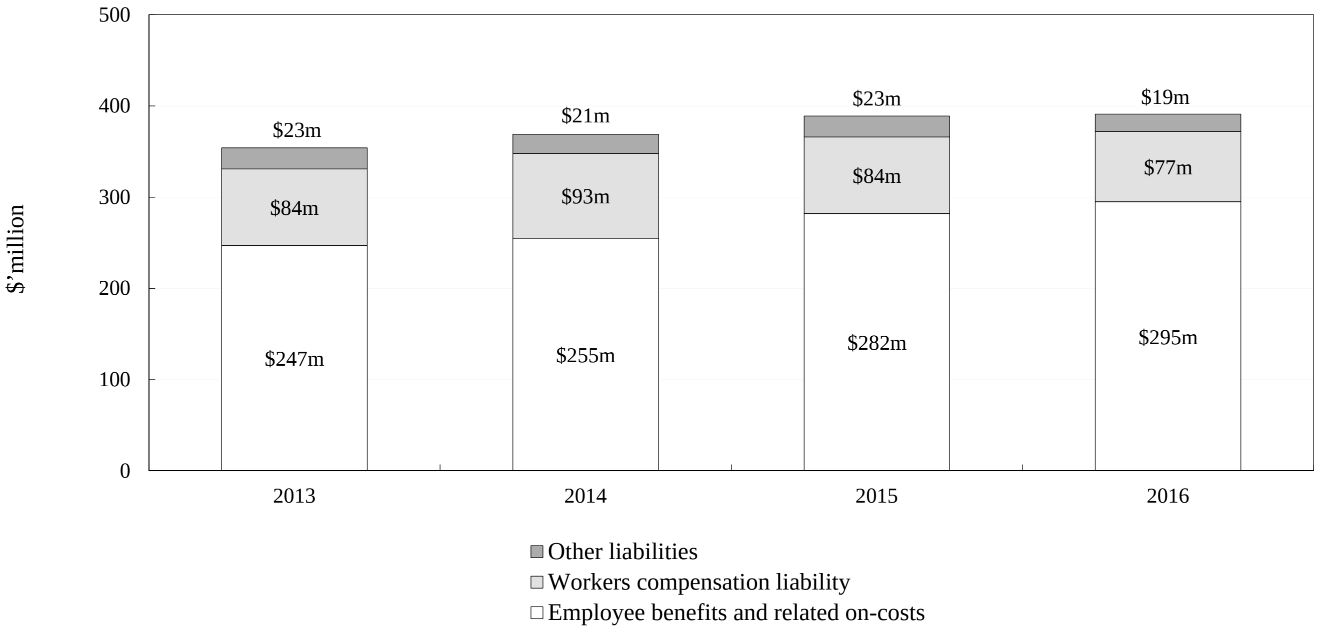
Current assets increased by $14 million mainly as a result of the increase in receivables of $21 million, partly offset by a decrease in cash of $6 million.

The increase in receivables reflected that annual funding from the Community Emergency Services Fund for 2015-16, totalling $21 million, was outstanding as at 30 June 2016.

Non-current assets increased by $9 million due mainly to:

- a $13 million increase from the revaluation of non-current assets during the year
- additions, including donated assets, amounting to $21 million
- depreciation and amortisation charges of $26 million.

The significance of employee related liabilities compared to total liabilities is shown in the following chart.



The increase in employee benefits and related on-costs of $13 million was due mainly to a $9 million increase in accrued salaries and wages.

The increase in accrued salaries and wages was due mainly to the 2.5% increase in salaries and wages, the one-off organisational reform allowance, and the additional days accrued as at 30 June 2016 due to the timing of the final pay period for the year.

Movements in employee related provisions for annual, long service and police service leave, together with a $4 million decrease in the liability for employee on-costs, account for the remaining movement.

The decrease in workers compensation liability of $8 million was due mainly to a reduction in the number and average amount of Seriously Injured claims and a more stringent test for compensability under the *Return to Work Act 2014* in 2014-15. The provision is an actuarial estimate provided by the Office for the Public Sector and takes into account the impact of the introduction of the 104-week cap on workers compensation payments.

Other liabilities decreased mainly as a result of a decrease in creditors of $3 million due to timing of receiving supplier invoices and payments.

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 decreased by $4 million to $70 million in 2015-16.

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 the payment of compensation to people who suffer injury as a result of criminal acts and the recovery of money from offenders.

SAPOL collects money and remits it to a special interest bearing deposit account managed by the Attorney-General's Department.

During 2015-16, Victims of Crime levy receipts paid to the Attorney-General's Department totalled $12 million.

Further commentary on operations

Staffing

SAPOL employed the following active FTEs by category as at 30 June for the past two years.

	2016	2015
	FTE	FTE
Police Act 1998 employees	4 616	4 588
Protective Security	123	124
Unsworn employees	932	949
Total	5 671	5 661

South Australian Country Fire Service (SACFS)

Financial statistics	Net cost of providing services:	$72 million
	Total contributions from the Community Emergency Services Fund:	$74 million
	Number of FTEs:	147
	Number of volunteers:	13 928
	Employee benefits liability and related on-costs:	$6 million
	Workers compensation liability:	$5 million

Significant events and transactions

— The SACFS responded to the Pinery fires in November 2015.

— Support was provided for major fires in Tasmania and Western Australia.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Controls over workers compensation:

- no reconciliation between the workers compensation system and payroll systems
- controls over the management of workers on income maintenance need strengthening
- no review of income maintenance calculations before payment
- no documentation kept of the annual review of claims

— Controls over vehicle management:

- vehicle management policies and procedures are not comprehensive
- no single vehicle management system used by all emergency services organisations
- no strategic asset management plans
- limited documentation of the information used to support annual capital plan decisions

Functional responsibility

The SACFS is a body corporate established by the *Fire and Emergency Services Act 2005*.

The functions of the SACFS include the prevention of fires and the provision of fire and emergency response services to regional and peri-urban areas of South Australia.

The South Australian Fire and Emergency Services Commission (SAFECOM) provides various corporate services to support the SACFS's primary functions. The operations of the SACFS are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998.*

For more information about the SACFS's objectives refer note 1 of the financial report.

Scope of the audit

The audit program covered the major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the SACFS to conduct relevant financial transaction and control compliance tests.

The scope of the audit included:

- expenditure
- payroll
- revenue
- non-current assets, including capital works in progress and vehicle management
- cash at bank
- financial accounting
- workers compensation
- governance.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Country Fire Service in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to workers compensation and vehicle management as outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Country Fire Service have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive, SAFECOM and the Chief Officer, SACFS who are responsible for the governance of the SACFS.

Matters raised with SAFECOM and the SACFS and the related responses are provided in detail under 'Communication of audit matters' in the section of this Report titled 'South Australian Fire and Emergency Services Commission'.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	19	16
Supplies and services and other expenses	47	48
Depreciation and amortisation	10	10
Total expenses	76	74
Total income	5	5
Net cost of providing services	71	69
Revenues from (Payments to) SA Government	74	75
Net result and total comprehensive result	3	6
Net cash provided by (used in) operating activities	19	16
Net cash provided by (used in) investing activities	(15)	(17)
Assets		
Current assets	18	17
Non-current assets	166	160
Total assets	184	177
Liabilities		
Current liabilities	10	5
Non-current liabilities	6	7
Total liabilities	16	12
Total equity	168	165

Statement of Comprehensive Income

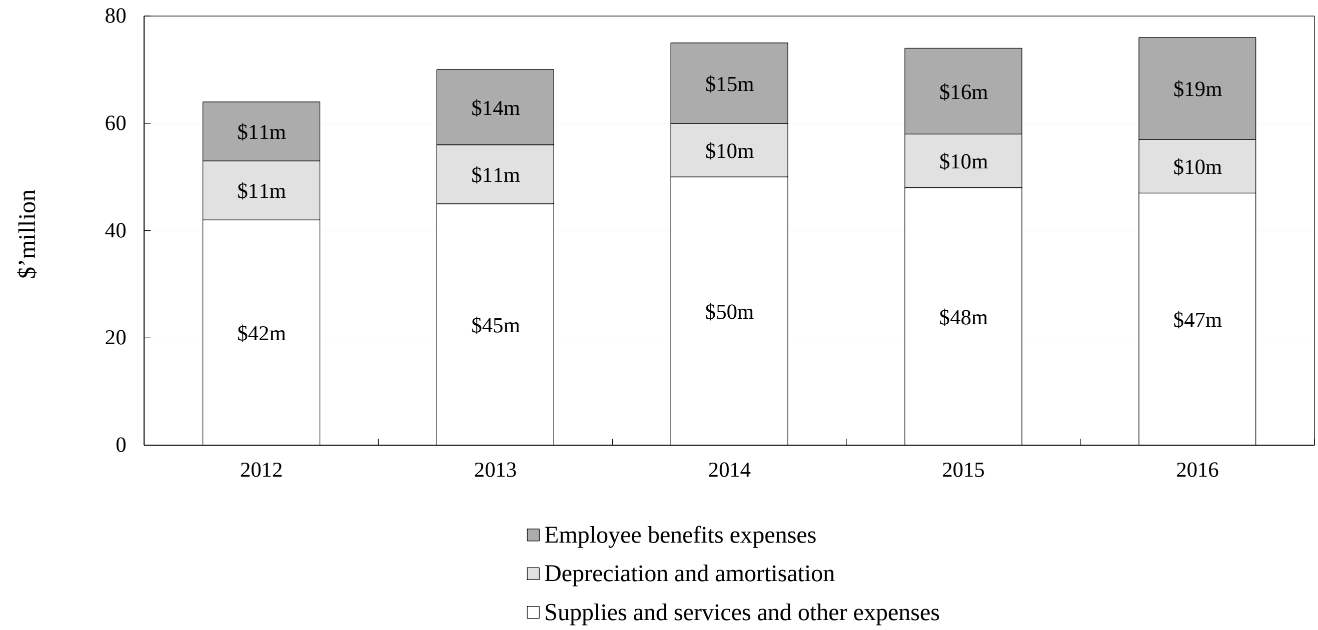
Revenues from SA Government

Revenues from the SA Government of $74 million remained consistent with the previous year. The main source of revenue for the SACFS is contributions from the Fund which account for 94% of total income (refer note 15 of the financial report).

Expenses

Employee benefits expenses of $19 million account for only 25% of the total expenses of the SACFS due to the extensive use of volunteer firefighters.

For the five years to 2016, the main expense items for the SACFS are shown in the following chart.



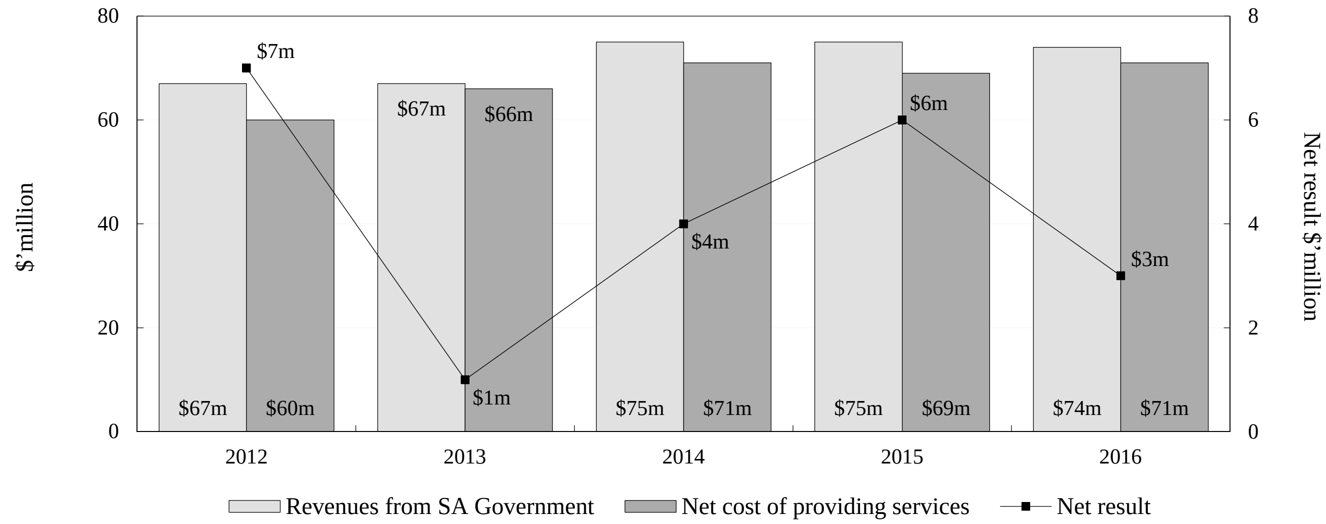
Over the five years, expenses have increased by $12 million. In 2015-16 employee benefits increased by $3 million due to higher workers compensation costs of $2 million and salaries and wages increasing by $1 million, mainly due to an increase of 10 FTEs.

Net result

The net result for 2015-16 decreased by $3 million. An increase in total expenditure of $2 million coupled with a decrease in total revenues from the SA Government of $1 million contributed to this result.

Funding provided to the SACFS includes money for capital purposes. The net result has fluctuated in recent years but does not take into account asset revaluations and other comprehensive income movements. The net result can be impacted by capital expenditure timing and approvals.

The following chart shows the funding received by the SACFS from the SA Government (predominantly from the Fund), the net cost of providing services and the net result for the past five years.



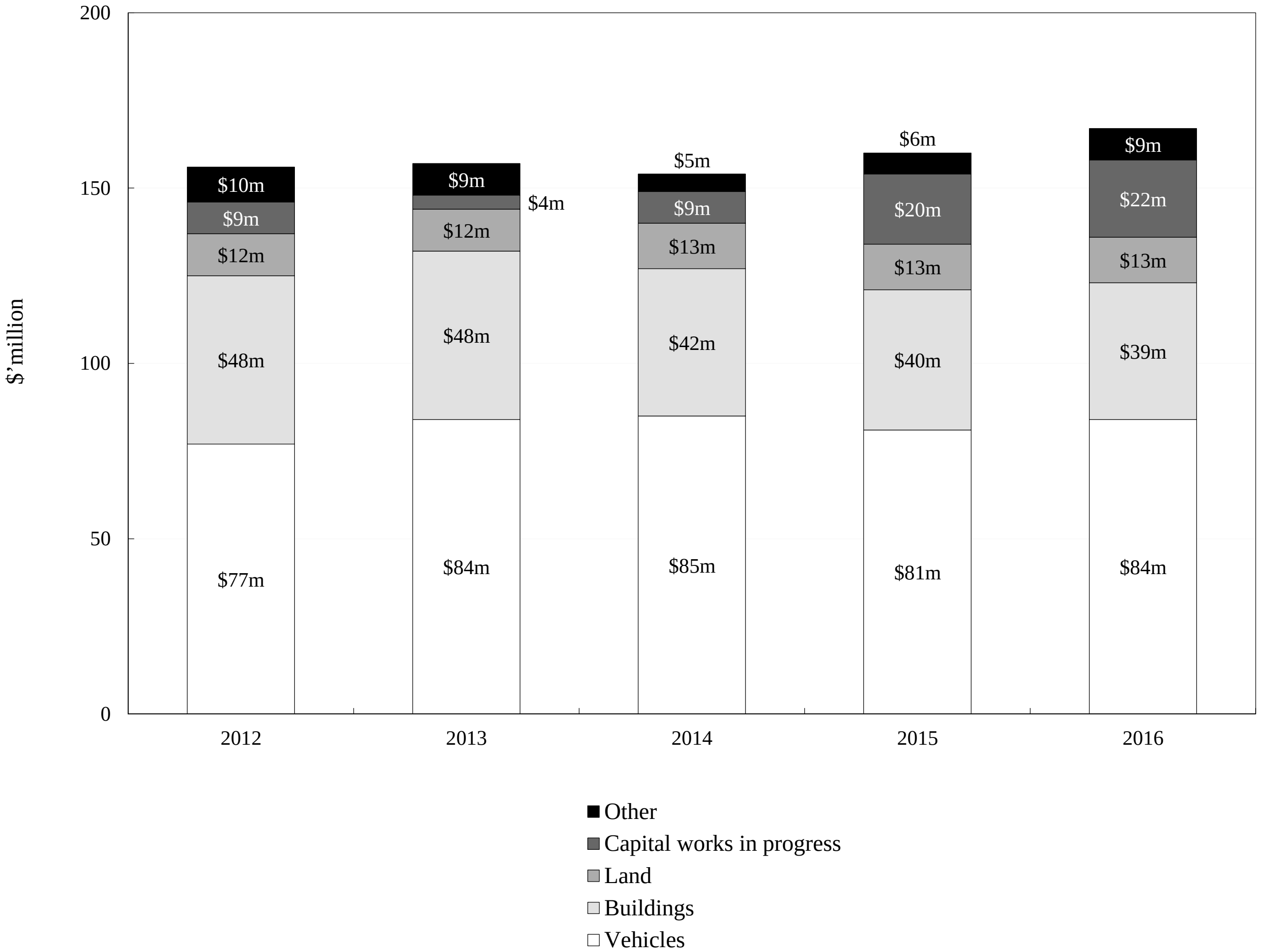
Statement of Financial Position

The Statement of Financial Position is dominated by property, plant and equipment which accounts for 90% of total assets. Property, plant and equipment increased by $6 million to $166 million in 2015-16.

The fair values of the main asset classes held by the SACFS were land ($13 million), buildings ($39 million) and vehicles ($84 million). Refer note 20 of the financial report for more information.

The SACFS invested $16 million in additional property, plant and equipment in 2015-16. This included $10 million for new vehicles and $3 million for other equipment.

For the five years to 2016, a structural analysis of property, plant and equipment is shown in the following chart. Vehicles is the most significant class of assets, and includes approximately 800 fire appliances. Buildings and land largely represent brigades throughout the State. Capital works in progress of $22 million represent uncompleted assets, which are made up of vehicles and other equipment.



Employment liabilities make up $11 million of the SACFS's total liabilities at 30 June 2016, comprising:

- employee benefits liabilities and related on-costs, $6 million ($6 million)
- provision for workers compensation, $5 million ($4 million). This is due to the increased costs determined by the actuarial review for long-term claims allowed under revised firefighter compensation arrangements.

South Australian Fire and Emergency Services Commission (SAFECOM)

Financial statistics	Consolidated net cost of providing services:	$248 million
	Total consolidated contributions from the Community Emergency Services Fund:	$238 million
	Employee benefits liability and related on-costs:	$49 million
	Workers compensation liability:	$23 million
	Number of FTEs (SAFECOM consolidated):	1217

Significant events and transactions

SAFECOM implemented a new financial reporting system for the emergency services sector.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Controls over workers compensation:

- no reconciliation between the workers compensation and payroll systems
- controls over the management of workers on income maintenance need strengthening
- no review of income maintenance calculations before payment
- no documentation kept of the annual review of claims

— Controls over vehicle management:

- vehicle management policies and procedures are not comprehensive
- no single vehicle management system used by all emergency services organisations
- no strategic asset management plans
- limited documentation of the information used to support annual capital plan decisions

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Functional responsibility

SAFECOM is established by the *Fire and Emergency Services Act 2005* (FES Act).

The functions of SAFECOM include responsibility for corporate services across the emergency services sector. SAFECOM supports and allocates sector resources and has a leadership role in state-wide 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

The audit program covered the major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the emergency services organisations (ESOs) to conduct relevant financial transaction and control compliance tests. The ESOs are made up of the:

- South Australian Metropolitan Fire Service (SAMFS)
- South Australian Country Fire Service (SACFS)
- South Australian State Emergency Service (SASES).

The scope of the audit included:

- expenditure
- payroll
- revenue
- non-current assets, including capital works in progress and vehicle management
- cash at bank
- financial accounting
- workers compensation
- governance
- the Fund.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Fire and Emergency Services Commission in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to workers compensation and vehicle management as outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Fire and Emergency Services Commission have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive and chief officers responsible for the governance of SAFECOM and the ESOs. The main matters raised with SAFECOM and the ESOs and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to SAFECOM and the ESOs are also described below.

Workers compensation

SAFECOM on behalf of all ESOs, manages workers compensation in-house and uses the Self-Insurance Management System (SIMS) to manage claims. SIMS records both medical claims (payment of medical invoices) and income maintenance (salary payments). The total consolidated workers compensation payments made in 2015-16 was $10 million.

SIMS data is used by the SA Government's actuary to determine the provision for workers compensation in the financial statements. The total consolidated provision for workers compensation for 2015-16 was $23 million.

Reconciliation between SIMS and CHRIS not checked

Income maintenance payments are calculated manually and sent to SSSA for processing and payment in the payroll system (CHRIS). SAFECOM income maintenance calculations are then entered into SIMS payment data fields. There is no check to ensure what was actually paid in CHRIS agrees to the SAFECOM calculation.

We also noted there was no reconciliation between CHRIS and SIMS to ensure all payments and adjustments have been correctly entered into SIMS. This increases the risk of SIMS being incorrect and incorrect payments not being identified.

SAFECOM responded that it would add a process to ensure that income maintenance payments are correct.

Process for management of workers on income maintenance could improve

We reviewed a sample of injured workers on income maintenance and found issues with all payments. We noted:

- injured workers' claims are not being approved and/or moved from normal pay/leave to workers compensation promptly
- retrospective adjustments are being made to pay type, but there has been no review or adjustment processed to ensure actual payments are in line with the calculated income maintenance amounts
- not all records are being kept
- there may be inappropriate access to CHRIS by SAFECOM.

SAFECOM stated it will be updating the process to manage income maintenance claims to reflect our recommendations.

Income maintenance calculations are not reviewed

A Claim Administrator at SAFECOM is responsible for calculating the fortnightly compensation amount for an income maintenance claim. The calculations are generally complex due to various regulatory requirements. We identified there was no independent review of the calculations before they are sent to SSSA for processing and payment. This increases the risk that calculations and payments may be incorrect.

SAFECOM agreed to implement an independent review of income maintenance calculations.

Annual review of open claims not evidenced

Each year prior to the actuarial assessment, the Office for the Public Sector requests that all claims be reviewed to ensure all inactive claims are closed and all new claims have been updated to SIMS.

We understand the review does occur, however no evidence of the review or action taken is kept. This may result in SIMS being out of date, leading to an incorrect actuarial assessment of the workers compensation provision.

SAFECOM agreed to implement a process to evidence the annual reviews that are undertaken.

Vehicle management

The largest asset class for the ESOs is vehicles. As at 30 June 2016, the sector controlled over 1500 vehicles, largely fire appliances and emergency vehicles, with a combined carrying amount of $123 million. The sector spent $15 million in 2015-16 on replacing ageing vehicles and an additional $5 million on repairs and maintenance.

We reviewed the vehicle management process against best practice.

Vehicle management policies and procedures need updating

SAFECOM is responsible for developing relevant policy frameworks and sound corporate governance across the emergency services sector. Our review found sector-wide policies and procedures relating to vehicle management have not been developed.

The ESOs are responsible for managing and maintaining their own vehicles and developing annual capital programs to replace ageing vehicles. Our review found the ESOs have developed some policies and procedures in the areas of maintenance, allocation of vehicles and annual capital planning, but these did not cover all aspects, and some are outdated and need review. The processes heavily rely on individual officers' knowledge and experience.

The absence of comprehensive policies and procedures on vehicle management may lead to a lack of clarity and direction from management on how to achieve vehicle management objectives.

SAFECOM agreed to review vehicle management policies and procedures.

A single vehicle management system will be implemented

Our review of the current vehicle management systems identified two systems were in use:

- SAMFS use three modules of the AusFleet system, which is a specialised fleet management system
- SACFS and SASES use a side function of the Training and Administration System (TAS) to keep some vehicle details. TAS is not designed for vehicle management; its primary function is maintaining volunteer membership details and training records.

Our review identified there are limited controls over the accuracy of the data input into AusFleet and TAS. We also noted that limited data analysis has been conducted for vehicle management. We acknowledge the lack of data analysis is mainly due to staff resource constraints and the inherent nature of the SASES and SACFS being volunteer based. The absence of sector-wide strategic vehicle data analysis could lead to ineffective vehicle management.

SAFECOM advised it will implement a single asset management system.

Vehicle condition and performance assessments to be implemented

We noted there were condition assessments performed by the ESOs but it was unclear how these assessments are used by management. There were no performance assessments undertaken by any of the ESOs. This increases the risk of poor performing vehicles not being appropriately maintained or reconditioned.

SAFECOM advised it will implement a vehicle condition and performance assessment process for each ESO, taking into account the uniqueness of a sector that is predominantly manned by volunteers. The ESOs report there have been no examples where vehicles or appliances have not been serviceable or have been unable to respond.

No documented Strategic Asset Management Plans

We noted there are no documented Strategic Asset Management Plans (SAMPs) for vehicles. The absence of SAMPs may increase the risk of vehicles not being effectively managed.

SAFECOM responded it will establish a standardised SAMP for each ESO.

Annual capital planning process will improve

A range of factors are considered in the process of annual capital planning for vehicles, including vehicle condition, service history and the risk profile of the community. The process involves extensive communication and consultation with stakeholders.

However, the evaluation process heavily relies on individual officers' discretion, based on their industry experience and knowledge. The evaluation criteria and supporting data to back up the decisions made are not documented or independently reviewed. This could lead to ageing vehicles not being effectively evaluated and prioritised, leading to a failure to meet community needs and ineffective resource allocation.

SAFECOM agreed to implement a common evaluation process together with standardised evaluation criteria for annual capital plans.

Business continuity plans required updating

We noted SAFECOM's and the ESOs' business continuity plans (BCPs) are out of date and require review. If BCPs are not maintained there is a risk that critical business functions may not be able to continue in the event of a disaster or disruption.

SAFECOM agreed that BCPs should be reviewed and updated regularly and will prioritise this task in the sector financial management compliance program action plans for 2016-17.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of SAFECOM and the ESOs under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated emergency services sector

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	164	144
Depreciation and amortisation	20	19
Supplies and services	75	74
Other expenses	3	3
Total expenses	262	240
Total income	14	15
Net cost of providing services	248	225
Revenues from SA Government	240	226
Net result and total comprehensive result	(8)	1
Net cash provided by (used in) operating activities	27	24
Net cash provided by (used in) investing activities	(29)	(31)
Assets		
Current assets	30	35
Non-current assets	348	340
Total assets	378	375
Liabilities		
Current liabilities	38	33
Non-current liabilities	43	37
Total liabilities	81	70
Total equity	297	305

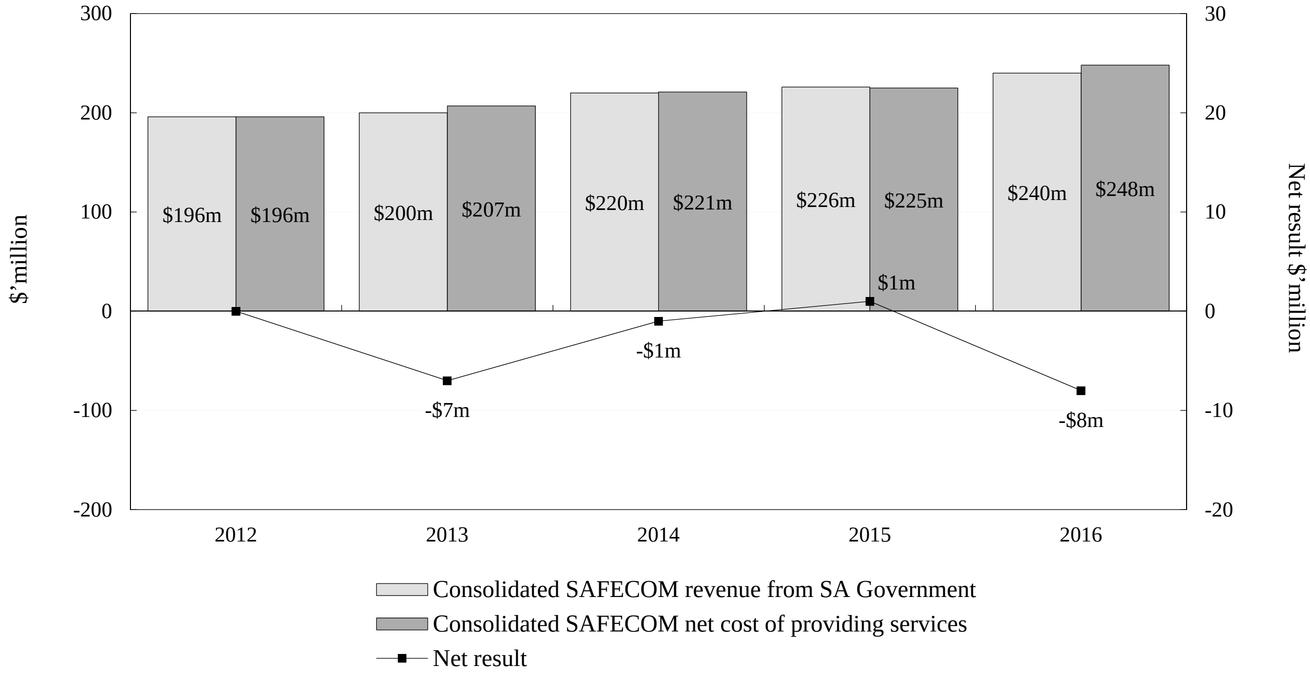
Statement of Comprehensive Income

The main source of revenue for the consolidated sector is contributions from the Fund of $238 million ($224 million), which account for 94% of total income (refer note 15 of the financial report).

Expenses largely comprised employee benefits expenses of $164 million ($144 million), which represent 63% of total expenses. During 2015-16, employee benefits expenses increased by $20 million due to:

- salaries and wages increasing by $5 million due to increases under the enterprise bargaining agreement for some staff and the employment of 16 additional FTEs
- workers compensation costs increasing by $12 million. This is due to the increased costs determined by the actuarial review for long-term claims allowed under revised firefighter compensation arrangements.

The following chart shows the funding received by the consolidated sector from the SA Government (including the Fund), the net cost of providing services and the net result for the past five years. It illustrates that revenue from the SA Government has largely been sufficient to meet the net cost of providing services, apart from in 2013 and 2016 when there were $7 million and $8 million shortfalls respectively. In 2016 these were partly met by cash reserves, as explained in the commentary under the heading 'Statement of Cash Flows' below, and due to movements in non-cash items such as workers compensation provision.



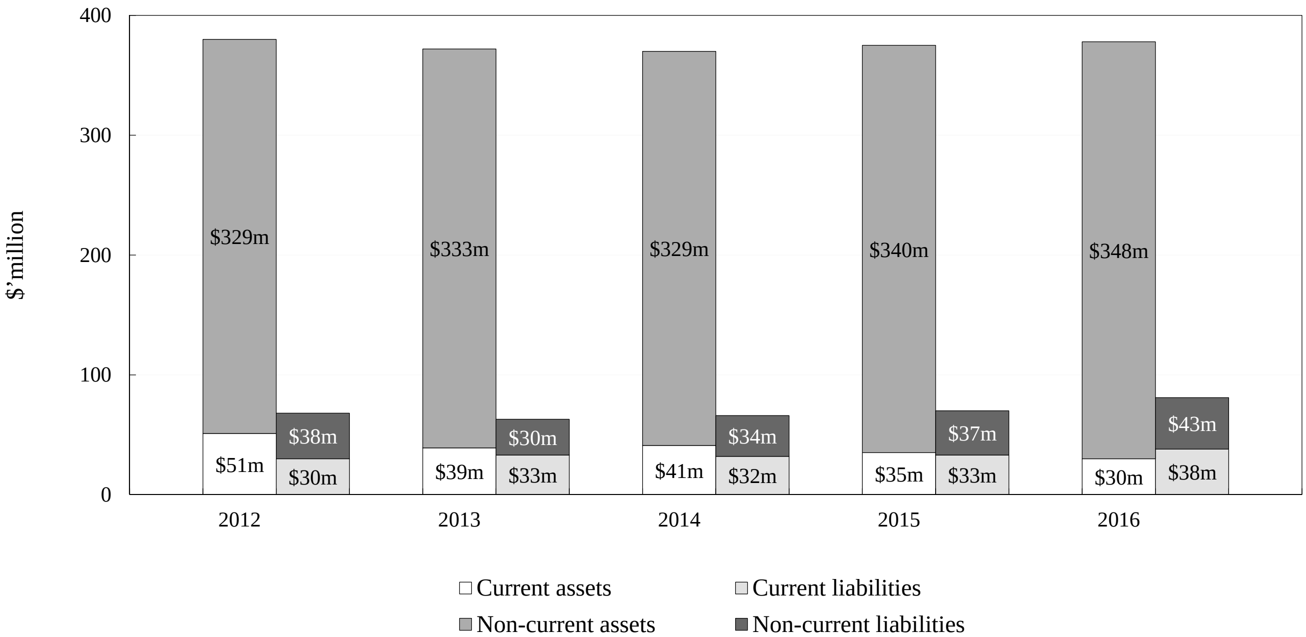
Statement of Financial Position

At 30 June 2016 current liabilities of $38 million exceed current assets of $30 million. Note 34.3 of the financial report addresses liquidity risk. The consolidated sector receives its funding monthly, which significantly reduces the risk.

Property, plant and equipment assets of $346 million represent 92% of total assets. The main asset classes held are land ($63 million), buildings ($114 million) and vehicles ($123 million).

Property, plant and equipment increased by $8 million during the year due mainly to acquisitions of $29 million, offset by depreciation expense for the year of $20 million (refer note 20 of the financial report).

For the five years to 2016, a structural analysis of assets and liabilities is shown in the following chart.



Employment liabilities make up $72 million of the consolidated sector's total liabilities at 30 June 2016, comprising:

- employee benefits liabilities and related on-costs, $49 million ($48 million)
- provision for workers compensation, $23 million ($14 million). As mentioned, the actuarial estimate allowed for long-term claims associated with firefighter compensation.

Statement of Cash Flows

Net cash provided by operating activities increased by $3 million during 2015-16 due to increased contributions from the Fund of $14 million and increased receipts from the ATO of $1 million, offset by increased employee benefits payments of $13 million. Investing cash outflow decreased by $2 million to $29 million due to the decrease in acquisitions of property, plant and equipment for the sector.

Consolidated cash reserves have decreased steadily since 2011. Significant cash reserves had been accumulated by the SAMFS under the previous *South Australian Metropolitan Fire Service Act 1936*. This was prior to the FES Act becoming operational. During 2011, it was determined that these reserves could be applied for the functions conferred on the SAMFS under the FES Act, and they have been progressively used for operational and capital purposes. This occurred predominantly in 2013 and 2015, when there were significant reductions in cash.

The following table summarises the consolidated sector's net cash flows for the five years to 2016.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Net Cash flows					
Operating	27	24	22	14	20
Investing	(29)	(31)	(22)	(25)	(23)
Change in cash	(2)	(7)	-	(11)	(3)
Cash at 30 June	23	25	32	32	43

Highlights of the financial report – SAFECOM

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	8	8
Supplies and services	7	6
Other expenses	4	3
Total expenses	19	17
Total income	3	2
Net cost of providing services	16	15
Revenues from SA Government	13	12
Net result and total comprehensive result	(3)	(3)
Net cash provided by (used in) operating activities	(2)	(1)
Assets		
Current assets	5	8
Non-current assets	2	3
Total assets	7	11

	2016 $'million	2015 $'million
Liabilities		
Current liabilities	2	3
Non-current liabilities	2	2
Total liabilities	4	5
Total equity	3	6

Statement of Comprehensive Income

Revenues from SA Government

The main source of funds for SAFECOM is the contributions from the Fund of $11 million, which account for 68% of revenues (refer note 15 of the financial report). Contributions decreased by $692 000 in 2015-16.

Expenses

Employee benefits expenses are the main expense category of SAFECOM and totalled $8 million ($8 million), which is 43% of total expenses.

Highlights of the financial report – administered items

	2016 $'million	2015 $'million
Expenses		
Contributions to SA Government administrative units	265	250
Grants and subsidies	3	2
Other expenses	9	9
Total expenses	277	261
Income		
Revenues from levy sources	278	263
Other revenues	2	2
Total income	280	265
Net result and total comprehensive result	3	4
Net cash provided by (used in) operating activities	28	(19)
Assets		
Current assets	36	9
Total assets	36	9
Liabilities		
Current liabilities	25	1
Total liabilities	25	1
Total equity	11	8

Community Emergency Services Fund

Contributions, by way of levies, are made by all owners (including State and Local Governments) for fixed and mobile property to fund the provision of emergency services. Levies are collected in accordance with the *Emergency Services Funding Act 1998*. The levies are set to cover the budgeted emergency services and rescue 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 the Department of Planning, Transport and Infrastructure 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 for Communities and Social Inclusion 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 2016 the Fund's net result was a surplus of $3 million ($4 million).

The following table shows the Fund's income (mainly levies collected) and expenses over the past five years. It shows that essentially all amounts collected are disbursed to the emergency services sector.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Emergency Services levies collected*	280	265	251	234	226
Payments to emergency services sector**	277	261	249	234	225
Net result	3	4	2	-	1

* Includes levies, interest and other income.
** Includes payments to emergency services sector, levy collection and administration costs.

Administered revenue

Levies and other revenues are collected in accordance 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 $15 million to $278 million, up from $263 million the previous year.

The increase in levy revenue and changes in remissions are shown in the table below.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Fixed property collections	199	191	101	100	98
Fixed property remissions*	26	20	96	83	77
Mobile collections	43	41	33	32	32
Mobile remissions*	3	4	12	11	11
Government concessions	7	7	7	7	7
	278	263	249	233	225

* Remissions are provided by the SA Government.

The table highlights the levy changes in 2016 relate to fixed property revenue increasing by $14 million to $225 million ($211 million) due to a general increase in the prescribed property levy rate of 7.5%.

In the 2014-15 State Budget, the SA Government removed general remissions for all property owners except eligible concession recipients. All non-concessional property owners were required to pay their full levy from 1 July 2014. This had the following impact:

- remissions paid by the SA Government decreased by $84 million

- fixed property collections paid by property owners increased by $90 million
- mobile collections paid by property owners increased by $8 million.

Administered expenses

The following table shows the contributions made to SA Government administrative units over the past five years.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million	2012 $'million
SAMFS	136	124	121	107	100
SACFS	74	74	68	66	67
South Australia Police	21	21	20	20	19
SASES	16	15	15	15	13
SAFECOM	11	11	10	11	13
Other	6	5	4	4	6
	264	250	238	223	218

Over the period contributions paid have increased by $46 million, with most of the increase being received by the SAMFS ($36 million) and SACFS ($7 million).

In 2015-16, contributions to SA Government administrative units increased by $14 million to $264 million, with $12 million of that increase being received by the SAMFS for the following:

- $2 million for increases in the enterprise bargaining agreement
- $2 million to cover indexation for expenses
- $4 million to cover the 27th payrun.

Note A5 to the administered financial statements discloses other expenses. It details that $6 million was paid to RevenueSA for collection costs under the *Emergency Services Funding Act 1998* for administering the collection of fixed property levies. The Department of Planning, Transport and Infrastructure was paid $1 million in collection costs for collecting mobile property levies.

Statement of Administered Financial Position

At 30 June 2016, current assets totalled $36 million ($9 million). The increase in cash and cash equivalents of $28 million relates to the funds being held in relation to payables. Payables at 30 June 2016 were $25 million compared to $1 million in the previous year. The payables balance of $25 million mainly comprised contributions payable to South Australia Police, $21 million, and the Department of Environment, Water and Natural Resources, $3 million. The reason for the increase in cash and payables was to ensure sufficient cash flow for the Fund.

South Australian Forestry Corporation (ForestrySA)

Financial statistics	Sale of timber products:	$19 million
	Revenues from SA Government:	$7 million
	Value of land and standing timber:	$85 million
	Number of FTEs:	37
	Hectares of forests managed by ForestrySA:	
	Commercial plantations owned by OneFortyOne Plantations Pty Ltd (OFO)	81 673
	Commercial plantations in the Mount Lofty Ranges	11 561
	Commercial plantations in the mid-north of the State	3 902
	Native forest reserves	19 868

Significant events and transactions

— From 1 October 2015 OFO took over plantation management of the Green Triangle plantations from ForestrySA. A significant part of ForestrySA's workforce and operations were transferred to OFO.

— The SA Government is reconsidering the future of the fire ravaged plantations in the mid-north of the State.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Financial procedure documents not updated promptly with new processes and controls

— Monitoring of key reconciliations should be improved to ensure they are prepared and reviewed on time to comply with Treasurer's Instructions

Functional responsibility

ForestrySA is a public corporation established under the *South Australian Forestry Corporation Act 2000* and responsible to the Minister for Forests.

ForestrySA manages native forest reserves and commercial plantations located in the Mount Lofty Ranges and the mid-north of the State. It also managed, up until 1 October 2015, commercial Green Triangle plantations owned by OFO.

Forward sale of forest rotations

On 17 October 2012 the SA Government sold the forward harvest rotations of ForestrySA's Green Triangle plantations to a consortium led by The Campbell Group which manages OFO. The Green Triangle plantations, which are located in the south-east of the State, span into Victoria.

OFO engaged the Treasurer (and ForestrySA as the Treasurer's agent) to manage the Green Triangle plantations under a plantation management agreement (PMA) in return for a management fee. OFO paid the management fee directly to ForestrySA.

Change to OneFortyOne arrangement

On 22 July 2015, the Minister for Forests announced that OFO would internalise the management of its plantations in 2015-16, effectively ending ForestrySA's obligation to manage OFO's plantations. OFO offered to employ ForestrySA's staff predominantly involved in its plantation management services to OFO. From 1 October 2015 OFO took over plantation management from ForestrySA. This arrangement significantly reduced ForestrySA's workforce and operations. For more information about these changes refer note 1 of the financial report.

Future of forests in mid-north of the State

Wildfires in the summers of 2013 and 2014 caused major damage to the commercial plantations in the mid-north of the State, impacting significantly on their commercial viability. Given the extent of the losses, the SA Government requested expressions of interest from the public seeking proposals to develop and use this area of commercial plantations and native forest reserves. Responses will inform future processes that could include tendering the sale, lease or management of various parts of the land. The future of the mid-north forests is expected to be determined by the end of 2016. In the meantime, the Minister for Forests has directed ForestrySA to replant a portion of the commercial plantations.

Scope of the audit

The audit program covered major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

During 2015-16 specific areas of audit attention included:

- sale of timber products to domestic and overseas customers
- expenditure resulting from the harvest and transport of timber products to customers
- payroll and other forms of expenditure

- compliance with the PMA and other key agreements emanating from the sale of harvesting rights to OFO, including the completeness and accuracy of management fees
- the transfer of operations to OFO from 1 October 2015 as a result of the Restructure Deed between ForestrySA and OFO.

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

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Forestry Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Forestry Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were included in a management letter to the Chief Executive. The main matters and responses are detailed below.

Update of financial procedure documents

We identified that financial procedure documents were not updated promptly with new processes and controls. This increases the risk of officers not knowing how to correctly perform controls that prevent errors or frauds. ForestrySA responded that the procedure documents were updated after the audit.

Monitoring of reconciliations

We identified that a register of balance sheet account reconciliations, including those between the general ledger and other systems, had not been used each month to ensure all reconciliation were prepared and reviewed promptly. Access to this register was not restricted. Further, some key reconciliations were prepared but not independently reviewed. The lack of independent review of reconciliations increases the risk of possible errors or fraud not being promptly detected and addressed. ForestrySA responded that balance sheet reconciliations are now being prepared and reviewed regularly, and access to the register is limited to finance personnel and management.

Verification of price changes in Cengea for harvesting, transporting and selling timber

ForestrySA uses the Cengea system to calculate billing amounts to customers for timber sales and payment amounts to contractors for harvesting and transporting timber. If inappropriate or inaccurate prices are set in Cengea, the wrong amounts will be billed to customers or paid to contractors. We noted that an audit report was not reviewed for accurate pricing information, and reviews of controls reports, including unit rates and total volumes of products, were no longer performed.

To detect inappropriate or inaccurate price changes made by officers, we recommended individual price adjustments on Cengea reports be checked against approved input forms by an officer who cannot adjust prices in Cengea. We also recommended ForestrySA investigate implementing a control within Cengea where all price changes must be approved in the system by an approving officer before the system applies the change. ForestrySA responded that procedures for the independent review of price changes are being developed.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Income		
Sales – timber products	19	18
Wood sales – back-to-back	30	42
Sales – management services	3	13
Revenues from SA Government	7	8
Other revenue	2	2
Total income	61	83
Expenses		
Employee benefits	5	11
Contractors	13	13
Wood purchases – back-to-back	30	42
Other expenses	13	17
Total expenses	61	83
Trading profit before revaluation of standing timber	-	-
Net change in value of standing timber	(2)	13
Profit (Loss) after revaluation of standing timber and income tax equivalent expense	(2)	13
Land revaluation recorded in revaluation surplus	-	7
Impairment of property, plant and equipment prior to restructure	(1)	-
Total comprehensive result	(3)	20
Net cash flows from operating activities	(3)	(8)
Assets		
Current assets	31	30
Non-current assets	98	108
Total assets	129	138
Liabilities		
Current liabilities	4	8
Non-current liabilities	2	4
Total liabilities	6	12
Total equity	123	126

Statement of Comprehensive Income

Income

Income in 2016 decreased by $21.1 million to $61.4 million. This was due mainly to lower revenue from back-to-back wood sales and management services.

Timber products sales

Timber products sales revenue remained relatively constant at $18.7 million ($18.4 million). In addition to selling timber to local mills, the export sales program, which commenced in 2014, continued to operate in 2016 in part to deal with salvaging forests in the Mount Lofty Ranges burnt in January 2015.

Back-to-back wood sales

After the sale of forward harvest rotations, all but one customer in the Green Triangle novated their sales contracts from ForestrySA to OFO. Back-to-back wood sales of $30.4 million ($42.2 million) relate to revenue received on behalf of OFO from this one customer. ForestrySA passed this revenue onto OFO and recognised the transfer as back-to-back wood purchases expense. The back-to-back sales and expenses have no net affect on ForestrySA's trading profit. Sales revenue from novated contracts received directly by OFO is not recognised in ForestrySA's financial report. During the year, this customer novated their sales contract from ForestrySA to OFO.

Sales of management services

Sales of management services decreased by $9.8 million to $3.3 million as a result of OFO taking over plantation management from 1 October 2015.

Revenues from SA Government

Revenues from the SA Government decreased by $1 million to $6.5 million due mainly to the decrease in funding required from the SA Government for accounting losses incurred before the revaluation of standing timber. Included in the total funding was $4 million ($4 million) for community service obligations and the Government Radio Network.

Expenses

Expenses include expenditure incurred by ForestrySA on behalf of OFO, prior to the transfer of operations from 1 October 2015, which was recoverable from OFO under the PMA. Expenses exclude supplies and services from suppliers that had contracted directly with OFO. In these circumstances the expenses are paid directly by OFO and not recognised in ForestrySA's financial report.

Expenses decreased by $21.1 million to $61.4 million due mainly to:

- employee benefit expenses decreasing by $6 million to $5.3 million as a result of the transfer of 54 employees to OFO
- back-to-back wood purchases expense decreasing by $11.7 million to $30.4 million. For further details refer to commentary under the heading 'Back-to-back wood sales' above
- equipment and vehicle expenses decreasing by $615 000 to $1.2 million because of lower operating costs of ForestrySA's downsized vehicle fleet
- other expenditure decreasing by $2.2 million to $8.6 million mainly as a result of reduced information technology costs and a $709 000 decrease in export shipping and marketing costs incurred for the export sales program.

Trading results

In 2016 and 2015, ForestrySA achieved a trading profit of $0. Its trading operations reflect three main activities:

- commercial forestry operations in the Mount Lofty Ranges and the mid-north of the State
- community service obligations such as native forest management, community use of forests and community protection of forests (including fire protection)
- management of OFO forestry operations in the Green Triangle up until 1 October 2015 in return for a management fee under the PMA.

For more information about the trading profit for each of these three main activities refer note 22 of the financial report.

Note 1 of the financial report indicates that ForestrySA requires funding from the SA Government to perform its obligations under the PMA and for the ongoing discharge of its community service obligations. This funding resulted in a trading result of $0 in 2016 and 2015 before the revaluation of standing timber. For more information about this funding arrangement refer note 2(h) of the financial report.

Standing timber

In 2016 and 2015 the plantation in the Mount Lofty Ranges was valued by an independent expert in forest valuations and determined to be $46 million ($48 million). The $2 million decrease in the valuation resulted mainly from changes in assumptions about the continuation of log exports from the Mount Lofty Ranges, offset by a rise in international log prices over the past year. The plantations in the mid-north of the State were valued internally in 2016 and 2015 at $0.

ForestrySA uses the net present value approach to value its standing timber. This approach takes into account the likely timing of cash flows from harvesting and sales of timber over long periods, and the effects of inflation and discount rates. For more information about the valuation of standing timber refer note 2(o) of the financial report.

There is inherent uncertainty in the standing timber valuation that is endemic to all forest valuations. A sensitivity analysis is provided in note 15 of the financial report to assess the impact of changes in key assumptions used in the standing timber valuation. A pre-tax real discount rate of 8.5% (8.5%) was applied in determining of the value of standing timber. The use of a ‘real’ discount rate effectively allows for all prices and costs to be expressed in current dollar terms.

Other comprehensive income

Impairment of property, plant and equipment prior to restructure resulted in a $724 000 decrease in the value of property, plant and equipment.

Statement of Financial Position

Net assets decreased by $3 million due to decreases in the value of property, plant and equipment and standing timber, which represent 78% (79%) of the total assets of ForestrySA. Movements in the value of standing timber are explained above.

Property, plant and equipment

Property, plant and equipment decreased by $7.2 million to $54.4 million due mainly to OFO acquiring property, plant and equipment on the transfer of operations, and the impairment of some property, plant and equipment prior to acquisition by OFO.

Other assets

Receivables decreased by $1.1 million to $6.5 million due mainly to the transfer of operations to OFO and the remaining customer in the Green Triangle novating their sales contract from ForestrySA to OFO during the year. Related movements in income are discussed above.

Liabilities

Liabilities decreased by $6 million to $6 million due mainly to:

- a decrease in payables of $4.2 million to $2.5 million as in 2015 there was a large payable to the remaining Green Triangle customer in relation to the back-to-back agreement
- a decrease in employee benefits of $1.7 million to $1.3 million due mainly to the transfer of employees to OFO.

South Australian Government Financing Authority (SAFA)

Financial statistics	Profit before income tax equivalents:	$17 million
	Total loans on issue:	$19.9 billion
	Total bonds, notes and debentures on issue:	$15.1 billion
	Outstanding insurance claims:	$375 million
	Fleet vehicles owned (including held for sale):	$172 million

Significant events and transactions

— SAFA implemented a new treasury management system (Findur) in December 2015.

— SAFA paid a total 2015-16 dividend of $39 million, which includes a special dividend of $30 million relating to treasury and fleet capital returns.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— No checks are performed to ensure daily market interest rate data downloaded and input into SAFA's yield curve models matches relevant source information. Interest rate information downloaded can be edited and no audit trail of changes made is retained for review purposes

— There are no ongoing checks to confirm that Findur is mapping SAFA financial instruments to appropriate market interest rates for yield curve model calculation purposes

— Formal documentation is yet to be established to support the current yield curve methodology

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 of South Australia, 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 of South Australia.

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, trading as Fleet SA.

Scope of the audit

The audit program covered the major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

Operational areas reviewed in 2015-16 included:

- financial accounting for the financing, fleet and insurance functions
- cash and electronic banking systems
- insurance claim payments
- accounts payable
- fleet operations
- treasury.

We also covered overall IT governance arrangements and specific IT controls over SAFA's key financial systems.

Internal audit activities were reviewed 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 half yearly assessment of work performed by SAFA's compliance unit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Government Financing Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters raised under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Government Financing Authority have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the SAFA General Manager. Satisfactory responses were received.

Daily market interest rate input process

Current market interest rate information for input into SAFA's various yield curve models is downloaded daily from a financial markets website. The information in the yield curve models is used to derive the 'mark to market' valuation adjustments on relevant financial instruments at the end of each day. Calculating the valuation adjustments is important as SAFA uses current market valuations of its financial instruments when monitoring its risk exposures.

Our review of the interest rate input process identified:

- there are no checks to ensure the interest rate data downloaded matches the website it was sourced from
- no record of the interest rate information downloaded from the website is retained
- the interest rate spreadsheets downloaded from the website can be edited and no audit trail of changes made to them is kept
- there are no ongoing checks to confirm that the treasury management system (Findur) is mapping SAFA financial instruments to appropriate market interest rates.

This raises the risk that end-of-day mark to market valuation adjustments based on yield curves may not appropriately reflect available market data.

We recommended that SAFA:

- conduct checks to ensure the downloaded market interest rate data matches back to the relevant website
- retain electronic or manual copies of all market interest rate spreadsheets downloaded each day
- keep an audit trail of all adjustments made to the interest rate spreadsheets downloaded
- perform regular checks to confirm Findur is mapping SAFA financial instruments to appropriate market interest rates by reference to the International Securities Identification Number for the financial instrument.

SAFA responded that the market interest rate downloads are performed via an automated process. The download captures a point in time that is time stamped and can be referred to later if required. SAFA does not see the need for downloaded data to be regularly matched back to the source due to the current automation process.

SAFA is planning to save a copy of the daily market interest rate data downloads in its records management system and will also consider whether Findur mapping of securities should be checked.

SAFA is also exploring options to fully automate the daily rates process, but this is dependent on further development of Findur.

Establishing documentation to support the current yield curve methodology

SAFA's internal audit completed a yield curve and interest calculations review in April 2016. Internal audit noted that yield curve construction, valuation and risk metric documentation in the previous Quantum treasury management system environment lacked technical details and rationale for application.

This documentation had not been updated following implementation of the new Findur treasury management system.

Internal audit noted that SAFA had agreed to implement an annual review and update of the yield curve documentation following its last internal audit of the area in 2011, however this review had not been performed. As a result, this internal audit recommendation has been outstanding for a number of years.

We recommended that SAFA update the yield curve model documentation as a matter of priority, given the recent treasury system change, the 'key person risk' associated with the operation of the models and the importance of yield curves in deriving mark to market adjustments at the end of each day.

SAFA responded that once full implementation of Findur benchmarking and risk reporting in the Cost of Funds portfolio is finalised, the yield curve documentation will be completed.

Information and communications technology and control

A high level review was performed on IT controls over SAFA's key financial systems during 2015-16. The systems covered were the TechnologyOne financial system, RiskConsole insurance system and Findur.

This review identified that while extensive IT security testing has occurred, there were some areas where controls could be improved:

- Instances of non-compliance with the SAFA system change request process were identified.
- The management of RiskConsole vendor contract reporting obligations could be improved.
- The SAFA system support model and operational recovery plan needed to be updated for the new Findur system.
- Detailed guidance needed to be established on the Findur refresh restoration tool.

SAFA responded that the following action would be taken:

- SAFA will complete a review of the system change request process by 30 November 2016.
- SAFA will include a standing item on the vendor register that covers contractual obligations.
- SAFA's system support model updated in September 2015 contains Findur and, where appropriate, SAFA will follow common procedures for all three systems. Management will review where Findur does not conform to the common procedures and will update the model accordingly.
- SAFA's operational recovery plan will be reviewed and updated to reflect Findur by 31 October 2016.
- SAFA considers the existing documented restoration process for Findur approved by the SAFA General Manager in December 2015 is suitable and no further detailed guidance is required.

Implementation of Findur treasury management system – internal audit coverage

In 2015-16, SAFA's internal audit performed a number of reviews over the implementation of Findur, including a pre-implementation review, data migration review and end-to-end controls review.

A review was also performed of the key business processes for constructing yield curves and interest calculations used in valuing financial instruments and how these compared to market accepted practice.

These reviews indicated that controls over relevant areas were operating effectively and there were no significant issues requiring management attention.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Interest revenue	971	1 065
Interest expense	(970)	(1 063)
Net interest revenue	1	2
Net gain (loss) on financial instruments and derivatives	40	69
Leasing and hire revenue	61	63
Insurance premium revenue	48	48
Recoveries	23	25
Other income (including net gain on sale of property, plant and equipment)	5	5
Vehicle operating costs (including depreciation and impairment)	(68)	(70)
Insurance claims	(65)	(89)
Other expenses	(28)	(20)
Profit before income tax equivalents	17	33
Income tax equivalent expense	(5)	(10)
Profit after income tax equivalents and total comprehensive result	12	23
Assets		
Cash, short-term assets and investments	3 664	4 247
Loans	19 858	18 448
Derivatives receivable	255	191
Property, plant and equipment (including held for sale)	172	183
Other assets	61	28
Total assets	24 010	23 097
Liabilities		
Deposits and short-term borrowings	8 049	6 699
Bonds, notes and debentures	15 069	15 606
Outstanding claims	375	366
Derivatives payable	116	43
Payables and other liabilities	74	29
Total liabilities	23 683	22 743
Total equity	327	354

Statement of Comprehensive Income

Interest revenue and expense

Interest revenue and expense is determined on a market value accounting basis and accrued in accordance with the terms and conditions of the underlying financial instruments. Interest revenue decreased by $94 million or 9%. This was associated with a corresponding decrease in interest expense of $93 million or 9%.

Gross interest revenue and expense are both driven by market interest rates and have decreased proportionately in recent years as a result of the downward trend in these interest rates. Gross interest revenue and expense are also impacted by the timing of maturities and settlements for financial instruments, including derivatives. These factors have a flow-on impact to net interest revenue, which reflects gross interest revenue less gross interest expense.

Net gain on financial instruments and derivatives

The net gain on financial instruments and derivatives of $40 million for 2015-16 comprises realised and unrealised gains from SAFA's treasury and insurance activities.

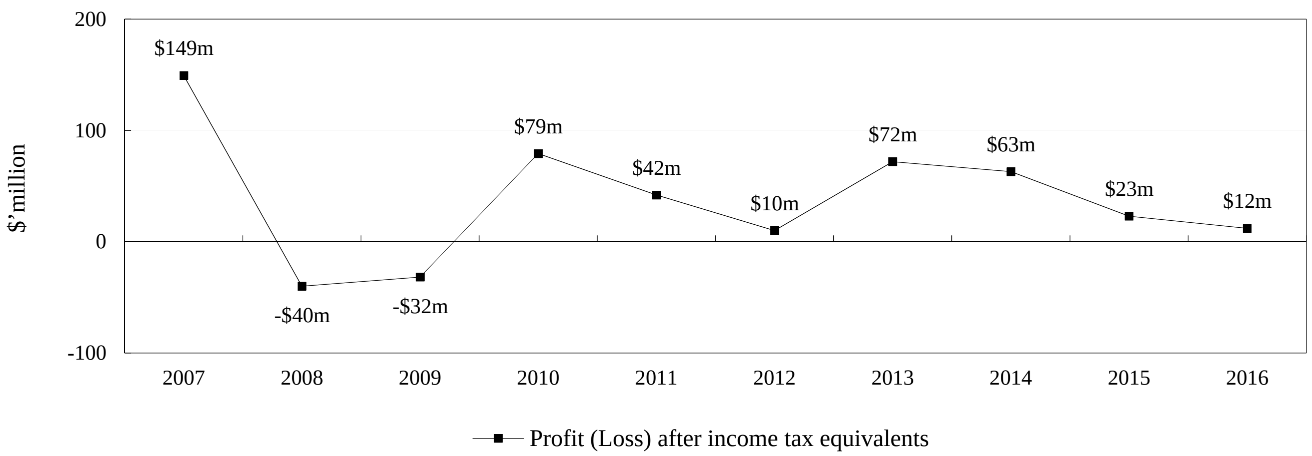
Leasing and hire revenue and recoveries

Leasing and hire revenue reflects the fees charged to other government agencies for using fleet vehicles, whereas recoveries include the recovery of fuel costs and unscheduled maintenance charges for leased vehicles.

Profit (Loss)

SAFA's profit before income tax equivalent was $17 million. In accordance with Treasurer's Instruction 22 'Tax Equivalent Payments' SAFA is required to pay the Treasurer an income tax equivalent. The income tax liability is calculated by applying a tax rate of 30% to profit or loss before tax.

The 10 year trend in SAFA's profit or loss after income tax equivalent expense is illustrated in the following chart.



The chart highlights the volatility in SAFA's results. This volatility comes from the financial performance of SAFA's insurance activities, which were transferred to SAFA in July 2006.

The 2007 profit result includes the net gain on the initial transfer of the net assets of the former SAICORP, whereas the 2008 and 2009 losses are attributable to net investment losses on insurance assets and a large increase in claims expense.

The 2016 profit after income tax equivalents of $12 million is primarily attributable to profit on SAFA's treasury activities of $13 million (refer note 3 of the financial report).

Insurance activity impact on profit (loss)

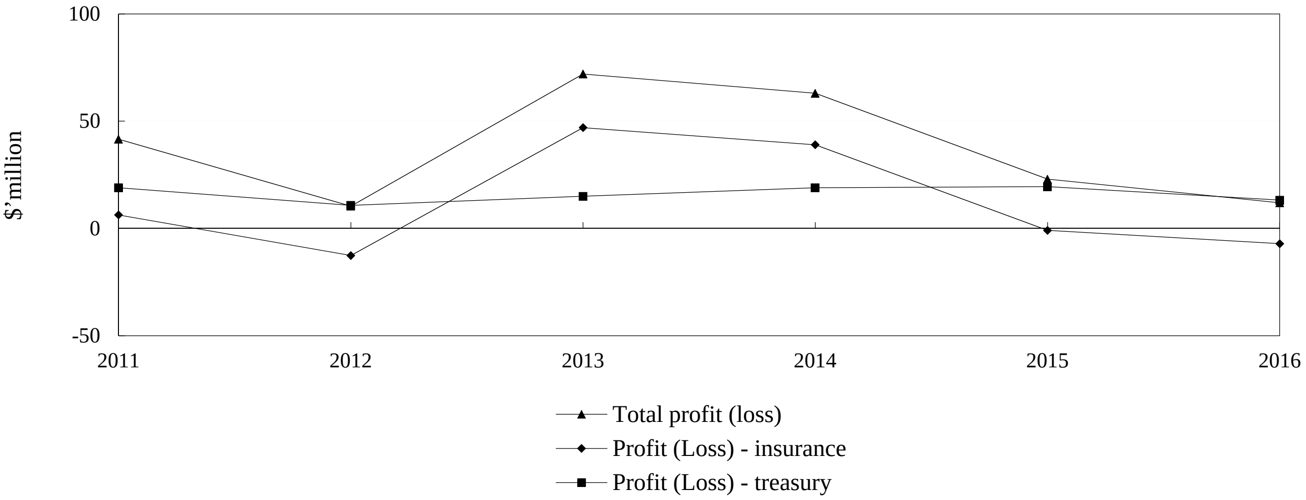
SAFA's insurance activities are designated into three funds (Fund 1, Fund 2 and Fund 3). SAFA's result after income tax equivalents is, in net terms, only affected by Fund 1 results, as SAFA is indemnified by the Treasurer against any operating profit or loss arising from the activities of Funds 2 and 3.

Fund 2 is used to fund liabilities arising from insurable incidents that occurred before 1 July 1994, claims under the building warranty indemnity reinsurance arrangements up to 30 June 2013, and the former State Government Insurance Commission residual claims and workers compensation claims previously managed by the former South Australian Asset Management Corporation.

Fund 3 is used to fund liabilities arising from claims under the building indemnity insurance scheme effective from 1 July 2013.

All of SAFA's remaining insurance activities are funded through Fund 1.

The impact of SAFA's insurance activities on SAFA's profit or loss after income tax equivalent expense is highlighted in the following chart.

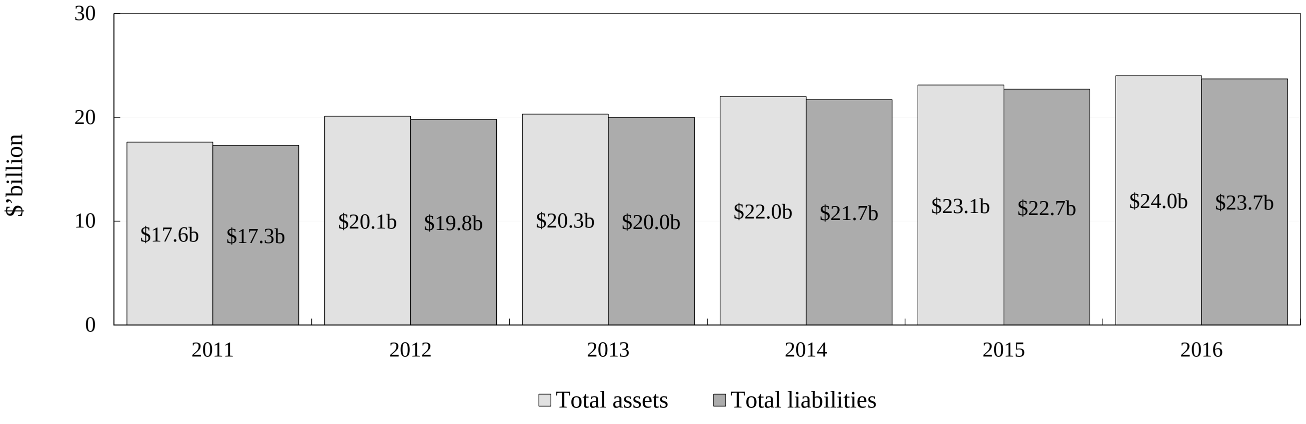


SAFA's insurance activities reported a 2015-16 loss after tax of $7 million (loss of $900 000), which was mainly attributable to lower investment returns and changes in actuarial assumptions, including the use of lower discount rates to calculate the outstanding claims liability. These changes highlight the inherent volatility of insurance activities, and the impact on SAFA's financial performance.

Statement of Financial Position

Assets and liabilities

A structural analysis of assets and liabilities for the six years to 2016 is shown in the following chart.

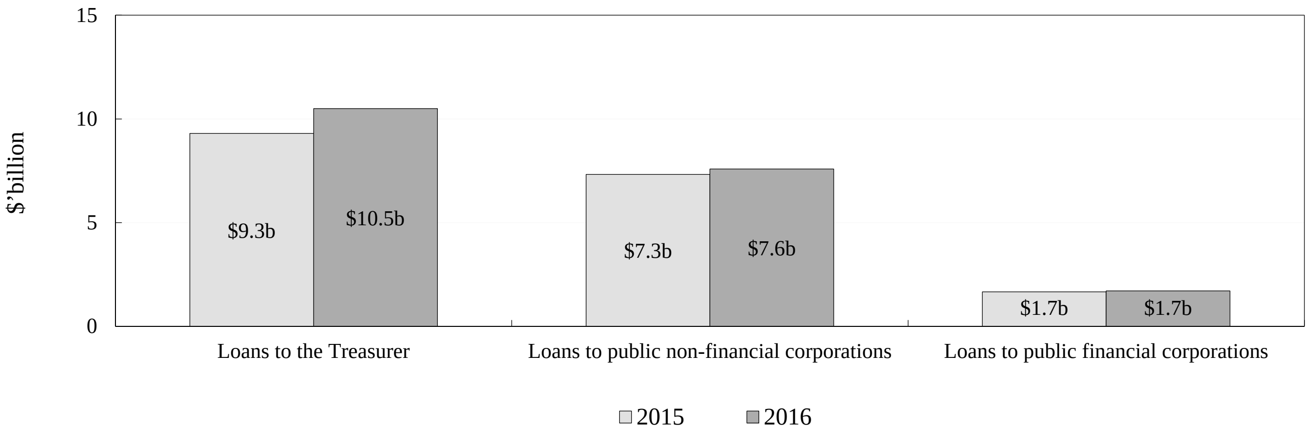


The chart illustrates the gradual increase in SAFA's assets since June 2011. Total assets include loans of $19.9 billion, comprising SAFA's loans to the Treasurer to fund accumulated Consolidated Account deficits and loans to other public authorities.

Over the same period SAFA's total liabilities have increased by a corresponding amount, reflecting SAFA's activities in financial markets to fund the accumulated deficits and loans to public authorities. The vast majority of SAFA's financial assets used for Treasury operations relate to financial liabilities financed by market borrowings. The balance of these financial assets is funded from SAFA's equity ($327 million as at 30 June 2016).

At 30 June 2016 SAFA's loans to the Treasurer totalled $10.5 billion, an increase of $1.2 billion since 30 June 2015. The Treasurer also has funds on deposit with SAFA totalling $5.2 billion ($4.3 billion) as at 30 June 2016.

The chart below highlights the current and prior year government sector loan composition of SAFA.



The chart highlights the current year increase in loans to the Treasurer, while there has been relatively minimal movement in loans to public non-financial and financial corporations. The increase in loans to the Treasurer was to fund the deficit in the Consolidated Account for 2015-16.

Capital and distributions

At 30 June 2016 SAFA's capital reserves were represented solely by its retained earnings, which stood at $327 million ($354 million). A $39 million ($9 million) dividend distribution was made to the Treasurer this financial year. This included a $30 million special dividend relating to treasury and fleet capital returns.

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 2016.

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.

Business risk management

Operational risk management

SAFA has a number of mechanisms to manage operational risks, including:

- an annual risk assessment performed by the contracted internal auditors addressing changes to SAFA's operating environment and the financial markets they transact 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 centralised procedures manual that provides a high level summary of the actions that SAFA expects to be maintained within the 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
- an Audit and Risk Management Committee comprising four members appointed by the Advisory Board.

General market risk management

SAFA is the State's central borrowing authority and is also responsible for managing the majority of the State's debt. SAFA 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 aims to undertake its treasury functions in a risk neutral fashion and to protect the interests of the Government and clients.

On 30 March 2016, the Treasurer approved the consolidation of the Treasurer's managed, passive and loan portfolios into the one portfolio, named the Treasurer's cost of funds portfolio. The portfolio structure and associated procedures adopted by SAFA are designed to contribute to enhanced treasury risk identification and management. This includes the daily management of liquidity, interest rate, currency and credit risk. Given the Treasurer's cost of funds portfolio has a different structure and duration to the previous Treasurer's managed portfolio, SAFA has undertaken a review of portfolio limits and guidelines to ensure they remain appropriate.

SAFA also maintains a number of other principal portfolios including:

- funding
- liquidity
- reinvestment

- foreign exchange hedging service
- cash management facility.

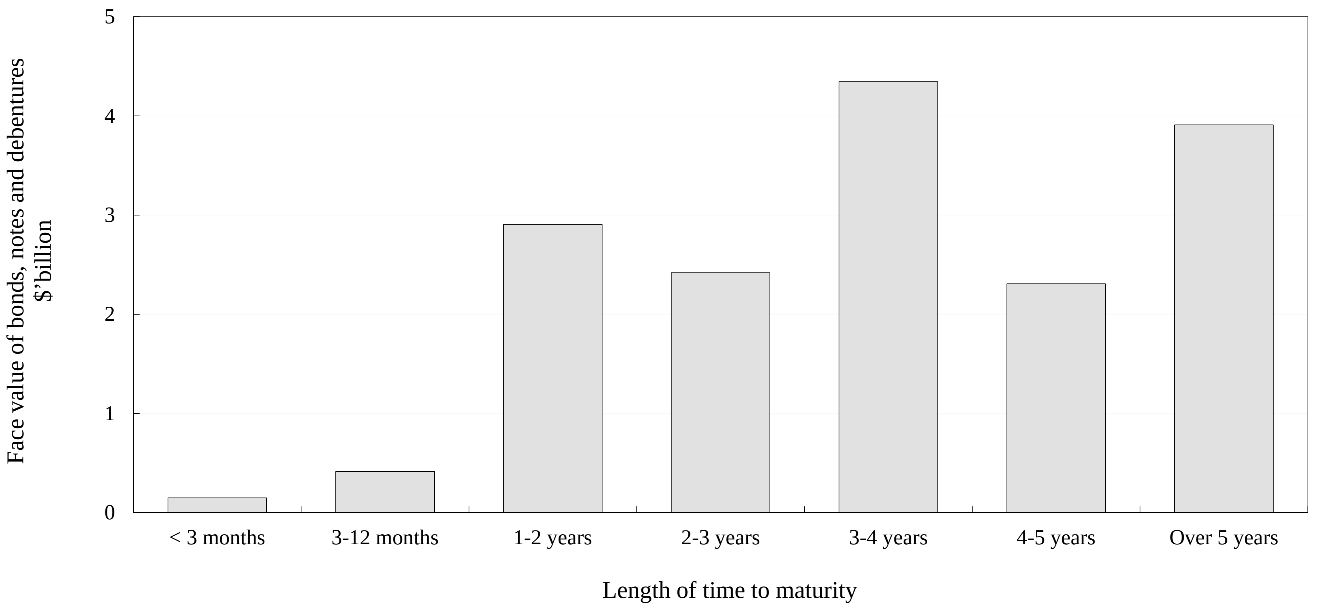
These portfolios are used for the purpose of monitoring and managing investment and hedging services provided by SAFA to public sector agencies. Any profits or losses from these portfolios are recorded in SAFA's statement of comprehensive income.

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 high margin 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 face value of SAFA's bonds, notes and debentures as at 30 June 2016 is presented in the following chart. Bonds, notes and debentures include SAFA's core funding issue of select lines and floating rate notes.



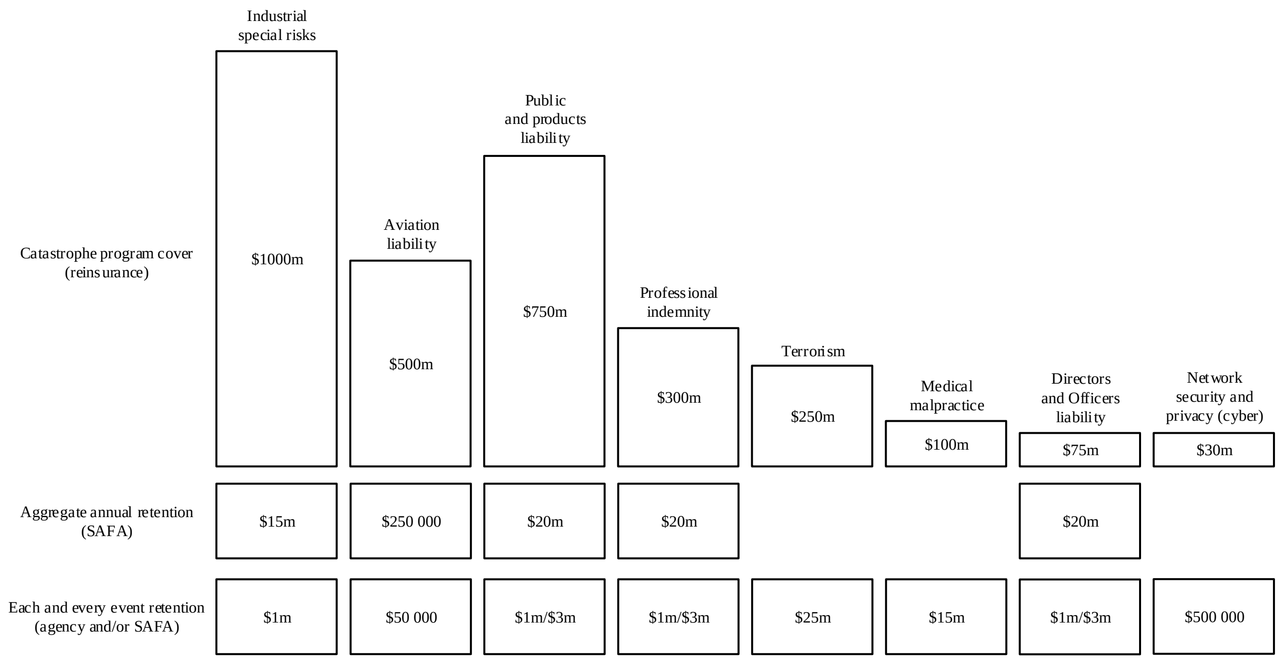
The chart illustrates that SAFA will need to refinance, on average, $2.6 billion each year for the next four years. From 2020, SAFA will need to refinance a further $6.2 billion of debt.

The chart does not include expectations for the SA Government's 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 catastrophic reinsurance program is placed in the international insurance market. The reinsurance program is renewed annually and then approved by the Minister for Finance after consideration by the Advisory Board.

The structure of SAFA's catastrophe reinsurance program for 2015-16 is depicted as follows:



SAFA's catastrophe reinsurance premium expense for 2015-16 was $8.4 million ($8.7 million).

SAFA reviews its coverage levels annually. While various factors influence SAFA's 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.

South Australian Housing Trust
(SAHT)

Financial statistics	Net cost of providing services:	$235 million
	Rental income:	$280 million
	Total revenue from SA Government:	$81 million
	Value of rental property:	$8066 million
	Number of lettable rental properties:	39 855

Significant events and transactions

— Responsibility for tenancy and property management for 1087 public housing properties transferred to the community housing sector.

— Responsibility for homelessness funding transferred to the Department for Communities and Social Inclusion.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Potential overclaimed/overpaid benefits (rental rebates) not investigated

— Bonds claimed by landlords not consistently verified

— Multi-trade contractor audit and compliance activities not undertaken

— Payroll bona fide reports not reviewed and certified on a timely a basis

— Ineffective review of leave reports resulting in unrecorded and incorrectly recorded leave in payroll system

— Program Management Committee for the Better Places, Stronger Communities (BPSC) public housing transfer program has not met since December 2015

— Six-monthly review of BPSC Housing Transfer Management Deed not undertaken

— Reporting to the Board and Minister required by service level administrative agreements did not occur

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Functional responsibility

The SAHT continued in existence under the *South Australian Housing Trust Act 1995*. It also administers the *Housing Improvement Act 1940*.

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.

The SAHT does not employ staff but relies on the Urban Renewal Authority (URA) and the Department for Communities and Social Inclusion (DCSI), through its Housing SA (HSA) division, to deliver services on its behalf.

The SAHT has service level administrative arrangements with:

- the URA to provide asset and maintenance strategy services, develop and deliver projects to renew the SAHT's housing stock and manage not-for-profit community housing growth strategies and transfers, including relevant financial management
- DCSI to deliver social housing services (including property maintenance) through HSA.

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.

During 2015-16 specific areas of audit attention included:

- revenue including raising rent and recoveries
- accounts payable
- staffing costs
- maintenance
- council and water rates
- fixed assets including rental properties
- private rental assistance
- house and vacant land sales
- general ledger
- governance
- transfer of tenancy and property management to the community housing sector.

Internal audit activities were considered to identify and assess the risks of material misstatement in the financial report and to design and perform audit procedures.

In addition, some services, including payroll and accounts payable processing, were undertaken by Shared Services SA (SSSA) and these were reviewed as part of our audit of SSSA.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Housing Trust in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Housing Trust have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Executive Director, HSA or the Chief Executive, URA. The main matters raised and the related responses are detailed below.

Rent

Control weaknesses around rent assessments

The SAHT's rental policy is that no tenant will pay more than 25% of their household income on rent.

Where the assessed market rent is more than 25% of a tenant's household income the tenant can apply for reduced rent. The difference between the assessed market rent and the reduced rent is known as a rental rebate. In 2015-16 the value of rent rebates provided to tenants, and therefore the value of rent foregone by the SAHT, was $225 million.

Each April and October the SAHT reviews each tenant's ongoing eligibility for reduced rent. Tenants must provide details of their income through either Centrelink Income Confirmation Services or a manual proof of income (POI) process.

Our review of HSA's POI/rent assessment process identified that HSA:

- has not established a control to ensure that all tenants receiving a reduced rent have a POI review in April and October each year
- did not promptly send rent reversion letters to tenants who failed to provide their POI information for the October 2015 review. While the tenants were required to provide their POI by 4 November 2015, rent reversion letters were not sent until 21 March 2016.

In response to the matters raised HSA advised that:

- HSA's existing IT system does not produce reports to ensure that all customers eligible for reduced rent are reviewed in April and October each year. Further, given the number of rents reviewed, it is not possible to perform a manual reconciliation to ensure all customers are reviewed
- it is not viable to revert rent for customers who failed to provide POI until all rent review forms have been processed.

HSA further advised that it will consider options to address these issues as part of the Business Systems Transformation project.

Potential overclaimed/overpaid benefits not investigated

The SAHT is exposed to a risk of providing rent rebates to ineligible tenants and the risk that the value of rent rebates provided exceeds a tenant's entitlement. This risk arises because of:

- additional people living at the property that HSA has not taken into account when determining the rent payable
- the HSA not being notified, or not being notified promptly, of an increase in household income.

The SAHT's Overclaimed Benefit Guidelines specify which cases of potentially overclaimed/overpaid benefits HSA's Benefit Review Team should investigate. We found the Benefit Review Team had not investigated the following cases covered by the Overclaimed Benefit Guidelines:

- tenants whose rent was reverted to full rent as they had failed or refused to provide POI
- 2237 referrals (as at 11 April 2016) of suspected undeclared income/extra people, including 714 cases that were referred to the Benefit Review Team for investigation prior to 2015-16.

In response HSA advised that details of tenants that have not returned a completed POI are initially provided to regional office staff for follow up. Where regional staff identify or suspect that a customer has overclaimed/overpaid benefits they must then refer the case to the Benefit Review Team for investigation. There were no such referrals from regional officers to the Benefit Review Team in 2015-16.

HSA also advised that it has completed a review of the compliance and collections function to implement an efficient approach to identifying, assessing, prioritising and investigating cases of potential overclaimed benefits. Recommendations from this review are being considered by relevant internal and external stakeholders.

Private rental assistance

The SAHT provides financial assistance for people to enter and remain in the private rental market. Assistance provided under the Private Rental Assistance Program (PRAP) includes:

- bond guarantees
- rent in advance and rent in arrears.

In 2015-16 the SAHT spent $16 million on private rental assistance.

The SAHT's PRAP guidelines detail the eligibility criteria, nature and extent of financial assistance available to eligible applicants. Our review considered HSA's compliance with these guidelines and noted:

- instances where HSA staff had not validated all bond claims received from Consumer and Business Services (CBS) within the required time frame. The SAHT's bond is automatically forfeited to the landlord after this time frame
- HSA had not established a process for assessing a customer's capacity to contribute to part of a bond. Consequently, a customer's ability to pay part of a bond is not routinely assessed
- HSA does not ensure that a customer's weekly rent is less than the average weekly rent for accommodation in the area, before providing private rental assistance
- instances where HSA had not checked whether the customer applying for private rental assistance owned (or part-owned) a residential property, which generally makes them ineligible for private rental assistance.

In response to the findings HSA advised:

- the implementation of the PR Connect system, scheduled for October 2016, is expected to reduce the number of unchallenged bond claims. Further, HSA is working with CBS and the South Australian Civil and Administrative Tribunal to improve the processing and validation of bond claims

- customer liquid assets will be considered when assessing eligibility for private rental assistance once the PR Connect system is implemented
- an internal review of PRAP in December 2013 recommended that the SAHT abolish the average rent eligibility criteria to eliminate unnecessary social assessments. Revised PRAP guidelines, to be published when PR Connect system is implemented, will no longer include this requirement
- accurate data matching through the South Australian Integrated Land Information System is difficult, time consuming and resource intensive. HSA has concluded that a full property check is not justified because it considers that the risk of an applicant having an undeclared interest in residential property is low. When the PR Connect system is implemented applicants for private rental assistance will be asked to declare if they have an interest in residential property.

Maintenance

In October 2013 the SAHT implemented a multi-trade contractors (MTC) model whereby MTCs now manage most job orders issued by the SAHT for responsive, vacancy, programmed and capital upgrade maintenance within defined geographical areas. The SAHT's agreements with five MTCs are estimated to cost $912 million over eight years (including renewals).

The SAHT has focused on improving controls that support processing maintenance expenditure and managing MTC performance. Notwithstanding this improvement, we did identify instances where controls and processes did not operate as intended throughout the year.

The following summarises the main findings from our audit.

Contractual abatements not applied due to concerns about the reliability of HSA's quality performance data

The MTC agreements contain a number of key performance indicators to measure the performance of MTCs for timeliness and quality of work.

MTCs are required to achieve a compliance benchmark target of 90% in each performance review period. Where an MTC did not achieve a compliance score of 90% (ie does not achieve the compliance benchmark score for timeliness or quality of work) then prior to March 2016 an abatement was to apply. Variations to MTC agreements, agreed in March 2016, now allow HSA to exercise discretion when deciding to apply abatements where an MTC does not achieve the compliance benchmark target.

We noted that the SAHT's performance reports for the period 1 April 2015 to 30 September 2015 indicated that MTCs did not always achieve the compliance benchmark target for quality of work. However, contractual abatements were not applied due to concerns about the reliability of HSA's quality performance data and its quality performance score not being a true reflection of MTC performance.

We also noted that HSA has not documented a procedure explaining when abatements would be applied to MTCs who did not meet the compliance target of 90%.

In response HSA advised that it is currently developing a compliance methodology to record non-conformity reports by degree of severity, based on the DCSI risk matrix. Further, requirements and a project plan have been prepared to develop a compliance application, incorporating risk assessment. HSA envisages that this will significantly improve the reliability of data on MTC performance for quality of work.

HSA also advised that it will develop a procedure explaining the circumstances where abatements will apply.

Audit and compliance assessments not performed

The 'Audit and Compliance Assessments procedure for Multi Trade Contractor' outlines the SAHT's methodology for inspecting and assessing works and services provided by MTCs, as well as MTC compliance with contract requirements, operational performance and standards.

We found the following compliance and assessment activities detailed in the procedure did not occur in 2015-16:

- annual audit of MTC administrative operations
- audits of regional operations.

In addition, we found HSA field staff did not always inspect the number of maintenance works required by the HSA's performance assessment methodology.

In response HSA advised that it endeavours to achieve, for all contract areas, the required number of inspections of completed maintenance works. Further, HSA advised that it is working with DCSI Internal Audit to refine and improve processes for inspecting maintenance works to ensure the reliability of quality of work performance data.

HSA also advised that:

- audits of MTC administrative operations have commenced and are due for completion before 31 December 2016

- an audit plan has been developed for regional office audits and that at least one metropolitan and one country office will be audited in 2016-17.

Council rates

Council rates expenditure is processed through the Council Rates system and in 2015-16 expenditure was $45 million.

We found that the SAHT's self-audit process for confirming that officers comply with the council rates procedures, including procedures to check and ensure the complete and accurate processing of council rates notices, was not performed during 2015-16.

In response the URA advised that the self-audit process has been enhanced and documented and this was finalised in January 2016. The self-audit process for 2016-17 has now commenced.

Payroll

While SSSA is responsible for payroll processing, important payroll controls are performed by HSA and the URA. Both have important roles in reviewing payroll reports to validate employee payments and leave records.

Payroll reports or data not effectively or not promptly reviewed

Our audit identified that key payroll controls performed by HSA and the URA did not operate effectively. Specifically, we noted:

- a significant number of bona fide reports (32% for HSA and 43% URA) were not reviewed and certified within required time frames. Timely review of bona fide reports reduces the risk of invalid payments to employees

- ineffective review of leave reports resulting in instances where leave recorded on timesheets was not recorded or was incorrectly recorded in the payroll system

- managers/supervisors were not promptly certifying employee timesheets as correct.

In response HSA advised that:

- DCSI provides monthly aged bona fide reports detailing bona fide reports outstanding for more than three weeks. The aged bona fide reports are distributed to relevant business unit managers for action

- business unit audits will be implemented to ensure compliance with payroll controls

- a review of the employee attendance process will be undertaken.

The URA agreed with our findings and recommendations and advised that it will reinforce the requirement to ensure bona fide reports are reviewed and checked in accordance with procedures.

Review of SAHT's governance arrangements

On December 2014 Cabinet approved a strategy to progressively replace ageing SAHT owned housing with new social housing dwellings that better meet contemporary social housing needs. To align the strategic and operational governance of the SAHT with the Cabinet approved strategy, responsibility for the *South Australian Housing Trust Act 1995* and other relevant Acts transferred from the Minister for Social Housing to the Minister for Housing and Urban Development.

This resulted in financial, asset management and not-for-profit community housing sector growth responsibilities transferring to the Minister for Housing and Urban Development, while providing social housing services (including property maintenance) and other housing programs remained with the Minister for Social Housing.

During 2015-16 we reviewed the governance framework established by the SAHT to support these arrangements. Our key findings are outlined below.

URA and HSA executive group meetings not formalised and minuted

The Chief Executive and Executive Officers, of the URA meet monthly with the Executive Director, HSA to review SAHT Board papers and to discuss other strategic and operational issues facing the SAHT. In June 2016 the SAHT Board Audit and Finance Committee approved these meetings as its response to the strategic risk of the governance framework leading to a disjointed and inconsistent approach to achieving SAHT's objectives. Our review of these executive meetings noted that:

- there are no terms of reference governing the URA and HSA executive meetings
- the meetings are not minuted and there is no established agenda.

The URA responded that the primary purpose of these meetings is to review and discuss the draft SAHT Board papers. The official meeting to discuss strategic and operational SAHT matters is the weekly URA Executive meeting. This meeting is formally minuted. Further to this, the General Manager, Property Management will attend the HSA Executive meeting each month and this provides sufficient opportunity for matters of significance to be satisfactorily considered. These arrangements are further supplemented by a series of management level operational meetings between the URA and HSA.

Reporting required by service level administrative agreement (SLAA) to the Board and Ministers did not occur

Our review of the management of the SAHT's SLAAs with the URA and DCSI noted that:

- the required six-monthly report on the development of key policies (DCSI), key programs, strategies and issues (URA) were not provided to the respective Ministers

- the HSA Business Plan for 2015-16 was not presented to the Board and the URA Business Plan relating to services to the SAHT for 2015-16 was still in draft (June 2016).

In response the URA acknowledged that the current SLAA outlines a requirement for six-monthly reporting to the respective Ministers, noting however that both Ministers receive regular and comprehensive briefings on the activities of the SAHT from their respective chief executives. The URA is satisfied that the risk of failure to inform the Ministers of key developments in the SAHT's operations is low.

The URA advised that its 2016-17 Business Plan for SAHT activities has been submitted to the SAHT Board in draft and, when completed, the final plan will also be submitted. In addition, the HSA Business Plan for 2016-17 will be submitted to the SAHT Board. The URA identified a range of other strategic project related and/or service delivery plans that were submitted to the SAHT Board during 2015-16.

The SAHT Board has requested that a review of the SLAAs be undertaken in February 2017. This review will consider the current arrangements including evaluating the merits of the current reporting requirements.

Key performance indicators (KPIs) not reported to SAHT Board as required by SLAAs

The SLAAs require monthly reporting on KPIs nominated by the SAHT. We noted:

- the performance measures detailed in the 'Monthly Report on Services – Housing SA' were determined five years ago and had not been revisited to ensure they reflect KPIs important to the Board, subsequent to the machinery of government changes and the establishment of the SLAAs
- the URA does not provide a monthly report on KPIs nominated by the SAHT, but rather provides reports on specific initiatives.

The URA advised that it was satisfied that the existing monthly corporate performance report provided by HSA captures all KPIs required by the SAHT Board.

The URA also acknowledged that the SAHT Board does not receive regular KPI reporting from the URA as required by the SLAA. It noted, however, that the SAHT Board was kept informed of progress and outcomes associated with key initiatives.

Notwithstanding this, the URA advised that the existing KPIs will be reviewed with the SLAAs in February 2017.

Transfer of property and tenancy management to community housing sector

In October 2015 the SAHT transferred responsibility for the property and tenancy management of 1087 public housing properties to two community housing providers (CHPs). These CHPs were selected through a national two-stage tender process.

The SAHT has applied a concurrent lease and deed model to the transfer.

The transfer of responsibility for property and tenancy management for these 1087 properties is for an initial lease period of three years. During the initial lease period the performance of the CHPs will be reviewed and evaluated. Pending successful performance it is intended that the CHPs will be offered a further 20-year lease.

We reviewed the SAHT's arrangements for the transfer, including the ongoing management of the transfer agreements. The significant findings from our review are summarised below.

Program Management Committee has not met since December 2015

The Housing Transfer Management Deed, signed by the SAHT and the selected CHPs, outlines the agreed governance structure for the Better Places, Stronger Communities (BPSC) public housing transfer program. The governance structure consisted of a Program Management Committee, a schedule of contract review meetings and a formal evaluation of the BPSC public housing transfer program.

We found that the Program Management Committee had not met since December 2015 and the SAHT has not implemented alternate governance arrangements to manage the implementation, operation and evaluation of the program.

In response the URA advised that the Program Management Committee has been reconvened and was scheduled to meet in September 2016. It is anticipated that the Program Management Committee will meet intensively to manage the 12-month review of the program and Deed, and will meet regularly thereafter.

Other control matters identified

We also noted that the SAHT had not:

- performed a six-month review of the Housing Transfer Management Deed to ensure the terms, obligations and intent of the deed and lease are being addressed
- established a contract management plan to ensure CHPs are complying with their obligations under the Housing Transfer Management Deed and that the SAHT is achieving its objectives from this outsourced arrangement
- appointed a dedicated contract manager to manage the SAHT's relationship with the CHPs
- advised CHPs of the reports required, and their frequency, to assess CHP performance against contractual commitments. Consequently, there was no process to monitor CHPs' performance against their contractual KPIs.

In response to the matters identified the URA advised that:

- in the early months of the program, the URA and the CHPs were engaged in operational challenges associated with systems and data transfers, reporting, property related issues and tenant demands. Consequently, it was not practicable to undertake the six-month review
- the URA is conducting an assessment of CHP performance against contractual KPIs for the first six months of the transfer. The outcome of this assessment will inform the annual review of the program and the subsequent process to receive reports
- a contract management plan has been drafted and will be finalised after completing the annual review
- management of the Housing Transfer Management Deed will be transitioned to the contract management team after the annual review in October 2016.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of the SAHT under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' elsewhere in this Report.

Business System Transformation program status update

The SAHT's business applications use a legacy technology platform, ObjectStar, which resides on the SA Government's shared mainframe environment.

TIBCO (the ObjectStar vendor) previously advised that the ObjectStar environment, including maintenance, would be retired from 31 December 2015. The SAHT has since purchased extended support until 31 December 2017. In addition, the current SA Government shared mainframe support arrangement is due to expire in April 2018.

The SAHT has commenced the Business System Transformation program (the program) to replace the ageing legacy systems. However, following delays in starting the program, it is now expected that the ObjectStar platform will be used by the SAHT until 2020.

The SAHT has finalised an expression of interest for the program and is waiting for Cabinet's approval before progressing to the request for proposal stage. In the interim, the SAHT has refined the program, including the business case, modifying its design and preparing for contract negotiations.

We note there are a number of operational risks that the SAHT needs to manage to ensure effective operational capabilities, including:

- reviewing TIBCO's extended support beyond its current expiry in 30 December 2017, potentially to 2020. Failure to obtain support increases the risk of significant system failure and business interruption that would carry legal, reputational and financial implications
- developing a strategy that addresses future mainframe contractual arrangements beyond the current expiry in April 2018
- progressing the program to ensure that enough time is available to gain Cabinet approval, successfully negotiate the contractual requirements and implement the program by 2020.

We will monitor developments associated with the program and the operational risks in 2016-17.

Interpretation and analysis of the financial report

Highlights of the financial report

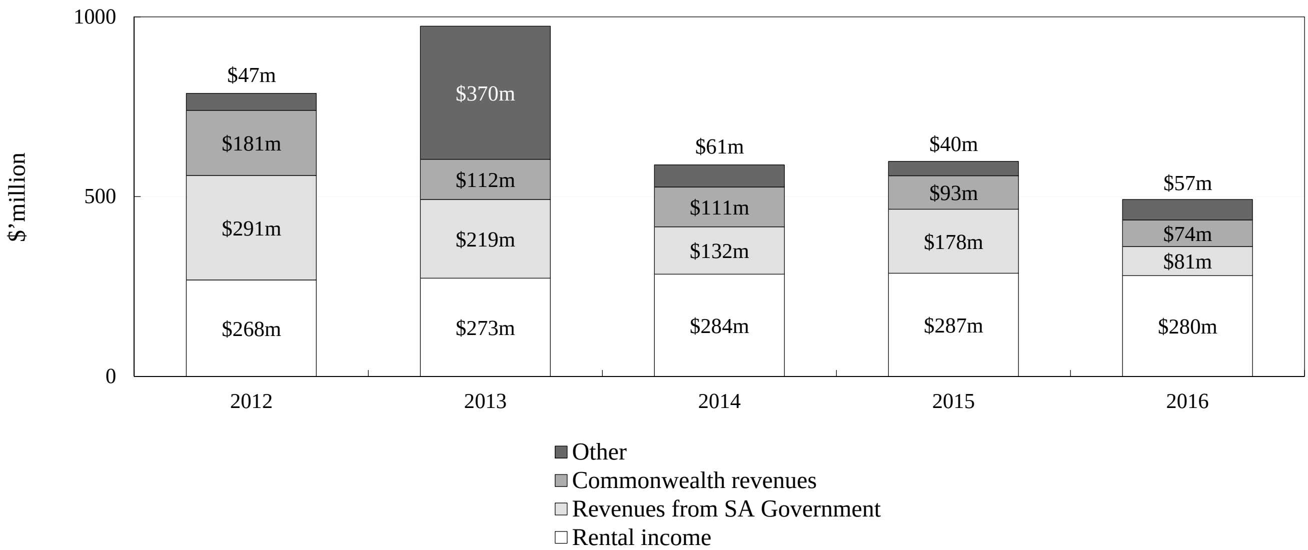
	2016 $'million	2015 $'million
Expenses		
Staffing costs	75	70
Maintenance	111	116
Council rates and water rates	83	80
Land tax equivalent	178	176
Depreciation and amortisation	89	87
Grants and subsidies	32	98
Other expenses	79	77
Total expenses	647	704

	2016 $'million	2015 $'million
Income		
Rental income	280	287
Commonwealth revenues	74	93
Other	57	40
Total income	411	420
Net cost of providing services	235	284
Revenues from SA Government	81	178
Net result	(154)	(106)
Other comprehensive income	269	219
Total comprehensive result	115	113
Net cash provided by (used in) operating activities	106	-
Assets		
Current assets	529	398
Non-current assets	9 910	9 771
Total assets	10 439	10 169
Liabilities		
Current liabilities	199	67
Non-current liabilities	20	20
Total liabilities	219	87
Total equity	10 220	10 082

Statement of Comprehensive Income

Income

For the five years to 2016 a structural analysis of the SAHT's income is presented in the following chart.



Total income was $492 million, a decrease of $106 million from the previous year. The movements in the main components of income were as follows:

- SA Government revenues decreased by $97 million to $81 million due to:
  - — one-off housing stimulus funding received in June 2015 to renovate and rebuild SAHT homes ($65 million)

— land tax equivalent reimbursement, down $15 million, due to savings applied to land tax equivalents to fund the 2015 Housing Stimulus of $20 million

— National Partnership Agreement: Homelessness funding for 2015-16 ($9 million) retained by DCSI due to the transfer of responsibility for funding homelessness services from the SAHT to DCSI

— one-off capital funding received in 2014-15 for the solar hot water systems program ($6 million)

- rental income (net of rental rebates) decreased by $7 million due mainly to a decrease in market rent, down $8 million, offset by a $1 million increase in rent rebates. Rent rebates reduce the rent paid by low income tenants

- Commonwealth revenues decreased by $19 million to $74 million due to the transfer in 2015-16 of responsibility for funding homelessness services to DCSI. As a result DCSI retained $21 million of the SA Government's National Affordable Housing Agreement funding for 2015-16 and National Partnership Agreement: Homelessness funding ($9 million) to fund homelessness programs

- other income increased by $17 million to $57 million due to:

— increased recoveries ($8 million) principally due to homelessness service recoveries from DCSI ($4 million) and GST recoveries ($4 million)

— a gain on disposal of non-current assets of $8 million recognised in 2015-16. In 2014-15 the SAHT incurred a loss on disposal of non-current assets.

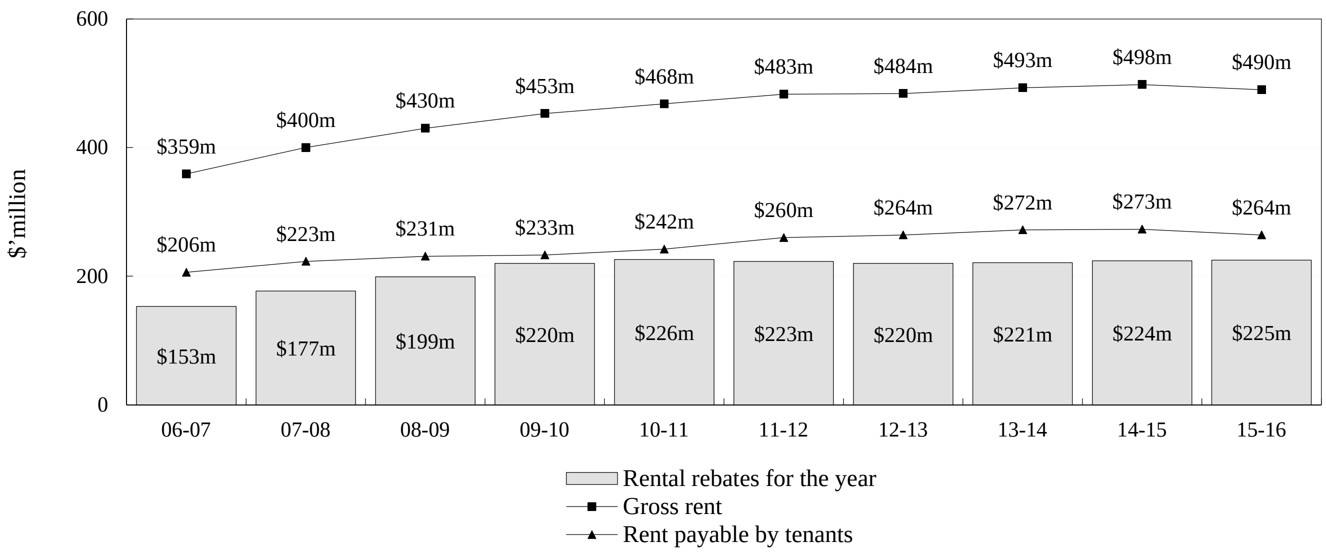
Rental operations

The following table shows the level of housing stock, excluding unlettable properties, as at 30 June for the past five years.

	2016 Number	2015 Number	2014 Number	2013 Number	2012 Number
Properties	39 855	41 726	42 847	43 548	43 705

88% (87%) of tenants pay reduced (rebated) rent due to low income.

Data relating to housing stock levels and tenancies was provided by the SAHT and is unaudited. The trend of rents and rebates is illustrated in the following chart.

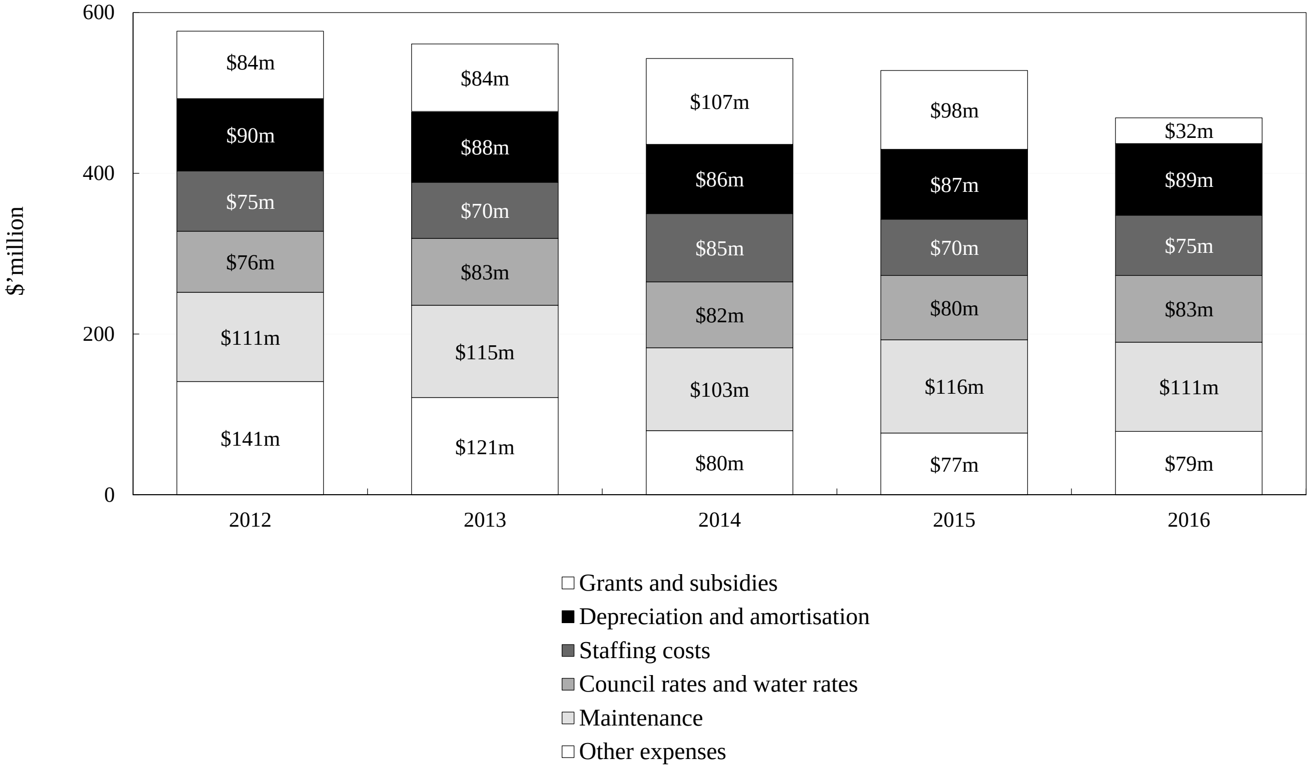


The chart highlights that gross rent has steadily increased from 2005-06 to 2014-15 due to increases in market rents. 2007-08 was also affected by an increase in tenant numbers due to the SAHT taking over responsibility for indigenous housing.

In 2016 gross rent decreased by $8 million, rent revenue decreased by $9 million and rent rebates increased by $1 million. The amount of rent rebates is dependent on each tenant's circumstances, with rent payable capped at 25% of household income or market rent, whichever is lower.

Expenses

For the five years to 2016, the major expense items for the SAHT, other than tax equivalent expenses, is shown in the following chart.



The chart shows a downward trend in expenses over the period 2012 to 2016.

In 2016 total expenses (excluding tax equivalent expenses) decreased by $59 million (11%). This was due mainly to a decrease in grants and subsidies ($66 million). Grants and subsidies decreased due to the transfer of responsibility for funding homelessness services to DCSI ($54 million) and completion of the community housing construction stimulus initiative ($8 million).

Gain on disposal of assets

In 2016 the SAHT recorded a gain on disposal of assets of $8 million compared with a loss in 2015 of $1 million.

The SAHT has agreed a Cabinet approved financial viability strategy which is primarily achieved through the sale of SAHT properties.

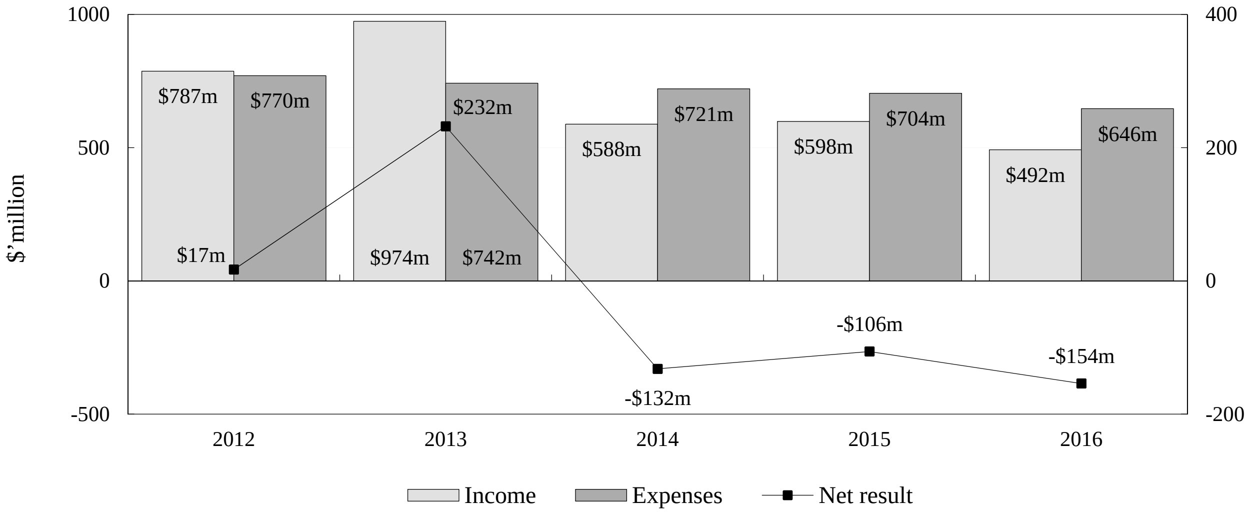
For 2015-16 the estimated asset disposal requirement was 597 properties to achieve a budgeted revenue target of $114 million.

489 properties were sold in 2015-16 to support the approved financial viability strategy. Total proceeds received from these asset disposals (sales of property excluding capital work in progress and debentured properties) were $98 million compared to the net book value of $92 million.

The balance of the proceeds from asset disposals is applied to fund the SAHT's capital works program.

Net result

The following chart shows the income and expenses (including income tax equivalent but excluding administrative restructure) and net result for the five years to 2016.



The chart shows that the SAHT achieved surpluses in 2012 and 2013 and deficits thereafter. The surplus in 2012 reflects a higher level of Commonwealth and SA Government revenues than in the years 2014 to 2016. The significant surplus in 2013 is attributable to $320 million of SAHT loans with the Treasurer being forgiven.

The net result for 2016 has decreased by $48 million from the previous year. The 2015 result was impacted by $65 million received in June 2015 for public housing stimulus.

Unexpended grant funding commitments

Commonwealth and SA Government funds received for a number of projects are yet to be fully expended. Note 34 of the financial report details that $17 million of grant funds received were unspent as at 30 June 2016.

The significant unexpended grant funds were:

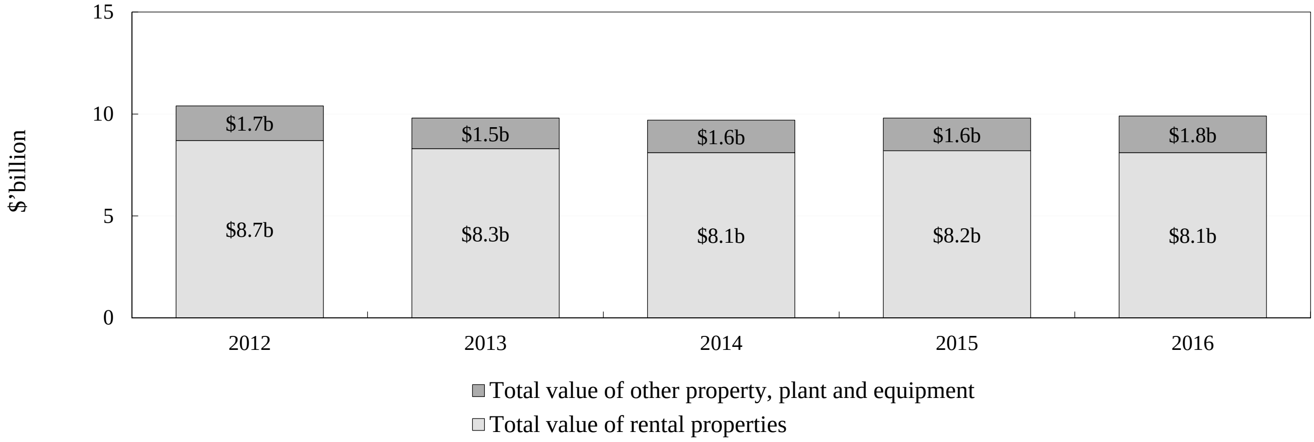
- funding received to establish a new disability respite facility in Adelaide
- funding received to progress the planning and delivery of projects and programs to stimulate activity in the housing construction sector.

Statement of Financial Position

The SAHT's financial position is dominated by non-current property, plant and equipment assets. Current assets and liabilities are, while significant in their own right, not material relative to the non-current assets. Notwithstanding, at 30 June 2016 current liabilities amounted to $199 million ($67 million), while current assets were $529 million ($398 million).

Property, plant and equipment

The following chart shows the value of the SAHT's rental properties compared to the value of SAHT's other property, plant and equipment assets over the past five years.



In 2016 the value of rental properties decreased by $116 million to $8.1 billion. The decrease reflects transfers out of $280 million (principally to assets under arrangement), disposals of $100 million and depreciation expense of $68 million. This was offset by an upward revaluation of assets of $238 million, and additions (including maintenance upgrades) and transfers in (including from asset held for sale) of $94 million.

The chart shows a steady decrease in the value of both rental properties and other property, plant and equipment for the period 2012 to 2014. In 2013 the value decreased due to lower market values associated with a subdued property market, which resulted in a revaluation decrement. In 2014 the value slightly decreased due to lower market values and depreciation/amortisation.

Other property, plant and equipment includes assets under arrangement of $1.4 billion (refer note 2.11 of the financial report). Assets under arrangement increased by $213 million in 2016 principally due to the transfers in, from rental properties, of properties leased to community housing providers as part of the BPSC public housing transfer program.

It is important to note that 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. As reported in note 2.11 of the financial report, values for 2015-16 were issued by the Valuer-General as at 1 July 2015. This policy has been consistently applied and reflects the practicality of valuing a very large housing stock.

In 2015, the SAHT revalued remote indigenous leased properties for the first time. This resulted in an upward revaluation of $86 million. Due to the remoteness of many of these properties there is no observable market or consistent Valuer-General information. Consequently, many of these properties were valued using a depreciated replacement cost method.

Current liabilities

Current liabilities have increased from $67 million to $199 million. This is principally due to land tax equivalents payable at 30 June 2016 of $134 million.

Revenue SA did not invoice the SAHT for 2015-16 land tax equivalents until May 2016. Land tax equivalents for 2015-16 are payable by the SAHT in four instalments. The SAHT paid the first instalment ($45 million) in June 2016.

Statement of Cash Flows

In 2016 the SAHT recorded an increase in cash of $126 million compared to an increase of $22 million in the previous year.

The increase in cash is principally due to net cash generated from operations ($106 million) and financing activities ($23 million).

Cash generated from operations increased principally as a result of the delayed payment of land tax.

The cash generated from financing activities reflects a capital contribution of $23 million received in 2015-16.

Of the $397 million balance of cash on hand at 30 June 2016, $17 million relates to grants received in 2015-16 and earlier years that were unspent at year end.

South Australian Metropolitan Fire Service (SAMFS)

Financial statistics	Net cost of providing services:	$146 million
	Total contributions from the Community Emergency Services Fund:	$136 million
	Number of FTEs:	949
	Employee benefits liability and related on-costs:	$37 million
	Workers compensation liability:	$17 million

Significant events and transactions

- The new Salisbury Command Station opened. It has the capability to assist in large scale fires and emergencies.
- Three full-time metropolitan firefighter recruitment courses finished, with 54 new firefighters appointed.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Controls over workers compensation:
  - no reconciliation between the workers compensation and payroll systems
  - controls over the management of workers on income maintenance need strengthening
  - no review of income maintenance calculations before payment
  - no documentation kept of the annual review of claims
- Controls over vehicle management:
  - vehicle management policies and procedures are not comprehensive
  - no single vehicle management system used by all emergency services organisations
  - no strategic asset management plans
  - limited documentation of the information used to support annual capital plan decisions

Functional responsibility

The SAMFS is established by the *Fire and Emergency Services Act 2005* (FES Act) as a body corporate.

The functions of the SAMFS include being the primary provider of structural firefighting services to South Australia.

The South Australian Fire and Emergency Services Commission (SAFECOM) provides various corporate services to support the SAMFS's primary functions. The operations of the SAMFS are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998*.

For more information about the SAMFS's objectives refer note 1 of the financial report.

Scope of the audit

The audit program covered the major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the SAMFS to conduct relevant financial transaction and control compliance tests.

The scope of the audit included:

- expenditure
- payroll
- revenue
- non-current assets, including capital works in progress and vehicle management
- cash at bank
- financial accounting
- workers compensation
- governance.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Metropolitan Fire Service in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to workers compensation and vehicle management as outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Metropolitan Fire Service have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive, SAFECOM and the Chief Officer, SAMFS who are responsible for the governance of the SAMFS.

Matters raised with SAFECOM and the SAMFS and the related responses are provided in detail under 'Communication of audit matters' in the section of this Report titled 'South Australian Fire and Emergency Services Commission'.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	131	116
Supplies and services	14	13
Other expenses	7	7
Total expenses	152	136
Total income	6	7
Net cost of providing services	146	129
Revenues from (Payments to) SA Government	136	125
Net result and total comprehensive results	(9)	(4)
Net cash provided by (used in) operating activities	6	6
Net cash provided by (used in) investing activities	(9)	(10)
Assets		
Current assets	4	7
Non-current assets	142	141
Total assets	146	148
Liabilities		
Current liabilities	23	23
Non-current liabilities	34	27
Total liabilities	57	50
Total equity	89	98

Statement of Comprehensive Income

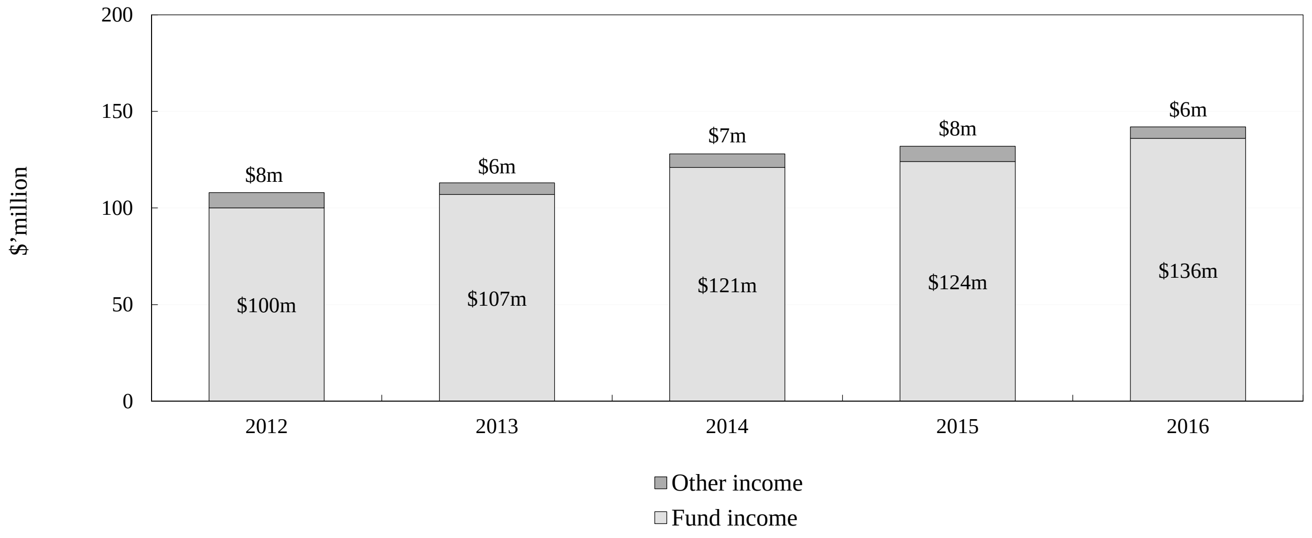
Revenues from SA Government

The main source of funds for the SAMFS is the contributions from the Fund, which account for 96% of total income (refer note 14 of the financial report).

Contributions from the Fund to the SAMFS increased by $12 million (10%) during 2015-16. The increase is mainly due to:

- $2 million for increases in the enterprise bargaining agreement and retention leave
- $2 million to cover indexation for expenses
- $4 million to cover the 27th payrun.

A structural analysis of income for the SAMFS for the five years to 2016 is presented in the following chart.



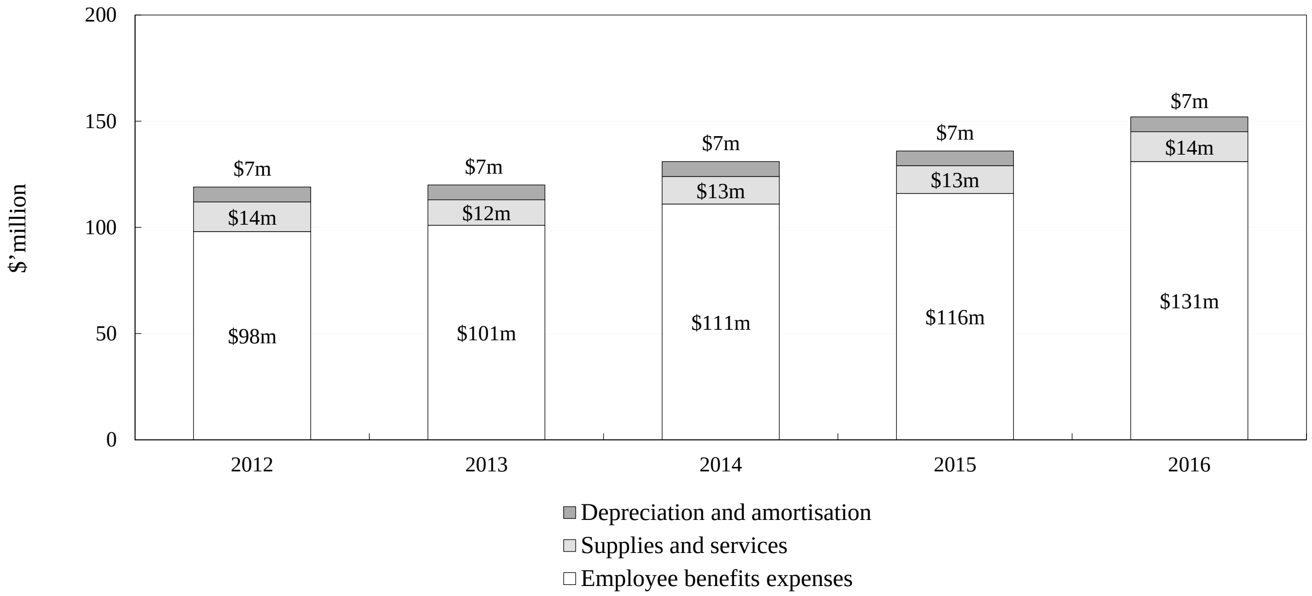
The chart shows that the SAMFS has received a steady increase of $36 million in Fund income over the five years.

Expenses

Total expenses increased by $16 million during 2015-16. Employee benefits expenses account for 86% of the total expenses of the SAMFS. During 2015-16 employee benefits expenses increased by $15 million (13%) due mainly to:

- workers compensation expenses increasing by $10 million. This is due to the increased costs determined by the actuarial review for long-term claims allowed under revised firefighter compensation arrangements
- $3 million for enterprise bargaining agreement increases and an additional 14 FTEs
- increases in annual leave and long service leave of $1 million.

For the five years to 2016, an analysis of the main operating expense items is shown in the following chart.



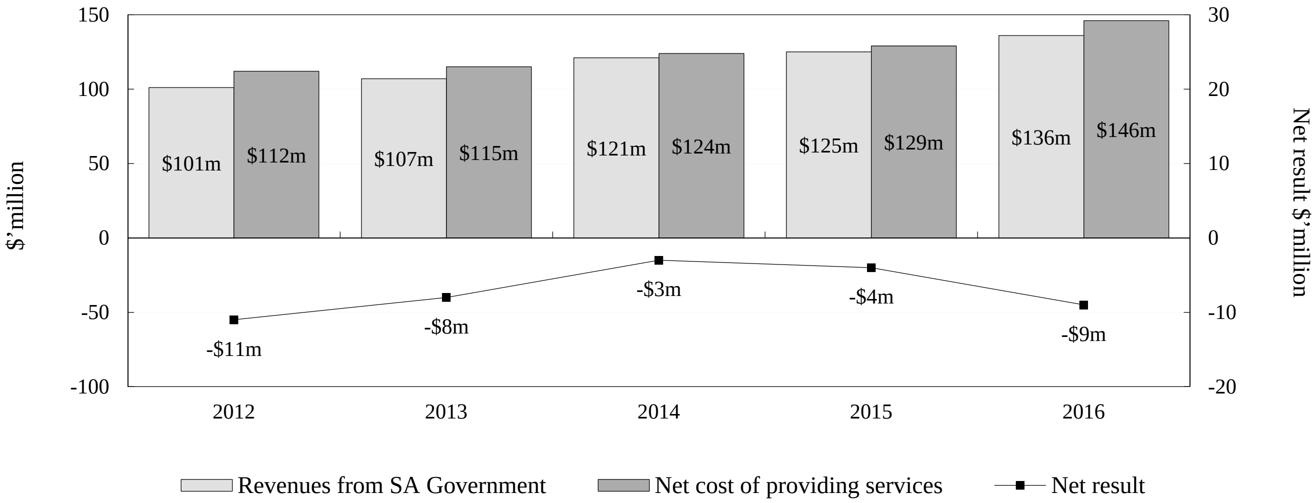
Over the five years to 2015-16 expenses have increased by $33 million due to increased employee benefits expenses.

Net result

The net result was a deficit of $9 million compared to a deficit of $4 million in the previous year. Total income increased by $11 million, while expenses increased by $16 million.

There have been consistent deficits in recent years due to the SAMFS using cash reserves to fund certain expenditure. Refer to the heading 'Statement of Cash Flows' below for details on cash and cash equivalents held by the SAMFS over the past five years.

The following chart shows the funding received by the SAMFS from the SA Government (predominantly from the Fund), the net cost of services and the net result for the past five years.



Statement of Financial Position

The Statement of Financial Position is largely comprised of property, plant and equipment which account for 97% of total assets. Property, plant and equipment increased by $1 million to $142 million this year. This was due to an investment in building works and fire appliances of $9 million, offset by depreciation of $7 million. The fair values of the main asset classes held by the SAMFS were land ($47 million), buildings ($59 million) and vehicles ($29 million) (refer note 18 of the financial report).

During 2015-16 current assets decreased by $3 million due to a decrease in cash and cash equivalents of that amount. The SAMFS uses cash reserves to fund operational and capital expenditure. Investing (capital) expenditure has remained the same as 2014-15.

Current liabilities remained at $23 million during the year and exceeded current assets by $19 million at balance date. Cash and cash equivalents of $3 million are sufficient to meet current creditors of $2 million. Current liabilities have exceeded current assets in the past four years.

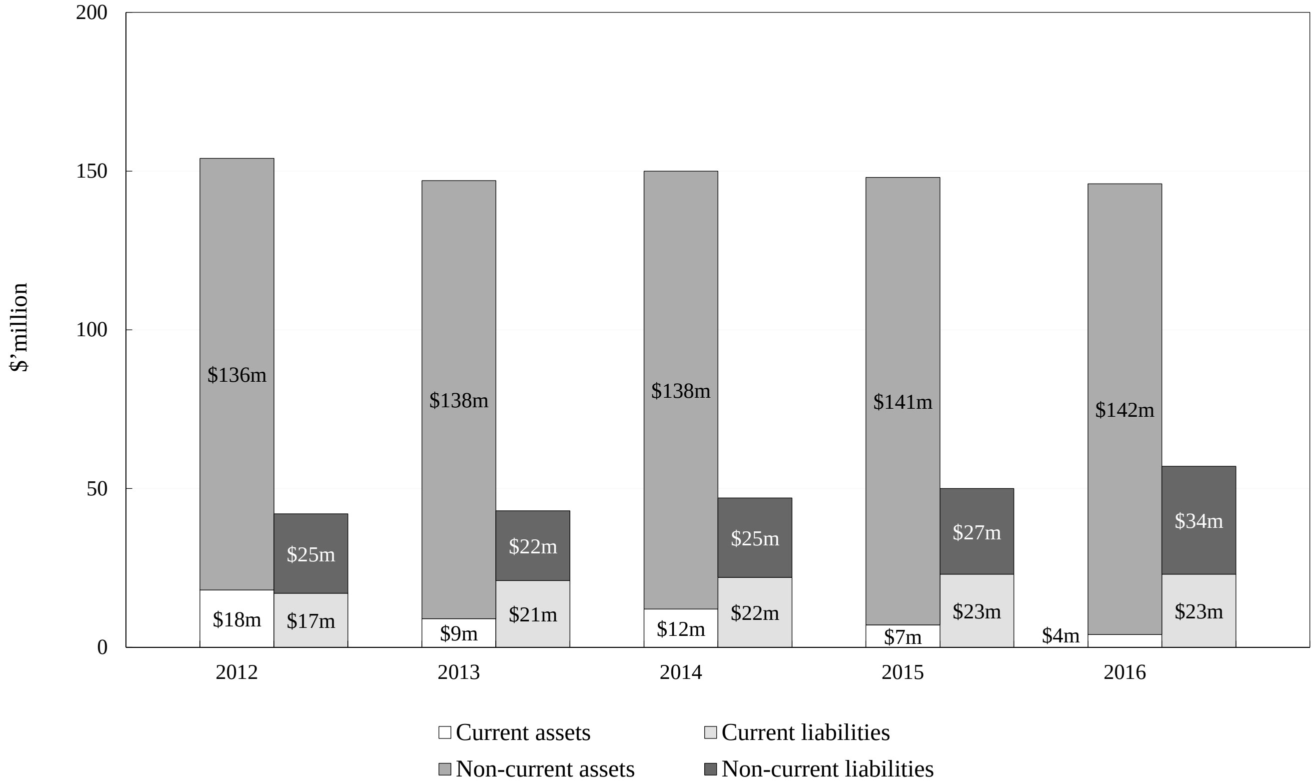
Employee entitlements are the largest element of current liabilities, totalling $12 million at 30 June 2016. They comprise leave entitlements expected to be taken within 12 months. Total liabilities increased by $7 million due to an increase in the workers compensation provision.

Employment liabilities make up $54 million of the SAMFS's total liabilities at 30 June 2016, comprising:

- employee benefits liabilities and related on-costs, $37 million ($37 million)

- provision for workers compensation, $17 million ($9 million). This is due to the increased costs determined by the actuarial review for long-term claims allowed under revised firefighter compensation arrangements.

For the five years to 2016, a structural analysis of assets and liabilities is shown in the following chart.



Statement of Cash Flows

Net cash provided by operating activities has remained constant during 2015-16. Increased employee benefits payments were offset by increased contributions from the Fund.

Cash balances have reduced over five years. The SAMFS had accrued significant cash reserves under the previous *South Australian Metropolitan Fire Service Act 1936* before the FES Act came into operation. Whilst the FES Act provided for the continued operation of the SAMFS, there was uncertainty about the purpose and permitted use of previous cash reserves and whether they could be consolidated with other SAMFS cash accounts.

In 2011 it was determined that these reserves could be applied for the SAMFS's functions under the FES Act, and they have been progressively used for operational purposes.

The net decrease in cash of $3 million in 2015-16 brought the cash balance at 30 June 2016 to $3 million.

The following table summarises the net cash flows and reduction in cash for the five years to 2016.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Net cash flows					
Operating	6	6	8	(1)	(2)
Investing	(9)	(10)	(5)	(8)	(3)
Change in cash	(3)	(4)	3	(9)	(5)
Cash at 30 June	3	6	11	8	17

South Australian State Emergency Service (SASES)

Financial statistics	Net cost of providing services:	$15 million
	Total contributions from the Community Emergency Services Fund:	$16 million
	Number of FTEs:	51
	Number of volunteers:	1587
	Employee benefits liability and related on-costs:	$1.8 million
	Workers compensation liability:	$329 000

Significant events and transactions

The SASES responded to around 7500 incidents including several severe storms, heatwaves, coastal inundation, rescues and operational support for the Pinery fires and other emergencies.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Controls over workers compensation:
  - no reconciliation between the workers compensation and payroll systems
  - controls over the management of workers on income maintenance need strengthening
  - no review of income maintenance calculations before payment
  - no documentation kept of the annual review of claims
- Controls over vehicle management:
  - vehicle management policies and procedures are not comprehensive
  - no single vehicle management system used by all emergency services organisations
  - no strategic asset management plans
  - limited documentation of the information used to support annual capital plan decisions

Functional responsibility

The SASES is established by the *Fire and Emergency Services Act 2005* as a body corporate.

The functions of the SASES include providing emergency services to South Australia and working towards a safe and prepared community.

The South Australian Fire and Emergency Services Commission (SAFECOM) provides various corporate services to support the SASES's primary functions. The operations of the SASES are financed by the Community Emergency Services Fund (the Fund), established by the *Emergency Services Funding Act 1998.*

For more information about the SASES's objectives refer note 1 of the financial report.

Scope of the audit

The audit program covered the major financial systems and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report and internal controls.

The audit included access to systems and information maintained by SAFECOM and the SASES to conduct relevant financial transaction and control compliance tests.

The scope of the audit included:

- expenditure
- payroll
- revenue
- non-current assets, including capital works in progress and vehicle management
- cash at bank
- financial accounting
- workers compensation
- governance.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian State Emergency Service in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to workers compensation and vehicle management as outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian State Emergency Service have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive, SAFECOM and the Chief Officer, SASES who are responsible for the governance of the SASES.

Matters raised with SAFECOM and the SASES and the related responses are provided in detail under 'Communication of audit matters' in the section of this Report titled 'South Australian Fire and Emergency Services Commission'.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	5	5
Supplies and services	8	7
Other expenses	2	1
Total expenses	15	13
Total income	-	1
Net cost of providing services	15	12
Revenues from (Payments to) SA Government	16	15
Net result and total comprehensive result	1	3
Net cash provided by (used in) operating activities	4	4
Net cash provided by (used in) investing activities	(4)	(4)
Assets		
Current assets	3	3
Non-current assets	38	36
Total assets	41	39
Liabilities		
Current liabilities	3	2
Non-current liabilities	1	1
Total liabilities	4	3
Total equity	37	36

Statement of Comprehensive Income

Revenues from SA Government

The main source of funds for the SASES is the contributions from the Fund, which account for 98% of total income (refer note 13 of the financial report for details).

Contributions from the Fund to the SASES increased by $1.5 million during 2015-16 mainly due to:

- $448 000 for volunteer training and support
- $426 000 for flood warning and flood hazard management
- $350 000 for the Natural Disaster Resilience Program
- $100 000 for costs associated with the Pinery fires.

Expenses

Employee benefits expenses of $5 million account for 35% of the SASES's total expenses due to the extensive use of volunteers.

During 2015-16 total expenditure increased by $2.3 million due to increases in:

- supplies and services of $1 million due to budget initiatives for flood warning and hazard management, and volunteer training and support

- employee benefits expenses of $769 000 for salaries and wages and annual leave
- depreciation expense of $542 000 mainly due to additions from work in progress at the end of 2014-15.

Statement of Financial Position

The Statement of Financial Position is dominated by property, plant and equipment, which accounts for 93% of total assets.

Property, plant and equipment increased by $1.4 million during the year due to additional works in progress of $3.7 million, offset by depreciation of $2 million (refer note 17 of the financial report).

The fair values of the main asset classes held by the SASES were land ($3.5 million), buildings ($16.8 million) and vehicles ($9.8 million).

At balance date, current assets of $2.9 million exceeded current liabilities of $2.5 million.

Employment liabilities make up $2.1 million of the SASES's total liabilities at 30 June 2016, comprising:

- employee benefits liabilities and related on-costs, $1.8 million ($1.5 million)
- provision for workers compensation, $329 000 ($521 000).

South Australian Tourism Commission (SATC)

Financial statistics	Net cost of providing services:	$83 million
	Total appropriation:	$83 million
	Number of FTEs:	126.8

Significant events and transactions

— Net assets of $15 million from the former South Australian Motor Sport Board were transferred to SATC on 1 July 2015.

— SATC successfully held the 2016 Clipsal 500 Adelaide which attracted 263 000 patrons across the four day event. $13.6 million was received from the Department of Treasury and Finance for the cost of running the event.

— SATC successfully held the 2016 Santos Tour Down Under which attracted 39 000 event specific visitors.

Financial statement opinion — **Unmodified**

Financial controls opinion — **Unmodified**

Functional responsibility

SATC is established by the *South Australian Tourism Commission Act 1993* and is a body corporate.

The functions of SATC include promoting South Australia as a tourist destination and further developing and improving the State's tourism industry.

For more information about SATC's objectives refer note 1 of the financial report.

Scope of the audit

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

During 2015-16 areas of review included:

- revenue
- expenditure
- payroll
- financial accounting
- overseas operations
- governance.

Audit findings and comments

Communication of audit matters

Matters arising during the course of the audit were detailed in a management letter to the Chief Executive Officer. There were no major matters raised with SATC.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to SATC are also described below.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of SATC under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

The South Australian Motor Sport Board (SAMSB) was transferred to SATC on 1 July 2015, therefore most major variances between 2015 and 2016 are due to this transfer.

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee benefits expenses	14	10
Advertising and promotion	37	21
Industry assistance	10	11
Event operations	38	11
Other	11	7
Total expenses	110	60
Income		
Revenues from SA Government	83	54
Other	27	8
Total income	110	62
Net result and total comprehensive result	-	2
Net cash provided by (used in) operating activities	2	3
Assets		
Current assets	13	5
Non-current assets	13	2
Total assets	26	7

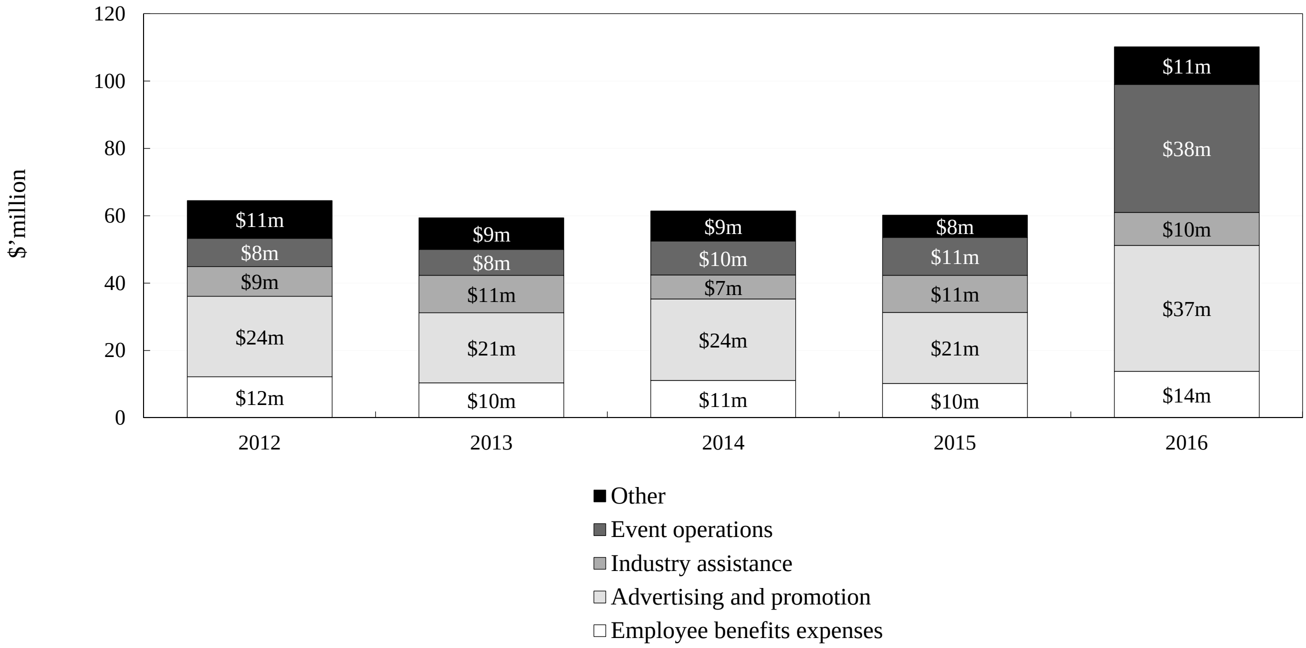
	2016 $'million	2015 $'million
Liabilities		
Current liabilities	7	4
Non-current liabilities	2	2
Total liabilities	9	6
Total equity	17	1

Statement of Comprehensive Income

SATC is reliant on SA Government funding 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 annual events managed by SATC are the Santos Tour Down Under, Clipsal 500 Adelaide and the Credit Union Christmas Pageant.

Expenses

The following chart shows a structural analysis of the main expense items for the five years to 2016.



Total expenses increased by $50 million in 2015-16. This increase is the result of the transfer of the SAMSB to SATC. The significant factors that contributed to the increase were:

- an increase in event operations expenses of $27 million, of which $25 million related to managing the Clipsal 500 Adelaide for the first time in 2016
- an increase in advertising and promotions expenses of $16 million. This was due to an increase of:
  - $5 million in domestic marketing, in particular consumer campaigns and domestic cooperative campaigns
  - $7 million in international marketing with key airlines and trade partners
  - $3 million in event marketing for the Clipsal 500 Adelaide

- an increase of $4 million in employee benefits expenses due to additional employees for the motor sport operations.

The increase in bad and doubtful debts expense of $534 000 was mainly due to Elite Systems Australia Pty Ltd (Elite) being placed into receivership. This company has a contract to purchase seating from the SAMSB. Additional information on this matter is included under the heading ‘Further commentary on operations’ below.

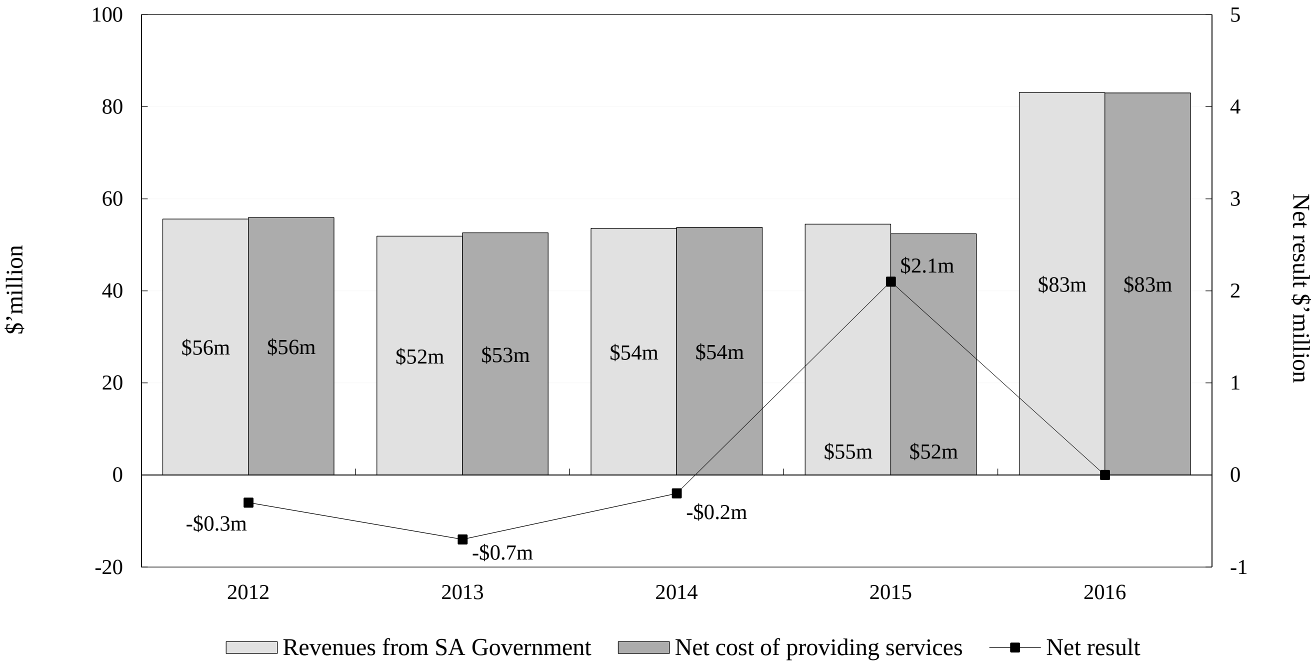
Income

Income for the year totalled $110 million ($62 million). Income mainly comprises revenue from the SA Government, which amounted to $83 million ($54 million) and represented 75% (87%) of total income.

Other income increased by $19 million due to an increase in sponsorship revenue of $4 million and event entry fees of $12 million for the Clipsal 500 Adelaide.

Net result

The following chart shows revenues from the SA Government, the net cost of providing services and the net result for the five years to 2016.



The chart indicates that funding from the SA Government covered most, but not all, of the net costs of services for four of the past five years. In 2015 SATC returned to a positive net result due to additional funding received from the Governor’s Appropriation Fund of $2.8 million.

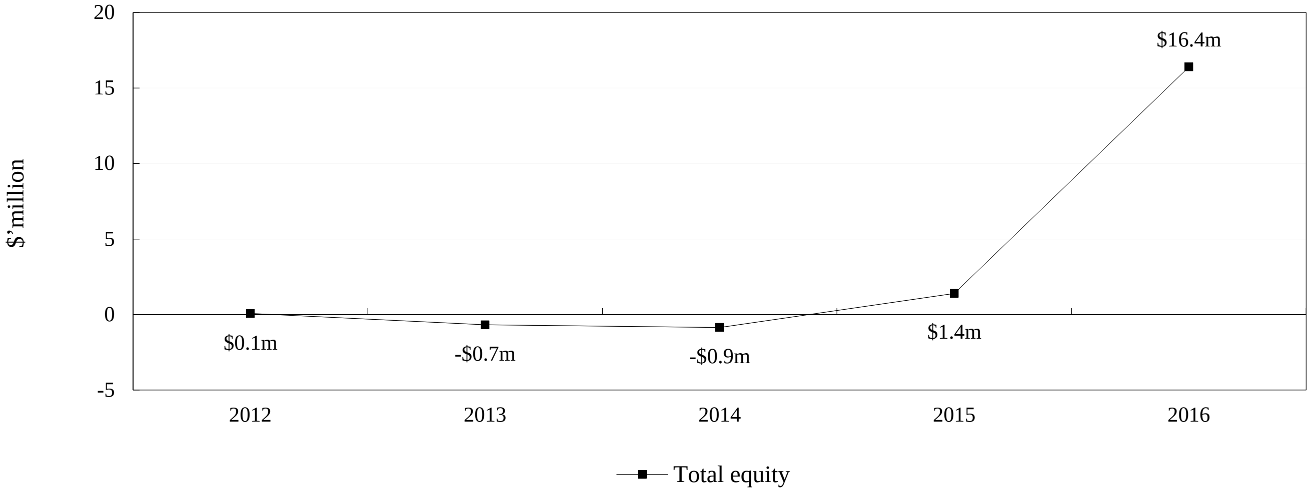
Statement of Financial Position

Current assets and liabilities

At 30 June 2016 current assets amounted to $13 million ($5 million), exceeding current liabilities of $7 million ($4 million) by $6 million ($1 million). The increase in current assets is due primarily to an increase in cash and cash equivalents of $6 million, resulting mainly from the transfer of $5 million in cash and cash equivalents from the SAMSB.

Equity (net assets)

The following chart shows total equity as at 30 June for the past five years.

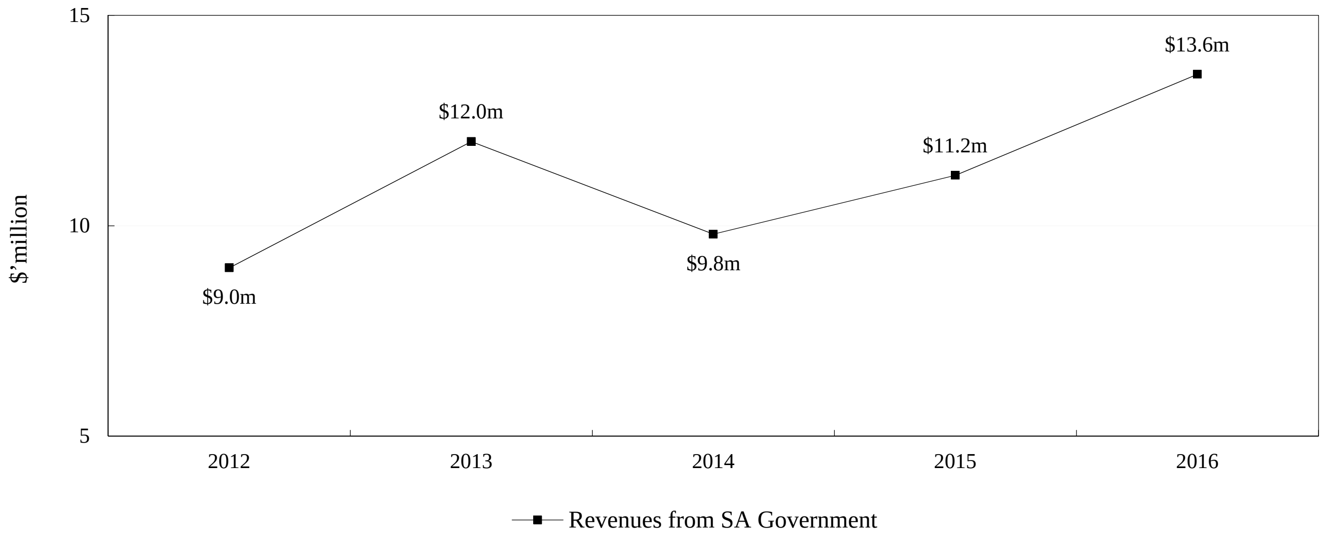


In 2015-16 SATC's total equity (net assets) increased by $15 million as a result of the transfer of the SAMSB on 1 July 2015. The improvement of total equity in 2015 was due to the additional funding received from the Governor's Appropriation Fund of $2.8 million.

Further commentary on operations

Motor sport operations

The following chart shows the revenues from SA Government for the motor sport operations for the past five years. Only the 2015-16 motor sport operations are attributable to SATC. The chart shows the SA Government's contribution to motor sport operations has increased over the last five years by $4.6 million (51%).



Contract for Clipsal seating

The SAMSB entered into a contract on 20 May 2015 with Elite to provide seating for the next six Clipsal races. The contract was then transferred to SATC on 1 July 2015 as part of the dissolution of the SAMSB. The contract included a clause requiring Elite to acquire the SAMSB's old seating for $825 000, paid in equal instalments over the six-year life of the contract, with Elite taking physical possession of the seats in March 2016.

On 14 December 2015 a new contract with Elite was renegotiated due to Elite not being able to provide the number of seats specified in the original contract. This renegotiated contract also reduced the amount to be paid for the old SAMSB seating to $635 000. Elite made one payment of $106 000, but has not taken possession of the seating.

Elite was placed in receivership on 27 May 2016, but as the contract has not been terminated the outstanding receivable of $529 000 has been classified as a doubtful debt.

South Australian Water Corporation (SA Water)

Financial statistics	Water and sewer rates and charges:	$1.23 billion
	Community service obligations:	$130.4 million
	Borrowing costs:	$336 million
	Profit before income tax:	$301 million
	Infrastructure, plant and equipment:	$13.6 billion
	Borrowings:	$6.4 billion
	Net assets:	$5.4 billion
	Number of FTEs:	1452.7

Significant events and transactions

- Profit before tax increased by $22 million (8%). SA Water attributes the increased profit largely to a 6.5% increase in the volume of water sold, reflecting hot and dry weather conditions.
- Work commenced on the $94.7 million upgrade of Kangaroo Creek Dam Safety, with $9 million spent in 2015-16.
- A net revaluation gain of $97 million was realised, mainly due to the annual valuation of water and sewer infrastructure assets.
- The Essential Services Commission of South Australia announced the regulatory arrangements that will apply for the next regulatory period, beginning 1 July 2016.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- No review of CHRIS 21 and TimeWise delegations and inconsistent review of bona fide reports
- Quarterly reviews of Ellipse user access and delegations could be improved

Impact of the 2014-15 transfer of $2.7 billion in debt announced in the State Budget

The SA Government announced its intention to transfer $2.7 billion in debt to SA Water in the 2014-15 State Budget. This was to bring SA Water's debt to asset gearing ratio in line with interstate statutory water corporations, increasing SA Water's debt to asset ratio from around 26% to around 46%.

On 16 September 2014 the Treasurer recommended to the SA Water Board that an interim dividend of $2.7 billion be paid to the Consolidated Account. The Board recommended the interim dividend at its September 2014 Board meeting, and it was approved by the Acting Treasurer on 24 September 2014.

The SA Water Board recommends the payment

The SA Water Board recommended the payment of the dividend after considering:

- the impact of the payment on SA Water's capital structure. The Board noted the resulting structure would be consistent with similar entities interstate and would also align with the expectations of the Essential Services Commission of South Australia (ESCOSA), as the regulator, for a prudent capital structure

- its legal requirements, noting SA Water is wholly owned by the SA Government and manages assets on its behalf

- the nature of the payment essentially being a timing change, bringing forward the payment of dividends to the SA Government, rather than an overall reduction of the funds available to SA Water.

SA Water's Charter and the *Public Corporations Act 1993* require the Board to prudently manage the assets on behalf of the owner and it was evident that the Board considered those requirements in making their recommendation.

In considering whether the State's financial interests were being served, we also note that SA Water's debts are guaranteed by the Treasurer, as were the loans when they were previously part of general government sector debt. Accordingly, the transfer did not change the risk profile of the Treasurer or the State.

We also note the Treasurer's power under section 30(4)(b) of the *Public Corporations Act 1993* to determine the dividend amount to be paid. While this power is only to be exercised after consultation with the Minister, it is notable that the Treasurer has the power to set the dividend regardless of the Board's recommendation.

Impact of the $2.7 billion payment on total borrowings, interest and guarantee fee expenses

The transfer of the $2.7 billion debt increased SA Water's total borrowings to $6.3 billion in 2014-15, where it remained in 2015-16.

The Treasurer approved an increase in SA Water's core debt facility limit with the South Australian Government Financing Authority (SAFA) to $6.4 billion, reflecting the change required from the debt transfer. The Treasurer also approved amendments to SA Water's interest rate risk management policy and liquidity risk management policy and an increase in SA Water's working capital facility limit with SAFA to $150 million, up from $100 million, to be reviewed every two years.

The full year impact of the increased borrowings was an increase in borrowing costs to $336 million ($314 million) in 2015-16. This increase reflects that the revised arrangements were only in place for eight months of 2014-15.

The change in gearing ratio resulted in an increase in the guarantee fee charged by SAFA to 1.6% (up from 1%). This increase is incorporated in the $33 million increase in borrowing costs.

Comparison with other water utilities

As discussed above, when announcing this measure in the 2014-15 State Budget, the SA Government noted that the revised arrangements would bring SA Water into line with other interstate water utilities.

The table below details the gearing ratio for six major water utilities from around Australia as at 30 June 2015.

	SA Water	Sydney Water	Water Corporation of Western Australia	Yarra Valley Water	Unitywater	TasWater
Total debt ($'billion)	6.361	6.330	5.621	2.009	1.560	0.366
Total assets ($'billion)	14.090	15.946	16.621	4.470	3.343	2.011
Gearing ratio (%)	45	40	34	45	47	18

SA Water's revised gearing ratio is similar to those of Yarra Valley Water in Victoria and Unitywater in Queensland.

Functional responsibility

SA Water was established under the *South Australian Water Corporation Act 1994*. It is responsible to the Minister for Water and the River Murray.

The primary functions of SA Water 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

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report and internal controls. During 2015-16 specific areas of audit attention included:

- revenue raising, collection, receipting and banking
- procurement and contract management
- 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 performing the audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the South Australian Water Corporation in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for the matters raised in relation to payroll and expenditure under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the South Australian Water Corporation have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Chief Executive. The main matters raised and the related responses are detailed below.

Payroll

SA Water uses CHRIS 21 for payroll processing for all employees and TimeWise for time and attendance recording for office employees. Our review of these payroll systems identified the following matters.

No review of human resources (HR) delegations in TimeWise and CHRIS 21 systems

TimeWise is used by office employees to record time worked and leave taken. Managers approve timesheets and leave based on delegations set up in the system. Delegations are manually entered when setting up users in TimeWise and are changed when employee responsibilities change.

We found there was no:

- check of changes made to delegations in TimeWise
- review of the HR delegations in CHRIS 21
- comparison of the delegations in TimeWise to those in CHRIS 21 to identify inconsistencies.

Not reviewing delegations in CHRIS 21 and TimeWise may result in users being able to approve time worked and leave taken without the appropriate HR delegation. This may result in the inappropriate approval of payroll expenditure.

SA Water responded that it recognised the need to review HR delegations in CHRIS 21 and that it would complete the review annually. SA Water also advised it would undertake quarterly reviews of users who are able to approve timesheets and leave in TimeWise.

Inconsistencies in the bona fide review process

A monthly review of bona fide reports aims to ensure all employees recorded in CHRIS 21 are valid and that their classification and expense coding are correct. Bona fide reports are allocated to staff who are responsible for coordinating and distributing them for review. SA Water's Payroll has established a 10-day time frame for the review.

We found instances where the bona fide reports were not reviewed and completed promptly, and some instances where it was not clear that all employees on the report had been reviewed. We reviewed the records for the period July to November 2015 and found that around half of the business groups did not complete the review before the established deadline.

Delays in reviewing bona fide reports may result in delays detecting invalid payments to employees or instances where employees are assigned to the wrong responsibility centre.

CHRIS 21 data is also used in SA Water's process to assign access to its computer network. Because of this link, it is important employee data is up to date and employees who have left SA Water are removed from CHRIS 21, so that their access to SA Water's network is also removed.

SA Water replied that it had reinforced the requirements for the review to relevant staff, along with the need to comply with the established time frame.

Expenditure

SA Water uses Ellipse accounts payable to process expenditure transactions.

Quarterly reviews of Ellipse users can be improved

Reviews of Ellipse user access are scheduled to be performed each quarter. They confirm that access to Ellipse remains appropriate and users have the correct payment delegation recorded in the system.

We found that the August and November 2015 reviews were not completed promptly. We understand the November 2015 review (completed in January 2016) was impacted by a large number of new delegations and staff leave.

For one of the business groups we sampled, we found there was no written evidence to support that the review was completed or that the delegations for one of the officers responsible for performing the review was independently checked.

If the review of Ellipse user access and delegations is incomplete or delayed, inappropriate delegations and access levels may not be detected promptly. This can potentially result in invalid transactions being processed in Ellipse. Our sample testing of SA Water transactions did not identify any instances where transactions had been approved without the appropriate delegation.

SA Water advised of a number of other controls to support the effective monitoring of expenditure. SA Water also advised the process for reviewing Ellipse user access and delegations had been revised and would now be:

- supported by improved written instructions, including guidance on what evidence needs to be maintained and which staff are able to approve each element of the review
- performed every six months and aligned with revisions to delegations
- subject to an escalation process to ensure reviews occur promptly.

Contract management arrangements

SA Water has a number of significant contracted arrangements for service delivery. We review aspects of these arrangements each year.

Metropolitan Adelaide Service Delivery Project Operations and Maintenance Alliance (the Alliance) with Allwater

The Alliance contract commenced on 1 July 2011 for a term of 10 years. SA Water has an option to extend the contract for a further six years in annual increments. The current annual value of the contract is $106 million ($105 million).

The Alliance contract allows the sharing of responsibility for the management of operations and maintenance activities with a contractor, Allwater. The alliance model is a more complex and integrated arrangement than a standard contract arrangement. SA Water is the service purchaser. It must document, maintain and use a structured, detailed and complete contract management regime. This will mitigate contractual, operational and financial risks to SA Water, even though there are shared governance arrangements in place for the Alliance.

We have previously identified opportunities to improve the contract management approach for the Alliance. In 2015-16 we found the issues we have raised previously had been addressed.

Our 2015-16 review identified scope for further enhancements to improve internal controls, verification of monthly invoices and review of specific performance indicators (SPIs). In particular, we noted opportunities for:

- the prompt review of Allwater's monthly invoices
- the prompt review of SPI information
- more assurance over SPI reporting by seeking additional supporting information from alternate sources to confirm the accuracy of the reported information.

SA Water responded it would review the verification of monthly invoices and review of SPIs to improve timeliness.

SA Water also responded that it would consider further sources of information in future SPI reporting.

Adelaide Desalination Plant operation and maintenance contract

SA Water has an operations and maintenance (O&M) contract in place with Adelaide Aqua for the Adelaide Desalination Plant (ADP). Adelaide Aqua will operate and maintain the desalination plant for 20 years from 2012. The annual cost of this contract in 2015-16 was $21 million.

We reviewed the O&M contract management processes. Our objective was to evaluate the framework SA Water uses to effectively manage this contract, including policies and procedures, governance arrangements and invoice verification processes.

We identified opportunities for SA Water to improve its processes. These were:

- further improvements to the contract management framework
- consider bringing forward the formal business value review of Adelaide Aqua's operation of the ADP
- strengthen aspects of the asset audits performed for the ADP.

SA Water responded it would consider our recommendations when updating the ADP contract management framework and the approach for ADP asset audits. SA Water also advised a formal business value assessment would be performed well before year 10 of the O&M contract.

SA Water also noted a number of other review processes performed for the operations of the ADP since it was commissioned, indicating these had already addressed many elements of the formal business value assessment while also noting the early stage of the contractual relationship.

ADP contract expenditure is discussed under the heading 'Statement of Comprehensive Income' below.

Automation Panel review

SA Water uses various remote access and automation technology to manage its network. We considered the panel contract arrangement established for the Supervisory Control and Data Acquisition (SCADA) Control System Integration and Associated Electrical Services (the arrangement with the suppliers of this technology), referred to as the Automation Panel.

Our review noted SA Water had complied with policies, procedures and contract arrangements when extending the existing panel contracts. Our review also identified some areas for improvement to existing processes, including:

- keeping a record of Automation Panel performance discussions
- using the performance management tool for performance feedback for all panel members
- improving documentation about financial viability assessments of panel members.

SA Water responded that it would consider our recommendations and update the Automation Panel user guide where necessary.

Interpretation and analysis of the financial report

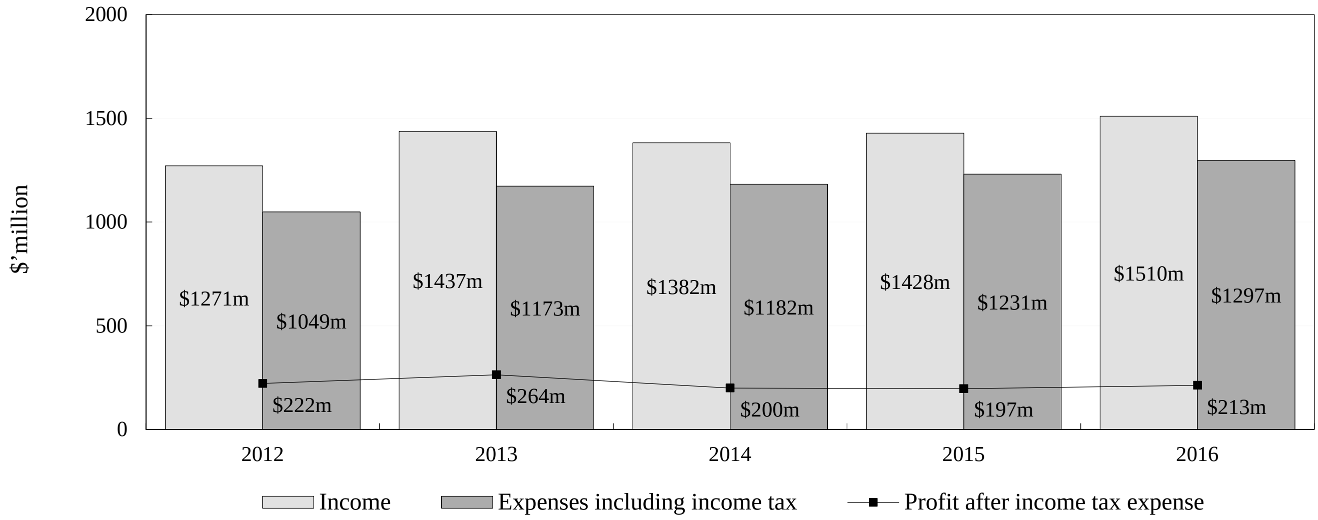
Highlights of the financial report	2016 $'million	2015 $'million
Income		
Water and sewer rates and charges	1 229	1 157
Community service obligations	130	128
Other	151	143
Total income	1 510	1 428
Expenses		
Depreciation and amortisation expense	318	311
Borrowings costs	336	314
Operational and service contracts	183	191
Employee benefits expense	122	120
Other expenses	250	213
Total expenses	1 209	1 149
Net profit before income tax equivalents expense	301	279
Income tax expense	88	82
Net profit after income tax equivalents expense	213	197
Other comprehensive income (net of tax)	82	(93)
Total comprehensive result	295	104
Net cash inflows (outflows) from operating activities	504	454
Assets		
Current assets	236	215
Non-current assets	13 854	13 743
Total assets	14 090	13 958
Liabilities		
Current liabilities	272	239
Non-current liabilities	8 409	8 399
Total liabilities	8 681	8 638
Total equity	5 409	5 320

Statement of Comprehensive Income

Operating result

SA Water's profit after income tax equivalents expense (income tax) increased by $16 million to $213 million ($197 million).

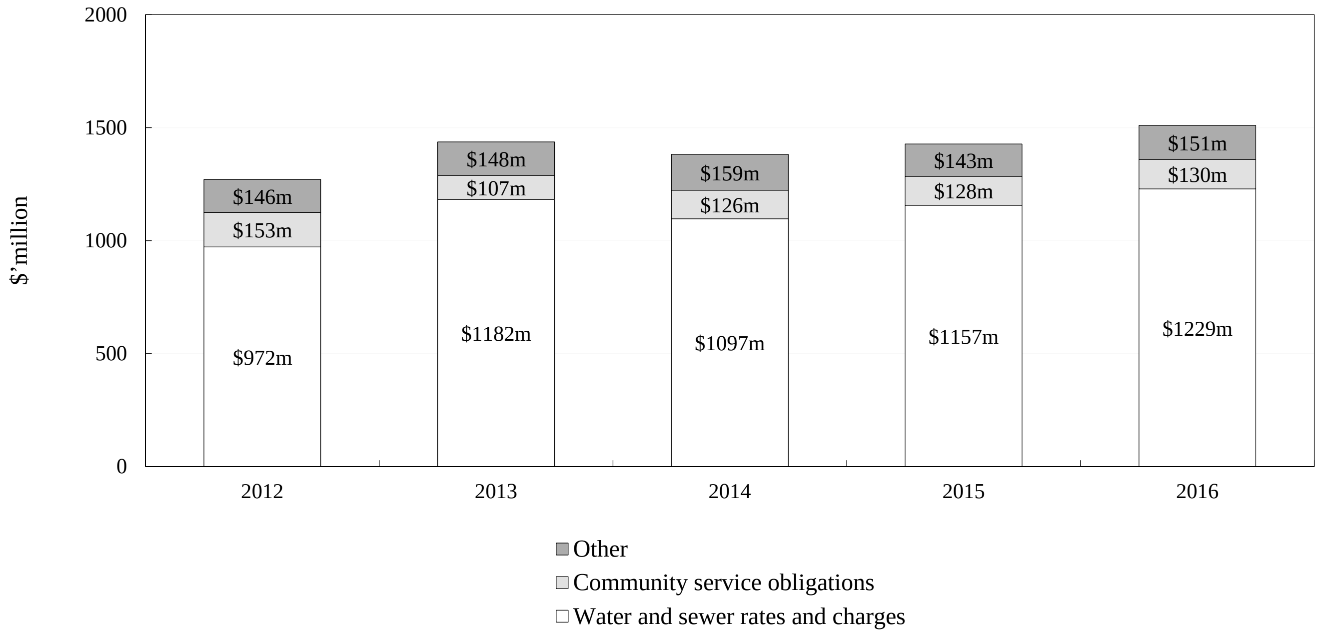
The following chart shows the income, expenses (including income tax) and profit after income tax for the five years to 2016.



The chart shows that both income and expenses have increased each year, with the exception of 2014 when income decreased, resulting in a decrease in profit. In 2016 profit increased due to income increasing at a higher level proportionately to expenses. Reasons for the increases in income and expenses are explained below.

Income

The following chart analyses the main sources of income for SA Water for the five years to 2016.



The chart shows total income increased in 2013 and decreased in 2014 due to water and sewer rates and charges, before increasing again from 2015. Comments on the trend over this period are discussed below.

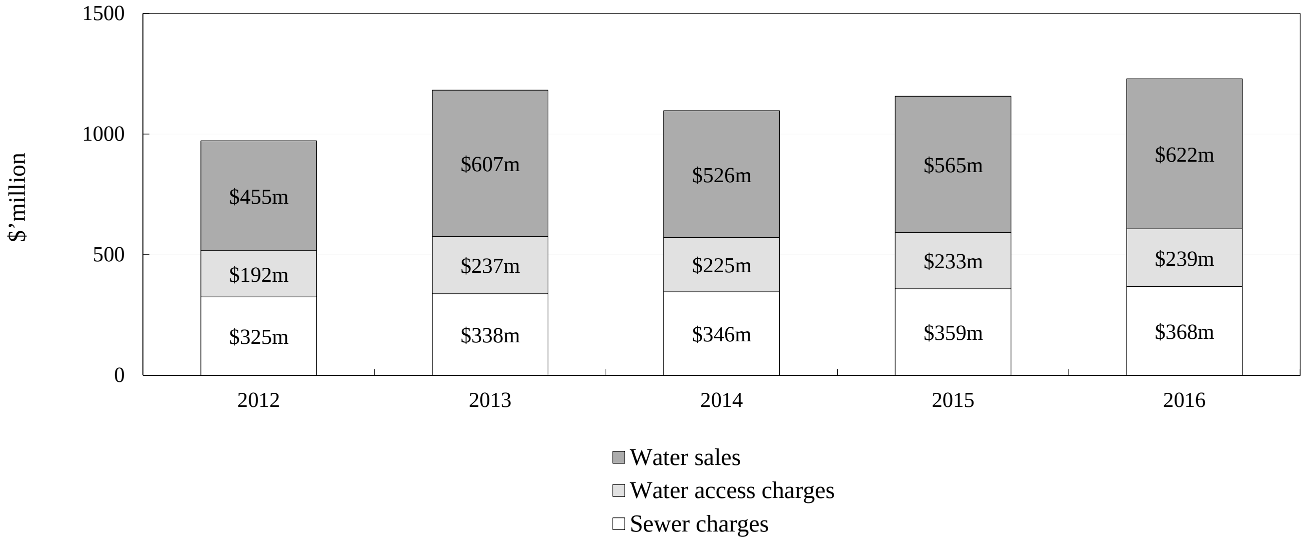
Water and sewer rates and charges

The major source of SA Water's income is water and sewer rates and charges. These mainly consist of:

- sewer charges, mainly set on property values

- water access charges, mainly set at a fixed amount
- water sales, charged by volume of water used.

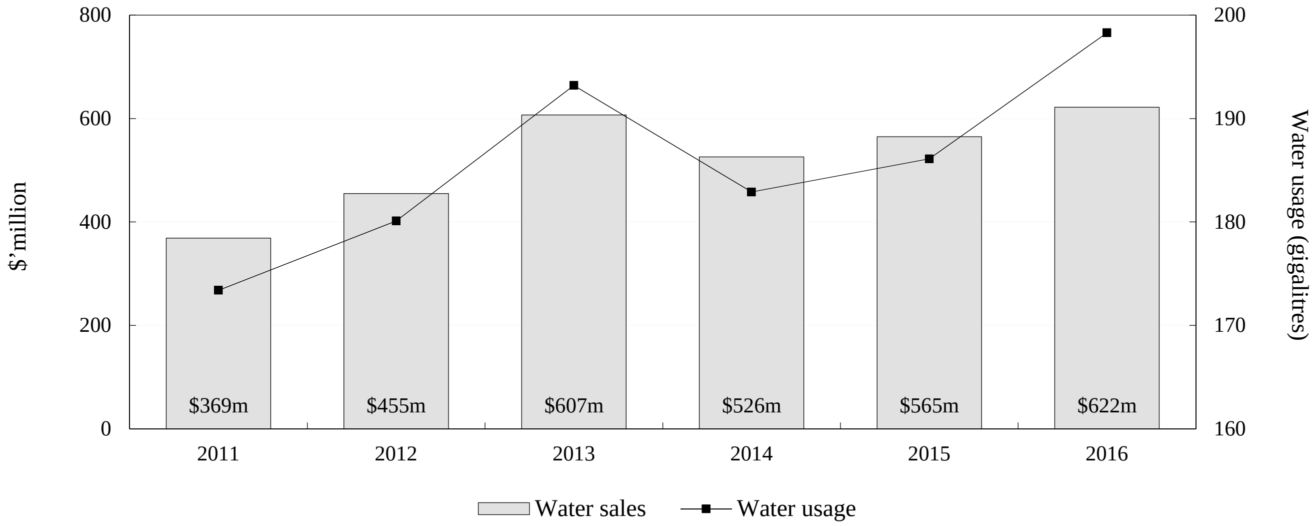
The following chart details these components for the past five years.



The main factors affecting water and sewer rates and charges are changes in price and water consumption. The primary reason for increased water sales in 2015-16 was customers using a higher volume of water.

Sewer charges have increased by $9 million to $368 million. While customer growth has contributed, the main component of the increase was price increases of 1.3%. Similarly, water access charges have increased by $6 million to $239 million as a result of price increases of 1.3%, in addition to customer growth.

The following chart shows water sales income compared to the volume of water used.



The easing of previous water restrictions saw growth in water usage in 2012 and 2013. Water usage decreased in 2014 primarily due to higher rainfall in 2014 compared to the previous year, however from 2015 water usage has continued to increase, rising by 12 gigalitres to 198 gigalitres (6.5%).

In addition, prices for water increased each year up to 2013, decreased in 2014 due to the introduction of economic regulation, and increased in 2015 and 2016. The factors affecting water and sewer prices are discussed under the heading '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 for these non-commercial activities. The main CSOs are to compensate SA Water for:

- the under-recovery of costs associated with country water and sewer services (due to the requirement for state-wide pricing). SA Water received $108 million ($108 million) for this CSO in 2016
- the provision of water and sewer concessions to certain properties such as charities, churches and public schools. SA Water received $13 million ($13 million) for this CSO in 2016.

CSOs are provided under the financial ownership framework agreed with the Department of Treasury and Finance (DTF).

Other income

Other income increased by $8 million to $151 million.

Other income includes contributed assets and recoverable works, which can vary from year to year depending on economic conditions and government initiatives. Of the $51 million ($52 million) recoverable works income, $30 million ($33 million) was received from the Murray-Darling Basin Authority for management and works on the River Murray. In 2015-16 recoverable works continued to decline as a result of the Environmental Water Management program for the Murray-Darling Basin Authority nearing completion, with a corresponding decrease in other expenses discussed below.

Contributed assets increased by $1 million to $40 million ($39 million) reflecting the impact of building market activity levels, with SA Water charging according to its developer contribution framework.

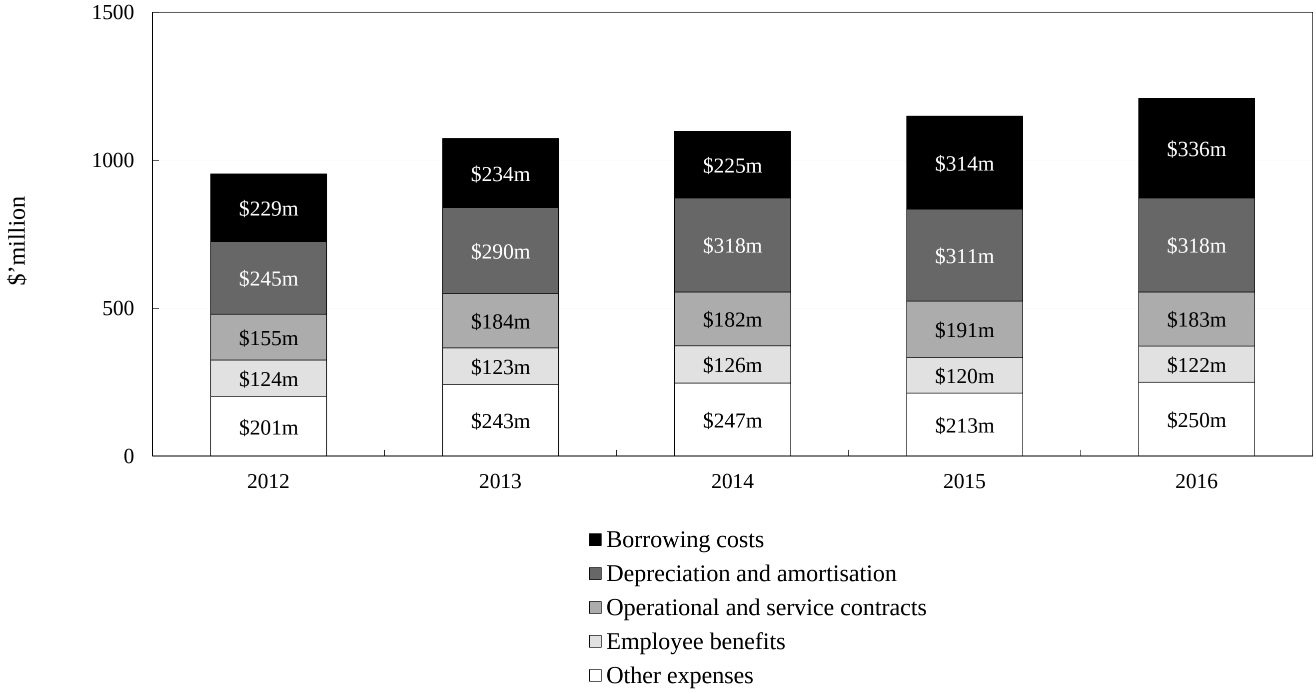
Expenses

Total expenses increased by $60 million to $1.2 billion. The major contributing components were:

- an increase in services and supplies of 21% or $35 million. This increase was made up of asset revaluation decrements of $14 million, a $16 million write-down of temporary water allocations and an increase in the allowance for doubtful debts of $5 million, offset by reductions in plant and vehicle costs. The write-down of temporary water allocations was a result of a determination by the Department of Environment, Water and Natural Resources
- an increase in borrowing costs by 8% or $23 million mainly due to the full year impact of increased borrowings from the $2.7 billion debt transfer discussed earlier
- an increase in depreciation and amortisation of 2% or $7 million due mainly to the net increment in asset values from the current year revaluation of assets as at 1 July 2015
- an increase in employee benefits expense of 2% or $2 million mainly due to a 2% wage increase
- a decrease in operational and service contracts of 4% or $8 million due mainly to a $3 million reduction in the ADP O&M contract expenditure to $21 million ($24 million), lower volumes of scheduled operations and maintenance works and lower IT costs. There was a small increase in Alliance contract costs to $106 million ($105 million).

The ADP O&M contract expenditure is discussed below.

The following chart analyses SA Water's main expense items, excluding income tax expense, for the five years to 2016.



Since 2012 expenses have increased by $255 million (27%). Major factors affecting expenses have been:

- increased borrowing costs of $107 million since 2012. This is mainly due to the 2015 increase in borrowings as a result of a change in the capital structure of SA Water, discussed previously. There were also additional borrowings to fund the construction and acquisition of assets in 2013 and 2014

- depreciation and amortisation costs, which are highly responsive to asset revaluations and additions. These have resulted in increased costs over the past five years, except for 2015 where there was a revaluation decrement. Over the past five years this expense has increased by $73 million

- increasing operational and service contracts expenses, due mainly to water security activities and the ADP commencing production in 2012

- employee benefits expense decreasing by $2 million for the five years to 2016

- for other expenses:

  — electricity costs increased in 2013 and 2014 due to the ADP commencing operations but decreased in 2015 and 2016 with a reduction in the use of the ADP

  — the level of recoverable works varies from year to year depending on economic conditions and government initiatives. In 2012 recoverable River Murray works declined due to high river levels, which resulted in additional spending on deferred works in 2013 and 2014. In 2016 the works have declined again due to the finalisation of specific programs for the Murray-Darling Basin Authority.

Adelaide Desalination Plant operation and maintenance contract

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 has major ADP contracts for the:

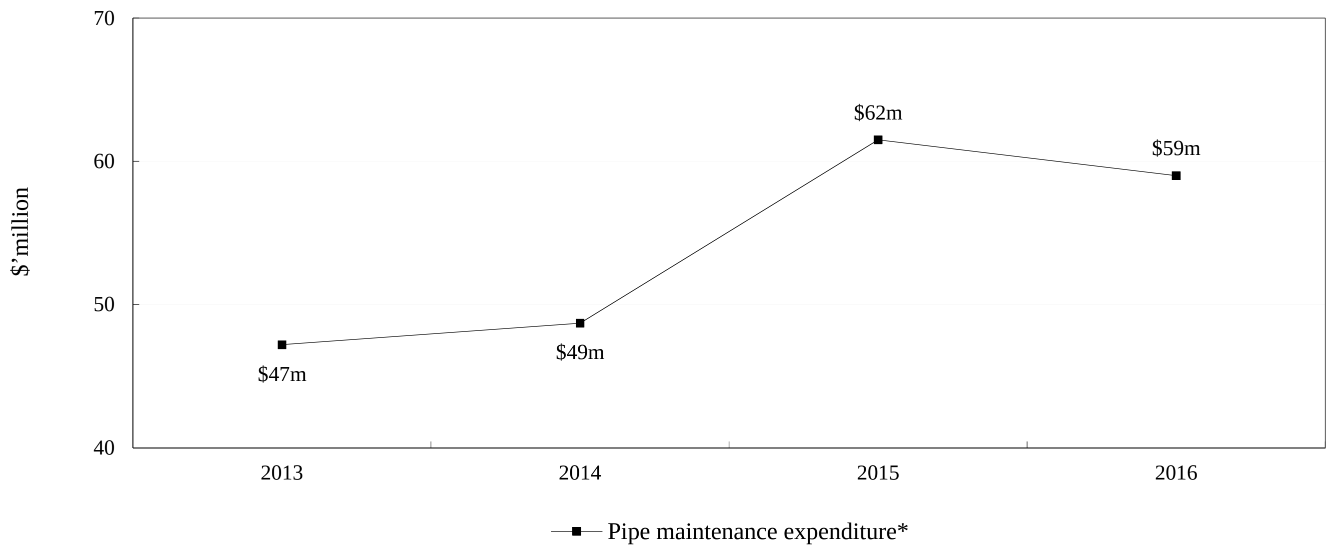
- operation and maintenance of the desalination plant (O&M contract). The O&M contract is for 20 years from 2012. During 2015-16 expenditure for operating the plant was $21 million ($24 million). This reflects the reduction of water produced by the plant by approximately 15 gigalitres to 8 gigalitres (23 gigalitres) in 2015-16. The reduced ADP water production reflects minimum use and a period of maintenance during 2015-16

- 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. In September 2009 SA Water entered into a 20-year contract for the supply of operational power for the ADP. During 2015-16 expenditure for operational power (including relevant used renewable energy certificates) was $17 million ($22 million). In addition, a current asset of $5 million ($3 million) was recorded for renewable energy certificates acquired but not yet used (refer note 12 of the financial report).

The total depreciation expense (including intangible assets) for the ADP was $54 million in 2015-16 ($53 million). This expense reflects the current estimated useful life for the ADP of approximately 40 years.

SA Water pipe infrastructure maintenance expenditure

The following chart shows SA Water pipe infrastructure maintenance expenditure since 2013.



*	Data on specific pipe maintenance expenditure by year provided by SA Water and unaudited

SA Water's pipe maintenance expenditure has increased from $47 million in 2012-13 to $59 million in 2015-16. There was a pronounced increase in 2014-15, following by a slight fall in 2015-16. 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.

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.

	2012-13 Number	2013-14 Number	2014-15 Number	2015-16 Number
Reported pipe bursts:				
Metropolitan	1 633	1 433	1 805	2 056
Country	1 871	1 648	2 021	1 920
Total	3 504	3 081	3 826	3 976

The four years shown is a fairly short time frame. There are a number of environmental and other factors that affect the burst rate in any given year. SA Water's internal data highlights that the trend in 2015-16 was consistent with the 10-year average for the number of bursts each month.

For the time frame shown, the number of water and sewer pipe bursts increased by 13% from 2013 to 2016, when there were 3976 burst mains. Bursts in 2014 were significantly lower than other years before a return to higher levels in 2015 and 2016. Metropolitan bursts increased proportionately more than those in the country over this time.

The Australian Government Bureau of Meteorology's 'National performance report 2014-15: urban water utilities' reports that SA Water's burst rates ranked fourth lowest amongst 14 large urban water utilities.

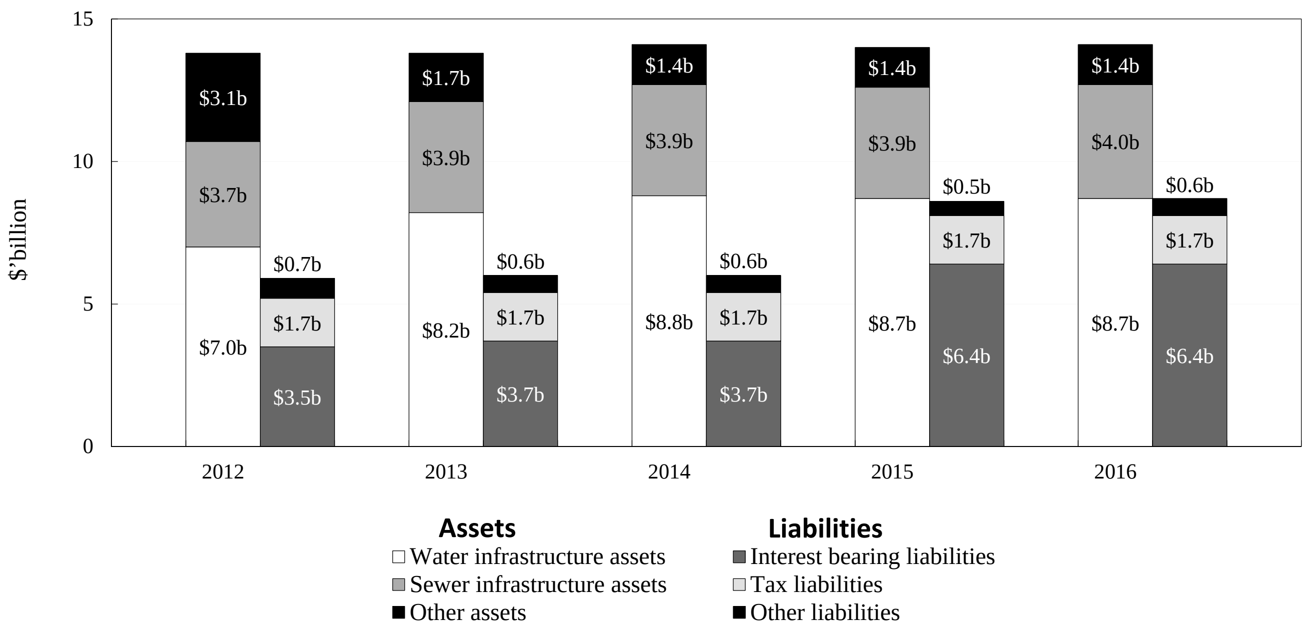
When the data on the number of bursts is considered with the pipe maintenance costs, there has not been a significant increase in maintenance costs due to pipe bursts, which is consistent with SA Water's analysis that the number of bursts is in line with longer-term trends. We also note an increase in SA Water's expenditure to renew the pipe networks, discussed further below.

Other comprehensive income

Other comprehensive income recorded a net gain of $82 million ($93 million loss), principally due to an upward revaluation of water and sewer infrastructure assets, discussed further below.

Statement of Financial Position

A structural analysis of assets and liabilities for the five years to 2016 is shown in the following chart.



SA Water's financial position is dominated by non-current water and sewer infrastructure assets and related borrowings and tax liabilities. Since 2012 total assets increased by $300 million reflecting:

- significant expenditure on capital projects such as the ADP and the North South Interconnection System project (the NSISP) occurring up to 2012. While these assets were being constructed they were reflected in other assets. The ADP and the NSISP were transferred to water infrastructure in 2013 and 2014 respectively, resulting in the decrease in other assets and increase in water infrastructure in those years
- increases in assets from revaluations.

In 2016 total assets were $14 billion ($14 billion), remaining at a similar level to the previous year. Significant matters affecting assets during the year were:

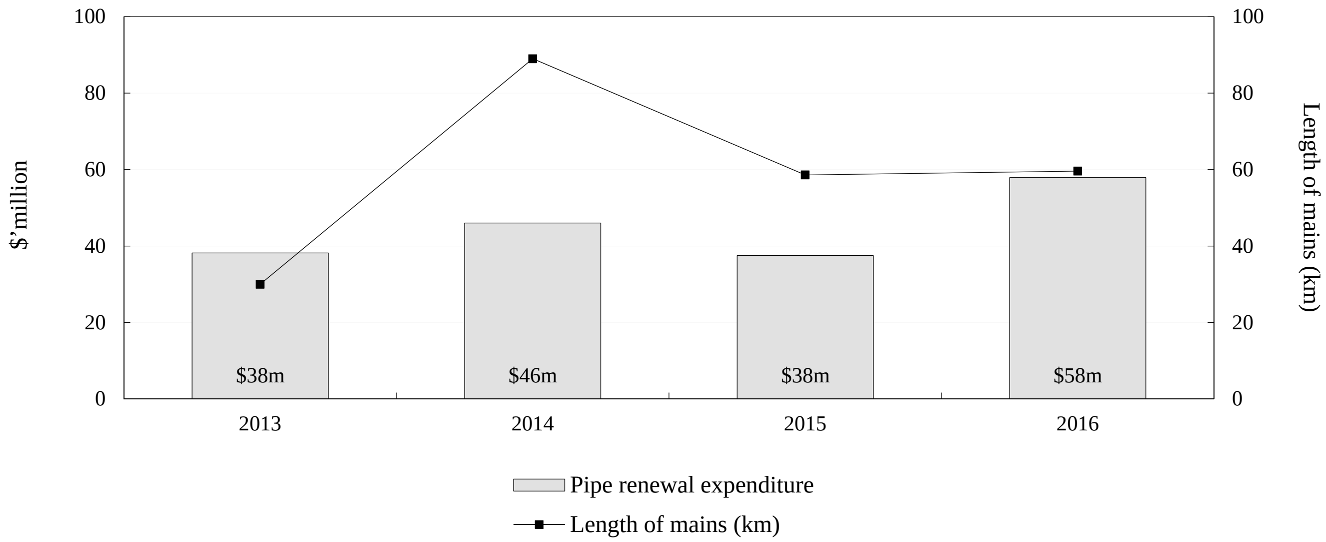
- the acquisition of infrastructure, plant and equipment of $333 million (including water and sewer pipe network renewal, discussed below). Major capital expenditure includes water infrastructure of $159 million and sewerage infrastructure of $172 million
- the revaluation of infrastructure, plant and equipment by $97 million upwards. This was mainly due to a revaluation increment of $73 million for water infrastructure and a revaluation increment of $36 million for sewer infrastructure. These increments were offset by revaluation decrements for land and buildings totalling $13.5 million:
    - the increases in value for the water and sewer infrastructure are mainly the result of applying generally increased unit rates for water and sewer mains and connections to SA Water's network. The rates were determined by independent valuers and reflect modern equivalent replacement costs for the existing assets. Note 1(e) of the financial report details SA Water's revaluation policies
    - the decrement in land and building values was largely a result of the revaluation of ADP land and buildings, including ADP land
- depreciation and amortisation charges of $318 million
- the $13 million increase in receivables, mainly due to the increase in water and sewer rates receivable of $16 million, resulting from increased prices and water sales (refer to income analysis above). This was offset by an increase in the allowance for doubtful debts of $5 million.

In 2016 liabilities increased by $43 million due mainly to a combination of:

- an increase of $33 million in trade and other creditors, which includes various capital expenditure accruals ($17 million), an increase in land tax ($5 million), accounts payable invoices ($5 million) and various other accruals ($5 million)
- an increase in income tax related liabilities of $21 million due mainly to the tax effect of revaluing assets
- a decrease of $9 million due to the amortisation of grant funding for various projects.

Renewal of the water and sewer pipe networks

The following chart shows SA Water's pipe network renewal, 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 graph shows that expenditure for renewal has increased from 2013 with increases in both 2014 and 2016. The total length of water pipes renewed has also increased over this time. The increase in renewed water pipes in 2014 was due to network renewals in the country and other metropolitan areas which, due to economies of scale, reduced the per kilometre cost when compared to other years.

Current assets and liabilities

At 30 June 2016 current liabilities amounted to $272 million ($239 million), exceeding current assets of $236 million ($215 million) by $36 million ($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 SAFA, which would enable all of its current liabilities to be met. A large component of current liabilities is payables, comprising 70% of the balance (66%), which includes obligations for capital purchases.

Statement of Cash Flows

Factors affecting cash flows include:

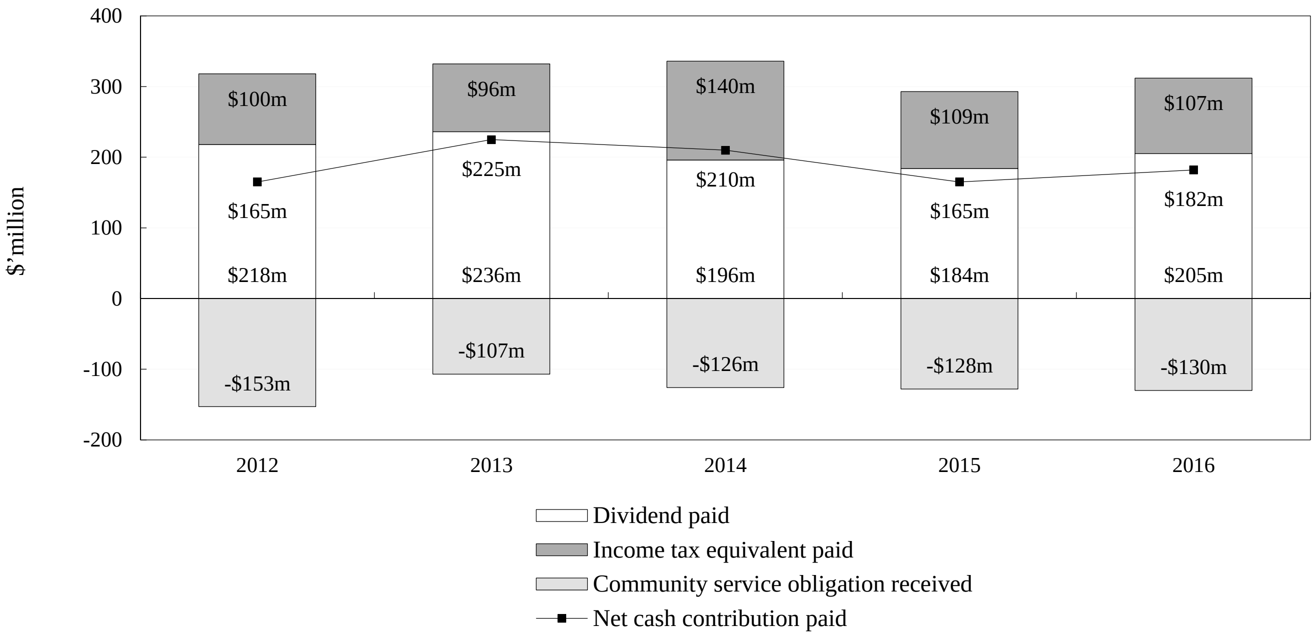
- investment in the construction and purchase of infrastructure, plant and equipment and intangible assets. In 2016 investing payments for assets amounted to $301 million ($251 million). Since 2011 total payments for assets have amounted to $2.6 billion
- payment of a cash dividend to the SA Government of $205 million ($184 million) in 2016
- increased net borrowings. In 2016 net cash inflows from borrowings were $6 million ($17 million outflow).

Further commentary on operations

Contributions to the SA Government

SA Water returned a dividend of $205 million ($184 million) and income tax equivalent amounts of $107 million ($109 million) in 2015-16.

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 2016 is shown in the following chart. As the $2.7 billion debt transfer in 2015 was not a cash transaction, it is not included in the chart.



The chart shows that the amount of money returned to the SA Government through income tax equivalent and dividend payments varied between 2012 and 2016, however the amount of money returned in 2016 was $6 million lower than in 2012. The 2015 reduction does not reflect the additional $2.7 billion non-cash dividend achieved through the debt transfer.

SA Water operates under a financial ownership framework developed by DTF for public non-financial corporations implemented in 2005-06. The main features of the framework are:

- debt to total assets ratio range of 15-25%
- dividend payout ratio of 95% based on after tax profit
- arrangements for the SA Government to purchase non-commercial services for which CSO payments are made.

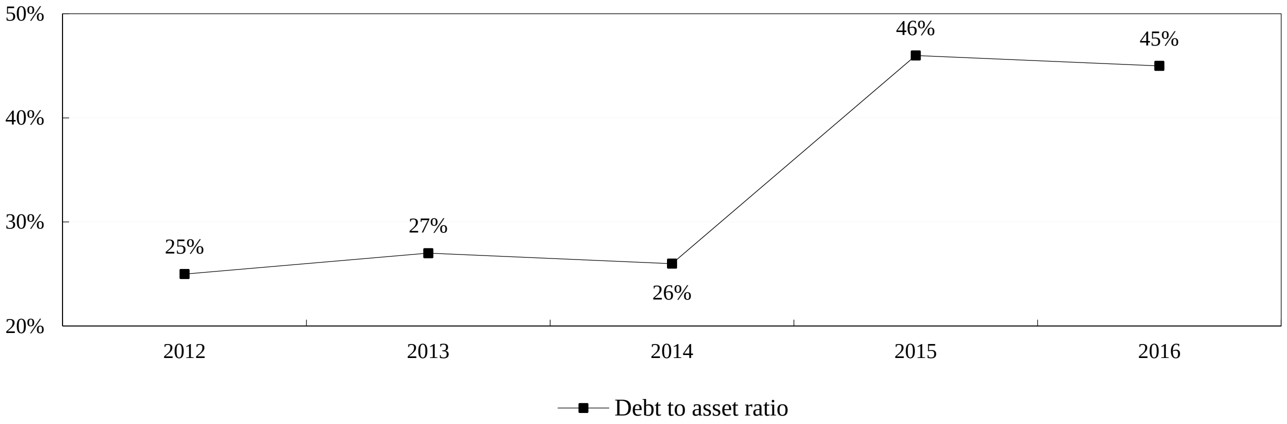
SA Water and DTF are currently revising the financial ownership framework as a result of the change in SA Water's capital structure following the transfer of $2.7 billion debt.

The following table summarises movements in the major items influencing borrowings.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Net cash inflows from operating activities	504	454	469	538	637
Net cash outflows from investing activities	(295)	(246)	(286)	(473)	(602)
Surplus (Shortfall in) cash from operations after investing activities	209	208	183	65	35
Dividend payments to owners	(205)	(184)	(196)	(236)	(218)
Surplus (Shortfall in) funds to pay for dividends and investing activities	4	24	(13)	(171)	(183)
Net increase in borrowings	6	(17)	19	176	189

For the period to 2013 SA Water increased its borrowing to finance its capital works programs, most notably for the ADP and the NSISP. There were only small increases in net borrowings in subsequent years due to the reduction in SA Water's capital program, however this net increase does not show the impact of the $2.7 billion increase to borrowings as it relates to a non-cash transfer.

The following graph presents movements in the debt to asset ratio for the five years to 2016.



The financial ownership framework gearing ratio range was 15-25% with a long-term target of 20%. From 2012, due to borrowings to fund capital works, the ratio exceeded the long-term target. The annual performance statement for 2016 established a target debt/asset ratio target of 45.1% as a direct result of the debt transfer in 2015. This is outside the range of the financial ownership framework which is currently being reviewed.

Water industry legislation

The *Water Industry Act 2012* (the WI Act) commenced on 1 July 2012. It replaced the *Waterworks Act 1932*, *Water Conservation Act 1936* and *Sewerage Act 1929*.

The WI Act appoints the Essential Services Commission of South Australia (ESCOSA) as the independent economic regulator for the South Australian water industry. ESCOSA commenced its role as economic regulator of the water industry in South Australia 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.

ESCOSA made its first determination covering three years from 1 July 2013. This set the revenue SA Water could earn each year. SA Water set prices annually to achieve these revenue limits. ESCOSA regulates SA Water's revenue compliance and service standard performance.

On 31 August 2015, SA Water submitted its Regulatory Business Proposal (RBP 2016) which sets out its proposed levels of service and expenditure. This is part of the revenue setting process which determines how much revenue SA Water can recover from customers for the regulatory period 2016-2020 (second regulatory period). RBP 2016 proposed price reductions for customers. These were based on savings SA Water had delivered through increased efficiency in the first regulatory period and further savings proposed for the second regulatory period.

In June 2016, ESCOSA made a final determination on the maximum revenue to be recovered from water and sewerage customers. This was closely aligned with SA Water's proposal and will result in an $87, or 6.7%, reduction to the average metropolitan residential customer's combined water and sewerage bill in 2016-17.

Water and sewer rates and charges

Essential Services Commission of South Australia

The WI Act establishes ESCOSA as the body responsible to make price determinations. ESCOSA must comply with the requirements of any pricing order issued by the Treasurer under the WI Act.

Pricing orders – ESCOSA determines revenue not price

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 drinking water and sewerage retail services (separately).

Both regulatory periods (1 July 2013 to 30 June 2016 and 1 July 2016 to 30 June 2020) included the requirements that ESCOSA adopt specified values for SA Water’s retail water and sewerage regulatory asset bases (RAB), at $7.77 billion and $3.58 billion respectively as at 1 July 2013 (in December 2012 dollars).

The first regulatory period had a 190 gigalitre demand forecast for water supply each year. For the second regulatory period, ESCOSA has established individual forecast levels of demand, commencing with 190.1 gigalitres for 2016-17. Actual water demand in 2015-16 was 198 gigalitres.

SA Water sets annual water and sewerage charges to comply with the revenue limits determined by ESCOSA, with ESCOSA then monitoring SA Water’s performance.

Minister can direct ESCOSA and SA Water

Under the *Public Corporations Act 1993* and the *South Australian Water Corporation Act 1994*, SA Water is subject to the control and direction of the Minister for Water and the River Murray (the Minister). On 9 May 2013 the Minister issued a direction to SA Water under these Acts.

The direction recognised the WI Act and that ESCOSA must make a determination that complies with any pricing order issued by the Treasurer. The pricing order provides for the ESCOSA determination to consider the Minister’s directions.

The Minister directed SA Water to, amongst other things, purchase renewable energy or renewable energy certificates to operate the ADP, maintain state-wide pricing for drinking water and sewerage retail services (compensated by CSOs) and reimburse the Minister for fees paid to the Valuer-General for a copy of the valuation roll (SA Water contributions were determined at $4.4 million for 2013-14, $4.6 million for 2014-15 and $4.8 million for 2015-16).

The costs of these directions may be recovered by SA Water where they are not covered by a CSO or where the CSO is not sufficient.

ESCOSA determination for revenue

On 27 May 2013 ESCOSA issued a final determination of the amount of revenue that can be recovered by SA Water from drinking water retail services and sewerage retail services for the three years from 1 July 2013.

For both drinking water retail and sewerage retail services ESCOSA determined that the (maximum) average revenue control cap price regulation method be used. These were set at $4.098 per kilolitre for drinking water retail services and $610.113 per connection for sewerage retail services. The determination allowed the average revenue from both services to increase by the annual change in CPI in 2014-15 and 2015-16.

The determination included forecast revenues for drinking water retail services and sewerage retail services in each regulatory year as follows.

	2013-14 $'million	2014-15 $'million	2015-16 $'million
Drinking water retail services[(1)]	778.715	778.715	778.715
Sewerage retail services[(2)]	353.189	356.368	359.575

(1) Assumption of 190 gigalitres each year.

(2) Assumption of connections of 578 892 in 2013-14, 584 102 in 2014-15 and 589 359 in 2015-16.

(3) No allowance has been made for CPI increases in the table, however the determination includes a mechanism to adjust for inflation.

In its 'Final Determination – Statement of Reasons' document of May 2013, supporting the price determination, ESCOSA set out:

- the impacts of the Treasurer's pricing orders on ESCOSA's assessment and determination of SA Water's average revenues
- that in nominal terms (including inflation), SA Water's average revenue from drinking water services would fall by 5.5% and average revenue from sewerage services would increase by 1.6% on 1 July 2013. As noted earlier, average prices are allowed only to increase by CPI in 2014-15 and 2015-16.

Important elements to the average revenue reductions by ESCOSA were:

- setting capital and operating expenditure at $166 million and $145 million lower than was proposed by SA Water during the three-year period
- a significant reduction in financing costs – the weighted average cost of capital. ESCOSA noted that this impact was, however, largely offset by the Treasurer's decision to increase the value of SA Water's RAB in the second pricing order.

SA Water pricing 2015-16

SA Water sets the prices charged to consumers during the three-year regulatory period. Those prices must comply with ESCOSA's revenue determination.

Under the ESCOSA determination SA Water must prepare a statement of compliance each year. The 2015-16 statement noted that SA Water would comply with the maximum average revenue in 2015-16 by increasing water rates and charges on average by 1.3% nominal (ie including inflation) and increasing average sewerage rates and charges by 1.3% nominal (ie including inflation) for metropolitan customers and 1.8% for country customers.

SA Water's statements of compliance are available on the SA Water website and note that it is not possible to directly compare the information contained in those statements with the audited financial report, due to differences in the purposes of the documents and calculation methods applied.

SA Water prices vary according to customer type and property location. A large component of SA Water prices are for residential customers. The charges for water for residential customers for the four years to 2015-16 are detailed below.

	2015-16 $	2014-15 $	2013-14 $	2012-13 $
Residential water charges				
First tier: first 0.3288 kL per day	2.35/kL	2.32/kL	2.26/kL	2.42/kL
Second tier: from 0.3288 kL to 1.4247 kL per day	3.36/kL	3.32/kL	3.23/kL	3.45/kL
Third tier: over 1.4247 kL per day	3.63/kL	3.59/kL	3.49/kL	3.73/kL
Annual residential water supply charge per year	286.40	282.80	274.80	293.00

SA Water pricing 2016-17

As discussed above, 2016-17 is the first year of the new regulatory period. ESCOSA has set maximum levels of revenue retail services for drinking water and sewerage services across the regulatory period (1 July 2016 to 30 June 2020) of $2841.3 million and $1188.1 million respectively.

SA Water's rates for residential customers in 2016-17, and a comparison with the 2015-16 rates, are shown below.

	2015-16 $	2016-17 $	Variation $	Variation %
Residential water charges				
First tier: first 0.3288 kL per day	2.35/kL	2.27/kL	0.08/kL	(3.4)
Second tier: from 0.3288 kL to 1.4247 kL per day	3.36/kL	3.24/kL	0.12/kL	(3.5)
Third tier: over 1.4247 kL per day	3.63/kL	3.51/kL	0.12/kL	(3.3)
Annual residential water supply charge per year	286.40	286.40	0.00	n/a

Asset value accounting matters – RAB differs from financial report

In determining the prices for water and sewerage services, ESCOSA considers the appropriate RAB. As detailed above, the RAB was determined by the Treasurer in the second pricing order.

The RAB differs from the value of assets reported in SA Water's financial report. The total RAB assets as at 1 July 2013 as specified in the pricing order were $11.35 billion (comprising $7.77 billion for water services and $3.58 billion for sewerage services). This compares to SA Water's total assets at 30 June 2013 of $13.83 billion.

SA Water values most of its assets at fair value. In many organisations fair value can be assessed from recent market trading information. However, the determination of fair value for large infrastructure agencies such as SA Water is difficult because reliable market information is not available due to the absence of readily observable market values. SA Water estimates the fair value of most assets on the written down current cost, being the written down value of modern equivalent replacement cost (refer note 1(e) of the financial report).

Under the current regulatory parameters the RAB, as initially determined by the Treasurer, is the value of assets on which regulatory revenues are determined. Asset earning capacity provides information relevant to determining the market value of assets.

Given the difference in the RAB and financial report asset values, in 2012-13 SA Water investigated, with assistance from DTF and an accounting firm, whether establishing the RAB was an indication that the asset values adopted for financial reporting were impaired (ie overvalued).

Important considerations noted were that the RAB is based on the perspective of the current owner rather than what a willing buyer would pay for the asset, and that the RAB value in isolation is not an appropriate valuation to adopt for accounting standard purposes. Evidence was available that where infrastructure utilities are traded they achieve sales prices in a range in excess of the published RAB value. SA Water's financial report asset value was determined as being within a reasonable range.

SA Water concluded, on the basis of the 2012-13 investigation, that further investigation of impairment of the assets was not needed, since the financial report values were likely to be materially within the range of market values. Since then, SA Water has continued to engage independent valuers to provide valuation advice for SA Water's assets, including an independent assessment of wastewater treatment plants in 2015 and sewerage pumping stations in 2016.

Regulatory accounting statements – no audit opinion given on RAB

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 accordance with Guideline 2. Under Guideline 2 SA Water is required to submit special purpose financial statements.

We audit the statements against the framework outlined in Guideline 2 and additional determinations outlined by ESCOSA throughout our audits. The statements are prepared to meet ESCOSA's requirements alone and should not be used for any other purpose. An unmodified audit opinion was issued on the statements against the requirements of these guidelines and determinations.

The opening balance of the regulated asset base used in the regulatory accounting statements was set by the Treasurer through the second pricing order for the regulatory period 1 July 2013 to 30 June 2016, issued under section 35 of the WI Act. No opinion was provided on the amount of the regulated asset base set by the Treasurer.

Performance statement

As a public corporation, SA Water is bound by a charter and required to meet a range of performance targets set out in an annual performance statement, as agreed between SA Water, the Minister and the Treasurer. The performance statement defines the contribution to the SA Government in terms of dividends, repayment of capital, income tax equivalents and other taxes and rates.

The key financial performance measures agreed to in the performance statement are set out in the following table.

Performance measure	Target 2015-16	Actual result 2015-16
Profit ($'million)	246.4	301.4
Tax expense ($'million)	73.9	88.3
Dividend ($'million)	163.9	204.9
Total contribution ($'million)	237.8	293.2
Gearing ratio (%)(1)	43.0	45.1

(1) Total interest bearing debt (including borrowings and lease liabilities) divided by total assets.

SA Water's final profit before tax was $55 million above the performance statement target of $246.4 million.

SA Water's internal reporting indicates that this is mainly due to higher water sales as a result of hot and dry weather conditions, lower deprecation expenses due to less than budgeted asset revaluations and lower operating costs resulting from efficiency activities, offset by infrastructure, plant and equipment decrements and write-down in the value of purchased seasonal water allocations.

Commentary on SA Water's gearing ratio is included under the heading 'Contributions to the SA Government' above.

Department of State Development (DSD)

Financial statistics	Net cost of providing services:	$660 million
	Revenues from SA Government:	$641 million
	Employee benefits:	$118 million
	Grants and subsidies:	$528 million
	Administered royalties:	$208 million
	Number of FTEs:	974.9

Significant events and transactions

- DSD moved from multiple funding agreements with TAFE SA to a single memorandum of administrative arrangement for non-commercial services including funding for community service obligations. DSD provided $212 million to TAFE SA as core funding.
- The *Public Sector (Investment Attraction South Australia) Proclamation 2016* established Investment Attraction South Australia as an attached office of DSD effective from 1 April 2016. As at this date, 31 staff transferred to Investment Attraction South Australia. Before this date, these activities were undertaken directly by DSD.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Key payroll reports not reviewed promptly
- Review of special delegations and manual payments reports not prompt and delegations not updated promptly
- Grant reporting requirements not promptly monitored to ensure grantees complied with the terms and conditions of the grant
- Weaknesses in the controls over processes for payments to registered training organisations
- WorkReady information systems issues unresolved
- Some purchase card payments not consistent with DSD policy

Structure of DSD

The Chief Executive of DSD is responsible to the Premier and the following Ministers:

- Minister for Employment
- Minister for Higher Education and Skills
- Minister for Science and Information Economy
- Minister for the Arts
- Minister for Health Industries
- Minister for State Development
- Minister for Mineral Resources and Energy
- Minister for Small Business
- Minister for Investment and Trade
- Minister for Manufacturing and Innovation
- Minister for Automotive Transformation
- Minister for Aboriginal Affairs and Reconciliation
- Minister for Water and the River Murray.

Functional responsibility

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

The main function of DSD is to drive economic growth and create jobs while supporting South Australia's economic transformation.

Details of DSD's objectives are contained in note 1 of the financial report.

Scope of the audit

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

During 2015-16 specific areas of audit attention included:

- expenditure, including funding to TAFE SA and private registered training organisations (RTOs), grants and accounts payable
- employee benefits
- revenue, including mining and petroleum application fees, rentals and licences
- cash management, including bank reconciliations
- administered royalties income
- property, plant and equipment
- general ledger
- WorkReady information systems controls.

The audit took into account the controls and procedures performed by service providers including Shared Services SA (SSSA).

The work of DSD's internal auditors was considered in planning and conducting the audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of State Development in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of State Development have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit of DSD were detailed in management letters to the Chief Executive. The main matters raised and the related responses are detailed below.

Payroll

Key payroll reports not reviewed promptly

DSD did not have a monitoring control to ensure bona fide certificates were reviewed promptly. In addition, from our testing it was evident that timesheets and leave return reports were not always reviewed promptly.

Delayed review of these key payroll reports increases the risk of financial loss to DSD from inaccurate processing of payroll and leave payments through the payroll system.

DSD responded that its People and Culture division would review the existing policy documents to strengthen requirements and that it had provided training to a large number of staff as part of the CHRIS 21 implementation. DSD will also consider undertaking internal audits of compliance with these requirements.

Expenditure

Payment delegations not updated to Basware promptly

Financial and payment delegations were not promptly updated into Basware, the application system used to approve invoice payment. The delay in updating Basware for changes to delegations resulted in an officer being able to approve a payment that was significantly above their revised delegation.

DSD advised that the payment approval identified by our review was an isolated instance as a result of the officer not being informed of the change to their special delegation. DSD has put in place a number of steps to ensure staff were aware of changes to their delegations and that system(s) reflect them promptly in future.

Review of special delegations and manual payments reports not undertaken promptly

SSSA provides two monthly reports to DSD:

- a list of expenditure transactions approved with special delegations. These delegations are normally for particular types of expenditure
- a list of transaction approvals for payments outside of Basware.

We found there was no evidence that these monthly reports were being reviewed for Arts South Australia transactions. Delays in the review of these reports increase the risk that inappropriate transactions will not be identified and addressed promptly.

DSD's response indicated that while not documented, a review had been performed. DSD also indicated Arts South Australia would continue to work with SSSA and the relevant statutory authorities to implement a review process for each authority, potentially involving their finance and audit committees.

Open purchase orders

DSD did not have a documented policy or procedure for the review of open purchase orders and there was no evidence that a review of open purchase orders was undertaken. This increases the risk of payments being made for goods or services that were either not ordered or not received, duplicate ordering of goods and services or overspending on agreed contract amounts.

DSD advised its policy had been updated since the audit to require reviews of open purchase orders by each division. The first of these reviews was expected to occur in September 2016.

Grant payments

Grant reporting requirements not promptly monitored

We found that a number of grant reporting requirements were not promptly monitored to ensure the grantee complied with the terms and conditions of the grant. We identified similar issues for several grant programs reviewed.

If DSD does not actively monitor the reporting requirements of grantees there is a risk that grants provided will not be used for their intended purposes or will not achieve their intended aims.

DSD's response to these matters explained the circumstances for each instance, including delays in receiving information from the Commonwealth Government, administrative issues over a period of time within a grant recipient's administration area and inconsistent use of, or access to, internal tools to manage grant monitoring. DSD also indicated action to address each of the identified matters had now occurred, along with more general reminders to staff of the need to monitor outstanding requirements.

Mineral licensing revenue

Our review revealed a need to reinforce, or reintroduce, requirements to ensure cheque receipts, manual invoices and credit notes were appropriately processed and reviewed for mineral licensing.

If appropriate controls are not implemented DSD may lose revenue through the misappropriation of cheques or non-receipt of invoice amounts.

DSD advised the requirements had been reinforced to staff, with processes now being performed as intended, and the finance manual for this area would be updated to reflect the requirements.

Weaknesses in control processes over payments to registered training organisations

Claims Payments and Reconciliation system

We noted DSD relies on some post-payment and manual controls to ensure payments made to RTOs are correct. We identified opportunities to improve this approach by applying alternative automated controls before payments are made.

The Claims Payments and Reconciliation (CPR) system, used to assess claims from RTOs, did not provide for the full assessment of all claims in some circumstances including:

- claims for equivalent units of competency. These may be invalidly paid as CPR did not automatically check for previous student enrolment in equivalent units
- valid claims that do not conform to automated business rules. These claims are assessed outside of CPR but were not independently checked
- changes to RTO data following payment. These claims may indicate an inappropriate claim by the RTO and were manually assessed due to CPR reporting issues.

CPR has a number of business rules against which claims are reviewed. Claims that do not comply with these established business rules are rejected as 'non-conforming'. There are, however, circumstances where training has been provided and will be paid for, even though it falls outside of the established business rules.

Presently these claims are assessed outside of CPR and the student data is not updated to CPR. While this allows processing of the claim, it can lead to future overpayments as there are limits on the total funding provided for each student, which are enforced based on CPR data.

DSD advised a future system solution is proposed, although it will likely not be introduced until 2018-19 due to the time required to procure and develop the system. In the interim, DSD advised a number of manual processes would continue, noting the associated financial risks can be managed in this way in the interim.

Training agreements

The Skills for All contract between the Minister and each private RTO, which still applies, requires private RTOs to ensure their students complete a student agreement, or have an existing student agreement, at the time of enrolment. Executed student agreements are to be provided to DSD on behalf of the Minister within 30 days of enrolment.

We noted that one private training provider had not submitted two student agreements to DSD. In each instance DSD had, however, made a payment to the training provider for the training delivered to those students.

Student agreements help DSD to establish that claims relate to valid students. While DSD has other processes in place to review student agreements when undertaking compliance audits, making payments in the absence of a student agreement gives rise to a risk of overpayment.

DSD responded that a targeted compliance approach focused on higher risk training providers and courses was in place to ensure Skills for All/WorkReady requirements were met.

Memorandum of administrative arrangement – TAFE SA

DSD and TAFE SA entered into a memorandum of administrative arrangement (MoAA) for non-commercial services covering the period 1 July 2015 to 30 June 2016. This MoAA is the basis for DSD providing funding to TAFE SA to deliver training under the WorkReady program.

We found a lack of clarity in the administrative arrangements between DSD and TAFE SA, due to some ongoing references to the Skills for All agreement, that increased the risk that TAFE SA is not focused on the categories of results sought by DSD.

DSD indicated it was seeking to implement revised arrangements for 2016-17.

WorkReady information systems review

DSD operates a number of subsidiary information systems that form the WorkReady system. These subsidiary systems record training results, perform data validation checks and convert data to a format for batch claim payment processing.

During 2015-16, we reviewed aspects of these systems. This included assessing whether DSD had addressed issues raised in our prior year review. We also sought to understand the nature and extent of recent changes to key WorkReady information systems and associated interfaces. Finally, we reviewed the integrity of data transferred between key WorkReady systems.

We identified a number of shortcomings requiring management attention. These included:

- excessive system access granted to WorkReady applications and a network folder
- insufficient periodic review of WorkReady systems access
- insufficient evidence of segregation of duties in the change management process
- insufficient tracking of project benefits and costs
- deficiencies in WorkReady system and interface documentation.

A number of these findings were also raised last year. We did not identify any issues from our high-level assessment of the integrity of data used to make payments to training providers.

We recommended DSD review excessive user access, reduce access to a network folder and review privileged user access in WorkReady systems periodically. We also recommended DSD update aspects of the change management process and consider opportunities for further segregating user functions in WorkReady systems.

We further recommended that DSD ensure that budgeted and actual expenditure and time frames for all projects are tracked as part of regular project reporting. DSD should also develop overarching system and interface documentation, detailing key functionality for each WorkReady system.

DSD responded positively to our findings and recommendations with details of planned remediation to address the issues identified by the end of December 2016.

Purchase cards

Some purchase card payments not consistent with DSD policy

DSD's policy prohibits purchase card holders from using purchase cards for certain categories of expenditure. Purchase cards are not to be used to purchase fuel, oil, motor vehicle expenses for fleet or private vehicles other than in remote regional locations, computer software and staff gifts or functions.

Our review of compliance with these requirements, however, identified purchases of flowers for staff, staff functions, software and fuel within the metropolitan area, inconsistent with DSD's policy.

DSD responded that the policy requirements had been updated since the audit to reflect revised arrangements to monitor purchase card use for software. DSD also indicated its Finance unit would review policy compliance every six months.

Timeliness of reconciling purchase card transactions

Our review identified that a number of purchase card statements were not reconciled promptly by DSD staff. This may lead to inappropriate purchase card transactions not being identified promptly, resulting in financial loss to DSD.

DSD advised that purchase card transaction limits can be reduced to $0 if statements have not been reconciled after more than 60 days, which has improved compliance.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DSD under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under ‘Department of the Premier and Cabinet’ in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $’million	2015 $’million
Expenses		
Grants and subsidies	528	538
Employee benefit expense	118	118
Supplies, services and other expenses	122	118
Total expenses	768	774
Income		
Revenues from fees and charges	52	61
Commonwealth revenues	29	36
Other revenues	27	27
Total income	108	124
Net cost of providing services	660	650
Revenues from (Payments to) SA Government		
Revenues from SA Government	641	687
Payments to SA Government	(8)	(15)
Net result	(27)	22
Net cash provided by (used in) operating activities	(41)	98
Assets		
Current assets	133	234
Non-current assets	968	983
Total assets	1 101	1 217

	2016 $'million	2015 $'million
Liabilities		
Current liabilities	45	139
Non-current liabilities	33	28
Total liabilities	78	167
Total equity	1 023	1 050

Statement of Comprehensive Income

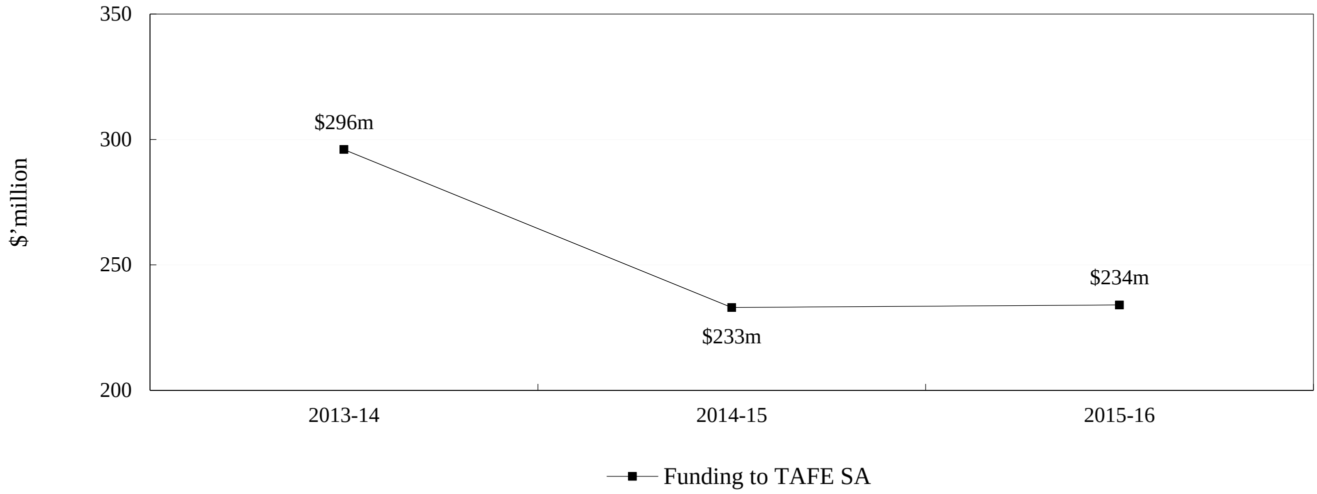
Expenses

Total expenses for 2015-16 decreased slightly to $768 million ($774 million). The main expenses of DSD were grants and subsidies of $528 million ($538 million) and employee benefits of $118 million ($118 million), which collectively account for 84% (85%) of total expenses.

Grants and subsidies

Funding to TAFE SA

Grants and subsidies to TAFE SA totalled $234 million ($233 million) for 2015-16. The following chart shows the total funding provided to TAFE SA for the last three years.



Total funding to TAFE SA reduced in 2014-15, reflecting decreased funding under the Skills for All program in 2014-15, and was steady in 2015-16.

The amounts shown above include a number of elements, primarily Vocational Education and Training (VET) subsidies, structural support, capital grant funding and targeted voluntary separation package support.

There was a change in the funding arrangements between DSD and TAFE SA in 2015-16. Where TAFE SA previously delivered VET courses subject to the Skills for All program and had separate agreements for additional funding with DSD, there is now a single MoAA for non-commercial services.

The MoAA provides for TAFE SA to receive $212 million for various activities, including delivery of VET courses, payments for community services obligations that TAFE SA performs and other grant amounts.

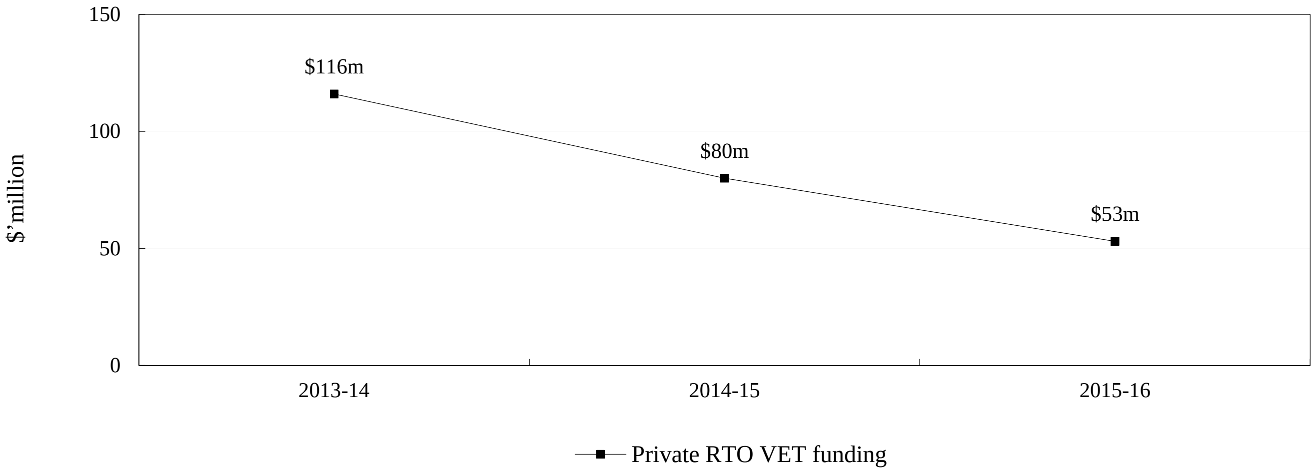
The MoAA clearly identifies that the funding arrangements in it reflect the transitional period until July 2019 while TAFE SA implements significant organisational reforms.

In addition, TAFE SA received funding of $12 million, subject to a separate agreement, for excess staff costs. These amounts are paid to TAFE SA to meet excess employee costs incurred as a result of implementing strategic initiatives approved by Cabinet.

Most of the remaining $10 million in funding to TAFE SA is for capital grants and targeted voluntary separation package reimbursements, which are subject to separate arrangements.

Other VET funding

DSD also provides VET funding to private RTOs. The chart below shows the total private RTO VET funding for the last three years.



Included in 2013-14 are payments of $14 million under the Productivity Places Program, a Commonwealth Government funded initiative, which concluded in 2013-14.

The reduction reflects the impact of cost containment measures introduced during this period for Skills for All which involved:

- reduced subsidy prices being paid
- capping course numbers
- restricting eligibility for new students.

In addition, DSD improved the targeting of training across the vocational education sector by implementing the WorkReady policy from July 2015, under which most training is to be undertaken by TAFE SA.

Arts and cultural grants

Arts and cultural grants increased marginally to $129 million ($128 million) in 2015-16. A substantial portion of the arts and cultural grants are paid to SA Government statutory authorities. Payments to the Libraries Board of South Australia, Adelaide Festival Centre Trust, Art Gallery Board and Museum Board account for 58% of the total expenditure.

The major movements in arts and cultural grants in 2015-16 included:

- an additional $4.2 million in funding provided to the South Australian Country Arts Trust for essential infrastructure works on four regional theatres
- arts industry assistance decreasing by $4.5 million as responsibility for the Netley Commercial Park lease transferred from DSD to the Department of Planning, Transport and Infrastructure in 2015-16.

Other grants

Other major categories of grants include skills and employment grants of $44 million ($47 million), resources and energy grants of $29 million ($15 million) and industry and innovation grants of $30 million ($22 million). These grants generally include specific milestones or deliverables which are monitored by DSD.

Skills and employment grants include funding of the Tertiary Students Transport Concession Scheme and Jobs First Scheme, and funding for Adult Community Education.

Resources and energy grants included:

- $12.9 million funding for the PACE Copper strategy. This strategy is designed to improve data about potential copper deposits in the Gawler Craton and the State's far west
- $4 million to Oz Minerals. This is the first instalment of a grant totalling $10 million over three years. The grant is to be used towards:
  - Oz Mineral's research into a new copper concentrate treatment process
  - collaboration with the SA Government to facilitate infrastructure development in the eastern Gawler Craton mineral province
  - the relocation of Oz Mineral's head office to Adelaide.

Industry and innovation grants include payments for the Our Jobs Plan program totalling $12 million, of which $5 million was the first payment for the Next Generation Manufacturing Works project. This is the SA Government's contribution to the Federal Government's $60 million Next Generation Manufacturing Investment Program, which aims to help accelerate manufacturing investment in South Australia and Victoria.

Further, $2 million was spent on programs under Automotive Transformation Taskforce initiatives in 2015-16. This initiative, which commenced in 2013-14, has two components.

The Automotive Supplier Diversification Program administered by DSD is a $12 million initiative by the SA Government to assist automotive supply chain manufacturers impacted by Holden's announcement to cease manufacturing activities in Australia by the end of 2017. The program commenced in 2013-14 and $4 million of assistance had been provided to 30 June 2016.

The objective of the Automotive Supplier Diversification Program is to help automotive supplier firms to successfully diversify and secure alternate revenue streams.

The Automotive Workers in Transition Program assists workers from automotive component supply chain companies affected by the Holden closure to access professional career advice and training for a new job. This program commenced in 2014-15 and $1 million of assistance had been provided to 30 June 2016.

Other payments for industry and innovation include grants of $6 million to Bio Innovation SA and $5 million to the Premier's Research and Industry Fund. The Premier's Research and Industry Fund encourages investment in key science and research areas that have the potential to generate significant economic, social and/or environmental benefits for the State.

Income

DSD is predominantly funded by appropriation. Revenues from the SA Government were $641 million ($687 million), 86% (85%) of the total income for DSD. The reduction in SA Government funding mainly reflects reduced funding for VET payments under WorkReady.

DSD's other significant income streams were revenues from fees and charges of $52 million ($61 million) and Commonwealth revenues of $29 million ($36 million).

Revenues from fees and charges mainly relate to:

- infrastructure recharges from TAFE SA of $21 million ($24 million), paid to reflect TAFE SA's use of DSD's assets to deliver training. The decrease in these fees in 2016 reflects a reassessment of the cost following the consolidation of TAFE SA delivery at Tonsley and Regency Park, with the closure of a number of smaller campuses

- mining and petroleum application fees, rentals and licences of $21.7 million ($21.5 million).

Fees for services revenue decreased by $4 million as ICT activities previously performed by DSD for TAFE SA are now undertaken directly by TAFE SA.

Commonwealth revenues principally relate to the National Partnership Agreement on Skills Reform funding of $27 million ($32 million). This National Partnership Agreement relates to the reform of the VET sector. The reduced funding in 2016 reflects the decreased contributions in the later stages of the agreement.

Statement of Financial Position

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

	2016 $'million	2015 $'million
Assets		
Cash and cash equivalents	107	172
Property, plant and equipment	944	962
Liabilities		
Payables	29	124
Employee benefits	37	34

Property, plant and equipment and non-current assets held for sale collectively represent 87% (82%) of total assets, with cash and cash equivalents representing a further 10%.

Property, plant and equipment assets mainly comprise TAFE SA educational campus sites, including Regency Park and Tonsley. Buildings controlled by Arts South Australia, including the Adelaide Festival Centre, are also included in DSD's property, plant and equipment figures.

Non-current assets held for sale include former TAFE SA campuses that are no longer required as a result of the consolidation of TAFE SA service delivery to Tonsley and Regency Park.

The 2016-17 State Budget, announced in July 2016, identified that ownership of the TAFE SA sites will transfer from DSD to the Urban Renewal Authority in 2016-17. DSD and the Urban Renewal Authority are working together to determine the transfer value for these properties prior to transfer (refer note 39 of the financial report).

The $65 million reduction in cash and cash equivalents and $95 million reduction in payables in 2016 are mainly a result of payments to TAFE SA being made before 30 June 2016. As at 30 June 2015, DSD's payables balance included $72 million payable to TAFE SA for Skills for All courses delivered and as a result of other funding arrangements.

Statement of Cash Flows

Cash and cash equivalents at 30 June 2016 total $107 million ($172 million). Of this amount, $99 million is held in DSD's operating account and $8 million is held in the Accrual Appropriations Excess Funds Account, which is not available for general expenditure.

The reduction in cash and cash equivalents, as explained above, is mainly a result of the timing of payments to TAFE SA.

Administered items

DSD administers the collection of royalties levied on mineral and petroleum production on behalf of the SA Government.

During 2015-16 DSD administered the collection of $208 million ($237 million) in royalties, which was paid to the Consolidated Account. Royalties collections decreased through a combination of lower commodity prices and decreased production volumes.

Further commentary on operations

WorkReady and Skills for All

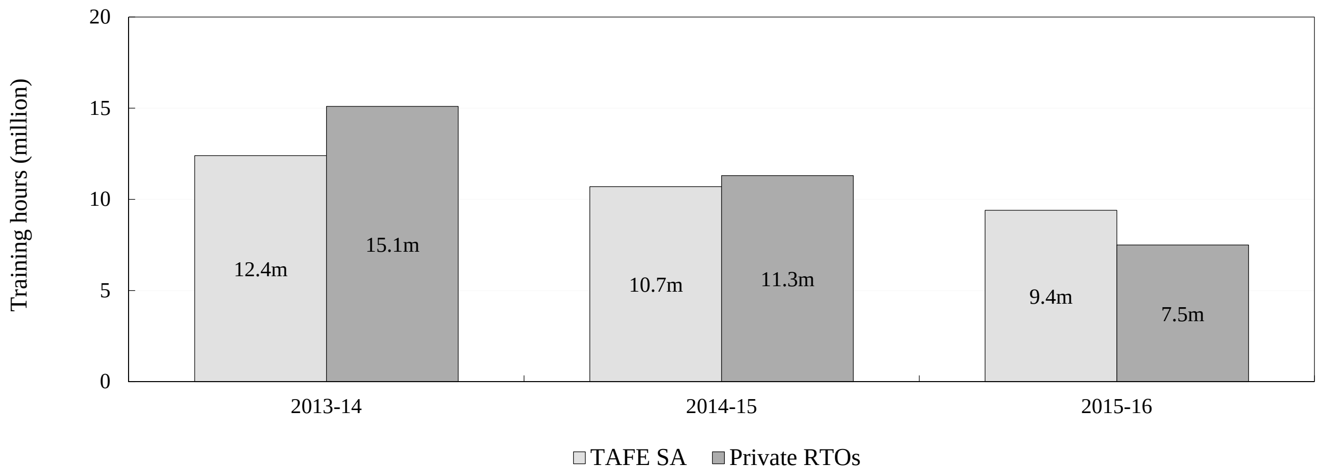
In 2011 the SA Government announced its Skills for All policy, with the aim of achieving an additional 100 000 training places. Under Skills for All, eligible South Australian students were able to gain qualifications at little or no cost from an approved training provider of their choice (either TAFE SA or a private RTO). Skills for All commenced on 1 July 2012.

The SA Government announced a replacement program called WorkReady, for training, employment and skills activity and investment, to replace Skills for All from 1 July 2015.

The aim of WorkReady is to align funding for subsidised training places to specific strategic industry sectors and growth areas and to support direct connections between training and jobs. The focus of WorkReady has resulted in a streamlined funded training list and a significant reduction in the number of subsidised courses.

Students who had previously enrolled under the Skills for All program will be supported through to the end of their course.

The following chart illustrates the number of training hours funded by DSD through Skills for All and WorkReady over the past three years, split between TAFE SA and private RTOs.



* Data on the number of funded training hours has been provided by DSD and is unaudited.

The chart shows that total funded training hours have decreased over the last three years, reflecting decreased Skills for All, and now WorkReady, funding. The chart also illustrates that the level of funded training hours for private RTOs has reduced at a greater rate than funding to TAFE SA. This reduction, particularly in 2015-16, reflects the smaller number of subsidised courses under the WorkReady funded training list, and the focus on supporting TAFE SA to transition its business to a more competitive structure.

Investment Attraction South Australia

The *Public Sector (Investment Attraction South Australia) Proclamation 2016* (dated 10 March 2016) declared the establishment of Investment Attraction South Australia (IASA) as an attached office of DSD effective from 1 April 2016. As at this date, 31 staff transferred to IASA. Total liabilities of $917 000 transferred from DSD to IASA.

IASA will be the lead SA Government body for all major investment attraction activity from both overseas and interstate companies. Its main focus is to attract foreign direct investment to increase economic development and create jobs in South Australia.

Anangu Pitjantjatjara Yankunytjatjara (APY) Lands

APY receives funding from the SA Government to administer the *Anangu Pitjantjatjara Yankunytjatjara Land Rights Act 1981*. In 2015-16, total grant funding provided by DSD for this purpose was $2.2 million (GST inclusive).

Other funding is provided by DSD, and is reflected in the administered financial statements, to other government agencies and non-government organisations to undertake works or programs on the APY Lands, but these amounts are not paid to APY.

In my Report last year I noted issues relating to the financial management and governance practices of APY, the incorporated body with responsibility for managing the APY Lands.

I further noted that DSD, cooperating with the Commonwealth Government, had engaged Ernst & Young to undertake a further review of APY’s finances.

This review was continuing at 30 June 2016.

Superannuation Funds Management Corporation of South Australia (Funds SA)

Financial statistics	Net surplus:	$1.2 million
	Number of FTEs:	29.2
	Funds under management:	$27 billion
	Net income of assets under management:	$1 billion

Significant events and transactions

— Funds SA took on the management of funds for a new client, The University of Adelaide Endowment Trust. Funds under management as at 30 June 2016 were $156 million.

— Funds SA moved into new leased premises. The cost of the leasehold improvements was $936 000.

— The Motor Accident Commission redeemed $460 million of investment funds.

— A new Chairman was appointed to the Funds SA Board in December 2015.

Financial statement opinion — **Unmodified**

Financial controls 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, the nominated funds of approved authorities and other funds (funds under management) under strategies formulated by Funds SA. For details of Funds SA's objectives and functions refer note 1 of the 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. Funds SA, however, cannot borrow money or obtain any other form of financial accommodation unless authorised to do so by the Regulations or by the Minister. In addition, the Regulations under the SFMCSA Act impose restrictions so that Funds SA must not invest in real property outside the State or enter into derivative transactions (eg futures contracts, forward contracts, swaps) without the authority of the Minister.

Funds under management

The funds managed and invested by Funds SA are identified in note 1(b) of the financial report.

Funds SA is not responsible for administering (ie receipting contributions and paying benefits) any of the public sector superannuation funds or eligible superannuation funds. This responsibility rests with the following entities:

- South Australian Superannuation Board – South Australian Superannuation Scheme, Southern State Superannuation Scheme, Super SA Retirement Investment Fund and South Australian Ambulance Service Superannuation Scheme
- Police Superannuation Board – Police Superannuation Scheme
- South Australian Parliamentary Superannuation Board – Parliamentary Superannuation Scheme
- Department of Treasury and Finance – the Governors' Pensions Scheme and the Judges' Pensions Scheme
- the Trustee of the SA Metropolitan Fire Service Superannuation Scheme
- Southern Select Super Corporation as trustee of Super SA Select.

Additional information on administering superannuation schemes is available in the financial reports of the various schemes included in Part B of this Report.

Approved authorities for the purpose of investing funds with Funds SA are:

- South Australian Government Financing Authority
- Adelaide Cemeteries Authority
- Motor Accident Commission
- Lifetime Support Authority of South Australia
- Health Services Charitable Gifts Board
- The University of Adelaide.

Structure

Funds SA operates with a small staff comprising investment officers and accounting and administrative support staff. 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 (which is responsible for holding, valuing and accounting for the assets) for the majority of those fund managers. 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

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

During 2015-16 the review included:

- investment policy and strategy approval and compliance
- investment expenditure, income and valuation
- investment allocation and redemption
- custodial and fund management
- fixed assets
- administration expenses.

Audit findings and comments

Communication of audit matters

Matters arising during the course of the audit were provided in a management letter to the Chief Executive Officer. The matters related to some minor internal controls deficiencies. The response from the Chief Executive Officer indicated that the matters would be appropriately addressed.

Interpretation and analysis of the financial report

Highlights of the financial report

Funds SA	2016 $'million	2015 $'million
Total income	7.5	6.3
Total expenses	6.3	5.9
Net surplus (deficit) and total comprehensive result	1.2	0.4
Net cash provided by (used in) operating activities	1.6	0.7
Total assets	6.3	4.8
Total liabilities	1.9	1.6
Total equity	4.4	3.2

Funds under management	2016 $'billion	2015 $'billion
Net income	1.0	2.2
Net assets	27.0	25.8

Statement of Comprehensive Income

The operating result of Funds SA for the year was a net surplus of $1.2 million ($374 000).

Revenues from fees and charges increased by $1.2 million as a result of a higher level of fees charged for services provided to Funds SA clients due to an increased level of funds under management. Funds SA aims to only recover its costs and from time to time will adjust the amounts charged for its services if excessive amounts are recovered. No adjustment was made during 2015-16.

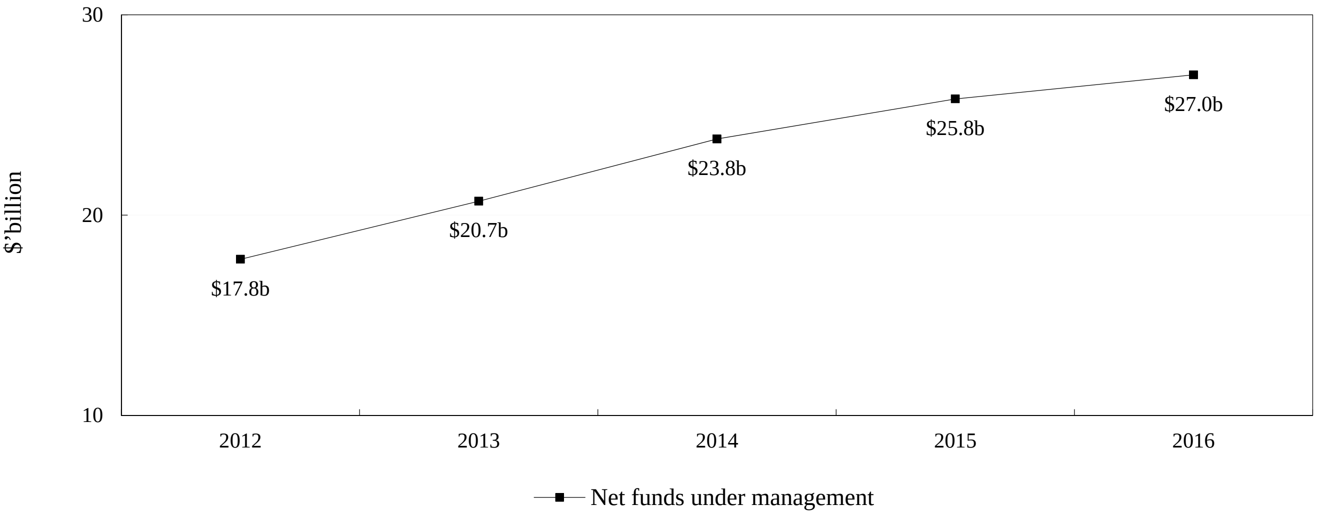
Expenses increased by $334 000 mainly as a result of an increase in employee benefits costs, up $358 000, and depreciation and amortisation expense, up $61 000. This was offset by a decrease in supplies and services of $101 000. The increase in employee benefit costs was due mainly to increased salaries and wages, up $380 000, as a result of increased average staff levels. The decrease in supplies and services was mainly due to decreases in Board expenses $128 000, office rent $115 000, and human resource expense $63 000.

Further commentary on operations

Funds under management

As mentioned, Funds SA invests and manages the public sector superannuation funds, the funds of eligible superannuation schemes and the nominated funds of approved authorities. The public sector superannuation funds represent 89% of total net funds under management.

The following chart illustrates the net funds under management as at 30 June over the past five years.



In 2016 the net funds under management increased by $1.2 billion to $27 billion, due mainly to net income earned from investing activities of $1 billion (further commented on under the heading 'Income from investments' below) and net investor cash inflows of $218.3 million.

Asset allocation

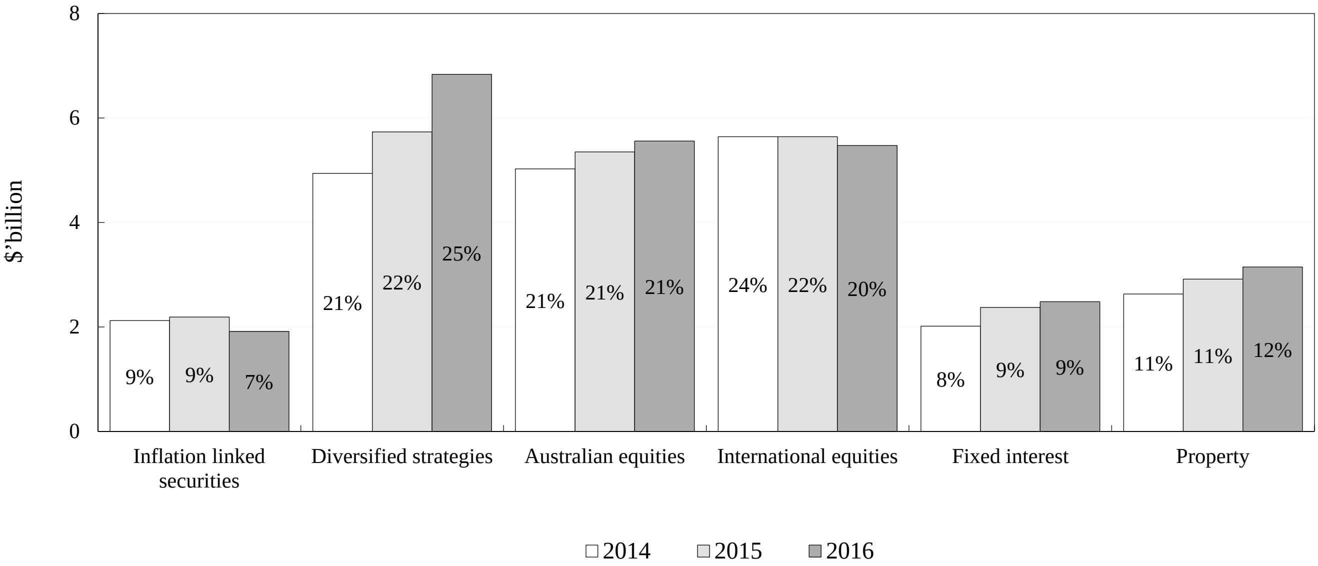
An investment policy drives decisions about how funds will be invested. Section 7 of the SFMCSA Act provides that the objective of Funds SA in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for:

- the need to maintain the risks relating to investment at an acceptable level
- the need for liquidity in the funds
- such other matters as are prescribed by regulation.

Underpinning the investment policy and decision-making is an understanding of the financial risks facing Funds SA. Funds SA manages some of its financial risks by diversifying funds under management into 19 asset classes. These asset classes underpin the investment strategies (multi-sector portfolios) and single-sector products that Funds SA offers to its clients to meet their differing time horizons and levels of acceptable risks. Investment clients are responsible for setting investment objectives and selecting investment options that meet their needs. Funds SA is responsible for managing the investment portfolio in accordance with agreed asset allocations and reporting investment performance as required by the client.

Funds SA continually monitors investment performance during the year and makes adjustments to investment subclass holdings as required.

The value of each asset class (excluding the cash, Motor Accident Commission absolute return, Motor Accident Commission infrastructure and socially responsible investment classes, which in total only represent 6% (6%) of the total funds under management) and the holding of each asset class as a percentage of total funds under management at 30 June for the last three financial years is illustrated in the following chart. The asset classes include both taxed and untaxed funds where applicable.



The chart shows the value of funds under management across most asset classes increased over the year due to net client cash inflows and investment returns.

Diversified strategies (including both growth and income) asset classes increased from the prior year mainly due to a slight change in strategy to increase the strategic asset allocation to these asset classes across most of Funds SA's investment options. Property assets increased in both value and percentage holdings as a result of strong returns from this market. Fixed interest increased in value and remained steady in percentage holdings as a result of strong performance of long-term fixed interest. Australian equities increased in value although the percentage holdings remained steady. This represents the subdued returns of this asset class.

Inflation linked securities experienced a fall due to a combination of low returns and a lowering of the allocation to this asset class in 2015-16. International equities decreased as a result of low investment returns.

The primarily long-term nature of investment strategies means funds under management are exposed to periodic falls in financial markets as well as gains.

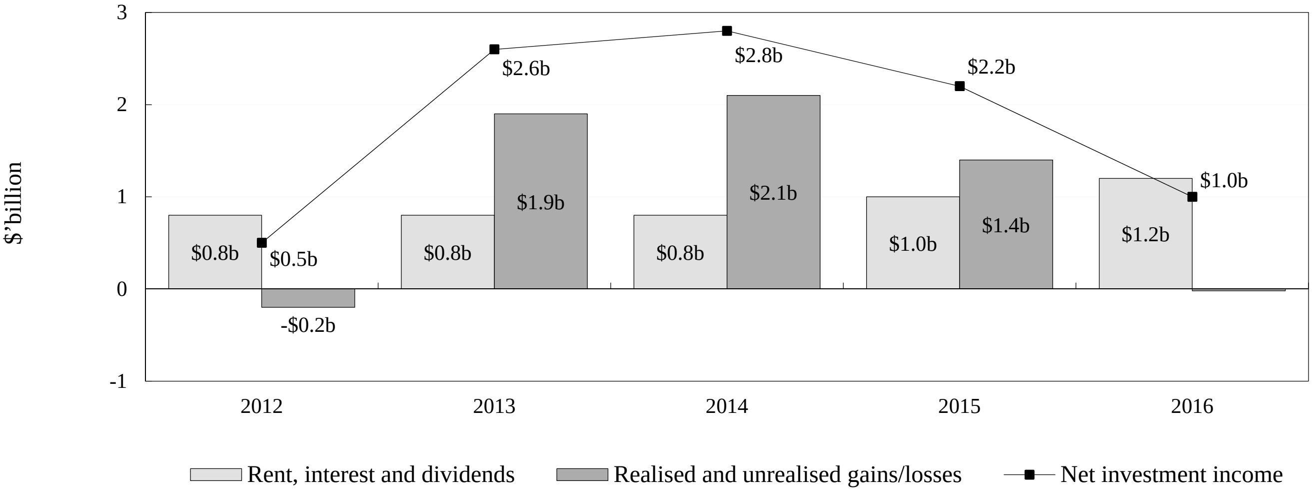
Income from investments

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 surplus of $1 billion ($2.2 billion), a decrease of $1.2 billion. Income comprised rent, interest and dividends of $1.2 billion ($976 million), realised losses of $170 million ($114 million) and unrealised gains of $150 million ($1.5 billion).

Schedule 1 of the 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 2016 is shown in the following chart.



As can be seen from this chart, positive realised and unrealised gains in 2013, 2014 and 2015 contributed significantly to the net investment income result. In 2012 and 2016 there were negative realised and unrealised gains but these were offset by rent, interest and dividend income to still provide for a positive net investment income result.

The following table shows a structural analysis of net income earned for the five years to 2016, 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.

Net income earned from investment activities

	2016 $'million	2015 $'million	2014 $'million	2013 $'million	2012 $'million
Inflation linked funds	28	103	162	61	236
Property	424	289	209	264	155
Australian equities	40	315	753	839	(398)
International equities	(102)	1 007	1 039	1 118	(23)
Fixed interest	162	109	95	61	224
Diversified strategies	403	320	519	227	278
Cash/Socially responsible/Other	50	52	62	63	65
Total net income	1 005	2 195	2 839	2 633	537
Total value of assets invested as at 30 June	26 986	25 797	23 835	20 684	17 774

The earlier chart showing asset class holdings indicated that Funds SA investment strategy is weighted towards Australian and international equity holdings. The table above shows a decrease in income from these asset classes in 2016 due to the relative poor market performance during the year. The volatile nature of these investments will cause their returns to fluctuate from year to year consistent with prevailing economic conditions. Income from diversified strategies increased due to the strong performance of the growth assets. Income from property increased in 2016, which reflects strong returns in the Australian listed and unlisted property market. Income from fixed interest increased due to strong positive returns in the long-term fixed interest portfolio. Income from inflation linked funds decreased as a result of underperformance in that class.

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 70% of total funds under management.

These figures were provided by Funds SA and are unaudited.

Funds SA investment return – periods ending 30 June

	10 years	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
	% p.a.	%	%	%	%	%	%	%	%	%	%
Balanced	5.6	3.9	9.4	13.8	14.7	3.1	10.9	12.6	(15.3)	(9.3)	17.7
Growth	5.5	3.8	10.0	14.9	16.4	2.0	11.4	12.3	(17.5)	(11.2)	19.5

The performance of the balanced and growth funds for 2016 was ahead of the growth median of 3% as surveyed by Chant West.

The performance against target benchmarks for certain asset classes for the 2015-16 year and also the three years ended 2015-16 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	2.3	2.2	2.6	2.5
Short-term fixed interest	3.6	3.5	3.7	3.8
Long-term fixed interest	9.5	11.8	7.9	8.9
Inflation linked securities A	1.5	3.1	5.1	5.3
Diversified strategies income	4.0	6.8	6.1	6.6
Property A	15.1	14.6	11.7	11.8
Australian equities A	0.3	0.9	7.5	7.7
International equities A	(2.1)	(1.8)	12.1	11.8
Diversified strategies growth A	11.6	6.3	13.4	6.6
Inflation linked securities B	1.5	2.7	4.5	4.8
Property B	15.0	14.6	11.1	11.8
Australian equities B	0.6	0.9	7.6	7.7
International equities B	(2.0)	(1.8)	12.1	12.0
Diversified strategies growth B	11.7	6.3	13.7	6.6

The performance of asset class against benchmark for 2015-16 was relatively mixed, with the diversified strategies growth and property asset classes outperforming their benchmarks while the remaining asset classes were flat to negative.

Investment expenses

In 2016 investment expenses amounted to $162 million, an increase of $9 million from the previous year. The increase is primarily a result of a higher value of funds under management during the year. Investment expenses are 0.6% (0.6%) of average funds under management.

Year	Investment expenses $'million	Average funds under management $'billion
2012	85.4	17.3
2013	100.4	19.8
2014	131.8	22.7
2015	153.4	25.1
2016	162.5	26.4

Superannuation sector activities

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)	Defined benefit	***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 3 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
SA Metropolitan Fire Service Superannuation Scheme (SAMFSSS)	Hybrid (defined benefit and defined contribution)	Employees of the South Australian Metropolitan Fire Service
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)	Hybrid (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, JPS and GPS, 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), upon termination of South Australian public sector employment. It 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 and cannot be deducted from the scheme.

Administration and funds management

The following table outlines 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 Minister for Finance
SAMFSSS	SA Metropolitan Fire Service Superannuation Pty Ltd
Select	Southern Select Super Corporation

Except for Police Super and the SAMFSSS, 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. Mercer Outsourcing (Australia) Pty Ltd provides administration services to the SAMFSSS.

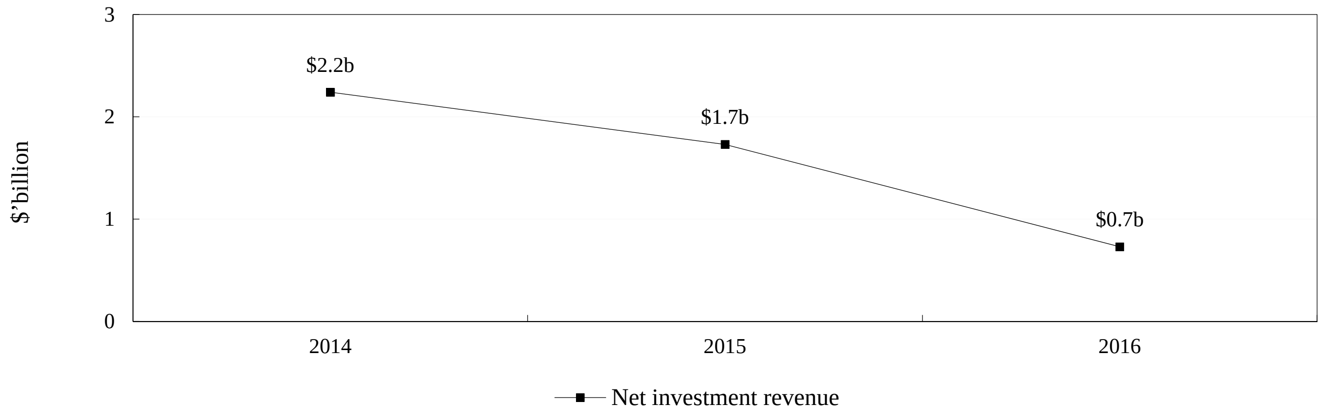
The Superannuation Funds Management Corporation of South Australia is responsible for investing and managing the superannuation schemes' funds in line with the *Superannuation Funds Management Corporation of South Australia Act 1995.*

Investments and related performance

As at 30 June 2016, the superannuation schemes had $24 billion ($23 billion) in investments, which earned a total of $700 million ($2 billion) in net investment revenue.

	2016 $'million	2015 $'million	2014 $'million
Net investment revenue	729	1 730	2 240
Investment assets as at 30 June	23 970	22 925	20 746

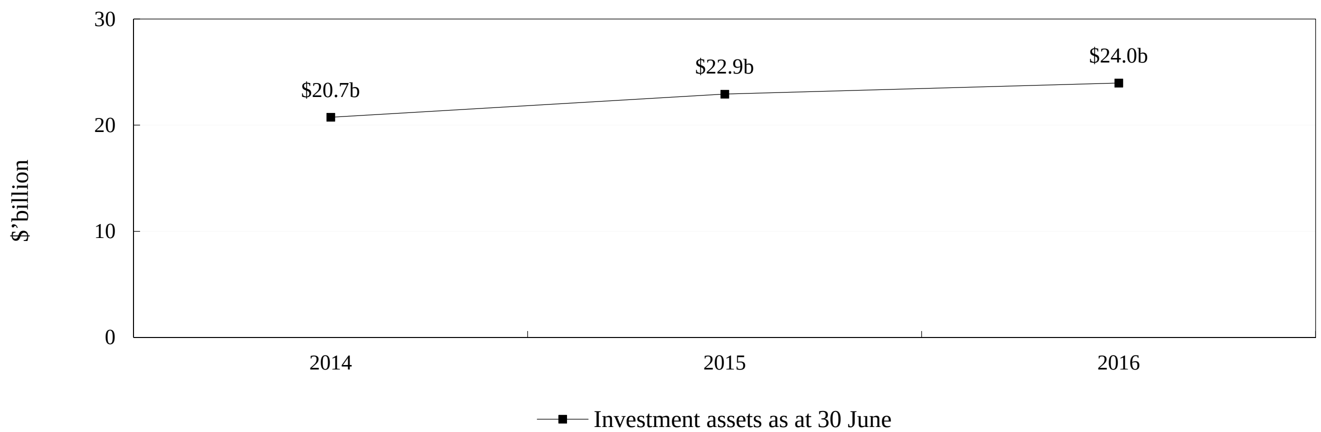
Net investment revenue



The decline in net investment revenue in 2014-15 and 2015-16 mainly reflects the reduced rates of return on the Balanced and Growth investment options for tax exempt (ie constitutionally protected) schemes over these years. Tax exempt schemes make up 84% (86%) of total investment assets.

The following table summarises the rates of return advised by the Superannuation Funds Management Corporation of South Australia, for the Balanced and Growth options for tax exempt schemes.

	2016 %	2015 %	2014 %
Balanced	3.9	9.4	13.8
Growth	3.8	10.0	14.9



Total investment assets have steadily increased over the last three years, reflecting growth in membership as well as additional contributions and the gradual accumulation of net investment revenues less benefit payments.

Further details are included in the commentary under 'Superannuation Funds Management Corporation of South Australia' in this Report.

Surplus (Deficit) of net assets to accrued benefits

The SA Government controls and funds a number of defined benefit superannuation schemes designed to provide employees with pension or defined lump sum benefits on retirement. Except for JPS and GPS, these schemes are now closed to new members. SAMFSSS, while still open to new members, is not controlled and funded by the SA Government.

As at 30 June 2016, the total deficit of net assets to accrued benefits amounted to $5.9 billion ($5.9 billion). This is represented by the following:

	Accrued benefits		Net assets		Surplus (Deficit)	
	2016	2015	2016	2015	2016	2015
	$'million	$'million	$'million	$'million	$'million	$'million
SASS	10 064	10 298	4 766	4 967	(5 298)	(5 331)
Police Super	2 090	2 005	1 480	1 418	(610)	(587)
JPS	216	206	229	226	13	20
GPS	3	3	1	1	(2)	(2)
Parliamentary Super[1]	198	185	215	215	17	30
Total[2]	12 571	12 697	6 691	6 827	(5 880)	(5 870)

1 Amounts included relate only to PSS1 and PSS2 components of the scheme. PSS3 is an accumulation-type scheme.

2 Table excludes: Ambulance Super as defined benefits are not separately identifiable
SAMFSSS as defined benefits are funded by its members

The total deficit of net assets to accrued benefits was calculated in accordance with AAS 25 'Financial Reporting by Superannuation Plans'.

Different liability balances are reported under separate accounting standards

The terms of these defined benefit schemes creates an obligation for the SA Government to pay future benefits to scheme members. The SA Government has recognised a $12.5 billion liability for unfunded superannuation benefits in the 2016-17 State Budget Papers (refer 2016-17 Budget Paper 3 'Budget Statement', page 52). This figure is significantly larger than the accumulated deficit of net assets to accrued benefits of $5.9 billion identified above.

This variance is due mainly to the different discount rates used to calculate accrued benefits under AAS 25, 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 5% 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 accordance with AASB 119, which requires the use of a risk free discount rate reflecting the market yields on Commonwealth Government bonds. The discount rate at the time of the 2016-17 State Budget was 3.2% p.a. (refer 2016-17 Budget Paper 3, page 59). The lower discount rate results in a higher present value liability calculation.

Catch-up funding cash payments continue

A program began in 1994-95 to fully fund all employer superannuation liabilities, with the aim to have the defined benefit schemes fully funded by 2034. The SA Government reaffirmed its commitment to achieve this target in the 2016-17 State Budget.

The past service superannuation liability cash payments (past service contributions) for 2015-16 were $414 million ($417 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 contributions are 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.

A new superannuation accounting standard applies from 1 July 2016

AASB 1056 ‘Superannuation Entities’ replaced AAS 25 with effect from 1 July 2016. The presentation of financial reports of superannuation entities will change under AASB 1056. Under AAS 25, some SA Government superannuation entities have elected to present their financial reports in the format of a statement of net assets and a statement of changes in net assets. Other SA Government superannuation entities present an Operating Statement, Statement of Financial Position and Statement of Cash Flows.

AASB 1056 will require superannuation entities to present:

- a Statement of Financial Position
- an Income Statement
- a Statement of Changes in Equity/Reserves
- a Statement of Cash Flows
- a Statement of Changes in Member Benefits.

In addition, the new standard will result in the following significant changes in preparing the superannuation schemes’ financial reports:

- broadly applying presentation principles and requirements of applicable Australian Accounting Standards as opposed to the requirements of AAS 25 that overrode certain requirements

- accounting for self-insurance arrangements as if they were life insurance contracts (schemes that offer insurance services are currently not obliged to report self-insurance contracts separately)

- calculating defined benefit liabilities based only on accrued benefits with vested benefits not required

- actuarial assessment of liabilities will be conducted on an annual rather than triennial basis (change affecting Ambulance Super and Police Super)

- net assets of the schemes are to reflect the schemes’ reserves

- the Statement of Financial Position is to disclose the surplus or deficit of funds

- member benefits are to be recognised as a liability on the face of the Statement of Financial Position.

South Australian Superannuation Board (SASB)

Financial statistics	Administration expense:	$20.3 million
	Net cost of services:	$3 million
	General reserve:	$10.4 million
Significant events and transactions	Super SA acquired the Bluedoor Solution superannuation administration system on behalf of the superannuation schemes administered by SASB. Super SA expects to fully implement the Bluedoor Solution by November 2017.	
Financial statement opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

SASB was established by the *Superannuation Act 1988* (the Super Act).

SASB is responsible to the Minister for Finance for the administration of 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* (the Triple S Act)
- 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 of contributions and paying benefits.

The Department of Treasury and Finance – State Superannuation Office (Super SA) provides services to administer the schemes.

The Superannuation Funds Management Corporation of South Australia 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

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

During 2015-16 areas of review included:

- administration expenses
- revenue from recovery of administration fees from the superannuation schemes
- general ledger.

Audit findings and comments

Communication of audit matters

Matters arising during the course of our audit were detailed in a management letter to the General Manager of Super SA. Key matters raised with management and the related responses are detailed below.

Superannuation on paid parental leave

In November 2012 the Triple S Act was amended to exclude from the definition of salary any amount paid for parental leave.

In December 2014 Shared Services SA (SSSA) sought clarification from Super SA about employer contributions for employees on paid parental leave. Super SA advised SSSA at that time that parental leave had been excluded from the definition of salary.

SSSA made the necessary changes to the CHRIS 5 and the Auditor-General's Department's CHRIS 21 payroll databases in April 2015. Other payroll databases were not updated to reflect the legislative amendment, pending the SA Government finalising a policy position on the matter.

In February 2016 the Southern State Superannuation (Parental Leave) Amendment Bill 2016 was laid before the House of Assembly. The Bill seeks to remove the exclusion of paid parental leave from the definition of salary with effect from 19 November 2012. If passed the Bill will require employers to make back payments to employees who have not been paid superannuation on their parental leave since April 2015. If the amendment is not passed with this retrospective effect, action will be needed to recover the overpaid employer contributions.

We were advised that while Super SA had taken a lead role in initiating and managing the changes to the Triple S Act, it had not notified affected government agencies of this change. While acknowledging that employers are responsible for calculating and submitting the appropriate superannuation contribution in accordance with the Triple S Act, we recommended that Super SA introduce processes to ensure government agencies are promptly notified of significant changes to superannuation legislation affecting schemes administered by Super SA.

Super SA acknowledged its role in ensuring employers are aware of changes to superannuation law and advised that it will take a more active lead in discussing proposed changes to legislation and giving advice once legislative changes have been implemented.

Other matters

We made a number of recommendations to improve Super SA's control environment, including the need to:

- develop a contract management plan for the Bluedoor Solution (Bluedoor) contract to ensure appropriate arrangements are in place to monitor the contract's progress and its objectives are achieved
- establish payment limits within the CommBiz online banking system
- ensure payment confirmation limits set in the SuperB system align with the instrument of delegations
- establish controls to ensure pension commutations are commuted within the time frame stipulated by the Superannuation Regulations 2001
- review the payment exception report, which identifies the differences between the EFT file and the superannuation system, before disbursing benefit payments.

Management responded that Super SA will:

- finalise and implement a contract management plan
- set a payment limit in CommBiz per transaction for all authorised users
- align limits and delegations as part of implementing Bluedoor
- amend procedures on pension commutations to ensure they are commuted within the required time frame
- review of payment exception reports before disbursing funds.

Bluedoor implementation

During the year, Super SA acquired the Bluedoor superannuation administration system under its information and communications technology (ICT) projects on behalf of the superannuation schemes administered by the SASB.

Bluedoor, when fully implemented, is expected to provide Super SA with an integrated administration system with a range of complementary capabilities including workflow management, document management and enhanced reporting systems. Bluedoor will replace all existing superannuation administration systems being used by Super SA.

The implementation project commenced in February 2016 and will occur in two phases:

	Entities affected	**Expected go live date**
Phase 1	Triple S, Super SA Select and SSARIF	April 2017
Phase 2	SASS, Ambulance Super, Parliamentary Superannuation Scheme, Judges' Pensions Scheme, Governors' Pensions Scheme	November 2017

The contract was approved by Cabinet in line with Treasurer's Instruction 8 'Financial Authorisations'. Total ICT projects costs incurred to date amounted to $2 million.

Interpretation and analysis of the financial report

SASB's financial report reflects its administration role in that:

- expenses relate predominantly to fees paid to the Department of Treasury and Finance (DTF) to administer the superannuation schemes
- revenues are mainly for the reimbursement of DTF fees from the relevant superannuation schemes.

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses and income		
Total expenses	20.4	18.3
Total income	17.4	18.7
Total comprehensive result	(3.0)	0.4
Net cash provided by (used in) operating activities	-	1.3
Assets		
Cash and cash equivalents	14.8	14.8
Receivables	1.1	0.6
Total assets	15.9	15.4
Liabilities	5.0	1.5
Equity	10.9	13.9

Statement of Comprehensive Income

The net cost of services for the year was $3 million ($400 000 net surplus). This result mainly reflects:

- revenue from recoveries of administration fees of $17.2 million ($18.4 million). This amount represents the administration fees charged to the superannuation schemes administered by SASB
- administration expenses of $20.3 million ($18.3 million). This amount is paid to DTF for administrative services, including $2 million in ICT projects costs incurred to date.

The table below summarises administration fees recovered from each superannuation scheme.

	2016 $'million	2015 $'million
Triple S	12.7	13.3
SASS	2.3	2.7
SSARIF	1.9	2.0
Ambulance Super	0.3	0.4
Total	17.2	18.4

Statement of Financial Position

The increase in liabilities of $3.5 million mainly reflects the payable recognised by SASB relating to the ICT projects of $2.2 million (GST inclusive) and an increase in the administration fee payable to DTF of $1.3 million.

General reserve

The general reserve was established to:

- account for under and over spend in office expenditure
- provide for future project expenditure
- provide funding for the triennial SASB election.

During 2015-16, $3 million was released from general reserve to retained earnings to fund the ICT projects costs amounting to $2 million and administration expenses of $1 million.

In 2014-15, $390 000 was transferred from retained earnings to general reserve.

South Australian Superannuation Scheme (SASS)

Financial statistics

Liability for accrued benefits:	$10.1 billion
Net assets available to pay benefits:	$4.8 billion
Excess of liabilities for accrued benefits over net assets:	$5.3 billion
Past service liability funding:	$353 million
Benefits paid and payable:	
Pension Scheme	$631 million
Lump Sum Scheme	$199 million
Number of members:	
Pension Scheme	16 327
Lump Sum Scheme	4 375
Total	20 702

Financial statement opinion — **Unmodified**

Financial controls opinion — **Unmodified**

Functional responsibility

SASS was established by the *Superannuation Act 1988*.

SASS provides for 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 before 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 and internal controls.

During 2015-16 areas of review included:

- receipting and banking of contributions
- benefit payments
- maintenance of member accounts
- liability for accrued benefits.

The investment and management of SASS's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

Audit findings and comments

Communication of audit matters

The audit did not identify any notable matters requiring formal communication.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Revenue		
Investment revenue	205	514
Contribution revenue	431	449
Other revenue	38	36
Total revenue	674	999
Expenses		
Benefits expense	596	690
Direct investment expenses	34	35
Other expenses	11	12
Total expenses	641	737
Operating result	33	262
Net cash provided by (used in) operating activities	(380)	(396)
Assets		
Investments	4 774	4 981
Other assets	11	13
Total assets	4 785	4 994
Liabilities		
Benefits payable and other current liabilities	19	27
Total liabilities	19	27
Net asset available to pay benefits	4 766	4 967
Liability for accrued benefits	10 064	10 298
Excess of liabilities over net assets	5 298	5 331

Operating Statement

Revenue

Total revenue decreased by $325 million to $674 million due mainly to decreases in investment revenue of $309 million and contribution revenue of $18 million.

Investment revenue

Approximately 97% of SASS's funds are invested in the Growth option. The decrease in investment revenue was largely driven by the reduced rate of return for Growth option funds, which decreased from 10% in 2014-15 to 3.8% in 2015-16. All other investment options also saw weaker investment returns compared to the prior year.

Further details on investment returns are included in the commentary under 'Superannuation Funds Management Corporation of South Australia' in this Report.

Contribution revenue

Contribution revenue decreased by $18 million to $431 million, mainly due to the following:

- contributions by employers decreased by $9 million
- contributions for past service liability decreased by $7 million
- contributions by members reduced by $3 million.

The decrease in employer and member contributions is indicative of a closed scheme where the number of members is decreasing due to retirement.

During the year the SA Government transferred a total of $350 million ($357 million) into the South Australian Superannuation Scheme Contribution Account for past service liability funding. Public sector employers contributed $3 million ($3 million). Past service liability payments 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.

Expenses

SASS's dominant expenditure item is benefits expense, which decreased by $94 million to $596 million for the year.

Benefits 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.

Actuarial reviews under the *Superannuation Act 1988* are undertaken every three years and the assumptions from each review are used to calculate the accrued liability in years between reviews. An actuarial assessment of the liability for accrued benefits will be conducted annually from 2016-17 as a result of implementing AASB 1056 'Superannuation Entities', which became effective on 1 July 2016. Further details of the liability are provided below under the heading 'Statement of Financial Position'.

Benefits paid and payable

The total benefits paid and payable over the last four years are outlined in the following table.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million
Pensions	615	600	576	555
Lump sums	203	252	191	163
Commutations	11	28	26	32
Retrenchments and targeted separation packages	1	3	5	1
Total	830	883	798	751

Over the period of review there has been a steady increase in benefits paid, but it has reduced by $53 million in 2015-16. This decline was driven by a reduction in lump sum benefit payments of $49 million, reflecting the reduced number of members leaving the Lump Sum Scheme. A total of 560 members left in 2014-15 compared to 464 members in 2015-16. Benefits paid are also affected by increases in final salary, inflation adjustments to pensions and the number of commutations.

Statement of Financial Position

Summarised below are the net assets available to pay benefits, liability for accrued benefits, and the resulting excess of liabilities over net assets over the last four years.

	2016 $'million	2015 $'million	2014 $'million	2013 $'million
Net assets available to pay benefits	4 766	4 967	4 898	4 545
Liability for accrued benefits	10 064	10 298	10 492	10 503
Excess of liabilities over net assets	5 298	5 331	5 594	5 958

The estimated liability for accrued benefits decreased by $234 million to $10.1 billion, for which net assets of $4.8 billion were available to pay benefits. This has resulted in an excess of liabilities over net assets of $5.3 billion.

Of the $10.1 billion liability, $8.4 billion (83%) represents the old scheme (pension) liability and $1.7 billion (17%) is the new scheme (lump sum) liability. The demographic assumptions of the 2013 triennial actuarial review were applied to the calculation of the liability for accrued benefits.

The following rates were used in calculating the 2015-16 liability:

- discount rate 7%
- long-term salary inflation 4%
- long-term CPI factor 2.5%.

The liabilities for the old and new schemes decreased by $167 million and $68 million respectively. This is due largely to the overall decline in membership 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).

Total investments decreased by $207 million as a result of reduced contributions and investment returns, which were slightly offset by the ongoing benefit payments to members.

Total net assets available to pay benefits, $4.8 billion, comprise the employer component, $2.7 billion, and the employee component, $2.1 billion.

Vested benefits

Vested benefits represent benefits that members are entitled to receive had their membership been terminated at reporting date. The vested benefits as at 30 June 2016 were $10.2 billion ($10.4 billion) as disclosed in note 9 of the financial report. The value of vested benefits has been calculated using the same actuarial and economic assumptions as for the calculation of the estimated liability for accrued benefits.

Statement of Cash Flows

The slight decrease in the operating cash outflow of $16 million reflects the reduction in benefits paid of $34 million, partly offset by a decrease of $17 million in contributions received.

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 SA Government 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 the financial report provides details of the various funding arrangements.

Although a portion of the total superannuation liability is currently unfunded, members’ entitlements to benefits are required to be paid out of the Consolidated Account, or a special deposit account established for that purpose.

Membership statistics for the last three years are provided in the following table.

Pension Scheme	2016 Number	2015 Number	2014 Number
Contributory	691	939	1 226
Preserved	392	484	577
Superannuants	15 244	15 326	15 438
Total	16 327	16 749	17 241

Lump Sum Scheme	2016 Number	2015 Number	2014 Number
Contributory	3 080	3 428	3 871
Preserved	1 295	1 411	1 528
Total	4 375	4 839	5 399

Total number of members	2016 Number	2015 Number	2014 Number
Contributory	3 771	4 367	5 097
Preserved	1 687	1 895	2 105
Superannuants	15 244	15 326	15 438
Total	20 702	21 588	22 640

Southern State Superannuation Scheme (Triple S)

Financial statistics	Contribution revenue:	$1.4 billion
	Liability for accrued benefits:	$13.5 billion
	Benefits paid and payable:	$1.2 billion
	Number of members:	176 311
Financial statement opinion	**Unmodified**	
Financial controls 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. For details of Triple S's functions refer note 1 of the financial report.

Scope of the audit

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

During 2015-16 areas of review included:

- receipting and banking of transactions
- benefit payments
- maintenance of member accounts
- liability for accrued benefits.

The investment and management of Triple S's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia audit.

Audit findings and comments

Communication of audit matters

The audit did not identify any notable matters requiring formal communication.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Revenue		
Investment revenue	567	1 157
Contribution revenue	1 419	1 339
Total revenue	1 986	2 496
Expenses		
Direct investment expenses	80	77
Other expenses	13	12
Total expenses	93	89
Benefits accrued as a result of operations	1 893	2 407
Net cash provided by (used in) operating activities	156	161
Assets		
Investments	13 502	12 868
Other assets	43	39
Total assets	13 545	12 907
Liabilities		
Current liabilities	26	49
Total liabilities	26	49
Net assets available to pay benefits	13 519	12 858
Represented by:		
Liability for accrued benefits	13 519	12 858

Operating Statement

Revenue

Total revenue decreased by $510 million to $2 billion and is represented by a decrease in investment revenue of $590 million, offset by an increase in contribution revenue of $80 million.

Investment revenue

Approximately 83% of Triple S's funds are invested in the Balanced option. The decrease in investment revenue was largely driven by the reduced rate of return for Balanced option funds, which decreased from 9.4% in 2014-15 to 3.9% in 2015-16. All other investment options also saw weaker investment returns compared to the prior year.

Further details on investment returns are included in the commentary under 'Superannuation Funds Management Corporation of South Australia' in this Report.

Contribution revenue

Presented below are details of contribution revenue and membership statistics for the last three years.

	2016 $'million	2015 $'million	2014 $'million
Contributions by members	119	145	138
Contributions by employers	1 029	961	895
Rollovers from other schemes	269	231	199
Government co-contribution	2	2	2
Total contributions	1 419	1 339	1 234

	2016 Number	2015 Number	2014 Number
Contributory members	29 595	30 073	30 293
Non-contributory members	85 184	86 416	85 567
Preserved members	60 954	58 983	59 997
Spouses	578	566	524
Total number of members	176 311	176 038	176 381

Active members of Triple S (contributory and spouse members) can elect to make contributions. Employers are required to make contributions for contributory members of Triple S.

Contribution revenue increased by $80 million. This increase was due mainly to increases in rollovers from other schemes of $38 million and contributions by employers of $68 million, offset by a decrease in member contributions of $26 million.

The increase in contributions by employers of $68 million was mainly driven by an increase in salary sacrifice contributions of $40 million and the marginal increase in public sector salaries.

The decrease in member contributions of $26 million is due mainly to the decline in one-off member contributions of $18 million and the decrease in the number of contributory members.

Statement of Financial Position

Net assets available to pay benefits increased by $661 million. This increase was mainly driven by the growth in contributions and positive investment returns, offset by benefit payments made during the year. The movement in net assets is indicative of 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. The accumulative nature of Triple S also means that it is fully funded.

The net assets available to pay benefits over the last four years were:

	2016 $'billion	2015 $'billion	2014 $'billion	2013 $'billion
Net assets available to pay benefits	13.5	12.9	11.6	9.9

Benefits paid and payable

Benefits paid and payable over the last four years were:

	2016	2015	2014	2013
	$'billion	$'billion	$'billion	$'billion
Benefits paid and payable	1.2	1.2	0.9	0.7

Total benefits paid and payable remained constant at $1.2 billion ($1.2 billion) reflecting the relative stability of total membership numbers.

Statement of Cash Flows

The analysis of cash flows shows that Triple S maintains a relatively small balance of funds on hand. Amounts not used to pay benefits and other expenses are transferred to the Superannuation Funds Management Corporation of South Australia for investment.

Super SA Retirement Investment Fund (SSARIF)

Financial statistics	Contribution revenue:	$959 million
	Liability for accrued benefits:	$3.2 billion
	Benefits paid and payable:	$453 million
	Number of members:	12 316
Financial statement opinion	**Unmodified**	
Financial controls 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. For details of SSARIF's functions refer note 1 of the financial report.

Scope of the audit

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

During 2015-16 areas of review included:

- receipting and banking of contributions
- benefit payments
- maintenance of member accounts
- liability for accrued benefits.

The investment and management of SSARIF's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia audit.

Audit findings and comments

Communication of audit matters

The audit did not identify any notable matters requiring formal communication.

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

	2016 $'million	2015 $'million
Revenue		
Contribution revenue	959	927
Investment revenue	108	179
Other revenue	4	5
Total revenue	1 071	1 111
Expenses		
Direct investment expenses	14	12
Income tax expense	73	81
Other expenses	2	2
Total expenses	89	95
Benefits accrued as a result of operations	982	1 016
Net cash provided by (used in) operating activities	432	461
Assets		
Investments	3 185	2 657
Other assets	26	23
Total assets	3 211	2 680
Liabilities		
Current liabilities	25	23
Non-current liabilities	6	5
Total liabilities	31	28
Net assets available to pay benefits	3 180	2 652
Represented by:		
Liability for accrued benefits	3 180	2 652

Operating Statement

Revenue

Total revenue decreased by $40 million due mainly to decreases in investment revenue of $71 million, partly offset by an increase in contribution revenue of $32 million.

Approximately 45% (46%) of the entity's funds are invested in the Balanced option. The decrease in investment revenue was largely driven by the reduced rate of return for Balanced option funds, which decreased from 9.1% in 2014-15 to 3.6% in 2015-16. All other investment options also experienced weaker investment returns compared to the prior year.

Further details on investment returns are included in the commentary under 'Superannuation Funds Management Corporation of South Australia' in this Report.

The increase in contribution revenue of $32 million reflects the continued growth in SSARIF membership.

Expenses

The reduction in total expenses of $6 million was mainly driven by an $8 million decrease in income tax expense which reflects the reduction in net results (benefits accrued) of SSARIF during the year, slightly offset by an increase in direct investment expenses of $2 million.

Statement of Financial Position

The modest investment revenue earned, together with additional funds invested, has contributed to the increase in net assets available to pay benefits of $528 million. This 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.

Benefits paid

Total benefits paid and payable amounted to $453 million ($391 million). The increase in benefits paid and payable of $62 million was expected, due to the strong growth in membership experienced by SSARIF.

Statement of Cash Flows

The decrease in cash provided by operating activities of $29 million was due mainly to the increase in benefit payments of $60 million, partly offset by a $32 million increase in contributions received. These increases are due to the continued growth in membership experienced by SSARIF.

SSARIF maintains a relatively small balance of funds on hand. Amounts not used to pay benefits and other expenses are transferred to the Superannuation Funds Management Corporation of South Australia for investment.

Further commentary on operations

Membership statistics for the last four years are provided in the following table.

	2016 Number	2015 Number	2014 Number	2013 Number
Flexible Rollover Product	4 351	4 043	3 668	3 168
Income Stream	7 965	6 678	5 230	4 142
Total	12 316	10 721	8 898	7 310

Parliamentary Superannuation Scheme (Parliamentary Super)

Financial statistics	Liability for accrued benefits:	$218.8 million
	Excess of net assets over liabilities:	$16 million
	Benefits paid and payable:	$10 million
	Number of pensioners:	118
	Number of active members:	69
Significant events and transactions	The estimated liability for accrued benefits increased by $17 million to $219 million. This was mainly due to the introduction of an annual common allowance considered part of the Member's salary in determining the pension liability.	
Financial statement opinion	**Unmodified**	
Financial controls opinion	**Unmodified**	

Functional responsibility

Parliamentary Super was established under the *Parliamentary Superannuation Act 1974*.

Parliamentary Super provides for the payment of benefits to people who have served as Members of Parliament and makes provisions for their families. For details of Parliamentary Super's functions refer note 1 of the financial report.

Scope of the audit

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

During 2015-16 areas of review included:

- receipting and banking of contributions
- benefit payments
- maintenance of member accounts
- liability for accrued benefits.

The investment and management of Parliamentary Super's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia audit.

Audit findings and comments

Communication of audit matters

The audit did not identify any notable matters requiring formal communication.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Revenue		
Contribution revenue	5	5
Investment revenue	10	23
Total revenue	15	28
Expenses		
Benefit expenses	27	14
Other expenses	2	2
Total expenses	29	16
Operating result for the period	(14)	12
Net cash provided by (used in) operating activities	(5)	(8)
Assets		
Investments	235	231
Other assets	-	1
Total assets	235	232
Liabilities		
Benefits and other payables	-	-
Total liabilities	-	-
Net assets available to pay benefits	235	232
Liability for accrued benefits	219	202
Excess of net assets over liabilities	16	30

Operating Statement

The operating result for the year was a deficit of $14 million ($12 million surplus). This change was mainly driven by a decrease in investment revenue of $13 million and increased benefit expenses of $13 million.

Approximately 92% (94%) of Parliamentary Super's funds are invested in the Growth option. The decrease in investment revenue was largely driven by the reduced rate of return for Growth option funds, from 10% in 2014-15 down to 3.8% in 2015-16. All other investment options also saw weaker investment returns compared to the prior year.

Further details on investment returns are included in the commentary under 'Superannuation Funds Management Corporation of South Australia' in this Report.

Benefit expenses have increased as a result of a $17 million increase in the actuarially determined estimated liability for accrued benefits. For further details refer to ‘Statement of Financial Position’ below.

Statement of Cash Flows

The analysis of cash flows shows that Parliamentary Super maintains a relatively small balance of funds on hand. Amounts not used to pay benefits and other expenses are transferred to the Superannuation Funds Management Corporation of South Australia for investment.

Statement of Financial Position

As at 30 June 2016, there was an excess of net assets over liabilities of $16 million ($30 million).

The estimated liability for accrued benefits increased by $17 million to $219 million ($202 million), for which net assets of $235 million ($232 million) were available to pay benefits. The increase in liability for accrued benefits was mainly due to the establishment of an annual common allowance payable to Members of Parliament under the Parliamentary Remuneration (Determination of Remuneration) Amendment Bill 2015. The common allowance replaced certain allowances (eg travel, committee membership) and is considered part of the Member’s salary for the purposes of determining the pension liability.

The expected future benefit payments were determined using the pensioner mortality assumptions of the 2013 triennial actuarial review of the South Australian Superannuation Scheme (refer note 7 of the financial report).

In comparison, vested benefits as at 30 June 2016 were $231 million ($213 million). Vested benefits represent benefits that members are entitled to receive had their membership been terminated at the reporting date. Vested benefits are greater than accrued benefits, as vested benefits are based on the involuntary expiration of service. As a result members would be entitled to the benefits immediately (refer note 8 of the financial report).

Further commentary on operations

Pensioners

The number of pensioners as at 30 June and benefits paid and payable for the past four years were:

	2016	2015	2014	2013
Pensioners	118	120	124	119
Benefits paid and payable ($’million)	10	13	13	11

Contributions by employees

The number of contributors and contributions received from Members for the past four years were:

	2016	2015	2014	2013
Contributors	69	69	69	69
Contributions received ($’million)	1	1	1	1

Police Superannuation Scheme (Police Super)

Financial statistics	Net assets available to pay benefits: $1480 million Total accrued benefits: $2090 million Number of members and pensioners: 2957
Significant events and transactions	The unfunded liability for accrued benefits increased by $23 million during the year to $610 million.
Financial statement opinion	**Unmodified**
Financial controls opinion	**Unmodified**

Functional responsibility

Police Super and the Police Superannuation Board (the Board) were established under the *Police Superannuation Act 1990*.

The Board is responsible for administering Police Super, which provides for benefit payments to police officers who commenced employment before 1 June 1990.

Police Super comprises a Pension Division that consists of the Police Superannuation Fund and the Police Superannuation Scheme Employer Contribution Account (the Police Employer Account).

The Superannuation Funds Management Corporation of South Australia is responsible for investing and managing the Police Superannuation Fund and the Police Employer Account.

Note 1 of the financial report provides further details on Police Super's administration and funding arrangements.

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.

During 2015-16 areas of review included:

- benefit payments
- contributions
- cash
- general ledger
- administration expenses.

The audit of the investment and management of Police Super's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia audit.

Audit findings and comments

Communication of audit matters

The audit did not identify any notable matters requiring formal communication to the Board.

Interpretation and analysis of the financial report

Highlights of the financial report

In accordance with AAS 25 'Financial Reporting by Superannuation Plans', the Board has elected to present its financial report in the format of a Statement of Net Assets and a Statement of Changes in Net Assets. Consequently, a Statement of Cash Flows has not been prepared and benefit related liabilities are disclosed in the notes of the financial report.

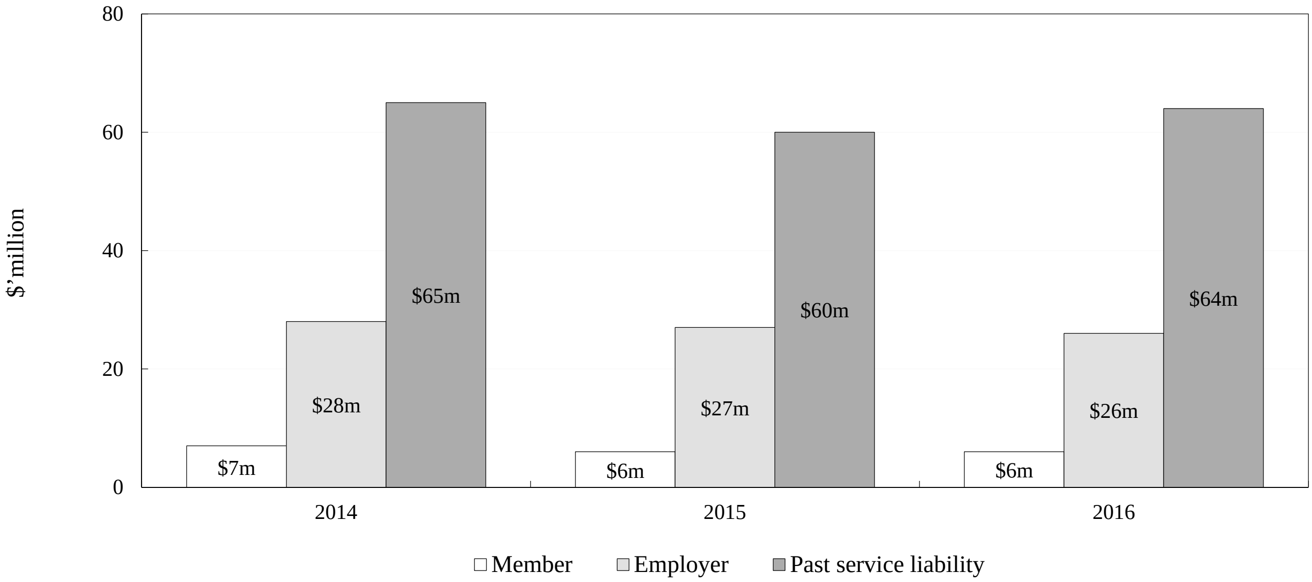
	2016 $'million	2015 $'million
Revenue		
Contribution revenue	96	93
Investment revenue	64	139
Total revenue	160	232
Expenses		
Benefits paid	87	81
Other expenses	11	10
Total expenses	98	91
Net increase (decrease) in funds	62	141
Assets		
Investments	1 480	1 418
Other assets	2	1
Total assets	1 482	1 419
Total liabilities	2	1
Net assets available to pay benefits	1 480	1 418

Statement of Changes in Net Assets

Revenues

Investment activity for the year resulted in a positive return of $64 million ($139 million). The decrease in investment revenue is due to lower returns on funds under management. The lower return reflects the strong performance of fixed interest and unlisted assets, while returns from international shares detracted from this performance. Investment returns are discussed further in the commentary under 'Superannuation Funds Management Corporation of South Australia' in this Report.

The following chart shows an analysis of contribution revenue for the three years to 2016.



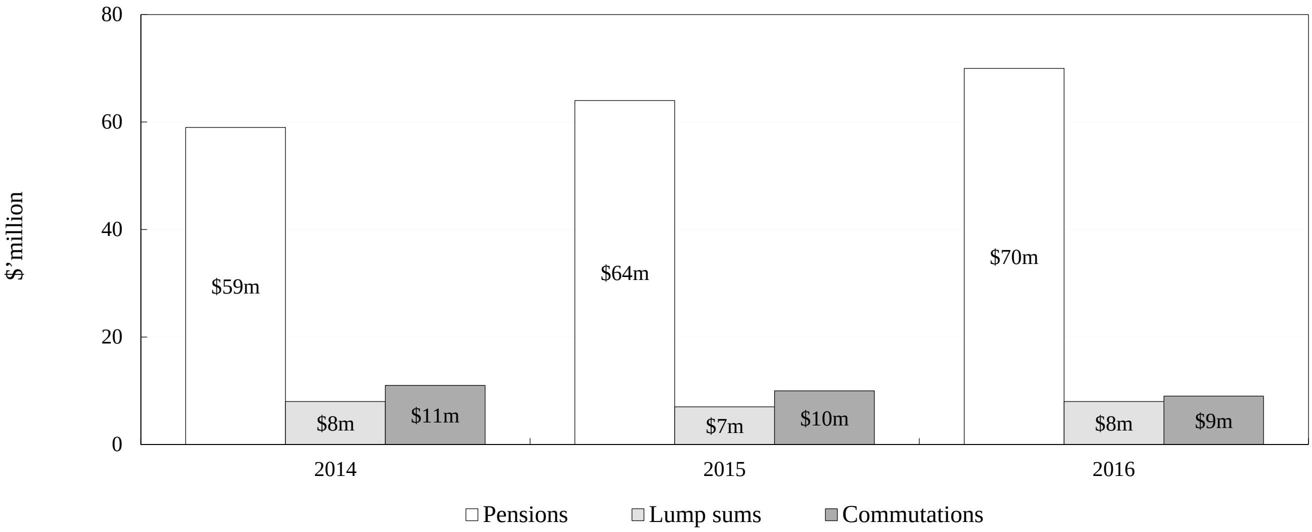
The chart shows there is a slight downward trend in member and employer contributions over the past three years. This is primarily attributable to member retirements and no new members being admitted to Police Super.

Past service liability payments represent funding from the SA Government to meet accrued superannuation liabilities. The SA Government expects to fully fund liabilities by 30 June 2034.

Expenses

Benefits paid totalled $87 million ($81 million). Of this amount, $70 million ($64 million) was taken as pensions and $17 million ($17 million) as lump sum and commutation payments.

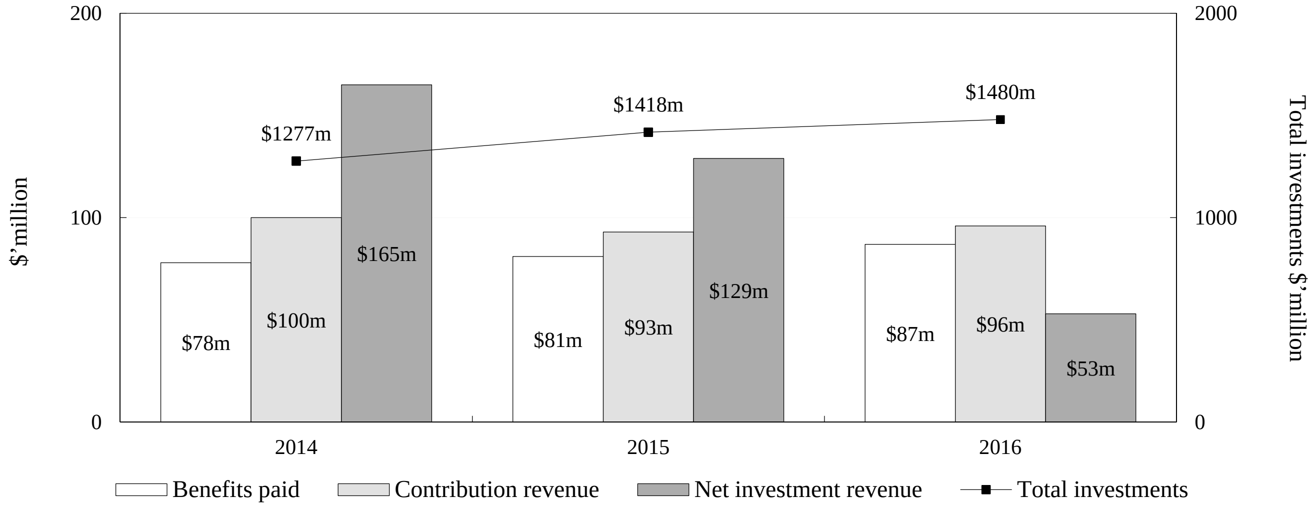
The following chart shows an analysis of benefits paid for the three years to 2016.



Since 2014 there has been a steady increase in pensions. This is expected as the pensions paid are affected by increases in the number of pensioners, final salaries and inflation adjustments. Note 11 of the financial report provides a breakdown of benefits paid.

Statement of Net Assets

Investments increased by $62 million to $1480 million.



The change in investments is primarily the result of investment revenue, benefits paid and contribution revenue. While benefits and contributions trend relatively consistently from year to year, investment revenue can fluctuate significantly depending on prevailing market conditions. This can significantly impact the level of total investments held, as is evident from the decrease in investment returns from 2014 to 2016.

Investment returns are discussed further in the commentary under 'Superannuation Funds Management Corporation of South Australia' in this Report.

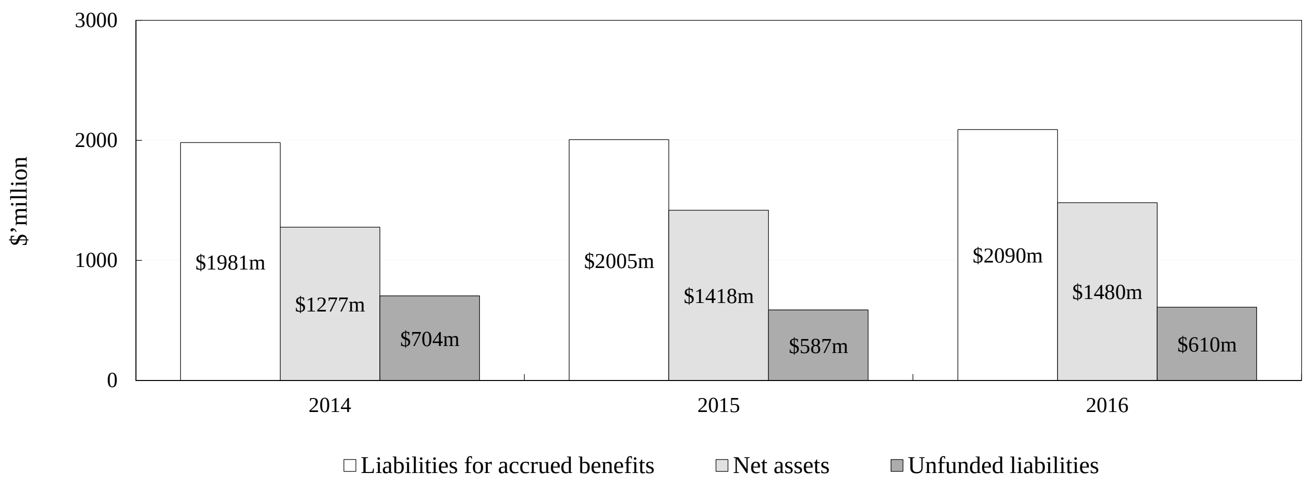
Further commentary on operations

Liability for accrued benefits

The estimated liability for accrued benefits increased by $85 million to $2090 million ($2005 million) for which net assets of $1480 million ($1418 million) were available to pay benefits. This has resulted in an excess of liabilities over net assets of $610 million ($587 million), which represents the unfunded liability at 30 June 2016.

Note 3 of the financial report provides further details on Police Super's unfunded liability.

The following chart shows an analysis of the liabilities for accrued benefits for the three years to 2016.



An actuarial review is undertaken every three years with assumptions from this review used to calculate the accrued liability in intervening years. The 2014 triennial actuarial review was completed on 29 June 2015. The review recommended that the funding proportion for the Police Superannuation Fund be increased from 19% to 22%. The Board approved this recommendation effective 11 July 2015. Note 3 of the financial report provides further details.

Net assets available to pay benefits

At 30 June 2016 the unfunded liability of Police Super was $610 million.

The Police Employer Account (accumulating government contributions) has net assets available to pay benefits of $996 million compared to an accrued liability of $1629 million. This represents a shortfall of net assets over accrued liabilities of $633 million. The SA Government transferred $64 million to the Police Employer Account as funding for the accrued past service liability. Note 3 of the financial report details the unfunded liability.

The Police Superannuation Fund (accumulating member contributions) has net assets available to pay benefits of $484 million compared to an accrued liability of $461 million.

Pensioners

The number of pensioners and pensions paid for the past three years were:

	2016	2015	2014
Pensioners	1 704	1 625	1 566
Pensions paid ($'000)	69 757	63 932	58 863

Contributions by members

The number of contributors and contributions received from Pension Division members for the past three years were:

	2016	2015	2014
Contributors (excludes preserved members)	1 174	1 260	1 429
Contributions received ($'000)	6 152	6 418	6 648

TAFE SA

Financial statistics	Total expenses:	$331 million
	Net revenue from providing services:	$4 million
	Total income from the Department of State Development (DSD):	$234 million
	Number of FTEs (excluding casuals):	2060*
	Number of training hours funded by DSD:	9.5 million*
	Total training hours:	17.3 million*

* Data provided by TAFE SA and unaudited.

Significant events and transactions

— TAFE SA started planning for 2016-17 service changes including further online delivery and mobile lecture services.

— TAFE SA moved from multiple funding agreements with DSD to a single memorandum of administrative arrangement for non-commercial services, including funding for community service obligations. DSD provided $212 million to TAFE SA as core funding, of which $144 million was for VET subsidies.

— 70 staff took targeted voluntary separation packages in 2015-16, bringing the total over four years to 532.

— 191 staff transferred into TAFE SA from DSD over the past three years. Recharges previously paid for services to DSD have now ceased.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Review or approval of key payroll documents was not prompt

— Purchase orders were not used in some instances where they were required

— Purchase cards were used for purposes not allowed by TAFE SA policy in some cases

— No system restriction to enforce appropriate segregation of duties for invoices and credit notes

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 Higher Education and Skills.

TAFE SA's main function is to provide technical and further education. Details of its objectives are contained in note 1 of the financial report.

Scope of the audit

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

During 2015-16 specific areas of audit attention included:

- expenditure and accounts payable
- employee benefits
- revenue, including funding from DSD, student fees and receivables
- cash management, including bank reconciliations
- fixed assets
- general ledger processing
- review of the WorkReady information systems.

The audit took into account the controls and procedures performed by service providers including Shared Services SA.

The work of TAFE SA's internal auditors was also considered in planning and conducting the audit.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by TAFE SA in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of TAFE SA have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit, including a number that were raised in prior years, were detailed in a management letter to the Chair of the TAFE SA Board. The main matters raised with TAFE SA and the related responses are detailed below.

Review or approval of key payroll documents was not prompt

Return of bona fide certificates

Our audit identified that some HR Business Partners were not adequately maintaining a bona fide certificate register. This resulted in some certifying officers not reviewing and returning bona fide certificates promptly. In total, over half of the bona fide certificates reviewed did not have evidence of a manager's review.

We also found that the email list used to forward the certificates was not always updated promptly, meaning in one case certificates were sent to a manager on long-term leave.

Ineffective review of bona fide certificates increases the risk of financial loss to TAFE SA due to inaccurate payroll processing or leave recording within the payroll system.

TAFE SA responded that a work instruction for managing bona fide certificates would be developed and implemented. In addition the Human Resource Systems team would audit the bona fide certificate process bi-monthly.

Letter of offer to engage hourly paid instructors

We have previously identified instances where hourly paid instructors (HPIs) began their employment before signing a contract. Our 2015-16 review again identified that some HPIs started work before signing an employment agreement with TAFE SA. 35% of HPIs started work before their contract was signed, up from 33% in 2014-15.

The absence of a signed employment contract increases the risk of incorrect payments to the HPI, and HPIs may not understand their responsibilities as a TAFE SA employee.

TAFE SA responded that managers would be reminded of the requirement for HPIs to receive and accept an offer of employment before starting work.

Child Related Employment Screening Checks (CRESCs) are not performed/updated for all staff and HPIs

In February 2016, there were over 300 HPIs and casuals working at TAFE SA without a current CRESC, including a number whose previous checks had expired over three years ago. In addition, in June 2016, there were over 150 permanent staff, 7% of total staff, working at TAFE SA without a current CRESC.

Given some TAFE SA students are under 18, TAFE SA may be employing inappropriate staff in roles involving contact with children, with the potential for harm to a child.

Where any of the staff without a current CRESC are undertaking prescribed functions as defined in the *Children's Protection Act 1993*, which includes regular contact with a child without direct supervision, TAFE SA may be in breach of the *Children's Protection Act 1993*.

TAFE SA responded that it would review and update the CRESC policy including developing a new CRESC work instruction for use by HR Business Partners. In addition any employee without a current CRESC would be contacted to advise of the new policy and sanctions for non-compliance. A monthly report listing the CRESC status of every employee would be generated.

Expenditure

Purchase cards used for purposes not allowed by TAFE SA policy in some cases

TAFE SA policy states that purchase cards are not to be used to purchase IT software and services, fuel and oil or for motor vehicle expenses for fleet or private vehicles other than at remote regional locations. We found, for two out of seven purchase card transactions sampled, purchase cards were used to buy fuel in metropolitan Adelaide or computer software support services.

We also identified an instance of an employee using a purchase card for a purchase over their assigned transaction limit.

Where purchase cards are not used in line with established policy, there is a risk that inappropriate purchases could occur, resulting in potential financial loss to TAFE SA.

TAFE SA responded it would review its purchase card policy to provide more clarity on the authorised and prohibited uses of purchase cards.

Staff would be reminded of their responsibilities to ensure purchase card purchases comply with the requirements of the current policy, relate to business activities of TAFE SA and do not exceed transaction limits.

Purchase orders not used in some instances where they were required

We identified instances where purchase orders were not used to order goods and services for which an order was required by TAFE SA policy. Where purchase orders are not used for orders that require them, there is an increased risk of the purchase not being authorised or in line with management's expectations.

TAFE SA responded that it would examine this issue in more detail, develop strategies to address the problem and implement ongoing monitoring processes. All staff would be reminded of their obligations to comply with TAFE SA policies.

Student revenue – Student Information System

Withdrawn and refunded students can be graded

There is no restriction in the Student Information System (SIS) to prevent a lecturer from recording a pass grade once a student has withdrawn. We noted students who had withdrawn from a subject and received a 50% refund of their fees could still be awarded a pass grade (if they completed the unit requirements). Our testing identified over 90 instances where students had withdrawn but still recorded a pass grade.

TAFE SA did not have an established process to identify these instances. TAFE SA indicated there were a range of reasons for this outcome, including that some students are unclear on how to withdraw from a single unit (accidentally withdrawing from multiple units) and that some students may have completed the unit requirements before withdrawing.

There is a risk that inappropriate grades are recorded in SIS for students who have withdrawn. There is also a risk that TAFE SA may refund 50% of unit fees to a student who withdraws but still receives a result.

TAFE SA responded that it was exploring a policy change whereby any student who withdraws from a class would be issued with that result. Investigations were underway for system changes to stop a student withdrawing online after a class has been completed.

TAFE SA receives quarterly reports from DSD identifying unusual grade entries. This report is sent to Data Services who forward it to business units for review and action, including the review of incorrect grades.

Grade changes are reviewed and approved by the Educational Manager prior to entry into the system by administration staff. TAFE SA was considering a change whereby Data Services enters grade changes, after validation by the lecturer and the Educational Manager.

Incorrect use of exemption codes

We have previously recommended TAFE SA review fee exemptions. In 2015-16, there was no evidence of an independent review to ensure that only approved exemptions were processed in SIS. We identified a number of instances where exemptions were incorrectly applied.

In the absence of an independent review to identify fee waivers through fee exemption codes, there is a risk that exemptions may be inappropriately granted to students.

TAFE SA responded that it would have its policy approved, communicate the requirements to all affected staff, and ensure appropriate audits are undertaken.

Student revenue – other

No system restriction to enforce appropriate segregation of duties – for invoices and credit notes

Fee-for-service invoices and credit notes are created using an online form. Our audit identified the form did not enforce segregation of duties between the person completing the form and the person who approves it. We also noted there was no systematic process to review credit notes to ensure they were appropriately approved. As a result, there was a risk that unauthorised credit notes could be processed, resulting in a financial loss to TAFE SA.

TAFE SA responded it was working on restricting the originator from also being the authoriser. Completion will not be possible until software changes are made to the forms. In the interim TAFE SA would remind staff of the requirement for segregation.

In addition Financial Transactions staff had been instructed to reject any forms with the same originator and authoriser.

WorkReady information systems review

In 2015-16, we reviewed aspects of WorkReady information systems relating to TAFE SA. This included assessing whether TAFE SA had addressed issues raised in our 2014-15 review. We also sought to understand the nature and extent of changes to SIS and associated interfaces following the introduction of WorkReady.

A number of findings raised in our prior year review had been addressed or there were plans in place. This included better management of SIS privileged user access management.

However, TAFE SA advised that DSD experienced delays in implementing changes to certain WorkReady systems. Due to these delays, TAFE SA did not address the following findings raised from the prior year:

- no standardised interface for training activity data
- insufficient documentation of SIS to Acumen interface.

We consider resolving these matters should reduce the complexity of the interface and provide increased data integrity.

We did not identify any issues relating to our high-level assessment of system or interface changes following the introduction of WorkReady.

TAFE SA responded that the standardised interface for training activity data is expected to commence once DSD has completed the necessary changes. Until then, the current process would remain.

We were also advised that interface documentation would be provided by DSD to TAFE SA but that TAFE SA could not control when this would occur.

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Expenses		
Employee benefits	224	220
Supplies and services	102	109
Other expenses	5	7
Total expenses	331	336
Income		
Grants and subsidies from DSD	234	233
Student and other fees and charges	94	91
Other income	7	8
Total income	335	332
Total comprehensive result	4	(4)
Assets		
Current assets	87	111
Non-current assets	29	30
Total assets	116	141
Liabilities		
Current liabilities	33	64
Non-current liabilities	59	57
Total liabilities	92	121
Total equity	24	20

Statement of Comprehensive Income

Expenses

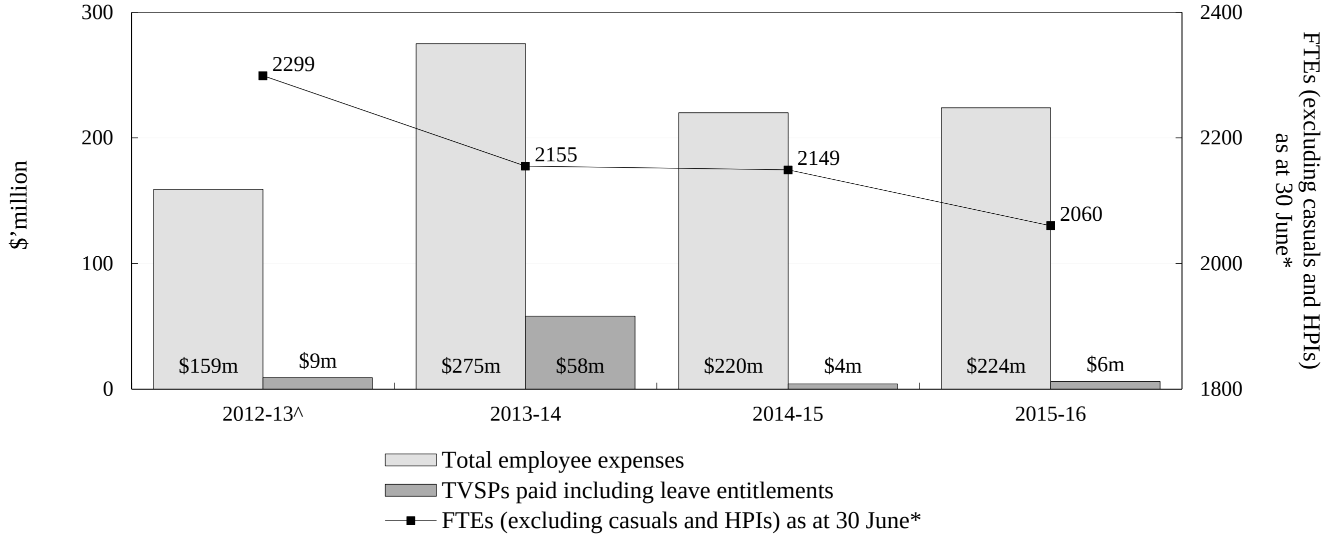
Employee benefits

Employee benefits are TAFE SA's main expense, accounting for 68% of total expenses.

Employee benefits expenses increased by $4 million to $224 million in 2015-16. This included payments of targeted voluntary separation packages (TVSPs) and related leave of $6 million ($4 million). In addition, workers compensation expenses increased by $2 million in 2015-16. The 2014-15 workers compensation expense was $2 million lower due to the decrease in the provision for that year.

Employee benefits expenses also include payments totalling $10 million to staff identified as excess, for which TAFE SA receives specific funding from DSD.

The following chart shows total employment expenses, total TVSP payments and total FTE staff (excluding casuals and HPIs) for the last four years.



* FTE data sourced from TAFE SA and unaudited.

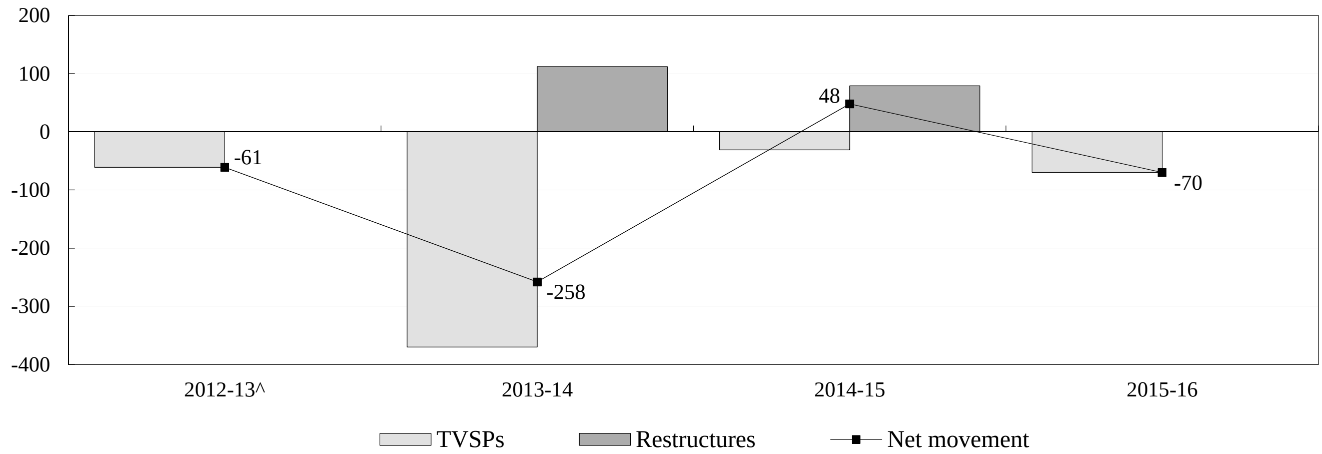
^ TAFE SA was established as a separate entity on 1 November 2012 – employee expenses for 2012-13 only reflect eight months of the year.

The employee benefits expenses figure for 2012-13 shown in the chart reflects eight months of the year, as TAFE SA was only established as a separate entity on 1 November 2012. Without the effect of TVSPs paid each year, the amounts paid in the last three years is consistent, with $218 million paid in 2015-16.

This analysis highlights that decreases in overall staff numbers have largely been absorbed by increases in payments to remaining staff through enterprise bargaining agreement wage rises and other changes.

TAFE SA's Board has established a Human Resources Committee, which has a broad role in overseeing human resources matters within TAFE SA. It is also responsible for overseeing staff performance assessments instituted for key TAFE SA executives. The outcome of the performance assessments for these staff determines whether they receive their full salary package or a reduced amount. The total assessed payments for 2015-16 were $103 000.

The chart below further analyses TVSPs and other movements in TAFE SA staff numbers as a result of restructures for the last four years.



^ TAFE SA was established as a separate entity on 1 November 2012 – employee expenses for 2012-13 only reflect eight months of the year.

532 TVSPs have been paid to TAFE SA staff over the last four years. In that time 191 new staff joined as a result of restructures in the relationship between TAFE SA and the former Department of Further Education, Employment Science and Technology or DSD. These restructures involved:

- 112 staff from 1 July 2013 to establish autonomous corporate services within TAFE SA
- 79 staff from 8 September 2014 to establish autonomous IT services within TAFE SA.

TAFE SA now directly manages these staff. Previously the cost was included in recharges paid to DSD.

Supplies and services

Supplies and services expenses decreased by $7 million to $102 million in 2015-16.

This reduction is principally the result of a $3 million decrease in payments for infrastructure recharges to DSD and a $3 million decrease in fees for contracted services.

Infrastructure payments to DSD decreased by $3 million to $21 million as a result of a periodic review by DSD of infrastructure charges relating to TAFE SA campus responsibilities. The consolidation of TAFE SA campuses at Tonsley and Regency Park has resulted in several former campuses being vacated in recent years, reducing infrastructure costs.

Fees for contracted services decreased by $3 million. Included in the 2014-15 fees for contracted services were payments by DSD, totalling $4 million, for software licencing and infrastructure arrangements on behalf of TAFE SA, for which TAFE SA then reimbursed DSD. This arrangement ceased during 2014-15.

Corporate services recharges paid to DSD also reduced by $2 million. DSD previously provided IT services to TAFE SA under a memorandum of administrative arrangement (MoAA). From September 2014, 80 staff transferred from DSD to TAFE SA to establish TAFE SA's own IT services capacity. As a result, payments for these services only occurred until September 2014. This decrease is offset by a $2 million increase in IT infrastructure and communication expenses.

Income

Funding from DSD

TAFE SA's main income source is DSD. Total funding from DSD was $234 million ($233 million).

This funding constitutes 70% of TAFE SA's total income and is made up of the following components.

	2016 $'million	2015 $'million
Vocational education training (VET) subsidies (for specific units of competency delivered)	144	161
Other grant funding	50	44
Community service obligations	18	17
Excess staff funding	12	-
Capital funding	6	5
TVSP reimbursement	3	3
Other	1	3
Total income	234	233

Overall funding from DSD has remained steady however there has been a change in the funding arrangements between TAFE SA and DSD.

An MoAA for non-commercial services between TAFE SA and DSD outlines funding that DSD provides to TAFE SA for certain non-commercial activities that TAFE SA undertook in 2015-16. The MoAA also provides funding for TAFE SA to perform certain activities to discharge community service obligations.

Total funding of $212 million was agreed between TAFE SA and DSD for 2015-16. This total was separated between funding classified as VET subsidies, based on the number of hours of training delivered, community services obligation amounts and other grants.

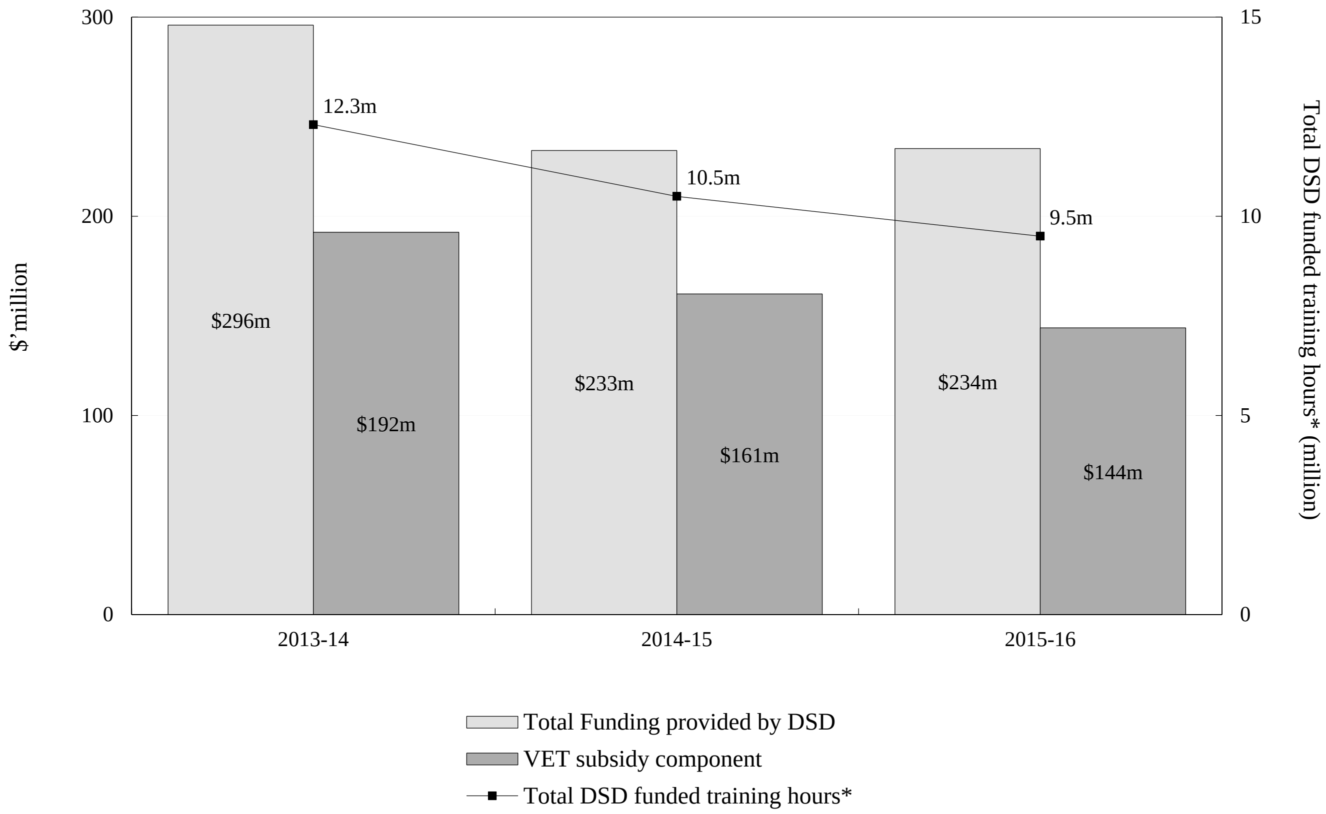
TAFE SA also received funding of $12 million for excess staff under a separate MoAA for TAFE SA structural adjustment. This was paid by DSD to meet the costs of excess employees incurred as a consequence of implementing strategic initiatives approved by Cabinet.

The balance of the $234 million is subject to separate arrangements.

The MoAA acknowledges the transitional nature of the arrangements to allow TAFE SA to implement significant organisational reforms and changes in business practices.

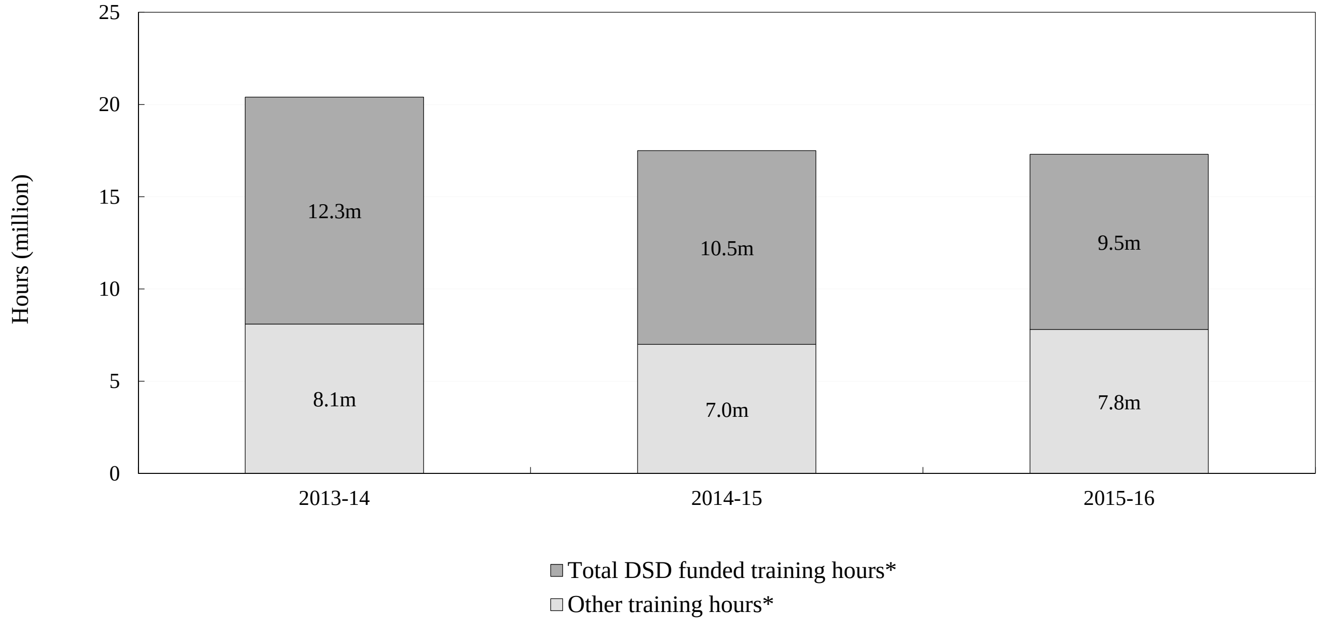
The VET subsidies component of the funding decreased by $17 million due to a decrease in training hours delivered.

The following chart analyses the proportion of VET subsidies as part of overall DSD funding for the past three years, along with the total number of training hours delivered by this funding.



*	Training hours provided by TAFE SA and unaudited.

TAFE SA's overall training hours have also decreased marginally for 2015-16. The following chart shows the total training hours delivered by TAFE SA over the last three years, and the proportion funded by DSD.



*	Training hours provided by TAFE SA and unaudited.

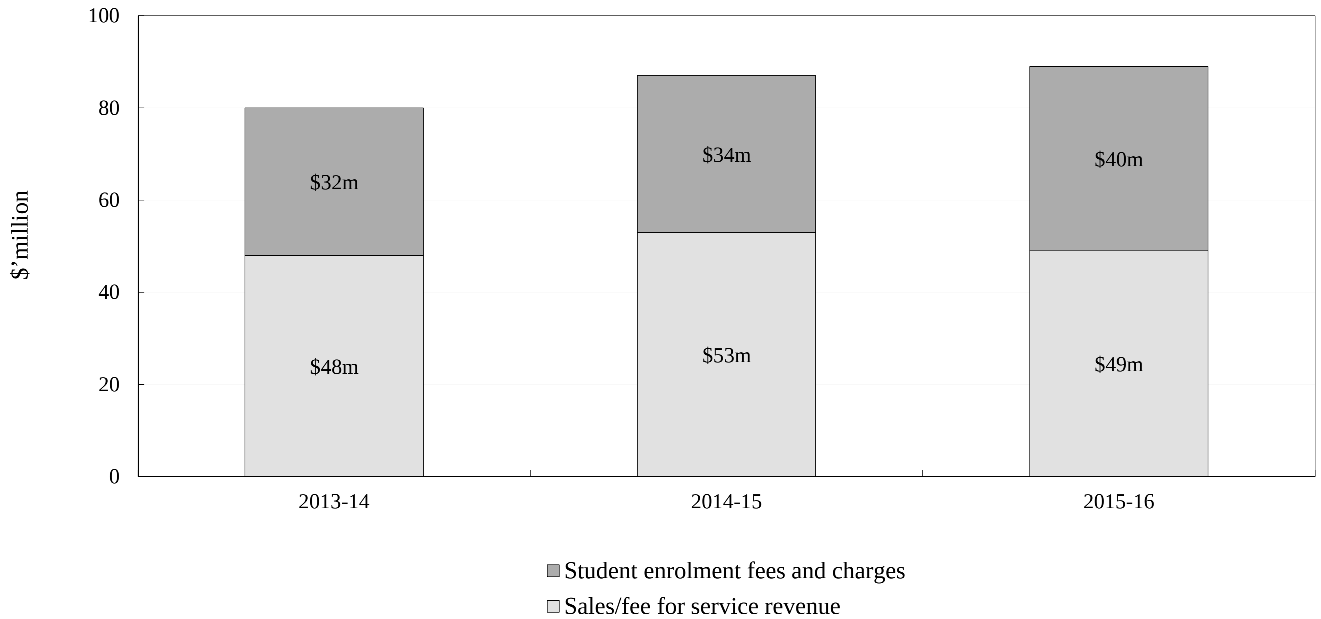
The chart highlights there has been an overall reduction in the number of training hours delivered over the last three years, with a marginal reduction between 2014-15 and 2015-16. The steeper reduction from 2013-14 was a result of reduced funding under Skills for All for training in subsequent years.

The chart also highlights non-DSD funded training hours have grown slightly in 2015-16.

Student and other fees and charges

Student and other fees and charges totalled $94 million ($91 million) and make up 28% (27%) 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 fluctuated over this period, while student enrolment fees and charges have increased.

The main reason for the $6 million increase in student enrolment fees and charges in 2015-16 was an increase of $5 million in receipts from students enrolling in courses where no subsidy is received from DSD, requiring students to pay full fees. This reflects the changes to DSD's funding arrangements for the VET sector, with WorkReady, which replaced Skills for All from 1 July 2015, only providing subsidies for a smaller range of courses.

Statement of Financial Position

The most significant items in TAFE SA's Statement of Financial Position are:

	2016 $'million	2015 $'million
Assets		
Cash and cash equivalents	72	14
Receivables	14	96
Property and equipment and intangibles	29	30
Liabilities		
Payables	20	45
Employee benefits	63	67

The $58 million increase in cash and cash equivalent, and the $82 million decrease in receivables during 2015-16 primarily reflect the timing of the receipt of funding from DSD. Out of the total receivables of $96 million as at 30 June 2015, $72 million related to amounts owed by DSD to TAFE SA under the Skills for All program or other agreements. Delays in receiving these amounts in 2014-15 resulted in a lower cash balance at 30 June 2015.

Payables have decreased by $25 million in 2015-16. The largest component of this reduction was the finalisation of a payment to DSD of $13 million for previous Skills for All overpayments during 2015-16. This amount was shown as being payable at 30 June 2015.

TAFE SA does not own its campus infrastructure, which is leased from DSD. Consequently, land and buildings are not a feature of TAFE SA's assets. TAFE SA recognises items of plant and equipment, leasehold improvements and intangible assets (software). Land and buildings used by TAFE SA are recognised as part of DSD's property, plant and equipment.

Statement of Cash Flows

Cash increased by $58 million during the period, mainly due to the receipt of outstanding amounts from 2014-15 funding from DSD during 2015-16. These amounts were included in the receivables balance at 30 June 2015.

Further commentary on operations

In late 2014-15 TAFE SA began consulting on its future service delivery arrangements – Improving Access to Education strategy (formerly the Future Education Delivery Strategy). This reflects the continuing need for TAFE SA to change its service delivery approach and continue its transition to operate competitively in commercial market segments for providing VET training.

The strategy aims, in part, to respond to government announcements regarding future funding for TAFE SA under the WorkReady Scheme, which replaced Skills for All for new training commencements from 1 July 2015. The SA Government has announced its intention to reduce any funding differential between amounts paid to TAFE SA and those paid to a private training provider for providing the same unit of competency by July 2019, which will require further changes within TAFE SA.

From June to October 2015, TAFE SA undertook public consultation about its future changes. In the latter part of 2015-16 TAFE SA started incorporating feedback from the consultation process into its delivery planning activities for 2016-17. Primarily this will involve the increased use of facilitated online delivery and mobile lecturers travelling to community and industry locations based on local demand for courses.

Department of Treasury and Finance (DTF)

Financial statistics	Net cost of providing services:	$61 million
	Total revenues from SA Government:	$76 million
	Employee benefit expenses:	$64 million
	Revenues from fees and charges:	$42 million
	Administered taxation revenue:	$3.692 billion
	Administered Commonwealth revenues:	$7.651 billion
	Number of FTEs (including the South Australian Government Financing Authority and the South Australian Superannuation Board):	600

Significant events and transactions

- Land tax and Emergency Services levy processing transitioned to the RISTEC release 2 system, now known as the Revenue Information Online system (RIO), in July 2015.
- Construction of the ANZAC Centenary Memorial Garden Walk commenced in 2015-16 and is nearing completion. The cost is reflected in work in progress ($10 million).

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- Reconciliation of the RevenueSA collection bank account was not completed promptly during the year
- Draft RevenueSA compliance risk and debt management frameworks, policies and procedures were established but not finalised and approved
- Overdue debtor follow-up activities for land tax and the Emergency Services levy were intermittent between July 2015 and April 2016 due to various RIO system defects, resulting in delays in issuing final and demand notices to taxpayers who had defaulted
- Reconciliations were not performed regularly to ensure property ownership and valuation data provided by the Department of Planning, Transport and Infrastructure's Land Services Group for land tax and the Emergency Services levy calculations were accurately and completely updated to RIO
- Potential system errors and warnings flagged as exceptions by RIO were not all identified and followed up promptly
- A number of ICT governance documents and policies and procedures needed establishment or updating

Functional responsibility

DTF is an administrative unit established under the *Public Sector Act 2009*, and is responsible to the Treasurer.

DTF has a number of functions, including:

- setting economic and fiscal policy at the whole-of-government level
- managing whole-of-government financial management processes
- providing a range of direct whole-of-government services including funding and debt management, collection of state taxes and administration of insurance and superannuation
- administering the receipt of Commonwealth Government revenues and on-passing to relevant SA Government agencies.

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. The audit program also considered the review work of DTF's internal audit section.

During 2015-16 specific areas of audit coverage included:

Corporate systems

- general ledger processing and maintenance
- bank reconciliations
- accounts payable
- accounts receivable
- payroll.

RevenueSA

- system user access
- calculating notices of assessment
- receipting and banking
- upload and reconciliation of the South Australian Integrated Land Information System (SAILIS) property data
- reconciliations between subsidiary taxation systems and the general ledger
- debtor follow-up.

Financing and insurance services

Commentary on these activities is included under 'South Australian Government Financing Authority' in this Report.

Superannuation services

Commentary on these activities is included under 'South Australian Superannuation Board' in this Report.

Public finances

We review various aspects of the public finances. Results will be reported in a Supplementary Report on the State Finances. The Treasurer's Statements are included in the Appendix to this Annual Report.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Department of Treasury and Finance in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Department of Treasury and Finance have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the audit of DTF were detailed in management letters to the Chief Executive. The main matters raised and the related responses are detailed below.

In addition, matters relating to Shared Services SA (SSSA) as a service provider to DTF are also described below.

RevenueSA

RevenueSA, through the Commissioner of State Taxation, is responsible for management, collection and compliance functions for the State's taxation revenue, including stamp duty, payroll tax, land tax and the fixed property component of the Emergency Services levy (ESL).

RevenueSA Collection Bank Account reconciliation not completed promptly

All state taxation revenue receipts are deposited into the RevenueSA Collection Bank Account. The total state taxation revenue receipted through the collection account in 2015-16 was $3.692 billion. RevenueSA performs a monthly reconciliation to ensure transactions processed through the collection account reconcile to the DTF general ledger. This is in effect a 'three way' reconciliation which ensures that all monthly transactions processed through the taxation systems, collection account and DTF general ledger reconcile.

At the time of our interim audit in May 2016, all monthly reconciliations from July 2015 were yet to be completed, finalised and independently reviewed, pending the resolution of a large number of variance items relating to RIO.

RevenueSA advised that the reconciliation delay was mainly due to difficulties in matching monthly payroll tax, land tax and ESL taxation receipts in the collection account bank statement to RIO and corresponding batch totals in the DTF general ledger.

The reconciliation delay increased the risk that all amounts processed through RIO and the Collection Bank Account were not accurately and completely reflected in the DTF general ledger during 2015-16.

There was also a risk that all amounts deposited into the Collection Bank Account were not receipted in RIO.

We recommended RevenueSA investigate, explain and clear the variance items in the monthly reconciliations promptly. This included investigating whether RIO system reporting and functionality changes could facilitate the taxation receipt matching process. We also recommended exploring alternative reconciliation methodologies.

RevenueSA responded that it had allocated resources to ensure these reconciliations were performed promptly. RevenueSA also advised that it would review the existing methodology and reconciliation reports to reduce the degree of manual intervention required.

As part of the financial statements audit, we confirmed that all reconciliations for the year were up to date and had been prepared using an appropriate reconciliation methodology.

Taxpayer compliance

Compliance risk frameworks, policies and procedures need finalising and approval

Our 2014-15 review identified a number of areas where there was scope to improve the management of taxpayer compliance, particularly establishing formal compliance risk frameworks, policies and procedures.

RevenueSA responded that it would document a formal compliance risk management framework and establish formal policies and procedures outlining the process and approach for identifying and assessing compliance risks by December 2016.

Our follow-up in 2015-16 indicated that RevenueSA had made progress to address these areas. This included developing a draft Compliance Services Risk Assessment Methodology, draft Compliance Services Risk Management Framework and draft Risk Rating Matrix specific to RevenueSA compliance activity. However, these documents are yet to be finalised and formally approved.

RevenueSA indicated that it has applied resources to drafting a Compliance Risk Assessment Framework which details the methodology for compliance risk identification, analysis, evaluation and treatment authorisation. The planned completion date is still December 2016.

New and modified minor interests in property holdings not identified and assessed

Our review identified that new and modified minor interests in property holdings were not being identified and assessed for land tax purposes, given these interests were not readily identifiable with existing RIO functionality.

RevenueSA responded that a RIO system defect has been raised and will be addressed to ensure all new and modified minor interests are identified and subsequently assessed. Timing of the resolution of the issue is dependent on the removal of the system code ‘lockdown’ and defect prioritisation following the RIO system upgrade scheduled for completion at the end of 2016.

Debt management

Policies and procedures to identify, record and manage tax debt not finalised

Our 2014-15 review found that RevenueSA had no documented policies for identifying, recording and managing tax debt and that there were opportunities to improve the extent and currency of documented procedures for managing tax debt.

Our follow-up in 2015-16 indicated that new policies and procedures for managing tax debt were in draft and planned to be finalised by September 2016. We also noted that existing procedures for identifying, recording and managing tax debt in RIO had not been reviewed and updated to ensure they reflect current business practices.

RevenueSA responded that work is continuing to develop new policies and procedures for identifying, recording and managing tax debt. Information about each business unit's follow-up processes has been collated and a draft policy document is in progress. As a result of competing priorities the completion date has been amended to 31 December 2016.

Follow up of land tax and ESL debtors delayed

The dunning process involves raising final notices and demand letters for overdue debts and referring cases to Debt Management Services (DMS) for follow-up activities.

Dunning activities for land tax and ESL were intermittent from July 2015 to April 2016 due to various RIO system defects. As a result there were delays in issuing final and demand notices to taxpayers who had defaulted for land tax and ESL. Some final notices were delayed by 29 days.

To prevent this issue from recurring, we recommended RevenueSA ensure all RIO system defects impacting dunning activities are identified, investigated and fixed as soon as possible.

RevenueSA responded that since the audit was completed, dunning processes have been performed weekly in line with operational time frames. RevenueSA also advised that the estimated completion date for resolving relevant defects is the end of December 2017, however this date is contingent on the RIO system upgrade and other defect resolution priorities.

Issues with accuracy and completeness of aged debtor reports

An aged debtors report was developed for RIO. However, DMS preliminary testing identified potential issues with the accuracy and reliability of information in the report.

The aged debtors report only captures debts referred to DMS and not all outstanding debts. Reporting all outstanding debts would enable RevenueSA to monitor the effectiveness of invoicing and collection processes before referring debts to DMS (ie timely issue of final notice letters and resolution of invoicing and collection issues), as well as the debtor management activities performed after a debt has been referred to DMS.

RevenueSA responded that it is investigating the accuracy of the aged debtors report. RevenueSA also agrees that a further report is required to identify all outstanding debts. These initiatives will be considered and prioritised along with other system requirements following the RIO system upgrade and defect resolution. The estimated completion date for this work is June 2017, however this date is contingent on the RIO system upgrade and other defect resolution priorities.

Upload and reconciliation of SAILIS data required improvement

Calculating and billing land tax and ESL is heavily reliant on property and ownership data provided by the Department of Planning, Transport and Infrastructure (DPTI) Land Services Group (LSG) from the SAILIS database (SAILIS-LSG database).

Data from the SAILIS-LSG database is re-engineered by RevenueSA into a format compatible with RIO and stored in a database maintained by RevenueSA (SAILIS-RevenueSA database).

Data reconciliations between the SAILIS-LSG and SAILIS-RevenueSA databases are not performed regularly. When reconciliations are performed, while confirming SAILIS database accuracy, they do not ensure that data in the SAILIS-RevenueSA database reconciles to RIO. As a result, discrepancies between the source SAILIS-LSG database and RIO may not be detected.

The SAILIS data re-engineering is time-consuming and increases the risk of data integrity being compromised. The amount of re-engineering could be reduced or eliminated if DPTI LSG provided the data in a more compatible format.

To address these issues, we recommended that RevenueSA regularly reconcile the SAILIS-LSG database, SAILIS-RevenueSA database and RIO and follow up any discrepancies promptly. This reconciliation should be automated where possible to minimise the amount of staff time and effort required and reduce the likelihood of undetected errors and discrepancies.

RevenueSA should also investigate the possibility of getting ownership and property data from DPTI LSG in a more compatible format to reduce the degree of data manipulation required.

RevenueSA responded that to ensure successful provision, transformation and processing of SAILIS data uploads, a data matching reconciliation has been implemented. This data matching occurs across the three databases on selected data fields that directly impact liability calculations. It is envisaged that the reconciliation will occur at critical times over the property tax-line lifecycle to minimise data discrepancies, in preparation for issuing the tax-line notices of liability.

RevenueSA will also initiate discussions with DPTI LSG on the format of the data provided after the RIO system upgrade. This upgrade is scheduled for completion at the end of 2016.

Incomplete review of outstanding RIO exceptions

Potential errors and warnings arising from various property tax processes in RIO are based on business rules. These potential errors and warnings are flagged as exceptions and need to be manually investigated by staff.

Some staff use limited parameters to search for outstanding exceptions. A narrow date range is often searched and may not identify outstanding exceptions outside of this date range. Many land tax and ESL exceptions, some of which date back to July 2015, are not being identified and actioned.

The process for monitoring outstanding exceptions and the remedial actions required are not documented.

RevenueSA responded that a review of outstanding exceptions/issues is underway. A more detailed procedure will be developed outlining the most appropriate method to search for exceptions, taking into account system performance limitations.

RevenueSA anticipates completing this work by the end of December 2016.

Other findings

We identified:

- RevenueSA was unable to provide supporting documentation to demonstrate that the Treasurer had explicitly approved the ex gratia arrangement for the general ESL remission for retirement villages and independent living units in accordance with Treasurer's Instruction 14 'Ex Gratia Payments', clause 14.4.2.
- There is no formal procedure for the calculation and valuation checks performed on land tax and ESL as part of the start-of-year process and the process for reviewing and clearing the RIO clarification account.
- A number of revenue policies and procedures were not updated promptly to reflect current systems, processes, practices and management expectations.

RevenueSA responded that the remissions were the subject of a specific approval by the Treasurer and announced by the SA Government as part of the Mid-Year Budget Review handed down on 23 December 2014. A further approval was given by the Minister for Finance to include, with effect from 2015-16, remissions to independent living unit properties assigned a newly created land use code. The Emergency Services Funding (Remissions—Land) Regulations 2014 have now been amended to provide these remissions on an ongoing basis from 2016-17.

RevenueSA also responded that procedures will be updated to capture the calculation and valuation checks performed on land tax and ESL as part of the start-of-year process by the end of June 2017. It has also completed procedural guidelines for the review and clearing of the RIO clarification account.

For the out-of-date revenue policies and procedures, RevenueSA advised the primary focus in the past financial year was correct reporting from the new system interface. This involved re-engineering a number of processes and monitoring and testing changes implemented. Once RevenueSA is satisfied with the revised processes, the necessary documentation and procedures will be updated by the end of June 2017.

DTF corporate functions

DTF's corporate functions include:

- governance
- general ledger processing and maintenance
- bank reconciliations
- accounts payable
- accounts receivable
- payroll.

Many of these functions are performed by SSSA on behalf of DTF under a service level determination.

DTF exercises controls to ensure that information provided to SSSA for processing is complete, accurate and properly approved. SSSA is responsible for the complete and accurate processing of this information into DTF's financial reporting systems.

Governance

Need to establish and update information and communications technology (ICT) governance documentation

Our review of DTF's ICT governance arrangements identified the following:

- DTF does not have a current ICT Strategic Plan
- the Information Security Management policy has not been finalised
- several IT security management procedures have not been recently reviewed and have gone beyond their scheduled review dates
- an incident and problem management policy and procedure addressing DTF's ICT environment does not exist
- a formally documented change management policy and procedure does not exist
- a policy for regular backup restoration addressing all data assets does not exist.

We also noted that, with the exception of the business continuity/disaster recovery plans for the South Australian Government Financing Authority (SAFA) Findur application and Public Finance Branch Hyperion system, corporate level and ICT level business continuity/disaster recovery plans had not been tested in the past 12 months.

Gaps were also identified between DTF policies and procedures and the Information Security Management Framework (ISMF). For example DTF needed to establish new policies for acceptable use, communications security, information classification and handling, and user access management to comply with the ISMF.

DTF responded that the previous ICT Strategic Plan (ICT Strategy Statement of Intent 2013–18) had reached the end of its useful life due to functional and organisational changes and had been decommissioned in 2015. DTF has developed a new Digital Roadmap and Corporate Plan effective from July 2016. It will now also develop a two-year ICT Strategic Plan (2017–19) to enable the business objectives set out in the Digital Roadmap and Corporate Plan. The plan will be finalised by early 2017.

DTF also advised that it would:

- prepare a draft Information Security Management policy for implementation by November 2016
- complete a review of all ICT policies and procedures to align them to business requirements, whole-of-government ICT requirements and industry best practice, with a plan to implement the policies and procedures by November 2016 after consultation processes
- develop a formal policy for incident and problem management by December 2016
- develop a formal change management policy by December 2016
- formalise the process for testing the recovery of backed up data by March 2017.

DTF will also develop and conduct a new schedule of tests for the 2017 and 2018 calendar years to ensure business continuity plans for all business units are tested and modified where necessary to align to ICT business continuity plans and disaster recovery plans and capabilities.

To ensure that all ICT policies and procedures align to ISMF requirements, a risk identification and controls approach has commenced. A register will capture all key policy requirements identified in the ISMF and all current linkages to ICT policies and procedures. A risk assessment is also being conducted for all gaps discovered, to identify the required changes, any controls to be put in place to mitigate risks, and any treatment plans required for high level residual risks.

DTF intranet and specific policies and procedures needed updating

Our review identified policies, procedures and other documentation on the intranet that had not been updated or revised for a significant period of time or in line with scheduled review dates.

We also found that the current file and webpage structure of the DTF intranet does not facilitate easy identification and retrieval of certain information and documentation.

The DTF intranet is the key reference point for DTF staff when searching for organisational information and confirming applicable policy and procedure requirements.

DTF responded that the current strategic plan contains a strategic initiative to develop an e-Library. The future of the DTF intranet will be considered as part of this initiative as DTF reviews its overall information management. The initiative will be progressed in 2016-17.

DTF will also review its existing policies and procedures and revise and update any that have passed their review date.

The Risk and Audit Services section of the Department of the Premier and Cabinet (DPC), which provides internal audit services to DTF, will also perform more regular reviews to identify policies and procedures that are due for review and send reminders to responsible officers.

Payroll

Bona fide reports not promptly reviewed

Section heads are required to certify the completeness and accuracy of fortnightly bona fide reports. This provides assurance that only valid employees are paid for time worked and that employees are paid in accordance with the terms of their appointment.

Our review indicated that certain DTF branches had not supplied timely certified bona fide reports.

DTF responded that all outstanding bona fide reports have been reviewed, certified and submitted. A notification will be sent to all branches outlining the procedural requirements for the review of bona fides.

Expenditure

Review of the exercise of super/special delegations not timely

DTF Financial Services receives monthly reports from SSSA, through the DPC Purchasing and Facilities team, detailing transactions where super/special delegations have been exercised. Reviewing the validity of these transactions is important because super/special delegations should only be used for designated purchasing activities and expenditure types. The Basware system is not able to validate whether super/special delegations have been used for the correct purpose.

Our review identified that the monthly reports had not been provided to DTF Financial Services since November 2015.

DTF responded that it will review all reports since November 2015 where super/special delegations have been exercised by departmental officers.

Public Finance Branch

The Public Finance Branch (PFB) responsibilities include administering the annual appropriation process, recording activities of the Consolidated Account and the balances of the Treasurer’s deposit accounts and loans. Our review of the controls exercised by the PFB identified the following matters.

Reconciliation of central general ledger clearing accounts not resolved

We have noted in prior years that the PFB has been unable to successfully reconcile the balances recorded in clearing accounts in the central general ledger with information or advice received from agencies. This has been an ongoing issue which was first raised in 2011-12, and our follow-up in the current year indicated the issue is yet to be fully resolved.

However, we noted the PFB had done a lot of work in 2015-16, working with agencies in an attempt to:

- quantify the uncleared balances for the current year and historical uncleared balances
- identify the causes of the historical balances that remain uncleared
- distinguish between amounts that result from acceptable timing differences and those that are processing errors.

The PFB had also identified the cause of some incorrect balances remaining in the clearing accounts.

The PFB advised in its response that the effort required to resolve this issue was significant and has required steps to get better quality data from agencies.

The PFB advised its intention to redesign the current process to avoid historical issues being repeated. This will include implementing an updated template that agencies will use to submit their data in a way that will assist the PFB to better reconcile the clearing accounts and quickly identify and resolve any potential problems.

Other findings

We identified the following areas where controls could be improved:

- The automatic sweeping arrangement in place for The Legislature removes the ability of the Treasurer to control the value and purpose of funds issued from the Consolidated Account to The Legislature.

- Supporting documentation for Special Act payments is not being submitted by all agencies and this documentation is not reviewed by the PFB to ensure expenses reimbursed are in accordance with the relevant Special Act.

The PFB responded that it has contacted The Legislature to explore the possibility of changing current sweeping arrangements.

The PFB advised that when submitting monthly advices of general ledger balances online, agencies will need to declare the Special Act payments are valid. This declaration will authorise the PFB to reimburse the Special Act payments to agencies.

Information and communications technology and control

We assessed system application controls for RIO with the assistance of an external audit firm during 2015-16. Our review identified significant control deficiencies that needed to be addressed as a matter of priority. Our detailed findings from this review will be the subject of a Supplementary Report to Parliament in October 2016.

Shared Services SA – financial systems and transaction processing environments

SSSA processes financial transactions on behalf of DTF under service level determinations. The main systems and control environments include accounts payable, payroll and general ledger financial functions.

Our review and evaluation of controls for the SSSA main payroll systems concluded that not all controls were effective for 2015-16. A number of specific matters were raised with SSSA for corrective action and review for process and procedural improvement.

Further details are included in the commentary under 'Department of the Premier and Cabinet' in this Report.

Interpretation and analysis of the financial report

Highlights of the Department's financial report – controlled items

	2016 $'million	2015 $'million
Expenses		
Employee benefit expenses	64	56
Supplies and services	44	42
Other expenses	3	1
Total expenses	111	99

	2016 $'million	2015 $'million
Income		
Fees and charges	42	40
Other income	8	2
Total income	50	43
Net cost of providing services	61	57
Net revenues from SA Government	76	56
Net result and total comprehensive result	15	-
Assets		
Current assets	19	15
Non-current assets	41	26
Total assets	60	41
Liabilities		
Current liabilities	13	13
Non-current liabilities	18	15
Total liabilities	31	28
Total equity	29	13

Statement of Comprehensive Income

Expenses

Expenses totalled $111 million in 2015-16 compared to $99 million in 2014-15, an increase of $12 million. This is mainly due to an increase in employee benefit expenses ($8 million), which is primarily attributable to the transfer of 53 employees undertaking ICT services from DPC to DTF, in conjunction with additional employee expenditure for the Compulsory Third Party Insurance Market Reform project and the Commercial Projects Group.

Employee expenses include salaries and wages for staff provided by DTF to support SAFA and South Australian Superannuation Board operations. These costs are recovered from SAFA and the South Australian Superannuation Board through a service level arrangement and are reported in note 9 of the financial report.

Income

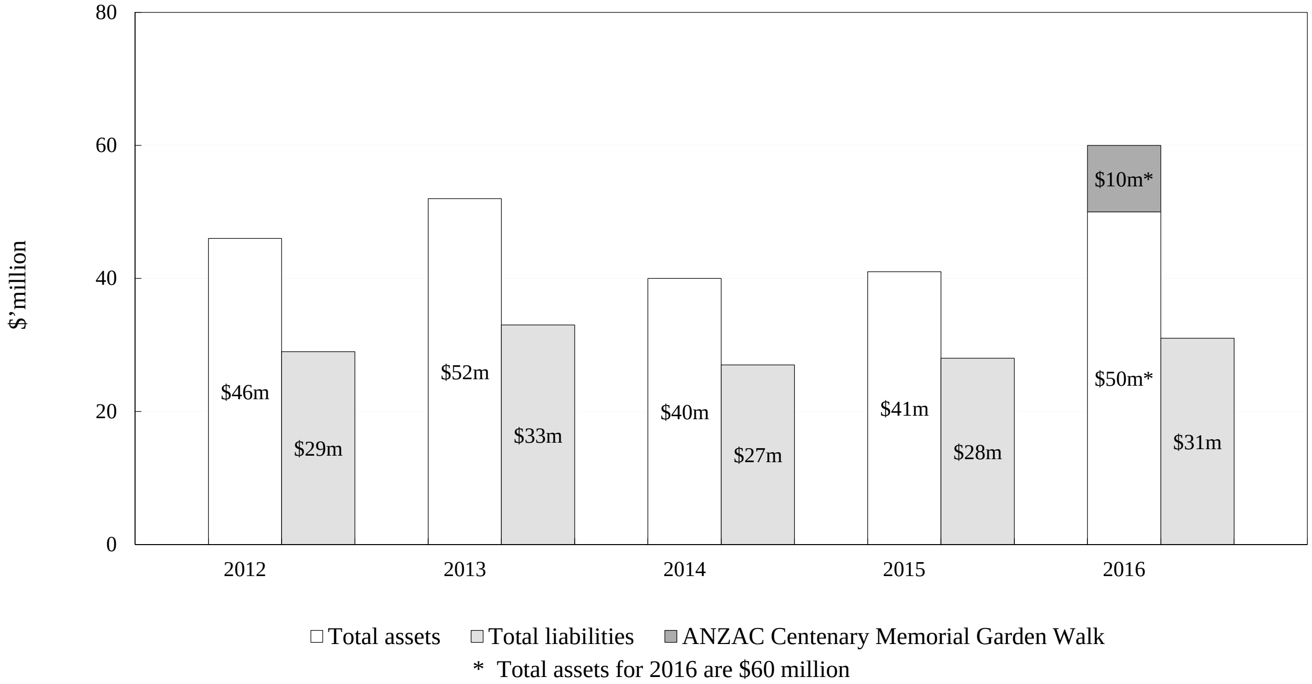
Income totalled $50 million in 2015-16 compared to $43 million in 2014-15, an increase of $7 million. This is mainly due to an increase in other income ($5 million), which is primarily attributable to once-off contributions received in 2015-16 from the Commonwealth ($5 million) and the Adelaide City Council ($1 million) for the ANZAC Centenary Memorial Garden Walk project.

Statement of Financial Position

Total assets increased by $19 million to $60 million, due mainly to an $11 million increase in property, plant and equipment and $4 million increase in intangible assets. The increase in property, plant and equipment is primarily attributable to work in progress costs associated with the ANZAC Centenary Memorial Garden Walk. The increase in intangibles is mainly due to work in progress additions associated with RIO and the new Super SA IT system.

Construction of the ANZAC Centenary Memorial Garden Walk has been managed by DPTI on behalf of DTF. Once it is completed, it is expected ownership and control of the asset, along with associated maintenance responsibilities, will be transferred to the Adelaide City Council. The final transfer arrangements are still being negotiated and will be formalised in a memorandum of understanding.

The following chart shows the movements in DTF's assets and liabilities since 2012.



Total assets and liabilities have remained relatively stable over the past five years. The significant increase in total assets in 2015-16 is attributable to construction of the ANZAC Centenary Memorial Garden Walk and additions associated with the new RIO and Super SA IT systems.

Statement of Cash Flows

Net operating cash flows improved by $16 million due mainly to an increase in net cash received from the SA Government ($20 million), offset partly by an increase in employee benefit payments ($6 million).

Highlights of DTF's 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 2015-16 is reported in the Treasurer's Statements (Appendix to the Annual Report).

	2016 $'million	2015 $'million
Expenses		
Payments to SA Government	10 393	12 451
Grants, subsidies and transfers	2 642	2 311
Other expenses	858	923
Total expenses	13 893	15 685
Income		
Taxation	3 692	3 904
Commonwealth revenues	7 651	6 935
Revenues from SA Government	1 649	1 448
Other revenues	945	3 392
Total income	13 937	15 679
Net result	44	(6)

	2016 $'million	2015 $'million
Assets		
Current assets	1 366	1 120
Non-current assets	3	2
Total assets	1 369	1 122
Liabilities		
Current liabilities	1 053	826
Non-current liabilities	40	64
Total liabilities	1 093	890
Total equity	276	232

Taxation revenue is $212 million lower in 2015-16 than in the previous year, primarily due to a delay in raising land tax invoices ($216 million). The delays in issuing invoices compared to prior years primarily related to SA Government agencies such as the South Australian Housing Trust and the Urban Renewal Authority and resulted from issues associated with RIO data migration, SAILIS daily file processing and invoicing scheduling conflicts.

These invoices were raised in late 2015-16. The amounts not received in 2015-16 will be received in 2016-17 in addition to land tax payments for the 2016-17 land tax year.

Other revenues and payments to the SA Government were both significantly higher in 2014-15, mainly due to a $2.7 billion return of capital by the South Australian Water Corporation to the Treasurer for the credit of the Consolidated Account.

Further commentary on operations

Commonwealth funding arrangements

The Intergovernmental Agreement on Federal Financial Relations (IGA) is the framework for the Commonwealth's financial relations with the states and territories.

The IGA 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 (SPPs) to be spent in the key service delivery sectors agreed to between the Commonwealth and the states. Each national SPP 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 IGA all Commonwealth funding, with the exception of funding under the National Health Reform Agreement and the National Education 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 SPP purposes listed in Schedule F of the IGA and the national partnership payments purposes listed in Schedule G.

The balance of the IGA account at 30 June 2016 was $21 million ($43 million). This represents funds that DTF is yet to transfer to other agencies.

University of Adelaide
(Uni Adelaide)

Financial statistics	Net operating result:	$50 million
	Australian Government financial assistance:	$500 million
	Number of FTEs:	3 840
	Number of students (EFTSLs):	21 232

Significant events and transactions

Construction of the Adelaide Health and Medical Sciences (AHMS) building commenced in August 2014 and continued throughout 2015. The AHMS building is located next to the new Royal Adelaide Hospital and will incorporate new facilities for Uni Adelaide's Medical and Nursing Schools and a new dental clinic. The AHMS building has a total budgeted construction and fitout cost of $246 million and is planned for completion by semester 1, 2017.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

— Bona fide reports were not always checked or certified in accordance with Uni Adelaide's requirements

— The certification on bona fide reports required managers to certify that salaries paid to employees listed on the report were reasonable. This was inconsistent with the Bona Fide Review Procedure which required managers to verify the accuracy of salaries

— Changes to standing data in the payroll system were checked without the use of payroll system reporting, increasing the risk of errors in processing changes going undetected possibly resulting in under or over payments

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Functional responsibility

Uni Adelaide is established by the *University of Adelaide Act 1971*.

Uni Adelaide has the objective of advancing learning and knowledge which it achieves through the provision of university education and the conduct of research activities.

Scope of the audit

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

During 2015 specific areas of audit review included:

- corporate governance
- information and communications technology
- procurement, project management and contract management
- Commonwealth financial assistance
- research grants, student fees and other revenue
- cash, investments and borrowings
- property, plant and equipment
- payroll
- accounts payable
- general ledger.

Internal audit activities and reports were reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

The audits of the controlled entities for the year ending 31 December 2015 were carried out by private accounting firms.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the University of Adelaide in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the University of Adelaide have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified during the course of the audit were detailed in a management letter to the Vice Chancellor and President. Uni Adelaide's response to the letter indicated that appropriate action would be taken to address the matters raised. The main matters raised with Uni Adelaide and the related responses are detailed below.

Payroll

Bona fide reports not checked or certified in accordance with Uni Adelaide's requirements

Uni Adelaide obtains assurance that all employees on its payroll are bona fide and correctly paid through a number of controls, including the review of bona fide reports by faculties and divisions.

Our audit identified that:

- bona fide reports were not always checked or certified by managers of faculties and divisions in accordance with Uni Adelaide's requirements, increasing the risk of errors in payroll processing going undetected
- the certification on bona fide reports required managers to certify that salaries paid to employees listed on the report were reasonable. This was inconsistent with the Bona Fide Review Procedure which required managers to verify the accuracy of salaries. This inconsistency increases the risk of staff not understanding the nature and extent of checks they are required to perform.

Uni Adelaide responded that it will:

- remind managers of faculties and divisions of the requirement to check or certify bona fide reports in accordance with Uni Adelaide's requirements
- re-examine the purpose of the bona fide reports and update the procedures for the review of bona fide reports to reflect the Uni Adelaide's expectations on the nature and extent of checking.

Payroll standing data not checked using system reporting

Standing data in the payroll system is used to calculate the fortnightly pay of each employee. The standing data includes the annual salary of each employee. Errors in processing changes to standing data may result in under or over payments. To prevent processing errors Uni Adelaide requires the HR Payroll Team to check all changes to standing data processed by the HR Employment Contracts Team. These checks were not performed from payroll system reporting, increasing the risk that not all changes are checked.

Uni Adelaide responded that it will review its checking procedures and consider implementing payroll system reporting.

Interpretation and analysis of the financial report (Consolidated)

The revenue and expense items for the interpretation and analysis of the financial report have been sourced from notes 38 and 39 of the financial report, as these notes are prepared in accordance with the Department of Education and Training reporting guidelines and provide consistency and comparability with the other universities.

Highlights of the financial report (Consolidated)

	2015 $'million	2014 $'million
Revenue		
Australian Government grants	385	404
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	115	113
HECS-HELP (student payments)	13	14
Fees and charges	209	193
Other	213	203
Total revenue	935	927
Expenses		
Salaries and related expenses	487	479
Other expenses	398	395
Total expenses	885	874
Operating result from continuing operations	50	53

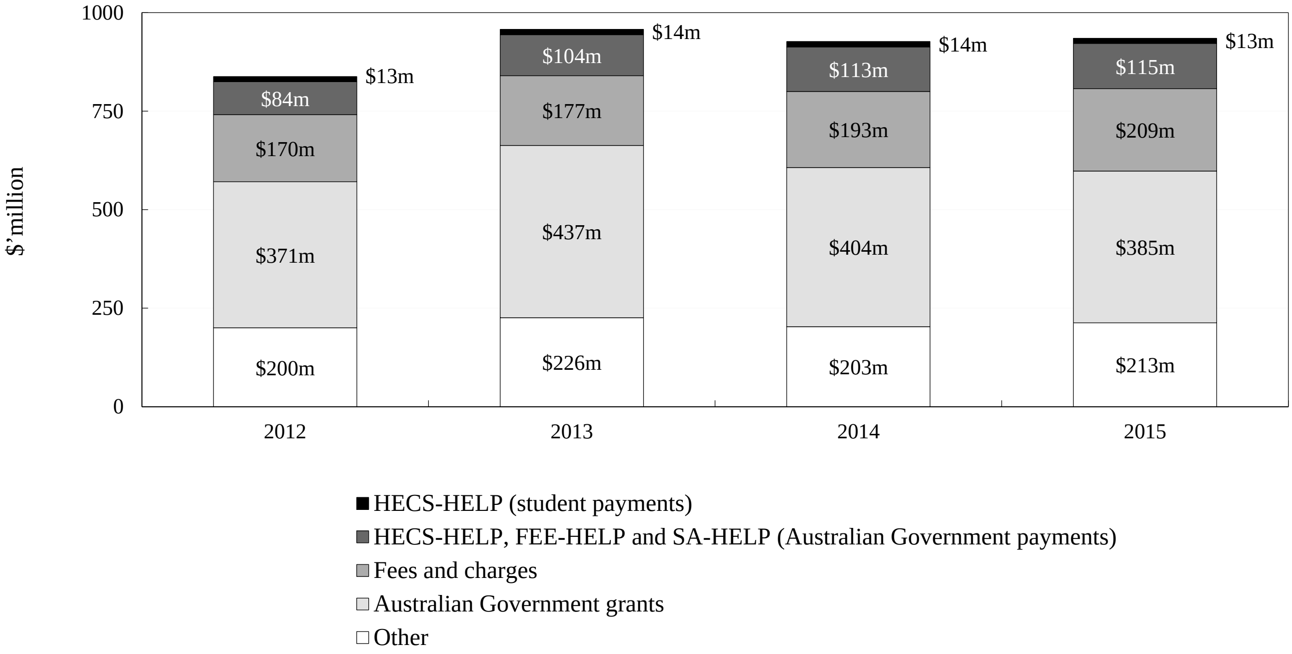
	2015 $'million	2014 $'million
Net cash flows provided by (used in) operating activities	93	89
Net cash flows provided by (used in) investing activities	(61)	(70)
Net cash flows provided by (used in) financing activities	(30)	(11)

Assets		
Current assets	197	239
Non-current assets	1 590	1 512
Total assets	1 787	1 751
Liabilities		
Current liabilities	135	124
Non-current liabilities	204	230
Total liabilities	339	354
Total equity	1 448	1 397

Statement of Comprehensive Income

Revenue

A structural analysis of operating revenues for Uni Adelaide in the four years to 2015 is presented in the following chart.



The chart shows that Uni Adelaide has diverse revenue sources. The following provides more detail on the major revenue components.

Australian Government grants and payments

The total grants and HECS payments received from the Australian Government in 2015 were $500 million ($517 million), which represents 53% (56%) of total revenue.

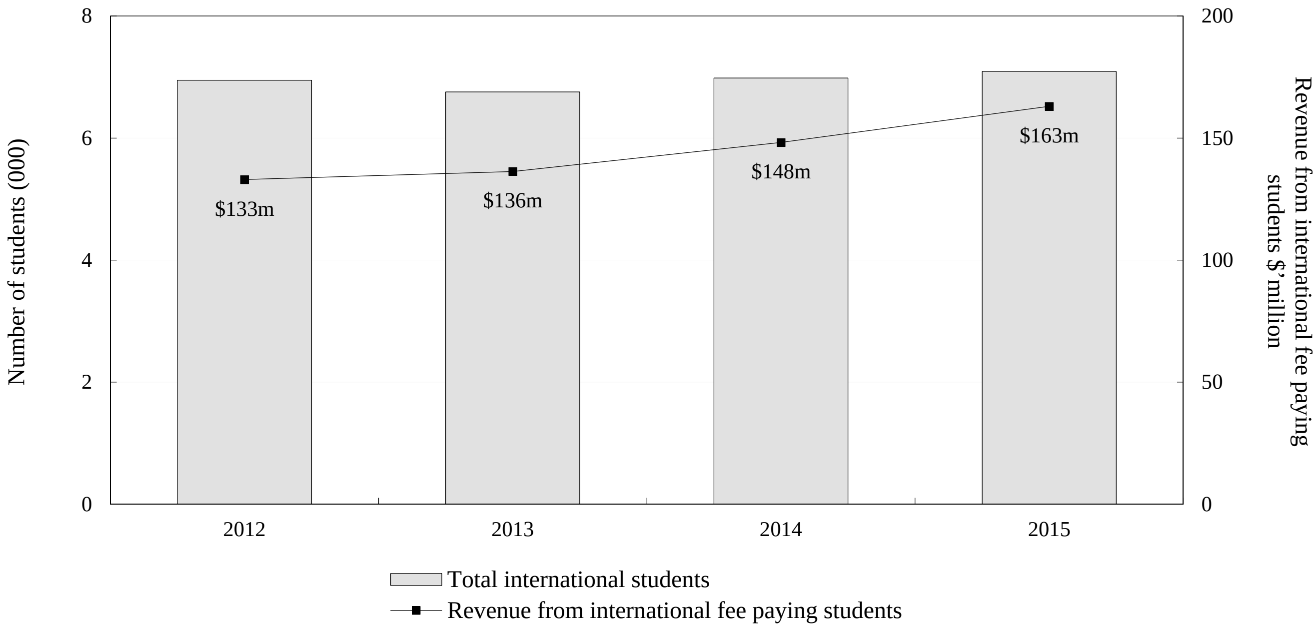
Australian Government grants decreased by $19 million to $385 million in 2015 reflecting a downturn in Australian Research Council funding for various research projects and centres.

There was a large increase in Australian Government grants in 2013, mainly due to a one-off $60 million capital grant received from the Department of Industry for the new AHMS building in Adelaide's West End medical precinct.

Fees and charges

Fees and charges totalled $209 million in 2015 compared to $193 million in 2014. This increase is primarily attributable to revenue from international fee paying students ($15 million).

The following chart highlights the upward trend in revenue received from international fee paying students.



Source: Student numbers were obtained from Uni Adelaide's published statistics and are unaudited figures.

The $15 million increase in student fee income from international fee paying students between 2014 and 2015 is due to an increase in total international fee paying student numbers ($6 million) and price increases ($9 million).

Uni Adelaide's total international fee paying students increased by 1.5% between 2014 (6985) and 2015 (7092). This reflects an upturn in Uni Adelaide's total international student numbers following a drop in 2013. There was also a 6% average price increase in international student fees in 2015.

Other revenue

Other revenue increased by $10 million to $213 million. The major items causing this change were:

- a decrease of $10 million in the net unrealised gain on endowment fund investments, which reflects lower returns on Uni Adelaide's investment portfolio compared to 2014
- a net gain of $7 million on disposal of assets
- a revaluation gain of $8 million on Uni Adelaide's investment in Education Australia.

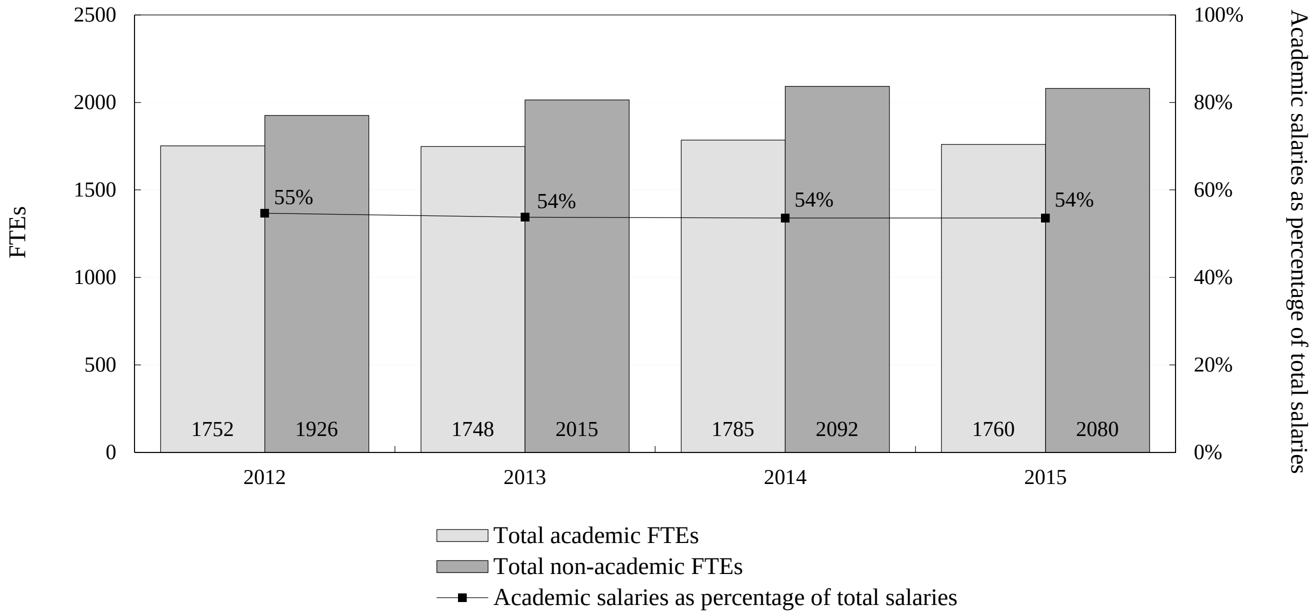
Expenses

Expenses in 2015 totalled $885 million compared to $874 million in 2014. The increase in expenditure reflects an $8 million (1.7%) increase in salaries and related expenses and a $3 million (0.8%) increase in other expenses.

The increase in salaries and related expenses is primarily attributable to the impact of enterprise bargaining agreement and salary increment increases.

Uni Adelaide had 1760 academic employees and 2080 non-academic employees in 2015. Academic and non-academic employees comprised 54% and 46% respectively of total salaries and related expenses in 2015.

The following chart shows that academic staff numbers and salaries and related expenses have been relatively consistent in relation to non-academic staff numbers and salaries and related expenses over the four years to 2015.

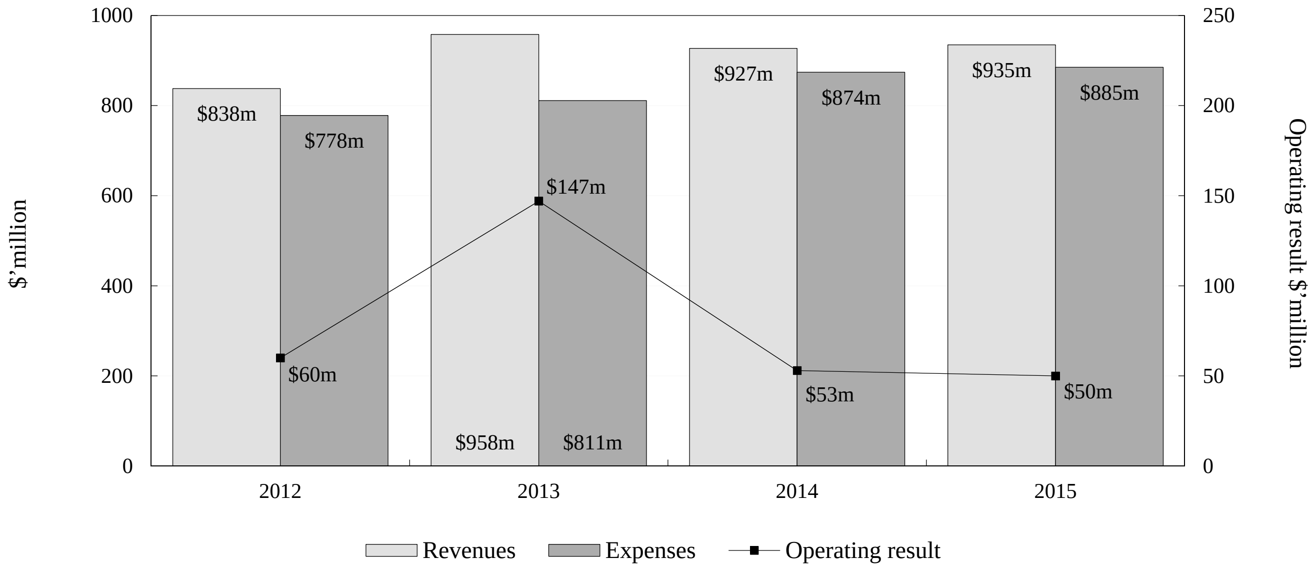


Source: Staff numbers, which are based on full-time equivalents (FTEs), were obtained from Uni Adelaide's annual report and are unaudited figures.

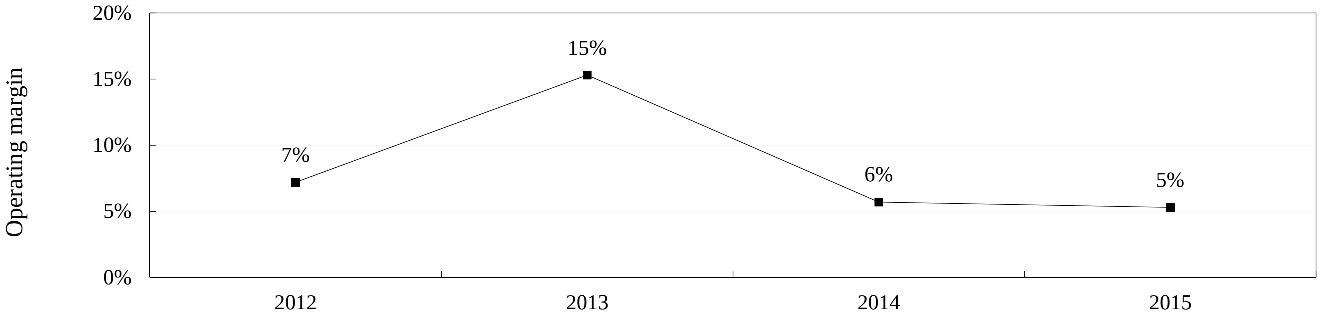
Operating result from continuing operations

The consolidated operating result for 2015 was a surplus of $50 million compared to $53 million in 2014.

The following chart shows the operating revenues, operating expenses and operating result for the four years to 2015.



The following chart shows Uni Adelaide's operating margin (the operating result as a percentage of total income) over the four years to 2015.



Uni Adelaide's operating result and operating margin have been relatively stable over the past four years with the exception of 2013. The large increase in the operating result and operating margin in 2013 was primarily attributable to significant one-off transactions including the $60 million capital grant received for the AHMS building and the $9 million gain on acquisition of the Women's and Children's Health Research Institute controlled entity.

Statement of Financial Position

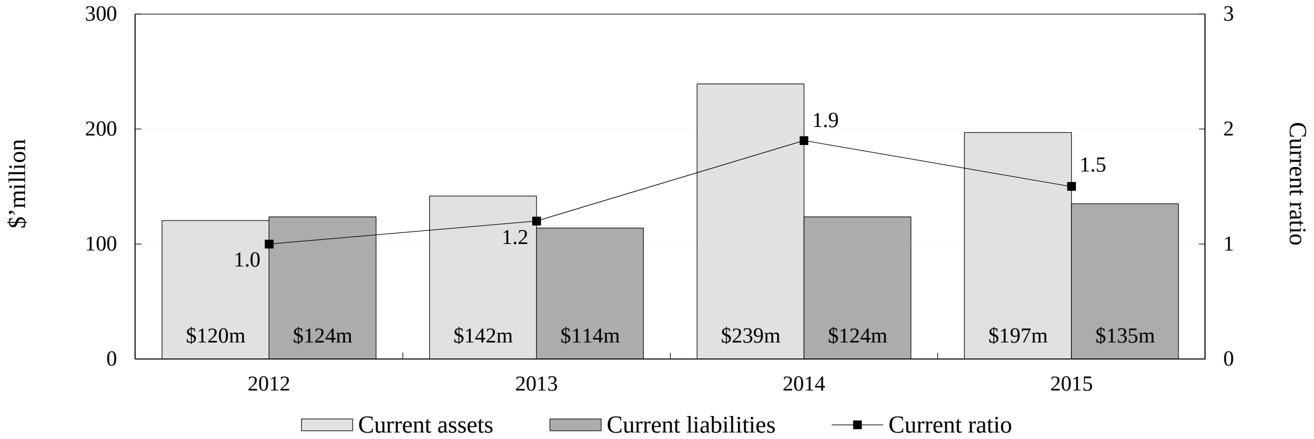
The consolidated net assets of Uni Adelaide at 31 December 2015 totalled $1448 million ($1397 million), an increase of $51 million.

Assets

The value of Uni Adelaide's assets increased by $36 million to $1787 million. The major items causing this change were:

- an increase of $63 million in property, plant and equipment resulting from additions of $116 million principally for the AHMS building, offset by depreciation of $42 million
- an increase of $10 million in the endowment fund due mainly to investment gains and new investments
- an increase in receivables of $11 million due mainly to the recognition of the proceeds receivable on sold properties
- a reduction of $30 million in bank term investments and the $24 million disposal of non-current assets held for sale to help fund the construction of the AHMS building. Properties sold in 2015 were situated in North Terrace and Frome Street.

As at 31 December 2015, current assets of $197 million exceeded current liabilities of $135 million. The following chart shows Uni Adelaide's current assets, current liabilities and current ratio for the four years to 2015.



The chart highlights that Uni Adelaide's current ratio has reduced in 2015. This is primarily attributable to decreases in current assets to partially fund the construction of the AHMS building. This includes a $30 million reduction in bank term investments and the $24 million disposal of non-current assets held for sale.

Major capital works projects

In May 2014, Uni Adelaide's Council approved the construction of a new AHMS building in the South Australian Health and Biomedical Precinct located in Adelaide's West End. The AHMS building project had an original total budgeted cost of $206 million.

The Council subsequently approved a Dental Partnership Agreement in July 2015, which will incorporate an integrated dental clinic within the AHMS building.

Following the inclusion of the integrated dental clinic, the AHMS building will have 14 floors and a total budgeted cost of $246 million.

Construction of the AHMS building commenced in August 2014 with completion planned by semester 1, 2017.

The total capital expenditure on the building up to 31 December 2015 was $76 million.

The building project is funded in part by the $60 million capital grant received from the Australian Government in June 2013.

Uni Adelaide's Council also approved a $50 million debt facility to partially fund the construction of the Adelaide Clinical Centre in August 2015.

Liabilities

The value of Uni Adelaide's liabilities decreased by $15 million to $339 million. The major items causing this change were:

- the repayment of borrowings of $26 million
- an increase in payables of $7 million due mainly to higher accrued salaries and amounts payable for the construction of the AHMS building.

Statement of Cash Flows

Total cash and cash equivalents at 31 December 2015 were $54 million ($52 million). The increase in cash and cash equivalents was $2 million in 2015 compared to $8 million in 2014. The $6 million lower increase in cash and cash equivalents was due mainly to investing and financing activities.

The net cash used in investing activities decreased by $9 million reflecting:

- an increase of $51 million in payments to construct the AHMS building and acquire other property, plant and equipment
- increases of $24 million in proceeds from the sale of financial assets and $25 million in proceeds from the sale of Uni Adelaide buildings
- a decrease of $9 million in payments made to acquire financial assets.

The net cash used in financing activities decreased by $19 million due mainly to the repayment of borrowings.

University of South Australia (UniSA)

Financial statistics	Operating result before income tax: $55.8 million Australian Government financial assistance: $387 million Number of FTEs: 2 596 Number of students (EFTSLs): 22 264

Significant events and transactions

- The construction of the Health Innovation Building, with a total budget in excess of $230 million, commenced in 2015 with $29 million spent as at 31 December 2015.
- The Reid Building was sold to the SA Government for $30 million contributing to a total gain on disposal of property, plant and equipment of $10.8 million.

Financial statement opinion

Modified

UniSA has recognised $25.9 million of unspent funding as a liability for the year ended 31 December 2015. These funds represent contributions and meet the recognition criteria of income in accordance with Accounting Standard AASB 1004 ‘Contributions’ and Accounting Policy Framework V ‘Income Framework’. UniSA controls these funds upon receipt and it is highly unlikely that funds will be repaid.

Financial controls opinion

Modified

Key issues:

- No review of online banking access and transaction limits
- Improvements required in the management of Vice-Chancellor authorisations
- No review of online invoice approval system user profiles and authorisation limits
- No requirement that all non-online payments are reviewed for appropriate authorisation
- Review of employee level payroll information is not effective
- Inadequate management of employee leave balances
- Casual employees’ time worked and acknowledgement of payments reports not always reviewed

Functional responsibility

UniSA is established under the *University of South Australia Act 1990*.

The main functions of UniSA 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

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

During 2015 areas reviewed included:

- governance arrangements
- cash and term deposits
- receipting and banking
- general ledger and financial accounting
- student revenue
- research and consultancy revenue
- Commonwealth financial assistance
- payroll
- expenditure
- property, plant and equipment
- major capital works.

Internal audit activities were reviewed in order to assess the risk of material misstatement in the financial report and to inform the design of audit procedures.

The audits of the controlled entities for the year ending 31 December 2015 were carried out by a private accounting firm.

Audit findings and comments

Auditor's report on the financial report

The following is an extract from the 2015 Independent Auditor's Report which outlines the qualification of UniSA's financial report:

> ***Basis for Qualified Opinion***
>
> *The University has recognised $25.9 million of unspent funding as a liability for the year ended 31 December 2015. These amounts have been 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 current liability' in note 25 to the financial report. The University has disclosed its accounting treatment of these funds in note 1(d) to the financial report.*

The funds represent contributions and meet the recognition criteria of income in accordance with Accounting Standard AASB 1004 Contributions and Accounting Policy Framework V Income Framework. The University controls these funds upon receipt and it is highly probable that any unspent funds will be spent in accordance with stipulated conditions. It is highly unlikely that unspent funds will need to be repaid to the granting bodies and as such funds should be recognised as income at the time of receipt.

As a result, the following has been misstated in the 2015 financial report:

- *the revenue recognised as Australian Government grants is overstated by $6.8 million ($1.7 million understated in 2014)*
- *the revenue recognised as State and Local Government financial assistance is overstated by $72 000 ($800 000 overstated in 2014)*
- *the revenue recognised as Consultancy and contract research is overstated by $2 million ($1.6 million overstated in 2014).*
- *Operating result attributable to members of University of South Australia is overstated by $8.9 million ($700 000 overstated in 2014)*
- *Other liabilities is overstated by $25.9 million ($34.8 million overstated in 2014).*
- *Closing retained earnings is understated by $25.9 million ($34.8 million understated in 2014).*

Qualified Opinion

In my opinion, except for the effects of the matter described in the 'Basis for Qualified Opinion' paragraphs, the financial report gives a true and fair view of the financial position of the University of South Australia and its controlled entities (the consolidated entity) as at 31 December 2015, their financial performance and their cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the Public Finance and Audit Act 1987, *the* Higher Education Support Act 2003 *and Australian Accounting Standards.*

Assessment of controls

In my opinion, the controls exercised by the University of South Australia in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the University of South Australia have been conducted properly and in accordance with law.

Communication of audit matters

Matters arising during the course of the audit were detailed in management letters to the Vice-Chancellor and President. Major matters raised with UniSA and the related responses are detailed below.

Grant funding

Consistent with prior years UniSA has recognised a liability for unspent grant funding as at 31 December 2015. As mentioned in the 'Auditor's report on the financial report' under the 'Basis for Qualified Opinion', in accordance with AASB 1004 these grants should be recognised as revenue in the year of receipt.

Cash and online banking

No review of online banking access and transaction limits

UniSA had not reviewed online banking access or transaction limits to ensure access and limits in place continued to be relevant for current business operations. There was also no established procedure requiring a regular review process. In the absence of a regular review of user roles and transaction limits there is an increased risk that inappropriate transactions may be processed.

UniSA agreed with the finding and advised a banking signatories matrix procedure was completed in February 2016, documenting transaction limits and the process to formally review access to the online banking environment regularly.

General ledger

Lack of formal user access review

In 2014 we reported that a review of all finance system user access levels had not been performed annually since 2011. Our review in 2015 identified that a full review was finalised in early 2016. A full review of user access to Finance One ensures current access remains relevant to employee roles and responsibilities.

UniSA advised it would continue to conduct a full review of access levels each year.

Expenditure

Improvements required in the management of Vice-Chancellor authorisations

Our review of the management of Vice-Chancellor authorisations (VCAs) and VCA subauthorisations noted:

- there was no documented requirement for VCA subauthorisations to be reviewed regularly
- the VCAs established in the online invoice approval system (APES) did not restrict expenditure approval to certain cost centres as documented in the VCA authorisations. Five of 38 transactions we tested were approved outside of the officer's authorisation for that cost centre.

Without appropriate controls in place to ensure a regular review of authorisations occurs, limits may not be appropriate for current employee roles and responsibilities. If the established limits cannot be set up in UniSA's system, authorisation can occur outside of established limits as evidenced by our testing.

UniSA's response indicated it would take action to address our findings.

No review of online invoice approval system user profiles and authorisation limits

APES user profiles are updated based on changes to the VCA subauthorisations. There was no review to ensure the APES user profiles were consistent with the subauthorisations. As a result, approvals by APES users may not be consistent with the established authorisations.

UniSA advised it had implemented a regular review of APES user profiles and the VCA authorisations spreadsheet and detailed the process in an approved procedure.

No requirement that all non-online payments are reviewed for appropriate authorisation

Consistent with findings reported in previous years, we found UniSA did not confirm that all non-online payments were appropriately authorised prior to payment. We found these items continue to be reviewed for appropriate authorisation on a sample basis. APES was only fully introduced part-way through 2015 and some invoices, such as bulk invoices for corporate travel and stationery, are not processed through APES.

In the absence of appropriate verification processes payments may be made without approval from an appropriate VCA delegate.

UniSA responded that a project team had been established to transfer the manual accounts payable expenditure forms to an electronic format that will be workflowed. UniSA noted further work would be required to convert consolidated invoices to a workflowed format.

Research and consultancy revenue

No formal requirement to monitor expenditure in line with agreements for Category 1 Australian Competitive Research Grants

Previously we reported there was no formal requirement for divisions to review spending for compliance with grant agreements, particularly when acquittals were not required. In 2015 we identified that some grants were reviewed but that not all types of grants had been considered. This process was not documented in approved procedures.

For the majority of research and consultancy projects, spending of grant funding is specific and individual to the project and the related funding agreement. Inconsistent or inappropriate monitoring processes increase the risk of non-compliance with grant agreements.

UniSA advised that a Research Funding Workgroup was established to develop financial policies, procedures and guidelines to support UniSA's management of expenditure against grants.

Project Quality System research revenue monitoring system information out of date

The Project Quality System (PQS) is used to record research and consultancy grant details and milestones for managing contractual requirements. Our review found four instances where inaccurate details of research agreements were logged in the system. As PQS is the primary reference for managing contracts, inaccuracies may affect the proper management of these arrangements.

UniSA advised the requirement to record accurate information in PQS had been reinforced with business units. It advised that outstanding milestones are monitored and regular reports are provided to business units requesting PQS milestones be reviewed and updated if necessary.

Maintenance and accuracy of research revenue documentation and records

Our sampling of research agreements identified a number of instances where:

- documentation was missing or inaccurate details were recorded
- appropriate contract approval was not evidenced
- adequate approval for raising invoices was not evidenced.

UniSA advised that its actions to address other findings would also ensure adequate recording practices were followed by divisions.

Student revenue

Inadequate user access reviews

We identified there was no full review of access to the student revenue system (Medici) conducted, to ensure all changes were appropriately authorised or that ongoing access for all users remains appropriate, as required by UniSA's information security policy.

We noted a lack of segregation in the access levels for some users, who had the ability to create student identification numbers and enrol students. We noted some of these users also had the ability to process fee waivers and refunds. System supported segregation of tasks ensures the data and revenue recorded within Medici is valid and accurate.

UniSA agreed to conduct an annual review of Medici access in line with its information security policy. As part of this review a spot check of roles with incompatible permissions will also be undertaken. These processes would be added to Student Academic Services process documentation.

Payroll

Review of employee level payroll information is not effective

Employee level payroll information reports are reviewed by schools across UniSA and returned to payroll each month. Our review of this process for a number of years has noted that:

- payroll ensures the report is signed but not that it was signed by the appropriate School Manager
- the corrections noted on the reports are not followed up to ensure appropriate forms are completed and submitted for action.

UniSA agreed with our recommendation in 2014, however no changes were made to the established practices.

In our view, a risk of inaccurate employee level payroll information still remains in 2015. Given staff are at various locations across UniSA it is important to make sure all forms and changes are processed based on any issues identified on the report. Without this process, employee information in Empower may be incorrect which could result in incorrect payments to employees.

In response UniSA advised that the employee pay level information report would be revised to ensure the signature on the report evidences appropriate sign-off and that any changes required were actioned.

Inadequate management of employee leave balances

For a number of years, we have reported that the arrangements implemented by UniSA to record leave taken by staff, particularly academic staff, do not provide assurance that all leave taken is recorded in UniSA's leave records. Consistent with prior years, it is our view that management review of the payroll system's leave payments does not enable adequate follow-up of missing leave forms and appropriate recording of leave.

No changes were made to practices in 2015 as UniSA believes it is up to the staff member's manager to ensure leave forms are submitted. Therefore, the risk of all leave not being recorded remains.

In the current control environment, instances of leave not being recorded are likely to occur. This could result in employees taking leave to which they are not entitled, and/or overstated leave liabilities. Our review of leave balances noted there were 204 UniSA employees with leave balances greater than 40 days as at 23 December 2015.

UniSA noted the recommendation and accepted the risk.

Casual employees' time worked and acknowledgement of payments reports not always reviewed

UniSA implemented a new system to manage time recording for casual staff during 2015. While some previous audit findings were addressed in the new system two key risks remain in the current processes or configuration of the system. These are that:

- the Acknowledgement of Casual Payments reports are not always reviewed by cost centre managers
- casual employees with set hours (pre-filled) do not have timesheets reviewed prior to payment.

Failure to review the Acknowledgment of Casual Payments report promptly increases the risk of unauthorised pay rates and payments being made for work not performed. Without a supervising officer's review of the hours claimed for all casuals, including those set up as pre-fill staff in the system, there is an increased risk that employees may be paid for time not actually worked.

UniSA responded that the risk of incorrect payments was considered to be low and that there were other processes in place that would detect errors. They also advised that following the full implementation of the system they would explore other measures that could further strengthen controls post-payment.

Major capital works – Health Innovation Building

UniSA is currently undertaking its largest capital project to date with the construction of the Health Innovation Building (HIB). A facility to support a collaborative and holistic approach to health research at UniSA, the building aims to support UniSA's strategic goals in increasing student numbers and research revenue.

The project has a total budget in excess of $230 million. Given expenditure of $42.5 million by April 2016, we performed a review of procurement and project management processes for some aspects of the project as part of our 2015 audit. The findings from the audit were:

- external probity advisors were not always engaged as suggested by UniSA's procurement policies and the project's probity plan for key tenders
- the tender evaluation report did not include a probity report outlining the approach to managing probity and the conclusions from the probity advisor
- reporting to UniSA's Finance Committee lacked detail, in particular around progress against budgeted costs and project timelines
- some key decisions made during the procurement processes lacked documentation.

UniSA agreed with our recommendations.

Interpretation and analysis of the financial report

Highlights of the financial report (Consolidated)

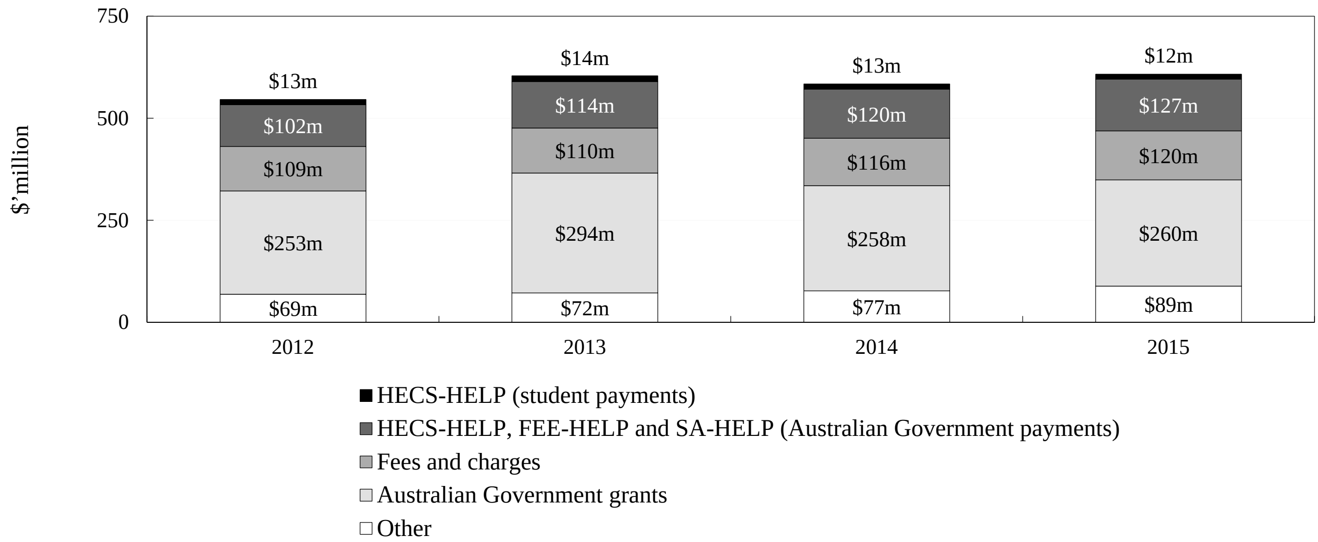
	2015 $'million	2014 $'million
Income		
Australian Government grants	260	258
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	127	120
HECS-HELP (student payments)	12	13
Fees and charges	120	116
Other	89	77
Total income	608	584
Expenses		
Employee related expenses	350	350
Other expenses	202	206
Total expenses	552	556
Operating result before income tax	56	28

	2015 $'million	2014 $'million
Net cash provided by (used in) operating activities	65	48
Net cash provided by (used in) investing activities	(39)	(41)
Assets		
Current assets	418	392
Non-current assets	1 255	1 257
Total assets	1 673	1 649
Liabilities		
Current liabilities	172	183
Non-current liabilities	430	457
Total liabilities	602	640
Total equity	1 071	1 009

Statement of Comprehensive Income

Income

A structural analysis of UniSA's income for the four years to 2015 is presented in the following chart. Total income increased by $24 million to $608 million.



Australian Government grants increased by $2 million in 2015, as a result of:

- an increase in Commonwealth Grants Scheme and other grants of $10 million from the receipt of 2014's $3.5 million efficiency dividend in 2015, indexation, increased student load, a favourable cluster mix and an overall increase in other grants
- a decrease in the capital funding of $5 million from the Education Investment Fund due to one-off funding for the Whyalla and Mt Gambier Regional Connections projects in 2014
- a $2.5 million decrease in Australian Research Council grants as funding for particular projects ended in 2014.

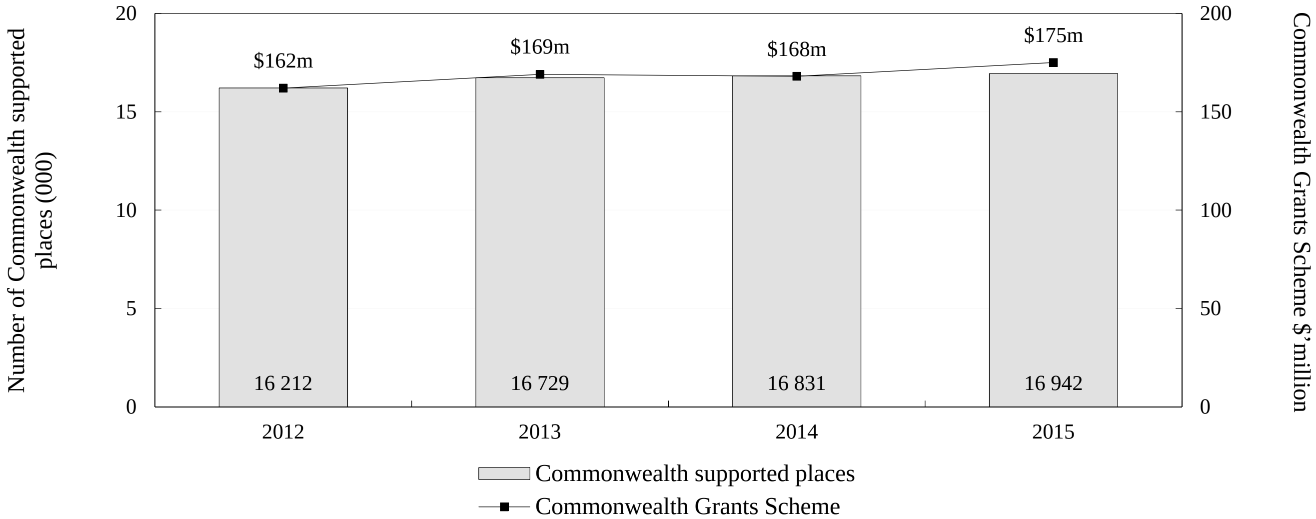
Fees and charges increased by $4 million as a result of overall increases in both course and non-course fees and charges.

HECS-HELP, FEE-HELP and SA-HELP income increased by $7 million to $127 million in 2015. This shows a continued growth as a result of indexation of 1.8% and an increase in students taking up these HELP options.

Other revenue has increased by $12 million due to:

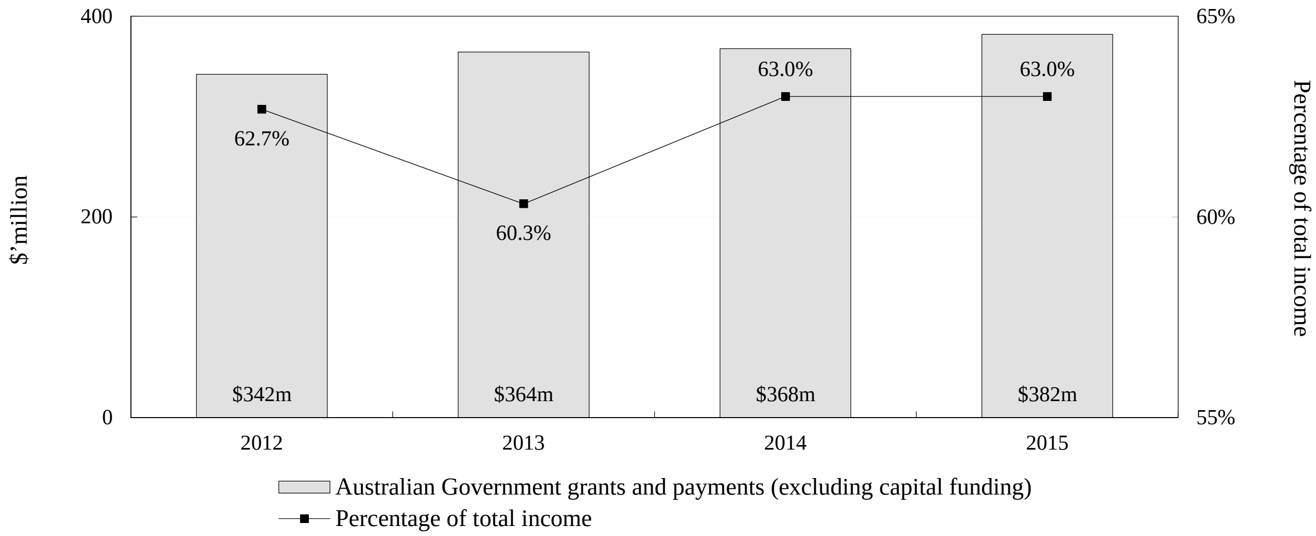
- the gain on disposal of property, plant and equipment of $10.8 million, which included the sale of the Reid Building
- an increase in State and Local Government financial assistance of $3.2 million as a result of a $5.5 million grant in 2015 from the SA Government for a contribution to the HIB project, offset by the completion of a number of projects during 2014 and 2015
- an overall decrease in consultancy and contract research of $3.1 million.

The following table highlights the Commonwealth Grants Scheme and supported places have increased from 2014 to 2015 for reasons described above.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from UniSA's annual reports and are unaudited figures.

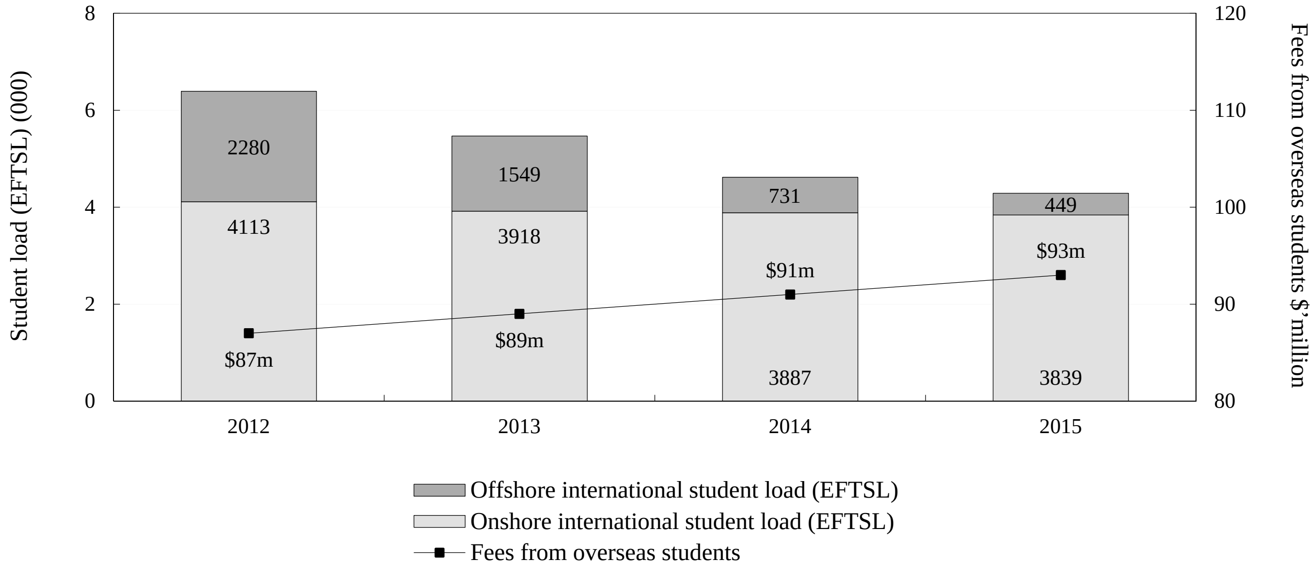
Total Australian Government financial assistance provided to UniSA (excluding capital funding) is shown in the chart below. This highlights that UniSA's reliance on Australian Government financial assistance, excluding capital funding, has remained consistent.



Fees and charges

Fees and charges increased by $4 million in 2015 to $120 million. This increase is attributable to an overall increase in both fee paying students' and non-course fees and charges revenue.

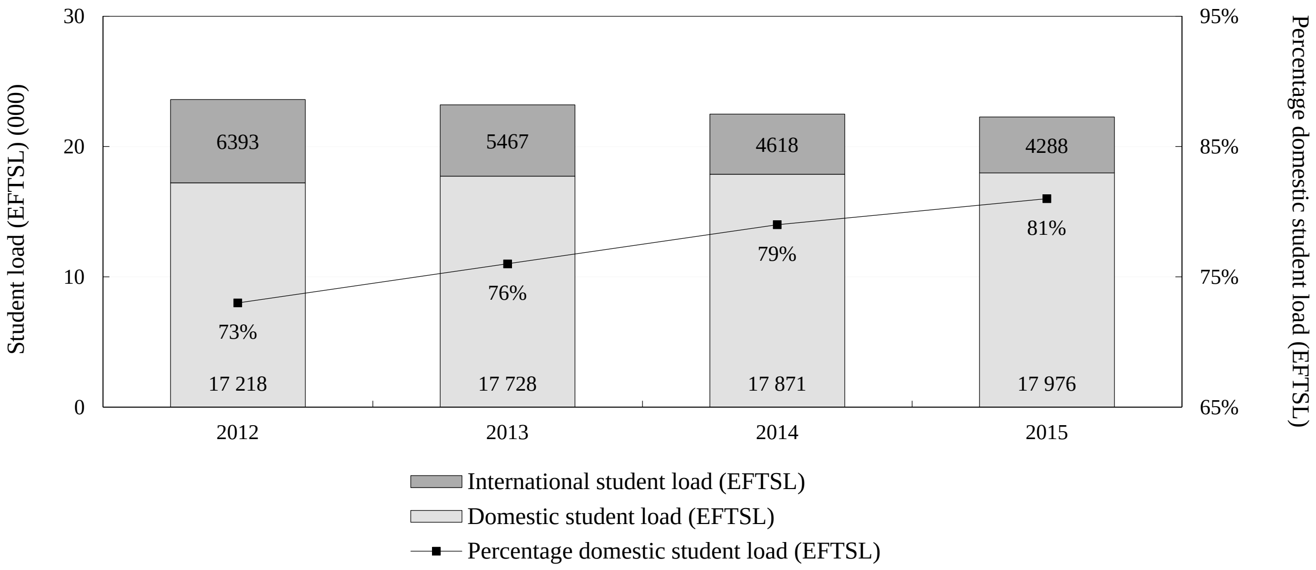
The main component of fees and charges is fee paying overseas students (78%). The following chart shows that fees from international students have gradually increased over the last four years as a result of fee increases, which offset falling numbers of international students.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from UniSA's annual reports and are unaudited figures.

The total student load has decreased over the past four years. International student load has continued to decrease in 2015 with a 7% reduction from 4618 EFTSL to 4288 EFTSL. Revenue from fee paying overseas students represents 15% of total revenue.

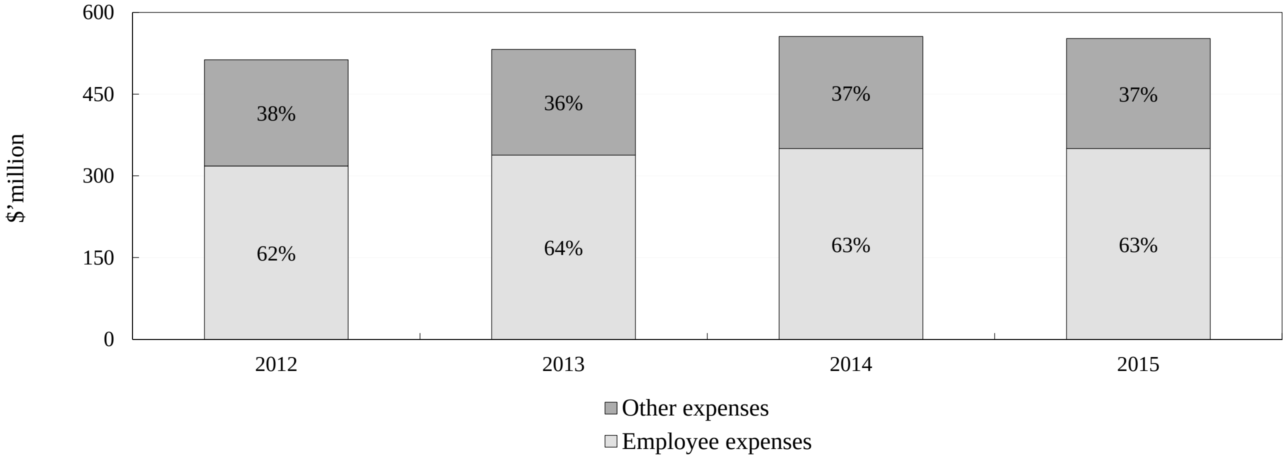
The chart below illustrates the changing student load since 2012 and the rising percentage of domestic student load.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from UniSA's annual reports and are unaudited figures.

Expenses

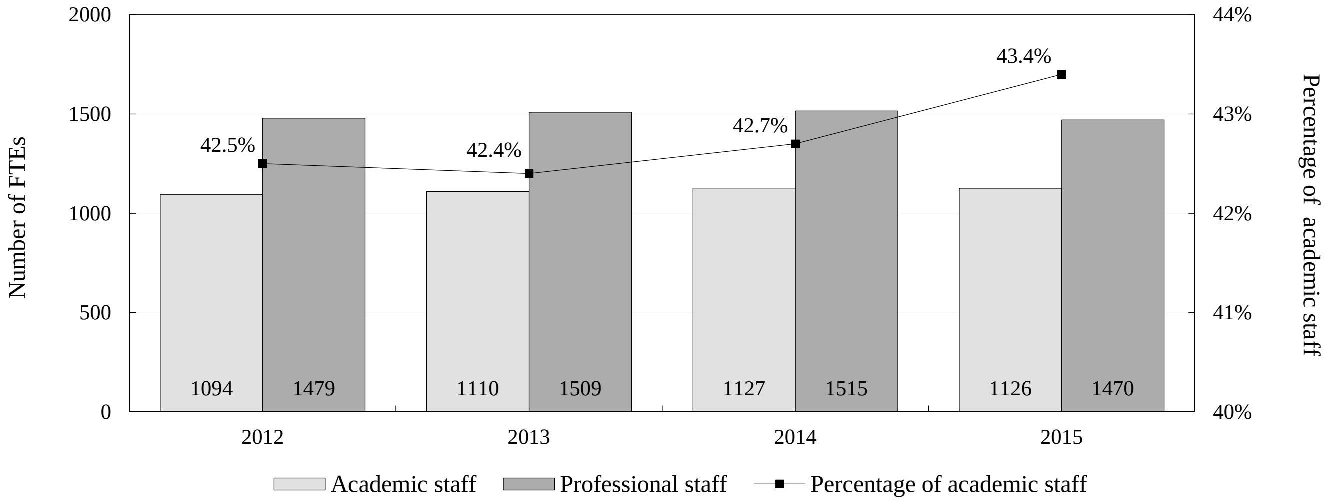
The split of expenses between employee expenses and other expenses remained stable in 2015.



Employee expenses

UniSA's main expense is employee related expenses which remained at $350 million. The consistency of this figure is the result of enterprise agreement and voluntary separation packages increases, offset by a decrease in FTEs and a smaller movement in the discount rates used for staff provisions in 2015 compared to 2014.

The following chart shows a breakdown of employee FTE numbers between academic and professional employees, along with the percentage of total staff classified as academic staff since 2012. There was a slight decrease in overall staff numbers in 2015, with a minor increase in the ratio of academic to professional staff.



Source: Staff numbers, which are based on FTEs, were obtained from UniSA's annual reports and are unaudited figures.

Other expenses

The total of other expenses decreased by $3.5 million. The main components of this change are attributed to:

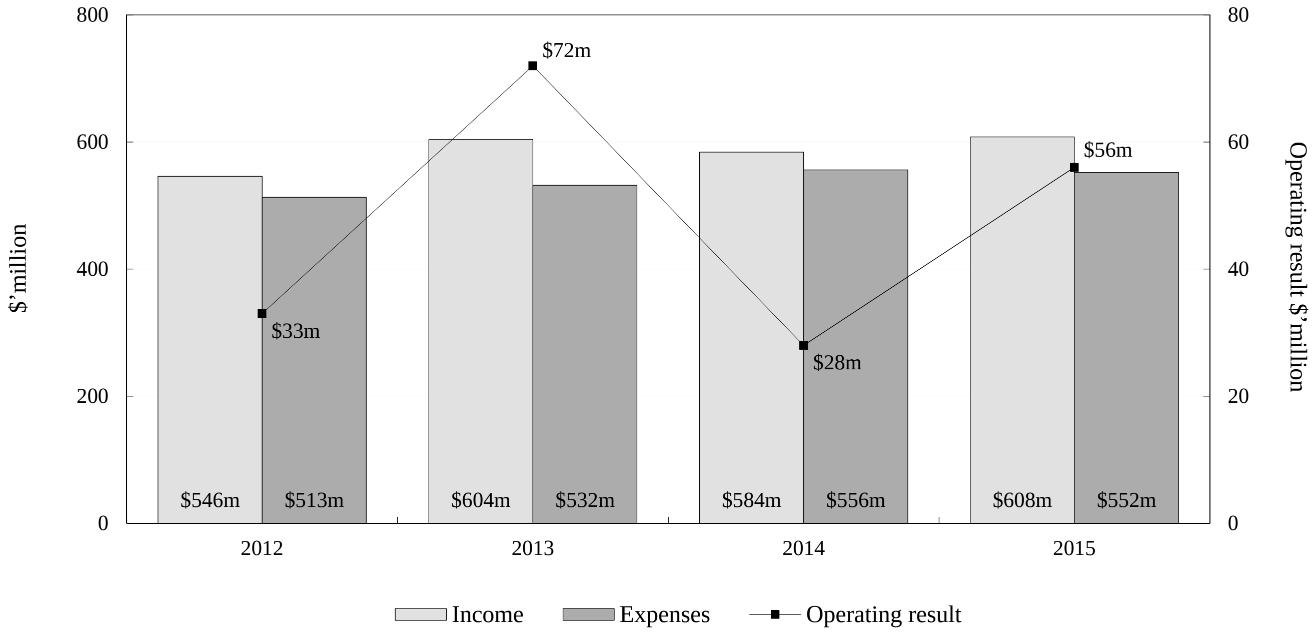
- a decrease of $2.5 million in repairs and maintenance expense mainly due to the once-off expense of $5.4 million for the Hindley Street Redevelopment project in 2014 and a $2.4 million increase in various major and minor capital projects costs expensed
- an overall decrease in other expenses of $1.1 million.

Operating result

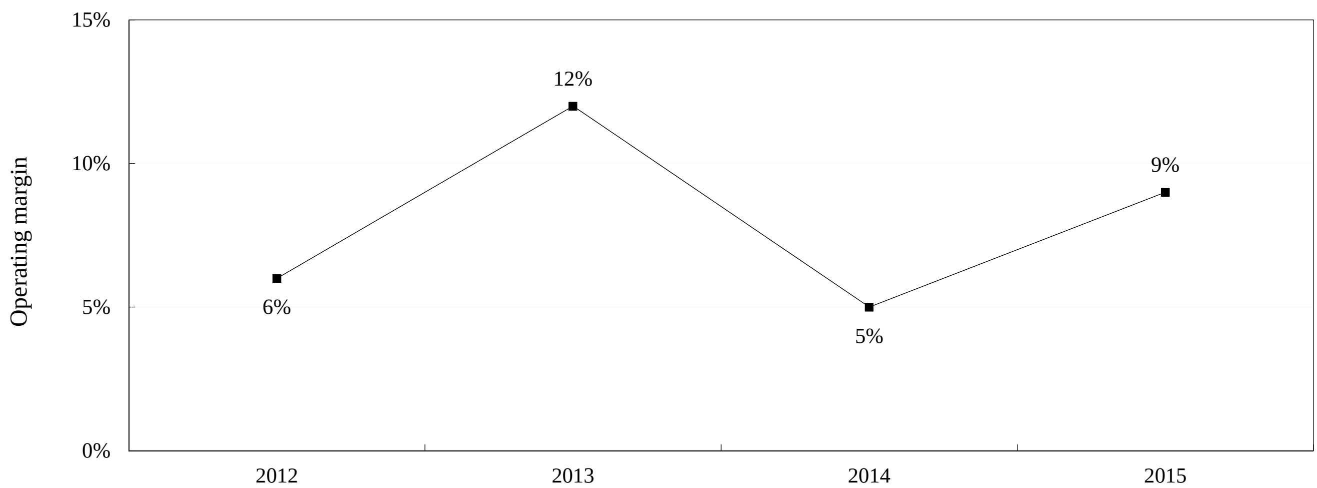
The consolidated operating result before income tax for the year was a surplus of $56 million ($28 million). As mentioned in the preceding analysis, the increase is predominantly due to:

- the $10.8 million gain on disposal of property, plant and equipment, including the sale of the Reid Building
- overall increases in income, in particular HECS-HELP Australian Government payments, State and Local Government financial assistance and fees and charges
- the decrease in total expenditure of $4 million.

The following chart shows the movement in income, expenses and the operating result before income tax for the last four years.



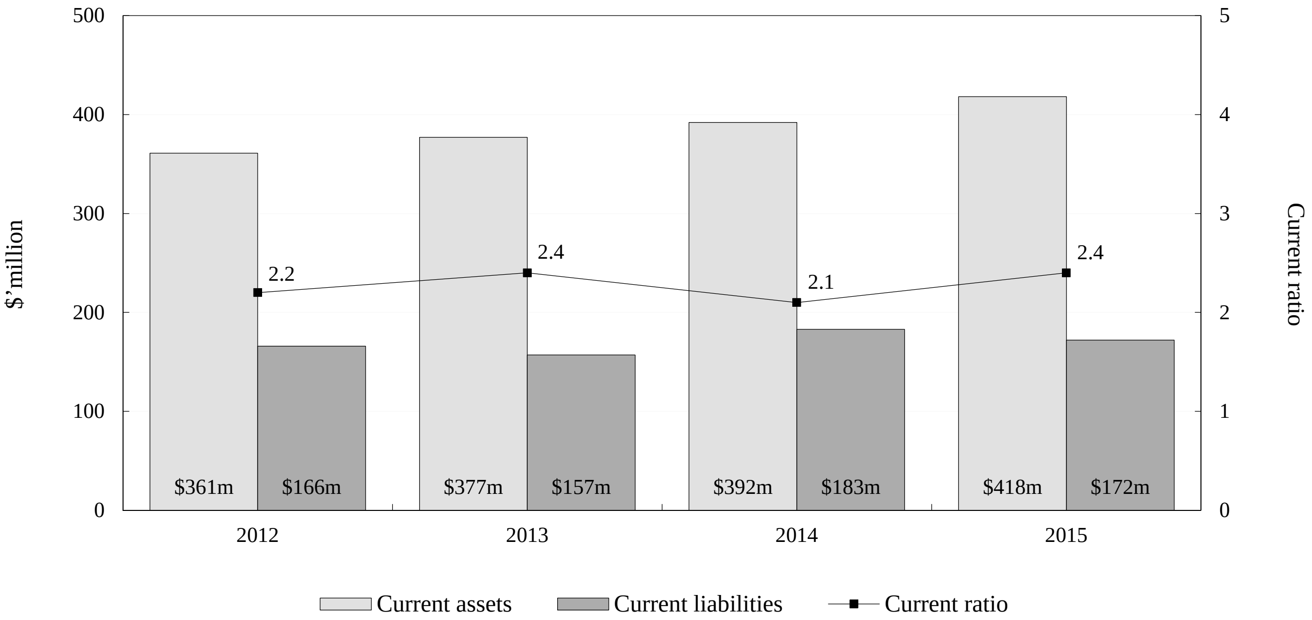
The following chart shows UniSA's operating margin (the operating result as a percentage of total income) over the four years to 2015. It shows that UniSA's operating margin increased to 9% in 2015, resulting mainly from the one-off $10.8 million gain on disposal of property, plant and equipment and an overall increase in student related revenue.



Statement of Financial Position

UniSA's net assets at 31 December 2015 were $1071 million ($1009 million).

The following chart shows UniSA's current ratio has remained stable for the four years to 2015. As at 31 December 2015 current assets exceeded current liabilities by $246 million.



Assets

Cash and cash equivalents

As at 31 December 2015 UniSA's cash and cash equivalents totalled $343 million compared to $317 million in 2014. The cash and cash equivalents balance has steadily increased over recent years. This balance is expected to decrease as a result of UniSA's significant capital program in coming years.

Property, plant and equipment

The main component of UniSA's Statement of Financial Position is property, plant and equipment, representing 48% of total assets. The carrying value of property, plant and equipment increased by $4.9 million to $808 million due mainly to:

- asset disposals of $19 million, the main disposal being the Reid Building and associated land
- asset additions of $62 million, predominantly for construction in progress.

These increases were offset by depreciation charges of $32 million and other adjustments totalling $6 million.

Capital program

UniSA has a significant ongoing capital investment program. The major active capital projects in 2015 were:

- the start of construction of the HIB, with $29 million of the total budget of more than $230 million spent as at 31 December 2015

- the Great Hall project commenced, with $5.6 million of the $50 million budget spent as at 31 December 2015

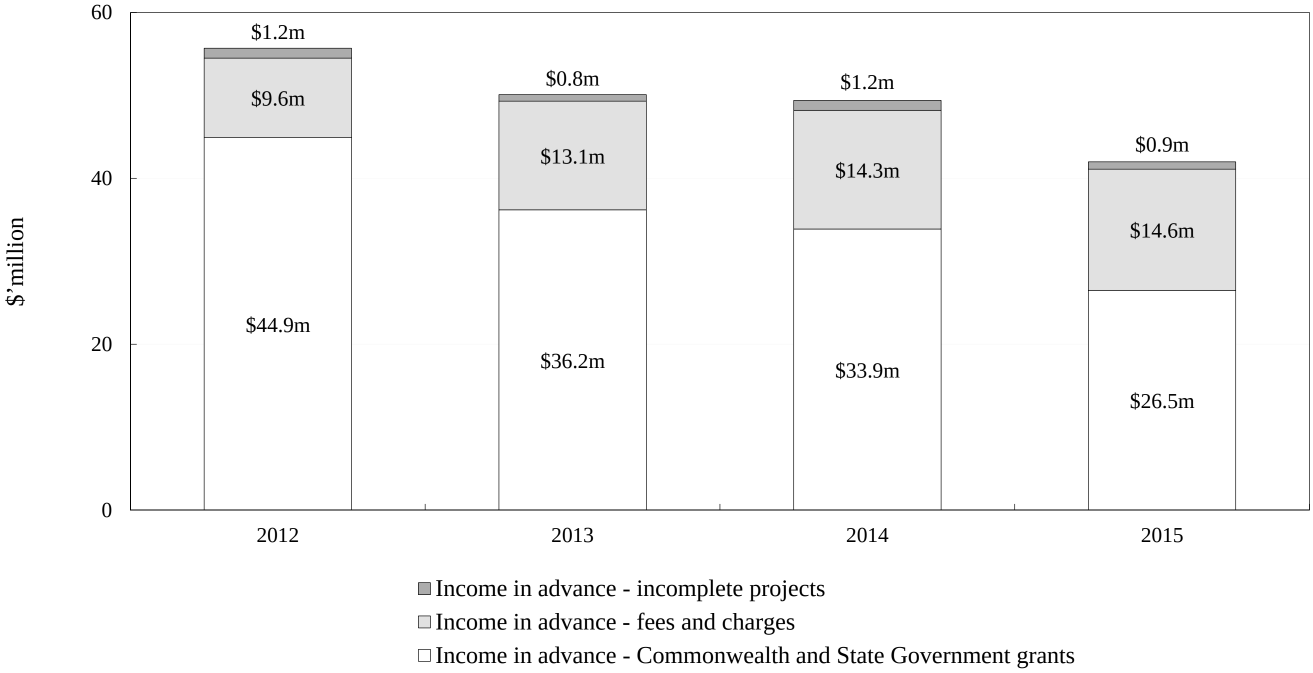
- practical completion throughout the year of the new Mt Gambier learning centre, City West childcare centre and a number of other smaller projects.

Liabilities

Income in advance

The following chart shows the breakdown of income received in advance recorded in other liabilities. These liabilities represent the deferral of the income into future reporting periods based on UniSA's income recognition policies (refer note 1(d) of the financial report and the qualification of other liabilities for the revenue deferral as outlined in the 'Auditor's report on the financial report' above).

Since 2012 there has been an overall decrease in the income in advance. The main decrease is to the Commonwealth and State Government income due to less research grants received and hence deferred by UniSA.



Statement of Cash Flows

The net cash flows provided by operating activities increased by $17 million due mainly to an increase in Australian Government grants received and receipts from student fees and other customers.

Net cash used in investing activities decreased by $2 million as a result of proceeds received from the sale of the Reid Building, offset by an increase in payments for property, plant and equipment additions and an increase in investment purchases in 2015.

Urban Renewal Authority (URA)

Financial statistics	Sales:	$58 million
	Cost of sales:	$29 million
	Loss before income tax equivalent:	$153 million
	Borrowings:	$519 million
	Inventories and investment properties:	$453 million
	Number of FTEs:	292
	Hectares of land inventory:	3872

Significant events and transactions

- The URA will implement revised development strategies for certain projects from 2016, seeking financial sustainability.
- The value of inventories and investment properties was written down by $143 million on 30 June 2016.
- An advance equity contribution of $135 million was received from the SA Government to partially fund the purchase of a portfolio of Department of State Development (DSD) assets in 2017. DSD currently leases these assets to TAFE SA.
- A Deed of Settlement for Gillman property commits the URA to up to $2.2 million in costs and established Stage 1 settlement for 1 November 2016.

Financial statement opinion

Unmodified

Financial controls opinion

Modified

Key issues:

- The project management framework does not detail the URA Board's responsibilities, if any, for approving the annual business plans of each major development project
- The URA had not finalised and approved a number of frameworks, policies and procedures, including an ownership framework
- Some key financial policies and accounting methods included in work instructions are not subject to senior management approval
- The URA had not implemented review procedures to confirm compliance with contract and project management frameworks
- The method of determining the value of the service fees charged by the URA to the South Australian Housing Trust is not documented and approved by the Boards of both entities

Functional responsibility

The URA is established by the *Urban Renewal Act 1995.*

The URA has responsibility 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.

Note 1 of the financial report explains the functions and objectives of the URA.

The trading name of the URA is Renewal SA. URA is a for-profit entity under Accounting Policy Framework II 'General Purpose Financial Statements Framework'.

Urban renewal program

The URA conducts its urban renewal program through a series of development projects. The URA's major development projects are currently Playford Alive, Tonsley Park, Woodville West and Bowden. A separate business plan is prepared for each major development project and progress against the plan monitored. Refer to 'Major development projects' below for further commentary on these projects.

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.

During 2015-16 areas of review included:

- corporate governance
- project management
- IT
- land sales
- property income
- expenditure
- payroll
- inventory
- general ledger.

The audit included follow-up of findings and recommendations made in our review of the Gillman site transaction that was completed in October 2014.

Internal audit activities and reports were also reviewed to assess the risks of material misstatement in the financial report and to design and perform audit procedures.

Audit findings and comments

Assessment of controls

In my opinion, the controls exercised by the Urban Renewal Authority in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities, except for all matters outlined under 'Communication of audit matters', are sufficient to provide reasonable assurance that the financial transactions of the Urban Renewal Authority have been conducted properly and in accordance with law.

Communication of audit matters

Matters identified during the course of the audit were detailed in a management letter to the Chief Executive. The URA's response to the letter indicated that, in general, appropriate action would be taken to address the matters raised. The main matters raised and the related responses are detailed below.

Project management

Improving and monitoring compliance with key frameworks

The URA's core business is delivering urban renewal projects. It is therefore essential that the URA Board has clear frameworks that detail the processes staff must follow to ensure projects are delivered on time and on budget. The Board should also maintain effective controls for confirming that staff are complying with the frameworks.

The URA has established the following three key frameworks to ensure projects are delivered efficiently and effectively:

- Project Management Framework (PMF) approved by the URA executive
- Procurement Framework approved by the URA Board
- Contract Management Framework (CMF) approved by the URA executive.

Our review of these frameworks and the URA's compliance with them noted the following:

- The URA confirms that staff are complying with the Procurement Framework, but has not implemented review procedures to confirm staff have complied with the PMF and CMF. Specifically, internal audits are conducted twice yearly to confirm staff have complied with the Procurement Framework. No internal audits were conducted in 2015-16 to confirm staff have complied with the PMF and CMF.

- The PMF does not detail the Board's responsibilities, if any, for approving the annual business plans of each major project containing their sales and capital expenditure targets for the next 12 months and forecasts to the end of the project.

- The PMF does not specify required reporting to the Board on the progress of individual projects against annual sales and capital expenditure targets, or whole-of-life targets set out in the annual business plans of each major project.

- Meetings of the Project Control Group (PCG) were not minuted for the Bowden project. The PMF requires that minutes be kept of PCG meetings. The purpose of the PCG is to keep the project on track, particularly in terms of scope, schedule and budget.

- There were no contract management plans (CMPs) for some of the sample of contracts that we reviewed. In some instances the CMPs were prepared as a result of our enquiries. The CMF requires contract managers to prepare CMPs detailing how the contract will be managed to achieve the contract's objectives and defines the roles, responsibilities and obligations of each party to the contract.

- The CMF does not specify if CMPs must be prepared for contracts entered into before the implementation of the CMF. As a result, CMPs have not been prepared for some of these contracts.

The URA responded that:

- the URA's executive updated the PMF to include existing requirements for preparing annual business plans for projects and now also requires that annual business plans document how PMF compliance will be achieved. In addition, the current internal audit program includes appropriate reviews of compliance with the PMF and CMF
- the updated PMF now describes the Board's role in reviewing annual business plans and project reporting
- minutes and action items from the Bowden PCG meetings are now prepared
- contract managers were sent a reminder to prepare CMPs in accordance with the CMF
- the CMF will be reviewed to ensure it achieves its purpose of ensuring contracts are managed in a planned, professional and coordinated way
- contracts entered into before the CMF was implemented will generally expire in the next 12 months, therefore it is not considered necessary to apply the CMF retrospectively to these contracts.

Governance and policy frameworks

Finalisation and approval of the ownership framework

The URA has been developing an ownership framework since it was established in 2012. We have recommended in prior years that the URA finalise it as soon as possible and liaise with the Minister and Treasurer to have it formally approved.

We noted, however, that the ownership framework is still unfinalised.

Finalising and approving the framework is necessary to clarify and confirm the Minister's and the Treasurer's expectations about the URA's role, functions and funding arrangements (eg project management responsibilities, community service obligations and debt funding levels).

It is of particular concern that the URA has operated without an approved ownership framework for more than four years.

In finalising the ownership framework, we noted the URA should consider the 2014-15 recommendation of the Independent Commissioner Against Corruption that:

- the URA's Chief Executive consider proposing to the SA Government amendments to legislation and regulations
- the amendments clarify the reporting relationship, reporting requirements and decision-making responsibility between the Chief Executive, the Board and the Minister.

The URA responded that:

- key components of the ownership framework have been finalised and will be revised once the acquisition of assets from the Department of State Development (DSD) is completed
- the ownership framework will probably be submitted to Cabinet in November 2016
- recommendations were submitted to the Minister to address the Independent Commissioner Against Corruption's recommendations.

Board of Management policy requires improvement

Our review of the Gillman site transaction in 2013-14 found that improvements could be made to Board meeting policies and processes.

We recommended the Board review its Board of Management policy to provide further guidance on the use of out-of-session decision papers and the convening of special/extraordinary meetings of the Board to discuss and approve resolutions on significant transactions.

We also recommended the Board agree whether any teleconferences are formal meetings of the Board and, if so, prepare minutes to record the decisions of the meeting.

We noted in 2015-16 that the Board has yet to finalise and approve a revised Board of Management policy incorporating our past recommendations.

Adequate documentation of Board discussions is important because it evidences that relevant matters and issues were well considered with the fair and full participation of all Board members.

The URA responded that:

- an update to the Board of Management policy has been drafted to address out-of-session papers, flying minutes, special meetings and teleconferences, and requiring resolutions from them to be recorded and ratified in the minutes of the next Board meeting
- the proposed update to the Board of Management policy will be submitted for the Board's approval once the broader governance model recommendations have been considered by the Minister
- there were no flying minutes in the last 12 months and all out-of-session meetings were properly recorded in the minutes.

Policy framework and approval of controls

The URA's policy framework requires General Managers to approve all policies and procedures, while work instructions are not subject to approval.

The framework does not restrict the documentation of controls to procedure manuals. As a result, staff may modify controls included in work instructions without the relevant General Manager's approval on risks assessed. This risk is greater when the controls are modified by individuals responsible for performing the controls.

We recommended that the URA's policy framework restrict the documentation of controls to procedure manuals which are approved by General Managers.

The URA responded that our recommendation will be considered and agreed that changes to key controls will be documented and subject to appropriate approvals.

Approval of key financial policies and accounting methods

As noted above, work instructions are not subject to review and approval by URA General Managers.

We noted, however, that some key financial policies and accounting methods are included in work instructions. This could result in an absence of scrutiny by relevant General Managers increasing the risk that financial policies and accounting methods are implemented or changed without proper consideration of the risks involved. This increases the likelihood of the URA introducing inappropriate financial policies and accounting methods.

We recommended that key financial policies and accounting methods be included in policy or procedure documents for approval by relevant General Managers.

The URA responded that work instructions will be reviewed along with relevant accounting policies and any revised policies approved by the General Manager Corporate Services.

Human resource policies and procedures

Every year since 2012-13 we have recommended that the URA update its human resource policies and procedures to reflect its changing operations.

The URA's human resource policies and procedures, implemented in March 2012, are past their scheduled review dates and may not reflect current business processes, legislative requirements, organisational structures and management expectations. As a result, there is an increased likelihood of the URA adopting inconsistent or ineffective human resources practices.

We noted in 2015-16 that the URA is still in the process of updating its human resource policies and procedures.

The URA responded that:

- an updated and consolidated human resources policy framework has been drafted taking into account the significant complexities and risks unique to the URA's workforce arrangements
- the updated draft policy framework and policies will be considered by the URA's executive in September 2016
- current human resources policies are, for the most part, adequate, with risks associated with the current policies being managed effectively by the People and Culture team.

Service fees charged to the South Australian Housing Trust (SAHT)

The URA provides services to the SAHT under a service level agreement.

The method of determining the value of the service fees charged by the URA to the SAHT is not documented and approved by the Boards of both entities.

We recommended that the URA and SAHT document and approve the method of determining the value of service fees charged by the URA.

The URA responded that the method of determining service fees charged by the URA to the SAHT is appropriate and fair, and will be provided to both Boards for approval.

Land sales

Negotiation and acceptance of offers below the authorised price

The URA's Real Property (On Market) Sales policy requires the URA to offer land for sale at its current market valuation or other price authorised by the Chief Executive. The policy also details the process for offering and approving incentives and discounts. However, the policy does not indicate who can negotiate and accept counter-offers from buyers that are below the authorised price, or how to document this approval. The lack of clarity in this area increases the risk of staff negotiating and accepting counter-offers from buyers that are below the authorised price, increasing the likelihood of the URA failing to achieve the best price.

We recommended the Real Property (On Market) Sales policy specify who can negotiate and accept counter-offers from buyers that are below the authorised price, and how to document this approval.

The URA responded that the policy will be reviewed and modified as necessary.

Payroll

Empower payroll – attendance and leave recording

The URA's controls do not ensure all leave taken by employees is captured in the Empower payroll system. We identified this same issue in 2014-15 and recommended that bona fide reports showing leave taken be issued to line managers for certification. In April 2016, a new bona fide report was introduced but does not show leave taken.

The URA responded that a revised procedure will require managers to reconcile leave approved in Empower to employee attendance records (timesheets).

Interpretation and analysis of the financial report

Highlights of the financial report

	2016 $'million	2015 $'million
Income		
Sales	58	48
Cost of sales	(29)	(34)
Joint venture profit	3	3
Revenues from government	9	11
Property income	26	26
Interest and other revenues	19	12
Net gain from administrative restructure	1	-
Total income	87	66
Expenses		
Employee benefits expenses	32	25
Operating expenditure, depreciation and amortisation	49	51
Borrowing costs	16	15
Loss resulting from changes in value of non-current assets	143	97
Net loss from disposal of non-current assets	-	1
Total expenses	240	189
Profit (Loss) before income tax equivalent	(153)	(123)
Total comprehensive result	(153)	(123)
Net cash provided by (used in) operating activities	(17)	(56)
Net cash provided by (used in) investing activities	(9)	10
Net cash provided by (used in) financing activities	(25)	(40)
Assets		
Current assets	207	128
Non-current assets	390	478
Total assets	597	606

	2016 $'million	2015 $'million
Liabilities		
Current liabilities	160	216
Non-current liabilities	415	343
Total liabilities	575	559
Total equity	22	47

Statement of Comprehensive Income

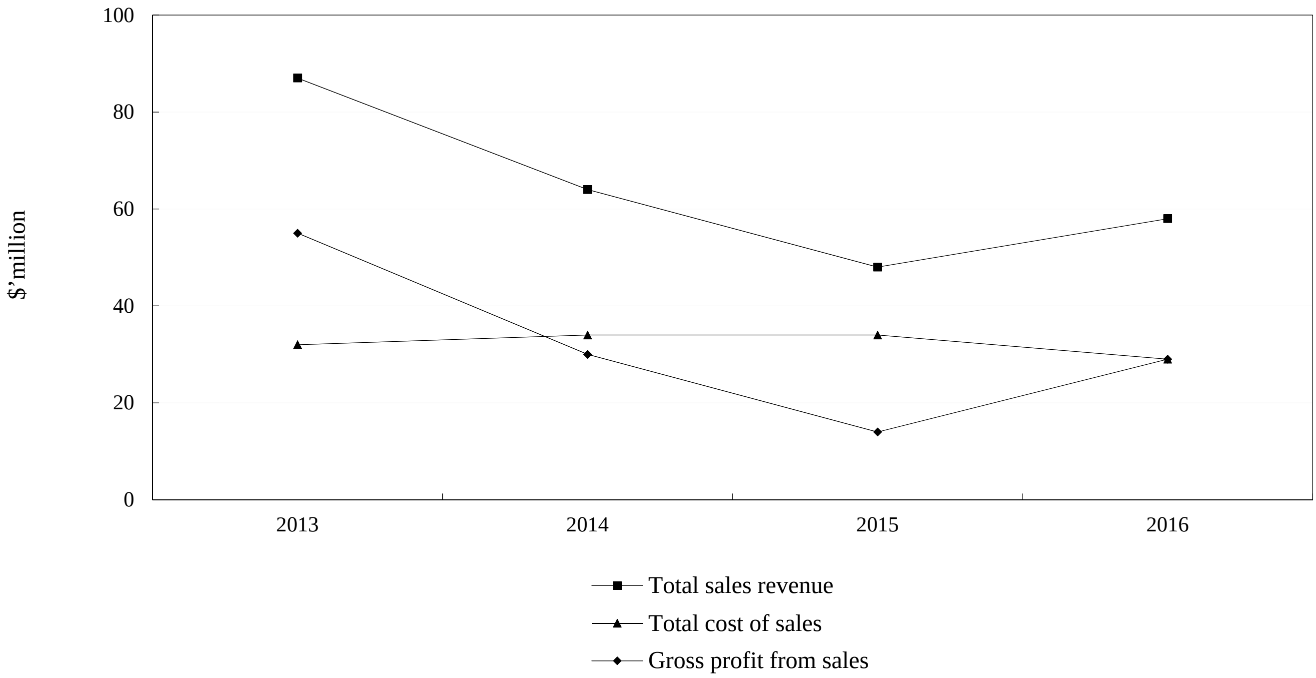
Income

Income increased by $21 million to $87 million due mainly to:

- gross profit from land sales increasing by $14 million to $29 million, reflecting $9 million more in sales and a $5 million reduction in the cost of sales. This is due mostly to the sale of former Land Management Corporation properties at Seaford, Aldinga and Science Park with a low historical cost base

- interest and other revenues increasing by $7 million due mainly to employee costs recovered from the SAHT increasing by $6 million to $11 million. In 2016 there were 12 months of employee costs recovered from the SAHT compared to five months in 2015. These employee costs relate to 130 employees transferred from the Department for Communities and Social Inclusion (DCSI) to the URA on 5 February 2015. These employees work exclusively on SAHT projects.

The following chart shows total land sales and cost of sales for the four years to 2016.



The chart highlights that sales were trending downward until 2015, while cost of sales has remained relatively constant. This shows the impact of moving away from high profit margin englobo land sales to undertaking lower profit margin development projects. Profit margins increased in 2016 mostly due to selling land with a low historical cost base.

Expenses

Expenses increased by $51 million to $240 million due mostly to:

- losses resulting from the write-down of non-current assets increasing by $46 million to $143 million. For 2016 the write-down comprised a $137 million ($74 million) write-down of inventories to the lower of cost or net realisable value based on a mixture of independent and internal valuations as at 30 June 2016, and a $6 million ($23 million) reduction in the fair value of investment properties based on independent valuations performed as at 30 June 2016

- employee benefits expenses increasing by $6 million to $32 million due mainly to the transfer of 130 employees from DCSI to the URA on 5 February 2015. In 2016 there were 12 months of employee benefits expenses for these 130 employees compared to five months in 2015.

Dividend

Under section 26 of the *Urban Renewal Act 1995*, the URA is required to recommend to the Minister for Housing and Urban Development whether a dividend will be paid each financial year. Due to the loss before income tax equivalents the URA did not pay an annual dividend in 2016.

The URA is also required to declare a dividend of 100% of the profit relating to the Adelaide Station and Environs Redevelopment (ASER) site in accordance with the requirements of the Cabinet decision to transfer the site from the Department of Planning, Transport and Infrastructure to the URA effective 30 June 2013.

The Minister approved a special dividend payment of $7 million for 2016, which also included two prior years of ASER dividends.

Statement of Financial Position

Assets

Total assets decreased by $9 million to $597 million, reflecting a $114 million decrease in inventories offset by a $101 million increase in cash and an increase in investment properties of $12 million.

Inventories decreased in value

The URA's primary activities involve holding and developing land inventory for sale. The value of this inventory decreased by $114 million to $306 million due mainly to the following:

- Inventory additions:

  - $52 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 recognised as part of cost of sales when inventories are sold. There was a $35 million decrease in capitalised development costs in 2016 due mostly to the suspension of the Tonsley project during the joint URA and DSD review of its future. Work on the Playford Alive project was also deferred to 2017. The reduced development activity on these projects was partially offset by increased activity on the Bowden and Woodville West projects

  - land acquisitions costing $22 million.

- Inventory reductions:

  - $137 million write-down of inventory to net realisable value

— $21 million of development costs incurred in meeting community service obligations. These obligations are funded by the SA Government, are non-commercial in nature and do not increase the likely sales value of inventory. There was a $6 million increase in community service obligation development costs in 2016 due mainly to $12 million provided by the SA Government to construct extra capacity for company tenancies at Tonsley

— $29 million of inventory was sold and included in cost of sales.

Inventory valuations and write-downs

In accordance 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 URA’s 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 intermittently based on market conditions. As at 30 June 2016 the value of land in this class was $224 million ($218 million)

- 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 money to partially fund the projects. As at 30 June 2016 the development projects were worth $82 million ($202 million).

The inventory write-downs in 2016 relate mostly to changes in the URA’s cash flow models used to determine the net realisable value of development projects. Importantly, these changes include reductions in revenue forecasts that occurred when the URA reassessed the likely outcomes of its business strategies for these projects. The revised revenue forecasts take into account the prevailing challenging market conditions and the extent to which the conditions are expected to continue into the future.

In response, the URA modified its business strategies for some projects to lower future costs. However, the URA considers its revised strategies will be insufficient to fully recover the past costs of some projects. The revised strategies include:

- Playford Alive sale of some land as large englobo parcels
- Woodville West sale of super-lots for private sector development
- reduced scope of planned developments.

The following table shows the inventory and investment property write-downs that have occurred over the last two years.

	Write-downs		Carrying amount	Land area
	2015	2016	30.06.16	30.06.16
Inventory	$’million	$’million	$’million	Hectares
Development projects:				
Tonsley	18	54	27	55
Playford Alive	-	52	7	331
Bowden	-	17	27	13
Woodville West	-	5	21	6
Land held for sale	56	9	224	3 467
Total inventory	**74**	**137**	**306**	**3 872**
Investment property	23	6	147	118
Total inventory and investment property	**97**	**143**	**453**	**3 990**

The above 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 were included in 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 project is expected to end in 2025-26. After the $52 million write-down in 2016, the project, with a land area of 331 hectares, has a carrying amount of $7 million, due to the level of investment required and the extended period over which revenue is expected to be realised.

Measuring net realisable value involves estimating

Measuring the net realisable value of land held for sale is relatively straightforward and was determined by the URA using independent valuations of current market value less selling costs. Measuring the net realisable value of large development projects is more complex. For these projects the net realisable value is determined by the URA using estimates of the future net cash flows of the projects (before interest) and discounting the cash flows back to present values. The URA applied a discount rate that reflects its financing costs and was adjusted for risk. The estimated cash flows were based on the amount and timing of sales and development costs, which for some projects extend many years into the future. The URA estimated when the development of each land parcel under current strategies will be completed and its market price once developed, and also estimated the development costs taking into account inflation.

Inventory is valued at lower of cost as net realisable value

AASB 102 requires that inventory be measured at the lower of cost and net realisable value. Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. For the URA the ordinary course of business reflects the SA Government's approved plans for major development projects. Fair value reflects the price at which an orderly transaction to sell the same inventory in the principal (or most advantageous) market for that inventory. The former is an entity-specific value, the latter is not. Net realisable value may not equal fair value less costs to sell.

If net realisable value is lower than cost, the URA is obliged to write down the value to net realisable value.

The URA does not, and is not required to, disclose the fair value of its inventory. The URA's inventories have a carrying amount of $306 million, which may be less than their fair value.

Where the URA has determined that the net realisable value of inventory exceeds its carrying amount (cost) it has not disclosed the net realisable value of the inventory. This disclosure is not required by AASB 102. The URA's land held for sale has a carrying amount of $224 million, which may be less than its net realisable value.

Investment properties

The URA holds significant investment properties. The value of these investment properties increased by $12 million to $147 million due mainly to $16 million of additions transferred from work in progress. These transfers were partially offset by a $6 million reduction in the fair value of investment properties based on independent valuations performed as at 30 June 2016. The reduction in fair value was mostly due to industrial land being contaminated by a former tenant who has gone into liquidation.

The total property income derived from investment properties was $14 million ($14 million) and 9% (10%) of the total carrying amount of investment properties (refer note 20 of the financial report).

The main properties include the Adelaide Railway Station and commercial tenancies at Technology Park.

Liabilities

Total liabilities increased by $17 million to $575 million. The increase in liabilities was due mainly to an increase of $21 million in the provision for land acquisition costs.

Borrowings of $519 million ($519 million) comprise 90% (93%) of total liabilities. The borrowings are primarily required to fund capital development costs for inventories and operating expenditure. Refer to 'Borrowings, liquidity and review of asset holdings' below for further commentary on debt management.

Statement of Cash Flows

Net cash used in operating activities decreased by $39 million due mostly to an increase of $21 million in recoveries and sundry receipts, which includes increased recoveries for employee related services to the SAHT and a $34 million decrease in payments for land purchases and development. These movements are both offset by reduced receipts of $22 million from mortgage debtors who paid out their mortgages in 2015.

Net cash used in investing activities of $9 million included $15 million of payments for capital works on investment properties, offset by a $6 million distribution of profits received from joint ventures.

Net cash provided by financing activities increased by $81 million to $127 million due mostly to $135 million of advance capital contributions from the SA Government for acquisitions proposed to occur in 2017, offset by a $46 million reduction in the level of new borrowings to fund current year development activity and operations.

Further commentary on operations

Changes to functional responsibilities and organisational structure

On 8 December 2014, Cabinet approved a strategy to progressively replace ageing SAHT owned housing with new social housing dwellings that better meet contemporary social housing needs. The SAHT and the URA have entered into a service level administrative arrangement to reflect the financial, asset management and not-for-profit community housing sector services to be provided by the URA to the SAHT.

To enable the URA to manage the services provided to the SAHT under the service level administrative arrangement, 130 employees were transferred from DCSI to the URA on 5 February 2015. The salary costs and leave entitlements of the transferred employees and corresponding recharges of these costs back to the SAHT are reflected in the URA's financial report. There are no other financial reporting impacts for the URA arising from this administrative restructure. All costs associated with the SAHT capital program, including the construction of new social housing dwellings, continue to be reflected in the SAHT's financial report.

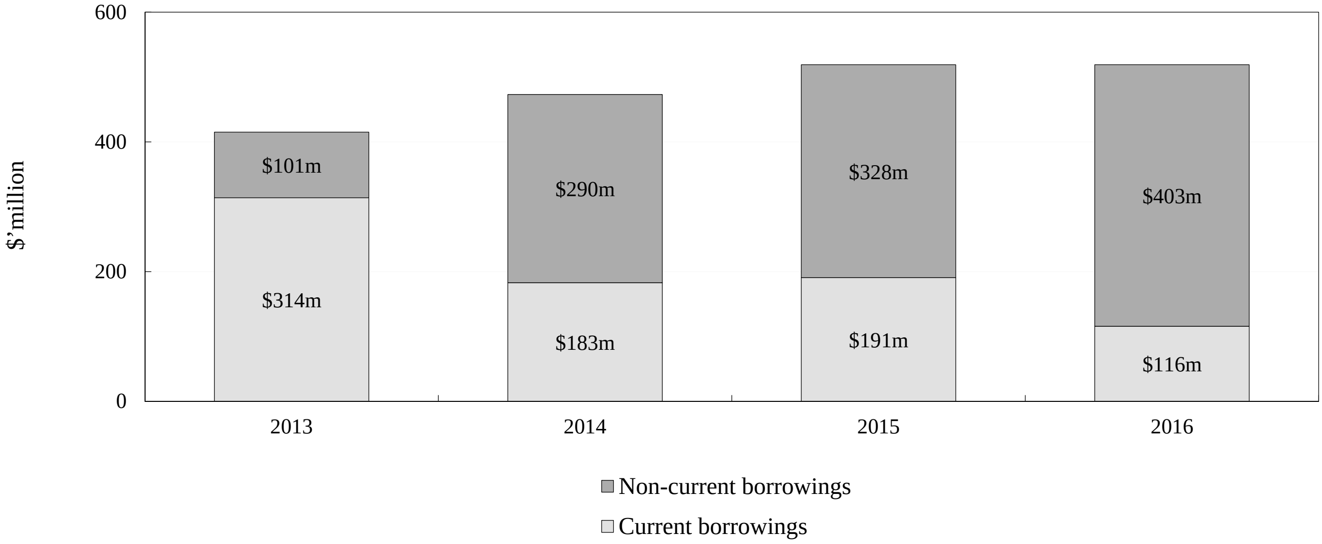
Provision of administrative support to the Riverbank Authority

The Riverbank Authority was established by the Housing and Urban Development (Administrative Arrangements) (Riverbank Authority) Regulations 2014 on 13 February 2014. It has a Board of Management but does not have any employees. All the administrative support functions for the Board are provided by employees of the URA under a service level administrative arrangement.

Borrowings, liquidity and review of asset holdings

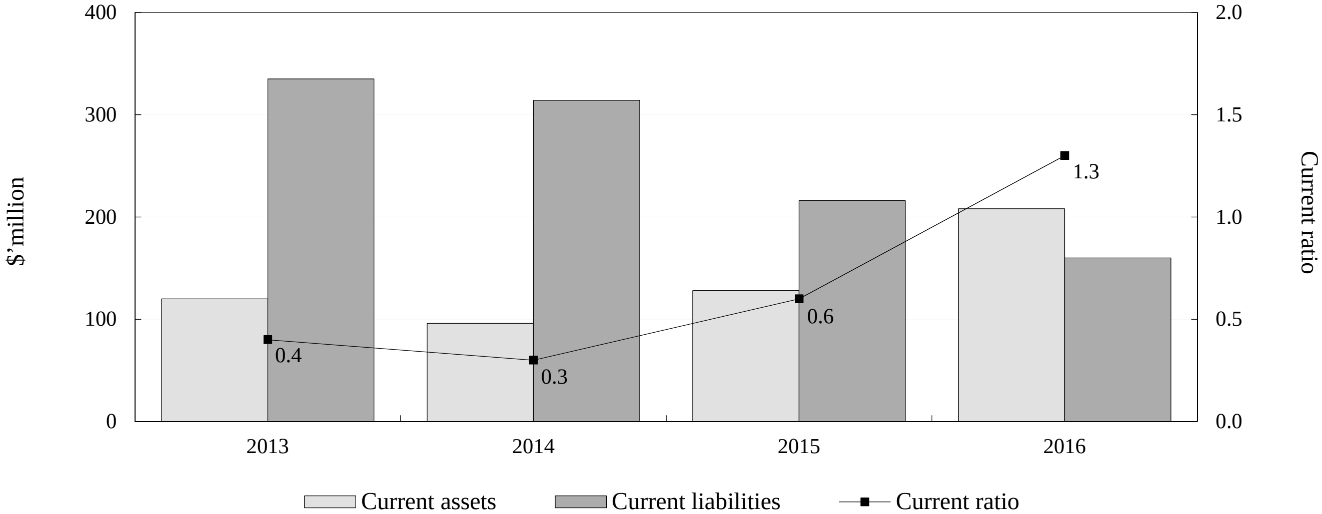
The URA's borrowings from the South Australian Government Financing Authority (SAFA) at 30 June 2016 were $519 million. The borrowings include debt incurred by the former Land Management Corporation and borrowings incurred on the establishment of the URA to fund asset transfers from Defence SA and the SAHT. The URA has also borrowed from SAFA to fund land developments and operating expenditure. 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 loans.

Current loans are being rolled over into subsequent periods. The table below shows the build-up and refinancing of non-current borrowings in 2016.



To alleviate the build-up of borrowings the URA reviewed its development projects and other asset holdings to identify opportunities to reduce additional borrowing requirements.

The chart below shows the trend in the URA's liquidity measured through the ratio of current assets to current liabilities. Current liabilities exceeded current assets in the years before receiving the equity contribution in 2016 and refinancing $75 million to non-current borrowings.



In 2016 the SA Government provided the URA with a $135 million equity contribution. This increased the cash held by the URA at 30 June 2016 and its liquidity. The $135 million will be used in 2017 to partially fund the purchase of non-current assets from DSD. The improved liquidity is therefore temporary until rental income from the purchased DSD assets begins to be received.

Debt management and revised major development project strategies

The Department of Treasury and Finance (DTF) requires the URA to adopt a core debt management facility approach, consistent with other public non-financial corporations. This requires approval by the Minister and Treasurer for an annual debt ceiling. In May 2015, the Minister and Treasurer approved a core debt facility of $540 million and the continuation of a $50 million working capital facility until 30 June 2016. At that time the Minister indicated that no further increases to the debt ceiling would be approved and that the URA must develop a plan to become financially sustainable.

In response the URA, in collaboration with the Minister and DTF, reviewed its capital structure and business model to ensure they were financially sustainable. The review included obtaining expert independent advice in July 2015 on the value and marketability of the URA’s entire land portfolio to help formulate an achievable land sales strategy to improve the URA’s financial position.

The review resulted in the URA writing down its inventory and investment properties by $97 million in 2015. The write-down was mostly due to the value of industrial land falling significantly since the values used on the transfer from Defence SA in 2012. The review also led to further analysis of the major development projects being performed in 2016, resulting in revised development strategies to improve the financial outcomes of the Playford Alive and Woodville West projects. In addition to this review, the URA, in collaboration with DSD and DTF, conducted a separate review of the Tonsley project, resulting in revised development strategies to improve its financial outcomes. The revised development strategies will be implemented from 2016 and have been taken into account in determining the net realisable value of the major development projects as at 30 June 2016.

Status of major development projects

Playford Alive

The Playford Alive inventory is valued at $7 million after a $52 million write-down. The Playford Alive project was approved by Cabinet in February 2006. The project involves the physical and community renewal of the existing suburbs of Davoren Park and Smithfield Plains linked to the development of adjacent undeveloped 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 also undertakes a coordination role working with government agencies and the City of Playford to ensure the delivery of whole-of-government objectives.

There are approximately 331 hectares of land remaining in the greenfield component of the project. In 2016 the URA revised the development strategy for Playford Alive and now intends to sell more of the greenfield land than originally planned as englobo. This will bring revenue in earlier than would be achievable through developing the land and will reduce future capital expenditure.

This project is expected to be completed in 2025. The remaining capital expenditure budgeted for the project is $121 million (undiscounted).

Tonsley Park

The Tonsley Park inventory is valued at $27 million after write-downs of $72 million over two years. In December 2009, Cabinet approved the purchase of the former Mitsubishi Motors Tonsley Park manufacturing site at Clovelly Park. The site is being established as an integrated mixed-use employment precinct that will support a shift from manufacturing industry to knowledge-intensive industries and contribute to the economic growth of southern Adelaide in support of South Australia’s Strategic Plan.

In 2016 the URA conducted a review of the Tonsley project in collaboration with DSD and DTF. This resulted in the realisation that the sale of freehold land in the main assembly building will not be possible due to the significant common services within the facility. The strategy for the main assembly building now requires construction of base tenancies for lease with a view to selling the building as a whole once a business model has been proven. The SA Government provided $12 million in 2016 to fund this construction.

There was also a high level review of the Tonsley project completed in April 2016 by the Economic Development Committee of Cabinet which has approved alternative governance arrangements for the remaining life of the project.

This project is expected to be completed in 2028. The remaining capital expenditure budgeted for the project is $53 million (undiscounted).

Woodville West

The Woodville West inventory is valued at $21 million after a $5 million write-down. The Woodville West medium density residential development commenced in 2009 following Cabinet approval for DCSI to undertake a renewal project to demolish outdated SAHT owned dwellings and create new dwellings. The project was transferred to the URA in April 2012.

In 2016 the URA revised the development strategy for Woodville West and now intends to sell more land than originally planned as super-lots. This will bring revenue in earlier than would be achievable through developing the land and will reduce future capital expenditure.

This project is expected to be completed in 2018. The remaining capital expenditure budgeted for the project is $15 million (undiscounted).

Bowden Urban Village

The Bowden Village inventory is valued at $27 million after a $17 million write-down. The Bowden project is an urban renewal project that is expected to house approximately 3000 people in over 2400 dwellings, in addition to a substantial commercial and retail component. The project encompasses an area of approximately 16 hectares of which 10 hectares comprise the former Clipsal site and six hectares comprise the former Origin Energy site. A master plan for the project was completed in early 2010. The URA is the master developer for the project and is responsible for managing land assembly, remediation, infrastructure works, community engagement and marketing, with the private sector purchasing vacant development parcels for building construction.

This project is expected to be completed in 2025. The remaining capital expenditure budgeted for the project is $101 million (undiscounted).

Gillman site transaction

Background

On 18 June 2013 the Premier received an unsolicited proposal from Adelaide Capital Partners (ACP) for the purchase and development of approximately 450 hectares of the Gillman Precinct (the Gillman site). As owners of the Gillman site, the Premier sought URA's advice on ACP's unsolicited proposal to enable the Premier and the responsible Minister to make recommendations to Cabinet, the approving authority.

On 2 December 2013 Cabinet approved ACP's offer and for the URA to grant an exclusive call option for ACP to acquire up to 407 hectares of the Gillman site through three options over nine years for up to $122 million.

On 13 December 2013 the Premier and Minister for State Development, the Chief Executive of the URA and ACP entered into the Lipson Industrial Estate Option Deed (the Option Deed).

ACP exercised its first option, representing Stage 1 of the project, on 29 December 2014. Exercising the Stage 1 option gave rise to a conditional land sale contract for a minimum of 150 hectares of land, with a minimum payment to the URA of $45 million, to be paid by ACP at the time of settlement under the Stage 1 land sale contract. Settlement of the Stage 1 land sale is expected before 1 November 2016 and remains contingent on certain conditions precedent being met, including the relevant land being rezoned for industrial use and ACP receiving the necessary statutory and development approvals.

Upon settlement of the Stage 1 option land, the URA will also enter into a long-term licence with ACP over the remaining land, which will form part of the second and third exercisable options. If ACP exercises the second and third options and effects settlement under the land sale contract(s) that arise, further off-market sales of up to 257 hectares of land at Gillman and Dry Creek will occur for a combined total of up to $77 million.

Legal challenge to the Gillman transaction

Acquista Investments and Veolia Environmental Services (jointly IWS) commenced an action for a Judicial Review of the Gillman site transaction in May 2014. The Supreme Court of South Australia handed down the Judicial Review findings on 24 December 2014. The Court (Blue J) upheld that the Option Deed was valid and dismissed the action.

IWS subsequently appealed the judgement in the Judicial Review proceedings, with the relevant trial commencing in April 2015. The Full Court of the Supreme Court of South Australia handed down its appeal findings on 20 July 2015. The majority of the Full Court (Vanstone and Lovell JJ) dismissed the appeal.

In a dissenting view, Justice Debelle found that on the basis of Justice Blue’s findings, the Option Deed should have been declared invalid and of no effect, and that the appeal should be allowed.

On 17 August 2015, IWS applied for special leave to appeal the majority decision of the Full Court to the High Court of Australia. On 13 November 2015, IWS was granted special leave and the matter was set down for hearing in April 2016. An adverse result in the High Court presented the URA and the State with potential financial risk.

Deed of Settlement and Release agreed to settle Gillman transaction dispute

Recognising the consequences of a successful appeal, since November 2015 the URA, the State Coordinator General and the Crown Solicitor’s Office have negotiated with ACP and IWS to settle the legal proceedings.

In April 2016 the State, the URA, Acquista Investments, Veolia Environmental Services and ACP executed a Deed of Settlement and Release. The terms of the settlement require:

- IWS to discontinue legal proceedings and take no further legal action in relation to this matter
- ACP to settle the Stage 1 purchase of 150 hectares of land for $45 million by 1 November 2016
- ACP to obtain the required development approvals prior to settlement
- ACP to sell 20 hectares of the Stage 1 area to Veolia Environmental Services dependent on ACP settling the Stage 1 purchase

- the SA Government and the URA to pay the legal costs of ACP and IWS up to an amount of $2.2 million

- if the Stage 1 settlement does not occur by 1 November 2016, the parties will release one another from any claims arising under the Option Deed and the land will return to the URA's control.

Importantly, the Deed of Settlement and Release the SA Government and the URA from any further legal action that may be brought by ACP or IWS arising from the decision to enter into the Option Deed. The SA Government has also improved certainty for the original transaction, with Stage 1 settlement to occur by 1 November 2016.

The SA Government has agreed to contribute half of these costs by way of a community service obligation payment to the URA.

Deed of Settlement and Release realises risks from the Gillman transaction process

In the Supplementary Report for the year ended 30 June 2014 'Audit of the Gillman site transaction: Key shortcomings in assessing an unsolicited proposal: December 2014' the then Auditor-General commented on inadequacies of the process followed for the original Gillman transaction. The findings included inadequacies in the attention to the Board's role and responsibilities and with information and disclosures. The Board's decision to settle this matter realises risks from aspects of these inadequacies.

Part B

General index

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