

Report 5 of 2018

Annual report

for the year ended 30 June 2018

Part A: Executive summary



Report of the Auditor-General

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Dear President and Speaker

**Report of the Auditor-General: Report 5 of 2018 – Annual Report
for the year ended 30 June 2018**

As required by the *Public Finance and Audit Act 1987*, I present to you my 2018 Annual Report.

Content of this Report

This Report is in two parts – Part A and Part B.

Part A: Executive summary contains this letter of transmittal which provides the opinions I am required to give under section 36 and identifies any examinations I have made under section 32 of the *Public Finance and Audit Act 1987*.

Part A also summarises the main matters that should, in my opinion, be brought to the attention of the Parliament and the SA Government from our 2017-18 audits of public sector agencies. This includes significant financial outcomes, events and control matters communicated to agencies and small scale specific reviews.

Part B: Agency audit reports is a summary of the audit outcomes for each agency included in this Report. It has more detailed commentary on many of the matters in Part A. It features a snapshot of key agency information covering financial statistics, significant events and transactions, and whether the financial report 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 for assessing the agency's financial performance and position, and significant financial transactions.

Agency financial reports not included in this Report

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

To strengthen accountability for the activities of these agencies I have elected to prepare a new report to Parliament annually that will identify agencies not included in my Annual Report with:

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

I will prepare the first of these reports in early 2019.

In addition, to strengthen accountability for the activities of these agencies, their financial reports will be published on the Auditor-General's Department website once the audit of the agency is finalised.

A list of the agencies not included is provided in the Annexure to Part A.

Auditor-General's opinions

Section 36(1)(a) of the *Public Finance and Audit Act 1987* sets out three opinions I must state in my Annual Report. I deal with each of these in this section.

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

The Treasurer's statements for the year ended 30 June 2018 will be published on the Auditor-General's Department website after this Report is tabled in Parliament.

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

I give this opinion for each of the public sector agencies included in this Report except the University of South Australia, for which I have issued a modified opinion.

In addition, 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 2018.

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

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

This is a summary, collective opinion. I give a controls opinion for each public authority. 27 of the 42 agencies included in Part B of this Report and subject to controls opinions received modified (qualified) controls opinions due to financial and management control weaknesses and compliance matters. The internal controls of these 27 agencies have not, in my opinion, achieved or maintained the standard required by the *Public Finance and Audit Act 1987*. I have included commentary on my reason(s) for any modified controls opinions I have issued in Part B.

The overall aim of our audits of controls is to establish whether controls were sufficient to provide reasonable assurance that the financial transactions were conducted properly and in accordance with law. This concept requires the agency to meet the standards of financial probity and propriety expected of a public authority and, at all times, discharge its responsibilities within the letter and spirit of the law, both in terms of its own charter and as an instrumentality of government discharging public functions.

Our assessments involve reviewing the adequacy of procedures and testing a number of control components for a range of financial transactions, taking into account risk and materiality.

We consider agency structures, risks and the interrelation of policies, procedures, people, management's philosophy and operating style, demonstrated competence, and overall organisational ethics and culture. These are all elements of control. We also assess whether the controls in operation were consistent with the Treasurer's Instructions, with particular focus on Treasurer's Instructions 2 'Financial Management' and 28 'Financial Management Compliance Program'.

It is not practical in any such assessment to review each and every control for each and every transaction. While every effort is made to test the sufficiency of controls across a representative range of transactions, no system of control should be considered fail-safe. The Parliament has recognised this in stating that the controls need only be sufficient to provide, at the time of audit, 'reasonable assurance' of the matters set out in the opinion.

Where I assess that the controls exercised by an agency do not meet a sufficient standard, I make recommendations as to where, in my opinion, improvements are needed. Audit findings, risk considerations, recommendations and agency responses are included for each agency in Part B under the heading 'Audit findings and comments'.

All audit findings are discussed with agencies. This gives them the opportunity to confirm the factual correctness of our findings and discuss the effect and practicality of our recommendations. It is up to the agency to decide whether to adopt our recommendations, taking into account the risks, costs and benefits. There are times where we do not agree and agencies do not adopt our recommendations.

Section 32 examinations

Section 36(1)(ab) of the *Public Finance and Audit Act 1987* requires me to report on any section 32 examinations that were completed during the year and briefly describe the outcome.

On 1 May 2017 the Treasurer requested that I examine the accounts of the District Council of Coober Pedy. At the time of this Report the examination is nearing completion.

A brief summary of the work we have undertaken in the local government sector is provided in section 5.7 of Part A.

Acknowledgments

I have great pleasure in recognising and thanking my professional and dedicated staff for their complete commitment and efforts in 2017-18. The high standard of their work throughout the year is evidenced in the timely production and quality content of this and other reports. The senior managers of the teams that have contributed to this work are listed in section 8 of Part A.

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

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

Finally, I would like to thank Year 12 student Randy Truong from Blackfriars Priory School for the cover photograph.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Richardson', with a long horizontal flourish extending to the right.

Andrew Richardson
Auditor-General

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Acronyms and abbreviations

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

ASQA	Australian Skills Quality Authority
CA OIL items	Commercial acceptance outstanding items
CALHN	Central Adelaide Local Health Network Incorporated
CASA	Civil Aviation Safety Authority
CHPs	Community housing providers
DCP	Department for Child Protection
DEW	Department for Environment and Water
DHS	Department of Human Services
DHW	Department for Health and Wellbeing
DPC	Department of the Premier and Cabinet
DPTI	Department of Planning, Transport and Infrastructure
DRP	Disaster recovery plan
DSD	Department of State Development
DTF	Department of Treasury and Finance
DTTI	Department for Trade, Tourism and Investment
DXC	DXC Australia Technology Pty Ltd
EPLIS	Enterprise Pathology Laboratory Information System
EUC	End User Computing
FMC	Flinders Medical Centre
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
ION	Intensive Outreach Navigator
ITGCs	Information technology general controls
JAG	Job Accelerator Grant
KMP	Key Management Personnel
LHNs	Local health networks
LSA	Lifetime Support Authority of South Australia
LSSA	Land Services SA
MAC	Motor Accident Commission
MOG	Machinery of government
MTO	Maintenance Training Organisation
NALHN	Northern Adelaide Local Health Network Incorporated
NDIA	National Disability Insurance Agency
NDIS	National Disability Insurance Scheme
Niche	Niche Technology Incorporated

Oakden facility	Oakden Older Persons Mental Health Facility
PFAA	<i>Public Finance and Audit Act 1987</i>
PIRSA	Department of Primary Industries and Regions
RAH	Royal Adelaide Hospital
RDF	Regional Development Fund
RDNS SA	Royal District Nursing Service South Australia
RGH	Repatriation General Hospital
RTWSA	Return to Work Corporation of South Australia
SA Water	South Australian Water Corporation
SAAS	SA Ambulance Service Inc
SAFA	South Australian Government Financing Authority
SAHT	South Australian Housing Trust
SALHN	Southern Adelaide Local Health Network Incorporated
SAPOL	South Australia Police
SARMS	South Australian River Murray Sustainability
SASB	South Australian Superannuation Board
Shield program	Shield Business Transformation program
SIL	Supported independent living
STEM	Science, technology, engineering and mathematics
TCV	Total contract value
UPF	Uniform Presentation Framework
URA	Urban Renewal Authority
VOC	Victims of Crime

1 Overview

Part A summarises the main matters that should, in my opinion, be brought to the attention of the Parliament and the SA Government in this Annual Report. The Annual Report represents the principal part of our 2017-18 audits. The content is largely consistent with the practice of recent years to meet the annual reporting requirement in the *Public Finance and Audit Act 1987* (PFAA). The Annual Report also naturally follows in timing with the end of the financial year and reporting by the Treasurer and public authorities. This Report includes significant financial outcomes and events and financial control matters communicated to agencies and small-scale specific reviews. We also deliver other reports on individual topics or themes at different times each year.

1.1 Introduction

We set our audit program at the start of each year to ensure we have the time needed to properly address all the work required to issue opinions. Most audit resources and effort are allocated to completing the financial statement audits we are responsible for annually. While doing that work, we perform audit work on financial controls and complete performance audits and local government examinations.

In March 2018, the four yearly State election was conducted. A new government was elected for the first time in 16 years. Since then, the new government has introduced changes administratively and legislatively. Several public sector chief executives have been replaced. Machinery of government (MOG) changes have occurred, with service elements moving between agencies and some agencies being abolished or renamed. Most MOG changes are taking effect from 1 July 2018. This start date is the best for financial management, allowing a clear and natural break point between financial years. It also takes advantage of using the well-established year-end processes to settle the transfer of financial information associated with MOG changes.

A change of government is also a natural point of resetting expectations for those who are responsible for administering government agencies. Our work assesses and reports on the financial management aspects of those responsibilities. The matters in this and our other reports are designed to inform and alert those responsible for decision-making about good or poor financial management practices that have occurred.

1.2 Amendments to the PFAA and other audit changes

In these days of seemingly instant information, we are naturally looking to how we can best discharge our responsibilities to the Parliament. An annual report can only be part of our outcomes if we are to be timely and relevant. I made requests to amend the PFAA to give us more flexibility in reporting and to help ensure we work efficiently and effectively. We also needed clear authority to comment on the effectiveness of government expenditure. The Parliament recently approved those amendments. I discuss how we will respond to the changes and meet these new expectations in section 1.7.

I emphasise that these reporting changes will not result in reduced audit commentary. We expect the opposite – that is, more frequent and broader scoped commentary. Most audit commentary will also be printed and tabled in the Parliament. Some information will be available in a different way. In fact, more information will be available than was previously available in our printed reports through our website (www.audit.sa.gov.au).

We are also reviewing our practices for our most significant responsibilities, being to audit the accounts of each public authority and give an opinion on controls exercised by the Treasurer and public authorities over financial transactions. We are planning to replace our methodology for audits of accounts. We have also reviewed our controls opinion methodology and the outcome of that review is discussed in section 1.8.

1.3 Audit outcomes in this Report

This Report differs from last year in that we have focused on the agencies we assessed as the most significant this year. A further summary report will be prepared and tabled to address the remaining agencies so that each year we will account for our work for all agencies.

Through this year's audits we have again identified many areas where we consider controls should have been better and we report on them with the expectation that future practices will improve. Significant or frequent financial control matters we communicated to agencies are summarised in section 3 and include:

- system user access management
- delegations and approvals
- contract management
- reviewing key reports.

The details of our audit findings and comments are provided in Part B of this Report as in the past.

I draw attention to our reports on the health sector and the Department of Planning, Transport and Infrastructure (DPTI) in Part B. They highlight many matters that arise in complex public sector environments over prolonged periods. Health sector governance changes effective from 1 July 2019 will put matters arising from audits under the scrutiny of responsible governing boards. For DPTI, many issues are being addressed and have been in progress since it started internal reforms in 2014. We have referenced various work performed by DPTI's internal audit. In my opinion, DPTI's practice of close review of substantial change strategies is a good one. It supports the natural and expected cycle of action, review and adjustment in the pursuit of success.

Section 4 gives commentary and findings about several specific topics and matters we chose for focused attention in 2017-18 including:

- the National Disability Insurance Scheme
- the Job Accelerator Grant scheme
- a new Royal Adelaide Hospital update
- contract extensions and single offer market approaches
- information technology general controls
- information and cyber security

- end user computing (ICT desktop outsourcing)
- the Shield Business Transformation program.

Section 5 discusses upcoming changes to accounting standards. These have many implications for agencies across the public sector. We are urging all who have these responsibilities to prepare and act early in the year to resolve any challenges that arise. Historically, many complex accounting issues have presented challenges that have taken well into, or close to the end of, the financial reporting period to resolve. Both my office and agencies are unlikely to be able to manage multiple significant matters left too late in the financial year. We will not issue an audit opinion until material matters are resolved. Early work will mitigate this risk. My office is prepared and willing to assist as far as we can as auditors. It is each agency's responsibility to prepare accounts and decide how it applies accounting requirements.

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

- the Coober Pedy examination
- Health budget and performance management
- Local government – The use of credit cards
- New Royal Adelaide Hospital Phase 3 – Operating term
- Energy plan – Battery storage
- State finances and related matters (usually available with the Annual Report but delayed in line with the later date of the Budget this year)
- Commercialisation of transactional land services and functions of the Land Services Group.

1.4 Learning from UK's Carillion experience with outsourcing and contracting

Like all governments, substantial public sector services or service supports are delivered by the SA Government through outsourcing and contracting to the private sector. We make various findings on contract management in section 3.5 of this Report and in many of our other reports.

The Carillion collapse in the UK is a stark illustration of the risks that must be managed in public sector contracting. In January 2018, Carillion, a large facilities management and construction firm, entered liquidation. By value, Carillion was the sixth largest supplier to the UK public sector in 2017. It was estimated that when it collapsed it had 420 contracts with the public sector.

Numerous reports have been delivered about the Carillion experience. I commend to our Parliament the House of Commons Public Administration and Constitutional Affairs Committee Report 'After Carillion: Public sector outsourcing and contracting'.¹

¹ House of Commons Public Administration and Constitutional Affairs Committee Report, 'After Carillion: Public sector outsourcing and contracting', Seventh Report of Session 2017–19, 3 July 2018.

The report is, of course, specific to the prevailing circumstances. I have set out some extracts below. It is unusual to quote so broadly from other work. I believe it is warranted because the principles are so fundamental. The report identifies risks associated with all elements of contracting, from procurement and selection to managing over the long term.

The Carillion failure was described as one of the biggest commercial challenges the UK Cabinet Office has ever faced and it reflected long-term failures of government understanding about the design, letting and management of contracts and outsourcing.

On entering into outsourcing the report summarises:

It is unclear how and why the Government decides whether to outsource a particular service. The Government has a process, set out by the Treasury, to make decisions about how it should deliver services and run projects, including evaluating options about whether and how to use the private sector. However, the Government does not always follow its own process. Moreover, the evidence used to support these decisions is thin or non-existent. This report calls for the Government to follow its own processes to decide whether and how to “make or buy”, before any public contract is put out to tender, and to publish the justification (including its evidence) on which the decision is based. This transparency is vital for rebuilding public confidence.²

On risks it says:

The Government has deliberately promoted an aggressive approach to risk transfer to the private sector - often even attempting to transfer risks that the government itself has completely failed to analyse or to understand. Government assumed Carillion had accurately estimated its own costs in delivering maintenance for the prison estate, even though it later transpired the accurate cost was £15 million more. Government procurement has been driven by price while failing to appreciate differences in quality that contractors may be offering. We recommend a fundamental change of attitude by the Government towards its partners - ensuring that risk transfer is realistic and that quality, an appreciation of systemic risk and economic impact as well as price drives decision making.³

On understanding providers, it says:

The Government must develop a deeper understanding of its commercial partners’ supply chains and of the risks hidden behind their published accounts and public statements.

Shareholders can accept higher risks for an equity rate of return and can bale out at short notice. The Government is in for the long term and cannot take such risks with public money or with the security of public services.⁴

² Ibid, page 3.

³ Ibid, page 3.

⁴ Ibid, page 4.

On data and monitoring, it says:

The Government admits that its data about contracts internally is poor: we have commented again and again about the lack of useful internal data in Government, which can lead to blind reliance on what companies tell the government, instead of a genuine exchange of information and a continual appraisal of the contractor's performance over the lifetime of the contract. This also depends upon developing a professional atmosphere of verified trust and collaboration between the people in government departments and in private contractors, based on the values attitudes and behaviour which the public expects to be demonstrated in the delivery of public services.

Those who are responsible for contracting should very clearly understand about the UK experience so that where relevant, actions in this State will not expose any involved, particularly taxpayers and users of public services who do not have choice, to unnecessary or unmanaged risks and stresses associated with this or elements of this experience.

I also note that these principles apply broadly to many aspects of public administration.

1.5 Building public trust

I take the opportunity in this Report to reflect on the state of public trust in institutions. Trusting government processes and financial reporting is a fundamental precondition for community confidence. Global survey data shows that trust in institutions including government is low. Through various sources and reports, communities are frequently seeing inappropriate behaviour by influential people in business and government institutions.

This year, where I have had opportunities to present to larger public forums, I have discussed the role public sector officers have in contributing to public trust. As auditors, our role is to give assurance opinions. We report where, in our opinion, expected standards are met and where they are not met. We accept that it is up to each agency to decide if it should act on our findings and opinions. Where there is agreement about the need to act, we expect this would occur. We do find each year that we raise many repeat issues, although an agency has advised it will act. Resolving matters as promptly as circumstances allow is a way public sector officers can build public trust.

A second and more challenging area is to achieve transparency about decisions. Controversy and secrecy often travel together. The more thought-provoking and complex a matter is, the more likely transparency outside of decision-makers is low. There are three main areas that are commonly referred to in public debate and affect public sector transparency, namely cabinet confidentiality, legal professional privilege and commercial confidence. Confidentiality in each of these areas serves a specific purpose and the rationale has developed over long history. The challenge is to strike the correct balance to obtain community trust while maintaining the intended purpose of these privileges or arrangements.

Auditors-General also have and must respect confidences. Parliament provides the Auditor-General with discretion about the way PFAA functions are carried out or powers are

exercised. We have access to many records. Recent limitations are discussed in the next section which deals with access to Cabinet records. Having access does not mean we will then publicly disclose confidential matters. Our general approach to protecting confidentiality in public reporting is summed up under section 1.6.6. What we report reflects what we have done each year. It does not show details of confidential matters or what matters have been considered but not prioritised. Where we cannot disclose confidential information we will endeavour to make that clear in our reports.

In summary, in my view it is now important to make building public trust a goal for all public sector officers and certainly for those with governance responsibilities. As plans are executed this year and formulated for the future, focus should be given wherever possible to ensuring public administrative processes, strategies and actions are contributing to building public trust.

1.6 Access to Cabinet records

The purpose of this section is to inform the Parliament about progress on the matter of access to Cabinet records.

For the past two years I have reported about the effects of the previous SA Government's policy that information on its decision-making including Cabinet submissions and notes, comments and advice provided in Cabinet documents, would not be provided to investigative agencies. This included my office. A request may be considered by Cabinet as to whether an exception to the policy is warranted, depending on the circumstances of any investigation undertaken by the investigative agency.

Before this policy was adopted in September 2016, copies of Cabinet submissions were available to the Auditor-General by request to the Cabinet Office through the Chief Executive of the Department of the Premier and Cabinet (DPC). This process was used where required because, in some circumstances, access to Cabinet submissions was needed to gather necessary evidence to support audit opinions.

The policy has, in practice, created challenges for my Office in performing our responsibilities and raised some issues about what records are subject to the convention of Cabinet confidentiality.

We have been working positively with the SA Government and Cabinet Office to clarify protocols, manage uncertainties and streamline access where appropriate, to ensure audits can progress efficiently and effectively and to minimise costs across the public sector.

1.6.1 Cabinet confidentiality is acknowledged

I acknowledge at the outset that the confidentiality of Cabinet deliberations is an established and accepted convention in Westminster system governments. I fully respect the convention's purpose to support collective responsibility and full, frank and confidential exchange in Cabinet.

1.6.2 Auditor-General responsibilities

My requests are entirely practical in nature as I am charged with an annual responsibility to give opinions to Parliament using the powers provided in the PFAA. The annual opinions are in this Report about the financial statements of each public authority and the sufficiency of controls exercised by the Treasurer and public authorities over financial transactions.

In fulfilling these responsibilities, I am professionally bound to ensure I meet specific requirements before issuing an assurance opinion. Australian Auditing Standards require that an auditor must obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. What is sufficient is a matter of judgement and risk for the auditor.

1.6.3 Access to decision sets authorised

Last year, the previous SA Government authorised I be provided with a record of Cabinet decisions that reflects the approved recommendation(s) relating to a transaction of interest where the request is for the purpose of properly exercising my statutory functions. I was also to only make reference to the fact of Cabinet approving or not approving a matter where appropriate in the proper exercise of my statutory functions, and not to disclose any further information as to the deliberations of Cabinet that are apparent from the record.

I subsequently received requested Cabinet decision sets that are necessary evidence of approvals and conditions for transactions. This practice has continued since the change of government in March 2018 as described under the heading 'Proposal 1 – access to Cabinet decision sets' in section 1.6.5.

1.6.4 Problems accessing documentation related to Cabinet submissions

Cabinet, as the pre-eminent decision-making body, generally authorises all significant transactions. This is prescribed in some circumstances. For example, Treasurer's Instructions set out specific circumstances for threshold transactions. Treasurer's Instruction 8 'Financial Authorisations' (TI 8), clause 11.1 requires that unless the public authority's enabling legislation has alternative specific arrangements that are inconsistent with this clause, a contract of \$15 million or more, including one for the purchase of goods and services, can only be executed if approved by Cabinet, or by the Minister acting under TI 8, clause 11AA (which in turn references Cabinet approvals).

The nature of auditing, which concentrates on material matters, naturally aligns with matters that have been to Cabinet for approval of financial amounts and conditions associated with a transaction.

The dilemma accordingly arises that the auditor will have an interest or obligation to seek evidence of Cabinet's approval and related documentation. For example, to give the controls opinion, our responsibility is to seek evidence that transactions have occurred with the due processes expected in public administration by taxpayers and the Parliament.

Throughout 2017-18 we had significant problems accessing documentation from government agencies related to Cabinet submissions, that we routinely had access to before

the change in government policy in September 2016. Either we are denied documents as Cabinet records or agency personnel are unclear if a document has immunity status and delays occur before the status is resolved. This causes, at minimum, significant delay in completing audits. At worst, the potential exists for a scope limitation in an audit because of inaccessibility to needed evidence.

I make a further observation about limited access in section 1.6.5 under the heading 'Proposal 3 – representations by agencies: 'information regarding Cabinet decision-making'.

Because of this, in August 2018 I wrote to the Premier and to Cabinet Office proposing a way forward. Cabinet Office subsequently advised me that the policy and process were being worked through. I will continue to relate with the SA Government on this matter within the limitations of the convention.

1.6.5 Proposals to improve access decisions and processes

Proposal 1 – access to Cabinet decision sets

I proposed the new Government provide for access to requested Cabinet decision sets on a confidential basis. This was consistent with the previous Government's practice.

I have since received decision sets I have requested. They are only the part(s) showing the list of decisions and conditions (eg further reporting to Cabinet, stage approval, timing etc), Cabinet approval stamp, date and signature.

Proposal 2 – documents that are related to Cabinet submissions

I proposed Cabinet policy provide for access, subject to a two-part dominant purpose test, to requested Cabinet records, excluding any of the nature of minuting or recording of Cabinet deliberations, on a confidential basis.

We are aware that a range of operational documents are often attached to Cabinet submissions and accordingly become Cabinet records. Key examples include:

- a business case – a sound business case will provide decision-makers (Cabinet and subsequently government officials) with three critical elements of knowledge:
 - information to make a fully informed decision on the merits of proceeding with a proposal and how funding should be provided
 - assurance that the proposal is sufficiently developed and capable of being delivered within the cost and time frames specified
 - an ongoing tool for managing progress and evaluating benefit realisation post-implementation⁵

⁵ For example, in Part B of this Report under the section titled 'Central Adelaide Local Health Network Incorporated' we have reported unfavourable variations to benefits expected to be realised for the EPLIS project from the original business case.

- risk registers and analysis
- legal opinions
- grant evaluations
- consultant reports.

Practice in government is, and has been, that government officials prepare documentation for decision-making purposes. Where Cabinet is the decision-maker, all or many related significant documents tend to be attached with submissions. Agencies do not retain equivalent duplicative documentation. Even if they did, where they mirror Cabinet records it is logical they would have the same status and confidentiality protection.

Acknowledging the convention of Cabinet immunity, I proposed Cabinet policy provide for a two-part dominant purpose test, as set out in the *Freedom of Information Act 1982* (Cwlth) to guide the release of requested information to Audit on a confidential basis. That Act provides:

34 Cabinet documents

General rules

(1) *A document is an exempt document if:*

(a) *both of the following are satisfied:*

- (i) *it has been submitted to the Cabinet for its consideration, or is or was proposed by a Minister to be so submitted;*
- (ii) *it was brought into existence for the dominant purpose of submission for consideration by the Cabinet;*

It is important to acknowledge other provisions in that section that guide whether a document is an exempt document, namely if:

(b) *it is an official record of the Cabinet; or*

(c) *it was brought into existence for the dominant purpose of briefing a Minister on a document to which paragraph (a) applies; or*

(d) *it is a draft of a document to which paragraph (a), (b) or (c) applies.*

The documents we request are important tools to assist agencies to discharge their stewardship obligations for projects and programs they are responsible for, as they provide a sound basis to:

- define the parameters of authority
- monitor progress
- evaluate the achievement of intended benefits and the overall success
- evidence the processes undertaken by the agency to manage the matter.

Although these documents are often attached to Cabinet submissions or were closely aligned to information included in the submissions, we consider they are generally established primarily to discharge public administration responsibilities in monitoring and delivering initiatives and programs. Such documents are critical for us to understand that proper process has been followed, the financial limits and status of matters, and the risks to

the State, and to evaluate what controls ought reasonably to be operating to manage risks and deliver programs on time, within budget and with the intended benefits.

Proposal 3 – representations by agencies: ‘information regarding Cabinet decision-making’

I proposed Cabinet Office confirm the status of records requested by the Auditor-General when access is initially denied by agency personnel on the basis it is information regarding Cabinet decision-making.

We experience agencies denying access to documents we request on the basis it is information regarding Cabinet decision-making. This has included documents I mentioned under proposal 2, but also information we consider to be in the nature of management reports and that has not been, as far as we aware, submitted to Cabinet. I note in section 4.8 how access limitations may have affected our commentary on the status and challenges associated with the End User Computing program at the time of this Report. As this is an update for the Parliament on this government initiative and not an audit, the limitation has not affected an opinion in this instance. Our update is, however, limited to the matters available to us.

We seek to ensure we meet the Parliament’s expectations about obtaining information, as set out in the PFAA. Where we are advised by an agency that access is denied on the basis it is information regarding Cabinet decision-making, I will now forward our request to Cabinet Office seeking confirmation that the information was presented to Cabinet for deliberation.

If Cabinet Office confirms this has occurred, we may request Cabinet to authorise access in line with Proposal 2.

If Cabinet Office does not confirm information was presented to Cabinet for deliberation, we will advise the agency of Cabinet Office confirmation that documents were not prepared for a Cabinet purpose. We will again request the documentation using the relevant powers provided in the PFAA and as needed in section 34—Powers of the Auditor-General to obtain information which can include by summons.

1.6.6 Protecting confidentiality in public reporting

My proposals request that information be made available to my Office on a confidential basis.

I am concerned that I achieve the right balance in reporting for the Parliament to be well informed about our work, findings and opinions and for confidentiality requirements, from whatever source, to be respected.

I advise the Parliament that, having regard to progress on this matter, our approach is to not include in a public report any information that would involve the disclosure of deliberations of Cabinet or of a committee of Cabinet. Our processes for procedural fairness provide opportunities for us to resolve areas of uncertainty about disclosures with agencies before we complete reports for the Parliament.

1.7 Amendments to the PFAA

In 2018 the Parliament passed the *Public Finance and Audit (Miscellaneous) Amendment Act 2018* (No 10 of 2018), which came into operation on 13 September 2018.

This section explains how I intend to apply the recent changes to the PFAA. In summary:

- my Annual Report will no longer include printed copies of agency financial statements
- all financial statements audited by me will be published on the Auditor-General's Department website when audits are complete
- I will, in some circumstances, publicly release my reports before they are tabled in Parliament
- all audit reports will be tabled in Parliament
- I may now audit the effectiveness with which a public authority uses its resources.

1.7.1 My Annual Report will no longer include the financial statements of the agencies that are reported in Part B

Before the PFAA was amended, I was required to deliver to the Parliament copies of the Treasurer's statements and the financial statements of public authorities that were of sufficient importance to warrant publication.

I met this requirement by preparing an Appendix to my Annual Report comprising five volumes that last year included financial statements for the 64 agencies that, in my opinion, warranted publication. This added around 3000 additional pages to my Annual Report.

The amendment to the PFAA removes this requirement and imposes a new obligation to publish on a website determined by me:

- the audited financial statements of the Treasurer and all public authorities
- the financial statements of the administrative unit established to assist the Auditor-General.

Consequently:

- copies of financial statements will not be included in an Appendix to my Annual Report for the year ended 30 June 2018
- the financial statements of all agencies that are reported in Part B of my Annual Report will be published on the Auditor-General's Department website (www.audit.sa.gov.au) immediately after my Annual Report is tabled in Parliament.

1.7.2 Publishing all audited financial statements on the Auditor-General's Department website

As indicated, I am now required to publish on a website the audited financial statements of all public authorities. This is a significant accountability measure that ensures they will all be available centrally for the first time.

In addition, the PFAA allows me to publish other documents referred to in my Reports on that website. Other documents would include the financial statements of agencies that are not public authorities.

My Annual Report will refer to and list the financial statements of all agencies audited by me that are not reported in Part B of my Annual Report (around 90 agencies) that will be published by me. Consequently, those financial statements will now be published as soon as reasonably practicable on the Auditor-General's Department website after each audit is completed.

1.7.3 Authority to prepare other reports

I may now prepare other reports (and annex documents to them) relating to matters required to be dealt with in an annual report and deliver each such report to the President of the Legislative Council and the Speaker of the House of Assembly.

This amendment improves the Auditor-General's flexibility to report when audits and examinations are complete by removing an uncertainty in timing associated with the former supplementary reporting provisions. We will continue to prepare individual topic reports such as our reports on the Adelaide Riverbank (Festival Plaza) Development and the grant to One Community SA.

1.7.4 Authority to publicly release my reports to Parliament before they are tabled in Parliament

The PFAA was amended to allow me to publish a report after it has been delivered to the President of the Legislative Council and the Speaker of the House of Assembly, without waiting for it to be tabled in Parliament. The effect of this is that I can publish a report regardless of whether Parliament is sitting.

I emphasise that hard copies of all reports will be tabled in Parliament and provided for all members. The only material that will not be tabled will be a document associated with a report that is referenced in an annexure and is published on the Auditor-General's website.

It is my intention, wherever possible, to continue to publicly release reports after they have been tabled in Parliament and to only use this amendment to report on urgent or important matters where Parliament is not sitting for significant periods. For example, my Annual Report is required to be delivered to the President of the Legislative Council and the Speaker of the House of Assembly before 30 September annually. I intend to wait until the Annual Report is tabled (scheduled for 16 October 2018 for the 2017-18 report) before releasing it publicly.

At the time a report is delivered to the President of the Legislative Council and the Speaker of the House of Assembly, I will formally communicate the date and time that it will be released publicly on the Auditor-General's Department website (www.audit.sa.gov.au).

1.7.5 Auditing effectiveness

The PFAA was amended in several places to enable the Auditor-General to examine the effectiveness with which a public authority uses its resources.

We conduct audits in line with Australian Auditing Standards. This amendment aligns the PFAA with the Standard ASAE 3500 'Performance Engagements' and with other Australian jurisdiction audit provisions.

ASAE 3500 explains that a performance engagement is to evaluate the performance of an activity, with respect to economy, efficiency and/or effectiveness against the identified criteria. Where we examine effectiveness, our context will be consistent with ASAE 3500 which defines effectiveness as the performance principle relating to the extent to which intended objectives are achieved.

1.7.6 How interested people can be advised when a report to Parliament is released publicly on the Auditor-General's Department website

Interested people can subscribe to reports I release on the Auditor-General's Department website. Subscribers will be emailed:

- after a report has been delivered to the President of the Legislative Council and the Speaker of the House of Assembly, advising the date and time that it will be released publicly
- as soon as a report is publicly released on the Auditor-General's Department website.

I encourage interested people to take advantage of this process to stay informed about the status of my reports.

1.8 Proposed changes to controls opinion audit approach in 2018-19

I regard the requirement to assess public sector financial controls as a vital responsibility for the Auditor-General. I have been considering the practices we adopt to support the annual controls opinion given in this Annual Report. Because of that review, I am amending our practices from 2018-19 so that we have the best opportunity to provide the most relevant and timely reports we can to the Parliament.

The PFAA requires the Auditor-General to prepare an annual report that states whether, in the Auditor-General's opinion, the controls exercised by the Treasurer and public authorities in relation to the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities 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.

The PFAA empowers the Auditor-General to decide how the functions are carried out or powers are exercised under the Act and the priority given to a matter in carrying out functions under the Act.

The controls opinion has been required since the PFAA was enacted in 1987. Since 1996, the Auditor-General has reported controls opinions for individual agencies included in the

Annual Report to Parliament. To inform the individual opinions, audit work is planned and performed based on a uniform program tailored to individual agency circumstances. This approach is required by Australian Auditing Standards. The overall opinion is based on the results of those individual audits.

1.8.1 A whole-of-government perspective to controls opinion auditing

We will now plan our controls opinion auditing from a whole-of-government perspective rather than for every individual agency. To form the annual overall controls opinion, we will focus on those areas of most quantitative or qualitative significance for the whole-of-government. Through this, our other responsibilities to audit each set of financial statements and some of our performance audits, we will be able to comprehensively cover individual agency controls. Some of this work will no longer be performed annually. It will be performed sufficiently regularly to inform the Parliament when we consider relevant.

These changes will mean that it will not be appropriate to issue individual controls opinions as we are not auditing with that individual focus.

We will retain our practice of reporting audit findings and comments where we find controls do not meet expected or required standards for individual agencies. I expect our future reports will follow the presentation we use under the heading 'Communication of audit matters' in Part B.

I expect our transition from practices we have used since 1996 will take more than one year to settle. I am confident this approach will ensure we can satisfy Parliament's expectation that we will focus our limited resources on the matters of significance that arise from year to year.

1.8.2 Why change the controls opinion approach?

Three main factors have warranted me reviewing our controls opinion practices.

Importantly, over the years our practice has tended to direct audit resources away from some more complex transactions to ensure audit coverage is maintained at other relatively smaller or less complex agencies to be able, under professional audit standards, to issue individual opinions. Although numerous, these are generally lower risk audits in the scheme of the total public sector. The work is unlikely, based on our experience, to influence an overall opinion for the controls exercised by the Treasurer and public authorities.

Secondly, focusing on the most material transactions should allow us to analyse controls systems and transactions more closely where necessary.

Thirdly, some audits extend over a financial year and are not concluded until after the year in which the controls opinion may have been influenced. Redirecting resources can reduce that risk to timeliness and relevance.

Like all agencies, we must decide where we use our limited resources for best value while discharging all our responsibilities. On balance, my experience over the past three years has led me to broaden and change our focus when we plan our controls opinion audits.

1.9 Agencies included in this 2017-18 Annual Report

In this Annual Report to Parliament I have excluded many smaller agencies that were included in recent years.

I will table a further report at the earliest opportunity after all audits are completed that includes highlight matters from all remaining audits.

The financial statements for all agencies will be available on the Auditor-General's Department website as soon as audits are completed.

1.9.1 Why this change?

To ensure we devote the appropriate time needed for each audit, we are taking a risk-based approach to spreading the reporting workload.

I have revised my methodology for selecting agencies to include in my Annual Report. This new approach provides that unless an agency exceeds specific quantitative and qualitative criteria, I will not include it in my Annual Report. Qualitative guidance includes:

- the significance of an agency's financial and operational activity to the State's public finances
- the significance of issues arising from the annual audit
- significant parliamentary visibility and public profile
- emerging financial risks
- large asset or liability acquisitions or disposals
- the implementation of significant new IT systems.

This will be an assessment I will make annually.

There are many agencies subject to my audit that were not previously included in my Annual Report. To strengthen the level of accountability for the activities of these agencies I have elected to prepare a separate, later report to Parliament that will identify agencies not included in my Annual Report with:

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

This changed approach will provide the opportunity to report on audits not previously subject to annual reporting when it is warranted. I am confident this new approach will ensure we have time to complete quality audits and meet the Parliament's expectations for timeliness and relevance.

I will be mindful of the Parliament's reception to these changes and ensure that we tailor our reporting to efficiently and effectively meet the Parliament's expectations.

1.10 2017-18 audit conclusions

The letter at the beginning of this Annual Report contains the three annual opinions required by the PFAA.

I have given three unmodified opinions.

I drew attention to one agency where a modified financial report opinion was expressed and two instances where an emphasis of matter was made without modifying the financial report opinions.

1.10.1 Matters of significance to the overall controls opinion

I give an opinion about the controls exercised by the Treasurer and public authorities. As mentioned, the overall opinion is unmodified. It reflects an overall and collective view of public sector financial administration for a year.

For 2017-18 the estimated general government sector revenues and expenses were each \$19 billion and capital outlays were \$1.9 billion.⁶ These amounts exclude both the non-financial and financial corporations we audit such as the Return to Work Corporation of South Australia and HomeStart Finance.

The controls required to sufficiently provide reasonable assurance that this level of financial transactions by the Treasurer and public authorities have been conducted properly and lawfully are broad ranging and exercised by many individuals throughout the public sector. We found instances in many agencies where their systems of internal control have not, in my opinion, achieved or maintained the standard required by the PFAA. Details of significant financial controls matters we found in 2017-18 are provided in section 3.

These financial control matters remain concerning, as some relate to fundamental areas of governance and financial control and accountability. Not many matters occur widely throughout all agencies. There are some common themes, like system user access management, delegations and approvals, contract management and reviewing key reports. Mostly, however, our findings are specific to individual agencies.

1.10.2 Avoiding control issues by properly exercising responsibility, authority and accountability

I have repeated the following section from last year's report. I have done so because governance changes have occurred and are occurring since the change of government in March 2018. I believe it is important these observations are repeated for consideration by those now responsible for governance as they fulfil their roles.

Most of the matters we identify in our audits are quite readily resolvable and to a large degree avoidable. They often involve failure in one or more of the concepts of

⁶ 2018-19 Budget Paper 3 'Budget Statement', table 1.6.

responsibility, authority and accountability. We have made a series of recommendations in section 3.1.4. They essentially involve:

- a clear understanding of the requirements of relevant laws, regulations and instructions through up-to-date policies procedures and processes that are communicated, readily available and supported by relevant training
- clear allocation of responsibility
- clear allocation and understanding of the authority to act and the limits of that authority
- accountability for actions demonstrated by regular reporting and monitoring of events and exceptions, and active management of that information by those responsible for governance.

Most of the matters we identify and report arise because people have not performed a task according to the requirements and standards expected. It is necessary that people diligently perform their roles consistently and are supported by systems and checks that ensure reasonable assurance is achieved.

It is critical that the links of responsibility, authority and accountability are properly aligned with each person's role. Failure here is likely to reduce leadership effectiveness and, more importantly, expose organisations to higher risk of not achieving their goals and responsibilities, or major error.

1.10.3 Retention and access to documentation

Sound public administrative recordkeeping needs to be maintained

Sound recordkeeping is a fundamental requirement for good public administration. Legislation and instructions support this principle in many ways.

For example, the *Public Sector Act 2009* requires public sector employees to deal with agency information in line with law and agency requirements. Treasurer's Instructions state that chief executives of public authorities must maintain documentation that substantiates the existence or occurrence, completeness, valuation or allocation, passing of control, rights and/or obligations relating to expenditure activities. The PFAA requires a public authority's financial statements to be accompanied by a certificate of compliance with the requirement for the statements to be in line with the authority's accounts and records.

During our audit and examination work, we naturally require a broad range of material as evidence of authorisations, approvals and processes to support the conclusions we make.

We have continued to find agency documentation or recordkeeping was not to the standard needed to achieve the Treasurer's Instructions requirement. Part B of this Report sets out where we have made this assessment.

1.11 Insurance settlement of \$2.57 million paid to Mr Henry Keogh

On 2 July 2018, the SA Government announced it would make a \$2.57 million payment to Mr Henry Keogh. This payment is clearly a matter of public interest because of the circumstances.

Mr Keogh was convicted by a jury of murder in August 1995, with a sentence of life imprisonment and a non-parole period of 25 years determined by the Court. In December 2014, the Court of Criminal Appeal granted permission to Mr Keogh to appeal his conviction, quashed⁷ the conviction and ordered a new trial on the basis that there was fresh and compelling evidence, and Mr Keogh was released from prison pending any new trial. In November 2015, the Director of Public Prosecutions entered a nolle prosequi⁸ in relation to a further prosecution of Mr Keogh.

Mr Keogh submitted correspondence, dated 31 May 2017, to the SA Government about the period of time he had served in prison for an offence he had not been lawfully convicted of.

The Budget and Finance Committee of the Legislative Council is examining the \$2.57 million payment that was made to Mr Keogh.

We reviewed this payment to verify the correct authority for it and whether the payment decision was made having received relevant advice. We had access to lengthy and detailed legal advice the SA Government received in December 2017 and later in May 2018, after clarification about Mr Keogh's correspondence, which is subject to legal professional privilege. Having received advice, the South Australian Government Financing Authority (SAFA), which operates the government insurance arm SAicorp, sought the Treasurer's approval to negotiate a settlement, within set parameters, with Mr Keogh's legal representatives.

The payment was negotiated and occurred on 9 July 2018. A brief description of the payment process is included in the section of Part B of this Report titled 'South Australian Government Financing Authority', under the heading 'Insurance settlement paid to Mr Henry Keogh'.

1.12 Public finances

1.12.1 Estimated result for 2017-18 is lower than budgeted

The 2018-19 State Budget (2018-19 Budget) estimated result for 2017-18 is a net operating balance deficit of \$397 million. This compares to a \$72 million surplus in the 2017-18 Budget and \$12 million surplus in the 2017-18 mid-year budget review. The Budget identifies the

⁷ Quash – when a higher court discharges or sets aside a decision previously made by a lower court.

⁸ Nolle prosequi – a decision made not to proceed with a charge or charges that have already been presented to the court on indictment. A prosecution is discontinued when the court is informed of this.

following factors for this deterioration:

- additional expenditure measures announced in the 2017-18 mid-year budget review
- the recognition of significant budget pressures in health, child protection and TAFE SA
- the inclusion of the State's contribution to the National Redress Scheme for Institutional Child Sexual Abuse (\$146.4 million). This represents a payment from the Victims of Crime Fund to SAicorp, who will administer the scheme for South Australia. Further details are provided in the section of Part B of this Report titled 'Attorney-General's Department'.

Figure 1.1 sets out the key budget information and outcomes for the general government sector for the three years to 2018-19.

Figure 1.1: Key budget information and outcomes for the general government sector

	2016-17 Result \$'million	2017-18 Budget \$'million	2017-18 Estimated result \$'million	2018-19 Budget \$'million
Net operating balance	443	72	(397)	48
Net lending	(2 371)	228	690	(866)
Net debt	6 110	6 072	5 331	6 288
Net worth	42 433	41 943	43 917	44 591
Revenue and expenses:	%	%	%	%
Revenue real growth	4.8	2.8	1.6	(0.3)
Expenses real growth	4.1	3.7	6.2	(2.5)
Net debt to revenue ratio	33.1	31.7	27.8	32.1

The net lending estimated result for 2017-18 is a surplus of \$690 million compared to the originally budgeted amount of \$228 million. The estimated result includes proceeds of \$1.605 billion from the land services commercialisation transaction. The improvement in net lending from budget was mainly due to:

- sales of non-financial assets being \$592 million higher than budgeted due to higher than expected proceeds from the land services commercialisation transaction
- purchases of non-financial assets being \$307 million lower than budgeted
- the net operating balance being \$469 million lower than budgeted.

The 2018-19 Budget included commentary that the final accounting treatment for the land services commercialisation transaction was not resolved at the time the Budget was tabled on 4 September 2018. The accounting treatment for this transaction was finalised in the week after it was tabled. The section of Part B of this Report titled 'Department of Treasury and Finance' provides details of the finalised accounting treatment. Irrespective of the accounting treatment, net debt is unchanged as the State received a cash payment that was credited to the Consolidated Account.

The improved expected net lending result for 2017-18 flows through to net debt. The general government sector is estimated to have net debt of \$5.331 billion at the end of 2017-18 compared to net debt of \$6.072 billion in the 2017-18 Budget.

1.12.2 Change of budget measurement basis from GFS to GAAP

The 2018-19 Budget notes that the introduction of new accounting standards issued by the Australian Accounting Standards Board will require the SA Government to consider shifting the basis of budget reporting under the Uniform Presentation Framework (UPF) from the Government Finance Statistics (GFS) Framework to Generally Accepted Accounting Principles (GAAP). This will mean that the impacts of the new accounting standards will be incorporated into the forward estimates. For example, AASB 16 'Leases' will change the treatment of operating leases in agency financial statements and will likely result in increased liabilities recognised on the State's balance sheet.

The Department of Treasury and Finance (DTF) advised that it expects to make these changes for the 2019-20 Budget.

Section 5.3.1 provides some further observations.

1.12.3 Treasurer's statements for 2017-18

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

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

The Consolidated Account result for 2017-18 was a deficit of \$119 million, a \$1.604 billion improvement on the budgeted deficit of \$1.723 billion. This improvement was mainly due to higher receipts of \$1.942 billion arising from proceeds of the commercialisation of land services functions (\$1.605 billion) and the return of cash under the cash alignment policy (\$316 million), offset by higher payments under the Appropriation Act and various other Acts (\$338 million).

Total payments from the Consolidated Account of \$14.391 billion were within appropriation authority of \$14.448 billion (refer Statement K of the Treasurer's statements).

The balance of funds on hand in special deposit accounts (\$6.872 billion) and deposit accounts (\$922 million) collectively increased by \$983 million. The largest contribution to the increase was a payment of \$359.4 million from Motor Accident Commission surplus assets into the Highways Fund.

The SA Government's indebtedness to SAFA increased to \$11 billion in 2017-18 from \$10.9 billion. This was mainly due to the \$119 million Consolidated Account deficit for 2017-18.

The Treasurer's statements are available on the Auditor-General's Department website (www.audit.sa.gov.au) and a summary of key items is provide in section 7 of this Report.

2 Significant financial outcomes and events in 2017-18

2.1 Key findings

The key findings in this section are as follows:

- Return to Work Corporation of South Australia (RTWSA) – outstanding claims liability was \$2.7 billion and inherent uncertainty associated with the new Return to Work Scheme remains high.
- Motor Accident Commission (MAC) – made a payment of \$359.4 million to the Highways Fund.
- Lifetime Support Authority of South Australia (LSA) – Lifetime Support Scheme participants and liabilities continued to increase and inherent uncertainty associated with the new Scheme remains high.
- South Australian Water Corporation (SA Water) – profit increased due to higher water sales. The 2018-19 Budget noted that SA Water’s debt to asset ratio would remain at 45%.
- Urban Renewal Authority (URA) – achieved a profit before income tax equivalent for the first time since 2013.
- South Australian Housing Trust (SAHT) – completed the transfer of responsibility for property and tenancy management of over 5000 public housing properties to community housing providers.
- TAFE SA – was subject to a number of external audits and reviews and overall training numbers declined.

Commentary is also provided on several other matters.

2.2 Insurance agencies

2.2.1 Return to Work Corporation of South Australia liabilities increased

The *Return to Work Act 2014* came into full operation from 1 July 2015. The legislative changes to entitlements, coupled with RTWSA’s initiatives to get claimants back to work more promptly, have had a significant impact on the Return to Work Scheme (the RTW Scheme).

The outstanding claims liability increased to \$2.7 billion

The liability for outstanding claims as at 30 June 2018 was \$2.7 billion, an increase of \$289 million from the previous year. The RTW Scheme actuary’s projections are reviewed by an independent professional actuary engaged by the Auditor-General. Our audit did not identify any issues or variations from expected practice that required the estimate for 30 June 2018 to be adjusted in any material way.

Risk margin remains unchanged

The estimate of outstanding claims liability is determined by reference to a 75% probability that the provision for outstanding claims will be adequate. The risk margin included in the provision remained at 15%, which added an additional \$341 million to the provision as at 30 June 2018.

Inherent uncertainty associated with the new RTW Scheme remains high

There is still inherent uncertainty associated with the new RTW Scheme arrangements, which may impact the liability for outstanding claims. In particular, the independent actuary noted the uncertainty regarding serious injury claims and the importance of maintaining the robustness of the Whole Person Impairment assessments that are the gateway to lifetime benefits for serious injury claims. The outcome of any legal challenges, in particular some current cases before the Courts, was also noted as potentially impacting the RTW Scheme. I included an emphasis of matter in the unmodified financial report opinion, drawing attention to the uncertainty associated with the outstanding claims liability reported as at 30 June 2018.

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

The RTW Scheme continues to be fully funded

RTWSA had a net asset position as at 30 June 2018 of \$528 million and a funding ratio of 119%, which means that the RTW Scheme continues to be fully funded. The average premium rate in 2017-18 was 1.8%, a 0.15% decrease from the 2016-17 rate of 1.95%. The average premium rate for 2018-19 has been set at 1.7%.

The total comprehensive result for 2017-18 was a profit of \$27 million

In 2017-18 the underwriting result was a loss of \$156 million, after the net liability for outstanding claims increased by \$294 million (compared to a \$6 million decrease in 2016-17) and premium income increased by \$4 million. Net investment profit increased by \$10 million to \$232 million. RTWSA made no income tax equivalent payment to the SA Government due to the loss incurred on insurance operations. A \$73 million income tax equivalent payment was made in 2016-17.

2.2.2 Motor Accident Commission distributed \$359.4 million

MAC paid \$359.4 million to the Highways Fund in 2017-18

MAC paid \$359.4 million to the Highways Fund as a return of capital in 2017-18. The payment was made from net assets in excess of the sufficient solvency level. The Treasurer directed the payment be made to the Highways Fund under section 26(2) of the *Motor Accident Commission Act 1992*.

Further returns of capital from MAC totalling \$241.3 million over the next four years are included in the 2018-19 Budget, in addition to the \$2.35 billion paid to date.

MAC recorded a \$143 million surplus

MAC recorded a \$143 million surplus for 2017-18, \$218 million less than 2016-17. The result reflects the impact of payments to the Highways Fund reducing investment assets and investment returns, including as a result of the sale of the investment property portfolio, and a \$131 million reduction in the net claims figure, reflecting a smaller movement in the valuation of the outstanding claims liability than in 2016-17.

MAC's assets exceed the statutory solvency level

As at 30 June 2018, the assets of the MAC Fund were \$142.7 million above the target solvency level, equating to 116% of the target.

The outstanding claims liability reduced to \$853 million

MAC's outstanding claims liability reduced by \$344 million to \$853 million in 2017-18. The outstanding claims liability is calculated for MAC by one actuary and then reviewed by a second actuary.

The reviewing actuary reported that they believed the methodology and analysis performed by the primary actuary was reasonable and noted the valuation provided a balance between optimistic and cautious assumptions, representing a reasonable central estimate.

The CTP Scheme actuary's projections are also reviewed by an independent professional actuary engaged as part of the audit by the Auditor-General. Our audit did not identify any issues or variations from expected practice that required the estimate for 30 June 2018 to be adjusted in any material way.

The outstanding claims liability is sensitive to changes in key assumptions

The outstanding claims liability estimate is sensitive to changes in the key assumptions made. For example, if the average size of large claims under the pre-2013 CTP scheme arrangements increased by 43%, this could lead to an \$68.5 million increase in the liability. Alternatively, should the discount rate used in the calculation of the liability increase by 0.5%, this would result in a benefit of \$11.2 million to the liability.

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

The LSA administers the Lifetime Support Scheme and Fund for people who suffer very serious injuries in motor vehicle accidents. The Lifetime Support Scheme commenced operation on 1 July 2014 and 2017-18 is its fourth full year of operation. It is mainly funded by a levy on South Australian motor vehicle registrations.

Lifetime Support Scheme is growing

The Lifetime Support Scheme is growing, with the total number of participants increasing from 113 in 2016-17 to 166 in 2017-18. The related estimated future cost of caring for current participants increased by \$92 million to \$398 million.

LSA made an operating surplus of \$42 million

The operating surplus for 2017-18 was \$42 million. The levy raised during the year of \$151 million was sufficient to cover operating expenses. Expenses included \$14.9 million in direct expenses for participant care and a \$115.3 million increase in the provision for the estimated future costs of caring for current participants.

Lifetime Support Scheme is fully funded

The LSA had net assets of \$199 million, which means the Lifetime Support Scheme is fully funded as at 30 June 2018.

Significant uncertainty around provision for future treatment, care and support costs

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

The Lifetime Support Scheme is not an insurance scheme. Consistent with similar interstate schemes, the LSA determined the provision in line with relevant accounting requirements and did not apply a risk margin to its central estimate of liabilities.

The liability estimate is measured as the present value of the expected future payments for claims incurred up to 30 June 2018, including claims incurred but not yet reported. Sensitivity analysis illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars.

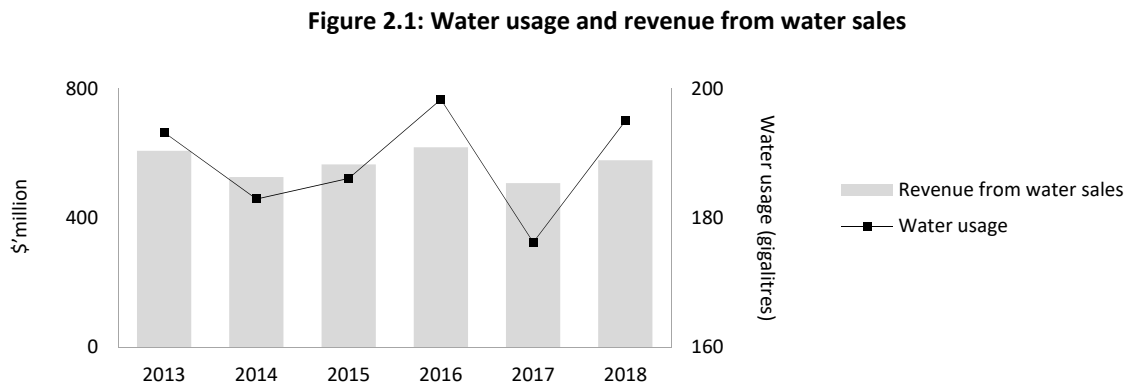
Given the limited participants' experience to date and the long-term nature of the claims, there is still significant uncertainty surrounding the estimate of the provision for participants' treatment, care and support services. An emphasis of matter was included in the financial report opinion drawing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

2.3 Other statutory corporations

2.3.1 South Australian Water Corporation's profit increased following higher water sales

SA Water recorded a \$13 million (7%) increase in profit before tax. This increase was mainly driven by a 19 gegalitre (11%) increase in the volume of water sold, to a total of 195 gegalitres.

Figure 2.1 shows water usage and revenue from water sales over the last six years.



There was a further \$11 million increase in revenue from higher water pricing this year, reflecting the impact of the regulatory pricing decision.

SA Water's debt to asset ratio will be maintained at 45%

The 2018-19 Budget noted that SA Water's debt to asset ratio would be maintained at 45%, in line with its interstate peers. Figure 2.2 highlights the relative debt to asset gearing ratios of a sample of water corporations from around Australia, as at 30 June 2017.

Figure 2.2: Debt to asset gearing ratios around Australia

	SA Water	Sydney Water	Water Corporation of Western Australia	Yarra Valley Water	Unitywater
Total debt (\$'billion)	6.445	7.659	5.885	2.263	1.558
Total assets (\$'billion)	14.195	18.078	17.153	4.731	3.620
Gearing ratio (%)	45	42	34	48	43

Figure 2.2 shows that SA Water's revised gearing ratio is similar to those of Sydney Water, Yarra Valley Water in Victoria and Unitywater in Queensland.

SA Water continued to make a strong cash contribution to the State Budget

In 2017-18 SA Water paid dividends totalling \$139 million and income tax equivalents totalling \$76 million. It received \$144 million in community service obligation funding, leading to a net contribution for 2017-18 of \$71 million. Figure 2.3 shows SA Water's net cash contributions to the SA Government over the last five years.

Figure 2.3: Net cash contributions to the SA Government

	2013-14 \$'million	2014-15 \$'million	2015-16 \$'million	2016-17 \$'million	2017-18 \$'million
Net cash contributions	210	165	182	140	71

2.3.2 Urban Renewal Authority financial performance improved

URA achieved a profit for the first time since 2013

The URA made a profit before income tax equivalent in 2017-18 of \$29 million – its first such profit since 2013. Over the preceding three years the URA's losses before income tax equivalent totalled \$295 million, due mainly to land inventory write-downs.

In 2017-18 the URA experienced a \$4 million reversal in land inventory write-downs. This reversal followed a modest \$2 million write-down in 2016-17 and reflects continued stability in the URA's approved plans for major development projects.

The value of land inventory is measured using cash flow models that estimate the net realisable value of development projects. This modelling estimates the likely outcomes of the URA's business strategies for these projects based on forecast market conditions. Any changes to these business strategies may impact future inventory values.

Financial sustainability and lease of TAFE SA properties

DTF requires the URA to adopt a core debt management facility approach, consistent with other public non-financial corporations. This requires approval of an annual debt ceiling by the Treasurer and Minister.

In June 2016, the Treasurer and Minister approved a \$390 million increase in the URA's core debt facility to \$930 million. The additional borrowings and equity contributions from the SA Government of \$219 million were used to buy TAFE SA properties from the Department of State Development (DSD) for \$619 million (including stamp duty) in March 2017.

The Treasurer and Minister anticipated that these TAFE SA properties would provide the URA with a longer-term revenue stream and enable its debt to asset ratios to remain at prudent levels. The URA's 2017-18 profit before income tax equivalent of \$29 million reflected a \$37 million increase property income, largely derived from properties leased to DSD and subleased to TAFE SA.

The 2018-19 Budget announced the planned closure of several TAFE SA campuses, including the Tea Tree Gully, Port Adelaide and Cooper Pedy campuses which are owned by the URA. The URA is working with the SA Government to determine the impact that these closures will have on the URA.

Lot Fourteen (site of the former Royal Adelaide Hospital)

In March 2018 the former Royal Adelaide Hospital site (renamed Lot Fourteen) was transferred to the URA. The 2018-19 Budget announced the redevelopment of Lot Fourteen at an estimated cost of \$476 million over five years. This will include the establishment of an Innovation and Commercialisation Precinct, a new International School of Culinary Excellence, Hospitality and Tourism and a National Aboriginal Art and Cultures Gallery.

In June 2018 the Treasurer and Minister approved a \$194 million increase in the URA's core debt facility to accommodate future investment in Lot Fourteen.

2.3.3 South Australian Housing Trust impacted by the transfer of public housing to the community housing sector

Net cost of services increased to \$278 million

The SAHT recorded a net cost of providing services of \$278 million, a \$24 million increase from 2016-17. The increase mainly reflects a \$28 million decrease in rental income, partially offset by a \$6 million decrease in maintenance expenses. Both movements are largely driven by the impact of the transfer of property and tenancy management of SAHT rental properties to the community housing sector.

Selected public housing transferred to the community housing sector

Since October 2015 the SAHT has transferred the responsibility for property and tenancy management of over 5000 SAHT properties to community housing providers (CHPs).

The first tranche of 1086 properties (valued at approximately \$184 million) was transferred to two CHPs in October 2015. The transfer of a second tranche of 4003 SAHT properties (valued at approximately \$1.1 billion) was completed in September 2017. A further 47 properties were transferred in March 2018.

The SAHT applied a concurrent lease and deed model to the transfers. Under these arrangements the SAHT has granted a lease over its residual rights to the properties to the CHPs. This lease operates concurrently with the SAHT's lease with the existing tenant.

The leases for the first tranche have three-year terms with optional extensions of 20 years, while the leases for the second tranche have 20-year terms. These latest leases also require the CHPs to implement a stock renewal program.

The CHPs are required to maintain and manage all the transferred properties and are entitled to receive the rental income from selected properties.

An objective of the CHP transfers is to create better quality social housing stock through:

- rents increasing by the amount of Commonwealth rent assistance to fund housing stock improvements. CHP tenants are eligible for Commonwealth rent assistance whereas SAHT tenants are not
- CHPs using their extra rental income to improve the quality of housing stock by implementing a stock renewal program and increasing programmed maintenance.

CHPs must comply with the SAHT's tenancy conditions, ensuring the tenancy conditions of transferred tenants remain the same.

The SAHT will maintain a contract management role for these arrangements, ensuring that the CHPs continue to comply with their contractual obligations.

A Business System Transformation program has started

In November 2016 the SA Government approved a business case for releasing a request for proposal to replace the SAHT's core business systems. The SAHT updated the business case in July 2017 after evaluating the request for proposal, amending plans and designs, and starting contract negotiations with the preferred supplier.

In October 2017 the Cloud and Related Services (CARS) Agreement with the preferred supplier was executed. Under the agreement the supplier will provide a commercial off-the-shelf housing management IT solution to replace existing SAHT legacy systems. The contract includes program implementation and five years of IT support, with an option to extend these services for a further five years. A subcontracting arrangement was also executed for the provision of hosting services to run the software of the new housing management system.

The program is scheduled for completion by the end of 2020 at a total estimated cost of \$45 million, which will be funded from existing SAHT resources.

In July 2017 the mainframe support vendor extended the maintenance and support of the SAHT's existing support software licences until the end of 2020. This should ensure that legacy mainframe support continues until the program is implemented.

2.3.4 There were multiple external reviews and audits of TAFE SA's operations

Some of TAFE SA's training was externally assessed as not meeting requirements

Civil Aviation Safety Authority (CASA)

TAFE SA is an approved CASA Maintenance Training Organisation (MTO) allowing it to deliver training and examinations leading to CASA licensing.

In March 2017 TAFE SA's Aircraft Maintenance program was audited by CASA. Adverse audit findings resulted in the suspension of TAFE SA's MTO certificate and training of students in the program ceased.

TAFE SA's MTO status was reinstated in November 2017 after it satisfied CASA of action taken.

Eighty-seven students were affected as a result of the CASA audit. To date, TAFE SA has paid approximately \$803 000 to retrain students, either at TAFE SA or with another provider, reimburse students and pay for travel and accommodation costs associated with the retraining.

TAFE SA has included a \$1 million contingent liability in the notes to its financial report in recognition of estimated costs to settle current claims and any potential further claims. TAFE SA expects to recover most of the rectification costs from its insurer, SAicorp.

Australian Skills Quality Authority (ASQA)

In May 2017, ASQA audited the quality of the training and assessment of certain qualifications taught by TAFE SA. In December 2017, ASQA reported its intention to suspend TAFE SA's registration in 10 qualifications due to non-compliance with the requirements of the Vocational Education and Training Quality Framework due to the findings of the audit. TAFE SA's Chair and Chief Executive left TAFE SA in December 2017.

The suspension, which had not been enforced by ASQA, was subsequently lifted in April 2018 after TAFE SA undertook extensive remediation in these qualifications. In addition, TAFE SA established a Quality, Teaching and Learning Directorate and is developing a Quality System Implementation project to review assessment materials for all units of competency delivered. It is also developing a Quality Teaching and Learning Framework.

ASQA has indicated it will undertake another audit of TAFE SA's training and assessment later in 2018.

TAFE SA's operations were the subject of two reviews

Following the CASA and ASQA audits, the previous SA Government announced two reviews into TAFE SA.

A management consulting firm, Nous Group, was appointed in December 2017 by the previous SA Government to consider the recent regulatory findings from ASQA and make recommendations to ensure the quality, sustainability and reputation of the State's public vocational education and training provider. The Nous review is referred to as the Quality Review of TAFE SA.

At the same time as the Nous review, Terry Moran AC and Kim Bannikoff were appointed to conduct a separate review to establish the role of the Public Provider in meeting the skills needs of students and industry and ensuring quality training outcomes across the State, including those associated with thin markets, regional and remote areas and the SA Government's social policies. This review is referred to as the TAFE SA Strategic Capability Review.

Reports from both of these reviews were tabled in Parliament in September 2018.

The new SA Government has indicated that it has accepted some of the findings and is considering others, which will impact the future operations of TAFE SA.

TAFE SA's training hours declined in 2017-18

TAFE SA's total training hours declined in 2017-18 to 15.5 million training hours, down from 16.6 million hours in 2016-17.

As well as the overall reduction in training hours delivered, TAFE SA also delivered only about 70% of the training hours it was budgeted to deliver through its funding agreement with DSD.

2.3.5 Adelaide Festival Centre Trust major capital works

Redevelopment of the Adelaide Festival Centre and Plaza

The \$90 million redevelopment of the Adelaide Festival Centre and Plaza, as part of the major redevelopment of the Riverbank Precinct, continued in 2017-18. The construction work resulted in the closure of the car park and restricted access to the Dunstan Playhouse, Space Theatre and footbridge. The Festival Theatre was closed for five months from July to December 2017 and this impacted ticket sales and the revenue earned from associated activities.

The SA Government provided supplementation funding of \$7.6 million during the year to offset the impact of the closure of the Festival Theatre and the car park.

Redevelopment of Her Majesty's Theatre

The redevelopment of Her Majesty's Theatre commenced in April 2018 when the theatre closed. The redevelopment will expand the existing auditorium as well as improve front-of-house amenities and technical facilities. The estimated total capital cost of the project is \$66 million and construction is expected to be completed in early 2020.

The project will primarily be funded by a \$62 million loan from SAFA and \$3 million from fundraising by the Adelaide Festival Centre Trust Foundation. During the year \$5.5 million of loan funding was drawn down. The SA Government also provided funding of \$9.5 million towards to project. This included \$8.2 million for the purchase of the theatre from Arts South Australia.

2.3.6 Environment Protection Authority waste levy income increased

Solid waste levies increased

Income from fees and charges (controlled and administered) totalled \$84 million for 2018, an increase of \$12.9 million from the previous year. This increase is largely driven by an increase in waste levies, which totalled \$67.2 million (\$55.4 million).

Waste levies include solid waste levies from waste depots. Solid waste levy rates increased by 14% from 1 July 2017.

Increase in waste levy rates offsetting a decrease in the volume of solid waste collected

Figure 2.4 shows the amounts collected from waste levies over the past five years. It is based on data provided by the Environment Protection Authority.

Figure 2.4: Waste levies

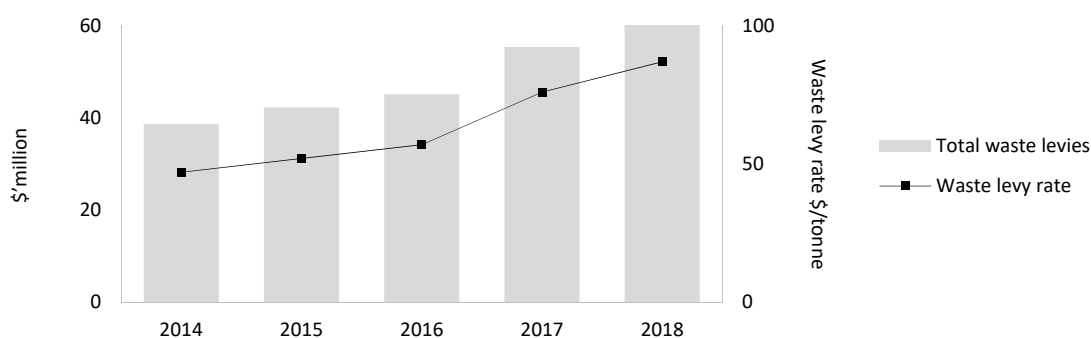
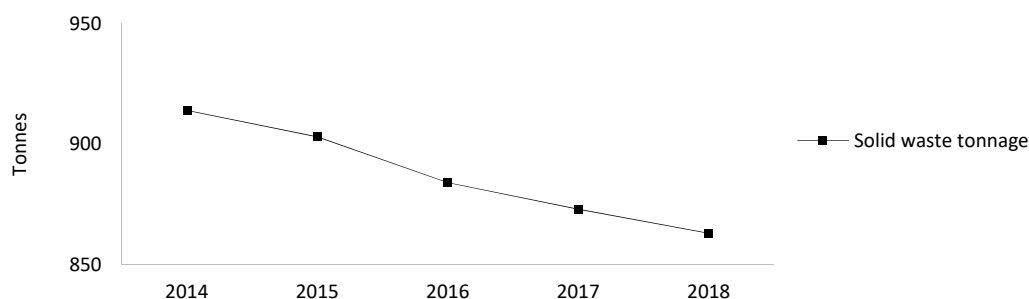


Figure 2.5 shows the downward trend in solid waste tonnage over the same period.

Figure 2.5: Solid waste tonnage



The figures demonstrate how increases in waste levy rates have offset decreases in the volume of solid waste collected over the period.

The balance of the Green Industries Fund continued to increase

The balance of the Green Industries Fund at 30 June 2018 was \$120.3 million (\$108.3 million).

The Environment Protection Authority transfers 50% of solid waste levies collected from waste depot licence holders to the Green Industries Fund.

The Green Industries Fund is controlled by Green Industries SA, a statutory authority established under the *Green Industries Act 2004*. Green Industries SA must apply the Fund in line with an annual business plan approved by the Minister for Sustainability, Environment and Conservation, or in any other manner authorised by the Minister for the purposes of the *Green Industries Act 2004*.

Under changes to the *Green Industries Act 2004* assented to in 2016-17, the Minister may also apply the Fund towards the costs of climate change initiatives, or the costs of managing waste or debris or harm to the environment following an identified major incident, major emergency or disaster declared under the *Emergency Management Act 2004*.

Green Industries SA's annual business plan for 2018-19 forecasts that the balance of the Green Industries Fund will be \$183.9 million by 30 June 2021.

2.3.7 HomeStart Finance continued to grow gross loans and advances

Continued growth in graduate loans led to gross loans and advances increasing by \$169 million in 2017-18

Total gross loans and advances increased by \$169 million to \$2.1 billion. This increase was due mainly to a \$105 million increase in fixed rate loans and a \$99 million increase in graduate loans, both partially offset by a decrease in variable loans of \$41 million.

The increase in graduate loans for the year follows a \$76 million increase in these loans in 2016-17. This growth reflects changes in HomeStart Finance's lending criteria for these loans in 2015, allowing students with a TAFE SA certificate III qualification to be eligible for a graduate loan.

Overall coverage for loan impairment remains consistent

HomeStart Finance's specific and collective provisions for impairment totalled \$17.5 million at 30 June 2018. It also has a general reserve for credit losses, which decreased by \$200 000 this year. In total, coverage for loan impairment decreased slightly to \$25.6 million from \$26.5 million in 2016-17, representing about 1.25% of gross loans and advances.

Loan portfolio is concentrated in some geographic areas

Due to the nature of HomeStart Finance's customer base, it has a greater concentration of loans in some geographic areas. 33% of loans by value are within the City of Playford and City of Salisbury, while a further 22% of loans by value are located outside of metropolitan Adelaide.

2.3.8 South Australian Government Financing Authority

Loan assets increased by \$241 million

SAFA is the central borrowing authority for the State, and is responsible for managing most of the State's debt and for implementing debt policy as determined by the Treasurer. As at 30 June 2018 SAFA had loan assets of \$20.9 billion predominantly made up of:

- loans to the Treasurer – \$11.2 billion
- loans to public non-financial corporations – \$7.9 billion
- loans to public financial corporations – \$1.6 billion.

SAFA received \$146.4 million in funding for the National Redress Scheme

SAFA received \$146.4 million in funding from the Victims of Crime Fund in June 2018 to fund claims from South Australia's participation in a National Redress Scheme for those who have experienced institutional child sexual abuse.

This money will be used to establish a new insurance fund, Fund 4, once State and Commonwealth legislation has been finalised. The estimated start date for the National Redress Scheme is February 2019 and it will operate for 10 years.

The full amount of the funding received is recognised as a liability, reflecting that the amount will be paid out for, or in relation to, compensation or returned to the Victims of Crime Fund.

2.3.9 South Australian Superannuation Board (SASB)

The SASB has implemented a new superannuation management system for three major superannuation schemes

SASB implemented a new superannuation management system for three of the main superannuation schemes it administers in May 2018.

The new system, Bluedoor, was implemented for the Southern State Superannuation Scheme, the Retirement Investment Fund and Super SA Select. These three schemes have \$21.6 billion in net assets available for member benefits.

The total project cost to 30 June 2018 was \$18.5 million, including capitalised software costs and project implementation costs.

The date for implementing Bluedoor for further schemes will be determined once a number of issues arising from first phase implementation are addressed to SASB's satisfaction and successful testing is carried out for the different functionality required for the other schemes.

2.4 Health

2.4.1 Department for Health and Wellbeing

Consolidated net deficit result exceeded the original budget

The consolidated net result for the Department for Health and Wellbeing (DHW), the local health networks (LHNs) and SA Ambulance Service Inc (SAAS), collectively SA Health, exceeded the original 2017-18 Budget by \$154 million. Actual expenses were more than the original 2017-18 budget by \$438 million while total actual income exceeded budget by \$59 million, leading to an overall deterioration of \$379 million against the original budget. The SA Government also contributed \$225 million more than the original budget.

Provision for insurance increases to \$119 million

DHA's provision for insurance, which estimates the liability for professional indemnity including medical malpractice and general public liability, increased by \$14 million to \$119 million. This provision is impacted by a range of factors considered by an actuarial assessment including prudential margins, inflation, taxes and claim numbers.

Key executive change for DHW

A new chief executive commenced in May 2018.

Future governance and accountability changes

The SA Government has announced its intention to amend governance arrangements across SA Health. The first part of these changes was completed in August 2018 when the *Health Care (Governance) Amendment Act 2018*, which will operate from 1 July 2019, was proclaimed.

The amendments change the role of the Chief Executive, DHW to remove direct control and responsibility for the administration of incorporated hospitals. The amendments also provide for the LHNs to be governed by a board. Governing boards will be established for each of the LHNs as they are currently constituted, except for the Country Health SA Local Health Network Incorporated which will be replaced by six regional LHNs. The creation of these LHNs is discussed in the section of Part B of this Report titled 'Country Health SA Local Health Network Incorporated', under the heading 'New regional country local health networks'.

Governing boards will be appointed by the Minister for Health. The people appointed to them are to collectively have, in the opinion of the Minister, the knowledge, skills and experience necessary to enable the board to effectively carry out its functions. The SA Government intends LHN boards will be fully operational by 1 July 2019.

The amended Act requires health services to be provided as part of an integrated system that achieves an effective balance between local decision-making at LHNs and health system planning, integration and management. Achieving this balance through a functional governance and accountability framework will be challenging but very important, and will require care and diligence. The success of the changes will be highly dependent on how well the framework supports the roles of DHW, the boards and the Minister and creates accountabilities throughout the sector.

The time frame for establishing legislation and frameworks and appointing people to boards and key management positions by 1 July 2019 will also be challenging and requires careful management.

2.4.2 Central Adelaide Local Health Network Incorporated (CALHN)

Quarterly service payments for the new Royal Adelaide Hospital (RAH) were \$350 million in 2017-18

Control of the new RAH transferred to the State from 13 June 2017, and all medical services were provided by the new RAH from 5 September 2017.

Following commercial acceptance, the State became liable to make payments to Celsus for the operations of the new RAH and to pay costs associated with the design, construction and financing in line with the Project Agreement. CALHN paid \$350 million for these costs in 2017-18.

Celsus debt refinancing resulted in a \$5 million saving in 2017-18

Celsus refinanced its debt associated with the new RAH with effect from 6 June 2018. The new RAH Project Agreement provides for CALHN (as the State party operating the new RAH) to share in refinancing gains.

The effect of Celsus refinancing its debt at a lower interest rate for the period between 6 June 2018 and 30 June 2018 was a \$5 million reduction in the June 2018 quarterly service payment.

It is expected that further savings from this refinancing, which is for a period of two years, will be seen in reductions to the quarterly service payments across this period, in line with the Project Agreement.

Further update on the new RAH

Section 4.4 of this Report has a further update on the new RAH.

The Enterprise Pathology Laboratory Information System (EPLIS) was implemented across SA Pathology sites in 2017-18

EPLIS was designed to provide SA Pathology, which forms part of CALHN, with a consolidated laboratory information system and replace legacy systems previously in use.

EPLIS was implemented by SA Pathology across all its sites by 20 April 2018. Following this, concerns were raised about the timeliness of pathology results.

A Taskforce was established in response to these concerns and it recommended a number of initiatives, including additional staffing, to return pathology turnaround times to pre-EPLIS levels.

The Taskforce confirmed the need to undertake further system, process and workflow optimisation activities which are underway. SA Pathology updated the EPLIS benefits realisation plan and revised the expected benefits to include no staff savings (a reduction of eight FTEs was projected) and an increase of 40 FTEs.

The additional 40 FTEs are required to assist in data entry processes to ensure pathology processing times achieve the levels required.

One of the challenges to achieving ongoing efficiency in the use of EPLIS has been the pause in the rollout of the Enterprise Patient Administration System (EPAS). The delay in implementing electronic ordering from EPAS to EPLIS has reduced the efficient use of EPLIS.

2.4.3 Southern Adelaide Local Health Network Incorporated (SALHN)

The Repatriation General Hospital (RGH) site was decommissioned and then reactivated following the State election

The RGH was decommissioned in November 2017, with the last patients moving to new SALHN facilities. While complete costs of the decommissioning were not available, SALHN advised that it incurred direct costs of around \$5.8 million in the decommissioning process.

Following the March 2018 State election, the previous SA Government's contract to sell the RGH to the Aged Care and Housing Group Incorporated was cancelled, with no additional cost incurred.

To recommence providing health services at the RGH site, the hydrotherapy pool was reopened in the last week of May 2018. Planning to reactivate the RGH for the delivery of potential health services from the site, through a staged stakeholder consultation and engagement process, also commenced in June 2018.

SA Health released an expression of interest for 'Reactivating the Repat Health Precinct' in August 2018, seeking submissions from the private sector and non-government organisations interested in partnering with SA Health to deliver a variety of health and wellbeing focused services in reactivating the RGH site.

New facilities at the Flinders Medical Centre (FMC) opened

Major FMC redevelopment works were completed in 2017-18. The works, budgeted at \$185 million, included:

- a 55 bed rehabilitation building, including palliative care unit
- an Older Persons Mental Health Unit
- a multi-deck car park with 1820 car spaces.

These new facilities were used as part of the process of decommissioning the RGH, with patients transferred to the new facilities at the FMC prior to the closure of the RGH.

2.4.4 Northern Adelaide Local Health Network Incorporated (NALHN)

Northgate House was accredited by the Australian Council on Healthcare Standards

The Oakden Older Persons Mental Health Facility (Oakden facility) was closed in September 2017, with a report from the Independent Commissioner Against Corruption's maladministration investigation into the Oakden facility released in February 2018.

NALHN continued to provide older persons mental health services following the closure of the Oakden facility, most notably through services provided at Northgate House. Northgate House has the capacity for 16 residents and was used to transfer some of the former residents of the Oakden facility.

While the Oakden facility was formerly operated as a Commonwealth accredited aged care facility, Northgate House is run as a health facility and is not an accredited aged care facility.

Northgate House received full accreditation from the Australian Council on Healthcare Standards for three years in July 2018.

Service delivery changes resulted in staff moving between CALHN and NALHN

Continuing changes in service delivery across SA Health resulted in more activity moving from CALHN to NALHN in 2017-18. To support the delivery of this activity, 151.5 staff moved from CALHN to NALHN – 79.2 nursing FTEs, 17.6 medical officer FTEs and 54.7 administrative FTEs.

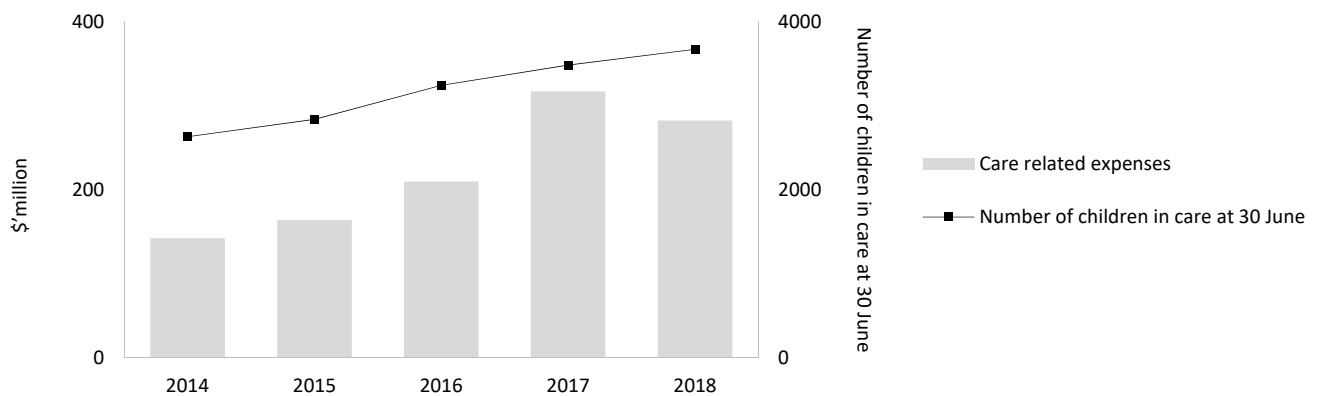
2.5 Other agencies

2.5.1 Department for Child Protection (DCP) saw a further increase in children in care

The number of children in State care continued to increase, along with the cost of care

The number of children in care has risen by 40% in five years, while the total cost of care has almost doubled over the same period. Figure 2.6 shows the number of children in care at 30 June and the total care related expenditure for the past five years.

Figure 2.6: Children in care and care related expenditure

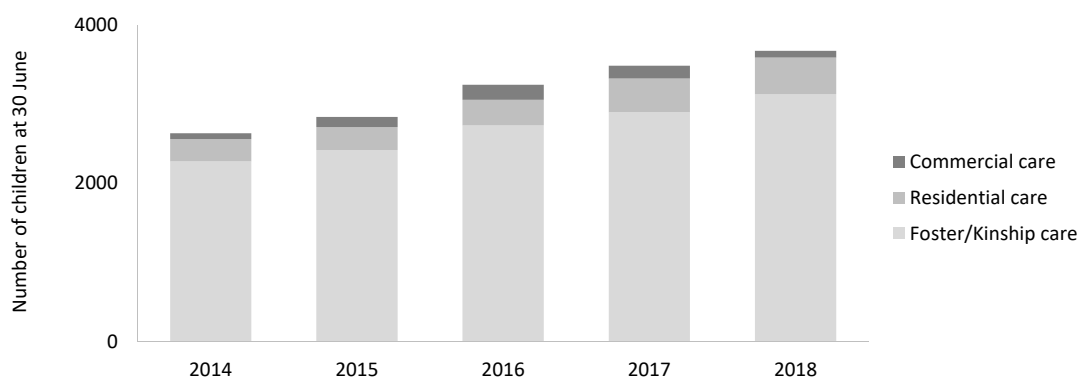


Source: Number of children at 30 June was sourced from the DCP website and is unaudited.

The type of care children are in has changed in 2017-18

Figure 2.7 shows the number of children in care at 30 June for the last five years, separated by the type of care arrangement in place.

Figure 2.7: Children in care by type



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

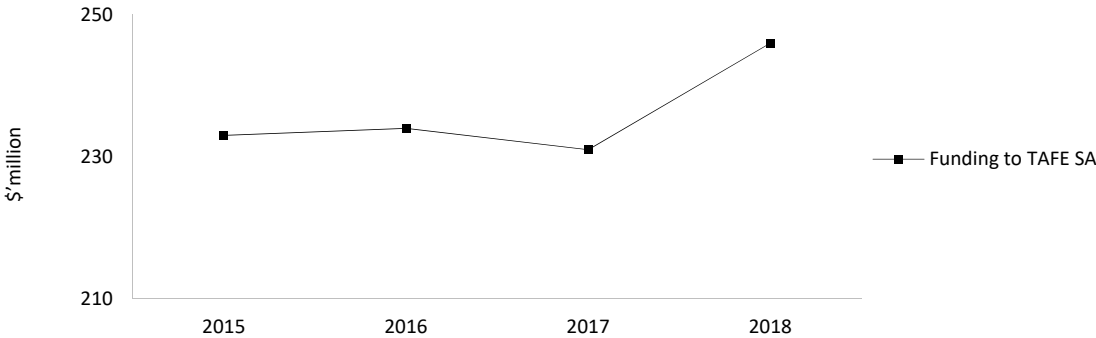
The proportion of children in commercial care has fallen to 2% in 2017-18, compared to 5% in 2016-17, and the proportion in foster or kinship care has increased to 85% from 83%.

2.5.2 Department of State Development provided more funding to TAFE SA and was restructured

Funding to TAFE SA increased in 2017-18

Funding from DSD to TAFE SA increased in 2017-18 by \$15 million to a total of \$246 million. Total funding increased, in part, to fund additional rental charges TAFE SA pays to DSD to reimburse DSD for costs it incurs in leasing TAFE SA sites from the URA (following the sale of TAFE sites to the URA in 2016-17). Figure 2.8 shows that total funding was steady from 2015 to 2017, before increasing in 2018.

Figure 2.8: Funding from DSD to TAFE SA



While total funding to TAFE SA from DSD has increased, total funded training hours have decreased.

DSD’s funding to TAFE SA includes funding for specific training delivered and a number of other elements. Funding for specific vocational education and training delivered was \$114 million of the total funding in 2017-18. The \$114 million represents just under 7 million training hours delivered by TAFE SA in 2017-18, below the original budget of 9.4 million training hours set by DSD.

DSD was restructured from 1 July 2018

DSD was restructured from 1 July 2018:

- DSD was renamed the Department for Industry and Skills.
- A new department, the Department for Trade, Tourism and Investment (DTTI) was established.
- International Engagement and Health Industries South Australia transferred from DSD to DTTI.
- Investment Attraction South Australia was abolished and its functions transferred to DTTI.
- Arts South Australia and Aboriginal Affairs and Reconciliation transferred from DSD to DPC.

2.5.3 Attorney-General's Department

Fines Enforcement and Recovery Unit

The Fines Enforcement and Recovery Unit collects outstanding court fines, expiation fees (including overdue local government amounts referred) and other outstanding amounts, including Victims of Crime levies and third party suitor amounts.

Total outstanding debts and related payments as at 30 June 2018 were \$404 million (\$379 million). Of this amount, \$303 million (\$307 million) is under active management, with \$121 million (\$126 million) subject to payment arrangements and \$50 million (\$25 million) having been referred to external debt collection agencies.

During the year the Fines Enforcement and Recovery Unit collected \$118 million in fines and related fees (including Victims of Crime amounts), a decrease of \$6 million from the previous year. A further \$40 million, which is not yet overdue, is subject to payment arrangements.

Victims of Crime (VOC) Fund

The Attorney-General's Department administers the VOC Fund. The maximum amount that can be awarded under the *Victims of Crime Act 2001* is \$100 000. The balance of the VOC Fund at 30 June 2018 was \$153 million (\$271 million).

In 2017-18, total payments from the VOC Fund were \$173 million (\$26 million), including \$19 million (\$17 million) in victim compensation and legal payments and \$146 million paid to SAicorp for the National Redress Scheme for people who have experienced institutional sexual abuse.

Total victims of crime income for 2017-18 was \$55 million (\$56 million) and included Victims of Crime levies totalling \$39 million (\$42 million) and revenues from the SA Government of \$9 million (\$8 million).

Amounts recovered directly from offenders totalled \$1.2 million (\$807 000), with a further \$2.8 million (\$1.5 million) recovered from offenders under the *Criminal Asset Confiscation Act 2005*.

National Redress Scheme for people who have experienced institutional sexual abuse

The Royal Commission into Institutional Responses to Child Sexual Abuse recommended the establishment of a National Redress Scheme for people who have experienced institutional child sexual abuse. In May 2018 the SA Government agreed that South Australia would participate in the scheme. Based on independent modelling, the estimated cost of full participation in the scheme was determined to be \$146.4 million. This figure includes monetary compensation, counselling, legal support and a contribution towards the administration of the scheme.

On 18 June 2018 a payment of \$146.4 million was made from the VOC Fund to SAicorp, who will administer the scheme for South Australia. The payment was approved by the Attorney-General who, in line with section 31(1) of the *Victims of Crime Act 2001*, has an absolute

discretion to make payments to government and non-government organisations where the purpose of the payment is to advance the interests of victims of crime.

2.5.4 Department for Correctional Services costs and capacity continue to increase

Net cost of services increased

The net cost of providing services for the Department for Correctional Services increased by \$33 million (11%) to \$344 million, primarily because of costs associated with an increased number of beds.

Increase in prisoner and bed numbers

Prisoner numbers as at 30 June 2018 totalled 3001, a marginal decrease in numbers from 30 June 2017. Over the same period prisoner beds increased by 128 to 3131, with capital works in progress to increase prison capacity by a further 200 beds.

As at 30 June 2018 capital work in progress was \$53 million and included:

- \$42 million for 160 beds at the Mount Gambier Prison
- \$3 million for 40 beds at the Adelaide Women's Prison.

2.5.5 Department for Education has a significant capital program

Significant progress has been made on STEM works in 2017-18

The Department for Education is spending \$250 million on works in 139 government schools to upgrade science, technology, engineering and mathematics (STEM) facilities. As at 30 June 2018, \$144 million of the \$250 million budget was spent, with all STEM works due for completion by the end of December 2018.

New school announcements and progress on the Adelaide Botanic High School

Two new public private partnership schools were announced by the SA Government. Both new schools will cater for children from birth to year 12 students, with one in the Munno Para region and one in the Aldinga region. These schools are scheduled to be available for the start of the 2022 school year.

The 2018-19 Budget also announced \$100 million in funding for a new year 7 to year 12 secondary school to be constructed in Whyalla for 1500 students.

Work continued to progress on the Adelaide Botanic High School in 2017-18, with \$60 million of the \$100 million budget spent by 30 June 2018. The Adelaide Botanic High School is due to open in term 1 of 2019.

2.5.6 Department of Treasury and Finance oversaw the land services commercialisation and commenced a Revaluation Initiative

Commercialisation of land services operations

DTF received \$1.525 billion from Land Services SA (LSSA) for the right to be the State's exclusive provider of land services, to exploit the State's land information assets and for the right to use the State's software (SAILIS system) for 40 years.

DTF also received a further \$80 million from LSSA for the exclusive right to negotiate for a six-month period for other State registries if the State decides to commercialise any, or to extend the term of the 40-year land services contract for another seven years. This amount must be repaid, with interest, by the State if the State does not move to commercialise the motor vehicle registry or extend the land services contract within three years.

DTF paid the total received of \$1.605 billion to the Consolidated Account and has recognised, in its administered financial statements:

- a liability for most of the \$1.525 billion transaction proceeds, which will be recognised as income on a straight-line basis over the 40-year contract term
- a separate liability for the \$80 million received for the exclusive right to negotiate, recognising that this amount will need to be repaid to LSSA unless a further registry is commercialised or the land services contract is extended.

Revaluation Initiative

The Valuer-General, whose functions transferred to DTF from 1 July 2017, has commenced a Revaluation Initiative. This is a review of the valuation roll to ensure the valuations, which are the basis for calculating various State and Local Government taxes, rates and levies, remain sufficiently accurate and relative.

The five-year project will review site values and capital values across identified areas and property classifications. Following the commercialisation of land services operations, DTF paid LSSA a fee for assisting the Valuer-General to perform the Revaluation Initiative.

2.5.7 Department for Environment and Water (DEW)

Property, plant and equipment controlled or administered by DEW exceeds \$2 billion

DEW manages significant asset holdings on behalf of the State. As at 30 June 2018 the fair value of property, plant and equipment managed by DEW exceeded \$2 billion.

Property, plant and equipment recognised by DEW at 30 June 2018 includes that shown in figure 2.10.

Figure 2.10: Property, plant and equipment recognised by DEW

	\$'million
State's interest in the property, plant and equipment of the joint operation, Murray-Darling Basin Authority*	720
Crown land (administered on behalf of the State)	572
Land controlled by DEW	301
Park infrastructure, roads, tracks and trails, and other infrastructure and equipment (controlled)	236

* Mainly comprises infrastructure assets of \$695 million.

2.5.8 Department of Planning, Transport and Infrastructure improved result

DPTI recorded a net revenue from providing services

DPTI recorded a net revenue from providing services for the year of \$134 million. A significant factor in this result is the level of Commonwealth funding received, which increased by \$186 million to \$743 million. Commonwealth funding included \$220 million for the Northern Connector project, \$170 million for the North-South Corridor Darlington Upgrade, \$170 million for the Goodwood and Torrens Rail Junction, \$67 million for the South Road Upgrade (Torrens Road to River Torrens) project and \$28 million for road maintenance programs.

Highways Fund received a further \$359 million from MAC

In 2017-18 MAC paid \$359.4 million into the Highways Fund. The Treasurer directed MAC to make the payment under section 26(2) of the *Motor Accident Commission Act 1992*. This transfer follows similar transfers of \$852.9 million in 2014-15, \$448.5 million in 2015-16 and \$688.2 million in 2016-17, meaning that MAC has contributed over \$2.3 billion to the Highways Fund over the past four years.

Further contributions from MAC are subject to the direction of the Treasurer.

2.5.9 Department of Primary Industries and Regions (PIRSA) delivering grant programs

South Australian River Murray Sustainability (SARMS) program

PIRSA received \$25 million from the Commonwealth in 2017-18 for SARMS program. This is a \$265 million program delivered over six years through a National Partnership Agreement.

PIRSA paid \$45.9 million in SARMS grants, with the payments being made over time as approved projects are delivered.

Regional Development Fund (RDF)

PIRSA paid \$15.2 million in RDF grants in 2017-18. Similar to SARMS, payments under the current RDF program are approved and then paid over time as projects are delivered. Since the RDF's inception, funding totalling \$55.4 million for 114 projects has been approved.

With the change in SA Government in March 2018, the RDF has been repurposed as the Regional Growth Fund. How this fund will be spent in the future will be determined by the Minister for Primary Industries and Regional Development.

2.5.10 Department of the Premier and Cabinet

Grants paid by DPC increased by \$46.3 million

Grants and subsidies paid by DPC increased by \$46.3 million to \$88.5 million. The most significant programs were:

- \$24 million in funding for the PACE Gas grants program, which aims to increase the supply of gas in South Australia's energy market and increase competition between gas suppliers
- \$18.6 million under the Fund My Neighbourhood program, which aimed to provide funding for communities to support projects between \$10 000 and \$150 000 that would improve their neighbourhood or bring communities together
- \$9.7 million under the Energy Productivity program, which aims to assist large energy using businesses in the State to reduce their energy usage and related costs and contribute energy supply benefits to the State
- \$6.8 million under the Renewable Technology Fund program, which aimed to catalyse private sector investment to support integration of renewable technologies and demand management technologies.

The Fund My Neighbourhood, Energy Productivity and Renewable Technology Fund programs were discontinued by the new SA Government.

Procurements under the former SA Government's energy plan

A number of key procurements occurred in 2017-18 as part of the former SA Government's energy plan. The main procurements were as follows:

- In July 2017 the South Australian Grid-connected Battery Facility project agreement was executed. Commencing in December 2017, the facility will seek to support power system security, integrity and stability for the South Australian electricity network.
- A Short Term Capacity Contract was executed in July 2017 for managing electricity generation capacity required to meet peak demand in South Australia on days of extreme heat. Costs incurred to date under this contract are \$82.2 million.
- In November 2017 the former SA Government executed a contract to purchase the assets associated with the Short Term Capacity Contract at a cost of \$226.8 million.

Change in DPC executive staff

Following the March 2018 State election, the new SA Government terminated the contract of the DPC Chief Executive, a Deputy Chief Executive and a number of other executive level staff.

A new Chief Executive was appointed in August 2018.

DPC was restructured from 1 July 2018

From 1 July 2018 the following significant restructures occurred:

- Arts South Australia and Aboriginal Affairs and Reconciliation transferred in from DSD.
- Shared Services SA, Electorate Services, Fleet Services (Ministerial Chauffers), ICT Transformation, Policy Standards and Governance, Strategic Procurement and some areas of the Office of the Public Sector transferred to DTF.
- The remaining areas of the Office for the Public Sector transferred to the Office of the Commissioner for Public Sector Employment.
- Service SA transferred to DPTI.
- The functions of the energy and minerals resources division transferred to the new Department for Energy and Mining.

2.5.11 Department of Human Services (DHS)

Grants for disability services fall slightly

Grants for disability services decreased by \$18.4 million to \$262.8 million. These grants are primarily to non-government organisations that provide services to individual clients based on their needs. The decrease reflected the impact of clients transitioning to the National Disability Insurance Scheme (NDIS) and it is expected that these costs will continue to decrease in future years as eligible disability clients transition to the NDIS.

Further commentary on the NDIS is provided in section 4.2.

Disability and aged care reform

Work continued in 2017-18 on implementing a number of significant changes to the way disability and domiciliary care services will be provided in South Australia, in response to Commonwealth disability and aged care reforms. These changes, along with the full transition to the NDIS, will have a significant impact on DHS's operations, structure and finances in future years.

On 29 June 2018, following a competitive tender process, domiciliary care services in South Australia transitioned from DHS to the Royal District Nursing Service South Australia (RDNS SA). As part of the purchase of the business a number of assets and staff transferred to the RDNS SA. All eligible transferring employees were paid a sector retention payment by DHS to encourage them to remain in the sector to ensure continuity of care for clients.

In February 2018 an employee-led mutual was established as a company limited by guarantee to provide early childhood intervention services under the NDIS. The mutual will provide services through a cooperative or mutual governance structure whereby members of the organisation can be involved in decision-making. It will be part of the non-government sector and will be accountable to the National Disability Insurance Agency, not the SA Government. It is expected that the mutual will take over the provision of early childhood intervention services from 1 October 2018.

Other services to expected to transition to the non-government sector in the future include domiciliary equipment services, supported community accommodation services and ASSIST therapy services.

2.6 Restructures of government agencies in 2017-18 including payment to terminate employment arrangements

Restructures occur in most years. Generally, changes affect the comparability of agency financial information from the previous year.

Typically, agency restructuring leads to transition periods while transferred staff and activities settle into their revised arrangements. Issues that can arise during transition include the timeliness of settling delegations, updating and rationalising systems and policies and procedures, and clarity of roles, responsibilities and accountabilities. Restructures that occurred in 2017-18 were as follows:

- The Office of the Valuer-General transferred from DPTI to DTF on 1 July 2017, followed by the Office of the Registrar-General on 1 February 2018.

Payments to terminate employment arrangements

Following the State election in March 2018, the new SA Government terminated the employment arrangements of five Chief Executives and one Deputy Chief Executive. The total cost of terminating these executives was \$3.14 million, which comprised \$2.69 million in termination payments as provided in their contracts of employment and \$449 000 for accumulated leave entitlements.

The timing of these terminations meant we have not performed detailed reviews due to our other priorities to complete the year's audits. We have not assessed whether there is confidentiality attached to the payments. However, further disclosure is not appropriate until that is confirmed.

2.7 Summary of selected financial disclosures

A summary of selected financial statement items is included in section 6. It is taken from information disclosed in the financial reports of agencies listed in section A.1 of the Annexure to this Report. The data does not encompass all public sector agencies.

Section 6.4 shows a \$104 million (29%) increase in workers and additional compensation to \$464 million from 2016-17 for the agencies in this Report. This is mainly due to an additional compensation provision recognised for the first time in 2017-18. As described in section 6.4, this follows from changes to relevant enterprise agreements.

3 Significant financial control matters communicated to agencies in 2017-18

This section sets out significant financial control matters arising from our audits that were communicated to agencies in 2017-18 and were important to forming control opinions. For a full understanding of these and other matters, together with agency responses, I refer readers to Part B of this Annual Report.

It is important to emphasise that audits rely on sampling transactions within agencies and across the public sector. Where we have reported issues arising in individual agencies, we consider it is important they be considered by other government agencies to ascertain whether they have relevance and to help improve public administration.

3.1 Key findings and recommendations

3.1.1 27 of the 42 agencies received modified controls opinions

Twenty-seven of the 42 agencies reported in Part B of this Annual Report and subject to controls opinions⁹ received modified (qualified) control opinions due to financial and management control weaknesses and compliance matters. The causes of these qualifications ranged from a single matter to multiple reasons. Some matters were, for a range of reasons, unresolved from the previous year.

3.1.2 We apply risk ratings to the issues we report to agencies

Since 2016-17 we have applied risk ratings to the audit findings we report to agencies.

The risk ratings we assign are our assessment and agencies will make their own assessments of the risk to their operations from the matters that we raise. In some cases, agencies have communicated that they do not agree with the ratings we have assigned, with their own rating giving context to, and forming part of, their response to the matter raised.

The risk rating is individual to the agency that we raise the matter with, and may be rated differently in a different agency. This reflects that while there may be similar issues at different agencies, the relative risk and impact of a particular matter depends on the circumstances of each agency in its own right. However, should we identify an issue that has the potential to impact a number of agencies or that may impact at a whole-of-government level, we would take the broader impact into account in determining our risk rating.

We generally only report matters in this Report that we have rated as 'high' or 'medium' risk, as they represent areas that are, in our view, fundamental areas of governance and financial control and accountability.

⁹ Adelaide Oval SMA Limited and the superannuation schemes (South Australian Superannuation Scheme, Southern State Superannuation Scheme and Super SA Retirement Investment Fund) are not subject to controls opinions.

Details of individual matters are discussed in Part B of this Annual Report under the relevant agency. Further detail of the most common types of audit findings we found in 2017-18 is outlined below.

3.1.3 We still raised a large number of matters with agencies this year, including many that are repeated

We continue to raise a large number of matters with agencies. About a third of the matters we raised this year were repeat findings, meaning the same issue had been raised previously and was not fully addressed.

In some cases, a repeat finding reflects that the agency is continuing work to address matters that cannot be easily or quickly addressed. In other cases, repeat findings indicate that the agencies have not followed through on the actions they advised us they intended to take. In a small number of cases, the agencies have accepted the risk that we reported to them.

Once again this year, agencies have largely accepted our findings and recommendations and committed to resolving the matters raised. In many instances the agencies' responses tell us that the matters raised have been addressed. Where the matter is not reported as already being addressed, most agencies give a clear indication of the time frame by which it will be.

There are occasions where agencies have advised they do not accept our recommendations. These responses have generally indicated that the agencies are satisfied with their existing practices on a risk/cost benefit basis. Occasionally this reflected changed practices brought on by their response to cost saving pressures, restructuring or process change. On other occasions, agencies have expressed the view that matters we have raised are not material risks relative to other agency activities.

Agencies are responsible for ensuring they have cost effective and adequate control practices and we respect that they have that responsibility. In making their assessment, agencies must ensure they have regard to meeting their legislative and other compliance responsibilities and the sufficiency of controls to provide reasonable assurance that their transactions are conducted properly and in accordance with law.

Our practice is to follow up agency responses in the next audit year. We will continue to have regard to risk, cost and taxpayers' expectations when assessing the sufficiency of controls.

In a number of cases, agencies advise that future system changes or improvements will address the matters we have identified, or help to do so. While new or improved systems can help, we have seen instances where expected benefits and improvements do not arrive. We have also seen that new systems can introduce new control issues, including managing access to the system and segregation of duties between employees.

Significant or frequently occurring control weaknesses identified across agencies and included in this section related to:

- system user access management

- delegations and approvals
- contract management.
- reviewing key reports.

3.1.4 Recommendations

We recommend agencies:

- ensure appropriate mechanisms are in place so that corrective actions they have committed to take are clearly assigned to responsible officers, timelines are established, performance is monitored and issues are resolved promptly
- review processes to assign and review user access to systems to ensure access remains appropriate and relevant
- improve processes to ensure that financial approval limits in systems are consistent with approved financial delegations
- review existing delegations to ensure they reflect the business needs of agencies
- strengthen contract management frameworks and plans and put contracts in place where there are significant supply arrangements that are not currently subject to contracts
- ensure contract management systems include all contracts and that contract details are accurate
- provide the staff responsible for approving payments under contracts with details of contract prices
- strengthen processes to ensure key system reports are promptly and adequately reviewed.

3.2 Background

3.2.1 Public sector managers are responsible for internal control

Public sector managers have the responsibility to cost effectively manage and control financial resources, operations and risk exposures within their agencies and to comply with relevant laws, regulations and instructions. The ability of public sector entities to operate properly and to report reliable, accurate and timely information is underpinned by an effective control framework.

3.2.2 Auditor-General must express an opinion on controls

The Auditor-General has the statutory responsibility to annually express an opinion on the sufficiency of controls and whether and how well those controls provide reasonable assurance that financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law. In performing tasks to support this opinion, we use relevant criteria against which to assess whether controls conform to established standards of financial management practice and behaviour.

The primary sources of criteria are relevant laws, regulations and instructions (eg Treasurer's Instructions) and agency policies. Where these sources are absent, we have regard to generally accepted standards of financial management practice and behaviour, especially where other Australian jurisdictions have issued authoritative guidance.

Assessing what is reasonable is a matter of judgement and circumstance that has regard to facts, changing practices, expectations and behaviours. Fundamental principles that underpin our audits of controls include public accountability, integrity, financial probity and propriety, discharging responsibilities within the letter and spirit of the law and value for money. They are inherent values and essentially do not change over time.

Nonetheless, there remains significant room for judgement. Consequently, it is probable that auditors and management will disagree in some areas.

An important outcome of our audits is to communicate significant audit findings to those charged with governance. This may be a board chair or chief executive or the Parliament. This is a prudent and valuable outcome from the audit assurance service, an obligation under the PFAA and a professional responsibility under Australian Auditing Standards.

3.2.3 A modified opinion means controls are not sufficient

Modified controls opinions in Part B of this Report reflect our view that aspects of agency controls are of an insufficient standard to provide reasonable assurance.

Where we have drawn that conclusion, we have made recommendations as to where, in our opinion, improvements are required.

All audits conclude with a natural justice process where draft audit issues are subject to agency scrutiny to ensure our issues are factually accurate, logically sound and present matters fairly. This also gives the opportunity to discuss the effect and practicality of recommendations and other relevant issues. Feedback from these discussions is considered and reflected, where appropriate, in final audit management letters and reports.

The natural justice process results in agreement on most audit issues, findings and their resolution. It is up to agencies to determine whether to adopt audit recommendations.

Agencies have regard to their view of risks, costs and benefits. Occasionally agencies put forward reasons for not accepting our recommendations. The primary differences arise where agencies decide that existing practices sufficiently address the relevant risk.

Responses we receive to issues raised in the current year are evaluated in the next audit. Should we continue to disagree with an agency assessment and have an alternative view, our practice will be to raise the matters for further consideration. We are also professionally obliged to perform additional work to address any residual audit risk before forming an opinion on controls and financial reports.

3.2.4 Agencies with modified opinions are exposed to increased risks

Finding material error, such as overpayments or realised loss, would give persuasive evidence of the significance of our audit findings and recommendations. In practice this does not necessarily occur.

Where controls are not of a sufficient standard to provide reasonable assurance, it is equally clear that this means an agency is exposed to increased risk regarding the financial probity and propriety expected of a public authority and discharging its responsibilities for cost effective public services.

3.2.5 Auditor-General's Reports are notified to the Office for Public Integrity

I advise the Office for Public Integrity when my reports to Parliament are available to ensure I meet my responsibilities under the *Independent Commissioner Against Corruption Act 2012*. The Office for Public Integrity is responsible for assessing if any matter raises a potential issue of corruption, misconduct or maladministration in public administration.

3.3 User access to systems

Most government business and financial transactions are processed electronically through online systems. Key online systems used by the SA Government include:

- Basware: used for the review and approval of expenditure transactions
- Chris21: the SA Government's main payroll system, which also provides for online leave approval
- Oracle: SA Health's financial system
- CommBiz: the Commonwealth Bank online system used by agencies to make payments.

There are also a number of other agency financial and operational systems used across government. They include systems for registration, licensing, health and emergency services that record important and, in some cases, sensitive information.

More government transactions are now processed only electronically where in the past paper forms might have been used. Most expenditure for the SA Government, for example, is now authorised online in Basware or Oracle. Similarly, applying for and approving leave is now performed online using Chris21 in a number of agencies.

Given the significance of these systems and the information that they contain, controlling access to them and ensuring that the access granted matches the user's role becomes increasingly important.

3.3.1 A controlled process to grant and regularly review user access is important

Agencies need to have a controlled process in place to grant access to their systems. This should include formal approval for access and consider the level of access that users need to perform their roles. User access should be sufficient for employees to perform their roles efficiently. It should, however, also ensure appropriate controls remain over financial transactions and access to information.

When agencies grant access to systems they need to consider how the system has been set up to support the basic requirements for effective governance and control. Segregation between roles should be built into user access, ensuring individual users do not have excessive access. To do this, agencies need to understand the roles of the users and the structure of the user profiles for their systems, so that they can match what access someone needs with the right user access profile in the system.

As online transaction approval continues to expand, it is also critical to ensure the approval limits that are present in systems match the agency's approved delegations, both financial and those related to human resources (eg the ability to approve specific types of leave).

Agencies should regularly review user access, as staffing and user roles change over time. It is important that agencies ensure the access granted remains appropriate and that only individuals who need access have it.

3.3.2 We found a number of agencies did not regularly review user access and could improve user access management

We identified many instances across agencies where user access management could be improved.

The issues we raised with agencies included that:

- reviews of user access had not been performed, or had only been performed for a small portion of users
- too many users of some systems had privileged user access (giving them a higher level of access, or ability, than normal users)
- appropriate financial limits had not been set for some users
- user access was not always removed when staff left
- user access did not support appropriate segregation between multiple roles that the same person should not be able to access
- some user access reviews did not consider all the information they needed to.

These issues occurred across several agencies and a range of systems including payroll, expenditure, banking and general ledger systems.

Many of these systems feature online approval and there is a risk that established controls can be bypassed where user access is not appropriately granted and regularly reviewed to ensure it remains appropriate.

3.3.3 Access to information needs to be protected

Our financial audit processes focus mainly on systems with direct financial functions, such as expenditure, payroll and banking systems. It is important, however, that agencies manage user access across all of their systems. Some systems that have limited financial functions contain sensitive information and access to these systems also needs to be actively reviewed and appropriately managed by agencies.

3.4 Delegations and approvals

Every year billions of dollars of public money is spent by public sector employees who have been given approval to do so through a delegated authority to transact on behalf of a public authority.

It is the most fundamental of activities. Delegated authority is a practical necessity to allow public authorities to meet operational and business requirements effectively and efficiently.

3.4.1 Delegations provide structure to payment approval processes

Individual transactions can commit public money to individually high amounts or accumulating commitments over many years, whether for ongoing employees – the largest part of government spending – or contracts for services. Many individual transactions are of high value and the amounts exposed to misspending are accordingly high. Because of the responsibility and trust associated with using public money, the standards of expected behaviour and compliance are high.

Delegations provide a structured framework for approving payments. They should reflect public sector rules that govern this activity, such as those established by the PFAA, the *Public Sector Act 2009*, the *State Procurement Act 2004* and the Treasurer's Instructions.

Most broadly, the Code of Ethics for the South Australian Public Sector is the code of conduct for the purposes of the *Public Sector Act 2009*, and all public sector employees are bound by it. The Code of Ethics provides that public sector employees are accountable for exercising their delegated authority and for performing their role within the values and standards of conduct outlined in the Code.

If public sector employees do not adhere to delegated authorities, they risk committing the SA Government to, or incurring, expenditure that does not achieve value from spending public money. The consequences of deliberate misapplication are also potentially severe for individuals.

Delegations, like the public sector rules mentioned above, typically require higher level approval for more significant transactions. These requirements reflect that greater scrutiny should be applied to more significant transactions, as there is a greater commitment of public money being contemplated.

3.4.2 Online payment approval limits exist in many agencies, alongside formal delegations

Online payment systems are now the main systems used for transactions in the South Australian public sector. They allow access and use limitations to be set that restrict users to transactions within their approved delegations.

The limits set for users in payment systems should be at the same level as, or lower than, the financial delegations that individuals hold. However, the processes to manage financial delegations and update payment systems are often quite separate.

We again found examples of financial limits in systems that differed from the agencies' financial delegations. Where these differences occur there is a risk that transactions may not be appropriately approved, as delegations have not been properly exercised.

3.4.3 We identified a range of issues with delegations and approvals

While the effectiveness of delegation and financial approval across the public sector varies, our 2017-18 audits found examples where:

- delegations were exceeded
- system approval limits were not consistent with financial delegations
- reviews of changes to delegations or system approval limits were not performed
- transactions were approved after they had occurred
- there were delays in processing changes in delegations to systems.

We reported all of the instances we identified to the agencies involved and they have responded to the specific matters raised.

Agencies advised us that the issues we identified have a range of causes, with many being the result of oversights in updating delegations or system authorisation limits. Others related to misunderstandings of limits or authorities that were in place.

3.4.4 Interaction of agency delegations with the Treasurer's Instructions

A range of government policies set limits and delegations that agencies need to adhere to. The most direct relationship between agency delegations and other government policy requirements are the limits established in Treasurer's Instruction 8 'Financial Authorisations' (TI 8) for the approval of expenditure and contracts. Agency financial delegations need to be consistent with these limits unless the agency has an exemption for particular types of payments or contracts.

Some of the instances we identified where delegations were exceeded involved the limits established by TI 8 being exceeded by agency staff.

3.4.5 Convenience or urgency is rarely a sound basis for departing from established approval requirements

In some instances, agencies advised us that staff approved purchases or payments inappropriately due to the transaction being urgent, or because an appropriate delegate was not immediately available to approve the transaction.

While there are some instances where payments genuinely may require urgent approval, in most cases the level of urgency associated with certain types of payments can be anticipated. Some agencies have, for example, raised with us that the requirements for appropriate delegate approval would delay a purchase and negatively impact the agency's clients.

We have discussed with agencies the need to align their financial delegations with operational needs, such that if there is a regular need for certain staff to have delegations to allow client needs to be met, the financial delegations should reflect that. Agencies then have the option of introducing additional controls to monitor the use of those delegations if they consider there is a particular risk.

We do not consider it acceptable to continue to breach the requirements of established financial delegations due to foreseeable urgency.

3.5 Contract management

The public sector uses private providers extensively for services. As disclosed further under section 6.5, these arrangements commit the SA Government to payments annually exceeding \$1.8 billion for services including infrastructure provision and maintenance, project management, transport and contract staffing. In other instances, the SA Government has transferred management of services to an external provider in exchange for the right to future revenue streams. Section 6.5 lists examples of expenditure on outsourced contracts by agencies in this Report.

Regardless of the reason for the outsourced arrangement, it is important that the SA Government achieves value-for-money outcomes by ensuring that all contract providers meet their obligations in line with contract performance measures, time frames and expected deliverables.

This expectation is set out in Treasurer's Instruction 28 'Financial Management Compliance Program', which requires chief executives to ensure:

- contractor/supplier performance against orders, contracts, service level agreements (including services outsourced and public private partnership contracts) or equivalent are regularly monitored and reviewed to ensure services are being received, and payments are made, in line with agreed arrangements
- reductions in payments (abatements) are promptly applied in line with contract documentation where abatable contract performance failures occur. Public authorities must not delay the application of abatements or enter into extra-contractual arrangements in lieu of abatement (eg a negotiated settlement involving abatement being traded off for other benefits), unless agreed to by DTF and the Crown Solicitor's Office. Public authorities must develop, document and implement contract management policies and procedures (including for public private partnership contracts).

3.5.1 Effective management of contracted arrangements is directly linked to effective and cost efficient service delivery

Contracting in the SA Government takes a number of forms; some contracts relate to ongoing purchasing arrangements, some to outsourced service delivery and others to ongoing maintenance arrangements (for assets, software, buildings or plant and equipment).

Regardless of the type of contract established, the effective management of the contract arrangement has a direct link to effectively delivering government services and the cost efficiency of that service.

Many of the SA Government's contracts for ongoing service delivery include key performance indicators in one form or another; some of these contracts include many different levels of performance indicators or targets. In some cases, there are direct financial costs or benefits to the SA Government and the contracting party linked to these indicators.

In other cases, contracts with significant suppliers establish the prices the SA Government will be charged and the terms and conditions under which goods or services will be delivered.

Regardless of the nature of the contract arrangement, it is important that agencies:

- understand the contracts they are a party to, typically through having some form of contract register
- clearly identify staff who are responsible for contract management and the expectations attached to their roles
- ensure that contract management plans are in place and accurately reflect the contract requirements, as well as meeting the requirements established by the State Procurement Board
- actively manage contract arrangements, ensuring deliverables occur as contracted and that there is active monitoring of performance indicators or targets
- ensure staff responsible for approving charges under contract arrangements have access to up-to-date contract pricing schedules to properly verify that the agency is paying the correct amount
- have evidence to support the contract management activities that they have undertaken (minutes of meetings, copies of correspondence etc).

3.5.2 We found a range of contract management issues in agencies in 2017-18

Due to the value of expenditure on contracted services and significant procurements each year, we annually review aspects of contract management and contractual compliance as part of our agency audits. Examples of the issues we identified this year were instances where:

- contract arrangements continued once the contract had lapsed, without a formal extension
- contract management plans were not in place or did not meet the State Procurement Board's requirements

- contracts were not in place for significant suppliers or arrangements
- contract management did not always ensure all aspects of the arrangements were assessed through appropriate reporting or compliance activity
- contract management systems needed to be improved, did not include all contracts or did not always accurately reflect contract details
- prices charged under contract arrangements were not checked against contract prices before payments were made.

Section 4.5 outlines work we undertook and findings from work done by the State Procurement Board on contract extensions and single offer market approaches.

3.6 Review of key system reports

Financial and payroll systems produce a range of key output reports. These reports list information for review and are intended as a control to ensure the accuracy of changes made to systems and the correct processing of information. Typically, they are intended to provide assurance that the data input into systems, or actions taken by staff, are accurate or appropriate.

Because of their importance, our audits consider if there has been prompt review of key system reports. In some cases, these reports are intended as a preventative measure and should be reviewed before the next step in a process, such as actually paying staff, while in others they are a detective control designed to identify errors in processing that need to be corrected.

3.6.1 We found a range of issues with the review of key system reports this year

3.6.1.1 User access

As discussed in section 3.3, reviewing system user access is an important control process. Our 2017-18 audits identified instances where user access was not adequately reviewed. In several cases this reflected that no review of user access had been performed (as discussed in section 3.3); in others it reflected that the review process was not sufficient to ensure user access was appropriate.

3.6.1.2 We continue to find issues in the review of key payroll reports

The SA Government employs more than 100 000 people and paid \$7.5 billion in salaries and wages in 2017-18.

In past years we have found that key payroll reports, including bona fide and leave management reports, were not consistently reviewed or that the review of these reports was not prompt. This remained the case for a number of agencies in 2017-18.

While agencies have, in the past, advised that online processes would assist in the prompt review of key payroll reports, in practice online systems do not resolve this issue by themselves. An effective monitoring process that supports the follow-up of instances where reports are not reviewed promptly is needed to ensure these reports are reviewed as intended and any errors in payroll processing are identified promptly.

We have seen examples where online processes could not be implemented as intended, causing further delays to the introduction of an effective review process.

We have also seen instances where agencies have reviewed information after the event, when the controls are designed for the review to occur before a payment is made. This approach reduces the effectiveness of the control as it decreases the urgency of the control process being performed. Where controls are performed later and an error is identified, additional time and effort is required to fix the error or recover funds that have been paid in error.

3.6.1.3 We also found instances where changes to system masterfiles were not reviewed adequately

System masterfiles are used to record the data that is used by the system to generate charges or make payments. When an error is made in a masterfile change, it can affect many transactions (for example, all transactions with a particular vendor, or all invoices generated with a particular code).

Due to the potential impact of errors in changes to masterfiles, we generally consider that masterfile changes should be reviewed by a person independent from whoever made them. Typically, systems will produce reports of all changes to masterfiles to facilitate this review.

Our 2017-18 audits identified instances where changes to system masterfiles were not adequately reviewed or where there was not appropriate segregation between the person making changes and the review process.

4 Other reviews in 2017-18

Areas we gave specific attention to this year for small-scale focused audits were:

- Health budget and performance management
- the National Disability Insurance Scheme
- the Job Accelerator Grant scheme
- a new Royal Adelaide Hospital update
- contract extensions and single offer market approaches
- information technology general controls
- information and cyber security
- end user computing (ICT desktop outsourcing)
- the Shield Business Transformation program.

4.1 Health budget and performance management

We have previously reported on continued hospital expenditure growth, failure to achieve savings targets and risks associated with the financial sustainability of the public health care system.

In 2017-18 we again looked at health sector budget and performance management, including its reported outcomes against budget and savings targets. I intend to table a separate Report on this. It will include commentary on budget outcomes and monitoring for 2017-18 and make some observations on governance and accountability in the public health system in light of proposed governance changes.

4.2 National Disability Insurance Scheme

4.2.1 What is the significance of the NDIS for South Australia?

The NDIS is an insurance based scheme established under the *National Disability Insurance Scheme Act 2013* and is considered the largest national reform since Medicare. The scheme is designed to change the way that support and care is provided to people with permanent and significant disabilities. It seeks to create opportunities for people with disability to live 'an ordinary life' and provides support in line with defined and agreed criteria.

The primary roles of each State under the Heads of Agreement and bilateral agreements with the Commonwealth are to plan, assist, encourage and manage eligible participants to transition to the Commonwealth NDIS and enter into NDIS plans. In South Australia, this role exists within the DHS (formerly the Department for Communities and Social Inclusion).

The NDIS has been gradually rolled out across Australia since 2013. When it is fully implemented, about 475 000 people Australia-wide with a disability will receive individual support programs funded by the National Disability Insurance Agency (NDIA), the Commonwealth statutory authority established to administer the scheme. Planned expenditure Australia-wide will exceed \$22 billion p.a.

It was expected that all eligible existing South Australian specialist disability clients would transition to the NDIS by 30 June 2018, however due to delays this is now expected to occur in 2018-19. The NDIS will benefit around 32 284 people with disability in South Australia when the full scheme is implemented. This includes existing State specialist disability clients under the responsibility of DHS, Commonwealth clients and new clients/participants who will become eligible for the first time under the NDIS.

Annual expenditure on disability services in South Australia will increase from the current \$760 million to \$1.5 billion by 2019-20 (indexed annually), with \$723.1 million provided by the SA Government.

4.2.2 Current status of NDIS in South Australia and reasons for delay in transition

The number of participants who have transitioned into the NDIS in 2017-18 is significantly lower than expected. At 30 June 2018, there were 18 565 participants with an approved NDIS plan. This is a shortfall of 7972 compared to the expected 25 857 participants. In particular, there have been delays in adult transitions to the NDIS this year and only 50% of the year-to-date bilateral estimate has been met.

There has been no formal analysis of the underlying reasons for the delay in transitioning to the NDIS. There are various causes for delays given the complexity of the scheme and the number of stakeholders (ie DHS, other SA Government agencies, the non-government sector, clients, the Australian Government Department of Social Services, bilateral agreement targets etc). In South Australia, NDIA local area coordinators have not arrived at transition sites within the expected time frame, and there is complexity in assessing the State's specialist disability clients participant base.

There have also been challenges in shared housing and supported accommodation. Participants in supported independent living (SIL) accommodation comprise one third of the NDIS operating budget at full scheme, however at 30 June 2018 only 200 out of 1500 existing South Australian clients had an approved plan. All residents in each SIL accommodation must be assessed before transition can occur. From 1 July 2017 the NDIA has introduced a new way of processing SIL quotes for first plans and plan reviews to address the backlog in both the submission and processing of SIL provider quotes.

4.2.3 Financial implication for DHS and the State of NDIS transition delays

DHS monitors budgetary pressures by monthly review of NDIS invoices and reporting of variances between budget and actuals to the DHS Executive Leadership team. DHS has identified that due to the delays in participants transitioning to the NDIS, at 30 June 2018 there is a variance of \$209 million between the State's contribution to the NDIS under the bilateral agreement (\$305 million) and the actual NDIS payment to the Commonwealth (\$96 million).

If the trend continues where there are lower numbers of participants transitioning to the NDIS in 2018-19 than estimated, it will result in a significantly higher average State

contribution per participant than originally planned, if the State is required to pay its full contribution to the scheme. There has been a similar experience in other jurisdictions. For example, it was identified in the Queensland Audit Office's 'The National Disability Insurance Scheme (Report 14: 2017-18).' In response, DHS has negotiated a temporary adjustment to the financial contribution (a fixed amount per month and a per person amount for service delivery costs) for clients who have not yet transitioned to the NDIS up to 31 March 2019. This is reflected in the Full Scheme Bilateral Agreement between the Commonwealth and SA Governments on the NDIS signed in June 2018.

The most significant financial exposure for DHS in 2017-18 was the increased brokerage costs, primarily relating to disability clients, of \$195.1 million (\$180.9 million) and increased grant funding of disability services to the non-government sector of \$262.8 million (\$281.2 million). This is due to DHS remaining responsible for the complex and higher value clients that have not yet transitioned to the NDIS. DHS has negotiated to roll out existing block contracts with non-government organisations to 30 June 2019 (at indexation and equal remuneration order rate). All costs relating to brokerage and grant funding in 2018-19 will be recovered through mechanisms agreed in the Full Scheme Bilateral Agreement. DHS also reviews fortnightly NDIA transition number statistics to ensure contracts for transitioned clients are cancelled in a timely manner.

However, the increased brokerage and grant funding of disability services to the non-government sector have been offset by the favourable impact of reduced State payments to the NDIS in 2017-18. The State's actual NDIS payment of \$96 million in 2017-18 includes contribution adjustments of \$31.3 million for bilateral agreement cash ceiling (reflecting the delay in participant numbers and accumulation of cash within the scheme).

The delays in NDIS transition and ineligible clients also place significant cost pressures on other SA Government agencies. If eligible participants with disability do not receive early intervention support and enter the NDIS, there is a risk that they will most likely continue to access State funded mainstream services. This would increase the lifetime costs of care and support and place continued demand on State-funded mainstream services. This puts additional pressure on other sectors including the health sector (including mental health), correctional services and transport services. For example, State hospital bed stay expenditure will be required for specialist disability clients who could otherwise have been managed by an NDIS plan. Similarly, where clients have been assessed as ineligible, this places additional financial pressure on other sectors. For example, approximately 25% of the supported residential facilities, consisting mainly of elderly population, are considered ineligible and this may place pressure on the State's community housing sector.

These pressures are addressed by DHS's bilateral responsibility to maintain relationships with other agencies to ensure the smooth transition to the NDIS. DHS is involved in various multilateral and bilateral governance stakeholder groups and working groups. This includes the monthly meeting of the Disability Reform Program Steering Committee, which has representatives from DHS and other SA Government agencies including SA Health and DTF. There are also fortnightly meetings with the hospital discharge area, regular meetings with the Department for Correctional Services for prison discharge and various other working groups (including transport, child protection and mental health working groups).

4.2.4 Risks to the State, unforeseen/unplanned issues and DHS response

The NDIS is a national scheme and there is a reputational risk to the State. DHS has identified the strategic risks outlined below in the NDIS reform risk register and has determined controls/treatment to mitigate these risks. The risk register was reviewed in detail at a special meeting of the NDIS Reform Leadership Team on 23 May 2018 and the risks were to be presented to the Executive Leadership Team in late September 2018. All controls in the risk register were assessed by DHS as effective. DHS will need to continue to monitor these emerging strategic risks and ensure appropriate action to address risks.

In 2017-18, the State spent \$2.7 million on sector development funded projects (Provider Readiness, Workforce and Intensive Outreach Navigator project) and \$168 000 on campaigns discussed below.

Preparedness of the non-government sector for the provision of disability services

A key feature of the NDIS is an individualised approach to supporting people with a disability based on a consumer driven market. This includes individual choice of provider and services required. There is a risk to the State that non-government sector disability services providers may not have yet had exposure or opportunity to trial the market (for example the adult phase which commenced this year).

At 30 June 2018, there were 1960 NDIA approved and registered providers (a 16% increase in the June 2018 quarter). However, only 25% of providers receive 75-95% of the payments made by the NDIA. As at 30 June 2018, 61% of providers do not yet have activity. This is relatively low in South Australia due to a high proportion of providers that are approved nationally but not in South Australia.

DHS has been assisting existing and potential providers in the market to develop their specialist disability services capability through the following initiatives/projects:

- The NDIS Provider Readiness project aims to develop capacity building strategies for providers and reduce the risk of market failure in the NDIS. The project has extended to 20 December 2018 due to not all activities or expenditure of \$2.4 million being complete. This includes grants for up to 90 providers of specialised disability services to facilitate transformation changes to their business model to enable them to function in the NDIS environment.
- DHS has also expanded the NDIS Provider Readiness project to assist with the supported residential facilities sector. In March 2018, DHS Internal Audit performed a review of the impact of the NDIS on supported residential facilities sector clients and assessed that overall, there is reasonable assurance DHS is actively engaging with the supported residential facilities sector.
- Workforce development initiatives to skill the workforce, including the placement of potential workers in subsidised training and the skilling of existing workers through Disability Workforce Projects co-designed with enterprises delivering NDIS services.

- Quarterly non-government sector presentations called the 'NDIS quarter check-in.' This includes various information and focus sessions with DHS, the NDIA and disability sector representatives.

Engagement and eligibility of clients to participate in the NDIS

DHS has engaged and assisted existing specialist disability clients to transition to the NDIS by:

- engaging with hard-to-reach and complex need clients through the Intensive Outreach Navigator (ION) project. The ION project provides direct intensive outreach support to existing State based specialist disability clients with complex needs and clients that the NDIA finds difficult to engage or hard to reach. In the instances where a client has an effective and trusted working relationship with a service provider, the ION project helps that provider to build the capacities required for a successful transition to the NDIS. Two service providers have been contracted by DHS to deliver the ION project and help identified clients to connect with the NDIA
- the NDIS Communications and Engagement Campaign to encourage understanding by eligible people of the NDIS, including the steps involved to transition and matching potential participants with providers. This involved 23 forums/exhibitions across the State from April 2017 to April 2018 and a total of 2685 attendees. We reviewed the evaluation plan and found that most key performance indicators were achieved (21 out of 27). Those that were underachieved related to perception of the NDIS based on market research.

DHS also has a continuity of support obligation to continue funding any essential support for existing State disability clients aged under 65 years who are found to be ineligible for the NDIS. DHS has documented an Eligibility for Continuity of Support policy/framework and approval workflow. DHS considers continuity of support requests for funding on a case-by-case basis. The Executive Director, NDIS Reform convenes a fortnightly panel to review requests and monitors individual strategies to help clients find, where required, a more suitable source of support. In 2017-18, only \$1.6 million has been expended for continuity of support, mainly relating to children/young adults.

Under-utilisation of client entitlements

The NDIA is responsible for ensuring that clients utilise the entitlements in their NDIS plans. However, as a signatory to the bilateral agreement, DHS also has a responsibility to promote links between the NDIS and the non-government sector and support the development of a robust and comprehensive disability services market.

Of the \$1.042 billion that has been committed in South Australian participant plans since 2013, only \$403.4 million (38.7%) has been paid to providers and participants. In 2017-18 only 54% of committed supports were utilised (actual payment of \$195.4 million compared to committed support of \$363.1 million), which is lower than the national average of 64%. The lower than national average utilisation in South Australia is considered to be a result of the children's trial and the higher proportion of new participants in the scheme.

In its 'Quarterly Performance Report – South Australia 30 June 2018', the COAG Disability Reform Council has identified that utilisation of committed supports in 2017-18 is still emerging. The utilisation rate is expected to increase as there is a lag between when support is provided and when it is paid. Based on the 2016-17 transition year experience, lower utilisation is predominantly driven by the large number of participants who received their first plan in this year. Participants utilise less of their first plan compared with their second and subsequent plans, as it takes time to familiarise with the NDIS and decide which support to use.

The measures to communicate with NDIS participants about their entitlements include the client plan which outlines the client's disability needs and their communication with local area coordinators to ensure needs are met. However, as discussed above, there have been delays in local area coordination. DHS has also attempted to encourage client utilisation of plans through the NDIS Communications and Engagement Campaign, discussed above, to match NDIS participants with providers.

The NDIA has also introduced an NDIS pathways experience designed to improve the experience and engagement that participants and providers have with the NDIS and focused on face-to-face engagement for the development of all NDIS plans. The pathway will be progressively piloted and tested (the Victoria pilot commenced in December 2017) before being rolled out nationally.

4.3 Job Accelerator Grant (JAG) scheme

4.3.1 Overview of the JAG scheme

The JAG scheme was initially announced as a business employment support scheme in the 2016-17 Budget and further expanded in the 2017-18 Budget to provide additional grants for apprentices and trainees.

Applications for the JAG scheme opened in 2016-17 and payments commenced in 2017-18. The 2016-17 Budget estimated that grants would be provided for 14 000 FTE positions at a budgeted cost of \$109.2 million over three years. The budgeted cost for the additional apprenticeship/trainee amounts was \$8.1 million.

The overall objective of the scheme as stated in the Budget Papers is to support businesses to grow and create new employment opportunities. The scheme formed part of a package of budget initiatives to stimulate the economy and support job creation. This was identified as a response to global pressures on the State's traditional manufacturing industries that had continued to impact the State's economy and unemployment levels.

The Treasurer is the SA Government party administering the JAG scheme and has appointed the Commissioner of State Taxation as his agent for the purposes of administering the scheme.

Grants paid under the JAG scheme as at 30 June 2018 totalled \$16.9 million. The 2017-18 budget for JAG scheme grants was \$33.3 million. DTF advised that actual JAG scheme payments were lower than budget in 2017-18 due to:

- a lower than expected conversion rate for grant registrations into grant claims
- a higher proportion than estimated of total grant claims paid being for the lower grant amount (ie grants for small businesses and start-ups)
- the submission of applications and processing of claims taking longer than expected.

The revised estimated total JAG claim costs over the life of the scheme, based on the 2018-19 Budget, are \$72.5 million. The revised total FTE positions that grants are expected to be provided for is 9000.

DTF advised the following JAG scheme expenses in addition to claim costs as at 30 June 2018:

- total advertising costs of \$2 million
- RevenueSA Online system development costs to administer the JAG scheme of \$533 000
- administration costs, including salaries, of \$486 000.

4.3.2 JAG scheme eligibility criteria

Businesses that increased their number of South Australian employees were eligible to receive a JAG for each additional full-time, part-time and casual employee employed by them in a new position between 1 July 2016 and 30 June 2018 and retained for at least 12 months. The grants will be paid at the first and second anniversary date of employment.

A JAG of up to \$10 000 (\$5000 per year for two years) for each new FTE job created was available for businesses liable for payroll tax in South Australia with total Australian wages of \$5 million or less.

A JAG for small business and start-ups of up to \$4000 (\$2000 per year for two years) for each new job created was available for most businesses that were not liable for payroll tax. This included businesses with Australian wages below the payroll tax free threshold at the time the scheme commenced (ie \$600 000).

Businesses that registered a new employee for a JAG will receive up to an additional \$5000 if that employee was an eligible apprentice or trainee and the position was also deemed to be eligible for the JAG.

4.3.3 JAG scheme establishment

DTF advised it was requested by the SA Government to prepare a range of options for consideration in establishing a business employment support scheme. The advice requested was specific to payroll tax rebates and grants and was supplementary to a number of other jobs initiatives already in operation or under consideration by the SA Government.

DTF advised that the SA Government required a response to this request for specific targeted advice in tight time frames to meet Budget finalisation time frames.

DTF performed research, analysis and consultation to identify options for the SA Government's consideration, including:

- analysis of similar job creation initiatives in New South Wales and Tasmania
- discussions with New South Wales Treasury officers to inform the development of JAG scheme costings and eligibility criteria
- costing and risk analysis for a range of potential options over specified time frames
- consultation with relevant stakeholders, including the Small Business Commissioner.

The research, analysis and consultation highlighted a number of challenges in developing an effective job creation scheme, including:

- targeting the employment incentive to support employers who would not have created a job without the measure
- determining an appropriate incentive amount that was sufficiently attractive to employers to offset the costs associated with hiring and maintaining a new employee
- striking an appropriate balance between maximising access to the grant with the need to maintain a cost-effective and appropriate standard of public administration and control
- optimising the value and benefits of the grant scheme in light of other competing budget priorities.

Following the provision of the options for consideration by DTF to the SA Government, the SA Government approved the establishment of the JAG scheme through the 2016-17 Budget process.

DTF advised us that a grant, rather than a payroll tax rebate, was the SA Government's preferred vehicle for delivering the scheme. A grant was considered a more effective and direct option to strategically target small to medium enterprises that were growing and taking on new employees. The grant also allowed for payments to businesses that were not liable for payroll tax.

4.3.4 Approach to assessing JAG eligibility

To be eligible for the JAG, applicants must satisfy the criteria set out in the JAG fact sheet available on the RevenueSA website, including:

- the employee must be a South Australian resident
- the total number of FTEs must not fall below the number employed at the time of taking on the additional employee(s) for more than 60 days in total during the year
- the job claimed for must not have existed in the business in the previous 60 days

- the person being claimed for must not have been employed by the employer claiming the grant in the previous 12 months (including other group members where the business forms part of a group for payroll tax purposes).

RevenueSA is responsible for assessing the eligibility of JAG scheme claims and making JAG scheme payments.

RevenueSA has applied a risk based approach to grant eligibility assessment. A payment risk management plan was developed at the inception of the scheme to inform the development of the control environment. The control environment encompasses the following:

- automated RevenueSA Online system validation checks to confirm compliance with several eligibility criteria
- segregation of duties over assessment and payment of claims
- targeted compliance investigations for high risk claims
- simplified compliance review processes for low risk claims.

There are some eligibility criteria where RevenueSA relies solely on declarations by the applicant to confirm that the criteria have been met. RevenueSA has assessed the risk of non-compliance with these particular eligibility criteria as low.

It is mandatory for applicants to provide wage or personnel records to RevenueSA to substantiate the increase in FTE levels and new jobs created. Applicants are also required to complete a declaration to confirm that all information provided is true and correct.

The nature of wage and personnel records provided by businesses is varied and there is a degree of judgement involved in determining the appropriate evidence required to support grant claims. Where necessary, RevenueSA will request additional information from applicants to verify grant eligibility.

4.3.5 Audit scope

Our review considered the effectiveness of controls over the establishment, monitoring and administration of the JAG scheme, to ensure:

- the potential costs, benefits and risks of the JAG scheme were appropriately evaluated prior to proceeding with implementation
- the JAG scheme was established with clear objectives and appropriately approved
- JAG scheme payments were only made to eligible recipients, were accurately calculated and were appropriately authorised
- JAG scheme payments were accurately disbursed to the correct bank account and recorded completely and accurately in DTF banking and general ledger systems
- the achievement of expected JAG scheme outcomes was appropriately monitored and measured.

We assessed the design and implementation of identified controls, including confirming appropriate segregation of duties and testing system application and user access controls where relevant.

We also tested a sample of individual JAG scheme payments to ensure they:

- complied with JAG scheme eligibility criteria
- were accurately calculated
- were appropriately authorised
- were supported by adequate supporting documentation
- were accurately disbursed and recorded in the general ledger.

4.3.6 Summary of key audit findings

4.3.6.1 JAG scheme establishment and monitoring

We identified areas where some procedures, practices and controls over the preparation of business case analysis for the JAG scheme and performance monitoring could be improved.

4.3.6.2 A formal business case was not prepared to justify the SA Government's decision to proceed with the JAG scheme

Our review of the options briefing paper prepared by DTF for the SA Government indicated it comprehensively identified the potential risks and consequences associated with proceeding with each option.

Following the provision of the options for consideration by DTF to the SA Government, the SA Government approved the establishment of the JAG scheme through the 2016-17 Budget Cabinet submission. DTF advised it was not requested by the SA Government to provide any further formal advice or information in addition to the options briefing paper prior to the SA Government approving the JAG scheme. However, DTF advised that there was a considerable level of direct verbal advice provided to the SA Government throughout the process.

The JAG scheme involved expenditure of public money estimated to be in excess of \$100 million. In our view for an initiative of this value, comprehensive business case analysis was warranted prior to the SA Government making the decision to proceed with the scheme.

The provision of advice by an agency to the SA Government on potential options and corresponding risks is only one element of the necessary steps to be completed in justifying an expenditure initiative. Further formal analysis is required to evidence a sound basis for the SA Government committing to a particular initiative, including:

- demonstrating the service need for the initiative
- demonstrating the likely net benefits of the initiative (eg compared to a baseline 'do nothing' option)
- explanations for how all identified major risks will be addressed
- a sound basis for prioritising options

- sufficient information and evidence to demonstrate the accuracy and plausibility of the assumed wider economic benefits of the initiative.

We recommend that a formal business case be prepared prior to an SA Government decision being made to proceed with any projects, schemes or initiatives that will incur the expenditure of significant public money. This includes projects, schemes and initiatives instigated by Cabinet and Ministers through the budget process.

We note certain initiatives are identified and developed under significant time pressures to meet the requirements of the SA Government. Further, DTF advised that there are other practicalities impacting how the budget is constructed, including:

- the budget usually delivers a package of interrelated initiatives
- there are multiple layers of advice given to the SA Government during the process
- in-depth discussions during the budget process that are often verbal and not documented
- a specific initiative is usually a part of a broader range of measures.

In our view, these factors themselves do not invalidate the need to perform and formally document proper and comprehensive business case analysis relative to the value and risk of the public initiative being considered.

As part of addressing these factors, DTF should consider how the practicalities of the budget process can be resolved to enable the preparation of sound business cases for all significant initiatives.

DTF responded that it supports business cases being prepared and incorporated into budget decision-making processes. DTF will support and pursue this where possible.

DTF also noted that:

- there are unique and practical constraints in the budget process that constrain the ability to undertake a business case for every proposal the SA Government seeks advice on
- as part of the budget process, DTF can be asked to provide advice on numerous options for consideration by the SA Government. Generally, the options that the SA Government asks DTF to work up during a budget process are specific and reflect a particular need being considered by the SA Government having regard to the overall budget. These requests for confidential advice are normally sought within tight time frames. This was the case with the JAG scheme
- when the SA Government seeks advice on a particular option, issues and risks with the option that need to be considered are identified and addressed as well as the costs of the option. In instances where DTF identifies a potentially more efficient solution to address the SA Government's underlying issue, DTF will also provide alternative options for the SA Government's consideration. As the SA Government works through the option(s), the option is developed, including how to make it a robust and efficient measure

- the SA Government is currently undertaking a review of all Treasurer’s Instructions and is seeking to update Treasurer’s Instruction 17 ‘Valuation of and Approvals to Proceed with Public Sector Initiatives’ (TI 17) to make it clearer the instances where a business case is required and where it is appropriate to respond to a request for information only.

4.3.6.3 Gaps in the analysis of expected benefits for scheme options identified

The DTF options briefing paper indicated there is a natural churn of employees between companies within the labour market, with some companies reducing employment levels and others increasing them. DTF analysis indicated the level of churn is much higher than net employment growth (ie at the whole-of-economy level, increases in employees in one business may be offset by decreases in employees in another). As a result, grants and payroll tax rebates paid may not necessarily reflect new jobs added to the economy. The options briefing paper also noted that:

- employer hiring decisions will be primarily influenced by whether there is sufficient demand for their product/service to justify the additional labour
- the size of the payroll tax rebate or grant may also not be of sufficient size to trigger a change in hiring behaviour.

The DTF options briefing paper indicates it is likely that most of the rebates or grants will fall to employers who would have hired additional employees regardless of the existence of the rebate or grant.

We noted the advice provided to the SA Government did not include formal analysis of expected outcomes for each identified option in the following areas:

- overall new jobs expected to be added to the State economy after accounting for the churn between employers
- expected changes in hiring behaviour
- impacts on business confidence in the State
- impacts on State economic activity and unemployment levels.

The provision of additional information and analysis in these areas would be expected to be relevant and helpful to decision-makers in assessing the expected benefits and outcomes of identified options and in determining whether there was value in proceeding with any of the options.

We recommend that business case analysis performed for future significant SA Government initiatives, regardless of how they are instigated, captures all necessary information and analysis required to fully understand the expected benefits and outcomes of identified options. This may require analysis of impacts on State economic activity and employment levels.

DTF responded that:

- it supports considered business cases being prepared to support public expenditure of funds on key initiatives

- in the context of the JAG scheme, DTF identified a range of risks that required consideration by the SA Government before proceeding. DTF noted the observation that further economic modelling could have been conducted to determine the broader economic impacts of the scheme. DTF seeks to ensure that the SA Government has access to comprehensive information on the impact of initiatives throughout the budget process to make an effective decision within practical constraints
- as noted above, DTF will seek to update TI 17 to make it clearer where a business case is required.

4.3.6.4 Formal strategies not developed to address risks identified in the scheme options analysis

DTF's response to the requested advice as part of the budgetary process highlighted a number of considerations for each of the identified options. They included:

- whether FTE levels have dropped below required levels over periods of time may be particularly difficult to monitor and enforce
- an employer's hiring decisions will be primarily influenced by whether there is sufficient demand for their product/service to justify the additional labour and hence it is likely that most of the rebate or grant payments will fall to employers who would have hired additional FTEs regardless of the existence of the rebate or grant
- the size of the payroll tax rebate or grant may not be of sufficient size to trigger a change in hiring behaviour
- there is natural 'churn' of employees between companies within the labour market, with some companies reducing employment levels and others increasing them. The level of churn is much higher than net employment growth
- information on the number of employees is not currently collected as part of payroll tax returns. Further work would be required to determine appropriate administration arrangements for the scheme and potential costs.

These considerations were, in effect, risks that might prevent the proposed options from meeting the SA Government's policy objective of supporting businesses to grow and create new employment opportunities.

We noted no formal analysis or other documentation was prepared explaining the rationale for the acceptance of these risks or evidencing how they would be managed through the design of the eligibility criteria and corresponding administrative controls.

DTF advised us that an SA Government decision was made to proceed with the scheme with knowledge of these risks.

For future initiatives evaluated by DTF, we recommend the preparation of a risk management plan addressing all risks identified for the preferred solution in the business case or options analysis. This risk management plan should reflect the rationale for the acceptance of risks where applicable.

DTF responded that it accepted the recommendation.

DTF noted that in the context of the JAG scheme, identified risks were considered as part of the development of the eligibility criteria. Where possible, eligibility requirements and scheme rules were developed to minimise potential risks identified.

4.3.6.5 The business employment support scheme initiative was not evaluated in line with Treasurer's Instruction 17

TI 17 and the supporting guidelines contain important principles to support a comprehensive and robust investment evaluation process that facilitates sound and accountable decision-making on the use of public money.

DTF advised that TI 17 and supporting guidelines are generally intended to be applied to stand-alone large projects mainly in the infrastructure area. DTF also commented that TI 17 is not intended to apply to a specific request for information from the SA Government on possible options as part of the budgetary process. As a result, no specific work was performed to ensure the advice complied with each element of TI 17 and the supporting guidelines.

We note the options presented by DTF to the SA Government ultimately resulted in an initiative involving the expenditure of public money when it was approved by the SA Government as the JAG scheme. We consider the JAG scheme is an initiative that should be evaluated consistently with TI 17.

We also note that in our experience, through reviews of a variety of initiatives and projects across the public sector, there are different interpretations across agencies about the relevance and appropriate application of TI 17 and supporting guidelines.

We recommend DTF review TI 17 to clarify its applicability in all situations, such as budget processes and requests for information from Ministers. This review should consider any practical matters that may cause compliance issues for agencies. Any proposed changes to TI 17 should also continue to support a comprehensive and robust investment evaluation process for significant expenditure initiatives.

Following this review, a formal communication should be issued both within DTF and across all public sector agencies clarifying the application of TI 17 and supporting guidelines.

DTF responded that it accepted the recommendation. The SA Government is currently undertaking a review of all Treasurer's Instructions. It is intended to review TI 17 to make it clearer where a business case is required.

4.3.6.6 Performance reporting may not capture all information required to evaluate whether the JAG scheme is providing value for money and meeting its objectives

It is important that performance reporting is clearly linked to JAG scheme objectives to effectively assess whether the investment in the scheme provides value for money. The importance of regular, specific and comprehensive performance reporting on the scheme is heightened given the substantial expenditure commitment involved.

The regular performance reporting on the JAG scheme in 2017-18 detailed:

- the number and cost of grants paid to date
- the number of positions registered to date and the potential cost of those positions.

DTF also advised that JAG claim and administration costs are monitored on an ongoing basis and cost estimates for the remaining life of the scheme have been revised as part of the 2018-19 Budget process.

We noted there was no formal, regular, ongoing performance reporting specifically capturing the following information on how the JAG scheme was tracking against its objectives and budget:

- the actual number of FTE positions claims had been paid for against the 14 000 FTE target set in the 2016-17 Budget
- overall scheme costs compared to budget (ie claim costs and scheme administration costs).

As a result, stakeholders may not have had the information they required on an ongoing basis to assess whether JAG scheme objectives had been met and delivered within budget.

We also noted the following information, which is not currently available, may be useful to stakeholders in assessing the value of the JAG scheme and whether its objectives have been met:

- overall new jobs added to the State economy since the commencement of the scheme after accounting for the churn of employees between employers (ie net employment growth)
- impacts of the scheme on hiring behaviour (ie whether the grant has induced employers to take on new employees or whether the new employees would have been taken on irrespective of the grant)
- impacts of the scheme on State economic activity and unemployment levels.

This information could be captured through the conduct of a post-implementation review consistent with the requirements of the Guidelines for the Evaluation of Public Sector Initiatives issued under TI 17.

DTF responded that:

- there is ongoing review of JAG scheme costs and grants paid in line with the practice for other taxes and tax related expenditure lines. This includes jobs created through the scheme
- additional reporting was also conducted for the JAG scheme in the earlier stages to monitor applications and provide information on the take-up of the scheme by businesses
- the appropriateness of ongoing monitoring arrangements will continue to be reviewed as the scheme progresses to make sure it accurately captures the information required for effective monitoring and evaluation.

4.3.6.7 JAG scheme administration

Our audit identified areas where RevenueSA could improve its procedures, practices and internal controls over JAG scheme administration.

4.3.6.8 Opportunities for additional compliance activities

Our review identified areas where additional compliance activities would provide greater assurance that certain JAG scheme eligibility criteria were met, and further mitigate compliance risks identified by RevenueSA. This includes obtaining additional assurance over the following eligibility criteria which are important to the overall objectives of the scheme:

- the total number of FTEs must not fall below the number employed at the time of taking on the additional employee(s) for more than 60 days in total during the year
- employees must have worked a minimum of 35 hours per week to be eligible for the full standard grant and 22 hours per week for the small business grant
- the job claimed for must not have existed in the business in the previous 60 days
- grants for part-time employees must be based on the calculation of average hours during the previous 12 months
- the employee must be a South Australian resident.

These additional compliance activities could be targeted towards specific businesses and claims using a risk-based approach.

RevenueSA responded that a greater level of compliance activities will be performed based on a risk assessment for each grant application. For higher risk applications, further evidence to support the claim will be obtained. Applications will be considered higher risk if they are for businesses that:

- have made multiple claims with multiple start dates in one year
- are in industry sectors that have been identified as having high levels of employee turnover
- have a large number of part-time and casual employees with highly variable working hours.

To improve the process further, RevenueSA will also modify the JAG approval checklist. The checklist will include identification of higher risk claims and the additional compliance activities undertaken for higher risk applications.

RevenueSA plans to implement these changes by 30 September 2018.

4.3.6.9 Insufficient documentation provided by applicants to substantiate start dates for new jobs

The wage records provided to substantiate new jobs did not always specify the employee's job start date. As a result, RevenueSA was not able to ascertain exactly when new jobs commenced and if employment had been maintained for the required period of time.

RevenueSA responded that individual applications will be assessed and if required, on a risk basis approach, additional supporting documentation on actual start date including payment summaries will be requested prior to making payments.

RevenueSA plans to implement these changes by 30 September 2018.

4.3.6.10 Prompts and guidance could be improved to increase applicant awareness of grant eligibility criteria and supporting documentation required

There are opportunities to improve the prompts and guidance provided to applicants to increase their awareness of certain specific grant eligibility criteria and improve the quality of information provided to RevenueSA.

These additional prompts and guidance could reduce the time spent by RevenueSA in following up additional information and supporting documentation.

RevenueSA responded that as the JAG scheme is notionally closed for registrations for new job starts, no amendments to prompts and guidance will be made in the RevenueSA Online system in respect of the JAG scheme. For future grant programs, RevenueSA will consider providing additional guidance where required.

4.4 New Royal Adelaide Hospital update

4.4.1 Background

The new RAH project achieved commercial acceptance on 13 June 2017. In September 2017 patients were moved from the old RAH to the new RAH and full operations at the new facility commenced.

While the new RAH commenced full operations in September 2017, a number of outstanding works, action items, defects and modifications needed to be completed and/or resolved after opening. Some of these works, action items and other matters remain outstanding.

Since the opening and commencement of operations there have been a number of disputes relating to the operation of the hospital. Further, Spotless (Celsus' facility management subcontractor) has submitted to Celsus and the State a proposal seeking new commercial arrangements.

In June 2018, Celsus and the State entered into a Process Suspension Deed to attempt to resolve disputes and other matters affecting the operations and full availability of the new RAH. The Process Suspension Deed also provided for reviewing Spotless's commercial proposal. In June 2018, Celsus and Spotless also entered into a Process Suspension Deed in respect of their facilities management subcontract.

4.4.2 Status of the new RAH project budget

The total budget for the new RAH project is \$2.432 billion.¹⁰ It comprises the nominal construction cost by Celsus (\$1.85 billion) and State funded works (\$582 million).¹¹

As at 31 July 2018 the State funded works budget has yet to be fully expended. For State funded works, SA Health advised that the inception to date spend is \$553 million and the forecast expenditure is \$579 million.

4.4.3 Outstanding matters

As noted, the new RAH opened in September 2017. At that time there were a number of outstanding matters including:

- outstanding defects and other disputes
- works and action items not completed at technical completion and/or commercial acceptance that remained outstanding
- modifications that had not been completed and/or closed out, including determining the final costs to the State
- legal proceedings initiated by the builder.

Outstanding defects

In February 2016 the State issued Celsus with five defect notices. Celsus passed these defects on to the builder.

The State is still in arbitration proceedings to determine the compensation payable to the State for the five builder defects. These proceedings also involve confirming the existence of one of the builder defects and extent of one of the other builder defects.

In addition, there are a number of other defects that Celsus is currently rectifying. These include:

- duress alarm system
- technical suite corridor air conditioning vent
- asset tracking
- patient tagging system
- wireless location system
- nurse call audible chime
- dermatology baths.

¹⁰ This excludes \$35 million paid to Celsus for the State's share of delay costs paid under a Deed of Settlement and Release entered into in September 2015. For further details on this payment refer to my Supplementary Report for the year ended 30 June 2017 'New Royal Adelaide Hospital: March 2018', section 6.2.1.

¹¹ Financial data obtained from SA Health management reports, 'Financial Summary' as at 31 July 2018, presented to the PPP Management Committee.

Further, there are two defect notices issued by the State that are disputed by Celsus. Both relate to the Mental Health Unit and comprise seclusion room locks, and shading, privacy and lighting.

Commercial acceptance outstanding items (CA OIL items)

At commercial acceptance there were a number of incomplete works and items that the State and Celsus agreed were to be included in the list of CA OIL items. There were 59 CA OIL items to be addressed.

At the time of this Report SA Health advised there were 13 CA OIL items that remained outstanding. The more significant include:

- resolution of contractual responsibility for the provision of environmental and equipment monitoring systems and associated services for pharmacy and pathology
- ICT readiness including demonstration of business continuity and disaster recovery processes and the configuration and functionality of Celsus ICT systems, and building management system altering and reporting
- matters that the State believes impact on the fit for intended purpose warranty provided in the Project Agreement including portable handsets, the duress alarm system and the electrical distribution system.

The State and Celsus have agreed to work towards completing the remaining CA OIL items, including issuing the final technical completion and commercial acceptance reports by 30 September 2018 in line with the Process Suspension Deed agreed in June 2018. This deed is discussed further under section 4.4.5.

Modifications

At the time of this Report a number of matters remain outstanding for day one modifications. These include:

- the State considering its position on whether certain modification works may constitute rectification of a defect
- Celsus submitting, for consideration and agreement by the State, recurrent costs/savings for some modifications.¹²

Legal proceedings initiated by the builder

In August 2017 the builder initiated legal proceedings in the Federal Court against Celsus, the Independent Certifier and the State for alleged breaches of contract and other matters relating to the construction of the new RAH.

¹² Recurrent costs comprise lifecycle costs (replacement costs including parts/components) and service costs (costs of planned preventative maintenance).

Each of the respondents to the Builder's Federal Court proceedings issued applications to stay the proceedings on the basis that the proceedings relate to disputes that are contractually required to be resolved by arbitration. In December 2017 the respondents successfully obtained a stay of proceedings until arbitration has been concluded.

SA Health advised that in June 2018 the builder commenced arbitration proceedings against Celsus. Celsus in turn commenced proceedings against the State and the Independent Certifier in July 2018. The proceedings have not substantially progressed since that time.

4.4.4 Significant facility failures since operational commencement

A number of failures have been sustained by the new RAH since commencement of operations. These included failures of the central cooling water system (30 November 2017 and 6 January 2018) and a power outage (7 February 2018).

Rectification works are underway for these failures and form part of the June 2018 Process Suspension Deed.

4.4.5 Process suspension deeds entered to resolve issues arising from operating the facility

The Project Agreement includes an abatement regime to reduce the quarterly service payments for failure by Celsus to deliver the services in line with the requirements and minimum standards set out in the Services Specification.

The State has calculated significant abatements. Celsus has disputed the abatements applied by the State to the quarterly service payments.

In November 2017 the State and Celsus entered a Process Suspension Deed (the November 2017 Suspension Deed) to enable the parties to work cooperatively to resolve disputes relating to the application of abatements at that time. It temporarily suspended, until 9 February 2018, dispute resolution processes provided for in the Project Agreement and the State's right to apply abatements.

The State and Celsus were unable to resolve the disputes prior to the expiry of the November 2017 Suspension Deed.

Spotless, the company subcontracted by Celsus to deliver operational services, advised that its facilities management subcontract with Celsus is cash negative and underperforming. In May 2018 Spotless submitted to Celsus and the State a Reset Proposal which outlined the issues Spotless claims that it faced in delivering the services and proposed new commercial arrangements.

In June 2018 the State and Celsus entered a second Process Suspension Deed (the June 2018 Suspension Deed) in an attempt to resolve:

- abatement application disputes

- other disputes
- specific matters affecting the operation and full availability of the new RAH.

The June 2018 Suspension Deed also:

- temporarily suspends, until the September 2018 quarterly service payment is paid by the State to Celsus (due by 19 November 2018), dispute resolution processes provided for in the Project Agreement and the State's right to apply abatements other than if a significant failure occurs at the new RAH
- provides for the review of the Spotless Reset Proposal.

4.4.6 Further reporting on the new RAH project

I intend to table a further Report on the new RAH project. It will provide observations on the arrangements implemented by the State to manage the Project Agreement for the operating term, along with further commentary on the June 2018 Suspension Deed.

4.5 Contract extensions and single offer market approaches

The SA Government contracts out a large amount of work to private companies for outsourced service contracts and the provision of general goods and services. SA Government procurement is generally undertaken within a framework established by the State Procurement Board for the provision of goods and services.

The total spend on goods and services reported by public authorities to the State Procurement Board for 2016-17 was approximately \$4.9 billion. According to the reporting to the State Procurement Board, in 2016-17:

- 39% of contracts, accounting for 89% of contract value, were awarded through competitive processes
- 47% of contracts, accounting for 7% of contract value, were awarded through direct negotiation.

4.5.1 State Procurement Board review of procurements through direct negotiation

The State Procurement Board commissioned a review of the use of direct negotiation by public authorities in 2017-18. This review found that 48% of 4829 contracts awarded over the last three years were through direct negotiations.

The total value of these contracts, \$952 million, made up 12% of the dollar value of all contracts for the same period. The report identified that 79% of the directly negotiated contracts were a result of limited competition in the market or the need for compatibility with existing goods and services.

The review did not find evidence of misuse of the direct negotiation approach.

4.5.2 Review of contract extensions and single offer market approaches

In 2017-18, we reviewed the frequency of contract extensions and single offer market approaches at six large agencies to determine whether SA Government agencies had implemented processes to achieve the procurement objectives of:

- obtaining value in the expenditure of public money
- providing for ethical and fair treatment of participants
- ensuring probity, accountability and transparency in procurement operations.

Overall our review identified agencies had good processes in place to achieve these procurement objectives.

However, we identified that processes and controls could be improved at two of the agencies reviewed.

In the first agency we found:

- three instances where the justification for direct negotiations was not well documented, or indicated a short time frame was the justification for the direct approach (which may have been avoided with better planning)
- two examples of contracts that had terms extended, with significant increases in contract cost, without a market approach. Extension options were exercised in both cases on the basis of ensuring continued service provision
- further guidance could be included in policies and procedures about the expectations for documented justification of a direct negotiation approach.

In the second agency we found:

- examples of service arrangements that continued beyond the contractual term
- a contract that had been extended multiple times due to delays in running a market procurement process
- a contract for which a competitive procurement approach had been waived due to limited time being available
- the agency did not have an up-to-date and reliable contract register.

This agency responded that it would implement new reporting processes and communicate the importance of appropriately justifying a direct negotiation approach to relevant staff.

Where competitive processes are waived without appropriate justification there is an increased risk that the SA Government may not receive value for money. Continuing contractual arrangements beyond the contracted term without a formal extension in place may also impact the SA Government's ability to manage contractual obligations and conditions.

4.6 Information technology general controls (ITGCs)

4.6.1 Introduction

This section provides a summary of some of the ITGC testing we conducted over key agency financial systems for 2017-18.

ITGC are policies, procedures and system settings that support the effective functioning of operating system, database and application controls. They also help agencies to maintain the confidentiality, integrity and availability of their data.

Our summary is made up of ITGC testing conducted over six agencies and 12 system environments. Although this summary does not include all agency ITGC testing conducted in 2017-18, it does provide an indication of the general themes where control weaknesses exist. It also intends to provide all agencies with relevant information they can use to make informed decisions to help improve their overall control environment.

In 2017-18 DPC also commissioned a report titled 'Top 10 Cyber Resilience review'. It is discussed in detail in section 4.7.2. Some objectives of this report covered aspects of agency ITGCs.

4.6.2 Conclusion

Most of the control deficiencies identified from our ITGC reviews were related to user access, password and change management. These deficiencies accounted for 67% of the total findings.

Most findings were medium¹³ and low¹⁴ rated, with only three rated as high.¹⁵ The high rated findings related to user access and passwords. The medium and low rated issues were consistent across the summary of ITGC categories. Section 4.6.5 of this Report provides further details of each finding.

It is disappointing to note that our ITGC reviews regularly highlight these types of control deficiencies each year. I therefore encourage all agencies to be more diligent in addressing these control weaknesses as part of their routine security housekeeping.

4.6.3 Background

The PFAA requires the Auditor-General to form an opinion on agency financial reports. In forming an opinion on whether a financial report is free from material misstatement, the auditor must consider the agency's internal control environment. Internal controls are systems, policies and procedures that help an agency reliably and cost effectively meet its objectives. For the agencies I audit, I consider ITGCs to differing degrees, depending on the nature of the agency's operations and the way it uses IT.

¹³ Medium rated is a control weakness that could have or is having a moderate adverse effect on the ability to achieve process objectives.

¹⁴ Low rated is a minor control weakness with minimal but reportable impact on the ability to achieve process objectives.

¹⁵ High rated is a control weakness that could have or is having a major adverse effect on the ability to achieve process objectives.

Auditing Standard ASA 315 ‘Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment’ advises that ITGCs commonly include controls over:

- data centre and network operations
- system software acquisition, change and maintenance
- program change
- access security
- application system acquisition, development and maintenance.

Therefore, we seek to understand how agencies respond to risks arising from their IT environments and assess any controls applied. Ultimately, this will inform my opinion as to whether the information in the financial report is free from material misstatement.

4.6.4 What we reviewed

In 2017-18 we tested ITGCs for a range of agencies and their IT systems.

Figure 4.1: Summary of agencies and systems tested

Agency	System	Description
Department for Child Protection	Connected Client and Case Management System (C3MS)	Used to record notifications of child abuse or neglect and track cases of vulnerable children.
Department for Education	Valeo	Payroll processing and other human resource functions.
Department for Environment and Water	Masterpiece	Used for accounts payable, accounts receivable, general ledger and fixed assets.
Department for Health and Wellbeing	Oracle Corporate System and the Enterprise Patient Administration System	Oracle Corporate System is used for accounts payable, accounts receivable, general ledger and fixed assets. Enterprise Patient Administration System is used for patient registration, admission, discharge and transfer, patient billing, waitlist management and patient flow and clinical management for patient medical records.
Department of Planning, Transport and Infrastructure	Masterpiece, Metrocard and TRUMPS	Masterpiece is used for accounts payable, accounts receivable, general ledger and fixed assets. Adelaide Fare Collection system (Metrocard) is used for collecting revenue, tracking ticket validation and contract management. TRUMPS is used for collecting revenue mainly related to drivers licences and motor registration.

Agency	System	Description
Department of the Premier and Cabinet	Basware, Masterpiece, CommBiz and Chris21	<p>Shared Services SA uses a number of central systems to process transactions on behalf of agencies. These include:</p> <ul style="list-style-type: none"> • Basware, used to process accounts payable transactions • Masterpiece, used to process agency general ledger entries • CommBiz banking, used for disbursing payroll and third party payments • Chris21, used to process agency payroll payments.

Specific details of the issues we raised for these systems is provided in Part B of this Report under the section for each agency.

In testing these systems, we examined the following ITGCs at the operating system, application and database level.

Figure 4.2: Summary of ITGC we reviewed



Password management

Passwords are a common means of verifying a user's identity before access is given to an information system or service according to the user's authorisation.



User access management

User access management relates to the process of managing access to applications and data, including how access is approved, revoked and periodically reviewed. This helps to ensure that access is aligned with staff roles and responsibilities and prevents unauthorised access to information systems. It includes appropriately restricting and monitoring privileged access permissions, which have a heightened level of access to alter user access profiles and make system changes.



Audit log management

Audit logging and monitoring of the ICT environment involves the recording and analysing of system and user activities to detect and respond to unusual events within the system.



Change management

Change management is a systematic and standardised approach to ensuring all changes to the IT environment are appropriate, authorised and preserve the integrity of the underlying programs and data.



Patch management

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



Backup management

Backup management refers to the process of managing the copying of computer data to an archive file. This copy can then be used to restore the original data in the event of data corruption or data loss event



Disaster recovery

Disaster recovery is a documented process, or set of procedures, to assist in the recovery of an organisation's ICT infrastructure in the event of a disaster.

4.6.5 What we found

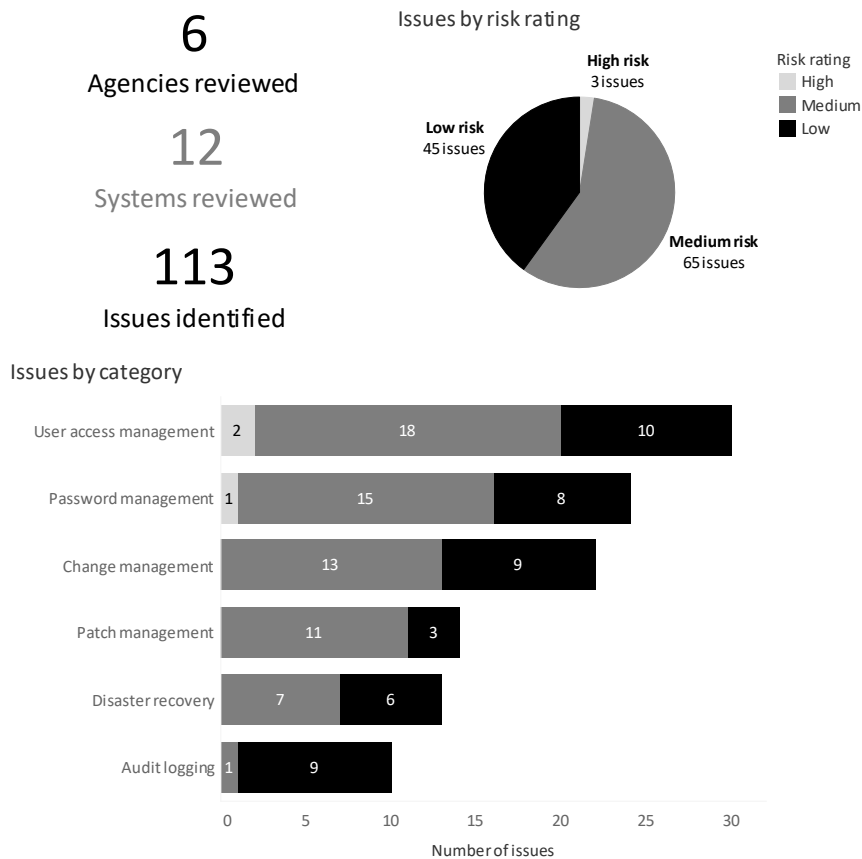
Based on our testing in 2017-18, figure 4.3 summarises the key control areas that could be strengthened.

The rating of audit issues reflects our assessment of both the likelihood and consequence of each identified issue in terms of its impacts on:

- the effectiveness and efficiency of operations, including probity and compliance with applicable laws
- the reliability, accuracy and timeliness of financial reporting.

The rating also helps management to prioritise remedial action.

Figure 4.3: Summary of our findings



4.6.6 Details of findings

All our testing involved performing system walk-throughs with agency representatives and obtaining relevant policies and procedures. The walkthrough is to get a better understanding of the agency’s IT environment and to evaluate the design of the controls and if they are capable of being tested for effectiveness (that is, the controls exist and evidence can be obtained to test their effectiveness).

4.6.6.1 User access management

Why we reviewed it

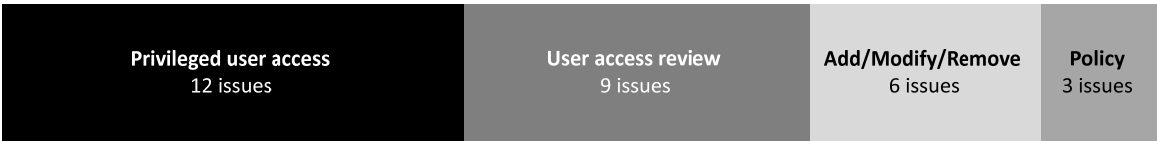
Weaknesses in user access management controls can result in inappropriate and unauthorised access to business systems. This can impact the completeness and accuracy of financial information through the destruction of data, improper changes to data or inaccurate recording of transactions.

What we reviewed

We reviewed the user access management policies and procedures that apply to key financial systems. Specific processes used for our testing purposes included assessing processes applied for user access changes, user roles and responsibilities and profile configurations (for example, assessing whether a new user requires the completion and approval of a user access form before the account is created).

Our testing involved selecting a sample of user accounts and obtaining evidence of the addition, modification and removal of these user accounts and profiles. We also confirmed the appropriateness of privileged user accounts and obtained evidence of recent internal user access reviews and their outcomes.

Figure 4.4: Summary of user access management findings



The two high rated findings noted in figure 4.3 related to conflicts in the segregation of duties of business roles and responsibilities and the identification of active privileged user access that was assigned to terminated employees.

Most findings within these categories related to:

- inappropriate assignment of privileged user access
- insufficient evidence maintained of user access changes (add and modify) and lack of timely removal of user access
- either not performing regular internal user access reviews or not actioning the required changes highlighted from each review.

4.6.6.2 Change management

Why we reviewed it

Weaknesses in change management controls can result in poorly tested, inappropriate or unauthorised changes to business systems. This can impact the completeness and accuracy of financial data and the correct functioning of the system.

What we reviewed

We reviewed the policies and procedures that apply to making system changes to financial system environments. This was to understand the process applied to make system changes, including where change requests originate from, oversight and approval mechanisms, if changes can be made within the business or require the assistance of an external vendor, and the roles and responsibilities of each applicable party.

Our testing also involved selecting a sample of changes and obtaining evidence of system changes to determine if they have been appropriately tested, approved and migrated into the production environment.

Figure 4.5: Summary of change management findings



Most findings within these categories related to:

- inadequate change management policy and/or procedure documents
- inadequate documentation in the change management system to confirm what activities were conducted in each change, including evidence of user acceptance testing
- the agency's consolidated change register not listing all production changes.

4.6.6.3 Password management

Why we reviewed it

Weaknesses in password configuration settings may make it easier for a user account to be maliciously compromised, thus allowing unauthorised access to business systems and data.

Examples of weak password configuration settings include:

- not forcing users to regularly change their password
- not forcing users to change their password to something not previously used
- the minimum password length is too short

- not forcing users to add a number, uppercase letter or special character to their password
- not setting a limit on how many times a user can enter an account password incorrectly before access is denied.

What we reviewed

We reviewed password management policies and procedures to determine if agencies specified minimum password standards that their system owners must apply when configuring the password settings for their IT systems.

We compared the password settings of each tested system applied at the application, operating system and database level for in-scope financial systems against the configuration settings suggested in the Commonwealth Government Information Security Manual and the agencies' password standards (if specified).

Figure 4.6: Summary of password management findings

Operating system password settings 9 issues	Database password settings 6 issues	Application password settings 6 issues	Policy 3 issues
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The high rated finding noted in figure 4.3 related to password configuration settings, particularly complexity and minimum password length.

Most findings within these categories related to:

- weaknesses or inconsistencies in password configuration settings identified across various agency applications, databases and operating systems
- lack of general password policy or insufficient detail within the password policy
- inadequate regular review of the agency's password policy.

4.6.6.4 Audit logging

Why we reviewed it

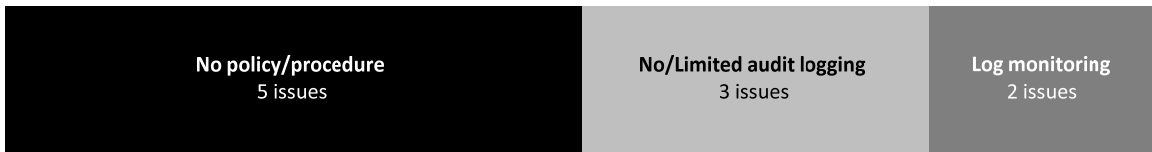
Weaknesses in system audit logging and monitoring increases the risk of inappropriate and unauthorised activities within the system going undetected. A lack of an effective audit trail reduces the likelihood that inappropriate activity can be traced back to an individual.

What we reviewed

We reviewed agency policies and procedures for audit logging to confirm the approach and extent of audit logging being performed.

We then obtained evidence that audit logs, primarily for privileged user account activities, are maintained, restricted and periodically reviewed.

Figure 4.7: Summary of audit log management findings



Most findings within these categories related to:

- instances where no formal audit logging policy and procedures were maintained
- limited or no audit logging conducted across the application, database, operating system and infrastructure
- lack of regular review of audit logs.

4.6.6.5 Disaster recovery

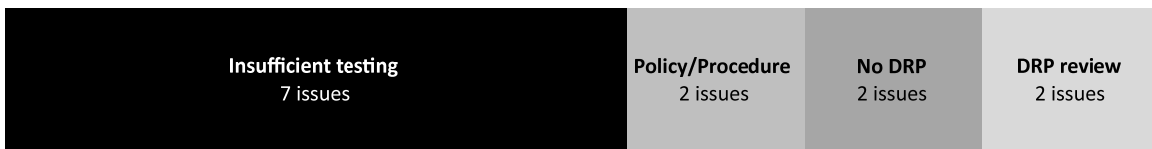
Why we reviewed it

IT disaster recovery weaknesses may result in agencies not being able to recover key business system within maximum allowable outage times¹⁶ in the event of a disaster or system failure. In addition, the completeness and accuracy of financial data is at risk when a financial system experiences an interruption.

What we reviewed

Our testing involved identifying if a disaster recovery plan (DRP) and associated procedures to recover have been established and have been adequately tested.

Figure 4.8: Summary of disaster recovery findings



Most findings within these categories related to:

- insufficient disaster recovery testing conducted across the application and database
- no formal DRP or associated procedures have been developed
- lack of regular review of the DRP.

4.6.6.6 Patch management

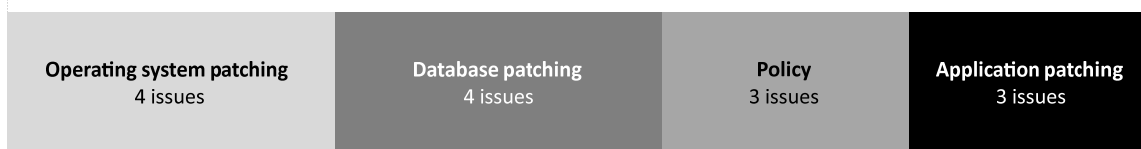
Not patching IT systems at the operating system, database and application level increases the opportunity for attackers to exploit known vulnerabilities. Patching is also used to provide system functionally updates and fix defects.

¹⁶ The maximum allowable outage time is the maximum time that an agency can tolerate the disruption of an important business function before there is a significant impact on its operations.

What we reviewed

We reviewed the policies and procedures for patch management. Where appropriate, we selected a sample of patches applied to the application, database and operating system. Our testing involved obtaining evidence of a recent patching assessment and ensuring that patches were subject to a formal risk assessment before being implemented.

Figure 4.9: Summary of patch management findings



Most findings within these categories related to:

- inadequate patch management processes for specific application, database and operating systems
- instances where no formal patch management policy and procedures were developed.

4.6.7 Agency responses

Agencies generally responded positively to our findings with details of remediation time frames.

4.7 Information and cyber security

4.7.1 Background

Information security refers to processes and methodologies designed and implemented to protect any form of confidential, private and sensitive information from unauthorised access, use, disclosure, disruption, modification or destruction.¹⁷ There are a number of frameworks and best practice guides for information security.¹⁸

The SA Government has developed 10 cyber security resilience and preparedness objectives (the Top 10). These objectives are an across-government guide for all participating agencies. They highlight areas of control focus with the greatest impact on reducing the risks to agencies' ICT systems and enhancing system resiliency. They also aim to provide a cyber security posture that has the ability to withstand and recover rapidly from any disruptions that may occur, at any given time.

We note the top 10 objectives, summarised in figure 4.10, include some aspects of ITGCs referred to in section 4.6.4, notably restricting administrative privileges and patching operating systems and applications.

¹⁷ Sans Institute, 'Information Security Resources', <<https://www.sans.org/information-security/>>.

¹⁸ For details of some of these frameworks and best practice guides, refer to our Supplementary Report for the year ended 30 June 2016 'Security management of information systems: November 2016'.

Figure 4.10: Summary of Top 10 objectives

Top 10 objective	Details
Administrative privileges	Overall reduction, better management and reporting across government
Embed information security governance	Embed information security within corporate governance arrangements, increased accountability and informed decision making
Cyber security incident management	Increasing our capabilities, improving accountability, reporting and oversight
Information classification	Understanding the value of information and applying protection efforts accordingly
Patching applications	Better management of applications and software to reduce opportunity for attackers to exploit known vulnerabilities
Patching operating systems	Reducing the opportunity for attackers to exploit known vulnerabilities
Web server and application security	Increasing resilience and better visibility, management and control
Penetration testing	Improved resilience of existing and new websites and web applications
Information Security Management Framework (ISMF) ¹⁹ progression	Expanding scope to include information assets that are important to the business and personally identifiable information
Protecting the end user environments	Reducing the likelihood and effectiveness of cyber intrusions and automatic compromise techniques

Agencies are required to self-report their progress in implementing the Top 10 objectives to the Office for Cyber Security on a six-monthly basis.²⁰ The Office for Cyber Security is part of DPC.

4.7.2 Department of the Premier and Cabinet’s cyber security review

In October 2017, the Office for Cyber Security commenced an independent in-depth review of SA Government cyber security resilience, across all SA Government agencies.²¹

In a communication to all SA Government chief executives, DPC advised that this review aimed to:

- evaluate the effectiveness of SA Government agencies’ six-monthly self-reporting method to the Office for Cyber Security, on their Top 10 cyber security control progression

¹⁹ The ISMF is a risk-based approach that aligns with the Australian Government’s Protective Security Policy Framework and ISO 27001. It addresses the SA Government’s cyber security requirements, which agencies must comply with.

²⁰ Details of how this initiative was established was discussed in our Supplementary Report for the year ended 30 June 2016 ‘Security management of information systems: November 2016’.

²¹ DPC commissioned a report titled ‘Top 10 Cyber Resilience review 2018’.

- assess the budget, resource levels and skills, across government agencies which are required to address the cyber security needs of the State
- identify what appropriate measures are in place to protect the SA Government, including protection processes and controls and ascertaining any gaps
- identify that measures are in place to enable appropriate levels of incident response capability with SA Government
- identify challenges facing the SA Government, in its ability to achieve an uplift in our cyber security posture.

Some of the key conclusions from the resulting report were as follows:

- The maturity of some cyber security controls were low, including:
 - the lack of consistent and approved cyber security related policies and procedures, including those for patching, penetration testing, password management and user access and privilege user management
 - smaller agencies having significantly less suitable technical resources available to assess and address key security control gaps. As a consequence, for these agencies there is a greater reliance on external service providers to implement sufficient controls
 - an inconsistent approach across agencies to restrict administrative access, with generic service or application privileged accounts continuing to exist, and privileged accounts not subject to regular review
 - information asset classification and inventories, in particular specifying key business systems and data, continue to be outdated and/or unapproved
 - poor patch management, with identified incidents of threats and vulnerabilities not actively reported
 - application whitelisting not being deployed on a proportion of agency web servers as a means to prevent the execution of malicious code
 - poor security controls over workstations, mobile device management²² and monitoring of audit logs across agencies
- Agencies were perceived to be committed to improving their overall cyber security posture but identified a lack of budget, skilled resources, training, availability and timely reporting as barriers.
- Several agencies reported that the implementation of governance and technical control requirements was often de-prioritised due to active cyber security issues or other business initiatives.

²² Management of mobile devices such as smartphones and tablets. Before connecting to agency networks, certain security controls should be applied to avoid exposure or inappropriate transfer of sensitive agency data.

The report recognised that while agencies may have been deficient in several Top 10 security controls, a key recommendation was for DPC, as the lead agency for cyber security, to provide clearer direction and stewardships about agency cyber security and resilience. We were advised that this finding is supported by the South Australian Cyber Security Strategic Plan 2018-2021 issued by DPC in February 2018. The aim of this strategic plan is to outline key actions and priorities for the next three years. This includes the revision of the ISMF, which provides the primary policy direction for agencies regarding cyber security controls.

We compared the findings of this Top 10 cyber resilience review with our 2017-18 ITGC findings (refer to section 4.6). We noted that our findings were consistent and did not conflict with the outcomes of this review.

4.8 End user computing (ICT desktop outsourcing)

4.8.1 Introduction

The End User Computing (EUC) program seeks to transfer responsibility for supplying and maintaining ICT desktop equipment and devices from 17 SA Government agencies to a contracted private provider, DXC Australia Technology Pty Ltd (DXC).

An agreement between the SA Government and DXC for up to 10 years was signed in early February 2017. The estimated total cost if all in-scope agencies transitioned to this agreement for the full 10 years was \$394.2 million (GST inclusive).

Under the agreement, devices are purchased by DXC and leased to SA Government agencies. DXC provides application packaging and deployment services, migration to the Microsoft Windows 10 operating system environment and general IT support services for each leased device.

The EUC agreement was to be implemented in individual stages called tranches. The first tranche to transition to DXC was DPC and DHW. Implementation of the first tranche is still in progress.

At the time of our review we were advised that the implementation of future tranches to incorporate other agencies will only occur once DXC has successfully achieved all critical milestones for tranche 1 and also after consideration by the EUC program of a new EUC program business case.

4.8.2 Conclusion

The EUC program has not proceeded as planned and its future is unclear. Implementation is behind schedule, costs have increased and potential savings have been reduced.

A third party has been engaged to renegotiate the agreement with DXC to address the implementation issues identified and the program business case will have to be rewritten to address flaws in the original approved business case.

The EUC program will not be fully implemented to all in-scope agencies by February 2019 as originally planned.

4.8.3 Background

In July 2015, the State Procurement Board approved the DPC Innovative ICT transformation program. The aim was to improve the SA Government's ICT service delivery, deliver improved value for money and create new employment opportunities in the State. One subprogram was the EUC program. Other subprograms have since been discontinued or deferred.

Following an initial deferment of the EUC program, approval was granted by the DPC Chief Executive in early February 2017 to progress the first stage of the procurement to establish a whole-of-government desktop-as-a-service²³ initiative. This approval was subject to a range of conditions.

In February 2017, an arrangement was signed with DXC for a seven-year term. If all 17 in-scope agencies were implemented under this agreement, the estimated cost would be \$280.5 million (GST inclusive).

The arrangement provides the SA Government the right to terminate the contract on its fifth anniversary if more than three significant defaults occur in the previous year. There are also three 12-month extension options after the initial seven-year term.

The maximum term of the agreement is therefore 10 years. The estimated total cost if all in-scope agencies were transitioned for the full 10 years was \$394.2 million (GST inclusive).

For each individual tranche the program implements two subcomponents, called phases: transition and transformation. The transition phase covers the transfer of in-scope agency staff and EUC services to DXC. The transformation phase involves DXC providing the desktop services and ongoing administration. The program has stated that for the transformation phase DXC provides the EUC services using what they consider to be a new modern tool set, which incorporates the delivery of a Windows 10 environment. Prices per device paid by the SA Government reduce when a device is transformed.

Although the EUC agreement does not specify the time frames for each tranche and its phases, it was originally anticipated that implementation for all in-scope agencies would be completed by February 2019.

We were advised that any future tranches will be subject to DXC achieving all the critical milestones for the first tranche and the outcome of a new EUC program business case, which has not yet occurred. This approach would allow lessons learnt to assist with the rollout to other in-scope agencies.

²³ Desktop-as-a-service is typically a vendor hosted and managed end-to-end desktop service that accommodates both virtual and traditional desktops (desktop, laptops, tablets and other computing devices) using a variety of support management models. This service is usually provided on vendor supplied and managed assets.

4.8.4 What we reviewed

The objective of our review was to gain an understanding of the status and challenges associated with the EUC program.

In reviewing the EUC program, at the time of this Report, we were unable to access some key documentation. We were advised that these documents were linked to Cabinet submissions and regarded as Cabinet in confidence. This included the business case, revised cash model, benefit realisation and independent program reports. These documents may have provided additional relevant information to this commentary.

4.8.5 What we found

4.8.5.1 Delays in implementation

The EUC program incorporated multiple implementation tranches. The first tranche was restricted to DPC and DHW, with the implementation of the remaining in-scope agencies spread across other tranches.

The initial transition phase for the first tranche was scheduled for completion by early July 2017. Due to a number of problems it was not achieved until November 2017, with some activities not finalised until late-March 2018.

Following the transition phase, the transformation phase for both DPC and DHW commenced. Although there are some time frames specified for various transformation activities and milestones, at the time of this Report the full transformation schedule for both agencies was still being finalised. In particular, the implementation of DHW has had a number of challenges that have contributed to the delay in developing the schedule.

DHW's implementation problems²⁴ have included:

- the resourcing effort to migrate devices was under estimated
- DHW was required to upgrade various legacy applications²⁵ to allow connection to the new desktop devices to be compatible with Windows 10. This activity has been problematic.

As a consequence, to help address the connectivity issues, DXC was commissioned to provide possible options relating to the transformation and support of legacy applications on its virtualised platform infrastructure.²⁶ This additional activity has contributed to increased DXC work volumes and costs.

At the time of this Report, the approach to resolving this issue was being re-evaluated

²⁴ These challenges were reported to the EUC Program Steering Committee in a document titled 'SA Health EUC Transformation Status Summary April 2018'.

²⁵ A computer application or system that is outdated and needs either upgrading or replacing.

²⁶ Virtualisation refers to a virtual (rather than actual) version of something, including virtual computer hardware platforms, storage devices and computer network resources.

- resourcing limitations have existed between the EUC program and other DHW information technology projects
- an application upgrade to allow the integration of service management tools²⁷ between DHW and DXC continues to experience delays in implementation.

4.8.5.2 Budget overruns and increased costs

In March 2018, the EUC Program Steering Committee was presented with a report, produced in October 2017, remodelling the original program costs.

This report, summarised in figure 4.11, outlined potential increases to the current total contract value (TCV) based on a seven-year minimum term, with the option to extend to a 10-year term.²⁸ The increase to the TCV was \$36.8 million (including GST) over the proposed seven-year period and \$62.97 million (including GST) over the proposed 10-year period option.

Figure 4.11: EUC program budget contract summary

Original approved value	Years	TCV including GST
17 in-scope agencies	10	\$394 175 932
17 in-scope agencies	7	\$280 469 645
Revised approved value	Years	Revised TCV including GST
17 in-scope agencies	10	\$457 146 000
17 in-scope agencies	7	\$317 250 000
Increased TCV	Years	TCV increase including GST
17 in-scope agencies	10	\$62 970 068
17 in-scope agencies	7	\$36 780 355

The steering committee was advised that the increased TCV could be attributed to a range of factors, which included:

- reduced anticipated savings because of the need for extra accommodation and employee related costs
- a reduction in the estimated volume of devices that could be migrated to DXC from 100% to 70% and an unanticipated 7% increase in device support charges for DPC and DHW, estimated at around \$3.5 million over the initial seven-year term
- the original standard desktop model proposed being insufficient for DPC and DHW needs

²⁷ A service management tool is an application used to capture incidents and service request data.

²⁸ At the time of this Report no decision had been made by the SA Government to exercise the three-year extension option.

- connectivity and interfacing issues with legacy applications contributing to DXC work volumes and costs
- errors found in the original cost model which impact all in-scope agencies. The proposed \$11 million p.a. of cost savings after implementation was recognised twice
- increased operational budget costs attributed to aligning DHW's current devices to future compatible Window 10 operating system devices
- increased operational costs (approximately \$26 000 per month) pending the upgrade of an application required to provide integration between DHW's and DXC's service management application.

We also noted that in an annual SA Government review of the contract dated June 2018 (refer to section 4.8.5.3) the EUC agreement stipulated that DXC required a specific number of public sector staff to accept offers of employment to enable it to provide the defined services. This has required additional recruitment costs which were co-funded by the SA Government.

Other risks and activities identified by the EUC Program Steering Committee that may have a cost impact include:

- amendment to the DXC service price modelling from financial to service years
- aligning charges between the refresh²⁹ schedule for lease payments and peripheral³⁰ purchases
- the potential for future tranches to be further delayed or stopped
- additional agency charges for optional services that are being considered and negotiated
- the possible reintroduction of the virtual desktop infrastructure to DHW that had been suspended.

4.8.5.3 Contractual challenges

The EUC agreement is subject to an annual review by the SA Government. The review aims to assess the performance of the contract and contracted supplier over the prior 12 months, identify improvement opportunities in the current contract, prepare contract management priorities for the next 12 months and make suggestions for the future strategic direction. The first annual contract review was finalised in June 2018 and highlighted several significant contractual issues, including:

- the EUC agreement has been subject to a number of contract variations. In the first nine months, 16 contract variations were noted, of which nine had a major or moderate impact on the contract (including reduced service level, significantly increasing risk and cost) and the overall program

²⁹ The EUC contractual agreement defines refresh as the replacement of a personal computer that has reached the end of its useful life, including the associated setup and configuration.

³⁰ A peripheral device is a connected device, such as a keyboard, mouse or monitor, that is not part of the essential computer (ie the memory and microprocessor).

- the EUC agreement included many services without clear service definitions. Clarifying all of these services is likely to require months of ongoing negotiations and may also result in increased costs to agencies
- a number of delay notices and project change requests have been issued. This was primarily due to underestimating the complexity and resourcing required to be provided by both DXC and agencies to satisfy key milestones
- the SA Government recognised that the transformation phase is not articulated well within the contract. Key documents tend to be ambiguous and fail to clearly define expectations and challenges that need to be scheduled for completion. The SA Government and DXC are to discuss expectations and challenges relevant to the EUC agreement.

More recently the SA Government has engaged an external contractor to help renegotiate the EUC agreement with DXC, to resolve the identified issues.

4.8.5.4 Current challenges impacting future rollout

Achieving the EUC program outcomes, benefits and implementation time frames may be further challenged by:

- the need to address issues caused by integrating the Windows 10 operating system with incompatible agency systems and legacy software
- further contract changes due to technical difficulties and incorrect implementation assumptions
- ongoing financial models may need further refinement, which may impact the benefits and viability of the implementation of in-scope agencies in future tranches
- delays in the supply of devices and resourcing challenges
- potential cost impacts to the current contract if other agencies do not proceed with the future tranches and expected service volumes are not achieved.

The new EUC program business case and contract renegotiation should provide greater clarity about the future of the program. This includes defining the preferred implementation scope, timing and cost.

4.9 Shield Business Transformation program

4.9.1 Introduction

In September 2009 a submission for the acquisition of a Police Records Management System was approved by the SA Government. This system was to be implemented by the Shield Business Transformation program (the Shield program).

The Shield program purchased Niche RMS software (referred to as the Shield system) from Niche Technology Incorporated (Niche). The Shield system was assessed as being capable of

replacing most of South Australia Police's (SAPOL's) aged applications. These legacy applications were becoming increasingly difficult to support and maintain, which posed an ongoing risk to police operations.

The Shield program was planned to be implemented in stages from 2013-14 to 2019-20. The budget for Stage 1 was \$13.3 million, and for Stages 2 to 4 was \$44.85 million. This included both investing and operating costs.

Most of Stage 1 was implemented in 2013-14, including custody management and criminal associations. Following this, SAPOL implemented several functional components as part of Stage 2, including missing persons, multi-agency protection service, vehicle collisions and the capability to use the system on mobile devices.

In 2017-18 the Shield Program continued to work towards implementing the remaining key components of Stage 2, including police incident and apprehension reports and case management. It is also planned to include a guided police occurrence (police incident) quick entry form. This functionality will provide a logical flow during the creation of an occurrence. Business rules will enforce the capture of specific data and it is planned to make it more intuitive and productive for officer data entry. This release is currently scheduled for October 2018.

4.9.2 Conclusion

Once implemented the Shield system will replace a number of legacy systems and is expected to provide certain benefits. This includes providing SAPOL with what is expected to be a fully integrated operational policing system that provides operational efficiencies and increased mobility.

Stage 2 is now due to be completed 18 months later than originally anticipated and with some minor variations to the scope. This has impacted ongoing operational mainframe costs (legacy systems), added pressure on the Shield program budget and delayed some business benefits. Although progress has been made there are still challenges that need to be addressed.

The full realisation of business benefits will require the timely implementation of the remaining program scope within the allocated budget, with the required functionality and minimal system defects.

The remaining scope for Stage 2 is planned for release in October 2018. This release is significant as it is anticipated that it will result in most of the police workforce using the Shield system for their day-to-day operations. A successful implementation has the potential to alleviate many challenges that the Shield program currently faces.

SAPOL anticipates the final release to be in October 2020. It also expects all program activities to be completed within budget, with all business benefits achieved.³¹ Achieving these goals will require tight control and monitoring of the program scope.

³¹ Our review identified that the Shield program was yet to document a formal benefits realisation plan.

4.9.3 What we reviewed

The objective of our review was to obtain an update on the Shield program's current implementation status, budget and expenditure to date, aspects of key program controls and risks, and issues impacting the program.

Our update did not involve performing detailed control or usability testing of the Shield system and program.

4.9.4 Program implementation status

In 2017-18 the Shield program experienced some system development and scheduling delays. As a result, the Shield Program made changes to its release schedule.

Notably, SAPOL decided to separate the delivery of its new District Policing Model³² and certain planned Shield system functional releases. This was to address concerns as to whether the business could adequately absorb the large business process and system changes proposed in a single release.

Stage 2 is now due to be completed 18 months later than originally anticipated and with some minor variations to the scope. This has impacted ongoing operational mainframe costs (legacy systems), added pressure on the Shield program budget and delayed the realisation of some business benefits.

As of mid-September 2018, we were advised that the core functionality for the end of October 2018 release had been delivered and tested. SAPOL was in the process of conducting training and system integration activities with other Justice agencies. For the release to be delivered to its new schedule and with the planned functionality, there is heavy reliance on resolving outstanding integration defects.

SAPOL anticipates the final product release to be in October 2020, with program closeout to follow soon after. It also expects that all program activities will be completed within the allocated budget, but this will require tight control and monitoring of the program scope. Despite some delays, SAPOL expects the overall business benefits to be achieved.

4.9.5 Current program risks and reasons for delays

Various issues have collectively delayed the Shield program from its originally intended implementation schedule. SAPOL advised that these issues are mostly attributed to the following:

- build delays
- remediation of defects
- shortfalls in SAPOL resourcing, which have continued to impact productivity
- competing SAPOL priorities.

³² This relates to SAPOL's Organisational Reform initiatives. This reform involves changing Shield to support the implementation of the new model, including creating new and changes to existing organisational units, Local Service Area boundary data and workflow changes.

As previously mentioned, SAPOL advised the core functionality has been delivered for the October 2018 release and it has been appropriately tested. In addition, SAPOL has actively conducted Shield program recruitment and the risk of the program being impacted by other competing priorities has reduced.

Outstanding remediation of defects mostly relates to integration components between systems. We were advised that SAPOL is working to address these defects as a priority.

4.9.6 Program assurance

In August 2018 an external consulting firm completed an independent review of the Shield program. This included assessing the Shield program's ability to meet its planned delivery time frames, the program structure and functions, solution analysis and design approach. It also assessed the engagement approach with Niche and SAPOL staff.

The review identified some positives including the program management structure and a well-defined analysis and design methodology.

It also identified some issues. Key issues are summarised below:

- The Shield program has suffered extensive delays for a range of reasons, some of which were outside of SAPOL's control.
- Improvements could be made to the Shield program's engagement method with SAPOL staff.
- The Shield program has been under-resourced for some time, with several staff vacancies. Some staff have been diverted to other projects or support activities.
- SAPOL IT resources have been moved into central service groups, in particular those conducting integration and testing activities. This has caused extensive impacts to Shield program schedule and scope.
- Shield program focus has been mainly on the system replacement. It has not focused enough on business re-engineering and improvement and identified business gaps and changes that need to be managed.

SAPOL advised that it accepted these findings and has been actively addressing the highest priority recommendations. Remediation plans will be developed for the remaining recommendations.

4.9.7 Update on current system defects

The Shield program implemented a release into the production environment in August 2017. This release resolved many high priority production defects³³ that were having a material impact on business operations. Although this is a positive outcome, the extent of defects and vendor delays has continued to delay planned functional releases.

³³ A 'defect' has been defined by the Shield program as any irregularities in the application and/or functionality not meeting the business requirement and specification documents.

A summary of the defects as at 31 August 2018 is provided in figure 4.12.

Figure 4.12: Summary of defects

Defect rating	Open	Closed	Total
Blocker ³⁴	2	159	161
Critical	15	249	264
Major	110	1 554	1 664
Minor	81	1 042	1 123
Trivial ³⁵	22	307	329
Total	230	3 311	3 541

We note that SAPOL has significantly reduced its open defects from an earlier update we obtained in February 2018, from 2914 to 230.

SAPOL advised it will not implement new functional releases that contain high priority defects (classified as blockers) raised from its internal testing. These types of defects would have a negative business impact.

4.9.8 Updated program budget and expenditure

SAPOL has continued to carry over its capital budget underspends to future periods primarily due to system development delays and resource under-utilisation. Vendor licensing fees totalling approximately \$1.58 million are not yet due because of implementation delays.

A summary of the Shield program budget and expenditure as of the end of June 2018 is provided in figure 4.13.³⁶

Figure 4.13: Program budget and expenditure as at 30 June 2018

	Stage 1 approved budget Sept 2009 \$'000	Stage 2 to 4 approved budget Nov 2017 \$'000	Stage 1 expenditure \$'000	Stage 2 to 4 expenditure to date \$'000	Remaining budget \$'000
Capital investment	9 204	29 014	9 190	17 919	11 094
Operating and recurrent expenditure	4 054	15 481	2 641	9 669	4 549
Total	13 258	³⁷ 44 495	11 831	27 588	15 643

³⁴ A defect classified as a 'blocker' means SAPOL cannot release that software build into production until it is resolved.

³⁵ A 'trivial' defect will be released into production in the event Niche chooses not to resolve it. All identified defects are submitted to Niche to assist product development.

³⁶ The expenditure to date figures were provided by SAPOL and are unaudited.

³⁷ SAPOL advised the difference in the Stage 2 to 4 budget from what was originally included in its September 2009 submission is due to adjustments in the capital investment budget. This included carry overs from Stage 1 and also the Shield Program's contribution towards IS&T Server Hosting Infrastructure.

SAPOL advised that operating budget underspends are not carried forward to future periods. The discrepancy between the remaining budget and the approved budget is due to these underspends.

SAPOL further advised that the discrepancy between the approved capital investment amount for Stages 2 to 4 and the remaining budget is due to the rounding of carryovers.

4.9.9 Summary of control findings

As previously mentioned, our review scope did not involve performing detailed controls testing of the Shield system and program. As part of our update, we did identify some control findings requiring management attention. The main findings included:

- no formal benefits realisation plan
- documentation weaknesses in risk and issues registers
- lack of software vendor (Niche) escrow³⁸ deposits.

Refer to the commentary under 'Information and communications technology and control' in the section of Part B of this Report titled 'South Australia Police' for further details of these findings, including SAPOL's responses.

³⁸ An escrow is a contractual arrangement that ensures SAPOL can maintain or correct the current production version of the Shield system. This is in the event that Niche is no longer able to support the software product or a trigger event occurs under the terms of the escrow agreement.

5 Financial reporting

5.1 Upcoming changes to accounting standards

New accounting standards applicable from 2019 and 2020 have the potential to significantly change aspects of financial reporting, including:

- when income is recognised
- the recognition of new assets and related liabilities for all leases and certain arrangements with the private sector
- reporting movements in the value of financial assets and financial liabilities in profit or loss rather than in equity with no impact to the 'bottom line'.

The new standards and their application dates are shown in figure 5.1.

Figure 5.1: Application dates for new accounting standards

Accounting standard	Application date for 30 June financial reports
AASB 9 'Financial Instruments'	30 June 2019
AASB 16 'Leases'	30 June 2020
AASB 1059 'Service Concession Arrangements: Grantors'	30 June 2020 ³⁹
AASB 15 'Revenue from Contracts with Customers'	For-profit entities: 30 June 2019 Not-for-profit entities: 30 June 2020
AASB 1058 'Income of Not-for-Profit Entities'	30 June 2020

Although the application date for most of these standards is two years away, agencies will apply them progressively over the next six months to support the preparation of the 2019-20 Budget and forward estimates.

5.2 To understand the impact of changes to accounting standards, information is needed

Accounting under these new standards requires extensive consideration of source data and will add complexity to both budget and financial report preparation.

³⁹ On 10 September 2018 the Australian Accounting Standards Board issued a proposed amendment to AASB 1059 for comment. This proposal will defer the effective date by one year, meaning first-time application would be mandatory to 30 June 2021 financial reports. Early adoption of the standard will also be permitted.

5.2.1 Accounting for financial instruments

AASB 9 will apply to next year's financial reports. Financial instruments held by the SA Government range from accounts receivable to investments in shares or managed funds. AASB 9 classifies financial instruments differently to existing standards, and this determines the way financial instruments are measured and movements in value are accounted for.

Some of the SA Government's key investment agencies have obtained assistance from consultants in implementing the standard and do not anticipate major financial impacts.

Smaller investor agencies are likely to encounter changes to the classification and measurement of financial assets. In addition, agencies with investments in unlisted entities will require new valuation information.

5.2.2 The data required to bring leases to account is extensive

The new leasing standard requires recognition of assets and liabilities for all leases. Under existing standards, only finance leases⁴⁰ are brought on balance sheet. Accounting for operating leases is much simpler, with lessees recognising annual rental expenses.

Operating leases are prevalent in the SA Government. Applying the new standard will require accountants to:

- carefully examine the lease term for each arrangement, and understand management's views as to the likelihood of extension or early termination
- thoroughly review lease agreement terms to separate and quantify lease and non-lease components
- determine the current fair value of the leased asset and its likely value at the end of the lease to derive an interest rate for the lease.

Given the vast number of leases in place, agencies will need to properly plan to ensure all data is collected and assessed.

5.2.3 Determining when to recognise revenue will not always be straightforward

Judgement will be required to determine when to recognise revenue under the new standards. Under existing standards, the timing of revenue recognition for not-for-profit entities involves assessing if the income is received for providing assets or services of approximately equal value. The new standards require assessment of whether income arises from a contract with a customer. References in accounting standards to contracts and customers is broader than sales on commercial terms. Issues that must be considered include:

- is the agreement enforceable? This will usually involve a requirement to return unspent funds

⁴⁰ Those leases where the risks and rewards associated with the lease are transferred to the lessee. Other leases are known as operating leases.

- are specific goods and services promised to be delivered?

If there is no contract with a customer, not-for-profit agencies may need to recognise income under AASB 1058. This could result in upfront recognition of the income rather than waiting until goods or services are delivered. Significant work effort will be needed to assess grants from the Commonwealth Government, as only some may meet the definition of contracts with customers. This could affect which financial year income is recognised by the State.

Not-for-profit agencies must also identify where goods or services have been received for amounts significantly less than their fair value.⁴¹ If so, that benefit will generally be recognised as income upfront. This includes leases with below market rates. Obtaining and evaluating information about fair values requires time and planning.

5.2.4 Assessing the nature of public private partnerships and similar arrangements is a complex matter requiring informed analysis

AASB 1059 applies to service concession arrangements and specifies treatment of related assets, liabilities, revenues and expenses. Service concession arrangements are contracts where a party external to government is compensated for providing public services either through assets it provides, or which are already held by the government. This standard applies where there is government control or third-party regulation of what services are provided, who services are provided to and at what price. The operator must be responsible for managing at least some of the public services provided.

Assets captured by AASB 1059 must be recognised at fair value, using the current replacement cost valuation technique.

The term public private partnerships is used for arrangements where the private sector provides assets and services to or on behalf of the government. Not all public private partnerships will be captured by AASB 1059, and some arrangements which may not have been described as public private partnerships could be within its scope.

Areas of judgement relate to:

- whether services are public services
- what comprises 'some management of the public services provided'
- where assets in the arrangement are used for a combination of public services and other uses, whether the public services element is sufficiently important to conclude that, on balance, the asset is used to provide public services.

⁴¹ Accounting standards do not define the term 'significantly less than fair value'. Assessing this may involve considerable judgement.

5.3 These standards will affect the budget and influence contracts

5.3.1 The 2019-20 Budget may be the first prepared on a GAAP basis

As noted under 1.11.2, the 2018-19 Budget notes that the Treasurer is considering shifting the basis of budget for the 2019-20 Budget from a GFS basis to a GAAP basis. DTF has advised that it expects to make these changes for the 2019-20 Budget. This means that the impact of the leasing and service concession arrangements standards will need to be reflected in future budgets and forward estimates. New revenue standards also have the potential to impact future budgets.

Accounting standards regularly change, but this rarely has a material impact on the budget estimates. Immaterial impacts are generally incorporated into the forward estimates as the actual impacts are recorded in financial reports. DTF has determined that this approach will not be appropriate for the new standards as they are expected to have a substantial impact on the budget estimates.

DTF advised that:

- several agencies will participate in trial data collection under the new standards in October and November 2018 with the aim of testing the impact of accounting policy choices and the sufficiency of guidance
- the Treasurer's mandated accounting policies relevant to the new accounting standards will be finalised in December 2018
- agencies will be required to supply budget data for the 2019-20 Budget using the new accounting standards in January and February 2019.

Agency budget data supplied for the 2019-20 Budget will be based on unaudited accounting treatments. It is important that accountants ensure they are informed about the key areas of judgement under the new standards and have sufficient information to support accounting treatments used in supplying budget data.

5.3.2 Contracts and other agreements may require reconsideration

The structure of leases, public private partnerships and revenue contracts will significantly impact their accounting treatment. The following details in lease contracts will affect liabilities brought to account, and therefore net debt and the expense profile over the term of the lease:

- the length of arrangements
- whether leased items can be substituted by the lessor
- the incorporation of fixed increases as opposed to index-linked or market rent reviews.

It is important that officers involved in areas such as tax, legal advisory, procurement, budgeting and IT seek their financial accountants' advice about accounting impacts ahead of agreements being negotiated and drafted.

As providers of grants, the SA Government must be mindful of the impact its grant agreements may have on non-government organisations. If contracts are not sufficiently specific about expected deliverables, recipient organisations may have to recognise all revenue related to the contract at a single point in time, rather than on delivery of goods and/or services.

Well-written contracts will reduce the time required by accountants to interpret the terms, identify relevant information and apply the various steps required in applying the standards.

To accurately recognise revenue, contracts must be evaluated to determine:

- the enforceability of the contract
- what is expected from the arrangement – if there are specific deliverables, as opposed to general funding, these need to be explicitly stated
- for consortium agreements, who has the enforceable contract
- transaction prices, including prices for each element of any bundled products
- payment terms, which may indicate the existence of significant financing components
- any donation elements
- whether refunds can be obtained.

5.4 DTF is preparing for the new accounting standards

In my Annual Report for the year ended 30 June 2017, I said that both DTF and agencies should prepare project plans for implementing the new accounting standards as soon as possible. DTF has worked towards implementation in the following ways.

5.4.1 DTF is working to finalise accounting policy choices

Accounting standards offer some choices in accounting policy. DTF reviews each accounting standard to determine when choices in accounting treatment by agencies should be narrowed. This is ultimately specified in Accounting Policy Statements.

Selection of accounting policies is influenced by accounting requirements at the whole-of-government level. Consistency in application of accounting policies minimises the need for additional data collection for whole-of-government reporting and budgeting.

DTF has invested significant work effort in devising appropriate accounting policy choices, which will be put to the Treasurer for consideration shortly. However, until results from trial data collection are known, and the Treasurer issues his instructions, uncertainty remains. This makes it difficult for agencies to devise and execute some parts of their implementation plans. To mitigate this risk, DTF has indicated likely policy choices to agencies, and highlighted which areas are more likely to be subject to change.

5.4.2 DTF established cross-agency project groups to consider new accounting standards

As part of planning for the new standards, DTF established three cross-government groups to consider assets (leases and service concession arrangements), revenue and financial instruments issues respectively. These groups, comprising representatives from around 10 agencies, are helping DTF to:

- assess the progress of agencies
- identify emerging issues
- consider what software solutions may assist agencies
- facilitate better communication between agencies
- identify professional development needs
- draft accounting policy choices
- determine when data collection for budgets is required
- identify areas of risk requiring guidance and protocols.

5.4.3 More work is required for successful implementation

Lease accounting issues require urgent resolution

DTF has made significant progress in preparing for the implementation of the leasing standard. Draft accounting policies have been prepared and in-depth consultations with lessor agencies are underway.

The resolution of treatments for accommodation and other leases within government must be prioritised. DTF has actively engaged with DPTI on how to best manage their functions in line with the new standards. Should new intra-government agreements need to be drafted, together with different financial management protocols, there is limited time to ensure that this is resolved prior to implementation. If accommodation and vehicle leases are to be captured by AASB 16, further guidance and details about data collection is necessary.

Progress towards implementing AASB 1059 has been slow

In my last Annual Report I noted that determining which public private partnership arrangements are captured by AASB 1059 was an immediate priority and necessary before 1 July 2018, the beginning of the comparative period. This has not occurred. Although public authorities are responsible for determining accounting treatment, DTF has significant interest in ensuring that these arrangements are accounted for appropriately in whole-of-government reporting and budgeting.

To date, the asset project group has primarily focused on lease accounting. There has been no centralised approach to ensuring all service concession arrangements are identified.

While AASB 1059 is currently effective from 30 June 2020 financial reports, the standard requires that service concession assets are valued at current replacement cost at 1 July 2018. To date, the only arrangement where DTF has confirmed that application of AASB 1059 is required is the Land Services arrangement.

As a result, there is a risk that valuations have not been obtained for the associated assets in other arrangements in time to implement the standard.⁴² This may affect my ability to conclude on whether 30 June 2020 financial reports are materially misstated.

This risk is heightened by the fact that the standard requires a significant amount of judgement and there has been little professional development or guidance provided to date to ensure the adequate understanding of what might be captured.

DTF needs to consider valuation issues for public private partnership assets as a priority.

Valuation of the new RAH

It has not been determined whether the new RAH will be within the scope of AASB 1059. In 2017, the Treasurer's instructions were varied so that the new RAH could be carried at cost, rather than fair value. This was necessary because of the complexity of the arrangement and the need to have a government policy about which costs should be included when considering how the market would value such an asset.

In June 2018 the Treasurer approved a further variation so the hospital could continue to be held at cost at 30 June 2018, as a government policy was yet to be finalised. However, it is essential that this issue is resolved urgently so that valuation instructions can be drafted as required.

DTF must make further decisions about implementing revenue standards

DTF has indicated that there may be further changes to which elections it has indicated will be permitted under these standards. Any changes should be advised to agencies as soon as possible to minimise inefficiencies where impacts and processes have been devised based on current expectations.

Insufficient attention has been paid to accounting for financial instruments

Accounting standards require that for upcoming standards that are not yet effective, information is provided in financial reports as to the expected impact. AASB 9 applies for 2018-19. It is disappointing that many agencies have not yet quantified the impact AASB 9 has in their financial reports and are still working through application issues.

Resolving any significant issues associated with financial instruments over the coming months will further compound the pressures already faced in implementing the other new standards.

5.4.4 Communication with agencies is improving

Early communication by DTF with agencies is critical to ensuring that enough time can be spent on issues impacting budgets and the consolidated financial report. The nature of the accounting impacts means that engagement from non-accountants in agencies is key to

⁴² In response to a request from Australian Treasuries, the Australian Accounting Standards Board recently issued a proposed amendment to AASB 1059 with deferral of the effective implementation date by one year, meaning first-time application would be mandatory to 30 June 2021 financial reports. However, this would still require related assets to be brought to account at fair value as at 1 July 2019.

successful implementation. Obtaining timely buy-in from senior agency staff can be challenging, particularly when accounting services are outsourced to service providers such as Shared Services SA.

In recent years, DTF has primarily communicated with agencies through:

- an accounting forum
- the issue of model financial reports in late April/May
- minutes to agencies as needed.

While this approach may have been sufficient in years with minimal changes, DTF has acknowledged that it is unlikely to achieve the desired outcomes in the current environment.

In response, DTF has made significant changes to the methods and timeliness of its communication with agencies. Its secure website has been fundamentally redeveloped and will be an increasingly important tool for agency staff. DTF has also taken steps to ensure there are continual updates of information on accounting topics, including sharing the progress of project groups. This enables better sharing of emerging issues with agencies.

In addition, DTF has restructured certain non-policy content such as accounting guidance to be clearly distinguishable from policy. This will provide clarity to accountants and make it easier for those with less experience in the public sector to understand variations from private sector approaches.

DTF has advised agencies about the need to provide budget data that complies with the new standards for the 2019-20 Budget and anticipated time frames. We found that many agencies had not anticipated this in their project planning and will now need to increase their efforts to provide initial data by January/February 2019.

5.4.5 DTF has provided professional development, but more is needed

DTF has provided training on the new accounting standards, primarily targeted at financial statement preparers.

DTF acknowledges the need for further training for management accountants, and non-accounting staff including those involved in procurement, legal compliance (including the Crown Solicitor's Office who are involved in writing government contracts) as well as senior executives. Training sessions are scheduled over the coming months to help address some of these needs.

As implementation draws nearer, specific training needs will likely be identified in areas such as applying transitional requirements and interpreting of more complex service arrangements. DTF must continue to respond to these needs as they arise and provide forums for knowledge sharing.

5.4.6 DTF is changing how it addresses emerging issues

In December 2017, DTF established the Accounting and Financial Management Advisory Group. DTF's stated aim for this group is to provide a forum to engage with key government partners in anticipating and responding to emerging trends.

DTF has established new processes to analyse each change in the accounting standards and assess the impact on agencies and the model financial reports. DTF has published its analysis of all 30 or so amended accounting standards for 2017-18 onwards. This early consideration of issues is a significant improvement to previous practices.

DTF has also ensured that revisions to the model financial reports are made available to agencies earlier than in past years, and plans for an earlier release of the 2019 model. This is particularly important with such significant accounting changes.

5.5 DTF and agencies should learn from previous experiences in addressing accounting issues

Recent experience in implementing new standards and resolving complex accounting issues shows there is scope to significantly improve practices.

5.5.1 Implementing new accounting standards

In 2016-17, AASB 124 'Related Party Disclosures' applied to not-for-profit public sector entities for the first time. While the impact on financial reports was isolated to disclosures, new information needed to be obtained, including obtaining declarations from Key Management Personnel (KMP) about close family members, business interests and any relevant transactions.

Many agencies prepared for the implementation of this standard late in the financial year. As a result, challenges faced included:

- ensuring a common understanding of the approach where adequate policies and processes were not in place
- difficulties in applying the definition of KMP, resulting in either:
 - too many people being identified as KMP, and unnecessary information being collected
 - declarations not being obtained from individuals who were KMP
- difficulty obtaining declarations from KMP who had left agencies prior to 30 June
- KMP refusing to provide declarations
- KMP not understanding what information was required and providing incomplete declarations.

Resolution of these issues required significant effort from both statement preparers and auditors, putting further pressure on already tight deadlines. Many of the issues could have been prevented or resolved more easily with earlier planning. DTF and agencies should reflect on this experience in preparing for upcoming standards.

5.5.2 Resolving complex issues prior to submitting financial reports

The PFAA requires each public authority to deliver financial statements to me within 42 days after the end of the financial year. These financial statements must be accompanied by a

certificate as to compliance with the requirement that the statements are in accordance with the accounts and records of the authority, comply with relevant Treasurer's Instructions and accounting standards, and present a true and fair view of the financial position, results of operations and cash flows of the authority.

A quality set of draft financial statements should be complete and reliable. This means that accounting treatments for significant areas must be agreed and resolved before draft statements are submitted. They should also be supported by sufficient evidence, which may include accounting position papers or external advice.

I continue to receive draft financial statements that require material amendments during the audit, because issues remain unresolved at the time of submission and the lack of quality control processes by agencies. This is not appropriate and does not meet the requirements of the PFAA.

Commercialisation of the State's land services operations

This transaction occurred in October 2017. DTF sought external expertise in dealing with the accounting treatment, but this was not procured until six months after the transaction. The final expert report was received by DTF more than two weeks after the statutory deadline requirement to deliver financial statements. As noted in the 2018-19 Budget, the accounting treatment was not finalised at the time the budget papers were sent to print. We received DTF's final position paper on 31 August 2018 and draft disclosures on 7 September 2018. This highlights that earlier consideration is needed for a complex transaction involving new accounting concepts.

Revaluation of health assets

The cyclical revaluation of property and major equipment held by local health networks (LHNs) was managed by DHW using external valuation expertise.

DHW initiated the valuation process earlier than in previous years. While some draft figures were available in July, we could not confirm the appropriateness of valuations until a report explaining the methodology and assumptions was provided. The valuers provided draft reports in late August however they contained significant errors, including that valuation amounts and methods did not match the valuers' detailed calculations. Final valuation reports were not received until early September. They clarified the issues necessary for us to complete our audit. This is an unacceptable time frame given DHW's responsibility to provide draft financial statements by 11 August, and my requirement to deliver my annual report to Parliament by 30 September.

The 2018 valuation resulted in some significant changes in fair values across all LHNs, and so required a strong process for DHW and the LHNs to be satisfied with the revised values. There were some good initial elements of quality assurance but some matters were not fully followed up and resolved promptly and as a result errors in the valuations were not detected. We found errors totalling tens of millions of dollars.

5.5.3 Late resolution of issues when experts are involved

Meeting financial reporting requirements needs effective resourcing and at times the use of valuers and external accounting advice.

DTF and other agencies must manage the use of external expertise better. The use of an expert does not devolve agencies of the responsibility to make informed decisions. Aspects of experts' opinions are often not accepted by agencies or my auditors. It takes time to resolve these issues and recent history suggests this is not factored into plans.

5.5.4 Complexity is routine and should be anticipated and managed

There are complexities in financial accounting that are routinely encountered and should be anticipated in project planning. This can include:

- obtaining information from other agencies, and gaining the support of non-accountants to provide source documents necessary to evaluate the substance of arrangements
- obtaining clarification from external experts about their advice, both before and as part of the audit process
- considering emerging areas of accounting, as it is likely that issues will be identified that were not necessarily apparent.

My auditors have encouraged resolution of complex issues early. We find that where there are multiple agencies, or different areas within agencies involved, there are likely to be delays. Such risks can be managed with appropriate planning and monitoring.

Risk and Performance Committees should question the management of complex issues

An effective Risk and Performance Committee plays a key role in monitoring financial reporting and the internal and external audit functions, including considering:

- the appropriateness of accounting policies
- the disclosure requirements
- whether the report presents a true and fair view.

Complex accounting matters, including the implementation of new standards, should be brought to their attention early in the project planning phase with ongoing reporting of project status and resolution.

5.6 Agency preparations for new accounting standards

In late-May 2018 I wrote to most SA Government agencies requesting advice on their plans for implementing AASB 16, AASB 15, AASB 1058 and AASB 1059. I did so to understand the SA Government's preparedness for these new standards and to support audit planning.

I requested:

- target dates for responding to the key aspects of each standard – did the agency have a plan and were the target dates in the plan reasonable?
- the identity of agency officers responsible for responding to each element of the implementation plan
- the agency's approach to monitoring its progress against the plan, including the role of its Risk and Performance Committee (or similar).

The responses demonstrated a general lack of preparedness by many SA Government agencies and raise concerns as to the SA Government's ability to successfully implement the accounting treatments required under the new standards.

Analysis of the responses from 44 of the agencies included in this Report (excluding the Adelaide Oval SMA Limited, the Treasurer's statements and my Department), and follow-up with individual agencies where appropriate, noted that:

- 19 agencies (43%) were yet to start their review of the new standards, with five agencies yet to document a plan
- of those agencies with a documented plan for the evaluation and implementation of the new standards, many had only recently started the work necessary to implement the plan.

Importantly, implementation plans for 17 agencies do not explicitly note the need to have financial information available for the 2019-20 Budget. DTF has recently advised agencies that budget figures prepared in line with the new standards will be required by January and February 2019.

Where a new accounting standard has been issued but is not yet effective, agencies are required to disclose known or reasonably estimable information on the possible impact that applying the new standard will have on their financial statements in the period of initial application.

While all agencies included in this Report have disclosed the nature and likely general impact of these new standards, most have noted that they are yet to quantify the likely financial impact in the period of initial application.

Agencies will need to complete a significant body of work in 2018-19 to ensure they are prepared for the introduction of these new standards. Agencies will need to do this work while many of them respond to new budget challenges, restructures of government operations (MOG changes) and the new SA Government's legislative change agenda.

It is important that DTF monitors the progress of agencies towards implementing the new standards and applies a risk-based approach to ensuring budgets and the consolidated financial report reflect appropriate accounting treatments.

5.7 Local government: examination update

5.7.1 Background

Section 32(1) of the PFAA gives the Auditor-General the discretion to examine the:

- accounts of a publicly funded body and the efficiency, economy and effectiveness of its activities
- accounts relating to a public funded project and the efficiency, economy and effectiveness of the project
- accounts relating to a local government indemnity scheme and the efficiency, economy and effectiveness of the scheme.

Section 32 of the PFAA also enables the Treasurer or the Independent Commissioner Against Corruption to request the Auditor-General to conduct an examination under section 32(1).

A publicly funded body includes a council constituted under the *Local Government Act 1999*, including a subsidiary and a regional subsidiary of a council. In effect, the statutory remit of the Auditor-General extends to the local government sector.

Section 32 provides a broad scope and discretionary power of examination by the Auditor-General. The examination of the accounts and activities of a publicly funded body, project or local government indemnity scheme may relate to a review of a diverse range of matters.

Under the PFAA, the Auditor-General is not the auditor of any council. I therefore do not provide an audit opinion on the financial reports of the councils and the schemes, or on the controls exercised by each council. These audit opinions are provided by the auditors appointed by each council and for each scheme.

The PFAA requires a report to be prepared after making an examination under section 32 and copies of the report delivered to the Parliament. All completed examinations for the local government sector will accordingly be separately reported.

5.7.2 Status of section 32 examinations

In 2017-18 we were in the process of conducting two section 32 examinations.

The first examination relates to a request from the then Treasurer, the Hon Tom Koutsantonis MP, dated 1 May 2017. The then Treasurer requested that the Auditor-General examine the accounts of the District Council of Coober Pedy under section 32(1)(a) of the PFAA. At the time of this Report our draft examination findings had been presented to the District Council of Coober Pedy for its feedback.

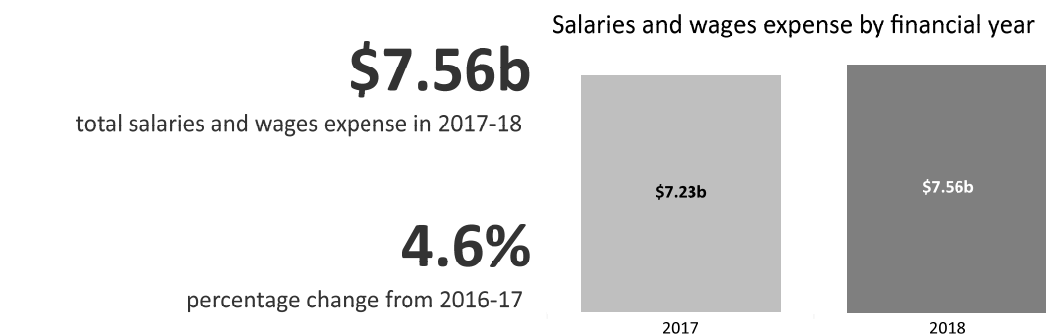
The second examination relates to credit card use and management in the local government sector. At the time of this Report this examination was still in progress.

6 Summary of selected financial disclosures

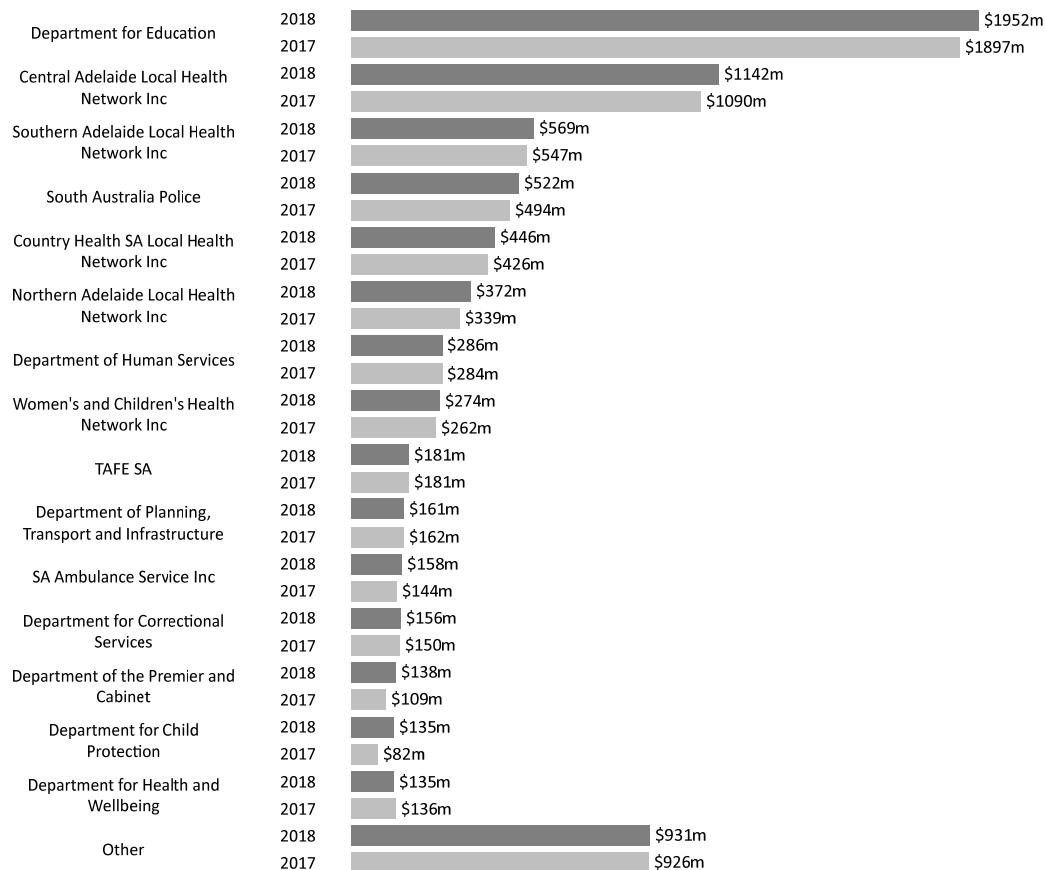
The following selected financial disclosures are taken from the published financial reports of the agencies listed in section A.1 of the Annexure to this Report. The data does not encompass all public sector agencies. More details on these disclosures are in the individual published financial statements.

The information is provided to give an overview of the level of financial activity for each area. It represents the more material balances in financial reports or items that are typically of public interest. While audited, audits of financial reports provide assurance that there is not material error. An audit does not ensure complete consistency in the transactions that agencies include in these items.

6.1 Salaries and wages expense



Salaries and wages expense by agency

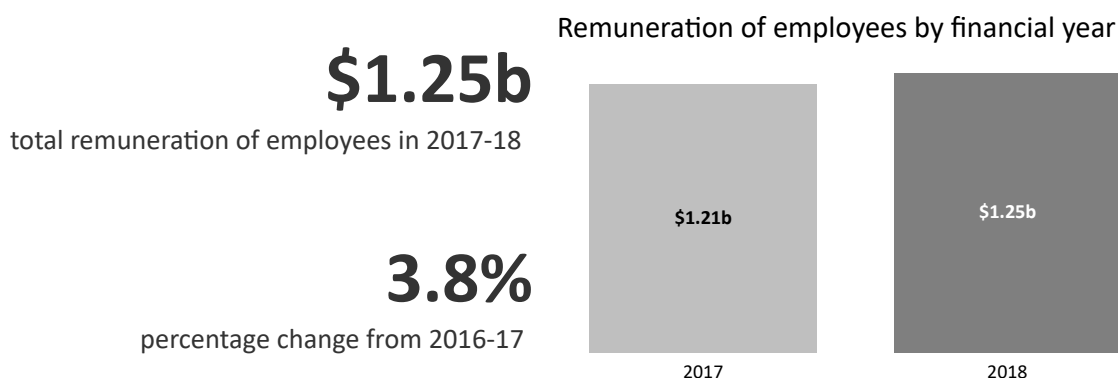


6.2 Remuneration of employees disclosures

Accounting Policy Framework II 'General Purpose Financial Statements Framework', APS 4.8 requires an explanatory note disclosure for employees whose normal remuneration is equal to or greater than the base executive remuneration level for the year (\$149 404 in 2017-18).

Disclosure includes the number of employees whose total remuneration paid or payable exceeds the benchmark, within \$10 000 bands, and the aggregate of the remuneration paid or payable for those employees.

Employees with total remuneration above \$149 404



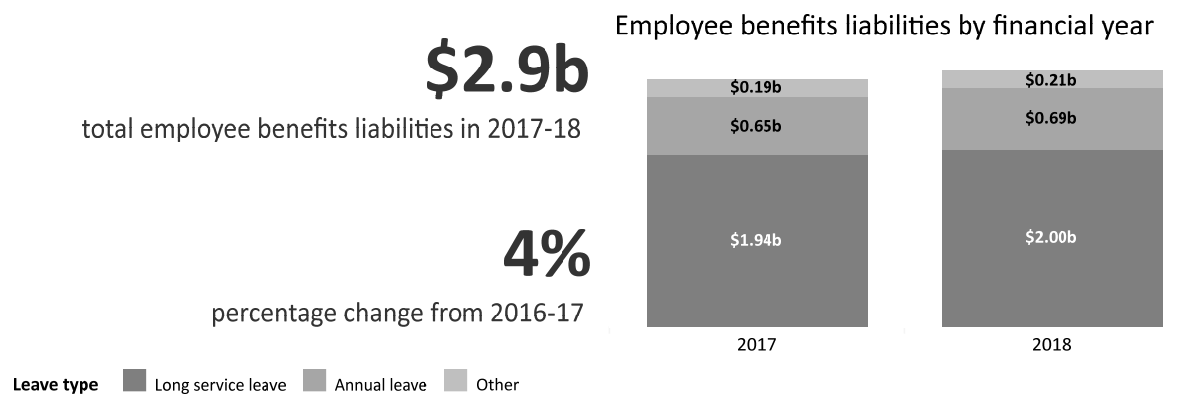
Employee remuneration by agency (number of employees)

Agency	Year	Remuneration (m)	Number of Employees
Central Adelaide Local Health Network Inc	2018	\$338m	(1185)
	2017	\$329m	(1170)
Southern Adelaide Local Health Network Inc	2018	\$163m	(586)
	2017	\$152m	(554)
South Australia Police	2018	\$111m	(653)
	2017	\$109m	(651)
Northern Adelaide Local Health Network Inc	2018	\$108m	(380)
	2017	\$95m	(335)
SA Ambulance Service Inc	2018	\$72m	(388)
	2017	\$86m	(475)
Women's and Children's Health Network Inc	2018	\$72m	(261)
	2017	\$67m	(249)
Department for Education	2018	\$71m	(408)
	2017	\$73m	(415)
Courts Administration Authority	2018	\$39m	(90)
	2017	\$37m	(88)
Attorney-General's Department	2018	\$35m	(150)
	2017	\$34m	(153)
Country Health SA Local Health Network Inc	2018	\$32m	(122)
	2017	\$36m	(132)
South Australian Water Corporation	2018	\$24m	(130)
	2017	\$25m	(130)
South Australian Fire and Emergency Services Commission	2018	\$22m	(134)
	2017	\$17m	(98)
Department of Planning, Transport and Infrastructure	2018	\$22m	(100)
	2017	\$15m	(75)
Department of the Premier and Cabinet	2018	\$21m	(90)
	2017	\$11m	(49)
Department for Health and Wellbeing	2018	\$18m	(77)
	2017	\$18m	(79)
Other	2018	\$104m	(470)
	2017	\$103m	(479)

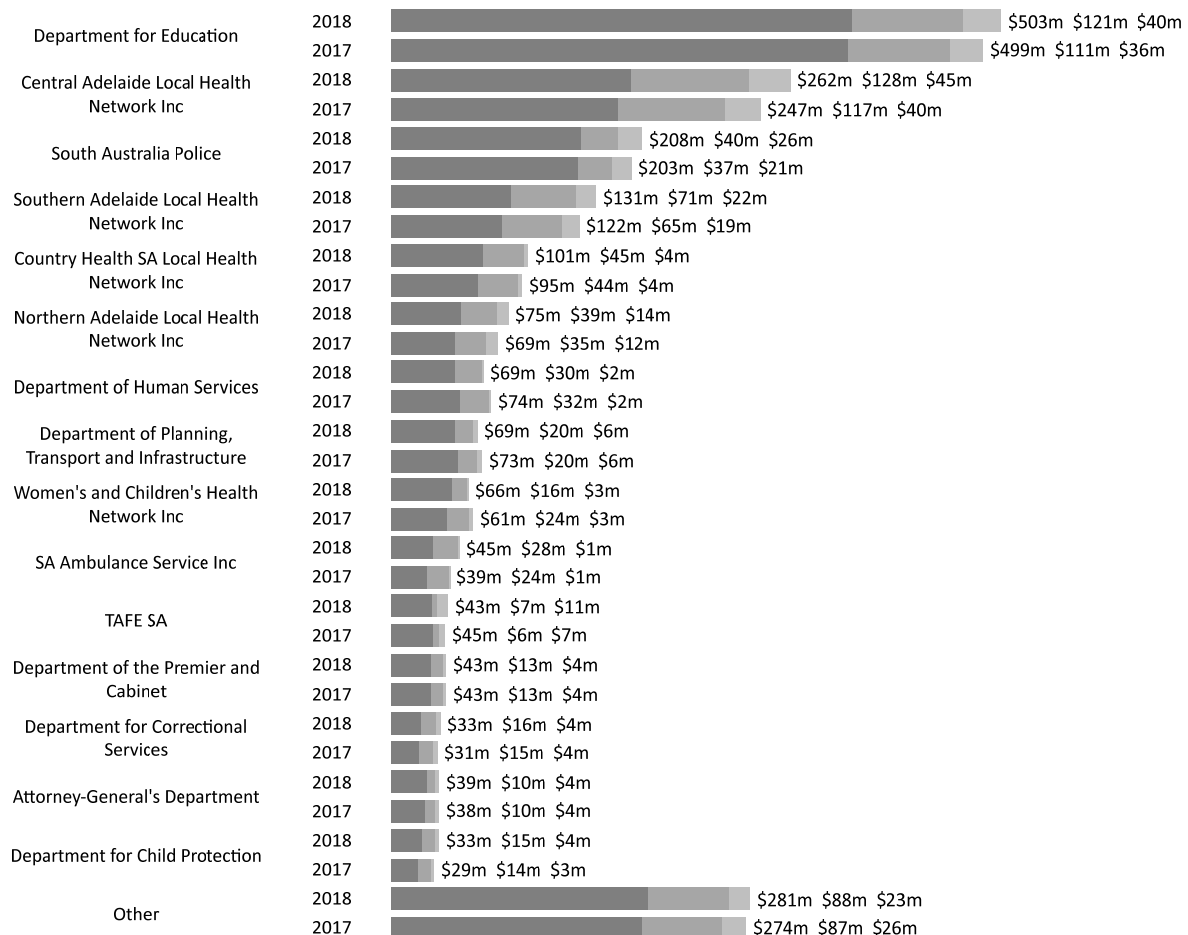
6.3 Employee benefits liabilities

Employee benefits liabilities comprise annual and long service leave entitlements accrued by employees.

The annual leave liability is mainly a short-term employee benefit measured at nominal value. Long service leave is a long-term employee benefit estimate measured as the present value of expected future payments for services provided by employees up to the end of the reporting period. The present value will change from year to year if market yields or other significant assumptions change. This year there was no change in the discount rate used or other major assumptions.



Employee benefits liabilities by agency



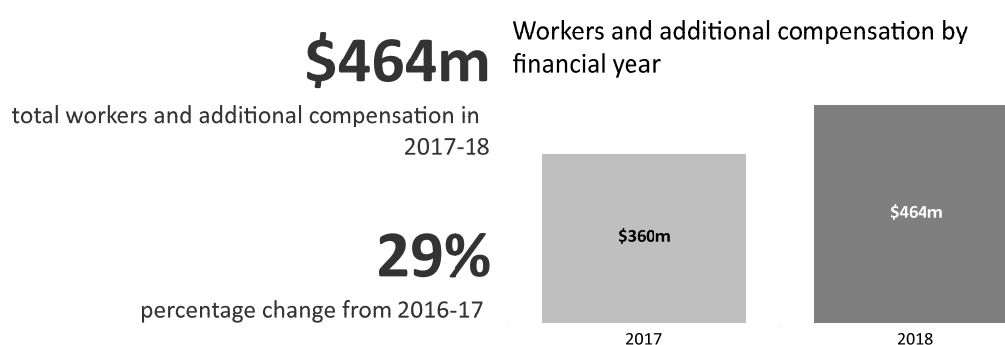
The table below provides a breakdown of the significant components of employee benefits liabilities.

Agency	Employee benefit type	Employee benefits 2017-18 \$'000	Employee benefits 2016-17 \$'000
Department for Education	Long service leave	503 333	498 652
Central Adelaide Local Health Network Incorporated	Long service leave	261 790	247 293
South Australia Police	Long service leave	207 599	203 270
Southern Adelaide Local Health Network Incorporated	Long service leave	130 578	121 531
Central Adelaide Local Health Network Incorporated	Annual leave	127 603	116 501
Department for Education	Annual leave	120 650	110 768
Country Health SA Local Health Network Incorporated	Long service leave	100 828	94 685
Northern Adelaide Local Health Network Incorporated	Long service leave	75 417	68 995
Southern Adelaide Local Health Network Incorporated	Annual leave	70 966	64 543
Department of Human Services	Long service leave	69 069	73 989
Department of Planning, Transport and Infrastructure	Long service leave	68 913	72 776
Women's and Children's Health Network Incorporated	Long service leave	65 649	61 448
Country Health SA Local Health Network Incorporated	Annual leave	44 579	43 823
SA Ambulance Service Inc	Long service leave	45 140	38 641
TAFE SA	Long service leave	43 332	45 269
Department of the Premier and Cabinet	Long service leave	43 041	43 383
Other		920 117	881 892
Total		2 898 604	2 787 459

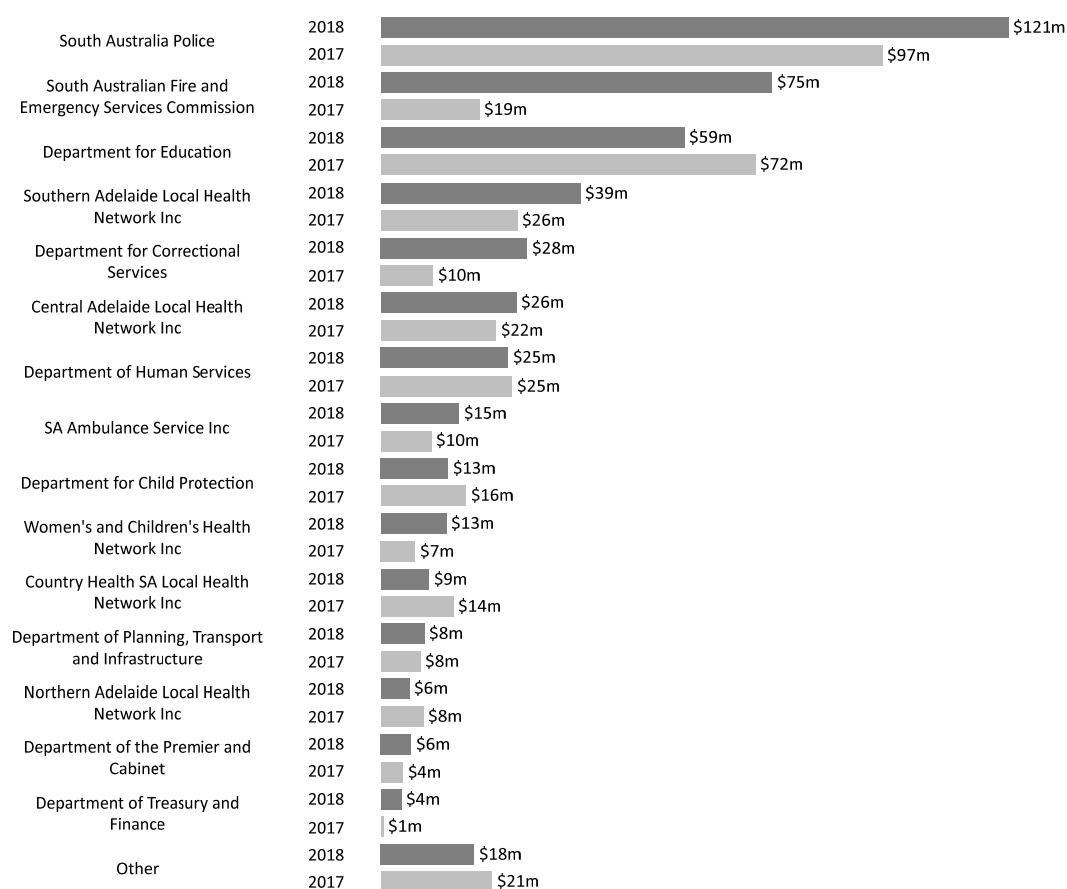
6.4 Workers compensation and additional compensation

The workers compensation provision is an actuarial estimate of the outstanding liability as at 30 June 2018 provided by a consulting actuary engaged through the Office for the Public Sector. The provision is the estimated cost of ongoing payments to employees as required under current legislation.

As at 30 June 2018, following changes to relevant public sector enterprise agreements, most agencies recognised an additional compensation provision for continuing benefits to workers who have suffered eligible work-related injuries and whose entitlements have ceased under the *Return to Work Act 2014*. Eligible injuries are non-serious injuries suffered in circumstances which involve, or appear to involve, the commission of a criminal offence, or which arose from a dangerous situation.

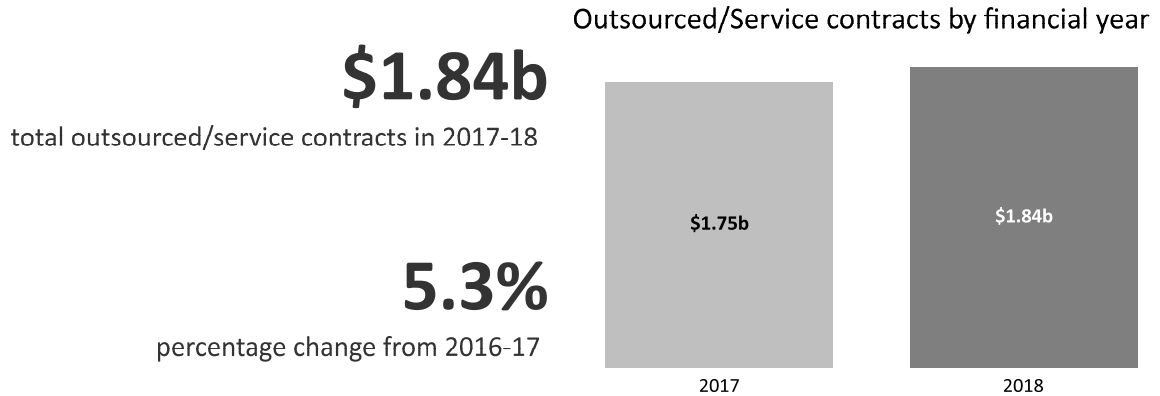


Workers and additional compensation by agency

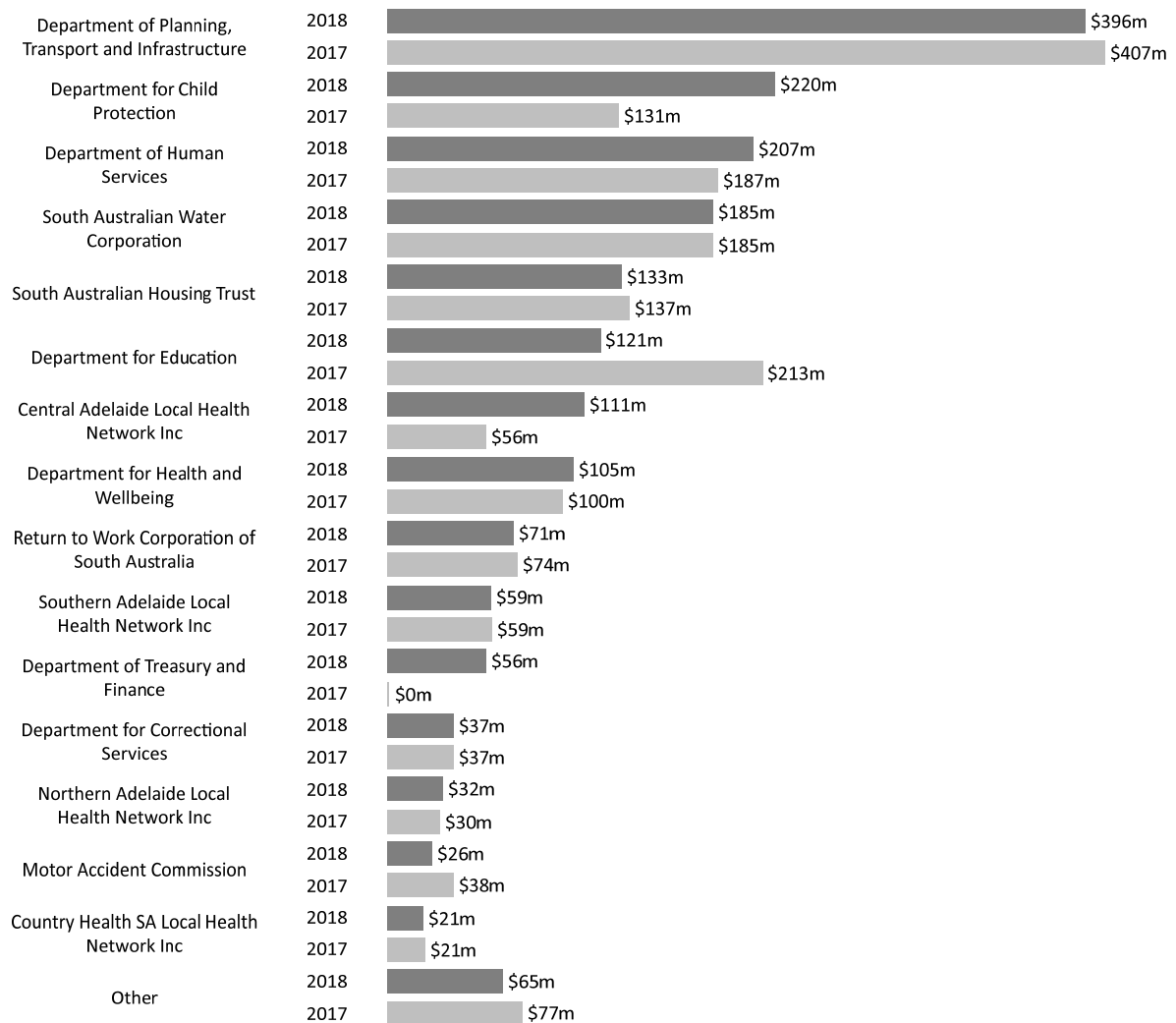


6.5 Outsourced/Service contracts

Examples of outsourced contracts include: bus service contracts; major infrastructure service contracts; claims management (claim agents); investment and insurance fees; plant operations and maintenance; and internal payments to Shared Services SA.

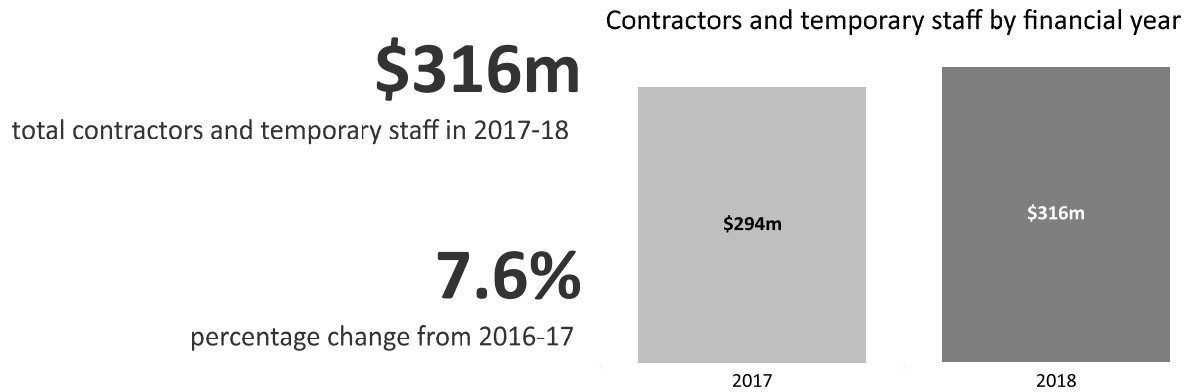


Outsourced/Service contracts by agency

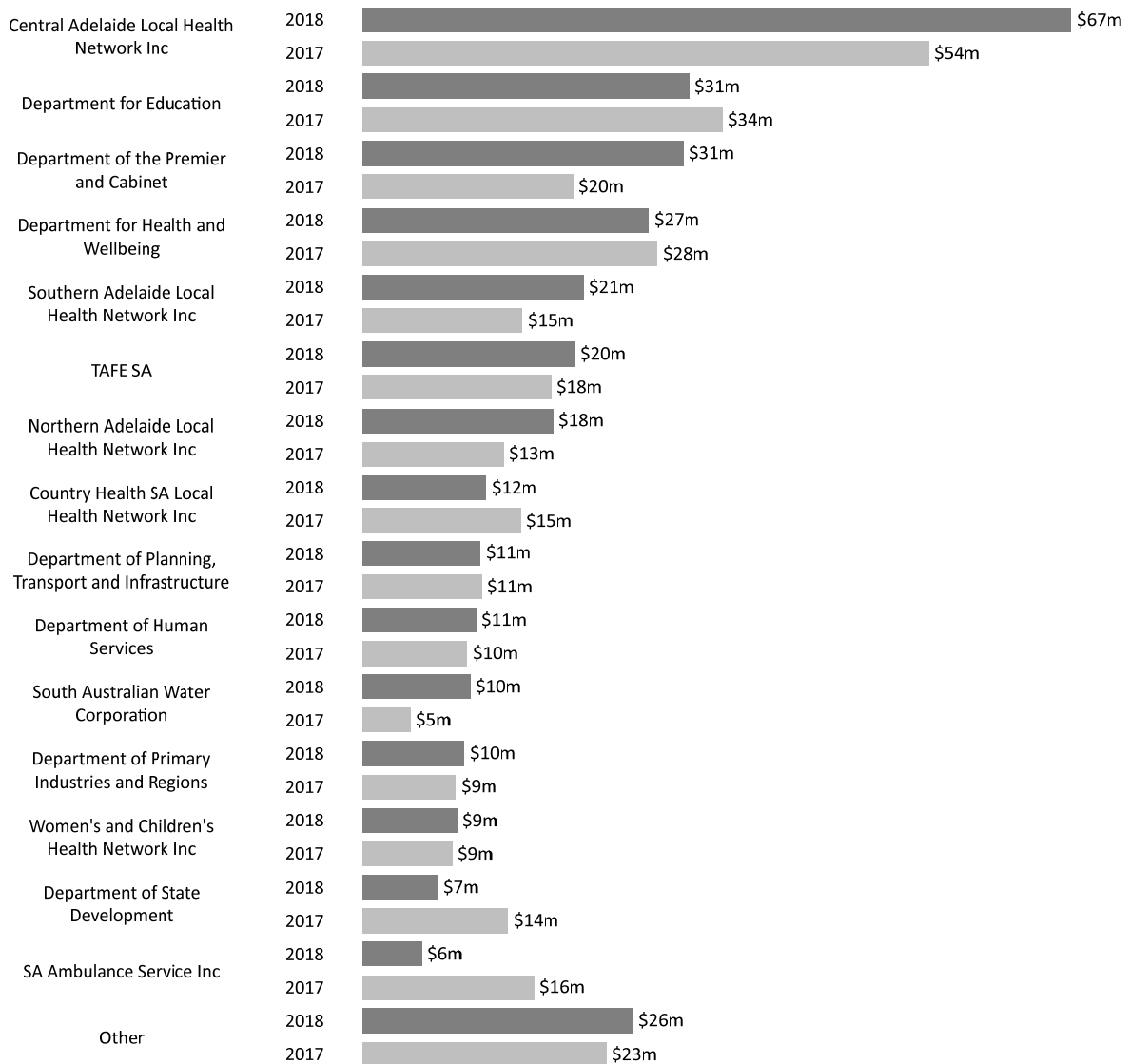


6.6 Contractors and temporary staff

Contractors and temporary staff expenses include agency nursing, IT and private legal practitioners.

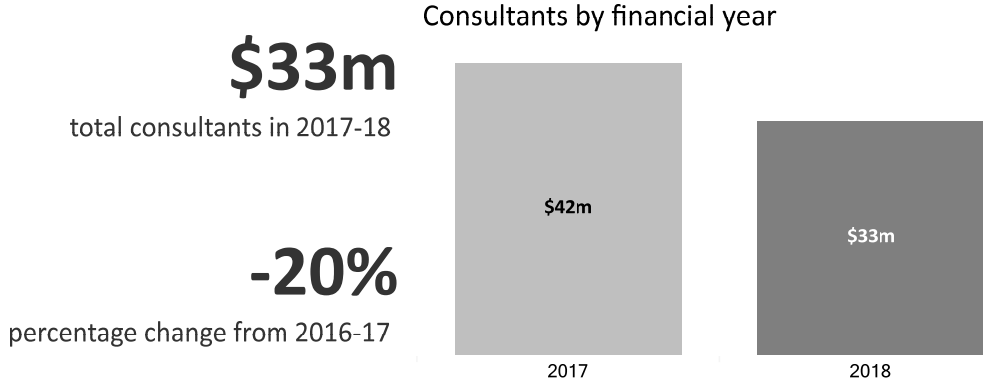


Contractors and temporary staff by agency

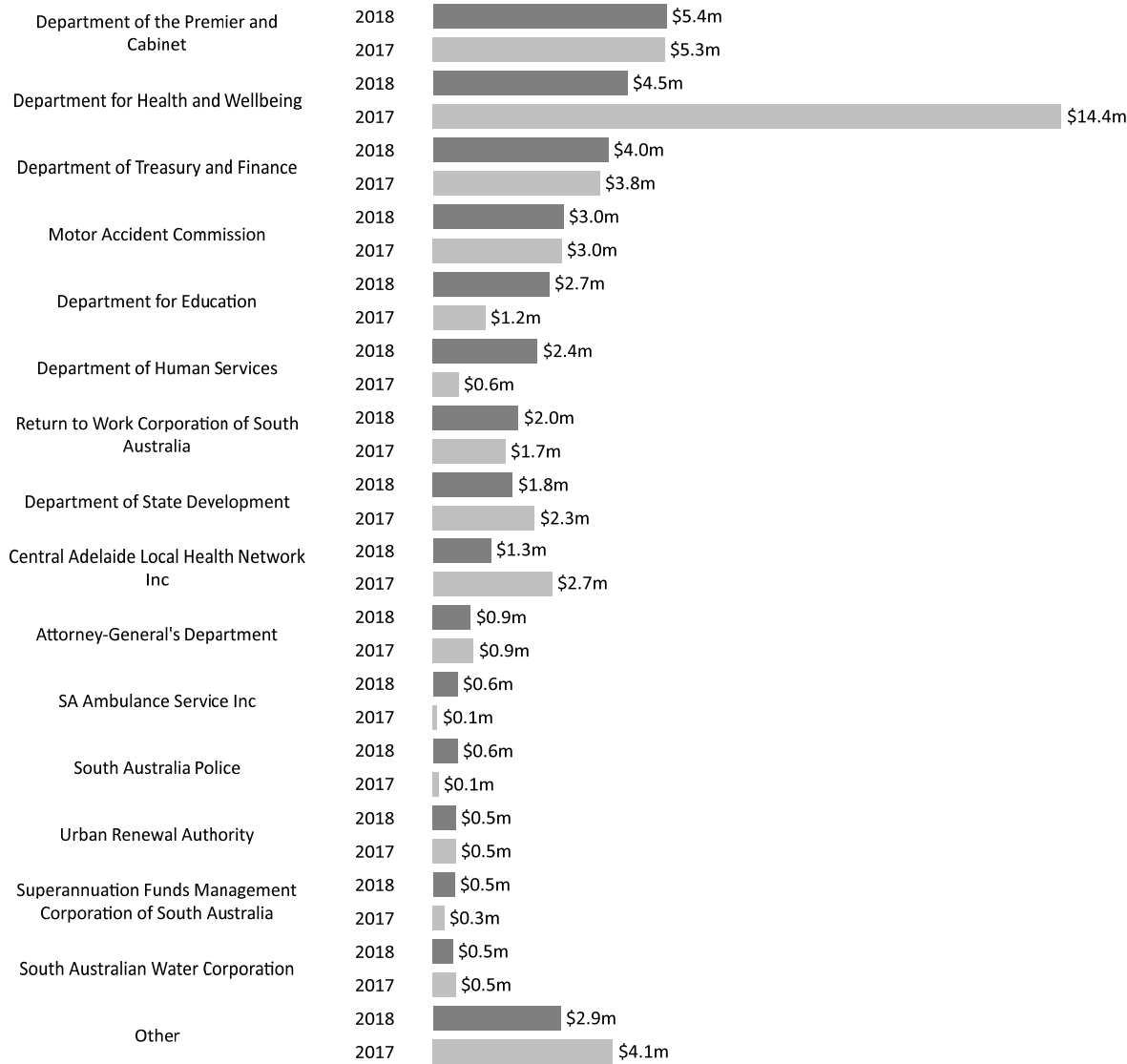


6.7 Consultants

Accounting Policy Framework II 'General Purpose Financial Statements Framework', APS 4.5 requires expenses incurred as a result of engaging consultants (as reported in the Statement of Comprehensive Income) to be disclosed in the explanatory notes.



Consultants by agency



7 Summary of key items in the Treasurer's statements

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

The following provides details of the Consolidated Account outcome and the balances of all deposit and special deposit accounts.

7.1 Summary of the Consolidated Account for the year ended 30 June 2018

	Budget \$	Actual \$
Receipts		
Taxation	3 984 773 000	3 958 032 574
Commonwealth general purpose grants	6 302 600 000	6 419 184 749
Commonwealth specific purpose grants	308 240 000	306 690 792
Commonwealth National Partnership payments	60 835 000	45 150 414
Contributions from state undertakings	298 098 000	391 236 766
Fees and charges	553 896 000	524 924 629
Recoveries	93 143 000	419 920 057
Royalties	251 008 000	236 604 381
Other receipts	477 503 000	1 970 276 969
Total receipts	12 330 096 000	14 272 021 330
Payments		
Appropriation Act	13 942 460 000	14 266 706 547
Specific appropriation authorised in various Acts	110 411 000	124 285 518
Total payments	14 052 871 000	14 390 992 065
Consolidated Account deficit	1 722 775 000	118 970 735

7.2 Summary of Special Deposit Account balances at 30 June 2018

Account	Balance \$
Interest bearing	
Adelaide Convention Centre Future Asset Replacement Account	8 850 417
Adelaide Convention Centre Operating Account	31 061 912
Adelaide Dolphin Sanctuary Fund	1 421
ANZAC Day Commemoration Fund	52 758
Barossa Wine Industry Fund	721 185
Building the Education Revolution	-
Citrus Growers Fund	91 164
Clare Valley Wine Industry Fund	166 129

Account	Balance \$
Interest bearing	
Commonwealth Funding for Specific Projects	2 515 054
Community Emergency Services Fund	32 200 939
Community Road Safety Fund	3 875 511
Concessional Loans Schemes Special Deposit Account	10 219 571
Coorong, Lower Lakes and Murray Mouth (CLLMM) Recovery Project	13 224 104
Country Equalisation Scheme	18 487 671
Dog Fence Fund	163 656
Electricity Sale/Lease Proceeds Account	-
Eyre Peninsula Grain Growers Rail Fund	8 349
Gamblers Rehabilitation Fund	268 602
Governors' Pensions Account	6 327
Grain Industry Fund	2 200 533
Grain Industry Research and Development Fund	123 062
Health, Community and Disability Services Ministerial Council	22 219 374
HIH Builders' Indemnity Assistance Account	2 802 866
Homes for Incurables Trust	1 160 510
Housing Loans Redemption Fund	-
Indigenous Program for Specific Projects	36 436 971
Judges' Pensions Account	20 858
Local Government Disaster Fund	1 444 632
Murray Futures Fund	21 637 218
National Landcare Program	336 802
National Rail Safety Reform Account	10 790
Parliamentary Superannuation Scheme Account	8 286
Peter Stephens Trust	71 851
Planning and Infrastructure Urban Growth Fund — Developer Contributions	4 798 997
Police Superannuation Scheme Contribution Account	352 748
Public Trustee Office Operating Account	1 337 620
Rural Finance Account	32 671 317
Rural Industry Adjustment and Development Fund	24 785 969
SA Grape Growers Industry Fund	488 168
South Australian Aboriginal Heritage Fund	1 129 917
South Australian Ambulance Superannuation Scheme	878 620
South Australian Local Government Grants Commission Account	1 277 228
South Australian River Murray Sustainability Fund	8 662 153
South Australian Riverland Floodplains Integrated Infrastructure Project	43 265 473
South Australian Superannuation Fund Account	8 843 789
Southern State Superannuation Fund Account	23 769 080
Supported Residential Facilities Indemnity Fund	48 116
Treasury — Asset Management Account	2 751 174
Victims of Crime Fund	156 303 804
Subtotal	521 752 695
Non-interest bearing	
Accrual Appropriation Excess Funds	865 424 542
Adelaide Oval Redevelopment	3 073 645
Attorney-General's Administered Items Account	121 294 418
Attorney-General's Operating Account	2 248 396

Account	Balance \$
Non-interest bearing	
Auditor-General's Administered Items Account	236 594
Auditor-General's Operating Account	3 358 363
Charitable and Social Welfare Fund	62 737
Child Protection Operating Account	29 291 535
CIMR Transitional Arrangements 1	-
CIMR Transitional Arrangements 2	-
CIMR Transitional Arrangements 3	-
CIMR Transitional Arrangements 4	-
Commonwealth Mirror Taxes on Commonwealth Places Revenue Account	-
Community Development Fund	-
Complementary State Natural Resource Management Program	306 030
Correctional Services Operating Account	28 040 846
Defence SA	6 578 070
Education Administered Items Account	36 603 096
Education Operating Account	101 502 705
Electoral Commission of South Australia Operating Account	3 653 053
Environment and Water Administered Items Account	1 321 226
Environment and Water Operating Account	24 678 404
Environment Protection Authority Operating Account	19 034 356
Essential Services Commission of SA	8 818 807
Health and Wellbeing Administered Items Account	19 678 674
Health and Wellbeing Operating Account	300 302 427
Highways Fund	3 377 148 974
Hospitals Fund	-
Human Services Administered Items Account	52 292 845
Human Services Operating Account	83 330 306
Industry Financial Assistance Account	34 627 561
Investment Attraction South Australia	17 877 004
Legislature Operating Account	3 074 439
Local Government Disaster Fund	21 166 634
Minister for Finance — Super SA Select	-
Motor Vehicles — Clearing Account	60 532 770
NRAH Operating Account	-
Nuclear Fuel Cycle Royal Commission Consultation and Response Agency	-
Office of the Industry Advocate	136 715
Parliamentary Budget Advisory Service	-
Planning, Transport and Infrastructure Administered Items Account	1 479 128
Planning, Transport and Infrastructure Operating Account	368 194 511
Police and Emergency Services Administered Items Account	14 969 051
Police Operating Account	48 239 618
Premier and Cabinet Administered Items Account	29 954 919
Premier and Cabinet Operating Account	129 605 976
Primary Industries and Regions Administered Items Account	575 292
Primary Industries and Regions Operating Account	12 107 412
Professional Standards Council Fund	214 759
Regional Roads and Infrastructure Fund	15 000 000
Riverbank Authority Operating Account	2 074 874
SA Lotteries Commission Operations Account	377 476

Account	Balance \$
Non-interest bearing	
SA Mental Health Commission Operating Account	629 844
Sale of Government Land and Property	7 488 917
Save the River Murray Fund	2 451 065
Save the River Murray Voluntary Contributions Fund	4 415
South Australian Film Corporation Unclaimed Investor Returns Account	55 212
Sport and Recreation Fund	3 322 002
State Development Administered Items Account	531 751
State Development Operating Account	55 201 045
State Governor's Establishment Operating Account	1 574 485
State Procurement Board Account	1 073 036
Support Services to Parliamentarians	5 776 634
Surplus Cash Working Account	-
TAFE SA	54 561 189
Treasurer's Interest in the National Wine Centre	564 984
Treasury and Finance Administered Items — Intergovernmental Agreement on Federal Financial Relations	26 045 078
Treasury and Finance Administered Items Account	314 833 905
Treasury and Finance Operating Account	27 397 996
Treasury — Working Account	191 485
Subtotal	6 350 191 228
Total special deposit accounts	6 871 943 923

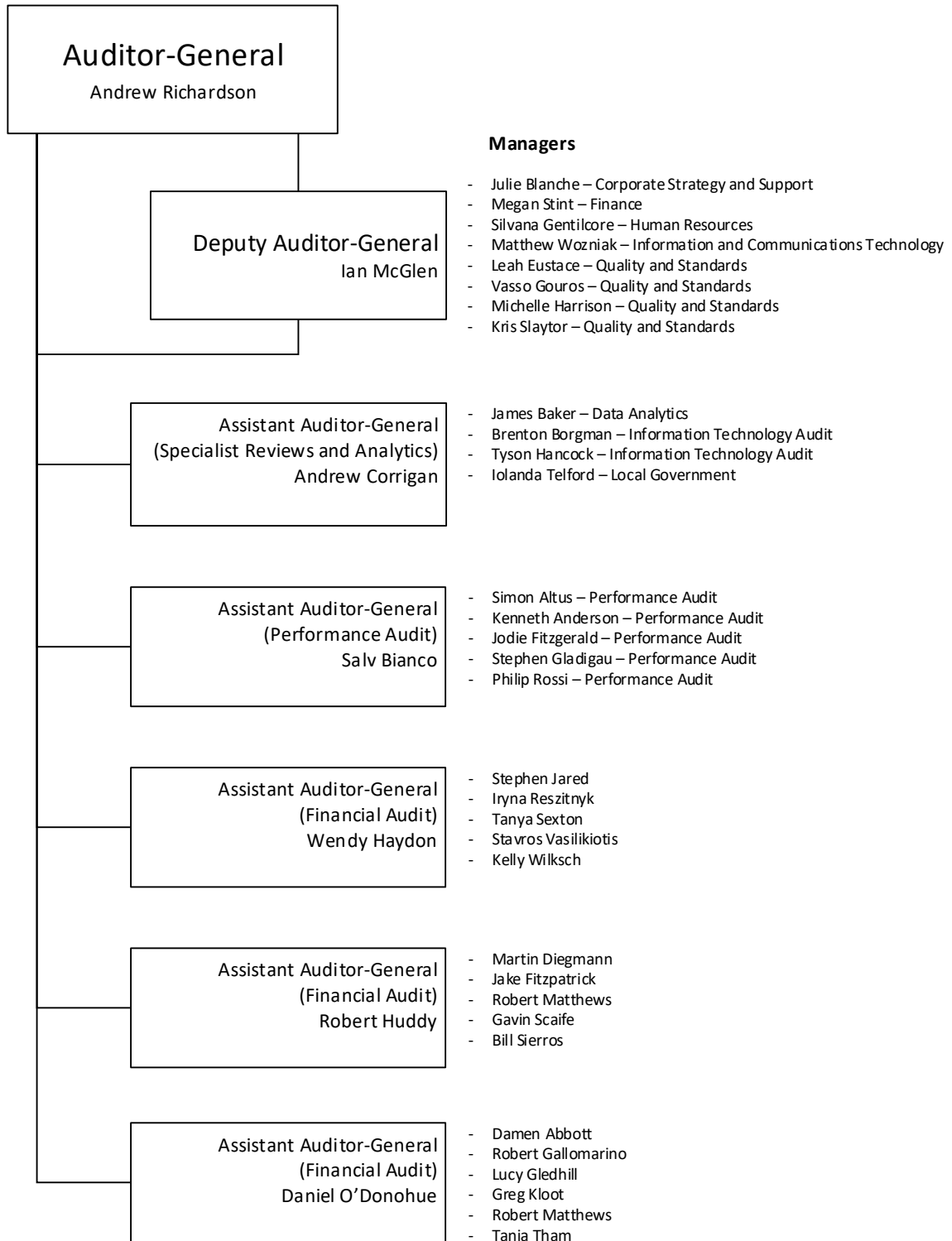
7.3 Summary of Deposit Account balances at 30 June 2018

Account	Balance \$
Interest bearing	
Adelaide and Mt Lofty Ranges Natural Resources Management Board	9 532 801
Adelaide Festival Centre Trust	15 939 927
Adelaide Hills Wine Industry Fund	354 924
Agents Indemnity Fund	4 999 169
Alinytjara Wilurara Natural Resources Management Board	3 374 351
Aquaculture Resource Management Fund	755 773
Art Gallery Board Account	937 608
Australian Council of State Emergency Services Fund	156 148
Bank of Tokyo-Mitsubishi Account	92 681
Bio Innovation SA	3 400 230
Boating Administration — Working Account	18 025 196
Botanic Gardens Board Endowment and Commercial Fund	2 690 130
Carrick Hill Trust	624 009
Cattle Compensation Fund	370 584
Correctional Services Prisoner Compensation Quarantine Fund Account	-
Crown Solicitor's Trust Account	2 759 912
CTP Insurance Regulator	15 635 072
Daniel Livingston Scholarship	35 681
DCSI Aged Care Deposits	301 433
Disability Services — Trust Funds, Donations and Bequests	258 497

Account	Balance \$
Interest bearing	
Distribution Lessor Corporation Account	8 598
District Court Suitors' Fund	5 575 006
Dog and Cat Management Fund	1 260 074
Domiciliary Care Services — Trust Funds, Donations and Bequests	564 949
Education Department — Scholarships and Prizes	197 972
Employment and Technical and Further Education — College Council Funds	155 959
Environment Protection Fund	7 534 308
Environment Resources and Development Court Suitors Fund	-
Eyre Peninsula Natural Resources Management Board	1 976 957
Facilities Fund (Marine)	8 762 758
Generation Lessor Corporation Account	53 923
Green Industry Fund	120 348 659
History Trust of South Australia	4 816 313
Independent Gambling Authority	4 643 218
Industrial Court Commission	-
Kangaroo Island Natural Resources Management Board	780 549
Langhorne Creek Wine Industry Fund	238 922
Legal Practitioners Act	611 691
Libraries Board of South Australia	6 882 342
Lifetime Support Scheme Fund	1 359 153
Local Government Taxation Equivalents Fund	2 662
Market Projects Unit	3 220
McLaren Vale Wine Industry Fund	496 187
Motor Accident Commission Account	1 532 240
Museum Board Account	1 395 537
National Action Plan for Salinity and Water Quality	36 872
National Parks General Reserves Account	565 354
Native Vegetation Fund	6 280 107
Natural Resources Management Fund	2 410 393
Northern and Yorke Natural Resources Management Board	2 601 439
Outback Areas Community Development Fund	1 358 831
Passenger Transport Research and Development Fund	11 623
Phylloxera and Grape Industry Fund	1 582 422
Planning and Development Fund	13 688 583
Pleuro Pneumonia Fund	15 986
Police Superannuation Fund	93 021
Rail Transport Facilitation Fund	69 166 195
Real Property Act Assurance Fund	7 597 458
Real Property Act Trust Account	81 238
Residential Tenancies Fund	5 548 859
Retail Shop Leases Fund	338 965
Riverland Wine Industry Fund	858 340
SAFECOM Operating Account	17 594 651
SA Health Special Purpose Funds	146 611 219
Second-Hand Vehicles Compensation Fund	1 292 015
South Australian Apiary Industry Fund	318 821
South Australian Arid Lands Natural Resources Management Board	939 670
South Australian Country Arts Trust	3 404 710

Account	Balance \$
Interest bearing	
South Australian Forestry Corporation	2 337 391
South Australian Government Financing Authority	67 372 828
South Australian Housing Trust	126 302 909
South Australian Murray Darling Basin Natural Resources Management Board	5 396 347
South Australian Pig Industry Fund	3 991 325
South Australian Sheep Industry Fund	3 502 251
South East Natural Resources Management Board	2 285 468
State Emergency Relief Fund	69 235
Superannuation Funds Management Corporation Operating Account	15 131 919
Super SA Board	1 782 433
Super SA Flexible Rollover Product	10 996 330
Super SA Income Stream	17 674 857
Super SA Select	-
Supreme Court Suitors Fund	21 947 276
Teachers' Registration Board	10 559 124
Transmission Lessor Corporation Account	8 601
Urban Renewal Authority	21 425 639
Urban Renewal Authority — Cheltenham Trust Account	306 326
Wildlife Conservation Fund	447 689
Woods, Bagot, Jory and Laybourne-Smith — National War Memorial Account	2 419
Subtotal	843 382 462
Non-interest bearing	
Agriculture — Research and Services Grants	18 397 164
Children's Services Office — Capital Assistance Fund	192 235
Coast Protection Fund	2 022 690
Companies Liquidation Account	94 244
Co-operatives Liquidation Account	64 993
Correctional Services — Prisoners' Monies	1 067 095
Courts Administration Authority	19 839 911
Extractive Areas Rehabilitation Fund	25 795 460
Fisheries — Research and Development Fund	5 561 049
Metropolitan Drainage Maintenance Fund	19 455
Recreation and Sport Fund	1 531 555
South Australian Film Corporation Investors Returns Account	118 404
South Australian Tourism Commission	2 022 104
South Eastern Water Conservation and Drainage Board	261 683
State Heritage Fund	348 441
Unclaimed Salaries and Wages Account	505 097
Workmen's Liens	1 088 213
Subtotal	78 929 791
Total deposits lodged with the Treasurer	922 312 253

8 Management structure of the Auditor-General's Department



Annexure – Agencies audited whose financial statements will be published on the Auditor-General’s Department website

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

In addition, the PFAA allows me to publish other documents on that website. Other documents would include the financial statements of agencies that are not public authorities.

Under section 36(1)(4) of the PFAA I will be publishing on the Auditor-General’s Department website (www.audit.sa.gov.au) copies of the financial statements of all agencies audited by me.

A.1 Agency financial statements to be published immediately after the Annual Report is tabled

The following agencies have been included in Part B and copies of their financial statements will be published on our website immediately after the Annual Report is tabled.

Adelaide Festival Centre Trust
Adelaide Oval SMA Limited
Adelaide Venue Management Corporation
Attorney-General’s Department
Auditor-General’s Department
Central Adelaide Local Health Network Incorporated
Child Protection – Department for
Correctional Services – Department for
Country Health SA Local Health Network Incorporated
Courts Administration Authority
Education – Department for
Environment Protection Authority
Environment and Water – Department for
Flinders University
Health and Wellbeing – Department for
HomeStart Finance
Human Services – Department of
Independent Commissioner Against Corruption
Lifetime Support Authority of South Australia
Motor Accident Commission
Northern Adelaide Local Health Network Incorporated
Planning, Transport and Infrastructure – Department of
Premier and Cabinet – Department of the
Primary Industries and Regions – Department of
Public Trustee
Return to Work Corporation of South Australia

SA Ambulance Service Inc
South Australia Police
South Australian Fire and Emergency Services Commission
South Australian Government Financing Authority
South Australian Housing Trust
South Australian Superannuation Board
South Australian Superannuation Scheme
South Australian Tourism Commission
South Australian Water Corporation
Southern Adelaide Local Health Network Incorporated
Southern State Superannuation Scheme
State Development – Department of
Super SA Retirement Investment Fund
Superannuation Funds Management Corporation of South Australia
TAFE SA
Treasury and Finance – Department of
Treasurer’s statements
University of Adelaide
University of South Australia
Urban Renewal Authority
Women’s and Children’s Health Network Incorporated

A.2 Agency financial statements to be published after the audit is completed

Copies of their financial statements of the following agencies that are not reported in Part B of my Annual Report, will now be published as soon as reasonably practicable on our website after their audit is completed.

Aboriginal Lands Trust
Adelaide and Mount Lofty Ranges Natural Resources Management Board
Adelaide Cemeteries Authority
Adelaide Festival Corporation
Adelaide Film Festival
Agents Indemnity Fund
Alinytjara Wilurara Natural Resources Management Board
Art Gallery Board
Australian Children’s Performing Arts Company
Australian Energy Market Commission
Board of the Botanic Gardens and State Herbarium
Carrick Hill Trust
Coast Protection Board
Construction Industry Training Board
CTP Regulator
Dairy Authority of South Australia
Defence SA
Distribution Lessor Corporation
Dog and Cat Management Board
Dog Fence Board

Electoral Commission of South Australia
Electricity Industry Superannuation Scheme
Essential Services Commission of South Australia
Eyre Peninsula Natural Resources Management Board
Generation Lessor Corporation
Green Industries SA
Governors' Pensions Scheme
Health Services Charitable Gifts Board
History Trust of South Australia
House of Assembly
Independent Gambling Authority
Independent Gaming Corporation Ltd
Industry Advocate
Investment Attraction South Australia
Joint Parliamentary Service
Judges' Pensions Scheme
Judicial Conduct Commissioner
Kangaroo Island Natural Resources Management Board
Legal Services Commission
Legislative Council
Libraries Board
Local Government Finance Authority of South Australia
Lotteries Commission of South Australia
Maralinga Lands Unnamed Conservation Park Board
Medvet Science Pty Ltd
Minister for Primary Industries and Regional Development – Adelaide Hills Wine Industry Fund
Minister for Primary Industries and Regional Development – Barossa Wine Industry Fund
Minister for Primary Industries and Regional Development – Citrus Growers Fund
Minister for Primary Industries and Regional Development – Clare Valley Wine Industry Fund
Minister for Primary Industries and Regional Development – Eyre Peninsula Grain Growers Rail Fund
Minister for Primary Industries and Regional Development – Grain Industry Fund
Minister for Primary Industries and Regional Development – Grain Industry Research and
Development Fund
Minister for Primary Industries and Regional Development – Langhorne Creek Wine Industry Fund
Minister for Primary Industries and Regional Development – McLaren Vale Wine Industry Fund
Minister for Primary Industries and Regional Development – Riverland Wine Industry Fund
Minister for Primary Industries and Regional Development – South Australian Apiary Industry Fund
Minister for Primary Industries and Regional Development – South Australian Cattle Industry Fund
Minister for Primary Industries and Regional Development – South Australian Grape Growers
Industry Fund
Minister for Primary Industries and Regional Development – South Australian Pig Industry Fund
Minister for Primary Industries and Regional Development – South Australian Sheep Industry Fund
Museum Board
Native Vegetation Fund
Northern and Yorke Natural Resources Management Board
Office of the National Rail Safety Regulator
Outback Communities Authority
Parliamentary Budgetary Advisory Service
Parliamentary Superannuation Scheme
Planning and Development Fund
Police Superannuation Scheme
Professional Standards Council

Rail Commissioner
Residential Tenancies Fund
Retail Shop Leases Fund
Riverbank Authority
Rural Industry Adjustment and Development Fund
SA Metropolitan Fire Service Superannuation Scheme
SACE Board of South Australia
Second-hand Vehicles Compensation Fund
Small Business Commissioner
South Australian Ambulance Service Superannuation Scheme
South Australian Arid Lands Natural Resources Management Board
South Australian Country Arts Trust
South Australian Country Fire Service
South Australian Film Corporation
South Australian Forestry Corporation
South Australian Local Government Grants Commission
South Australian Mental Health Commission
South Australian Metropolitan Fire Service
South Australian Murray-Darling Basin Natural Resources Management Board
South Australian State Emergency Service
South East Natural Resources Management Board
South Eastern Water Conservation and Drainage Board
State Opera of South Australia
State Planning Commission
State Procurement Board
State Theatre Company of South Australia
Stormwater Management Authority
StudyAdelaide
Super SA Select Fund
Teachers Registration Board of South Australia
TechInSA
Transmission Lessor Corporation
West Beach Trust

