Report of the Auditor-General

Auditor-General's Department

Report 6 of 2019

Annual report
for the year ended 30 June 2019
Part C: Agency audit reports

Government of South Australia

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for the year ended 30 June 2019
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Agency audit reports

Introduction

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

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

Agencies not included in this Report

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

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

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

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

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

Modified Independent Auditor’s Reports

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

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

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

Of the agencies included in this Report, a modified opinion was expressed on the financial report of the University of South Australia.

In addition, without modifying my opinion on the financial reports of the Lifetime Support Authority and the Return to Work Corporation of South Australia, I drew attention to the inherent uncertainty in certain liabilities reported for those entities at 30 June 2019.

Audit of the Auditor-General’s Department

The *Public Finance and Audit Act 1987* requires the Auditor-General’s Department’s financial report to be audited by an auditor appointed by the Governor. The audit for the financial year ended 30 June 2019 was conducted by Nexia Edwards Marshall, Chartered Accountants, who issued an unmodified Independent Auditor’s Report on the Department’s financial report.

Adelaide Festival Centre Trust (AFCT)

Financial statistics	Net cost of providing services:	$21 million
	Revenues from SA Government:	$24 million
	Revenues from fees and charges:	$28 million
	Net assets:	$21 million
	Number of FTEs:	345 (including 187 casuals)
	Ticketed attendances:	537 772
	Total attendances:	1 066 086

Significant events and transactions

During the year work continued on the redevelopment and expansion of Her Majesty's Theatre. Work in progress at 30 June 2019 is $36 million and $26 million has been drawn down from the approved $62 million loan facility. Construction works are expected to be completed in early 2020.

Financial report opinion

Unmodified

Audit findings

- Lack of documented policies for IT general controls.
- No evidence of the independent review of audit logs.
- No disaster recovery planning established for the BASS application.
- User access management issues.
- No purchase card policy.
- Financial management compliance program not up to date.
- No internal audit function as required by the AFCT's Charter.
- Terminated employee paid after termination.

Functional responsibility

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

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

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

Scope of the audit

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

Specific areas of audit attention in 2018-19 included:

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

Audit findings

Communicating our audit findings

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

IT general controls review of BASS system

Policies and procedures

We found that there was a lack of documented policies in the following areas:

- user access management
- password management
- privileged user access
- audit logging
- change management
- patch management
- backup management.

If policies are not in place there is an increased risk of inappropriate processes being followed.

In response the AFCT advised that it would develop policies for the areas we identified.

No evidence of reviewing audit logs

We found no evidence that an independent review of the BASS, database and operating system audit logs is being performed. If audit logs are not reviewed there is a risk that inappropriate or unauthorised changes to the AFCT's financial data could go undetected.

In response the AFCT advised that this issue will be considered when it implements the South Australian Protective Security Framework (SAPSF).

Disaster recovery management

We found that no disaster recovery planning was established for the BASS application. There is a risk that the AFCT may not be able to recover key business activities within an acceptable time frame in the event of a disaster or system failure.

In response the AFCT advised that this issue will be considered when it implements the SAPSF.

User access management

We found issues over user access management including:

- a new user is added to the system by copying another user with the same roles and access permissions
- no reviews are performed to ensure that new user access details have been correctly entered
- instances where terminated user accounts were still active after termination
- no review of user access to the BASS system, including the appropriateness of user access profiles or if users still need access to the system.

There is an increased risk of someone obtaining or having inappropriate access to the system without these controls.

In response the AFCT advised that:

- it will follow the basic user account creation procedure that will be detailed in the SAPSF to use a baseline template that grants access to basic systems
- it will update the user access policy to require an independent check that a user has been entered correctly
- the user access policy will be updated to require ICT Services to check a monthly listing of terminated staff against the current user access list
- user access review processes will be incorporated in the user access policy.

Governance

We found several governance issues that need to be addressed, including:

- no purchase card policy

- the financial management compliance program has not been performed since 2017
- no internal audit function, which is a requirement of the AFCT's Charter.

These issues increase the risk of:

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

In response the AFCT advised that:

- it would develop a credit card policy
- it would update the financial management compliance program
- a budget has been established for an internal audit function in 2019-20.

Payroll

Terminated employee paid after termination

We found an instance where an employee was paid after being terminated. The employee was terminated in July 2018, but the termination was not processed in the payroll system until March 2019. The overpayment was recovered.

Not processing terminations in the payroll system in a timely manner increases the risk that payments may be incorrectly made for hours not worked.

In response the AFCT advised that it would remind managers to do bona fide checks promptly and that it will investigate using an automated workflow to track and escalate bona fide returns.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	20	19
Other expenses	31	31
Total expenses	51	50
Income		
Fees and charges	28	19
Other income and interest	2	2
Total income	30	21
Net cost of providing services	21	29
Revenues from (Payments to) SA Government	24	26
Net result	3	(3)

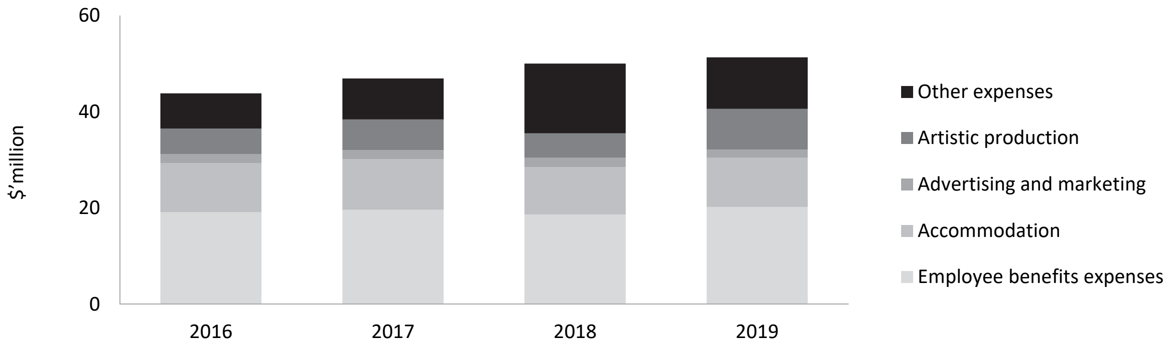
	2019 $'million	2018 $'million
Net cash provided by (used in) operating activities	15	10
Assets		
Current assets	27	20
Non-current assets	53	25
Total assets	80	45
Liabilities		
Current liabilities	30	18
Non-current liabilities	29	9
Total liabilities	59	27
Total equity	21	18

Statement of Comprehensive Income

The AFCT relies on SA Government funding to support its operations. That is, the net cost of services is met through funding provided by the SA Government. The AFCT's activities are largely dependent on the level of external demand for theatre services and the extent of AFCT's programmed activities. Depending on the level and timing of these activities, the nature and amount of revenues and expenses will vary from year to year.

Expenses

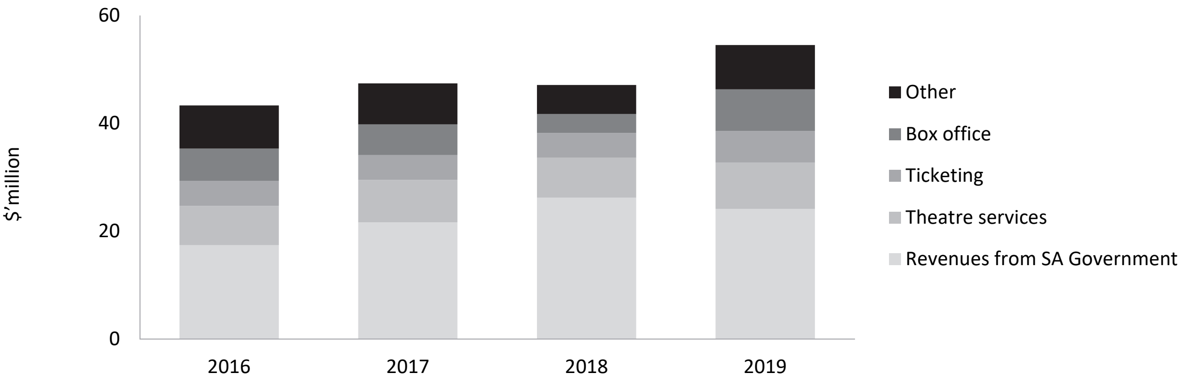
An analysis of the AFCT's expenses for the four years to 2019 is presented in the following chart.



In 2019 the AFCT's expenses increased by $1 million to $51.5 million. This was mainly due to an increase in artistic production costs of $3.5 million and employee benefits expenses of $1.6 million. The increase in artistic production costs was due to several big shows being held and the part closure of the Festival Theatre in 2017-18. This was offset by a decrease in other expenses of $3.8 million primarily as a result of the impairment loss on buildings in relation to the redevelopment of HMT recognised in 2017-18.

Income

An analysis of the AFCT's income for the four years to 2019 is presented in the following chart. Revenues from the SA Government are included in income for the purpose of this analysis.



In 2019 the AFCT's income increased by $7.4 million to $54.5 million due mainly to an increase in revenues from fees and charges of $9 million, offset by a decrease in revenues from the SA Government of $1.9 million. The increase in revenue from fees and charges is largely the result of the Festival Theatre being open for the full year compared to being closed for five months in 2017-18. The main components of revenues from the SA Government were:

- operating base funding of $17.1 million ($16 million)
- HMT redevelopment funding of $3.3 million ($1.3 million) – made up of interest payable to the South Australian Government Financing Authority (SAFA), $1.7 million, and $1.5 million for technology and equipment
- Adelaide Festival Centre redevelopment supplementation funding of $1.1 million ($7.6 million) for the closure of the car park
- capital grants of $2.2 million ($1 million) for technical equipment upgrades for the Festival Centre precinct.

Statement of Financial Position

Current assets

The AFCT's current assets of $27.1 million ($19.9 million) include cash of $23.7 million ($17.5 million), of which $10.2 million ($7.8 million) is proceeds from ticket sales through BASS held in trust until distributed to promoters. Cash also increased as a result of the increase in borrowings received from the SA Government and donations as a result of fundraising received for the redevelopment of HMT.

Non-current assets

The AFCT's non-current assets of $53.6 million ($25.1 million) comprise:

- works of art of $8.8 million ($8.8 million)
- property, plant, equipment and intangible assets of $8.4 million ($9 million)
- capital works in progress of $36.3 million ($7.3 million). The increase of $29 million is a result of the HMT redevelopment.

Liabilities

The AFCT's liabilities increased by $32.6 million to $59.3 million due mainly to:

- borrowings increasing by $20.5 million as a result of the ongoing redevelopment of HMT

- trade payables increasing by $11.5 million due mainly to invoices payable to the Department of Planning, Transport and Infrastructure for the redevelopment of HMT
- amounts payable to promoters increasing by $2.4 million due mainly to the increase in ticket sales for shows being held such as *The Book of Mormon*
- accrued expenses decreasing by $1.9 million as a result of a reduction in amounts owing to Arts South Australia for rent of the Adelaide Festival Centre.

Further commentary on operations

Redevelopment of Her Majesty's Theatre

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

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

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

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

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

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

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

HMT closed in March 2018. Major construction works commenced in April 2018 and are expected to be completed early 2020.

Redevelopment of the Adelaide Festival Centre and Plaza

The $90 million redevelopment of the Adelaide Festival Centre and Plaza, as part of the major redevelopment of the Riverbank Precinct, continued in 2018-19. The construction works have resulted in the closure of the car park, and restricted access to the Dunstan Playhouse, Space Theatre and the footbridge. Redevelopment work on the Festival Plaza is to be carried out from 2020 to 2022.

The Department of Treasury and Finance provided supplementary funding of $1.1 million in 2018-19 to replace loss of car park revenue.

Adelaide Oval SMA Limited (AOSMA)

Financial statistics	Net assets:	$8 million
	Profit from trading activities:	$2.9 million
	Net contributions to the SANFL and SACA from trading activities:	($600 000)
	Money collected as agent on behalf of the SANFL and SACA:	$23.6 million
	Money collected as agent on behalf of parties other than the SANFL and SACA:	$20.2 million

Significant events and transactions

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

- paid $600 000 to the SA Government to lease the Adelaide Oval Core Area
- made a payment of $2.9 million into the sinking fund.

— AOSMA engaged a builder to construct the Adelaide Oval Hotel, expected to be completed by mid-2020.

— AOSMA and the Treasurer executed a facility agreement for a loan of up to $42 million in August 2019.

Financial report opinion **Unmodified**

Functional responsibility

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

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

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

Authority for audit

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

Scope of the audit

The audit program covered financial accounting records and processes and was directed primarily to obtaining sufficient evidence to form an opinion on the financial report.

For the year ended 31 October 2018 specific areas of audit attention included:

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

Audit findings

Communicating our audit findings

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

Lack of documented policies

Our review found that there were no policies over:

- IT change management
- user access reviews over IT systems.

In response AOSMA has taken action to develop and implement these policies.

Lack of evidence in the review of data integration between systems

Our review noted that there was no evidence that the review of data integration between the point of sale and general ledger systems was being performed. We also noted there was no documented policy or procedure covering this control.

In response AOSMA advised of other checking mechanisms to support that the review of data integration between the systems was performed. AOSMA advised that these checking mechanisms will be documented in a policy.

Lack of evidence that point of sale masterfile data is reviewed

Our review noted that there was no evidence that the review of point of sale masterfile data was being performed following an update.

In response AOSMA advised that a sign-off form has been developed and will provide the required evidence that the review has occurred.

Interpretation and analysis of the financial report

Highlights of the financial report

	Year ended 31.10.18 $'million	Year ended 31.10.17 $'million
Trading activities		
Income	76	76
Expenses	73	75
Profit (Loss) from trading activities	3	1
Stakeholder contributions		
Contributions from the SANFL and SACA	10	8
Contributions to the SANFL and SACA	(9)	(9)
Net contributions	1	(1)
Trading result after net contributions to stakeholders	4	-
SA Government related items		
SA Government grants and other contributions	1	1
Lease to Minister	(1)	-
Acquisition of capital assets for the SA Government	(1)	(1)
Total comprehensive result	3	(1)
Net cash provided by (used in) operating activities	3	9
Assets		
Current assets	22	13
Non-current assets	21	19
Total assets	43	32
Liabilities		
Current liabilities	21	18
Non-current liabilities	14	9
Total liabilities	35	27
Total equity	8	5

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

Statement of Comprehensive Income

The Statement of Comprehensive Income includes only the income and expenses that AOSMA controls. It does not include money that AOSMA collects as agent on behalf of the SANFL, SACA, COT, AFL, CA, football clubs or promoters.

Trading activities

AOSMA reported a trading profit of $2.9 million in the 12 months to 31 October 2018 compared to a trading profit of $1.3 million in the previous year, an increase of $1.6 million.

AOSMA reported trading income of $75.6 million ($75.9 million).

Trading expenses decreased by $1.9 million to $72.7 ($74.6 million). The decrease was mainly due to decreases in:

- raw materials and consumables of $466 000, largely as a result of decreased catering activity during the year
- supplies and services expenses of $843 000, largely as a result of a decrease in administration costs of $758 000
- depreciation and amortisation expense of $1.3 million to $3.6 million ($4.9 million)
- offset by an increase in employee benefits expense of $589 000.

Stakeholder contributions

Net contributions to AOSMA from the SANFL and SACA were $567 000, compared to a net payment of $1.2 million to the SANFL and SACA in the previous year. Under various agreements, AOSMA contributed $9.5 million of its trading income to the SANFL and SACA while the SANFL and SACA contributed $10 million to AOSMA to support its operations. The $9.5 million contributed to the SANFL and SACA was in addition to $23.6 million collected and distributed by AOSMA to the SANFL, SACA and the COT as their agent. For the SANFL and SACA, these distributions replace the funds formerly generated directly by SACA when it held the lease over the Adelaide Oval, and for the SANFL when AFL football was played at AAMI Stadium.

SA Government related items

SA Government grants and other contributions of $833 000 ($838 000) is grant income for safety, security and stadium operations provided by the SA Government under a Deed of Grant agreement. AOSMA also acquired capital assets of $808 000 ($1 million) which were funded by the SA Government. In addition, AOSMA paid $600 000 to the SA Government to lease the Adelaide Oval Core Area in line with the *Adelaide Oval Redevelopment and Management Act 2011.*

Statement of Financial Position

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

- an increase in cash and cash equivalents of $2.9 million principally resulting from AOSMA's contribution to the sinking fund

- a $6.2 million increase in receivables due mainly to amounts outstanding from SACA and the SANFL
- a $2.4 million increase in property, plant and equipment resulting from the addition of ribbon boards and the Bodyline bar
- a $3.3 million increase in trade and other payables as a result of an increase of $1.9 million in income received on behalf of the SANFL and SACA not yet distributed
- a $5.9 million increase in loans and borrowings as a result of AOSMA entering into a new loan facility to finance the purchase of new equipment (LED lighting and ribbon boards).

AOSMA's main assets comprise property, plant and equipment of $21.5 million ($19.1 million), receivables of $9.5 million ($3.4 million) and cash of $10.6 million ($7.7 million).

Money collected on behalf of other parties

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

For the year ended 31 October 2018, AOSMA collected:

- $23.6 million on behalf of the SANFL, SACA and COT. This amount is disclosed as related party transactions in note 17 of AOSMA's financial report
- $20.2 million on behalf of the AFL, CA, football clubs and promoters. These collections are not disclosed in the financial report, apart from the balance awaiting distribution at 31 October 2018. Most of these collections related to tickets sold through AOSMA's ticketing agent on behalf of CA, the Port Adelaide Football Club, the Adelaide Football Club and promoters.

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

Further commentary on operations

State legislative requirements

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

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

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

Sinking fund

AOSMA made a contribution of $2.9 million to the sinking fund in 2017-18. This amount was based on the updated 50-year forecast of expenditure provided by the project consultant. The amount was approved by the Treasurer. Payments totalling $919 000 were made out of the sinking fund in 2017-18 (refer note 3 of AOSMA's financial report). The balance of the sinking fund as at 31 October 2018 was $6.7 million.

Leasing and licensing arrangements

AOSMA leases from the SA Government the Adelaide Oval Core Area which includes the stadium. The rent payable by AOSMA to the SA Government over the 80-year term of the lease is expected to be $74.3 million before indexation. Rent was not payable for the lease period before 1 July 2015. AOSMA is required to pay the annual lease fee by 31 July each year. In July 2018 AOSMA paid $600 000. The land situated in the Adelaide Oval Core Area is leased by the SA Government from the Adelaide City Council for an equal term at $1 p.a.

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

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

Commercial Operations Trust

In 2015-16, the COT was established and a company was set up and appointed as trustee to operate the Adelaide Oval roof climb in the Adelaide Oval Core Area. AOSMA licensed the COT to operate the roof climb from 1 July 2016 to 16 November 2031. The issuing of the licence was approved by the Minister. AOSMA also entered into a service agreement with the COT which enables AOSMA to manage the roof climb business on behalf of the COT. The associated licence and management fees as outlined in the agreements are recognised in the financial statements. Net ticket sales collected on behalf of the COT for the year were $1.1 million.

Insurance

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

Adelaide Oval Hotel

In November 2018 AOSMA announced a project to construct a hotel within the Adelaide Oval Core Area. The hotel is to be integrated into the eastern façade of Adelaide Oval and is to be constructed and operated by AOSMA. In June 2019 Built Environs was announced as the builder of the hotel following a competitive tender process. In August 2019 a facility agreement between the Treasurer and AOSMA was executed for a loan of up to $42 million at commercial rates commencing on 2 December 2019. The hotel will be operated by the Commercial Operations Hotel Trust under a lease and licence agreement with AOSMA. Construction of the hotel is expected to be completed by mid-2020.

Adelaide Venue Management Corporation (AVMC)

Financial statistics

Income from trading activities:	$66 million
Profit from trading activities:	$11.9 million
Loss from property management activities:	$36.9 million
Net loss:	$24.9 million
Number of FTEs:	418

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

	2019 Number	2018 Number
Adelaide Entertainment Centre:		
Events	110	106
Patrons	313 000	302 000
Coopers Stadium:		
Events	18	14
Patrons	191 000	175 000
Adelaide Convention Centre:		
Events/Functions	774	754
Patrons	355 000	292 000

Significant events and transactions

— Improvements to the Adelaide Convention Centre kitchen were completed at a total cost of $3.1 million.

— A venue hire agreement was executed for the Adelaide 36ers basketball team to play home games at the Adelaide Entertainment Centre for the period 1 July 2019 to 30 June 2024.

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Other audit findings

No segregation of duties between purchase order approval and receipting.

Functional responsibility

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

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

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

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

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

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

Other audit findings

No segregation of duties between purchase order approval and receipting

We found that there was a lack of segregation of duties between purchase order approval and receipting functions within the event management system.

In response the AVMC advised that it understands and accepts the risks involved in allowing an officer who approves a purchase order to also receive the goods ordered.

Interpretation and analysis of the financial report

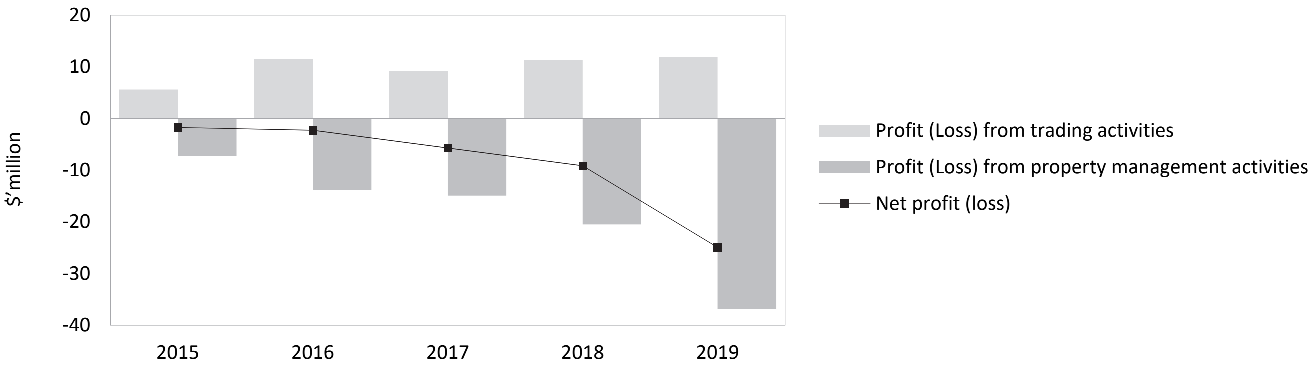
Highlights of the financial report

	2019 $'million	2018 $'million
Trading activities		
Expenses	54	50
Income	66	61
Profit (Loss) from trading activities	12	11
Property management activities		
Expenses	62	45
Income	25	25
Profit (Loss) from property management activities	(37)	(20)
Net profit (loss)	(25)	(9)
Other comprehensive income		
Change in asset revaluation surplus	-	10
Net cash provided by (used in) operating activities	9	11
Net cash provided by (used in) investing activities	(7)	(20)
Net cash provided by (used in) financing activities	(2)	(2)
Assets		
Current assets	36	38
Non-current assets	628	653
Total assets	664	691
Liabilities		
Current liabilities	21	21
Non-current liabilities	388	388
Total liabilities	409	409
Total equity	255	282

Statement of Comprehensive Income

The AVMC recorded a net loss of $24.9 million for 2019.

The following chart shows the profits (losses) from trading and property management activities and the AVMC's net profits (losses) for the five years to 2019.



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

Over the last four of the five years presented, profits from trading activities were relatively steady while losses on property management activities grew.

The net loss for 2018-19 increased by $16 million to $25 million. The profit from trading activities increased by $1 million to $12 million and the loss from property management activities increased by $16 million to $37 million. The increase in the loss from property management activities is a result of the increased depreciation from the completed redevelopment of the Adelaide Convention Centre. The operations of the Adelaide Convention Centre became part of the AVMC from 2016.

Profit from trading activities

The AVMC's income from trading activities totalled $66 million and mainly comprised catering revenue ($32 million) and venue hire revenue ($11.8 million).

Expenses from trading activities amounted to $54 million and mainly comprised employee benefits expenses ($32.6 million) and supplies and services expenses ($16.9 million).

Loss on property management activities

Expenses from property management activities were $62 million and mainly comprised depreciation ($28.9 million) and borrowing costs ($19.1 million).

The AVMC received $24.3 million in funding from the SA Government, which fully compensated borrowing costs and contributed to property management activities associated with the Adelaide Convention Centre site maintenance of the common areas and the Riverbank Precinct.

Statement of Financial Position

The main item in the AVMC's Statement of Financial Position is property, plant and equipment, representing 93% of total assets. The carrying value of property, plant and equipment is $615.2 million, which includes land and buildings of $593.9 million and plant and equipment of $19.6 million. The AVMC's main assets are the Adelaide Convention Centre and the Adelaide Entertainment Centre buildings.

Liabilities as at 30 June 2019 totalled $409.3 million and mainly comprised borrowings of $382.3 million and payables of $6.9 million. The AVMC has fully drawn down its approved borrowing limit of $382.3 million from the SA Government.

Statement of Cash Flows

Cash and cash equivalents were $43 million as at 30 June 2019.

The AVMC had a net cash inflow from operating activities of $9 million for the year while cash used in investing activities was $7.1 million, which included payments associated with AVMC's annual investment program.

Cash used in financing activities was $1.6 million and comprised dividends paid to the SA Government.

Dividends are paid in line with the AVMC's Performance Statement.

Administered items

The AVMC administers, but does not control, gross box office receipts from its ticketing agency. These receipts are held in separate event funds bank accounts. Settlement occurs after each event through the payment of funds held to promoters, the AVMC and other service providers. Total administered revenues for the year were $27.4 million and administered expenses were $31.4 million. The balance of funds held in trust as at 30 June 2019 was $11.1 million.

Attorney-General's Department (AGD)

Financial statistics	Employee benefits expenses:	$147 million
	Net cost of providing services:	$122 million
	Revenues from SA Government:	$108 million
	Number of FTEs (includes administered):	1195
	Administered income:	
	Taxation revenue	$269 million
	Fines and related fees	$91 million
	Revenues from SA Government	$120 million
	SA Government Radio Network	$34 million
	Victims of Crime levies	$23 million
	Administered expenses:	
	Payments to Consolidated Account	$353 million
	Grants and subsidies	$62 million

Significant events and transactions

- SafeWork SA was transferred to the Department of Treasury and Finance on 1 July 2018.
- The South Australian Employment Tribunal was transferred to the Department of Treasury and Finance on 1 October 2018.
- The Independent Gambling Authority was consolidated into Consumer and Business Services on 1 December 2018.

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Other audit findings

- Key payroll reports not reviewed promptly and time attendance records not completed or approved promptly.
- Business processes at Consumer and Business Services need to improve.
- Fines Enforcement and Recovery Unit still not distributing debt to debt partners based on their performance.

Functional responsibility

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

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

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

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- cash and debtors
- non-current assets
- payroll and employee entitlements
- revenue
- taxation receipts
- statutory funds
- Crown Solicitor's Trust Account
- financial accounting and reporting
- financial management performance.

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

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

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

Other audit findings

Payroll

Employee benefits expenses for both controlled and administered activities totalled $157.5 million for 2018-19, while employee benefits liabilities totalled $50.9 million as at 30 June 2019.

Key payroll reports not reviewed promptly

We found AGD's leave return reports were not always reviewed promptly, signed or dated to evidence prompt review by the relevant manager. This has been raised in previous years. We note there were improvements in the prompt review of reports for the business units we tested, except for the Office of the Director of Public Prosecutions (ODPP).

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

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

AGD advised that it had reminded management of the need to review and certify leave return reports promptly. The ODPP will continue to send a reminder to managers with outstanding leave and/or time approvals to review and approve timesheets promptly. This will assist in the prompt review of leave return reports.

Discrepancies on leave return reports remain outstanding

Most AGD business units use TimeWise to record time worked and apply for leave.

Our review of the February 2019 ODPP leave return report identified 33 discrepancies between TimeWise and the payroll system for leave taken in 2017-18 that had not been resolved. When we followed up in June 2019, 12 discrepancies remained unresolved. The discrepancies are partially caused by timesheets not being reviewed for accuracy by line managers and approved promptly (refer to the issue below).

Without the prompt resolution of discrepancies, leave taken may be inaccurately recorded in the payroll system.

AGD advised that TimeWise and payroll system reconciliations will occur monthly and be performed within two weeks of the leave report being generated. Any outstanding approvals, or other issues identified, will be followed up with the relevant manager.

Time worked and leave requests not approved

Our review of the manager reminder report for the three most material pay points for pay periods between 3 March 2018 and 1 February 2019 identified many instances where:

- timesheets were completed but not approved by the manager
- timesheets were not completed
- sick leave requests were not approved
- special leave requests were not approved.

Similar issues were raised in previous years. We note there was an improvement in the number of outstanding items for several business units, except for the ODPP.

Completing and approving timesheets and leave requests provides assurance that:

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

AGD advised that the updated time and attendance policy will be distributed to business unit heads, with a reminder about timesheet completion and certification.

The Director Business Services, ODPP, will on a quarterly basis provide a summary of overdue timesheets and leave requests to each manager responsible to the Director. Managers within ODPP will be reminded monthly to review and approve timesheets promptly.

Expenditure

Changes to Basware user access not reviewed in the quarterly Basware reports

AGD uses Basware for payment processing. Basware user access reviews are performed quarterly to ensure user access is appropriate and that financial delegations within Basware align with the delegations approved by the Chief Executive.

We found that each quarter the Financial Services business unit checks approximately 10% of active certifiers and approvers to ensure that their financial delegations agree to those approved by the Chief Executive. We note that this review does not ensure that all Basware approver user access changes (new, changes and removal of existing access) requested during the quarter have been accurately processed by Shared Services SA.

AGD responded that from 1 July 2019, the quarterly review will include a complete review of all Basware approvers against the financial authorisation schedule to ensure all changes to approvers are correctly reflected in Basware.

Establishing CommBiz daily authorisation limits

All payments processed through the CommBiz banking system must be approved by two officers with appropriate authority prior to disbursement.

Our review identified that no daily payment limit has been set to cap payments made through CommBiz.

We understand that due to the nature of AGD operations there could be large payments, but limits could be implemented to accommodate these payments.

Establishing an appropriate daily payment limit in CommBiz would limit the maximum exposure to fraudulent payments without impacting day-to-day accounts payable operations.

AGD advised that it will consider what daily banking limits may be appropriate for CommBiz users, what processes need to be implemented and the practicality of this solution. It will then consult with us to ensure that the solution addresses the perceived risk. These limits would also apply to Shared Services SA staff who disburse payments on AGD's behalf.

Consumer and Business Services (CBS)

In 2017-18 licence and regulatory fees collected through the LOGIC revenue collection system totalled $27.3 million and the total collected for gaming and taxation revenue was $269.1 million. Total fees collected for issuing birth, death and marriage certificates through the Promadis revenue collection system were $6.4 million.

Our audit of CBS identified that:

- the Promadis to general ledger reconciliation, which ensures that all revenue has been journalled accurately in the general ledger, was not performed promptly. The Births, Deaths and Marriages Registrar advised that delays in completing and reviewing the reconciliations was due to the turnover of staff in the team leader position
- the LOGIC to general ledger reconciliation, which ensures revenue receipted in LOGIC is completely and accurately reflected in the general ledger, had not been prepared or reviewed promptly. The lengthy reconciliation process to identify variances between the two systems and to amend system reports contributed to the delays in preparing and reviewing the reconciliations. A similar issue was raised in 2017-18 and CBS advised that it would continue to work with LOGIC developers to resolve the inaccurate reporting issue
- monthly gaming tax reconciliations to ensure all calculated tax is recognised in AGD's financial reports were not always prepared promptly.

AGD advised that:

- training has been provided to a new staff member, and the Registrar and Deputy Registrar have also been trained to minimise concerns around prompt preparation of the reconciliation. Reconciliations were up to date for the end of the financial year
- CBS conducts daily reconciliations from LOGIC to the general ledger and the monthly reconciliation provides an additional level of assurance. CBS will review the need for this monthly reconciliation
- the monthly gaming tax reconciliation is now being prepared in a timely manner and another staff member is being trained to support this work.

Residential Tenancies Fund (RTF)

As at 30 June 2019 total bonds lodged with the RTF were $208.3 million.

Bonds lodged and refunded within 31 days

In response to vulnerabilities found in the Residential Bonds Online (RBO) portal system, the Commissioner for Consumer Affairs agreed to eliminate the risk of immediate refunds being made by preventing refunds from being requested within 31 days of the bond being lodged. This system control was implemented in December 2017.

Our review of bond lodgements and refunds processed through the RBO portal system and manually processed in the Bonds Management System (BMS) for the period 1 July 2018 to 30 April 2019 found numerous instances of bonds being lodged and then refunded within 31 days.

We also noted that the bond refund procedure does not specify the expectations of acceptable time lines for the bond refunds processed manually in BMS.

Refunding bonds within a short period of time increases the risk of financial loss and fraud within CBS.

AGD's response confirmed that changes made to the RBO portal system ensure that a refund cannot be system generated within 31 days and the audit review was based on an incorrect date stamp. While we sought to clarify the correct transaction date, we did not receive a response before we completed the audit. CBS has since offered to provide additional information that will be considered as part of the next bonds expenditure audit. Also, CBS advised that the bond refund procedure was updated at the time of the RBO system change and reflects an acceptable time frame for the bond refunds processed manually in BMS, being after three days from lodgement.

Residential Tenancies Fund bank reconciliation reconciling items not cleared promptly

Our review of the April 2019 RTF bank reconciliation identified 134 reconciling items for transactions that were recognised in the bank statements but not in BMS. CBS advised that delays in clearing reconciling items was due to staff changes.

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

AGD advised that CBS is investigating the outstanding variances and determining appropriate actions, with a system to be implemented to ensure this reconciliation is completed promptly.

Unclaimed bonds

In both 2016-17 and 2017-18 we identified that CBS did not have a policy or procedure to provide guidance on when bonds should be recognised as unclaimed and how to manage unclaimed bonds.

In 2018-19 CBS developed an unclaimed bonds liability procedure but it did not outline how CBS will manage and reduce this liability.

We note that as at June 2019, unclaimed bonds totalled $9.4 million.

Our review of the unclaimed bonds reconciliation found that the April 2019 reconciliation was not performed due to a system failure and the October 2018 reconciliation was not reviewed until December 2018. We also found the January 2019 reconciliation still contained a variance of $69 000. In 2018-19 CBS identified that the variance was caused by refund failures in RBO. CBS is still in the process of resolving the issue with RBO.

AGD advised that CBS:

- is reviewing the unclaimed bonds liability procedure, understanding what interstate counterparts are doing and considering feasible options
- confirmed that the current system has a variation. The Senior Finance Officer has been assigned to review the variance and identify any system issues.

Fines Enforcement and Recovery Unit (FERU)

As at 30 June 2019, the balance of outstanding debt managed by the FERU was $444.9 million.

Performance based debt distribution

In 2016 the Attorney-General entered into a debt collection deed with two debt collection companies (debt partners), Dun and Bradstreet and National Credit Management Limited (NCML). The contracts are managed by the FERU.

In 2016-17 we were advised that performance based debt distribution to the debt partners was not occurring as required by Schedule 5 of the Debt Collection Deeds. NCML were not receiving first party debt packages due to incomplete system design requirements. The FERU was waiting for the new fines system to be implemented before providing this type of debt to NCML.

The new fines system went live on 18 June 2018.

In 2018-19 we found that while the debt partners have accepted the proposed performance based model, debt is still not distributed to them based on their performance. We also identified that NCML was still not receiving first party debt packages due to incomplete system design requirements.

AGD advised that:

- extensive work has been done with debt partners to establish baseline key performance indicators and the FERU has received agreement from the debt partners on these
- NCML has yet to finalise the necessary development of its systems to allow it to receive files from the FERU. Until it has completed this, an initial baseline performance benchmark cannot be established and therefore performance based distribution cannot commence. The FERU is working with NCML to ensure it can start receiving files as soon as practical.

Cash reconciling items not resolved promptly

The FERU bank account is swept daily into the AGD Corporate Bank Account. Shared Services SA performs a monthly reconciliation including the follow-up of reconciling items.

Our review of the February 2019 FERU bank account reconciliation identified a number of large reconciling items dating back to June, July and August 2018. They resulted from errors in the allocation of receipts in the new fines system to general ledger accounts at the time it was implemented.

Our follow-up in May 2019 found that these reconciling items remained and staff were working to clear them.

AGD advised that the FERU is aware of the general ledger allocation issues and is monitoring these items daily. There has been a significant reduction in the overall variance of the FERU bank reconciliation and resources have been allocated to resolve these variances.

IT general controls review

LOGIC is the system primarily used by CBS to process liquor and gaming tax. In 2018-19, we reviewed the IT general controls that are applied to LOGIC. This included password management, user access management, privileged user access, audit logging, change management, patch management, backup and disaster recovery management.

Our assessment observed certain positive controls including a well established patch management process and robust backup management process. We also identified weaknesses requiring remediation, mainly in the following areas:

- password configuration settings
- database privileged user access
- application audit logging process
- change management process.

These weaknesses increase the risk of unauthorised access and/or unauthorised changes to the LOGIC environment.

AGD responded positively to our findings and recommendations and advised that all remediation would be completed by March 2020.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

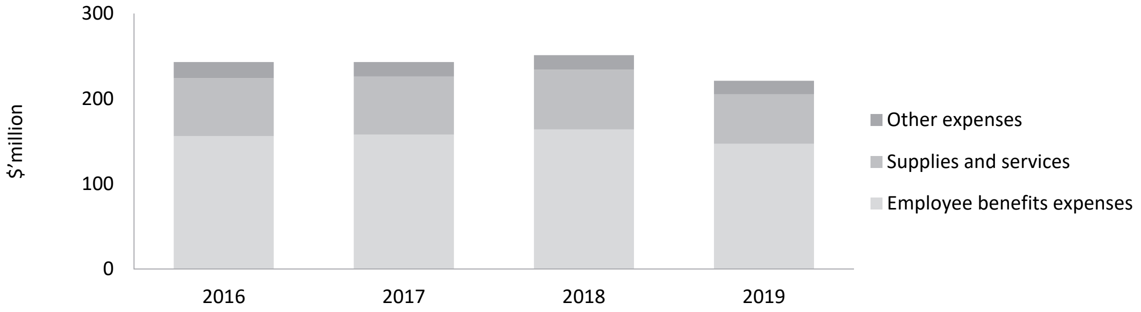
	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	147	164
Supplies and services	58	70
Other expenses	16	18
Total expenses	221	252
Income		
Revenues from fees and charges	83	106
Recoveries	11	19
Other	5	5
Total income	99	130
Net cost of providing services	122	122
Revenues from SA Government	108	115
Net result	(14)	(7)
Total comprehensive result	(14)	(7)
Net cash provided by (used in) operating activities	-	(10)
Assets		
Current assets	39	45
Non-current assets	21	35
Total assets	60	80
Liabilities		
Current liabilities	27	31
Non-current liabilities	36	41
Total liabilities	63	72
Total equity	(3)	8

Statement of Comprehensive Income

Expenses

In 2018-19 total expenses decreased by $31 million to $221 million. This is mainly due to a decrease in employee benefits expenses of $16.9 million, a decrease in supplies and services of $12.2 million and a decrease in grants and subsidies of $2.5 million.

The following chart analyses the main expense items for AGD for the four years to 2019.



Employee benefits expenses total $147 million and represent 66.5% of total expenditure. They decreased by $16.9 million as salaries and wages were down $19.8 million and employment on-costs were down $3.4 million. The decrease was mainly due to the transfer of SafeWork SA employees to the Department of Treasury and Finance (DTF) from 1 July 2018. This was offset by an increase in targeted voluntary separation package (TVSP) payments of $6.5 million, as 75 employees took TVSPs in 2018-19 compared to four in 2017-18.

Supplies and services expense is dominated by operating lease/accommodation costs of $20 million ($23.9 million) and ICT expenses of $16.5 million ($17.8 million), representing 63% (59%) of total supplies and services.

Supplies and services decreased by $12.2 million mainly due to the transfer of SafeWork SA to DTF.

Income

AGD collected $83 million ($106 million) in fees and charges, which represents 83% (82%) of total income excluding revenues from the SA Government. Fees and charges collected in 2018-19 mainly comprise $34.4 million of licence and regulatory fees, $24.9 million of legal services fees and $13.1 million of network services fees.

The decrease in fees and charges of $23.4 million is mainly due to the $25.8 million decrease in licence and regulatory fees, as licence fees of $6.8 million were collected by SafeWork SA in 2017-18, as well as $19.8 million received from the Return To Work Corporation of South Australia. This money is now received by DTF. This decrease was offset by increases in legal services fees, up $1.2 million, network services fees, up $590 000, and the recovery of expenditure from administered CBS funds, up $470 000.

Revenues from the SA Government decreased by $6.4 million to $108.4 million, mainly due to savings allocated in the:

- 2017-18 mid-year budget review of $5.8 million
- 2018-19 budget of $1.5 million.

Statement of Financial Position

Assets

Total assets decreased by $19.4 million to $60.2 million. The decrease was mainly due to:

- receivables, down $5.8 million as:
  - the outstanding recoup from administered CBS funds was $4.4 million in 2018 compared to $989 000 in 2019
  - receivables for legal fees decreased by $1.1 million
- lease incentive receivables, down $3 million as the fitout of Chesser House was completed in 2017-18 and the leasehold improvement was capitalised
- property, plant and equipment, down by $11.3 million due to the transfer out of assets from restructure of $10.7 million
- intangible assets, down $2.4 million due to additions to work in progress of $2 million, offset by amortisation of $3.7 million and net transfers out from restructure of $601 000.

These decreases were offset by an increase in cash of $3.1 million. Refer to commentary under 'Statement of Cash Flows' below for further explanation of the increase in cash.

Liabilities

Liabilities decreased by $7.9 million to $63.4 million. This was mainly due to:

- payables, down $3.1 million as accrued expenses decreased by $2.4 million. Accrued expenditure for:
  - accommodation costs was down $651 000
  - industrial relations costs was down $663 000 as SafeWork SA and the South Australian Employment Tribunal (SAET) transferred to DTF during 2018-19.
  - fines was down $321 000. As at 30 June 2018 there were several large accruals for the implementation of the new fines system that was implemented on 18 June 2018
- employee benefits liability, down $3.8 million as annual leave decreased by $2.1 million and long service leave decreased by $3 million. These decreases were offset by an increase in accrued salaries and wages of $1.5 million. Annual leave and long service leave decreased due to:
  - the transfer of employee benefits of $7.5 million to DTF upon restructure
  - leave paid in relation to TVSPs taken of $1.3 million
  - an increase in long service leave of $3.2 million, which is the impact of the decrease in bond yield rates.

Statement of Cash Flows

Cash held at 30 June 2019 was $27 million, an increase of $3.1 million over the previous year. The increase was due to:

- $7.8 million provided by financial activities, of which $4.9 million was received from restructuring activities and $2.9 million from lease incentives

- $4.8 million used in investing activities, which was $2 million less than last year as a result of a decrease in purchases on intangible assets.

Net cash provided by operating activities was $132 000, an increase of $10.6 million from last year. This primarily reflects the transfer of SafeWork SA and SAET to DTF. The main components of this improvement were:

- a decrease in cash used in operations of $38.7 million mainly due to employee benefits payments, down $18.7 million, payments for supplies and services, down $16.9 million, and grants and subsidies, down $3 million
- a decrease in cash generated from operations of $21.7 million mainly due to fees and charges, down $11.9 million, recoveries, down $5.8 million, and GST recovered from the ATO and customers, down $3.7 million. These decreases were offset by an increase in other receipts of $1.4 million
- a decrease in cash received from the SA Government of $6.7 million.

Highlights of the financial statements – administered items

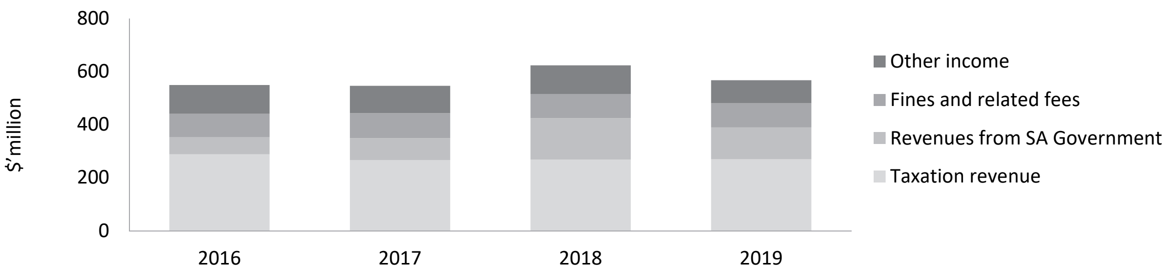
The administered items of AGD are identified in note A1.1 to the administered financial statements.

	2019 $'million	2018 $'million
Expenses		
Payments to Consolidated Account	353	347
National Redress Scheme	-	146
Grants and subsidies	62	81
Other expenses	120	107
Total expenses	535	681
Income		
Taxation revenue	269	268
Revenues from SA Government	120	156
Fines and related fees	91	91
Victims of Crime levies	23	39
Other income	54	53
Total income	557	607
Net revenue from (cost of) providing services	22	(74)
Total comprehensive result	22	(74)
Net cash provided by (used in) operating activities	36	(65)
Assets		
Current assets	338	308
Non-current assets	89	97
Total assets	427	405
Liabilities		
Current liabilities	44	44
Non-current liabilities	2	3
Total liabilities	46	47
Total equity	381	358

Statement of Administered Comprehensive Income

Income

The following chart analyses the main sources of AGD's administered income for the four years to 2019.



Taxation revenue ($269 million) represents 48% of total administered income, with fines and related fees ($91 million), South Australian Government Radio Network (SAGRN) fees ($34 million) and Victims of Crime (VOC) levies ($23 million) accounting for a further 26% of the total.

Total administered income decreased by $49 million to $558 million ($607 million). The main components of this decrease were:

- revenues from the SA Government, down by $35.8 million as:
  - in 2017-18 an additional appropriation of $20.6 million was received for the 2018-19 State contribution to the Legal Services Commission. The revised timing of this payment was to offset the impact of reduced State funding to the Commission in 2018-19
  - in 2018-19 a $17 million decrease in funding for the SAGRN upgrade project, which was funding received in 2017-18 and carried over to 2018-19 and 2019-20 ($40.5 million in 2017-18 compared to $23.5 million in 2018-19)
- VOC levies decreasing by $15.9 million mainly due to lower recoveries by the FERU as referrals from issuing authorities were down. VOC levies collected from court imposed fines were down $5.1 million, from council fines were down $4.2 million and from government agencies were down $5.3 million. Also there were legislative changes that impacted on how receipts are applied against the fine components
- interest revenues decreasing by $1.8 million as interest was earned on the lower balance of the VOC Fund in 2018-19 compared to 2017-18.

These decreases were offset by the following increases in:

- taxation revenue of $1.3 million mainly due to increased taxation from gaming machines. The tax is collected on behalf of the SA Government under the *Gaming Machines Act 1992*
- SAGRN recoveries of $1.7 million as contribution payments were received from agencies joining the network
- recoveries and other income of $1.7 million due to:
  - recoveries from the use of the State Rescue Helicopter Services, up $1.3 million
  - an increase in gaming machine trading round revenue of $588 000 as more trading rounds were held in 2018-19.

Expenses

Total administered expenses decreased by $146 million to $535 million. Payments to the Consolidated Account of $353 million (mainly for gaming taxation) and grants and subsidies of $62 million, principally paid to the Legal Services Commission, are AGD's largest administered expenses and represent 77% of total expenditure.

The decrease in total expenses is mainly due to:

- a $146.4 million payment made to SAicorp in 2017-18 for the costs associated with South Australia participating in the National Redress Scheme for people who have experienced institutional child sexual abuse
- an $18 million decrease in grant and subsidies payments. In 2017-18 an additional payment of $22 million was made to the Legal Services Commission due to the change in timing of the State contribution payment as previously discussed. This decrease was offset by an increase of payments for expensive criminal cases of $692 000 and an increase in grants paid from the VOC Fund of $1.7 million
- a decrease in employment benefits expenses of $1.8 million mainly attributable to a decrease in salaries and wages of $392 000, employment on-cost of $535 000, long service leave of $590 000 and annual leave of $299 000, mainly due to SAET judicial officers transferring to DTF in 2018-19.

These decreases were offset by increases in:

- payments to the Consolidated Account of $5.7 million mainly due to revenue from the FERU
- VOC payments of $6 million mainly due to the increase in the volume and average payment for victims compensation and changes to how compensation is now awarded
- depreciation and amortisation costs of $1.8 million due to an increase in the depreciation for SAGRN assets, as assets from the upgrade project were capitalised in 2018-19
- the net loss from disposal of assets, which increased by $3 million due to an increase in the disposal of SAGRN assets from the upgrade project
- State Rescue Helicopter Services charges of $1.1 million mainly due to an increase in standing charges of $498 000 and an increase in flying time charges of $651 000 due to increased usage
- other expenses of $3.1 million mainly attributable to an increase in:
  - claim payments, up $5.4 million, mainly due to Native Title claims increasing by $3.89 million
  - transfers from the VOC Fund, up $745 000, as witness assistance officer costs increased by $151 000 and Crown Solicitor's Office costs attributable to VOC matters increased by $595 000
  - gaming machine trading round disbursement of $378 000 due to additional trading rounds held this year.

  These increases were offset by a decrease of $3.3 million in suitor payments as there were reduced referrals from issuing agencies to the FERU.

Statement of Administered Financial Position

Total assets increased by $21.3 million to $427 million. This was mainly a result of an increase in cash and cash equivalents of $29.4 million, offset by a decrease in property, plant and equipment of $7.8 million.

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

The major administered asset is the SAGRN. There is a major project underway to upgrade it which resulted in additions to work in progress of $7.2 million, offset by depreciation of $7.2 million and the disposal of SAGRN assets of $7.8 million. During the year $69.1 million worth of assets were transferred from work in progress to being fully operational.

Other liabilities of $34 million ($36 million) represent 75% (75%) of total liabilities and are primarily made up of amounts owing to DTF for gaming taxation, fines and other receipts.

Statement of Administered Cash Flows

Overall cash and cash equivalents increased by $29.4 million to $308 million.

In 2018-19 net cash provided by operating activities was $36.4 million, an increase of $101.5 million from the previous year. This reflects a decrease in cash used in operations of $133.7 million and a decrease in cash generated from operations of $32.3 million compared with the previous year. The major components of these changes to cash flows were decreases in:

- amounts paid to SAicorp for the National Redress Scheme in 2017-18, $146.4 million
- grants paid, $3.1 million
- employee benefit payments, $1 million
- receipts from the SA Government, $22.4 million, for the early payment of the 2017-18 Legal Services Commission funding
- receipt of VOC levies, $15.9 million
- receipts of interest, $1.7 million.

They were offset by increases to:

- payments to Consolidated Account, $5.7 million
- VOC payments, $6 million
- other payments, $5.1 million
- taxation receipts, $1.3 million
- SAGRN charges, $4.7 million
- other receipts, $2.4 million.

There was also a decrease in cash used in investing activities of $23.3 million, as $6.6 million of assets were purchased in 2018-19 compared to $30 million in 2017-18. This mainly relates to the SAGRN upgrade project.

Further commentary on operations

Fines Enforcement and Recovery Unit

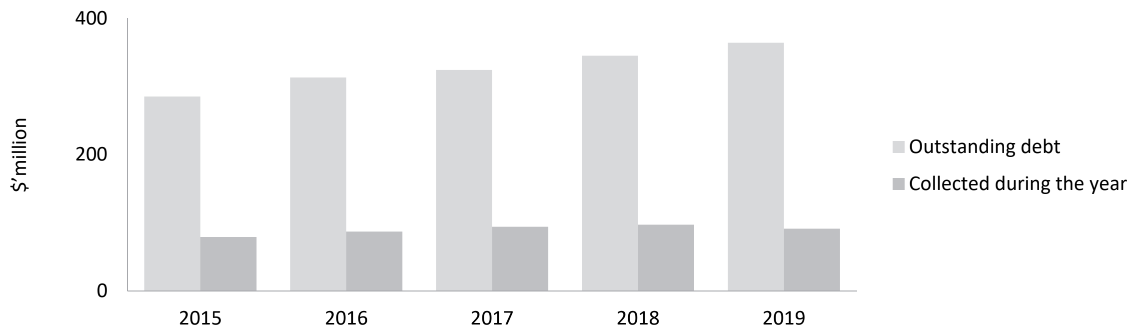
The FERU collects outstanding fines and related payments (suitor amounts and fees and charges associated with overdue amounts). It performs this function for court fines, expiation fees (including overdue local government amounts referred) and other outstanding amounts, including VOC levies and third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

As at 30 June 2019, the balance of debt managed by the FERU was $444.9 million ($403.6 million), which includes $30.2 million that is not yet due. This comprises:

- fines – $240.7 million ($223.2 million)
- VOC levies – $80.6 million ($58.2 million)
- FERU fees – $123.6 million ($122.2 million).

$148.2 million ($139.7 million) of the debt relates to court penalties, while $296.7 million ($263.9 million) relates to expiation notices.

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



The chart highlights that, while outstanding debts have continued to increase, the level of collections since the FERU was established increased in 2016, 2017 and 2018 and remained steady in 2019. The increased collections reflect different collections management by the FERU and the use of powers to suspend dealings with the Registrar of Motor Vehicles or driver's licences (amongst other powers available).

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

In 2018-19 fines lodged with the FERU totalled $194.5 million ($171.2 million). These exclude fines that have been quashed as they should not have been raised. Total collections of $103.9 million ($118.4 million), including VOC amounts, included $92.3 million ($102.5 million) collected on behalf of the SA Government and $11.6 million ($16 million) on behalf of non-government entities, including local government councils.

In 2016-17 the FERU engaged a panel of external debt collectors to help collect outstanding amounts, particularly those that were more difficult to recover. Previously this service was provided by one debt collection agency. The total outstanding amounts collected by debt collection agencies is $16.3 million, with $15.9 million collected in the previous year.

Of the $444.9 million ($403.6 million) in total outstanding debt and related payments, $378.2 million ($303.4 million) is under active management, with $98.4 million ($120.6 million) subject to payment arrangements, $30.2 million ($39.5 million) subject to arrangements prior to fines being overdue and $45.6 million ($39 million) not owed to the State. $38.2 million ($49.6 million) of fines were referred to debt collection agencies in 2018-19.

The $444.9 million outstanding comprises:

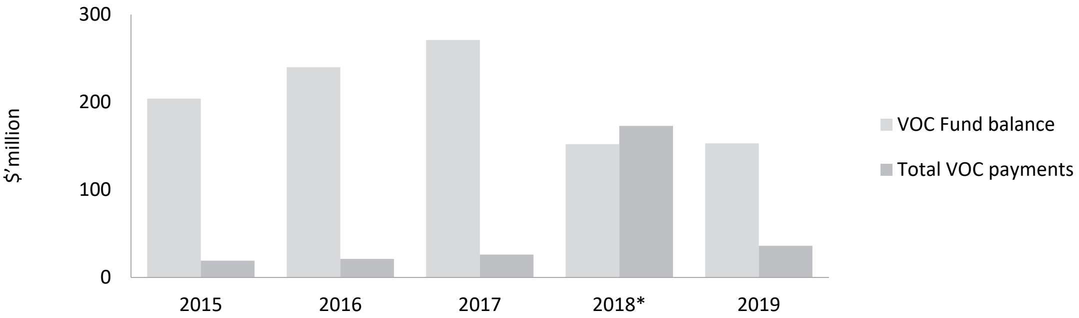
- expiations, $163.2 million
- VOC levies, $80.6 million
- pecuniary sums, $77.5 million
- FERU fees, $123.6 million.

Victims of Crime Fund

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

The balance of the VOC Fund as at 30 June 2019 was $153.2 million ($152.7 million).

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



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

The maximum compensation that can be awarded under the VOC Act is $106 000, in addition to costs and disbursements. A claim can succeed without a known offender.

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

Recoveries from offenders

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

- The amounts recovered directly from offenders during the year totalled $992 000 ($1.2 million).
- Outstanding amounts at 30 June 2019 were $86.1 million ($88.8 million). $10 million ($14.1 million) of this amount is the subject of a judgement and is being actively managed. The remaining $76.1 million ($74.7 million) represents amounts paid in compensation for which no judgement has occurred or is likely to occur because the offenders have either not been identified or prosecuted as yet.

A further $2.8 million ($2.8 million) was recovered from offenders under the *Criminal Assets Confiscation Act 2005.*

A levy is imposed by the VOC Act on all people convicted of offences and on expiation notices. Total VOC income for 2018-19 was $36.9 million ($54.8 million) and included VOC levies of $23.1 million ($39 million) and revenues from the SA Government of $8.9 million ($8.6 million).

Payments from Victims of Crime Fund

Total VOC expenses for 2018-19 were $35.8 million ($173.5 million) and included:

- victims compensation and legal payments of $24.9 million ($18.9 million)
- grants of $6.1 million ($4.4 million)
- legal and other costs incurred in the administration of the VOC Fund of $4.9 million ($3.7 million).

The net result for the VOC Fund in 2018-19 was an increase of $1.1 million.

In 2017-18, a payment of $146.4 million was paid from the VOC Fund to SAicorp for the costs associated with South Australia participating in the 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.

The independent modelling commissioned by the Commonwealth Department of Social Services, at the time, estimated the cost of full participation in the scheme was $146.4 million. This includes monetary compensation, counselling and legal support towards the administration of the scheme.

SAicorp is administering the scheme for South Australia.

Taxation

Taxation revenue for 2018-19 totalled $269 million ($268 million). This mainly comprises gaming machine taxes totalling $269 million ($268 million).

Gaming machine administration

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

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

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

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

- purchase a gaming machine entitlement and specify the highest price they would be willing to pay for the entitlement if their offer was accepted

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

The following table summarises gaming machine activity for the four years to 2019.

	2016 Number	2017 Number	2018 Number	2019 Number
Machines installed as at 30 June	12 337	12 210	12 142	12 130

	2016 $'million	2017 $'million	2018 $'million	2019 $'million
Turnover	8 000	7 595	7 576	7 651
Amount won	7 282	6 915	6 894	6 969
Net gambling revenue	719	680	682	682
Tax	284	265	268	269

Independent Gaming Corporation Limited (IGC)

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

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

With respect to the 2018-19 operations, the audit of the IGC is complete and an unmodified Independent Auditor's Report was issued for its 2018-19 financial report.

Residential Tenancies Fund

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

Income derived from investing the RTF is applied to the costs of administering and enforcing the RT Act, educating landlords and tenants about their statutory and contractual rights and obligations, and certain functions of the South Australian Civil and Administrative Tribunal (which undertakes the functions previously performed by the Residential Tenancies Tribunal).

Security bonds received by the Commissioner in 2018-19 increased by $4 million to $105.7 million ($101.7 million). Security bonds refunded for 2018-19 increased by $5.1 million to $93.7 million ($88.6 million).

The value of bonds held as at 30 June 2019 was $208.3 million ($196.7 million) and the value of unclaimed bonds was $9.4 million ($8.6 million).

Investment funds totalling $258.2 million are held by the Public Trustee in common funds. They are exposed to movements in the value of the underlying common fund assets. Investments increased by $16.4 million in 2018-19.

Public Trustee

Financial statistics	Profit before income tax equivalents:	$4.9 million
	Fees and charges revenue:	$23.7 million
	Number of FTEs:	176.1
	Number of estates under administration:	7692
	Total value of trust funds under administration:	$1.7 billion

Significant events and transactions

- $4.3 million received in 2018-19 for community service obligation funding.
- An additional $6 million invested by the Residential Tenancies Fund in the Public Trustee.
- From 1 July 2019 the Public Trustee no longer provides will making services to non-concessional holders.
- An additional $3.7 million was paid to AustralianSuper to ensure customers will receive maximum financial benefits associated with superannuation.
- Net operating result for the Australian Shares common fund decreased by $25.8 million.
- The SA Government announced that the Office of the Public Advocate will be consolidated with the Public Trustee.

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Other audit findings

- There is no reconciliation at the individual customer level to ensure investment distributions are properly allocated to all client accounts.
- The review to ensure that money received is receipted to the right client account was not performed within specified time frames.

Functional responsibility

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

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

Scope of the audit

Audit of the financial report

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

The 2018-19 audit covered the corporate, trust and common fund operations of the Public Trustee. Specific areas of audit attention included:

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

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

There were no significant findings for our controls opinion work on the Public Trustee.

Other audit findings

Governance arrangements – policies and procedures

Policies and procedures

Treasurer's Instruction 2 *Financial Management,* clause 2.5 requires agencies to ensure that policies, procedures and systems are properly documented and regularly reviewed, revised where necessary and readily available to staff. In addition, the Public Trustee's policy framework states that documents are due for review and update at least every two years, or more often if impacted by changes to legislation, work practices or systems.

Our review of policies and procedures across several branches identified a number of policies and procedures that were overdue for review.

We note that the Public Trustee is in the process of reviewing its policies and procedures to ensure they reflect current practices and to remove any duplication.

The Public Trustee advised us that the procedures we identified during the audit have been reviewed, endorsed, and uploaded on the Public Trustee intranet and made available for staff. The review of these procedures was delayed due to the restructure of the Customer Financial Accounting section.

Trust operations

Review of trust distributions

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

We reviewed the processes or reconciliations performed to ensure that distributions were deposited accurately and completely into client accounts. We identified that:

- the total distribution is checked prior to approving the transfer journal. This is done by email verification but these emails are not retained
- a reconciliation is not performed to ensure that each client's distributions in the investment registry system are accurately deposited into the client's account
- a quality assurance review occurs over a sample of customer statements following each distribution.

The Public Trustee advised that:

- written evidence of the total distribution is checked by the Analyst, Customer Financial Services before approving the transfer journal to client accounts by including this task on the distribution processing checklist and requiring their sign off.
- a new reconciliation will be established to check that all distributions in the investment registry system have accurately flowed to client accounts. This revised process was to be in place for the six-monthly distribution for June 2019.

Receipt Verification Reports are not reviewed and returned

To ensure money received is accurately receipted to the right client account, a daily receipt verification report (RVR) is generated by revenue officers and distributed to estate officers for review.

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

Our review in 2018-19 and in previous years identified that RVRs are not returned to revenue officers within the specified time frames. We also noted that the electronic process to verify receipts, which will include a record of RVRs reviewed by estate officers, was not implemented at the time of our audit.

The Public Trustee advised that the electronic process went live in May 2019. The new system sends an email to estate officers where one of their clients has a receipt for the day and allows for electronic verification and advice of alterations. It also includes an automated follow-up and escalation process for outstanding reports.

We were also advised that the Accounts Receivable team will monitor and follow up outstanding reports.

Independent Commissioner Against Corruption (ICAC) evaluation

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

As at 30 June 2019 the following actions had been completed by the Public Trustee:

- established a quality control position and commenced quality control reviews
- undertook an extensive staff engagement program
- established a Workplace Consultative Committee
- reviewed, simplified and consolidated procedures
- audited a sample of high risk/complexity files representing each operational aspect of the organisation
- finalised the ICT strategic plan and work plan
- engaged a procurement specialist to manage contracts and undertake business critical procurements
- developed a data breach and privacy policy
- improved initial customer contact practices
- developed a plan to address key findings from the employee culture and wellbeing report
- developed a competency based training and induction program
- developed a reporting dashboard to monitor workloads, performance and equitable caseload allocation
- reviewing team structures
- developing idea generation forums to engage staff in business improvement programs.

The following actions are currently in progress:

- developing file complexity models across Estate Services, Trusts and Personal Estate branches. The performance dashboards for these branches are developed and provide information on activity levels within case files which assist complexity assessment and resultant workload allocations

- entering into contracts with service providers that are frequently engaged on behalf of customers. A number of procurements were undertaken in 2018-19 with more scheduled for 2019-20. Procurements are prioritised based on the level of risk to the customer and the organisation.

Interpretation and analysis of the financial report

Highlights of the corporate financial report

	2019 $'million	2018 $'million
Income		
Fees and charges	24	23
Community service obligation	4	-
Other revenues	3	2
Total income	31	25
Expenses		
Employee benefits	18	16
Supplies and services	7	7
Other expenses	1	1
Total expenses	26	24
Net result before income tax equivalents	5	1
Income tax equivalents*	2	-
Net result after income tax equivalents and total comprehensive result	3	1
Net cash provided by (used in) operating activities	5	2
Assets		
Current assets	10	9
Non-current assets	25	24
Total assets	35	33
Liabilities		
Current liabilities	5	4
Non-current liabilities	5	5
Total liabilities	10	9
Total equity	25	24

* Income tax equivalents expense of $1.474 million in 2018-19 ($352 000).

Statement of Comprehensive Income

Income

The Public Trustee's main source of income is fees and charges, which principally comprise commissions from managing estates and management fees for investing in common funds. In 2018-19 fees and charges income increased by $1.1 million to $23.7 million.

Common fund management fees are set at 1% p.a. (charged monthly) in line with the *Public Trustee Act 1995*, based on the level of funds invested. These fees increased by $226 000 as a result of the increase in funds under management in common funds from $1.026 billion to $1.065 billion in 2018-19.

Commissions and fees and charges increased by $833 000, as the collection of commissions is directly affected by the types and number of estates being administered and the nature of the assets held.

Personal estate commissions increased by $368 000 and deceased estates commissions increased by $138 000. The total of trust funds under administration increased by 0.3%. Although the number of deceased estates administered decreased by 15.9%, the increase in commissions is due to an increase in the number of estates that were finalised during 2018-19, leading to higher capital commission.

Financial market movements in 2018-19 resulted in a $643 000 increase in the market value of financial assets mainly due to increased returns from investments in Australian fixed interest of $400 000 and Australian listed property of $200 000.

In 2018-19 the Public Trustee received $4.3 million of community service obligations funding to compensate it for providing non-commercial services to the South Australian community on behalf of the SA Government.

Other income increased by $525 000, mainly due to recovering $444 000 from the Department of Treasury and Finance for targeted voluntary separation packages (TVSPs) paid.

Expenses

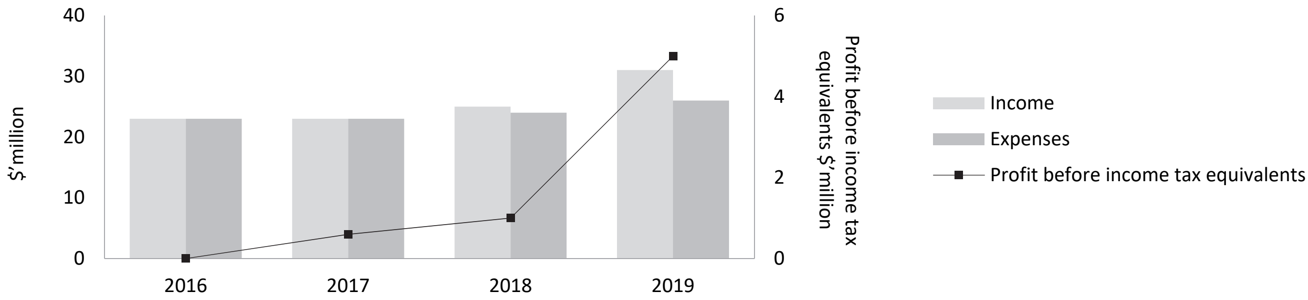
Employee benefits account for 70% of total expenses and increased by $2.1 million to $18.2 million in 2018-19. The increase is due to the enterprise bargaining agreement increase and the full-year impact of 10 additional temporary staff employed in 2017-18. In addition, TVSPs of $444 000 were paid/payable in 2018-19 and long service leave increased by $295 000 primarily as a result of the impact of the decrease in bond yield rates used to calculate the long service leave liability.

Supplies and services increased by $354 000 to $7 million ($6.6 million). The increase was mainly due to:

- operating lease payments, up $105 000
- payments to consultants, up $109 000, to plan for future ICT improvements
- IT costs, up $62 000, and other supplies and services, up $179 000, relating to estate losses
- payments to service contracts, down $121 000 as in previous years greater resources were seconded from the SA Government to clear the back log of work within estate operations.

Net result

The following chart shows income, expenses and profit before income tax equivalents for the four years to 2019.



Profit before income tax equivalents of $4.9 million ($1.2 million) increased mainly due to $4.3 million received for community service obligations and an increase in unrealised gains on financial assets. These increases were offset by higher supplies and services costs and employee benefits expenses.

Statement of Financial Position

Assets

Financial assets of $23 million represent 67% of total assets. Financial assets increased by $1 million, as a result of an increase in unrealised gains.

Intangible assets increased by $71 000 due to acquisitions of $209 000 that were offset by amortisation expense of $138 000.

These increases were offset by a decrease in the value of property, plant and equipment of $684 000. The decrease was mainly due to depreciation expense of $798 000, offset by purchases of plant and equipment of $115 000.

Liabilities

Employee benefits of $6.7 million represent 67% of total liabilities and payables of $2.9 million represent 29% of total liabilities.

The increase in employee benefits of $858 000 is mainly due to an increase in accrued salaries of $409 000 and an increase in long services leave of $423 000. The accrued salaries and wages increase is primarily due to TVSPs accrued as at 30 June 2019 that are due to be paid in 2019-20. The long service leave liability increased due to the decrease in the yield on long-term Commonwealth Government bonds used to measure the long service leave liability.

Payables increased by $725 000 mainly due to an increase in income tax equivalents payable of $1 million, offset by a decrease in trade payables of $424 000.

Statement of Cash Flows

Cash and cash equivalents increased by $1.5 million to $9.1 million in 2019. The main factors contributing to this increase were:

- a $3.2 million increase in net cash provided by operating activities, which was impacted by increases in cash outflows for employee benefits payments, up $1.3 million, and supplies and services, up $1.2 million. These were offset by an increase in cash inflows for fees and charges, up $988 000, $4.3 million received for community service obligations and recovery of TVSP payments from the Department of Treasury and Finance of $444 000

- net cash used in investing activities decreased by $686 000 due to an $800 000 decrease in the purchase of financial assets and a $123 000 decrease in the purchase of property, plant and equipment, offset by an increase in purchases of intangible assets of $237 000
- net cash used in financing activities increased by $2.1 million due to the increase in the dividend paid to the SA Government.

Interpretation and analysis of Statement of Trusts being Administered

The value of trust funds administered by the Public Trustee as at 30 June 2019 was $1.7 billion ($1.7 billion).

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

	2018 Number	2019 Number	2018 $'000	2019 $'000
Deceased estates	1 297	1 091	211 928	170 781
Trusts	1 256	1 250	123 403	133 821
Administration matters	352	320	48 254	41 220
Court award orders	792	777	436 501	439 244
Protected estates	3 610	3 748	355 832	382 705
Workers compensation awards	7	7	348	270
Power of Attorney	284	285	61 531	57 991
Investors	236	214	421 677	439 151
	7 834	7 692	1 659 474	1 665 183

Of the total funds being administered, 65% (62%) were invested in the common funds with the remaining 35% (38%) represented by other estate assets.

The two largest categories of other estate assets are real estate assets of $361 million ($358 million) and superannuation of $155 million ($150 million).

Further commentary on operations

Common fund financial reports

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

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

Analysis of common fund key figures

The common funds' assets in 2018-19 totalled $1.09 billion, increasing by $23 million from $1.07 billion in 2017-18.

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

The following table summarises the annual net operating result and value of assets held for each common fund at 30 June 2019 and 30 June 2018.

	Net operating result		Assets	
	2018	2019	2018	2019
Common fund	$'000	$'000	$'000	$'000
Cash	9 395	10 793	*534 289	505 024
Short-term Fixed Interest	689	966	59 867	64 064
Long-term Fixed Interest	1 212	2 869	96 931	104 938
Overseas Fixed Interest	557	1 700	54 948	60 003
Australian Shares	27 782	1 956	189 719	182 971
Overseas Shares	12 400	10 921	153 741	146 614
Property	7 962	8 339	106 577	118 092

* Includes $88 million ($126 million) deposited by other common funds.

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

In 2018-19 a further $6 million was invested in the Public Trustee from the Residential Tenancies Fund and $328 000 from the Retail Shop Lease Fund. The funds were received throughout the year, with $1.9 million invested in the Balanced SIS, $1.3 million in the Capital Stable SIS and the remaining retained in cash. The $6.3 million was allocated across the following common funds: Cash ($3.4 million), Short-term Fixed Interest ($500 000), Long-term Fixed Interest ($600 000), Overseas Fixed Interest ($400 000), Australian Shares ($500 000), Overseas Shares ($400 000) and Property ($500 000).

The investment of Residential Tenancies Fund money was approved by the Attorney-General and the investment strategy adopted was approved by the Commissioner for Consumer and Business Services, who has responsibility for managing these funds.

The table below details the performance of each SIS and its performance against the Public Trustee's established benchmarks as at 30 June 2019. These figures have been provided by the Public Trustee and are unaudited.

		1 year	3 years	5 years
Standard investment strategy		%	%	%
Cash	Performance	1.92	1.85	2.09
	Benchmark	0.96	0.86	1.08
Capital stable	Performance	3.10	3.97	4.04
	Benchmark	5.55	4.19	4.07

Standard investment strategy		1 year %	3 years %	5 years %
Balanced	Performance	4.24	6.12	5.92
	Benchmark	8.22	6.79	6.15
Growth	Performance	4.54	7.83	7.14
	Benchmark	8.64	8.50	7.16
Equities	Performance	4.45	11.22	9.09
	Benchmark	9.24	11.97	8.96

The performance of each SIS was below the established benchmark except for the Cash common fund. The Public Trustee's more conservative investment style, with a focus on value and quality, leads to investment in more conservative stocks. That is, in companies that have demonstrated steady growth in revenue and profit over a long period of time, with well established business models that are considered to be lower risk investments. However, the benchmark includes aggressive stocks that are high growth/speculative stocks which are subject to volatile returns. Recently the value of these stocks has increased. As the Public Trustee does not invest in these stocks, the result is underperformance against the benchmarks. This was coupled with historically lower bond yield affecting performance in the short-term and long-term fixed interest portfolios.

Net operating result

In 2018-19 all common funds achieved a net operating profit. The net operating results for all funds increased except for the Australian Shares and Overseas Shares common funds. This reflects the relative market performance of different asset classes.

The net operating result for the Cash common fund increased by $1.4 million, mainly due to an increase in interest income of $1.2 million and a $204 000 net gain on financial assets held at fair value through profit or loss, compared to an $86 000 net loss in 2017-18. The net gain in 2018-19 is due to the movement in the value of floating note rates. The return on cash for the year was 2.86%, compared to 2.7% the previous year.

The net operating result for the Long-term Fixed Interest common fund increased by $1.7 million, mainly due to net gain on financial assets held at fair value through profit and loss of $928 000, compared to a $654 000 net loss in 2017-18. The net gain was attributable to the movement in fixed interest securities for the year. The return on the Long-term Fixed Interest common fund for the year was 3.93% compared to 2.39% the previous year.

The net operating result for the Overseas Fixed Interest common fund increased by $1.1 million, mainly due to a net gain on financial assets held at fair value through profit and loss of $638 000, compared to a $181 000 net loss in 2017-18, an increase in trust distributions of $286 000 and interest revenue of $79 000. This is due to stronger performance of the investment portfolio in 2018-19. The return on Overseas Fixed Interest for the year was 4.05% compared to 2.14% in the previous year.

The net operating result for the Australian Shares common fund decreased by $25.8 million, mainly due to the $9.1 million decrease in trust distributions as a result of the weaker performance of Australian shares and the subsequent unrealised losses on investments of $8.7 million, compared to an unrealised gain of $8.2 million in 2017-18. The return on Australian shares for the year was 1.92% compared to 18.77% the previous year.

The Overseas Shares common fund net operating result decreased by $1.5 million, mainly due to a $6.1 million decrease in trust distributions as a result of the market performance and distribution strategies of fund managers. This was offset by a net gain on financial assets held at fair value through profit and loss of $8.5 million, compared to a $3.9 million net gain in 2017-18. This was due to the stronger performance of overseas shares recorded in the second half of 2018-19. The return on overseas shares for 2017-18 was 9.49% compared with 10.11% the previous year.

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

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

Auditor-General’s Department

Financial statistics	Net cost of providing services:	$17.5 million
	Total appropriation:	$17.6 million
	Audit fees:	$15.2 million
	Average number of FTEs:	125
Financial report opinion	**Unmodified**	

Functional responsibility

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

Audit findings and comments

Under section 35(1) of the *Public Finance and Audit Act 1987*, the Governor, on the Treasurer’s recommendation, appointed Nexia Edwards Marshall as auditor of the Department.

Nexia Edwards Marshall advised in their audit completion letter that there were no matters to bring to the Department’s attention.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $’million	2018 $’million
Expenses		
Employee expenses	13.7	12.9
Other expenses	3.9	4.0
Total expenses	17.6	16.9
Revenues from (Payments to) SA Government	17.6	16.3
Total assets	7.1	6.0
Total liabilities	6.6	5.7

Department for Child Protection (DCP)

Financial statistics	Employee benefits expenses:	$227 million
	Child protection services:	$268 million
	Net cost of providing services:	$546 million
	Total revenues from SA Government:	$529 million
	Number of FTEs:	2095
	Number of children in care at 30 June 2019:	3988
Significant events and transactions	The remaining elements of the *Children and Young People (Safety) Act 2017* were enacted on 22 October 2018. This requires all residential carers to be psychometrically tested.	
Financial report opinion	**Unmodified**	
Controls opinion findings	No significant findings.	
Other audit findings	— Governance arrangements continue to need attention. — Commercial care placements and projected costs not always properly approved. — Weaknesses in IT controls for the Connected Client and Case Management System (C3MS). — Ineffective review of payroll reports.	

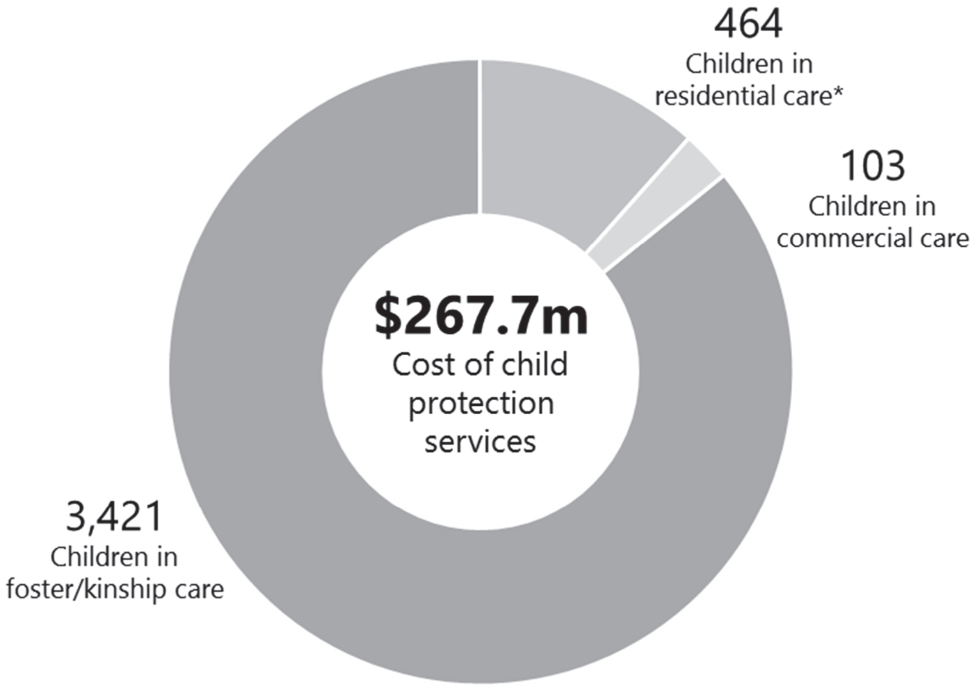
Functional responsibility

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

Functions

DCP's objective is to care for and protect children and young people who are at risk of abuse and neglect within their families, or whose families do not have the capacity to protect them.

The chart below shows the number of children by care type and the total child protection services payments as at 30 June 2019.



* Includes 50 children in independent living.

Despite the rise in the number of children in care by 293 in 2018-19, the total cost of care decreased by 5%. In 2018-19 the average cost of care per year was $67 130 per child, down from $76 470 per child in 2017-18.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- governance arrangements
- child protection service expenses
- payroll
- accounts payable.

Controls opinion

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

Audit findings

Communicating our audit findings

We communicated our audit findings in management letters to the Chief Executive. The main findings and DCP's responses are discussed below. Most of the audit findings were repeat issues from 2017-18 where progress had been made, but the issues were not completely resolved.

Controls opinion findings

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

Other audit findings

Governance arrangements continue to need attention

We reviewed elements of DCP's governance arrangements. We identified a number of areas needing management attention as a priority to ensure sound governance and accountability arrangements are firmly embedded within DCP's operations and culture.

No business continuity plan

We found DCP did not have a business continuity plan.

DCP responded that some individual strategies have been developed and it intends to develop a comprehensive business continuity framework by 30 June 2020.

Some areas do not have operational risk registers

In 2018 we identified that there were no operational risk registers. DCP responded that it would have operational risk registers for high risk operational areas by 30 June 2019. This has occurred, but there are still some areas within DCP that do not have a risk register. They are:

- human resources
- finance
- legal services
- commissioning performance and disability.

DCP responded that operational risk registers will be developed where appropriate by 30 June 2020.

Legal compliance processes have not been implemented

DCP has an up-to-date and comprehensive legislative compliance framework, but we found there had not been a review of the legal compliance processes implemented, using a risk based approach, by responsible personnel.

DCP responded that it will need to determine the best mechanism for performing this review, with the targeted completion date being 31 December 2019.

Policies and procedures need to be updated

DCP continued to apply a number of the Department for Education's policies and procedures while developing and finalising its own policy documents.

DCP advised it would continue to work on developing its own policies and procedures, with each directorate having an established work program for updating their governing documents.

Commercial care placements and projected costs not always properly approved

As at 30 June 2019 there were 103 children in commercial care, an increase of 10 children from 30 June 2018.

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

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

We found a number of instances where commercial care approval memorandums were authorised a long time after placements had commenced and payments were made.

DCP advised that Internal Audit would incorporate commercial care into its internal audit program.

Weaknesses in IT controls for the Connected Client and Case Management System (C3MS)

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

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

We reviewed the IT controls over C3MS, including following up the issues identified in 2017-18. We identified a number of areas that could be improved:

- inappropriate assigning of user access
- no review of user access
- lack of audit logs
- inadequate patch management
- weaknesses in vulnerability and threat management.

In response, DCP accepted all recommendations and committed to rectifying the issues by 30 June 2020.

Ineffective review of payroll reports

DCP had 2095 FTEs at 30 June 2019 and paid employee expenses of $227 million in 2018-19.

We reviewed a sample of bona fide certificates (BFCs) and monthly leave returns (MLRs) and found a significant proportion were not reviewed, or not promptly reviewed, by managers.

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

In response DCP advised it would follow up outstanding BFCs and MLRs and establish ongoing monitoring and control processes by 30 June 2019.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	227	190
Child protection services	268	283
Supplies, services and other expenses	55	54
Other	4	3
Total expenses	554	530
Income		
Commonwealth revenues, grants and contributions and other revenues	5	5
Revenues from fees and charges	3	3
Total income	8	8
Net cost of providing services	546	522
Revenues from SA Government	(529)	(521)
Net result	(17)	(1)
Total comprehensive result	(16)	(1)
Net cash provided by operating activities	6	7
Assets		
Current assets	47	43
Non-current assets	38	40
Total assets	85	83
Liabilities		
Current liabilities	57	47
Non-current liabilities	53	44
Total liabilities	110	91
Total equity	(25)	(8)

Statement of Comprehensive Income

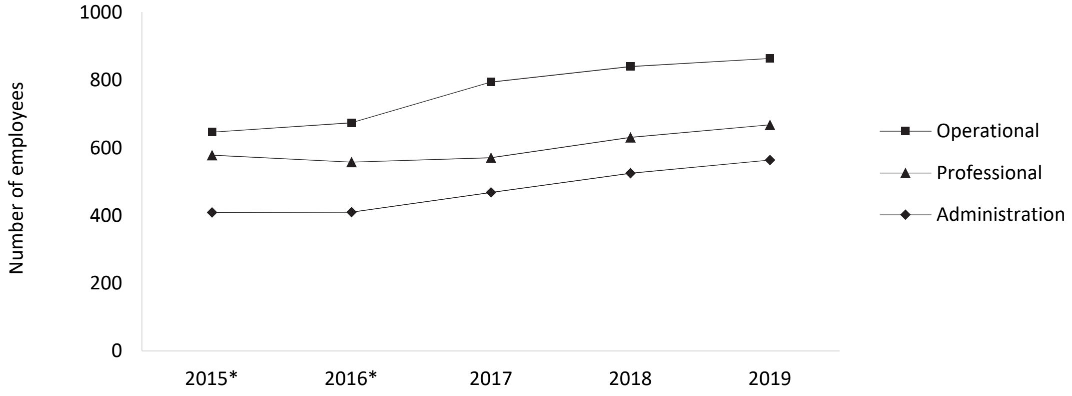
Expenses

Employee benefits expenses

Employee benefits of $227 million accounted for 41% of total expenses.

There are currently 2095 FTEs. DCP budgeted to expand its workforce with an additional 340 FTEs to be recruited in 2018-19, but actually only recruited an additional 100 FTEs.

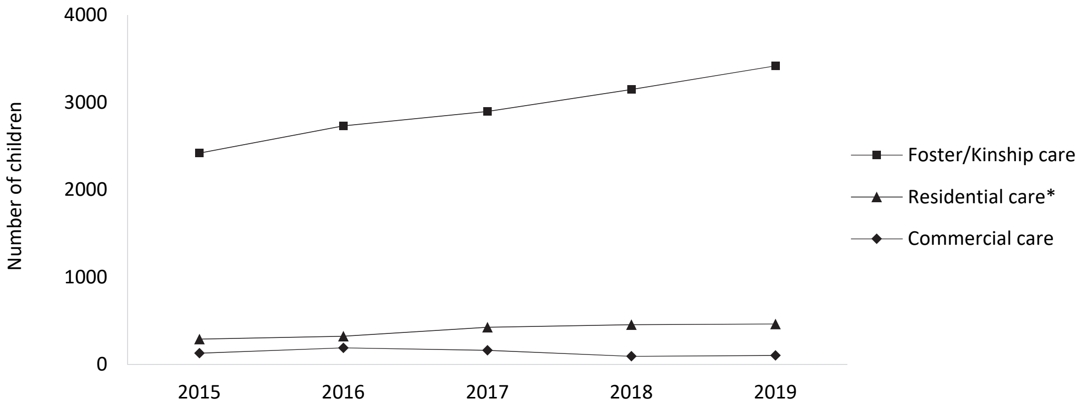
The following chart shows the number of FTEs by category over the last five years. The percentage of frontline employees (operational and professional) has remained constant over the last five years, ranging between 73% and 75%, but there has been a shift from professional to operational staff due to Nyland reforms and increased DCP residential placements.



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

Child protection services

There are two main types of care provided being family based (foster/kinship) and non-family based (residential and commercial care). The graph below shows the number of children by type of care for the past five years.



* Includes children in independent living.
Source: Number of children at 30 June was sourced from the DCP website and is unaudited.

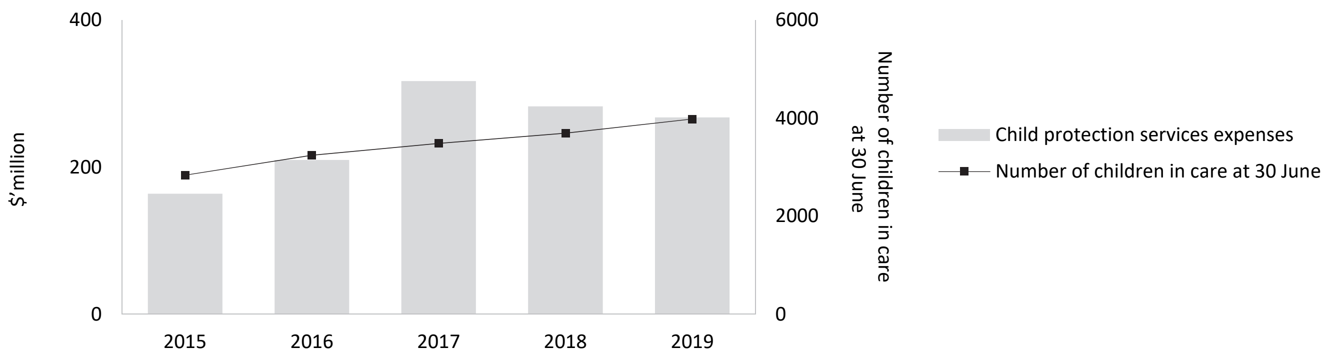
Foster/Kinship care is the preferred form of care for most children, as the child is in a stable family environment. Foster/Kinship care at 30 June 2019 has increased by 9% or 274 children since 30 June 2018.

Residential care is care provided by DCP in a residential building using either DCP or contracted staff.

Commercial care is care provided by commercial care service providers at suitable premises, such as a private rental house or unit. The main providers are Baptist Care (SA) Inc, Hessel Care Foundation Ltd and Hender Care Pty Ltd.

The number of children in commercial and residential care fluctuates depending on need. These types of care are the most expensive. There are some children with special needs for which this is the best form of care, as they cannot be placed in foster or kinship care. At 30 June 2019 there were 103 children in commercial care placements and 464 children in residential care placements (including 50 independent living placements). This is an increase of 3% in children in these types of care from 2017-18.

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



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

Over the last five years the number of children in care has risen by 41% or 1150 children. From 1 July 2019 DCP will transfer its Family Preservation Program, including $5 million in funding, to the Department of Human Services as part of the establishment of the Child and Family Intensive Support Unit, which aims to reduce the number of children coming into care.

Income

DCP is predominantly funded by appropriation which accounts for 98% of total income. Revenues from the SA Government were $529 million in 2018-19, an increase of 2% from 2017-18.

Statement of Financial Position

Cash and cash equivalents represent 51% and property, plant and equipment represents 44% of total assets. Property, plant and equipment mainly consists of residential accommodation of $16 million and land of $19 million.

Liabilities are made up of two main categories:

- 80% of total liabilities are employee related amounts, which include employee benefits, employee on-costs and workers compensation provisions

- 19% of total liabilities are payables. Most payables relate to care related services provided but not paid at 30 June.

DCP has a negative net asset and total equity position at 30 June of $25 million. Its current liabilities are $9 million higher than current assets. DCP works with the Department of Treasury and Finance on its cash requirements on an ongoing basis.

Statement of Cash Flows

Cash at 30 June is $43 million. This includes $4 million for accrual appropriations (while controlled by DCP the use of these funds must be approved by the Treasurer). DCP improved its cash position by $5 million in 2018-19.

Department for Correctional Services (DCS)

Financial statistics	Net cost of providing services:	$354 million
	Total appropriation:	$357 million
	Total prisoner numbers at 30 June 2019:	2872
	Number of FTEs:	2077

Significant events and transactions

— Entered into a contract with Serco Australia Pty Ltd to manage and operate the Adelaide Remand Centre from August 2019 for seven years. The SA Government retains an option to extend the contract for a further five years, for a total value of $127 million.

— Targeted voluntary separation packages (TVSPs) for 126 staff were approved totalling $9.6 million.

— Prison capacity was increased by 160 prisoner beds at Mt. Gambier.

— Works are in progress to increase capacity by a further 20 beds at the Adelaide Women's Prison.

— Land and buildings were revalued upwards by $60 million.

— Net revenues from SA Government increased by $31.9 million.

Financial report opinion

Unmodified

Controls opinion findings

— No asset management policy, strategy or plan.
— Asset condition assessments have not been performed.

Functional responsibility

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

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

- custodial services – secure containment and supervision for adults on remand and those sentenced to custodial sanction

- community based services – managing and supervising offenders in the community on probation, parole, home detention and supervised bail
- rehabilitation and reparation services – educational, vocational and rehabilitative activities to address offending behaviour.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- asset management
- aspects of procuring the outsourced operational contract for the Adelaide Remand Centre
- payroll
- general ledger
- fixed assets
- workers compensation
- accounts payable
- revenue.

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

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

No asset management policy, strategy or plan

We noted that DCS had not developed and documented:

- the principles that it intends applying for asset management to achieve its organisational objectives (asset management policy)

- its asset management objectives, practices and action plans for asset management improvement (asset management strategy)
- its approach to implementing its asset management strategies (asset management plan).

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

DCS acknowledged the importance of sound asset management and stated that by June 2020 they would develop an asset management policy, strategy and plan.

Asset condition assessments have not been performed

Apart from the Adelaide Remand Centre, DCS could not show that it has recently assessed the condition of its correctional facilities, which is required under the across government facilities management arrangements.

Without accurate information on the condition of its assets DCS cannot develop effective asset management strategy or planning.

DCS responded that it would document and implement a monitoring process to ensure that facilities management providers meet their obligations with regard to asset condition assessments.

Bank accounts with no transaction limits

Our review of the online banking system identified that DCS had not set transaction limits for users of its two bank accounts.

Establishing disbursement transaction limits for users will strengthen DCS's control over payment processing without impacting business operations.

DCS responded that it will establish and assign transaction limits for its bank account users.

Interpretation and analysis of the financial report

Highlights of the financial report

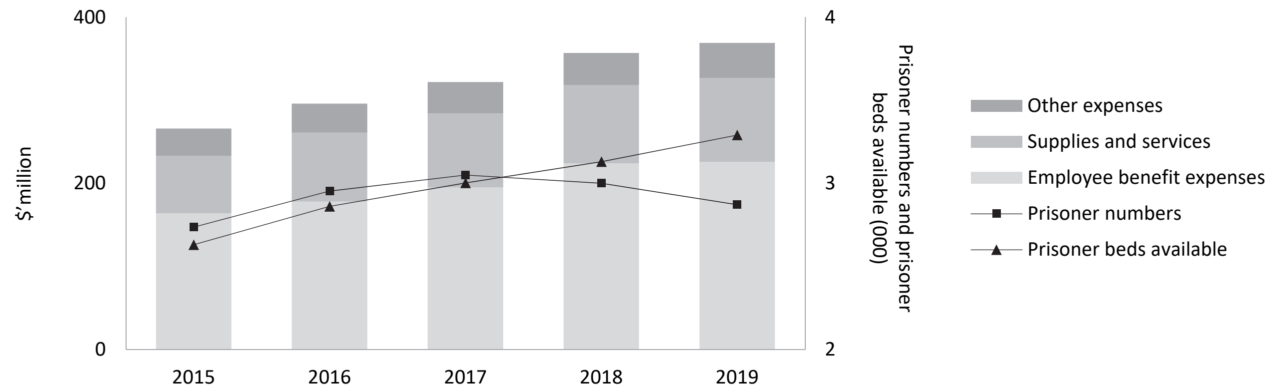
	2019 $'million	2018 $'million
Expenses		
Employee benefit expenses	226	224
Supplies and services	101	94
Other expenses	41	39
Total expenses	368	357
Income		
Income from prison labour and canteen and kitchen sales	7	6
Other income	7	7
Total income	14	13
Net cost of providing services	354	344

	2019 $'million	2018 $'million
Revenues from SA Government	356	362
Payments to SA Government	-	(37)
Net result	2	(19)
Total comprehensive result	63	(8)
Net cash provided by (used in) operating activities	41	24
Net cash provided by (used in) investing activities	(49)	(67)
Net cash provided by (used in) financing activities	-	20
Assets		
Current assets	26	35
Non-current assets	713	627
Total assets	739	662
Liabilities		
Current liabilities	56	47
Non-current liabilities	67	61
Total liabilities	123	108
Total equity	616	554

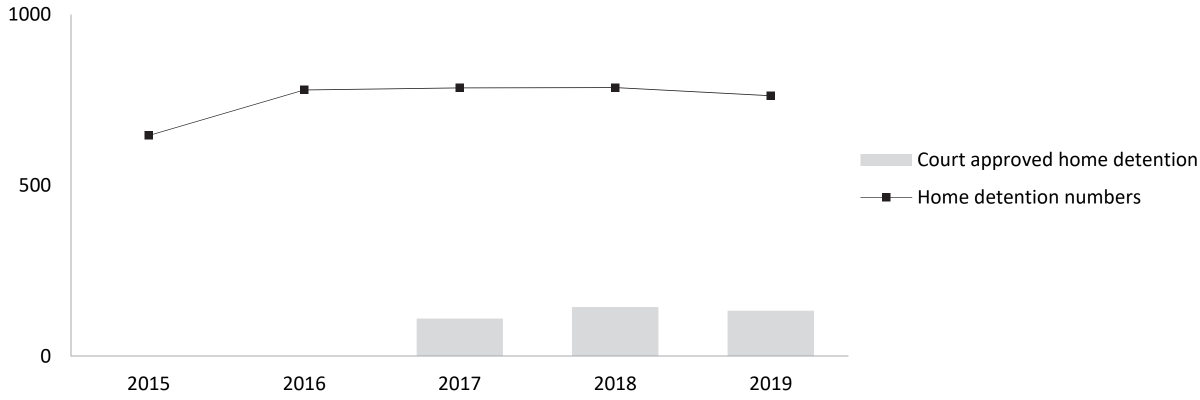
Statement of Comprehensive Income

Expenses

A structural analysis of DCS's main expense items and total prisoner numbers for the five years to 2019 is shown in the following chart. Over this period total prisoner numbers increased by 526 to 3001 in 2018, before declining to 2872 at 30 June 2019. Total expenses increased by $103 million (39%) over the same period. The prisoner numbers are at a point in time and may fluctuate during the year.



Home detention numbers also increased from 646 at 30 June 2015 to 762 by 30 June 2019. In 2016, changes to the *Correctional Services Act 1982* and *Criminal Law (Sentencing) Act 1988* allowed the Courts to apply home detention orders. Prior to this only the DCS Chief Executive could release prisoners for home detention under certain conditions.



Employee benefit expenses

Employee benefit expenses increased by $1.1 million due mainly to:

- the approval of 126 TVSPs costing $9.1 million, largely as a result of a decrease in the required number of correctional officers following the contract to manage and operate the Adelaide Remand Centre from August 2019. No TVSPs were paid in 2017-18
- an increase in leave liabilities of $5.5 million, mostly relating to the long service leave liability, which increased as a result of a reduction in the discount rate used when calculating the present value of expected future payments
- a $16 million turnaround reducing workers compensation and additional compensation expenses – the movement of both liabilities reduced relative to the prior year. The main item in 2017-18 was the additional compensation expense resulting from newly established employment obligation.

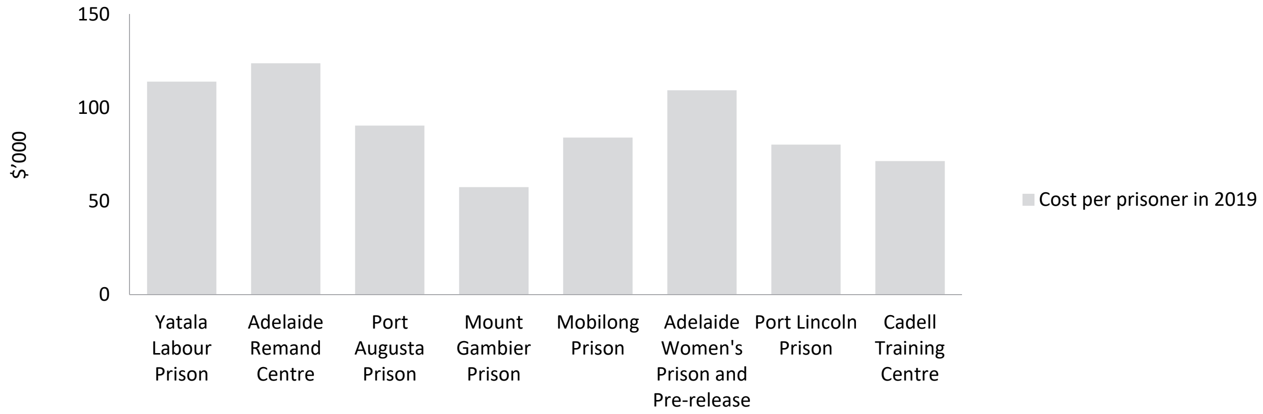
Supplies and services expenses

Supplies and services expenses increased by $6.8 million to $101 million mainly due to:

- a $3.2 million increase in contract expenditure due to an additional operational contract of $1.8 million for 160 additional beds at Mount Gambier, $500 000 additional expenditure from the full year impact of the Home Detention Integrated Support Services program and $656 000 for the full year impact of the Work Ready Release Ready program
- a $1 million increase in IT costs, largely associated with implementing the prisoner education system and the Work Ready Release Ready program
- a $1 million increase in sundry expenses, due mainly to initial costs for the 160 additional Mount Gambier beds.

Annual cost per prisoner per facility

The following chart shows the per prisoner cost of managing each facility in 2018-19. Figures include all direct and indirect operating costs. Indirect costs are allocated to prisons based on either a percentage of total salaries, a percentage of total beds or a percentage of total direct costs. Data was supplied by DCS and is unaudited.



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

- the built environment of the prison. Ageing infrastructure at sites like Yatala Labour Prison can impact costs. For example, the design of prisoner accommodation, visitor centres and admissions areas can impact staffing levels, which then impact cost. Cell based accommodation as opposed to residential type accommodation also influences the cost per prisoner
- work practices and staffing levels, which vary at each site and have evolved over time. For example, there are variations at prison sites in the number of correctional officers required to escort prisoners within the facility, and the number of correctional staff required to monitor prisoners
- the role and function of the prison, which can vary based on factors including out of cell hours, level of industry activity at each site, level of prisoner employment, open campus (eg Mobilong) and security level of prisoners.

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

The chart above illustrates the differences between facilities. The Adelaide Remand Centre cost $124 000 per prisoner in 2018-19, while the Yatala Labour Prison cost $114 000 per prisoner and the Mount Gambier Prison $57 000 per prisoner in the same period. These comparisons require consideration of the following points:

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

Income

Net revenues from the SA Government increased by $31.9 million to $356.5 million. This included $9.6 million received for reimbursement of TVSPs and $7.4 million for the commencement of the Yatala Labour Prison and Adelaide Women's Prison bed expansion. Revenues from the SA Government are DCS's primary income source.

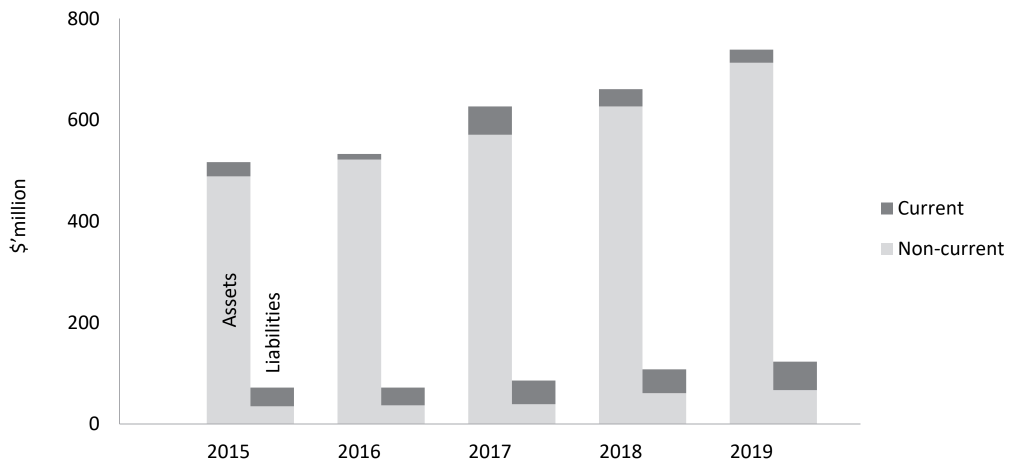
Resources received free of charge of $2.1 million were also recognised for services provided by Shared Services SA.

Equity contribution

In 2017-18 DCS received a capital contribution (or government equity contribution) from the SA Government of $20 million to support its capital works program. Capital contributions were not required for 2018-19.

Statement of Financial Position

For the five years to 2018, a structural analysis of assets and liabilities is shown in the following chart.



Current liabilities of $56 million exceed current assets, with employee leave related liabilities and compensation provisions representing 58% of current liabilities.

Assets

Cash and cash equivalents

DCS's current asset position declined in 2018-19 to $26 million following an $8.5 million decrease in cash and cash equivalents. This decrease in cash is due mainly to timing differences between capital expenditure and the SA Government funding received in support.

Property, plant and equipment

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

Land and buildings represent 99% of total property, plant and equipment and were valued at $666 million as at 30 June 2019. The following chart shows asset values for DCS's land and buildings for the last two years.

The carrying value of land and buildings increased by $100 million due to:

- $62.78 million of completed capital works, due largely to additional accommodation (160 beds) and supporting infrastructure at Mount Gambier Prison
- a revaluation increment of $60.4 million across all land and buildings. Land was revalued upwards by $68 million mainly for land at Yatala Labour Prison ($34 million increase) and Adelaide Women's Prison ($31 million increase). Increases in land value were offset by an $8 million reduction in the value of prison buildings, mainly for the Mount Gambier Prison
- a partial offset in depreciation charges of $21.6 million.

Capital works in progress

As at 30 June 2019 capital works in progress totalled $39 million. This includes costs associated with the following prisoner accommodation projects in progress at 30 June 2019:

- $25.2 million for 20 additional beds at the Adelaide Women's Prison
- $7.8 million for additional beds at a number of prisons.

Liabilities

Total liabilities increased by $15.3 million to $123.3 million.

This increase is largely attributable to:

- the $6.4 million increase for approved TVSPs not paid as at 30 June 2019
- the long service leave provision increase of $5.2 million due mainly to the reduction in the discount rate used to measure the present value of expected future payments
- a $1.9 million increase in provisions, with a $2.8 million increase in the provision for workers compensation partially offset by a $1 million decrease in the additional compensation provision. Both liabilities are discussed in more detail below.

Provision for workers compensation

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

The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2019 provided by a consulting actuary engaged through the Office for the Public Sector. The liability increased by $2.8 million due mainly to a decrease in the discount rate used in the calculation. Actual claim payments for 2018-19 totalled $456 000.

Additional compensation provision

Following changes to relevant public sector enterprise agreements, DCS recognised a new additional compensation provision from 30 June 2018. As at 30 June 2019 the additional compensation provision was estimated at $9.5 million, down from $10.5 million when it was initially established in 2017-18.

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

The additional compensation provision as at 30 June 2019 was estimated by an actuary engaged by the Office for the Public Sector on behalf of all affected agencies across the public sector. The liability comprises an estimate for known claims and an estimate of incurred but not reported applications.

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

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

Statement of Cash Flows

The following table summarises DCS's net cash flows for the five years to 2019.

	2015 $'million	2016 $'million	2017 $'million	2018 $'million	2019 $'million
Net cash flows					
Operating	23	6	48	24	41
Investing	(41)	(31)	(51)	(67)	(49)
Financing	28	8	47	20	-
Change in cash	10	(17)	44	(23)	(8)
Cash at 30 June	24	7	51	28	20

In 2018-19 cash decreased by $8 million largely reflecting capital expenditure totalling $49 million, offset by net cash generated by operating activities of $41 million.

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

Courts Administration Authority (CAA)

Financial statistics	Net cost of providing services:	$110 million
	Total appropriation:	$126 million
	Administered total expenses:	$66 million
	Number of FTEs:	
	Controlled	650
	Administered	88

Significant events and transactions

- In June 2019 the CAA purchased the Sir Samuel Way building from Funds SA. It paid $47.8 million for the land on which the building sits and to compensate Funds SA for the remaining term of the lease.
- The Higher Courts Redevelopment Project continued to progress in 2018-19, with an additional $7.5 million spent. Completion is expected in 2020.
- The Electronic Court Management System (ECMS) probates module being used from November 2018. It is expected that the Civil courts component will be in use by February 2020 and the Criminal courts component by 2021.

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Other audit findings

- Insufficient control over reviewing payroll system user access.
- No formal ECMS user access reviews performed.
- Verifying vendor bank account detail changes could be strengthened.

Functional responsibility

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

The function of the CAA, which is independent of the control of Executive Government, is to provide courts with the administrative facilities and services needed for the proper administration of justice. For more information about the CAA's objectives and priorities refer note 1 of its financial report.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- expenditure and accounts payable
- revenue and receipting
- payroll
- cash
- fixed and intangible assets
- financial accounting
- trust accounts.

Internal audit activities were considered in designing audit procedures.

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

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

Other audit findings

Payroll

The CAA paid employee and judicial benefits expenses totalling $102 million in 2018-19 and the liabilities for employee and judicial benefits at 30 June 2019 were $33 million.

Insufficient control over reviewing payroll system user access

Consistent with prior years, we found that the controls over reviewing user access to the payroll system could be improved. In particular, the review should be performed by an independent officer and not someone who has access to make changes to user access in the system.

Having an independent officer perform this review removes the possibility of someone checking their own changes and decreases the risk that CAA staff may have inappropriate payroll system access.

The CAA's response stated that this segregation of duties issue would be resolved, with a target for this to be completed in October 2019.

No formal ECMS user access reviews performed

The CAA is implementing the Electronic Court Management System (ECMS) in several stages, with the first stage, the probates module, being used from November 2018.

We found there had been no formal reviews of ECMS user access since its use for probate started. ECMS user access should be subject to the same reviews as other CAA systems to ensure user access remains appropriate.

Where user access is not reviewed there is an increased risk of processing errors or inappropriate access to information.

The CAA responded that the ECMS would now be captured by the CAA's standard IT user access controls.

Verifying vendor bank account detail changes could be strengthened

We found that the CAA's process for verifying changes to vendor bank account details used the advice of the change as the only source to make the change and check that it was processed correctly. To reduce the risk of fraudulent bank account change requests being processed, better practice is now to confirm any change in vendor bank account details to independent information, such as contacting the vendor using the details on their website.

The CAA advised that it had immediately changed its processes to ensure all changes to vendor bank account details are verified with an independent phone call.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	58	55
Supplies and services	34	34
Other expenses	22	7
Total expenses	114	96

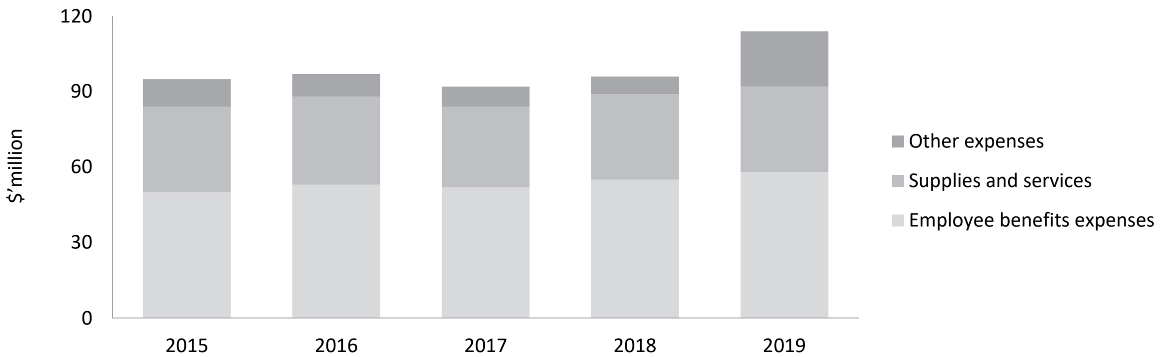
	2019 $'million	2018 $'million
Income		
Fees and charges	3	4
Other revenues	1	1
Total income	4	5
Net cost of providing services	110	91
Revenues from (Payments to) SA Government	126	81
Net result	16	(10)
Total comprehensive result	32	(11)
Net cash provided by (used in) operating activities	19	(2)
Assets		
Current assets	34	51
Non-current assets	235	192
Total assets	269	243
Liabilities		
Current liabilities	14	13
Non-current liabilities	13	20
Total liabilities	27	33
Total equity	242	210

Statement of Comprehensive Income

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

Expenses

The following chart shows the main expense items for the five years to 2019.



The chart shows that overall 2018-19 expenditure has increased, with increases in all categories except supplies and services.

Employee benefits expenses are the major category of expense for the CAA, accounting for 51% (57%)

of total expenses. Employee benefits expenses increased by $3.3 million in 2018-19 due to:

- salaries and wages increasing by $1.2 million as a result of enterprise bargaining increases
- targeted voluntary separation packages increasing by $1.1 million, with 17 staff accepting a package in 2018-19 compared to only one in 2017-18.

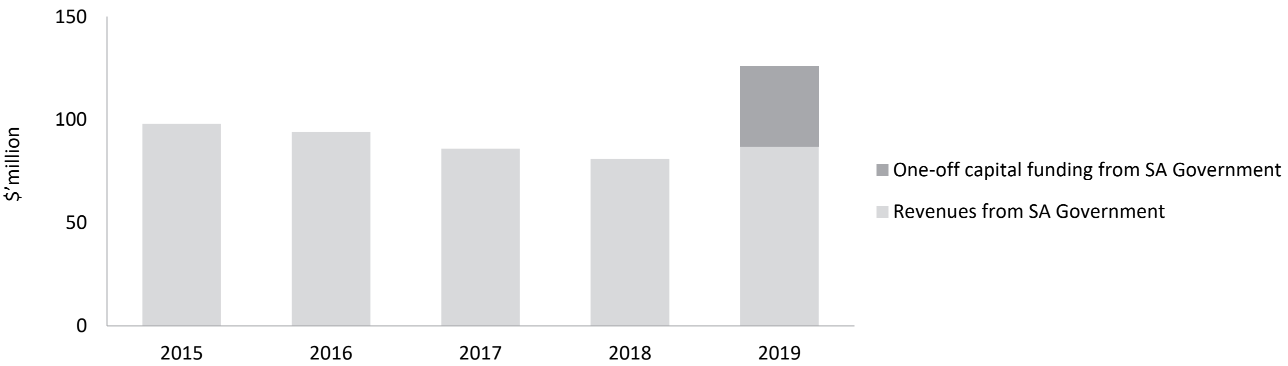
Supplies and services account for 29% (35%) of total expenses and remained steady in 2018-19.

Other expenses increased significantly in 2018-19. This increase was a result of a one-off additional $14.5 million in payments to the Superannuation Funds Management Corporation of South Australia (Funds SA) for the early exercise of the purchase option under the lease agreement for the Sir Samuel Way building.

Income

Revenues from the SA Government are the major source of funding for the CAA, accounting for 97% (95%) of total income.

The following chart shows the level of revenues from the SA Government for the five years to 2019.



Revenues from the SA Government increased significantly by $44.6 million in 2018-19, to $126 million. The increase is mainly due to the receipt of an additional $39.1 million in capital funding during the year. Most of this capital funding was for the purchase of the Sir Samuel Way building and associated land from Funds SA in late June 2019, with the remainder related to the Higher Courts Redevelopment Project (HCRP).

The SA Government approved the purchase of the Sir Samuel Way site in May 2019.

Statement of Financial Position

Non-current assets mainly comprise land and buildings totalling $231 million ($190 million), which account for 98% (99%) of non-current assets.

The $41 million (22%) increase in property, plant and equipment in 2018-19 mainly reflects the purchase and revaluation of the Sir Samuel Way land and building. Under the lease agreement with Funds SA, the CAA was able to purchase the Sir Samuel Way site by paying the land value to Funds SA.

In addition to paying for the land, the CAA had to pay costs associated with the early exercise of the purchase option, as discussed above.

Following the decision to exercise the purchase option for the building, the CAA revalued the Sir Samuel Way building as at 30 June 2019 to reflect its transfer from a leased to an owned asset and the extension of the CAA's interest in the building beyond the end of the lease term.

As an interim indication of fair value, the CAA recognised the building at a value based on the Valuer-General's valuation for the building and recognised an independent valuation for the land. These values will be updated by the CAA's regular revaluation program, which will value all sites in 2019-20.

Current assets mainly comprise cash and cash equivalents totalling $26 million ($49 million), which account for 74% (96%) of current assets.

Included in cash at 30 June 2019 are deposits with the Treasurer, including $74 000 ($40 million) held in the Accrual Appropriation Excess Funds Account. The balance of these funds is not available for general use and can only be used with the Treasurer's approval.

The reduction in cash reflects that the CAA used amounts from its Accrual Appropriation Excess Funds Account to purchase the Sir Samuel Way site.

Higher Courts Redevelopment project

The 2017-18 State Budget allocated $31 million to redevelop higher courts facilities, with funding over two years starting in 2017-18. The HCRP represents the most significant capital redevelopment undertaken in the recent history of the CAA, and is expected to deliver six refurbished civil courtrooms in the Supreme Court precinct, including refurbished accommodation for judicial use, as well as three criminal jury courtrooms and associated facilities in the Sir Samuel Way Building.

In 2018-19, $7.5 million was spent on capital works for this project, bringing total costs to date to $8.9 million. The project is anticipated to conclude in mid to late 2020.

Electronic Court Management System project

The 2015-16 State Budget allocated $23.2 million to create a system to support administrative case management, provide online court services, and address the critical records management and information exchange requirements of the CAA.

Total ECMS project costs as at 30 June 2019 were $3.8 million, with $2.4 million spent in 2018-19. The ECMS probates module has been in use since November 2018, with the Civil courts component expected be in use by February 2020 and the Criminal courts component by 2021.

Interpretation and analysis of the financial report for administered activities

Highlights of the financial report – administered items

	2019 $'million	2018 $'million
Expenses		
Judicial benefits expenses	44	42
Payments to the Consolidated Account	22	21
Other expenses	-	1
Total expenses	66	64

	2019 $'million	2018 $'million
Income		
Revenues from SA Government	43	42
Court and transcript fees	22	21
Other income	1	1
Total income	66	64
Net and total comprehensive result	-	-
Net cash provided by (used in) operating activities	7	(9)
Assets		
Current assets	52	44
Total assets	52	44
Liabilities		
Current liabilities	46	39
Non-current liabilities	14	13
Total liabilities	60	52
Total equity	(8)	(8)

Statement of Administered Comprehensive Income

Expenses

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

Judicial benefits expenses were $44 million, an increase of $2 million from the previous year. Salaries and wages increased by $1 million mainly as a result of Remuneration Tribunal wage increases to base salaries. Long service leave expense increased by $577 000 as a result of a 5% increase in accrued leave, revaluation of the long service leave liability and an additional three judicial members as at 30 June 2019.

Income

Court and transcript fees

Court and transcript fees are raised and collected by the CAA and paid directly to the Consolidated Account. The amount collected for 2018-19 was $22 million, which is an increase of $1 million from 2017-18.

Revenues from SA Government

Revenues from the SA Government are received by the CAA to fund employment expenses of the Judiciary. In 2018-19 revenues of $44 million ($42 million) were received from the SA Government to pay the recurrent expenditure associated with the Judiciary.

Statement of Financial Position

Total assets and liabilities both increased by $8 million mainly as a result of more cash held in trust accounts on behalf of parties involved in court matters.

Further commentary on operations

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

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

For 2018-19 total expenses were $180 million ($160 million) and total income, excluding revenues from the SA Government, was $27 million ($27 million). The SA Government provided $170 million ($124 million) towards the cost of administering justice.

Department for Education (Education)

Financial statistics	Net assets:	$4.6 billion
	Net cost of providing services:	$2.6 billion
	Total revenues from SA Government:	$2.6 billion
	Number of FTEs:	24 630
	Number of school and preschool sites:	916
	Number of FTE students in Education schools in term 1, 2019:	176 568

Significant events and transactions

- $894 million is to be spent over five years at Education sites to expand capacity and facilitate the transfer of year 7 into high school.
- Education signed a contract for $76 million with Civica for the right to use their education management software for 10 years, with a 10-year right of renewal. The system will encompass finance, student records, timetables, administration and other school management tools. It will be rolled out to all sites over three years starting in 2020.

Financial report opinion

Unmodified

Controls opinion findings

- No asset management strategy and plan.
- Limited building condition assessments performed.
- No monitoring to ensure site inspections are performed.
- Minor works and maintenance expenses paid without being reviewed and approved.
- No monitoring of performance for non-government schools.
- No workforce plan.
- 23% of employee performance development plans are overdue.
- Weaknesses in contract management for cleaning contracts.

Other audit findings

- Weaknesses in controls over salary overpayments.
- Weaknesses in payroll system IT controls.
- Complex workers compensation income maintenance claim calculations not being reviewed.

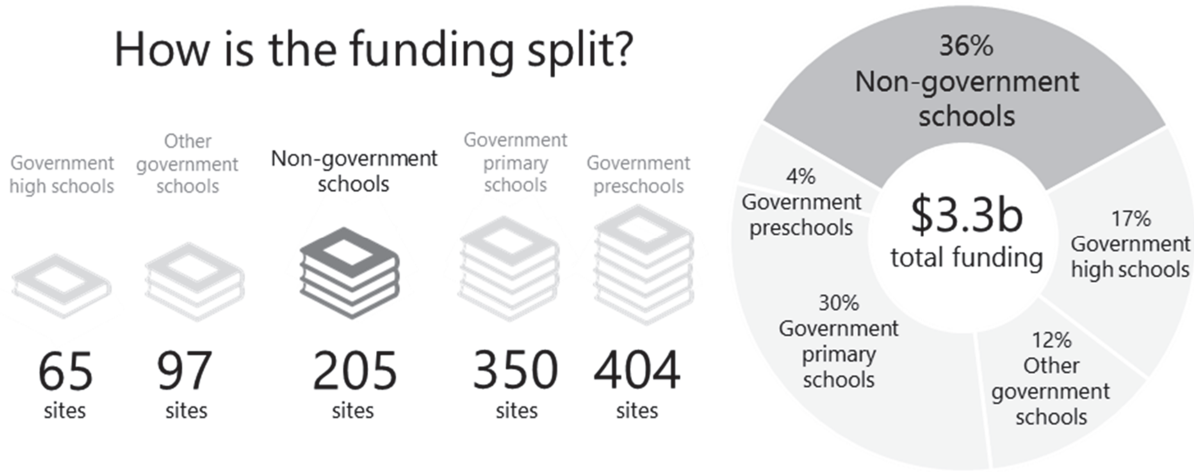
Functional responsibility

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

Education has two main financial functions:

- providing funding to schools and preschools:
  - 916 government schools and preschools were paid \$2.1 billion
  - 205 non-government schools were paid \$1.2 billion
- paying 24 630 employees, including school and preschool employees, \$2.5 billion in 2018-19.

Funding to schools and preschools



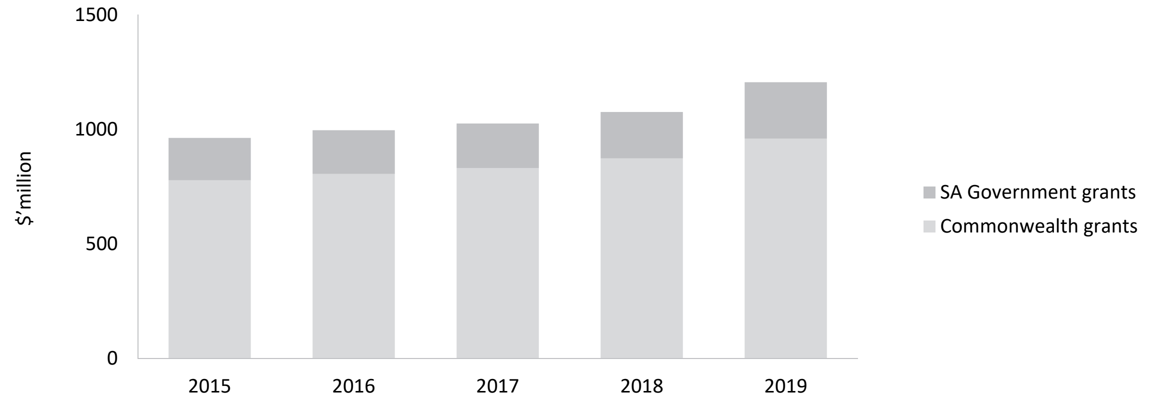
Government schools and preschools

Payments to and on behalf of government schools and preschools relate to employee benefits expenses, supplies and services and grants and subsidies within the controlled financial report. Employee benefits expenses are 82% of the total amount provided to government schools and preschools.

In 2018-19 payments to and on behalf of government schools and preschools were funded by \$1.55 billion in SA Government appropriation and \$554 million in Commonwealth grants. Additional State funds were also provided for capital works.

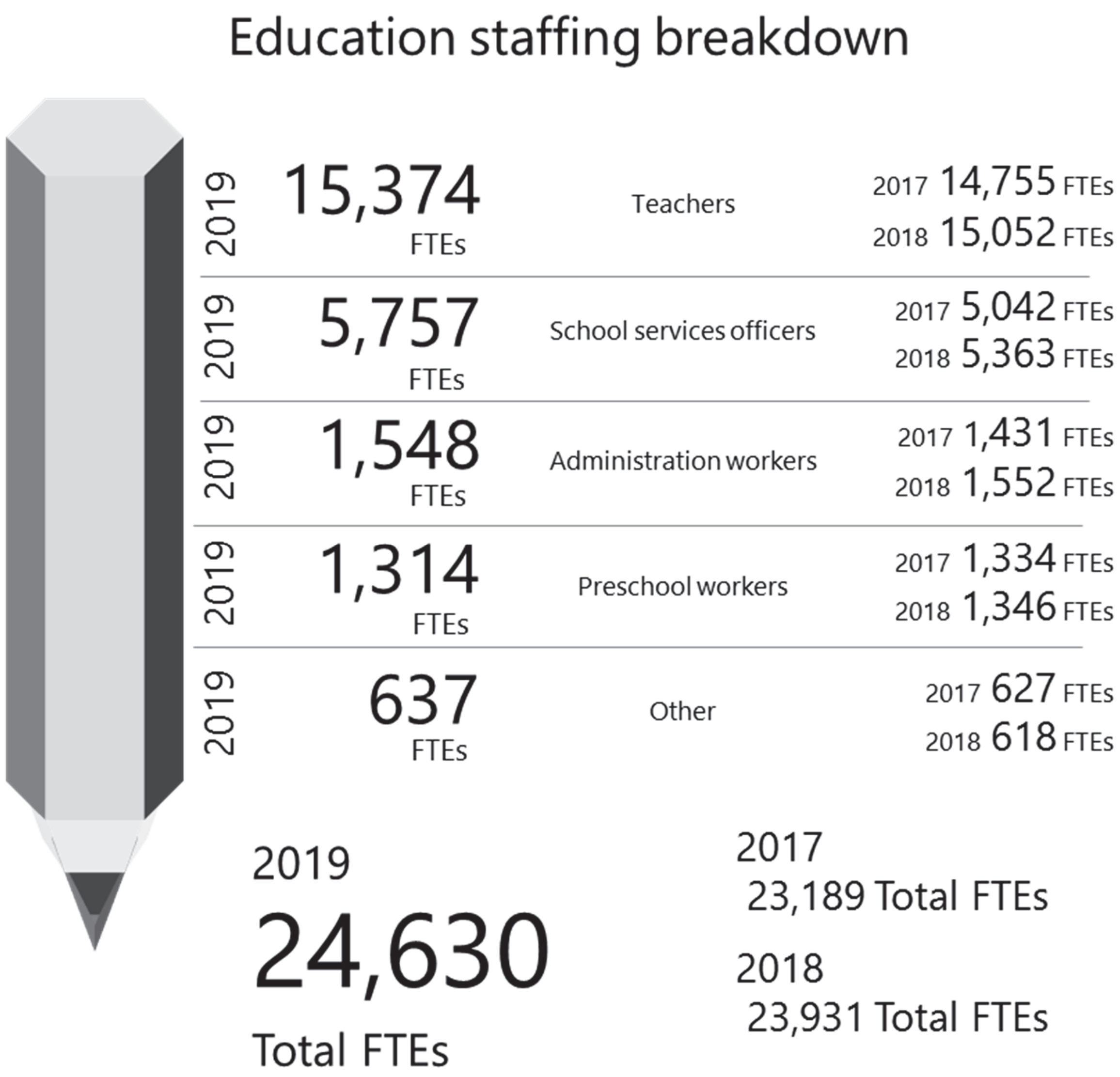
Non-government schools

Payments to non-government schools are mainly transfers of Commonwealth funding. They are recorded in the administered financial report. There was a gradual increase of 3% to 5% each year between 2015 and 2018 in the payments to non-government schools. In 2019 there was an increase of 12% due to an increase in enrolments, indexation and capital funding.



In 2018-19 transfers to non-government schools were funded by $247 million ($202 million) in SA Government grants and $959 million ($873 million) in Commonwealth grants. All grants were based on the term 3 enrolment census and the needs of the school and its students. The amount each non-government school receives from the Commonwealth is determined by the Commonwealth. Growth in SA Government grants is in line with the Commonwealth grant movement.

Employees



In 2018-19 there was an increase of 2% in the number of teachers. The increase in the number of students enrolled in term 1 between 2018 and 2019 was 1%.

The number of preschool workers has decreased by 2% since 2017-18. Recurrent grants paid to preschools increased by 73% due to funding for minor works and maintenance. The Commonwealth grants received for preschools remained stable.

The number of school services officers in 2018-19 increased by 7% due to a number of reform programs, for example more support for students with disabilities, being implemented to improve school performance and student outcomes.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- expenditure
- payroll, including IT system controls
- land and buildings
- grants
- general ledger
- implementation review of the Education Management System (EMS)
- governance
- workers compensation.

We considered internal audit activities in designing and performing our audit procedures. We made use of the work performed by internal audit in the following areas:

- school enrolment data used to determine the funding provided to each government school
- government schools audits, which were performed by contractors appointed, managed and monitored by internal audit.

The audit also considered controls and procedures performed by service providers including Shared Services SA (SSSA).

Controls opinion

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

- land and buildings
- minor works and maintenance expenditure
- State grants
- Commonwealth grants
- employee benefits

- procurement and contract management – cleaning
- supplies and services
- bank accounts.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Land and buildings

Education owns $1.6 billion of land and $3 billion of buildings and improvements, across more than 900 sites. It is therefore important these assets are properly managed and maintained.

No asset management strategy and plan

We found there was no asset management strategy and plan in place. Asset management strategies and plans help ensure assets are managed effectively to meet strategic outcomes. We note that Education does have some of the elements required to manage its assets, but there is no coordinated approach.

Education responded that it uses a planning tool incorporating built capacities and demographic data to provide a coordinated and strategic approach. It will develop a strategic asset management framework and associated asset management plans by June 2020.

Limited building condition assessments performed

Education has two facilities management service providers (FMSPs) – the Department of Planning Transport and Infrastructure (DPTI) and Spotless. They are required to perform regular condition assessments, which should be used to prioritise capital, replacement and preventive maintenance plans.

We found Education was not receiving condition assessments from the DPTI FMSP and was only receiving high-level reports from the Spotless FMSP.

Education advised that it will continue to work with the FMSPs and DPTI's Across Government Facilities Management Arrangement section for the provision of these reports.

No monitoring to ensure site inspections are performed

The FMSPs are required to perform site inspections every one to three years to ensure assets exist, that they are in reasonable condition and that all preventative maintenance is identified.

We found Education does not receive reports, monitor or get confirmation from DPTI's Across Government Facilities Management Arrangement section that site inspections are being performed.

Education advised that this is DPTI's responsibility, as outlined in DPTI's guidance note *AGFMA – Annual Inspection Testing and Audit Plan*.

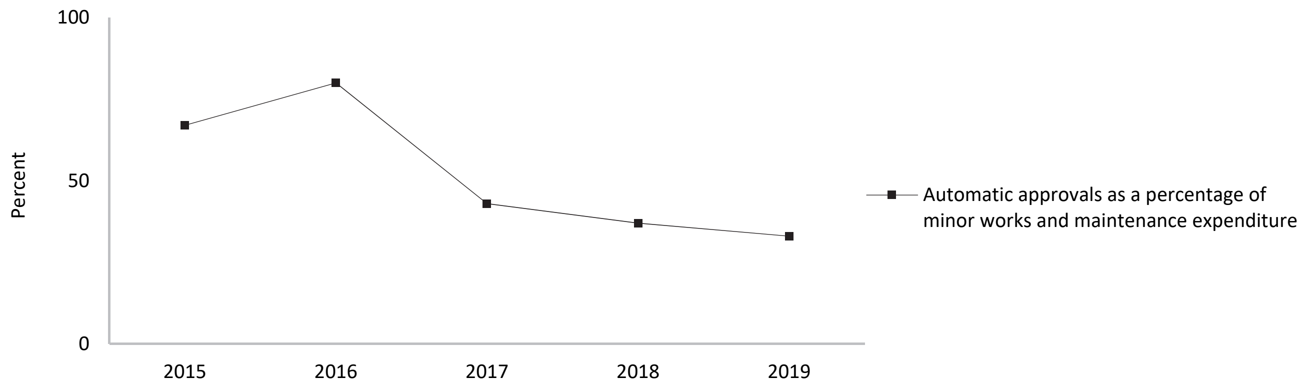
Minor works and maintenance expenditure

Education paid $161 million for minor works, maintenance and equipment in 2018-19. Minor works and maintenance are performed by FMSPs. Under the contractual arrangements, if charges are not approved or disputed by sites within 30 days, they are automatically paid.

Minor works and maintenance expenses paid without being reviewed and approved

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

A number of changes have been implemented by Education and DPTI that have reduced the number of automatic payments since 2016 to the lowest level in five years, as shown below.



While there has been a significant improvement, a substantial amount of expenditure ($43 million in 2018-19) is still paid automatically without review and approval.

This year, Education advised us that it will continue with its existing practices as they are demonstrating continual improved results.

State grants

The State Minister provided $247 million of State grant funding to 205 non-government schools in 2018-19. These payments were administered by Education on the Minister's behalf.

No monitoring of performance for non-government schools

Education monitors the finances of non-government schools to ensure they are financially viable.

They do not monitor their performance to ensure that non-government schools are meeting an appropriate standard or achieving the objectives of the State.

It is not clear from the funding deeds between the Minister and non-government schools what the objectives of the funding are, and the deeds do not specify any key performance indicators.

We recommended Education update the funding deeds to clearly outline the objectives, key performance indicators, access to data arrangements and reporting requirements.

Education responded that it was comfortable with the current arrangements.

Employee benefits

Total employee expenses were $2.5 billion in 2018-19, representing 72% of total expenses. Education had 24 630 controlled FTEs and 36 administered FTEs at 30 June 2019.

No workforce plan

We found Education does not have a workforce plan. We acknowledge that it does elements of workforce planning, but this has not been brought together so that Education can monitor and report on the strategies being implemented to ensure they are successful and in line with its strategic goals.

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

23% of employee performance development plans are overdue

Of the 23% of performance development plans that were overdue as at 24 June 2019, there were 1624 that were more than a year overdue.

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

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

Contract management – cleaning

In 2018-19 cleaning contract payments were around $34 million to 20 contractors.

We found:

- there was a contract management plan, but it was not being followed
- cleaning contracts were being extended without reviewing contractor performance or contacting sites to ensure there were no significant issues
- there was no annual contract review.

All issues were accepted by Education and it advised that remedial action would be taken.

Other audit findings

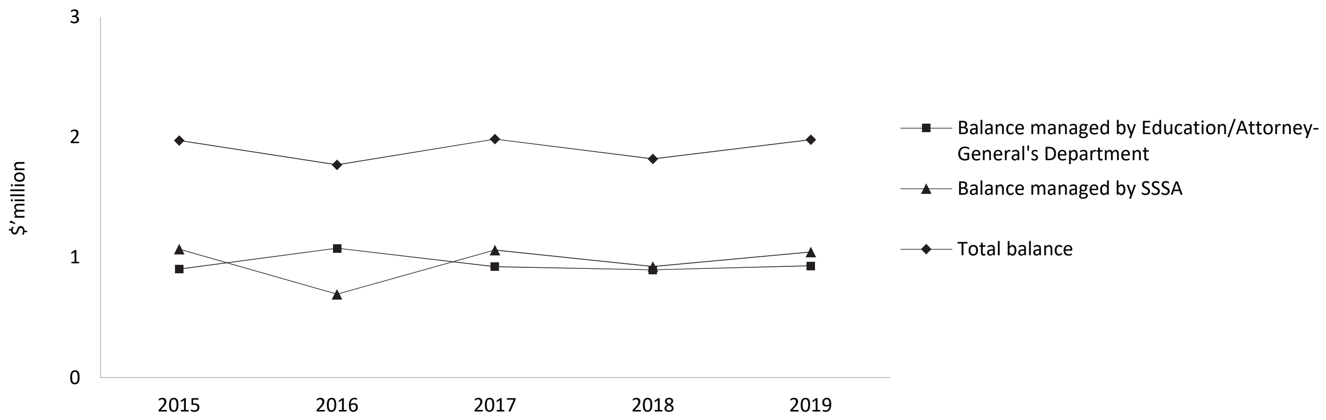
Payroll

Weaknesses in controls over salary overpayments

Responsibility for identifying and recovering salary overpayments is shared between Education and SSSA. Overpayments are initially managed by SSSA before being transferred to Education's Debt Recoveries Team. We note the follow-up and recovery of some long outstanding salary overpayments to ex-employees was transferred to the Attorney-General's Department on 31 May 2019.

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

There have been a number of improvements in the controls over the causes and recovery of salary overpayments. The following chart shows salary overpayments at 30 June for the last five years. The balances have remained fairly stable at around $2 million since 30 June 2015.



We recommended Education continue to investigate the reasons for the salary overpayments and implement remedial action.

In response Education advised it anticipated that the transfer of the responsibility to recover some overpayments to the Attorney-General's Department will improve the timeliness and effectiveness of recovery processes. In addition, an end-to-end review will be done for salary overpayments.

Weaknesses in payroll system IT controls

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

Weaknesses with user access accounts

We identified privileged user accounts that were no longer required, or were flagged for removal, and terminated user accounts that were active in Valeo.

Education advised that the inappropriate access had been removed and a new procedure will be introduced for maintaining user accounts.

Lack of disaster recovery management across the Valeo environment

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

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

Complex workers compensation income maintenance claims calculations not being reviewed

In 2018-19, Education workers received income maintenance of $12 million. Income maintenance payments are manually calculated by a claims officer. These calculations can be complex or simple and can involve the following considerations:

- salary type and source
- fraction of time
- alternative duties
- percentage applicable to weekly payments
- allowances and outside earnings
- conversions, calculation rules and fairness principle.

We found there was no review of complex calculations for income maintenance by an independent officer for completeness and accuracy.

Education agreed with the finding and will undertake monthly random claim audits to verify the completeness and accuracy of income maintenance calculations.

Interpretation and analysis of the financial report

Highlights of the financial report (Consolidated)

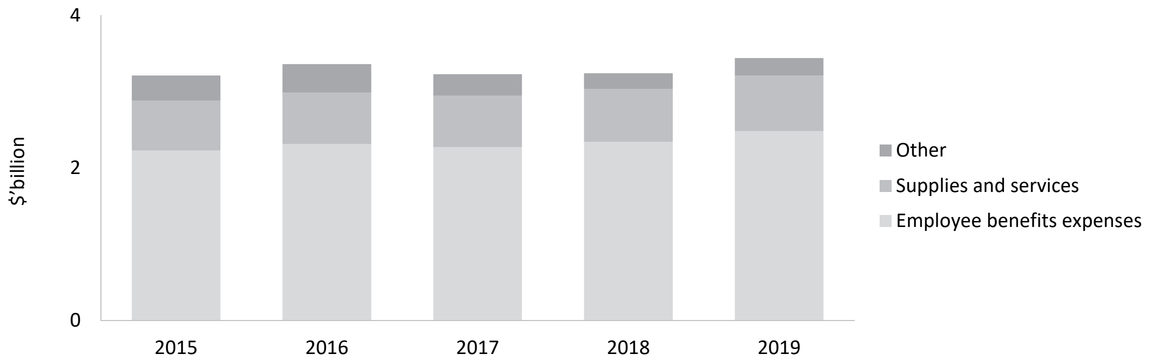
	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	2 478	2 340
Supplies and services	730	694
Other	229	206
Total expenses	3 437	3 240
Income		
Commonwealth revenues	561	509
Student and other fees and charges	162	169
Other	158	119
Total income	881	797
Net cost of providing services	2 556	2 443
Revenues from (Payments to) SA Government		
Revenues from SA Government	2 569	2 491
Net result	13	48

	2019 $'million	2018 $'million
Other comprehensive income		
Changes in revaluation surplus	63	69
Total comprehensive income	76	117
Net cash provided by operating activities	218	179
Net cash used in investing activities	226	183
Assets		
Current assets	986	1 010
Non-current assets	4 822	4 695
Total assets	5 808	5 705
Liabilities		
Current liabilities	372	407
Non-current liabilities	807	745
Total liabilities	1 179	1 152
Total equity	4 629	4 553

Statement of Comprehensive Income

Expenses

The main expense items for Education for the five years to 2019 are shown in the following chart.

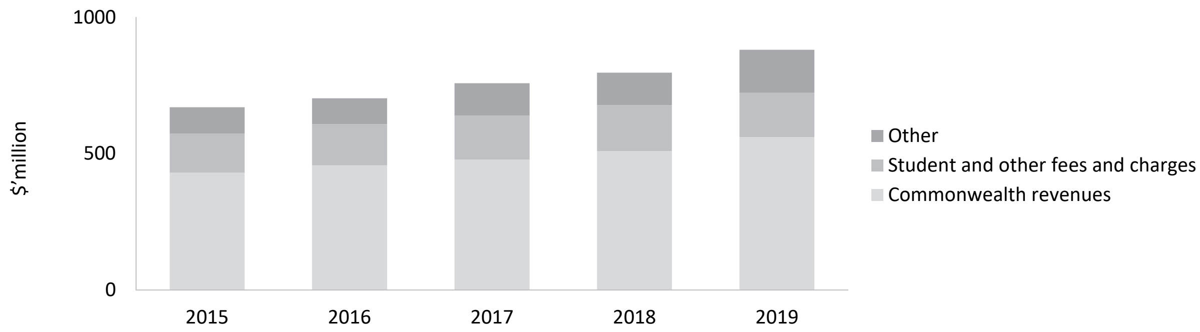


Total expenses increased in 2018-19 by $197 million (6%) to $3.4 billion. This comprised:

- a $138 million increase in employee benefits expenses largely due to:
  - a $31 million increase in long service leave expense, reflecting a decrease in the discount rate from 2.5% to 1.25%
  - a $49 million increase in salaries and wages (including annual leave) resulting from an increase of 699 employees and enterprise bargaining increases
  - a $39 million increase in workers compensation expenses as a result of a higher provision following a decrease in the discount rate and an increase in claims
  - an $11 million increase in targeted voluntary separation packages due to 145 packages being offered as part of the 2018-19 budget saving measure to cut 200 administration staff
- a $36 million increase in supplies and services mainly due to:
  - a $12 million increase in ICT costs, largely due to the roll out of high speed internet to sites
  - an $11 million increase in utilities, primarily from increases in price and use of water.

Income

The main income items for Education for the five years to 2019 is shown in the following chart.



In 2018-19 total income increased by $83 million (10%) to $881 million. This included:

- a $51 million increase in Commonwealth revenue mainly due to an increase in Quality Schools/ National Education Reform Agreement funding, reflecting indexation under the funding arrangement and an increase of 2016 students
- a $31 million increase in resources received free of charge mainly due to the transfer of the Adelaide Botanic High School from DPTI ($28 million).

Revenues from SA Government

Net revenues from the SA Government increased by $78 million (3%) to $2.6 billion, primarily as a result of additional funding for Quality Schools and capital projects.

Statement of Financial Position

Assets

Current assets decreased by $24 million due to:

- an $11 million decrease in cash and cash equivalents
- a $5 million decrease in assets held for sale due to the sale of land, buildings and buses
- a $6 million decrease in GST recoverable from the ATO.

SA Schools Investment Fund (SASIF) cash balances

We have previously highlighted continued growth in school cash balances held in SASIF accounts. As at 30 June 2019, total physical SASIF balances for schools and preschools were $510.6 million ($496.2 million).

While there has been an increase in total SASIF balances, in 2019 Education issued a site instruction to help sites to prepare a plan for the use of their SASIF balances.

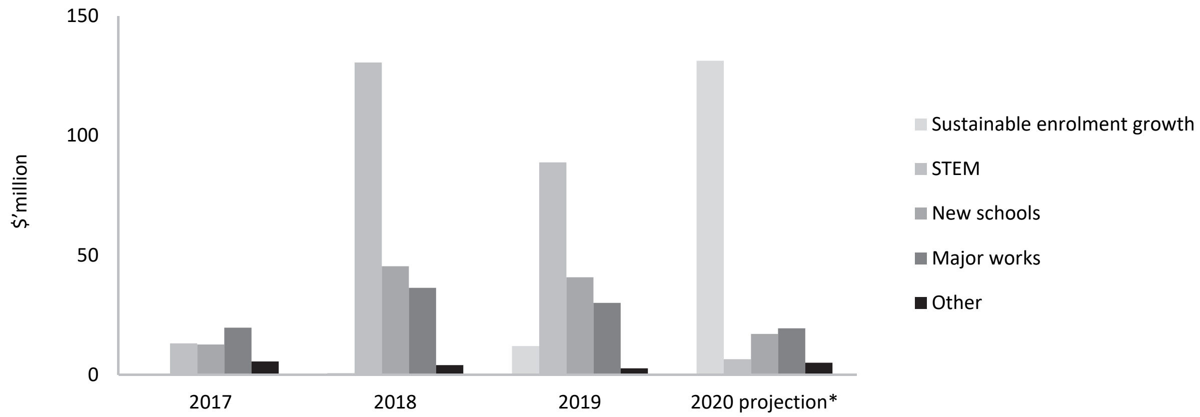
Property, plant and equipment increased by $127 million to $4.8 billion

The increase of $127 million in the value of property, plant and equipment was the result of:

- $174 million of capital works additions

- $30 million of donated assets
- a $68 million revaluation increment of land
- offset by $142 million of depreciation.

Capital works will continue to be high over the next few years due to the sustainable enrolment growth projects, as shown in the chart below.



* 2020 projection figures sourced from the 2019-20 budget papers.

In 2018-19 the capital works additions decreased by $42 million due to a decrease in expenditure for STEM projects, as most of these projects were completed by 31 December 2018.

In 2019-20 the expenditure for sustainable enrolment growth (including year 7 to high school) projects will increase as work begins on the first round of projects. This program was originally announced in October 2017 and was called building better schools. The program initially involved $692 million being spent over six years to improve, refurbish and expand capacity at 91 government schools. It has now been expanded to include:

- $185 million to provide facilities to move year 7 students from primary to high school, in line with government policy
- $17 million to bring together Glossop High School's two campuses.

This brings the total amount to be spent to $894 million.

Liabilities

As at 30 June 2019 liabilities mainly comprise:

- $804 million ($763 million) in employee benefits and related on-cost liabilities, making up 68% (66%) of total liabilities
- $165 million ($168 million) in borrowing costs relating to obligations under the finance leases for facilities provided under the Public Private Partnership agreement, comprising 14% (15%) of total liabilities
- $82 million ($59 million) in the provision for workers compensation, which accounts for 7% (5%) of total liabilities.

The workers compensation provision increased by $23 million in 2018-19 due to an increase in workers compensation payments and a decrease in the discount rate. In prior years the provision had been steadily decreasing. Movements over the past five years are shown in the following table.

	2014-15 $'million	2015-16 $'million	2016-17 $'million	2017-18 $'million	2018-19 $'million
Payments	31	30	21	16	19
Balance of the provision	101	93	72	59	82

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

Statement of Cash Flows

Education's cash position decreased by $11 million in 2018-19 mainly due to an increase in capital works. Education was also required to return $40 million of surplus cash to the Department of Treasury and Finance under the cash alignment policy.

As at 30 June 2019 the balance of cash was $932 million, which included:

- $285 million in deposits with the Treasurer in the Accrual Appropriation Excess Fund Account, which decreased by $71 million due to withdrawals, with the Treasurer's approval, to fund capital works projects
- $144 million in deposits with the Treasurer, which increased by $42 million due to funding for capital works not being fully spent
- $461 million in cash held by schools in SASIF accounts, which increased by $14 million due to schools not spending their full resource allocation.

Administered items

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

- $1205 million ($1075 million) in transfers to non-government schools
- $19 million ($19 million) in Commonwealth child care subsidies for family day care
- an $18 million ($19 million) operating grant to the SACE Board of South Australia
- $14 million ($13 million) for student travel concessions on transport services to DPTI.

There was increased activity in a number of administered accounts due to:

- a full year of operation for the Commissioner for Children and Young People and the Guardian for Children and Young People
- the addition of the Commissioner for Aboriginal Children and Young People, who started in October 2018
- the Minister for Education becoming responsible for administering the History Trust of South Australia, Australian Children's Performing Arts Company (Windmill) and Carclew Youth Arts Incorporated from 1 September 2018.

Department for Energy and Mining (DEM)

Financial statistics	Net cost of providing services: Revenues from SA Government: Payments to SA Government:	$111 million $113 million $69 million
	Grants and subsidies expense: Employee benefits expense: Fees and charges income:	$44 million $42 million $39 million
	Property, plant and equipment:	$268 million
	Administered royalties:	$299 million
	Number of FTEs:	300
Significant events and transactions	— DEM was established on 1 July 2018 and the Resources and Energy and Energy Implementation groups transferred on that date from the Department of the Premier and Cabinet. — DEM purchased nine electricity generators in 2018-19 for $227 million. These generators were initially leased as emergency generation capacity until a purchase option within the contract was exercised in December 2018.	
Financial report opinion	**Unmodified**	
Controls opinion findings	No significant findings.	
Other audit findings	Ineffective review of key payroll reports.	

Functional responsibility

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

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

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

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

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

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

There were no significant findings for our controls opinion work at DEM.

Other audit findings

Payroll

DEM paid a total of $29 million in salaries and wages to around 300 staff in 2018-19.

Ineffective review of key payroll reports

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

Until February 2019, DEM had no central monitoring process that effectively ensured that BFCs were reviewed promptly. Payroll system enhancements implemented in February 2019 allowed for central monitoring of BFCs to determine if they had been reviewed promptly.

A report for the period 1 February 2019 to 10 May 2019 identified 91 BFCs (40%), out of a total of 231, where the review was not performed.

Our transaction testing also identified an overpayment to an employee that had not been identified by the BFC review process. In this instance the employee was overpaid as their standard hours in the payroll system reflected a full-time employee while they were working part-time.

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

DEM responded that it is now using the enhanced payroll system reporting to monitor BFC reviews and it was working to embed BFC reviews into internal monitoring processes through quarterly reporting.

Interpretation and analysis of the financial report

As DEM was established as a new department from 1 July 2018 there are no comparative figures reported.

DEM received net assets totalling $71 million as a result of the transfer of the Resources and Energy and Energy Implementation groups from the Department of the Premier and Cabinet on 1 July 2018.

Highlights of the financial report

	2019 $’million
Expenses	
Supplies, services and other expenses	80
Grants and subsidies	44
Employee benefits expenses	42
Total expenses	166
Income	
Revenues from fees and charges	39
Other revenues	16
Total income	55
Net cost of providing services	111
Revenues from (Payments to) SA Government	
Revenues from SA Government	113
Payments to SA Government	(69)
Net result	(67)
Net cash provided by (used in) operating activities	(71)
Assets	
Current assets	21
Non-current assets	271
Total assets	292

	2019 $’million
Liabilities	
Current liabilities	27
Non-current liabilities	15
Total liabilities	42
Total equity	250

DEM’s strong net asset position, despite a net deficit result of $67 million in 2018-19, reflects that it also received a $247 million capital contribution in 2018-19 for the purchase of nine emergency generators.

As this was a capital contribution it is not reflected in the income statement, but is shown in the Statement of Cash Flows and Statement of Changes in Equity.

Statement of Comprehensive Income

Expenses

The main expense items for DEM in 2018-19 were supplies and services of $72 million (43%), grants and subsidies of $44 million (27%) and employee benefits expenses of $42 million (25%).

DEM is managing a number of grant processes and other schemes designed to meet its objective of delivering affordable, reliable and secure energy supplies. The expenses for these are predominantly reported under supplies and services or grants and subsidies.

Supplies and services

Emergency generation and storage expenses make up $33 million (46%) of supplies and services expenses. This consists of payments for the following activities.

Emergency generators

In December 2018 DEM purchased nine generation assets (generators) from APR Energy Holdings Limited, under a commitment made by the previous SA Government as part of its ‘Our Energy Plan’ (Energy Plan). The generators were purchased for $227 million and are reported as property, plant and equipment assets.

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

In response to a shortage of generation capacity, DEM operated the generators on 24 January 2019 providing recoveries of $2 million, reported under other income, under the Australian Energy Market Operator’s Reliability and Emergency Reserve Trader Scheme.

As the generators have been operated by the SA Government for the purpose of emergency generation capacity, this was the only time in 2018-19 that they operated and generated income.

Hornsdale Power Reserve

The previous SA Government's energy policy included the establishment of the world's then largest lithium ion battery, the Hornsdale Power Reserve. It is installed in South Australia under an agreement between French renewable energy company Neoen, US sustainable energy company Tesla and the SA Government.

The stated aim of the Hornsdale Power Reserve is to provide a battery storage facility to stabilise the South Australian electricity grid, facilitate integration of renewable energy in the State and help to prevent load-shedding events.

A portion of the battery is dedicated to trading on the electricity market. Expenditure for the Hornsdale Power Reserve was $4 million in 2018-19, with commitments for a further $35 million to be paid over the next eight years.

Grants and subsidies

$32 million (73%) of total grants paid were energy related from a number of schemes. Grants were paid from the Renewable Technology Fund (RTF) and also made for the Energy Plan implementation, Energy Productivity Program and Energy Connect.

Renewable Technology Fund

The RTF was announced as a key component of the former SA Government's Energy Plan in March 2017. It provides grants to private sector entities to support the integration of renewable technologies and demand management technologies in South Australia.

Expenditure incurred under the RTF in 2018-19 was $12 million, with commitments for a further $26 million in the future. This included the following grants to recipients to support renewable resources in the Australian energy market:

- $3.4 million towards the development of a pumped hydro energy storage project
- $3.1 million towards the construction of a hydrogen production and distribution facility.

Virtual power plant (VPP)

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

The aims of the VPP are to:

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

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

Phase 1 has been delivered, with 100 home energy systems installed on South Australian Housing Trust properties. The RTF provided $2 million of funding in 2017-18 to complete phase 1. Phase 2, installing an additional 1000 home energy systems, was in progress at 30 June 2019, with all systems scheduled to be operational by October 2019.

DEM has provided two short-term loans totalling $11 million, which are reported as receivables, towards the project in 2018-19.

Energy Plan implementation

Expenditure for Energy Plan implementation in 2018-19 was $9 million.

Home Battery Scheme

The Home Battery Scheme commenced in October 2018 with the aim of providing 40 000 South Australian households with $100 million in SA Government subsidies, funded from the Green Industry Fund. Under the scheme, households have access to up to $6000 in government subsidies to put towards the cost of the battery component of solar and battery installations.

DEM advised that 1302 installations occurred in 2018-19, with associated expenditure of $7 million.

Grid Scale Storage Fund

The Grid Scale Storage Fund is one of the main components of the SA Government's energy policy. It aims to accelerate the roll-out of grid-scale energy storage infrastructure and address the intermittency of South Australia's electricity supplies. The fund is intended to provide up to $50 million in grants.

The first round of grant applications closed in February 2019. No grants were made in 2018-19.

Energy Productivity Program

Expenditure under this program was $8 million in 2018-19. Grants were available to large businesses that used greater than 160 MWh of electricity each year to incentivise investing in energy productivity measures, to implement the recommendations of a recently completed energy audit.

Energy Connect

An electricity interconnector between South Australia and New South Wales worth around $1.5 billion has been proposed and is awaiting approval by the Australian Energy Regulator. The transmission link will aim to improve the security of electricity supply in South Australia.

To facilitate the development of the project DEM provided grant funding of $3 million to TransGrid.

Income

DEM is predominantly funded by appropriation. Revenues from the SA Government were $113 million, 67% of total income.

DEM made payments to the SA Government of $69 million for the return of surplus cash in 2018-19, including $58 million relating to excess contributed capital for the purchase of nine electricity generators.

DEM's other significant income stream was fees and charges of $39 million, 23% of total income. This included $23 million from mining and petroleum application fees, rentals and licence fees and $10 million from industry licence fees levied by the Essential Services Commission of South Australia.

Statement of Financial Position

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

	2019 $'million
Assets	
Property, plant and equipment	268
Receivables	16
Liabilities	
Payables	17
Employee benefits	15

Property, plant and equipment represents 92% of total assets. The largest component is the emergency generator assets that DEM purchased during the financial year for $227 million.

On 26 August 2019, the SA Government announced it had approved two 25-year lease agreements for two entities to operate the nine emergency generators owned by DEM. The lease arrangements will take effect in 2020.

Receivables include loans of $11 million granted to an entity under the RTF.

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

Statement of Cash Flows

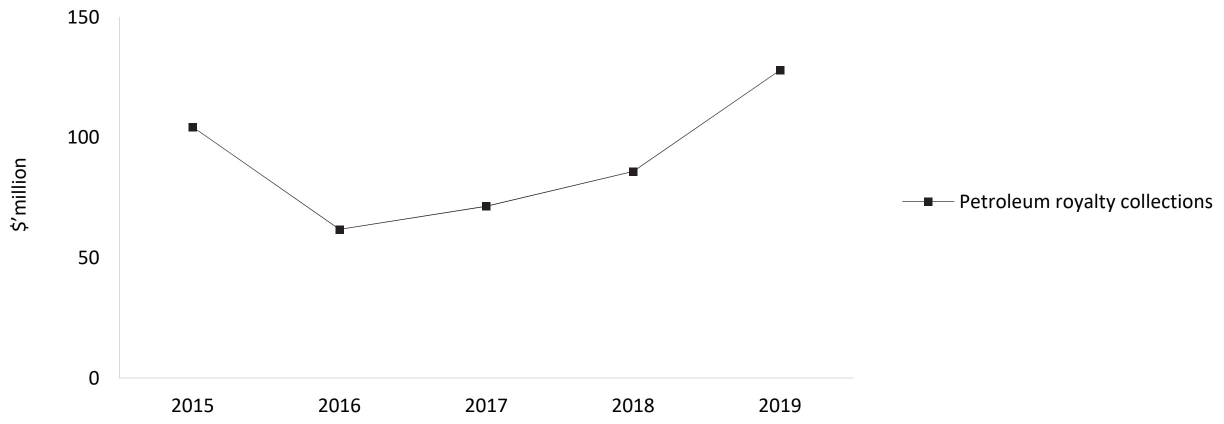
Cash and cash equivalents at 30 June 2019 totalled $6 million. They are held in DEM's operating account.

Major cash movements included capital contributions from the SA Government of $247 million and the inflow of cash from restructuring of $61 million, offset by cash used in operating activities of $71 million and the purchase of property, plant and equipment of $231 million (including generators for $227 million).

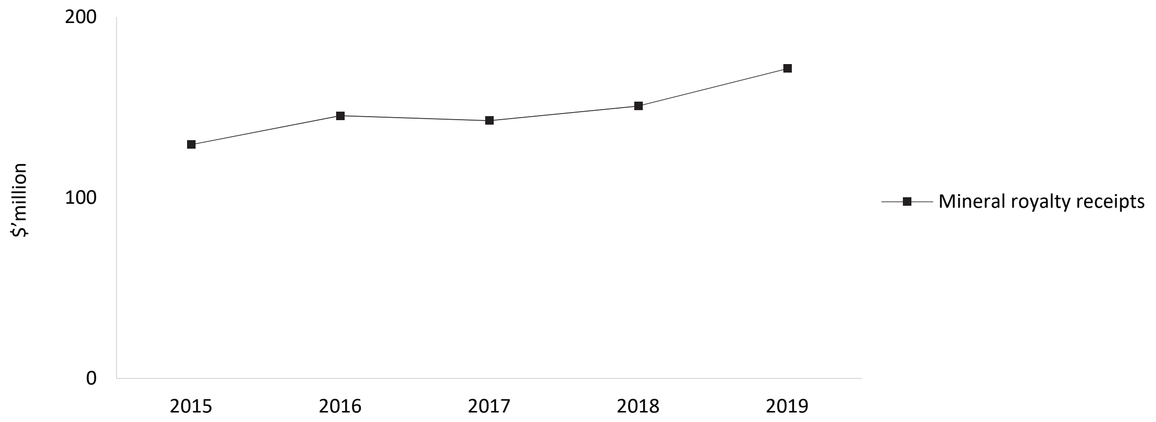
Administered items

DEM is responsible for administering the collection of royalties levied on mineral and petroleum production on behalf of the SA Government. In 2018-19 DEM administered the collection of $299 million ($237 million) in royalties, which was paid to the Consolidated Account.

The charts below show royalty receipts over the last five years. During this period responsibility for the collection of royalties shifted between the former Department of State Development, the Department of the Premier and Cabinet and DEM.



Petroleum royalty collections decreased from 2014-15 to 2015-16 through a combination of lower market prices and lower production. From 2016-17 royalties have steadily increased up to 2018-19, when a significant increase in royalties occurred due to increases in petroleum production and pricing.



Mineral royalty receipts have remained relatively consistent over the five years with an increase in 2018-19 due to an improvement in commodity prices and increased production, particularly relating to copper and gold.

Environment Protection Authority (EPA)

Financial statistics	Net assets:	$29 million
	Net benefit from providing services:	$16.8 million
	Total comprehensive result:	$1.2 million
	Number of FTEs:	194.42

Significant events and transactions

- $70 million of solid waste levies were collected, with $35 million (50%) transferred to the Green Industries Fund (Green Industries SA).
- Surplus cash of $18 million was returned to the SA Government under the cash alignment policy.
- 24 targeted voluntary separation packages (TVSPs) costing $2 million were approved, with funding provided by the Department of Treasury and Finance.

Financial report opinion **Unmodified**

Functional responsibility

The EPA is South Australia's primary environmental regulator for the control and minimisation of pollution and waste. It is responsible for the protection and enhancement of air and water quality, and control of pollution, waste and environmental noise.

The EPA financial reporting entity comprises:

- a statutory authority with an appointed board established by the *Environment Protection Act 1993* (the EP Act)
- an administrative unit, also named the EPA, established under the *Public Sector Act 2009*
- the Environment Protection Fund established under the EP Act.

The EP Act permits the statutory authority to make use of the services of the administrative unit's employees and facilities. The administrative unit is also responsible for radiation protection functions under the *Radiation Protection and Control Act 1982.*

Under the EP Act, the Chief Executive of the administrative unit is also taken to be the Chief Executive of the statutory authority. The Chief Executive is subject to the control and direction of the Minister in relation to the activities of the administrative unit, and is subject to the control and direction of the Board in giving effect to its policies and decisions under the EP Act.

Scope of the audit

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

Specific areas of audit attention in 2018-19 included:

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

Audit findings

Communicating our audit findings

A minor matter identified was detailed in a management letter to the Chief Executive. The EPA's response indicated that action would be taken to address it.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	26	24
Supplies and services	8	9
Other expenses	2	4
Total expenses	36	36
Income		
Fees and charges	53	51
Other revenues	1	2
Total income	53	53
Net revenue from providing services	17	17
Net payment to SA Government	16	12
Net result	1	5
Net cash provided by (used in) operating activities	4	5
Assets		
Current assets	36	34
Non-current assets	4	4
Total assets	40	39

	2019 $'million	2018 $'million
Liabilities		
Current liabilities	4	4
Non-current liabilities	7	7
Total liabilities	11	11
Total equity	29	28

* Table may not add due to rounding.

Statement of Comprehensive Income

Expenses

Total expenses increased by $267 000 in 2018-19 due mainly to:

- a $2.6 million increase in employee benefits due primarily to the approval of 24 TVSPs ($2 million). The roles and responsibilities of the employees who accepted a TVSP were absorbed into the new structure, meaning no EPA services or functions have ceased
- an increase in the provision for doubtful debts of $1.3 million
- a $927 000 decrease in supplies and services impacted by:
  - a decrease in operating lease payments of $469 000 following a change in office accommodation in 2017-18
  - a decrease in minor works, maintenance and equipment expenses of $116 000 due to a number of minor asset purchases in 2017-18 (including drones for waste levy audits)
  - a $214 000 decrease in accommodation and property management expenses due to once-off office relocation costs incurred in 2017-18, as well as reduced property management costs as a result of relocation
  - a decrease in scientific and technical services of $96 000 due predominately to less chemical analysis work required by the EPA in 2018-19
  - a decrease in fee for service expenses of $119 000 due mainly to the completion of the Adelaide Catchment to Coast program
  - a $273 000 increase in general administration costs due mainly to additional legal fees
- a decrease in grants and subsidies expenses of $671 000 following the cessation of some grant projects and a reduction in EPA's grant program to councils and community organisations
- a decrease in asset write-offs, with $1.8 million of office accommodation written off in 2017-18 following EPA's office relocation in that year.

Income

Total income increased by $275 000 in 2018-19, due mainly to:

- a $1.7 million increase in waste levies primarily as a result of a 15% increase in waste levy rates from July 2018, partially offset by a 4% decrease in the tonnage of solid waste disposal

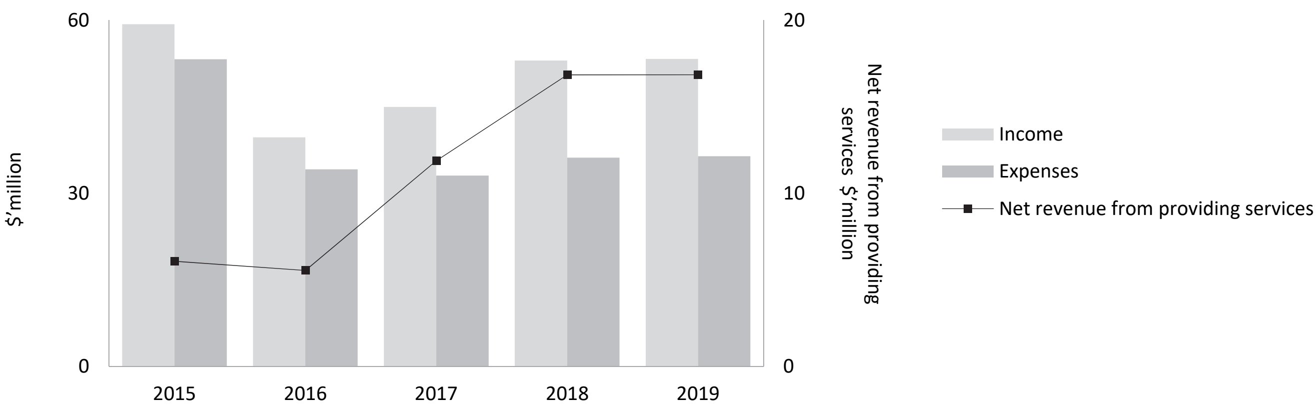
- a $1.5 million increase in environmental authorisation fees following an increase in the number of licences issued and a 2.5% increase in the fee rate
- a decrease in fines and penalties revenue of $1.1 million, with an individually large penalty issued in 2017-18
- a $768 000 reduction in State and Commonwealth grants following the cessation of the Catchment to Coast program ($551 000) and the Petroleum Retention Licensing program ($131 000)
- a reduction of $585 000 in other income due mainly to the $417 000 write-off of EPA's previous lease incentive liability in 2017-18 as a result of its office relocation
- a $369 000 reduction in resources received free of charge, with $373 000 fitout assets received free of charge in 2017-18 following EPA's office relocation in that year.

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

Net benefit of providing services

The chart below shows the income, expenses and net revenue from providing services for the five years to 2019.

Over this period the EPA funded its operations by raising fees and charges and did not require any appropriation funding from the Consolidated Account.



Income and expenses for 2015 include solid waste levies received and transferred to the Green Industries Fund (Green Industries SA). In 2017 the EPA changed its reporting policy for solid waste levies. Since then levies that the EPA is required by law to transfer to the Green Industries Fund are recognised as an administered activity. More information on solid waste levies is provided under 'Administered items' below.

Payments to SA Government

The EPA has achieved operating surpluses and generated surplus cash from operations for a number of years. It has returned $41.8 million to the Consolidated Account over the past four years.

The following table sets out payments to the SA Government and cash balances at 30 June for those years.

	2016 $'million	2017 $'million	2018 $'million	2019 $'million
Payments to SA Government	6.3	5.8	12.0	17.7
Cash	15.6	21.6	26.6	29.8

Statement of Financial Position

Current assets – cash and cash equivalents

Cash and cash equivalents, $29.8 million ($26.6 million), represent 84% (78%) of total current assets and 75% (69%) of total assets. These balances include the Environment Protection Fund deposit account of $8.6 million ($7.5 million).

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

Non-current assets

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

Intangible assets make up 5% (6%) of total assets. The licencing administration management program (LAMP), environment licensing forms (ELF) and general environment information (GENI) systems are the dominant items.

Administered items

The EPA's administered activities comprise:

- solid waste levies collected and transferred to the Green Industries Fund
- revenue arising from the litter provisions in the *Local Nuisance and Litter Control Act 2016.*

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

The EPA receives solid waste levies from waste depots under section 113 of the EP Act. There was an increase in solid waste levy rates of 15% from 1 July 2018, compared to a 14% increase from 1 July 2017, an increase of 9% from 1 July 2016 and a further increase of 23% from 1 September 2016.

The solid waste levy in the metropolitan area will increase to $110 per tonne on 1 July 2019 and then to $140 per tonne from 1 January 2020.

Section 17 of the *Green Industries Act 2004* requires the EPA to transfer 50% of these levies to the Green Industries Fund. Of the 50% of these levies retained by the EPA, 45% are used to support its daily operations with the remaining 5% transferred to the Environment Protection Fund.

The Green Industries Fund may be applied by Green Industries SA in line with its approved business plan, or in any other way authorised by the responsible Minister for the purposes of the *Green Industries Act 2004.*

The EPA transferred $35 million ($32 million) to the Green Industries Fund during the year and is budgeted to transfer another $43.88 million in 2019-20.

The balance of the Green Industries Fund at 30 June 2019 was $131.8 million ($120.3 million).

While the Green Industries Fund is used for climate initiatives and to carry out the daily operations of Green Industries SA, the operational expenditure has historically been significantly less than the waste levies received in the year.

In June 2019, the Minister for Environment and Water approved the expenditure of $155.6 million across the four years to 2021-22 from the Green Industries Fund. Most of the expenditure approved (96%) will fund the Home Battery Scheme and Grid Scale Storage Fund initiatives being delivered by the Department for Energy and Mining.

The Home Battery Scheme commenced in October 2018 and will provide grants to deliver battery storage systems to up to 40 000 homes across the State. South Australian households will be able to access government subsidies and loans to pay for the installation of home battery systems.

The Grid Scale Storage Fund was launched in November 2018 with the aim to accelerate the roll out of grid scale energy storage infrastructure to address the intermittency of South Australia's electricity supplies. The objectives of this initiative are to improve energy affordability, reliability and security, to create jobs and to boost local industry development.

Green Industries SA advised that the Green Industries Fund will have an estimated balance of $21.3 million by 30 June 2022.

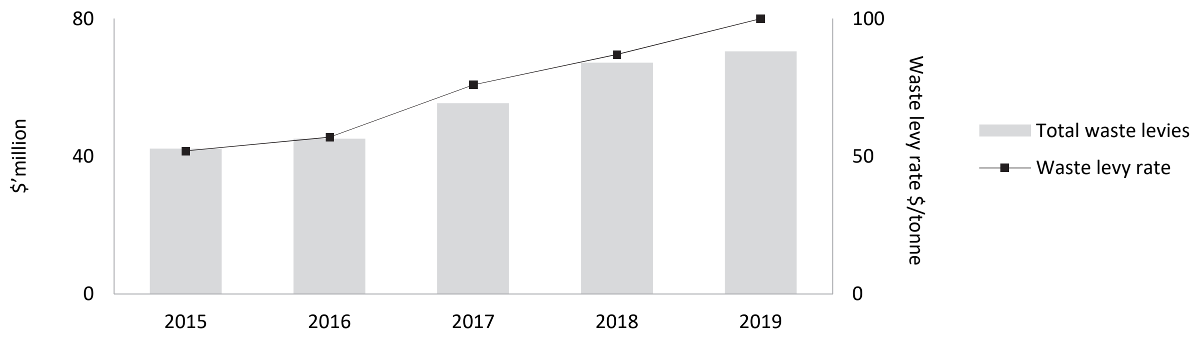
Further commentary on operations

Waste levies

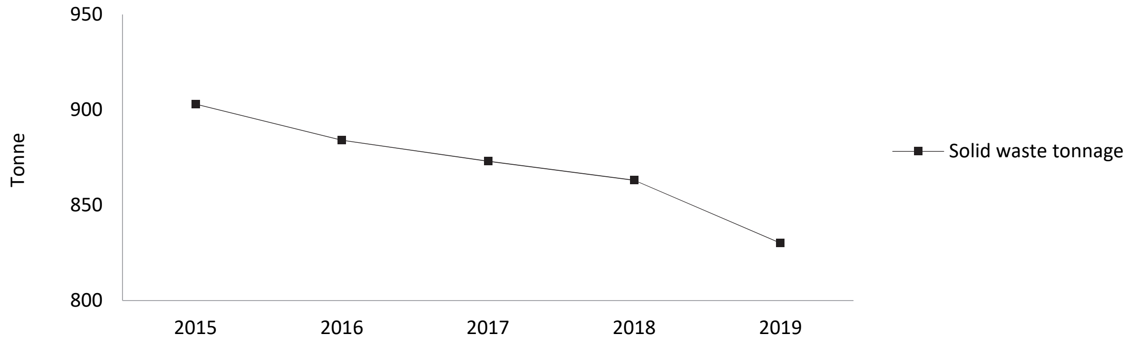
Waste levies collected by the EPA (controlled and administered) totalled $70.5 million ($67.2 million) (refer notes 4.2 and 8.4 of the EPA's financial report).

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

The following chart shows the amounts collected from waste levies from 2015 to 2019.



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



Department for Environment and Water (DEW)

Financial statistics

Net cost of providing services:	$146.1 million
Total appropriation:	$164.7 million
Employee benefits expenses:	$168.3 million
Property, plant and equipment:	$766.9 million
Number of FTEs:	1406.1

Significant events and transactions

— DEW completed significant capital projects including the Coorong, Lower Lakes and Murray Mouth project, Riverine Recovery project and the South East Flows Restoration project, resulting in a transfer of $66 million from capital works in progress to completed assets.

— $47.6 million of assets were transferred to other entities at $0 consideration, including $42.3 million of regulators and embankments transferred to the South East Water Conservation and Drainage Board as part of the South East Flows Restoration project.

— Targeted voluntary separation packages (TVSPs) for 119 staff were approved totalling $12.7 million (including leave paid on termination), which was fully funded by the Department of Treasury and Finance.

— Heritage assets valued at $18.4 million were received from the Department of Planning, Transport and Infrastructure at no cost.

— Responsibility for the *Pastoral Land Management and Conservation Act 1989* transferred to the Minister for Primary Industries and Regional Development on 1 January 2019. This resulted in $54.2 million in net assets (mainly pastoral land) transferred from DEW's Statement of Administered Financial Position to the Department of Primary Industries and Regions. A further $1.2 million in controlled net assets associated with this change of activity were also transferred.

— DEW no longer administers the receipt and distribution of funding from the Commonwealth Government for the National Landcare Program. From 1 July 2018 funding for this program is provided directly to Natural Resources Management Boards.

Financial report opinion	**Unmodified**
Control opinion findings	Problems with DEW's bank reconciliation processes remain unresolved.
Other audit findings	— There are opportunities to improve existing asset management practices. — Improvements in the control of user access to the Basware payment processing system are needed. — While controls over payroll have improved, we continue to raise matters related to reviewing certain payroll reports. — Controls over user access to the Retail Touch revenue system and the management of pricing data in the system need to improve.

Functional responsibility

DEW is an administrative unit established under the *Public Sector Act 2009*, and is responsible to the Minister for Environment and Water.

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

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

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- fees and charges revenue
- water licence and levy revenue
- grant revenue
- accounts payable

- grants and subsidies expenditure
- payroll
- cash
- fixed assets, including elements of sound asset management
- general ledger.

We also reviewed IT general controls in relation to DEW's Masterpiece financial reporting and Retail Touch revenue applications.

Controls opinion

We reviewed controls over the following as part of our controls opinion, which is discussed in Part B of this Report:

- bank accounts – managing DEW's operating bank account and the SA Riverland Floodplains Integrated Infrastructure Program bank account.
- land – the acquisition and disposal of Crown land
- water and sewerage assets – managing the State's responsibilities with respect to Murray Darling Basin Authority assets.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Problems with DEW's bank reconciliation processes remain unresolved

The DEW bank account is used by 16 separate entities and 22 funds (bureau entities) established to support specific Commonwealth and SA Government programs.

The bank reconciliation is a fundamental control for both DEW and its bureau entities. Performed regularly, it helps to confirm the integrity of accounting records and identify errors or irregularities requiring action.

Our review of DEW's February 2019 bank reconciliation identified over 40 000 uncleared reconciling items. These reconciling items comprise:

- 3221 transactions recorded in the bank statement but not recorded in DEW's general ledger
- 36 814 transactions recorded in DEW's general ledger but not matched to the bank statement.

Some unresolved reconciling items date back to 2016-17, and more than 19 000 transactions related to 2017-18.

As at 30 June 2019 there was a total of $3.8 million in unmatched reconciling transactions between the bank and the general ledger, which is a significant increase from 30 June 2018.

DEW advised that it was testing permanent system solutions to clear all outstanding reconciling transactions. These system solutions are yet to be implemented. While we understand that these are system issues that cannot be easily resolved, this has been a recurring issue for several years that DEW has not been able to resolve.

Other audit findings

Opportunities to improve asset management practices

DEW's asset management policy requires it to implement, maintain and continually improve its asset management system in a manner consistent with the requirements of the International Standard on asset management (ISO 55000).

Our review considered the requirements of ISO 55000, together with guidance on its application issued by the Institute of Public Works Engineering Australasia in its *International Infrastructure Management Manual*.

DEW is responsible for managing property, plant and equipment with a value of over $1.31 billion. This asset portfolio is varied and includes buildings, roads/tracks, structures, water infrastructure, vehicles and tourist centres.

Our audit focused on the Patawalonga Lake System and the Lower River Murray Embankments assets, DEW's governance arrangements for these assets and its approach to managing levels of service and asset condition monitoring.

Our review noted DEW's commitment to applying best practice asset management principles, and that it has established an asset management policy and strategic asset management framework (SAMF) to guide its decisions, activities and behaviours for managing non-current assets.

We noted, however, the following areas where DEW could improve its asset management controls:

- The latest SAMF was endorsed by the Strategic Asset Management and Investment Committee in 2017. However it has not been approved by DEW's executive and needs further revision.

  The last approved SAMF was prepared in 2013. While an updated SAMF was developed in 2017 to align content with the international asset standards, it had not been approved, fully communicated to staff and used.
- A formal strategic asset management plan (SAMP) has not been finalised and approved. Both the 2013 approved SAMF and 2017 draft SAMF require a plan to be prepared.
- Asset management monitoring and reporting could be improved. Developing and finalising the SAMF and SAMP, together with a consistent format for reporting against approved plans, will help management to effectively monitor priority asset management outcomes and time frames.
- An asset management plan incorporating the Patawalonga Lake System has not been prepared. DEW's asset management policy and 2013 approved SAMF require business units to manage their own assets and develop group or individual asset management plans.

  The operation and management of the Patawalonga Lake System has been contracted out to a private operator. A draft asset management plan has been prepared by the contractor, with the involvement of DEW and other stakeholders. However, DEW needs to ensure that this plan fully meets its needs, information is reliable and internal responsibilities are documented, managed and met.

- A contract management plan for the Patawalonga Lake System has not been prepared. The State Procurement Board's *Contract Management Policy* requires services contracted to external entities to be effectively managed through a contract management framework, supported by an internally prepared contract management plan.

In response to our findings DEW advised the following:

- It will review the status of the SAMF in conjunction with a review of the draft SAMP, with both reviews scheduled for completion by 30 June 2020.
- It will submit a final SAMP for the Chief Executive's approval by 30 June 2020.
- Recommended improvements to asset management monitoring and reporting will be considered as part of the planned reviews of the SAMF and SAMP.
- DEW saw no immediate need for an internally approved asset management plan for the Patawalonga Lake System, being satisfied that the existing plan – developed by the contractor in consultation with DEW staff – meets its requirements. DEW noted, however, that this decision may be reconsidered following the 2020 review of its SAMF and SAMP.
- A contract management plan for the management of the Patawalonga Lake System will be prepared by 30 June 2020.

Improvements in controls over user access to the Basware system are required

Shared Services SA (SSSA) provides DEW's Finance and Business Services branch with quarterly reports that detail user access and financial authorisation limits in the Basware payment processing system. DEW is required to review the validity of the information on the reports and provide SSSA with written confirmation of the validity of information, and details of any changes required.

Some Basware users have special and/or super delegation limits in Basware. The purpose of these delegation limits is to allow users, in authorised circumstances, to approve transactions that exceed their normal financial delegation. Each month SSSA provides DEW with Basware reports that detail the transactions approved by special and super delegates. They include transactions processed for both DEW and its bureau agencies.

Our review of user access to Basware in December 2018 identified 41 users with access to approve payments in Basware who did not have a delegated authority from the Chief Executive. Most of these exceptions were detected by DEW as part its September 2018 Basware quarterly review and were sent to SSSA for action. SSSA had not, however, actioned these changes by the time of our review and DEW had not detected these continuing exceptions in its next Basware review in December 2018.

We also reviewed a sample of monthly special/super delegate transaction reports and found that the December 2018 and January 2019 reviews for bureau agencies remained outstanding as at March 2019.

DEW responded that:

- all Basware authorised officers have been instructed to communicate any required changes to SSSA, irrespective of whether they have been previously identified and communicated
- it had confirmed that all invoices approved by users without delegated authority from the Chief Executive were valid for DEW business purposes and retrospective approvals had been sought

- the December 2018 and January 2019 special/super delegate transaction reports were subsequently reviewed and all transactions and approvals confirmed as valid.

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

Employee benefits expenses were $168 million in 2018-19 and the liability for leave entitlements at 30 June 2019 was $55 million.

The findings identified below are consistent with those we have reported in prior years. While we have seen improvements in these controls, the issues largely remain unresolved.

Incomplete and unapproved attendance records

DEW uses the TimeWise system to monitor employee attendance and approve leave taken. Based on time records up to 15 March 2019, we noted:

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

Branches/Regions cannot reconcile leave transactions recorded in TimeWise with leave records in the CHRIS payroll system until all time records are complete and approved.

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

DEW responded that:

- at 7 June 2019, the number of instances where TimeWise records were yet to be completed and approved had dropped
- the Organisational Performance branch would continue to work with DEW groups and branches to ensure outstanding TimeWise records were completed and approved by 30 June 2019
- the Organisational Performance branch will continue to monitor the extent of incomplete and unapproved TimeWise records
- reminders will be distributed to reinforce the need to comply with DEW's time and attendance recording procedure and guideline
- as part of a new restructure, by 30 December 2019, DEW will roll out increased administration for TimeWise to all business managers, which will provide greater support at the business unit level for ensuring compliance.

Leave reconciliations between TimeWise and CHRIS are not completed promptly

Each month, DEW branches are required to reconcile leave transactions recorded in TimeWise to CHRIS leave records, ensuring that all leave taken is completely and accurately recorded in CHRIS.

As at April 2019, we identified 70 leave outstanding reconciliations, all for 2018-19. This is an improvement since our last audit, when we identified 87 leave outstanding reconciliations dating back to 2013-14.

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

This year DEW responded that:

- the Organisational Performance branch will work with DEW groups and branches to ensure that outstanding leave reconciliations are completed in a timely manner and that all outstanding leave reconciliations are completed by 30 June 2019
- the Organisational Performance branch will continue to monitor and report on the completion of leave reconciliations and send reminders as appropriate.

Overtime and leave not approved in TimeWise in line with DEW's delegations of authority

Managers have access to TimeWise to check and approve leave and overtime requests. Their approval is required to ensure that the overtime is necessary and that occupational health and safety requirements are considered.

We noted that TimeWise user access profile structures are not consistent with DEW's delegations of authority. Some TimeWise users have access to approve leave and overtime requests in excess of their delegated authority.

Consistent with prior years, we identified instances where overtime and long service leave were approved by officers in excess of their delegated authority. Between July 2018 and March 2019, we identified:

- 420 instances of overtime approved in excess of delegated authority
- 545 instances of long service leave requests approved in excess of delegated authority.

Most of the exceptions identified relate to seven work groups. These findings are consistent with those we made in prior years, with DEW responding in 2017-18 that it would educate staff to ensure they understand their responsibilities.

This year DEW responded that:

- the appropriate application of HR delegations, including those for the approval of overtime and leave requests, will continue to be monitored and reported on as appropriate
- identified non-compliance will be investigated and appropriate action taken
- DEW's HR delegations would be reviewed and amended as appropriate by 30 September 2019 to best meet operational requirements and address any ongoing non-compliance
- reminders will be sent reminding staff of their responsibility in exercising delegations and approving leave and overtime requests
- the Organisational Performance branch will continue to investigate system changes that may better support managers in ensuring a correct level of delegation is exercised in approving leave and overtime.

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

DEW controlled revenue from fees and charges ($102 million in 2018-19) relates mainly to:

- salary recoveries for DEW staff allocated to Natural Resources Management Boards
- service recoveries
- income for professional services provided to other environment portfolio agencies
- service recoveries from the South Australian Water Corporation
- admission income from national park admissions and guided tours
- property related income.

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

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

- DEW had not completed a user access review of Retail Touch since July 2016. While a review started in November 2018, it was yet to be completed as at February 2019.

  Since 2016-17, we have recommended that DEW develop a policy and procedure for the regular review of user access to Retail Touch. While DEW has previously responded that it would develop a policy and procedures, our 2018-19 review found that a policy had not been developed. A procedure had been drafted but not approved.

- DEW has not restricted the ability for Retail Touch users to override pricing data, including the provision of discounts, when raising revenue within the system.

  DEW has 172 Retail Touch users who all have an access profile allowing them to override pricing data. Fee revenue raised by DEW comprises a range of activities including park entrance fees, commercial tour operator license fees, hunting permits and farming permits. Approved pricing data is updated into the Retail Touch database annually.

  The manual override of pricing data can lead to customers being charged at rates inconsistent with those required by law or approved by the Minister.

- DEW has not developed and documented a procedure for checking pricing data once it is uploaded into Retail Touch. There are 22 different databases used by DEW on which customer pricing is based. It is important that it establishes controls to check that updates to this pricing are performed completely and accurately. We found four instances where prices uploaded did not agree to the Minister approved fees or the Regulations. The discrepancies were not significant and no customers were overcharged.

- DEW engages agents in regional areas to sell park passes on its behalf. These agents are engaged under Park Product Agency Agreements, which are signed annually. The agreements detail the commission to which agents are entitled. We found two instances where agents were receiving commissions without having a signed agreement in place.

DEW responded that:

- a review of user access to Retail Touch had now been completed and an operating procedure for the regular review of user access to the system developed

- while it cannot restrict the overriding of pricing data in Retail Touch, reporting is available to allow the review of adjusted pricing

- it has developed a new process for uploading pricing data direct into Retail Touch, replacing manual processes and reducing the risk of data entry error, and new prices are now subject to independent validation by Finance Account personnel
- Park Product Agency Agreements were signed with the two identified agents in June 2019.

Risk management

Risk management, including the identification, monitoring and reporting of risks, is an integral part of DEW's internal control environment and provides assurance that DEW is managing risk effectively.

Last year we noted that DEW's draft risk management framework (RMF) was endorsed by the Risk and Performance Committee but had not been approved for use by DEW's executive.

Our follow-up in 2018-19 identified that the RMF used by DEW is still yet to be approved by its executive.

While DEW is using an RMF not yet approved by its executive, its staff may be identifying, managing and reporting risks based on criteria that have not been approved by management.

DEW acknowledges that there were delays in finalising its draft RMF and advised that the RMF has undergone improvement and will be presented to the Chief Executive for consideration in September 2019. DEW expect the RMF to be approved and communicated to all staff soon after.

IT general controls review – Masterpiece application

In 2017-18 we reviewed the IT general controls operating in and around DEW's Masterpiece application. This included password management, privileged user access, audit logging, patch management, change management, backup and disaster recovery management.

At that time we identified a number of matters which, if unresolved, increased the likelihood of unauthorised access and/or unauthorised changes to the Masterpiece environment.

Our review in 2018-19 found that several issues remain unresolved. The main issues were:

- weak password configuration settings and inadequate corporate policies covering password requirements
- inadequate Masterpiece patching processes. Patching is a process to update, fix or improve a system
- lack of disaster recovery testing.

IT general controls review – Retail Touch

In 2018-19 we reviewed the ITGCs operating over the Retail Touch application.

Similar to Masterpiece, there were some common weaknesses identified, being:

- weak password configuration settings and inadequate corporate policies covering password requirements

- no formal patching processes given the version used by DEW is no longer supported by the vendor
- lack of disaster recovery testing.

The issues we identified indicate that there are heightened risks of unauthorised transactions as a result of unauthorised user access due to weak password settings and/or vulnerabilities, given the current version used has limited support from the vendor. Lack of disaster recovery testing exposes DEW to the risk that it is not able to recover the application in the required response time, which could adversely impact DEW's operations.

In relation to weak password configuration settings and inadequate password policies, DEW indicated that it would consider the impacts of our recommendation to increase the complexity of passwords and restrict password reuse. It indicated that this recommendation will impact more than 200 applications and all end users.

In relation to patch management, DEW will create a standard operating procedure for patch management over financial systems at the application level. The procedure will focus on how decisions are made to apply or not apply available patches and will consider upgrading to the current version of Retail Touch. Patching at the operating system level is outsourced through a whole-of-government contract.

DEW advised that it tests aspects of its disaster recovery plan at stages throughout the year and will ensure that Retail Touch and Masterpiece backups are tested and verified to provide assurance that both applications can be recovered within the desired response times.

Other matters

DEW's main sources of income are revenues from fees and charges ($102 million) and grant revenue ($81.5 million). Grant revenue largely comprises funding received directly from the Commonwealth Government, often for the construction of infrastructure.

From 1 July 2019 DEW will adopt Australian Accounting Standards AASB 15 *Revenue from Contracts with Customers* and AASB 1058 *Income of Not-for-Profit Entities*.

Under these new standards, DEW will need to establish the different performance obligations required under complex and lengthy grant agreements, and to recognise revenue over time when these performance obligations are met. This can significantly delay the timing of when revenue is recognised and may result in significant liabilities being recognised as a result of receiving cash but not yet completing the associated performance obligation.

While DEW expects there will be a material impact on the timing of revenue recognition, it has not yet performed sufficient work to quantify the full impact of revenue recognition on its financial statements.

It is important that this work is completed soon to ensure the accuracy of financial reporting for 2019-20.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	168	159
Supplies and services	79	73
Grants and subsidies	32	34
Depreciation and amortisation expense	25	24
Impairment loss	1	-
Assets transferred for nil consideration	48	1
Other expenses	5	5
Total expenses	357	296
Income		
Fees and charges	102	103
Grants revenues	81	97
Resources free of charge	26	20
Other income	2	3
Total income	211	222
Net cost of providing services	146	74
Revenues from (Payments to) SA Government	160	157
Net result	14	83
Other comprehensive income	-	32
Total comprehensive income	14	116
Net cash provided by (used in) operating activities	65	94
Assets		
Current assets	213	199
Non-current assets	772	761
Total assets	985	960
Liabilities		
Current liabilities	64	56
Non-current liabilities	61	56
Total liabilities	125	112
Total equity	860	848

* Table may not add due to rounding.

Statement of Comprehensive Income

Expenses

Total expenses increased by $61.3 million. The major items causing this change were:

- a $47.6 million increase in assets transferred to other entities for $0 consideration, largely for regulators and embankments built as part of the South East Flows Restoration project at a cost of $42.3 million that were transferred to the South Eastern Water Conservation and Drainage Board

- a $9.5 million increase in employee benefits expenses following the approval of 119 TVSPs
- a $5.9 million increase in supplies and services due mainly to:
  - an increase in fee for services of $6 million associated with a range of activities
  - an increase in sand replenishment expenses of $1.6 million associated with the transport of sand across metropolitan beaches
  - a decrease in minor works, maintenance and equipment expenses of $1.1 million.

Income

Total income decreased by $11.1 million. The major items causing this change were:

- an overall decrease in grant revenue of $15.6 million due mainly to the following funding agreements coming to an end:
  - Coorong, Lower Lakes and Murray Mouth
  - Murray Futures-Riverine Recovery
  - Flows for the Future

  The decrease in grant revenue caused by these programs ending was partially offset by new grant revenue for the SA Riverland Floodplain Infrastructure Program, the Water Management Solutions Project and the Interim Great Artesian Basin Infrastructure Investment Program
- a decrease in other income of $1.4 million following a decrease in insurance recoveries revenue ($400 000), a reduction in sponsorship, donation, commission and bequest revenue ($550 000) and a reduction in water sales revenue ($530 000)
- a $6.5 million increase in resources received free of charge. In 2018-19 heritage assets valued at $18.4 million were transferred from the Department of Planning, Transport and Infrastructure, while Crown land received of $3.2 million was transferred from DEW's administered activities. The value of these transfers exceeded the value of asset transfers received in 2017-18 of $15.4 million.

Statement of Financial Position

DEW's assets comprise two main items: property, plant and equipment and cash.

Non-current assets – property, plant and equipment

Property, plant and equipment is $767 million and represents 78% of total assets.

Property, plant and equipment includes land valued at $330 million, which comprises national, conservation and recreation parks and wilderness protection areas and reserves. In addition, and after accumulated depreciation, related park infrastructure amounts to $25.5 million and roads, tracks and trails total $22.8 million.

Property, plant and equipment increased by $11.4 million due mainly to additions of $64.6 million, a net transfer out of assets for $0 consideration of $26 million, depreciation expense of $23.2 million and asset write-offs of $2.2 million. Asset additions primarily relate to capital works associated with the SA Riverland Floodplain Infrastructure Program, the Murray Futures Riverine Recovery project, South East Flows Restoration project and the Water Management Solutions project.

Refer note 5.1 of DEW's financial report for an analysis of this significant disclosure item.

Current assets – cash

Cash of $187.4 million ($183.6 million) represents 88% (92%) of total current assets, and 19% (19%) of total assets. DEW's cash at 30 June 2019 comprised operating deposit accounts of $96.5 million ($106.8 million) and an Accrual Appropriation Excess Funds Account of $90.7 million ($76.6 million). Access to the latter account is subject to the Treasurer's/Under Treasurer's approval.

The large operating deposit account balance reflects unspent grant funding, which at 30 June 2019 totalled $90.9 million ($86.4 million).

Liabilities

Total liabilities increased by $12.3 million (11%) to $124.6 million. The major items causing this change were:

- a $5.3 million increase in payables, which was consistent with the overall increase in expenses and attributable mainly to the timing of payments for bore drilling expenses
- a $5.1 million increase in employee benefits liability, due largely to an increase in accrued salaries and wages associated with 35 TVSPs valued at $3.9 million that had been accepted but not yet paid at 30 June 2019.

Administered items

DEW's administered activities include:

- Crown lands
- Minister's other payments
- the National Landcare Program (South Australia)
- the Natural Resources Management Fund
- the Pastoral Board (until 1 January 2019)
- the State's joint interest in the Murray-Darling Basin Authority (MDBA).

Crown lands

DEW administers Crown land on behalf of the Minister for Environment and Water. All transactions associated with Crown land are recorded in the administered financial statements.

Minister's other payments

DEW receives appropriation revenue from the SA Government which is then distributed to other agencies through grants and subsidies. The grants and subsidies are approved by the Minister for Environment and Water. DEW administers the receipt and distribution of this money.

National Landcare Program (South Australia)

The National Landcare Program is administered by the Commonwealth and SA Governments under section 19(2) of the *Natural Heritage Trust of Australia Act 1997* (Cth) and section 5 of the *Natural Resources Management (Financial Assistance) Act 1992* (Cth).

In 2017-18, the National Landcare Program was administered by DEW. DEW received money directly from the Commonwealth and distributed it to the Natural Resources Management Boards.

In 2018-19, the Commonwealth entered into arrangements with the Boards and provided funding directly to them (National Landcare Program 2 – NLP 2). Hence, there were no revenues or expenses recognised in administered financial statements for National Landcare Program activities in 2018-19 ($13.8 million in 2017-18). There is a cash balance of $341 000 remaining where DEW has received funding from the Commonwealth but has not used it. DEW is currently seeking approval to have these funds carried forward and applied to NLP 2.

Natural Resources Management Boards and Natural Resources Management Fund

DEW has primary responsibility for helping the Minister to administer the *Natural Resources Management Act 2004* (NRM Act). The main purpose of the NRM Act is to promote sustainable and integrated management of the State's natural resources and to protect these natural resources.

The NRM Act provides for a range of entities with specific responsibilities, including eight regional Natural Resources Management Boards.

Water levies are collected by DEW for prescribed water resources within specific natural resources management regions under section 101 of the NRM Act. The levies are subsequently paid to the regional Boards under section 116(1)(a)(ii)(A).

In 2018-19, $18.3 million ($17.3 million) in water levies, penalties and expiation fees were raised on behalf of the Natural Resources Management Boards. DEW also received $3.6 million ($4.6 million) in revenues from government for transfer to the Boards.

Payments to Natural Resources Management Boards from the Natural Resources Management Fund during the year were $20.6 million ($22 million). These payments relate to water levies invoiced and collected by DEW. The NRM Act requires the Minister to issue the levies and collect the revenue into the Natural Resources Management Fund. The Minister then distributes funds collected to the Boards based on receipts.

Pastoral Board

The Pastoral Board is responsible for the administration of the *Pastoral Land Management and Conservation Act 1989* (PLMC Act). The administration of the PLMC Act was transferred from the Minister for Environment and Water to the Minister for Primary Industries and Regions effective 1 January 2019. This transfer of administrative responsibility explains the $54.2 million of net administered assets (mainly pastoral land) disclosed in note A1.3 of DEW's financial report.

Murray-Darling Basin Authority

The MDBA is established under the *Water Act 2007* (Cth). It assumed all functions of the former Murray-Darling Basin Commission in December 2008.

The MDBA's functions are to:

- prepare, implement, monitor and enforce the Basin Plan
- implement the decisions of the Ministerial Council and Basin Officials Committee.

DEW has recognised the State's joint interest in the MDBA infrastructure assets and water rights as an interest in a joint operation in its administered financial statements. The State's interest in the arrangement is 26.67%.

The recognition of MDBA infrastructure assets and water rights is in line with the following agreements signed by the Commonwealth, NSW, Vic, SA, the ACT and the MDBA on 12 June 2009:

- asset agreement for River Murray Operations assets
- further agreement on addressing water over-allocation and achieving environmental objectives in the Murray-Darling Basin – control and management of Living Murray assets.

The State's interest in the arrangement was valued at $888.5 million ($874.5 million).

Other – Landscape South Australia Reform

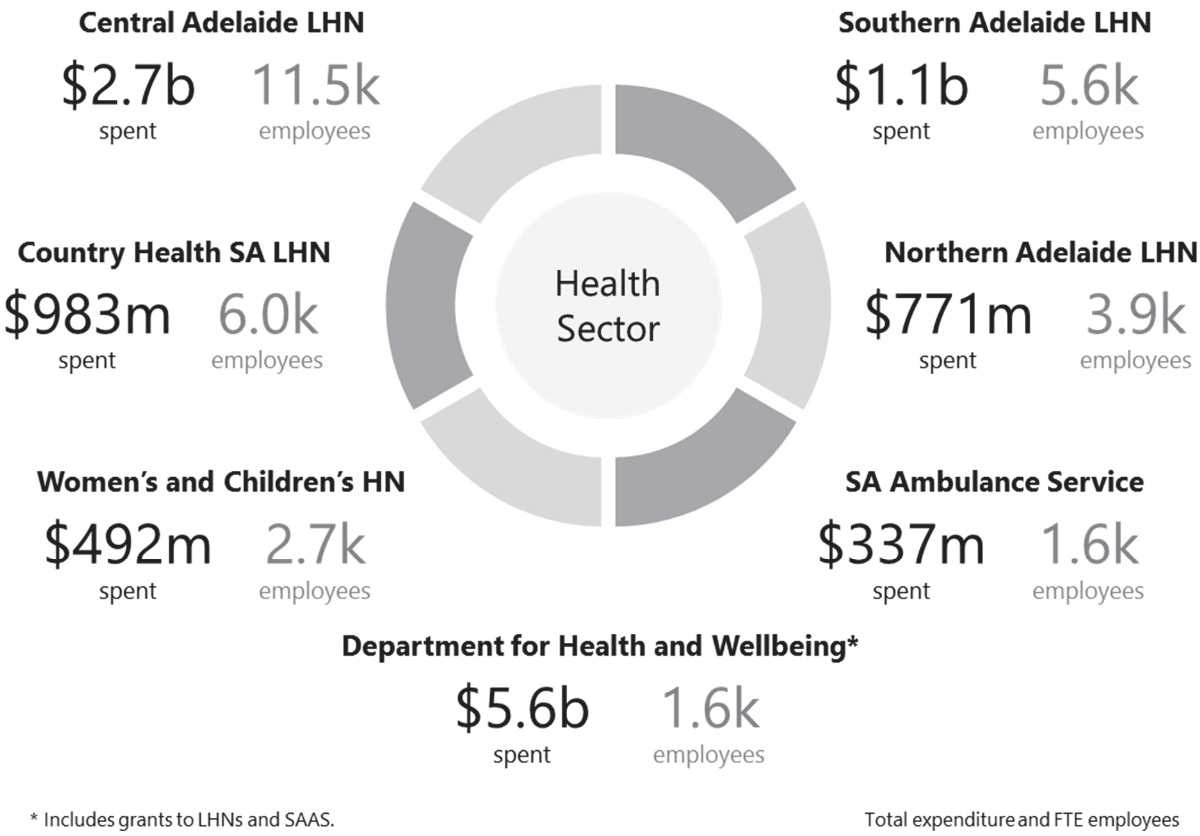
The eight Natural Resources Management Boards established under the NRM Act manage the State's natural resources.

The Landscape SA Bill was introduced in Parliament on 20 March 2019. It proposes a new framework for how the State manages its natural resources, including replacing the existing Natural Resources Management Boards with new Landscape Boards.

The Bill, with amendments, was agreed to and passed the House of Assembly on 4 June 2019 and was presented to the Legislative Council and read for the first time on 5 June 2019.

Health sector overview

Collectively the Department for Health and Wellbeing (DHW), the local health networks (LHNs) and the SA Ambulance Service Inc (SAAS) are known as SA Health or the Health sector.



Structure of this section

This section of the Report discusses the following matters:

- some significant health sector events and challenges
- an overview of governance arrangements
- unaudited health sector staffing and patient activity data.

Health sector – significant events and challenges

Total expenses for the consolidated SA Health sector in 2018-19 were $6.8 billion, an increase of $302 million (5%) over 2017-18.

Financial sustainability and budget

In recent years our reports have highlighted continued expenditure growth, failure to achieve set savings targets and ongoing risks associated with the financial sustainability of the public health system.

Note 35 of DHW's financial report provides some budgetary reporting information, including explanations of major variances between DHW's original budget provided to Parliament and actuals reported in its financial statements. Total actual expenses exceed the 2018-19 State Budget allocation to Health by $478 million, while total income exceeded the 2018-19 State Budget by $73 million. The net cost of providing services is a deterioration of $405 million against the original budget. It is important to note that the budget data is not subject to audit.

Recent State Budgets have provided substantial additional funding to meet the growth in health costs and to address shortfalls in original estimates:

- The 2018-19 State Budget provided an extra $730 million over the four years to 2021-22, in addition to $70 million for 2017-18 to ensure that the public health system continues to provide the necessary services required by the community.
- The 2018-19 mid-year budget review in December 2018 provided an additional $83 million ($59 million 2018-19, $24 million 2019-20) to meet the increased cost of providing hospital services.
- The 2019-20 State Budget provided an additional $451 million (including $95 million for 2018-19) towards establishing a sustainable, efficient health system.

The SA Government, in its 2019-20 State Budget, confirmed its commitment to achieving national average efficiency for the hospital system by 2021-22. SA Health has started financial and organisational recovery plans at certain LHNs, including the Central Adelaide Local Health Network Incorporated (CALHN), and in SA Pathology.

In 2018-19 we performed a limited review of LHNs and SAAS reported outcomes against budget targets. We reviewed to see if the 2018-19 LHN and SAAS budgets were achieved and what factors influence budget outcomes. In 2018-19, LHNs and SAAS collectively were expected to exceed their target budgets by $297 million. The outcomes of our review are discussed in Part A of this Report.

Governance and accountability changes from 1 July 2019

The SA Government has stated its intention to improve the efficiency of the health system and has commenced a number of strategies including:

- devolving governance and responsibility for delivering public health services to new LHN governing boards, which took effect on 1 July 2019. The governing boards will have full responsibility for providing health services in line with the *Health Care Act 2008* (HC Act) and performance agreements
- a new governance and accountability framework for the public health system.

Through amendments to the HC Act, LHNs are governed by boards from 1 July 2019. The amendments also change the role of the Chief Executive, DHW from that date to remove direct responsibility for administering LHNs.

The governing boards' role from 1 July 2019 includes the following financial accountability functions as prescribed by the HC Act:

- ensure effective, efficient and economical operations of the incorporated hospital
- manage its budget so that performance targets are met
- provide strategic oversight of and monitor the incorporated hospital's financial and operational performance
- manage performance against the performance measures in the service agreement between the incorporated hospital and the Chief Executive, DHW.

To support devolving governance and responsibility for delivering public health services to the new LHN governing boards, the SA Government and DHW are making significant changes to SA Health's governance and accountability frameworks. In 2018-19 we considered SA Health's progress in implementing these governance and accountability changes.

These governance and accountability changes are discussed further in Part A of this Report. They include developing or updating:

- a Charter of Responsibility (draft) to support the effective functioning of the South Australian public health system
- the SA Health performance framework to set out how DHW, as the leader and steward of the public health system, monitors and assesses the performance of public health services and resources in South Australia
- a corporate governance, performance and accountability framework (draft) outlining governance requirements applying across SA Health
- Commissioning Principles – Commissioning Principles and Priorities, distributed to LHNs as a part of the 2019-20 budget process
- service agreements for 2019-20 (draft not finalised at the time of audit in September 2019).

At the time of this Report a second round of legislative amendments, the Health Care (Governance) (No 2) Amendment Bill 2019, was being debated in Parliament. It proposes provisions relating to the service agreements for LHNs as a key element of the performance framework, as well as provisions relating to the function and role of the Chief Executive, DHW.

New regional country local health networks operational from 1 July 2019

A proclamation under the HC Act coming into effect on 1 July 2019 dissolved the Country Health SA Local Health Network Incorporated (CHSALHN) and transferred its assets, rights and liabilities to six new regional incorporated hospitals (LHNs). These new regional LHNs, listed below, were established by proclamation in August 2018:

- Barossa Hills Fleurieu Local Health Network Incorporated
- Eyre and Far North Local Health Network Incorporated
- Flinders and Upper North Local Health Network Incorporated

- Riverland Mallee Coorong Local Health Network Incorporated
- Limestone Coast Local Health Network Incorporated
- Yorke and Northern Local Health Network Incorporated.

The impact of these governance changes is significant and may present challenges, particularly given the relatively small size of some of the regions and existing centralised processing and control frameworks.

Organisational and financial recovery at CALHN

As previously discussed, the SA Government has confirmed its commitment to achieving national average efficiency for the hospital system by 2021-22. Included in its strategies is implementing financial and organisational recovery plans in LHNs, including CALHN.

In 2018-19 DHW appointed KordaMentha in a role as implementation partner for the CALHN organisational and financial recovery program. We reviewed the procurement of KordaMentha's services, because it was a high value, multi-year service arrangement. It is also foundational to CALHN's critical goals to improve clinical and financial performance. We did not review contract performance as CALHN had appointed an independent firm to review contract performance. That review was incomplete at the time of this Report. The outcomes from our review are discussed in Part A of this Report.

The overall procurement objective included improving:

- clinical performance (reducing emergency department and elective wait times, length of stay and clinical complications)

- financial performance (remove a $264 million deficit over three years and meet national efficient price targets).

The recovery program is expected to take three years, however the current contract with KordaMentha ends in November 2019. In 2018-19 KordaMentha conducted work across a range of areas at CALHN, including developing plans for improvement and reviewing procurement and financial delegations.

Further comments on the financial recovery program at CALHN are included in the section of this Report titled 'Central Adelaide Local Health Network Incorporated'.

The new Royal Adelaide Hospital (RAH) – outstanding matters and operational disputes

On 1 August 2017, the builder (Hansen Yuncken Pty Ltd and CPB Contractors Pty Ltd (formally Leighton Contractors Pty Ltd)) filed legal proceedings against Celsus, independent certifier Donald Cant Watts Corke Pty Ltd and the State of South Australia for alleged breaches of contract and other matters in relation to the construction of the new RAH. At the time of this Report the arbitration process was in progress.

Repat Health Precinct (RHP) site

In February 2019 the SA Government announced a concept master plan for reactivating the former Repatriation General Hospital site, now known as the RHP site. In 2018-19, the SA and Commonwealth Governments announced funding commitments for certain medical facilities at the site.

Further comments on the reactivation are included in the section of this Report titled 'Southern Adelaide Local Health Network Incorporated'.

IT and system change

Over a number of years, DHW has developed and progressively implemented IT systems used to support financial and health related services, such as patient administration and clinical functions. Many of these systems and their dependencies are critical to the successful operation of the health system.

Electronic Medical Record (EMR)/Enterprise Patient Administration System (EPAS)

In 2011 SA Health commenced its implementation of an integrated EMR and patient administration system called EPAS.

In March 2018, the EPAS program rollout was paused pending an independent review to inform decisions on the most appropriate way forward. The review found that the EPAS program should not continue as planned as it was not meeting user expectations. The recommendations for improvement were accepted in principle by the SA Government.

The EPAS program was replaced by the EMR project and the system is now called EMR. In 2018-19 SA Health progressed the implementation of EMR at two sites, the RAH and the Mount Gambier Hospital. Any future decisions on further rollouts of EMR are contingent on user acceptance at those sites.

Further details of the status of EMR and SA Health's approach will be communicated in an upcoming report to Parliament.

Legacy systems

SA Health continues to operate a number of legacy systems including patient administration and revenue systems. These legacy systems present a number of support and security challenges.

Governance arrangements (existing throughout 2018-19)

Under 'Governance and accountability changes from 1 July 2019' above we discussed the SA Government's amendment to governance arrangements across SA Health from 1 July 2019. This section discusses the arrangements that existed throughout 2018-19.

Health care legislation

The HC Act provides the legislative framework for the operation of the South Australian health sector. Provisions in the HC Act cover hospitals and other health services administration and consultative councils; systems to support the provision of high quality health outcomes; licensing systems for ambulance services and private hospitals; laboratory services and facilities associated with veterinary science; and other purposes.

Minister for Health and Wellbeing and the Chief Executive, DHW have specific functions and responsibilities

The Minister for Health and Wellbeing and the Chief Executive, DHW have specific functions in connection with the operation of the HC Act.

The Minister's functions include to:

- ascertain the community's health and health services requirements and how to meet those requirements to the best advantage of the community
- plan, implement or support a system of health services that is comprehensive, coordinated and readily accessible to the public
- establish health services within the community
- ensure that hospitals established under the HC Act, or hospitals or other health services established, maintained or operated by or with the assistance of the SA Government, are operated efficiently and economically
- ensure resources are properly allocated to health services established under the HC Act
- establish mechanisms to keep the policies and standards of health and health services developed by DHW under evaluation and review.

The Chief Executive, DHW's functions include to:

- help the Minister to administer the HC Act and exercise the statutory powers conferred by it
- be responsible to the Minister for the overall management, administration and provision of health services within the Minister's portfolio
- assume direct responsibility for administering incorporated hospitals
- ensure that DHW has a leadership role in administering health services
- ensure appropriate standards of patient care and service delivery are adopted and applied in delivering health services
- facilitate the efficient and economic operation of the public health system
- advise the Minister on the operation or administration of the HC Act, the provision of health services within the State, or the protection or promotion of public health within the State.

Neither the Minister or the Chief Executive, DHW can give a direction about a person's clinical treatment.

The Chief Executive, DHW may, by instrument in writing, appoint a specified person, or a person occupying a specified office or position, as the chief executive officer of an incorporated hospital. LHN and SAAS chief executive officers are subject to the control and direction of the Chief Executive, DHW.

The Department for Health and Wellbeing

DHW is an administrative unit established under the *Public Sector Act 2009*. It is a funder or service purchaser, policy setter and strategic planner and provider of services.

DHW is charged with a broad ranging policy and administrative responsibilities associated with health.

Local health networks

National Health Reform Agreement (NHRA)

In August 2011 the Commonwealth, State and Territory Governments entered into the NHRA. The NHRA establishes governance, funding and financial management arrangements for delivering public hospital and other health services.

The NHRA required the States to establish LHNs to directly manage the delivery of public hospital and other health services. An LHN can contain one or more hospitals, and is usually defined as a business group, geographical area or community. Every Australian public hospital is part of an LHN. These requirements were to place responsibility and accountability for health service delivery to local health areas.

South Australian LHNs

LHNs are incorporated hospitals and bodies corporate established under the HC Act. They are responsible to the Minister for Health and Wellbeing and the Chief Executive, DHW.

Chief executive officers at LHNs have significant accountabilities

The Chief Executive, DHW has appointed chief executive officers at the LHNs. They work to an annual service level agreement (SLA) that assigns accountability for the high level outcomes required for the term of the agreement. It also sets out the parties' respective statutory and other legal functions and obligations.

The SLAs are comprehensive agreements. Some key financial management responsibilities are:

- the LHN chief executive officers are responsible for providing safe, high quality health care services within agreed financial parameters and managing the LHN budget and performance outcomes as determined by DHW in line with the SLA
- the Chief Executive, DHW is responsible for allocating the financial resources provided by the SA Government to the health service providers and support service providers in a transparent way

- where an LHN chief executive officer considers they cannot manage within their budget constraints they must report this through the mechanism outlined in the SA Health performance framework.

LHN Health Advisory Councils have a statutory advocacy role

LHNs have Health Advisory Councils appointed under section 15(1) of the HC Act. These councils have an advocacy role, on behalf of the community, to provide advice and to perform other functions as determined under the HC Act.

LHNs operating in South Australia

In 2018-19 the following LHNs operated in South Australia:

- Central Adelaide Local Health Network Incorporated

  The principal units within CALHN were the RAH, The Queen Elizabeth Hospital, Hampstead Rehabilitation Centre, GP Plus Health Care Centres and Super Clinics and primary, subacute and mental health services located in the local area. CALHN also includes State-wide clinical support services covering pharmacy, medical imaging and pathology.

- Southern Adelaide Local Health Network Incorporated

  The principal units within SALHN were the Flinders Medical Centre, Noarlunga Hospital, GP Plus Health Care Centres and Super Clinics, RHP and primary, subacute and mental health services located in the local area.

- Northern Adelaide Local Health Network Incorporated

  The principal units within NALHN were the Lyell McEwin Hospital, Modbury Hospital, GP Plus Health Care Centres and Super Clinics and primary, subacute and mental health services located in the local area.

- Country Health SA Local Health Network Incorporated

  CHSALHN provided a network of hospitals and health services located throughout regional South Australia.

- Women’s and Children’s Health Network Incorporated

  The principal unit within WCHN was the Women’s and Children’s Hospital.

SAAS has operated since 1992 as the principal provider of emergency ambulance services in South Australia.

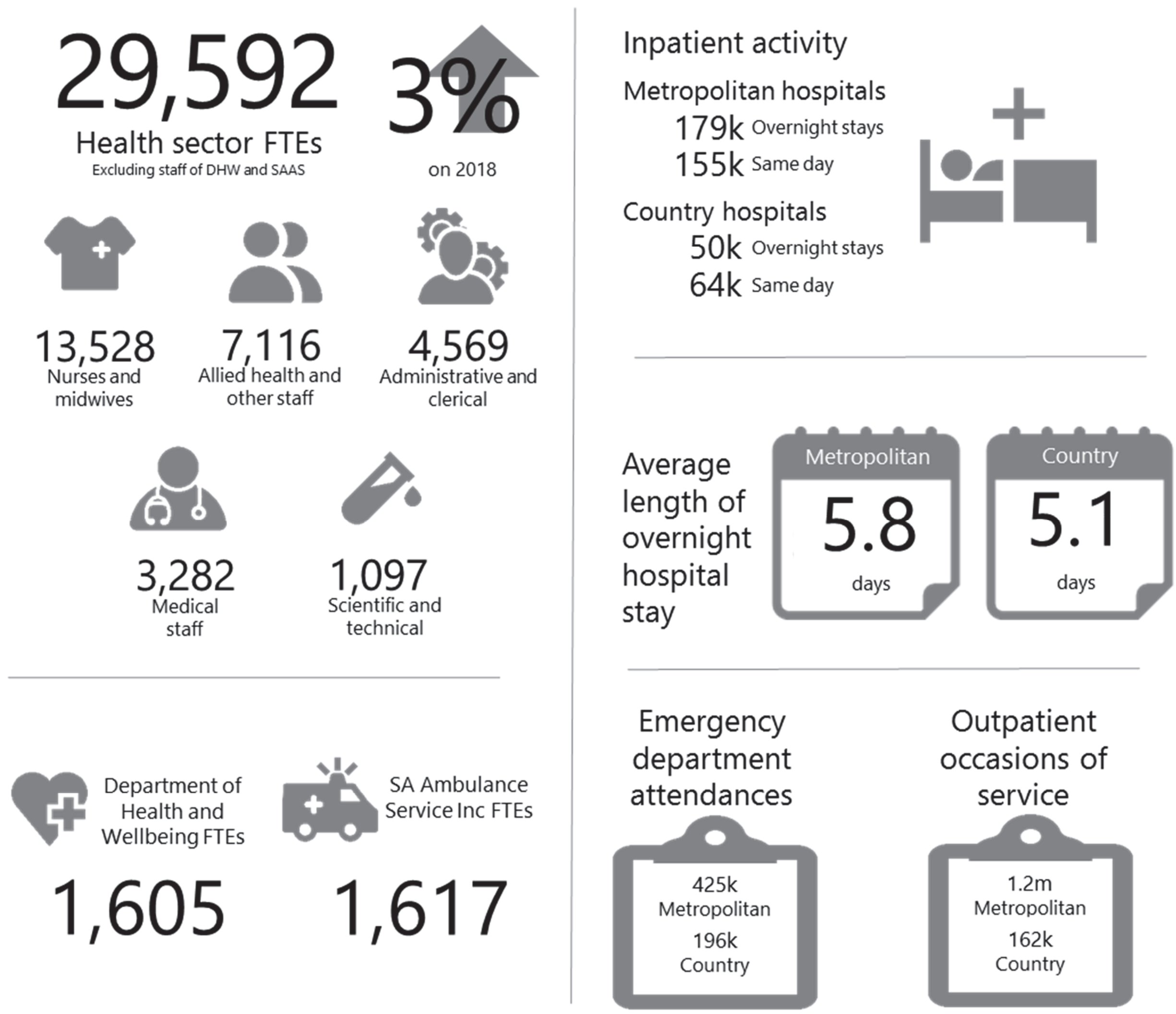
The following table highlights the total assets of these SA Health entities.

	DHW $’million	CALHN $’million	SALHN $’million	CHSALHN $’million	NALHN $’million	WCHN $’million	SAAS $’million
Total assets	970	3 681	788	987	442	397	173

Consolidated financial statements

In line with AASB 10 *Consolidated Financial Statements*, DHW prepared financial statements for the consolidated entity, which comprises DHW, the LHNs and SAAS.

Health sector staffing and patient activity data – unaudited



Source: Provided by DHW in response to our request and unaudited.

The following staffing and patient activity information was provided by DHW in response to our request and is unaudited.

Health sector staffing statistics

The following table details the staffing levels as at 30 June in the health sector, excluding staff of DHW and SAAS, for the past three years.

Health sector FTE mix (unaudited)

	2017 Number	2018 Number	2019 Number
Staff categories:			
Nurses and midwives	12 578	13 130	13 528
Medical staff	3 020	3 155	3 282
Scientific and technical	1 065	1 064	1 097
Administrative and clerical	4 491	4 552	4 569
Allied health and other staff	6 760	6 924	7 116
Total staff	27 914	28 825	29 592
Increase (Decrease)	556	911	767
Percentage increase (decrease)	2%	3.3%	2.7%

Department for Health and Wellbeing staffing statistics

The following table details the staffing levels of DHW as at 30 June for the past three years.

Department for Health and Wellbeing FTEs (unaudited)

	2017 Number	2018 Number	2019 Number
Total staff	1 702	1 602	1 605

SA Ambulance Service Inc staffing statistics

The following table details the staffing levels of SAAS as at 30 June for the past three years.

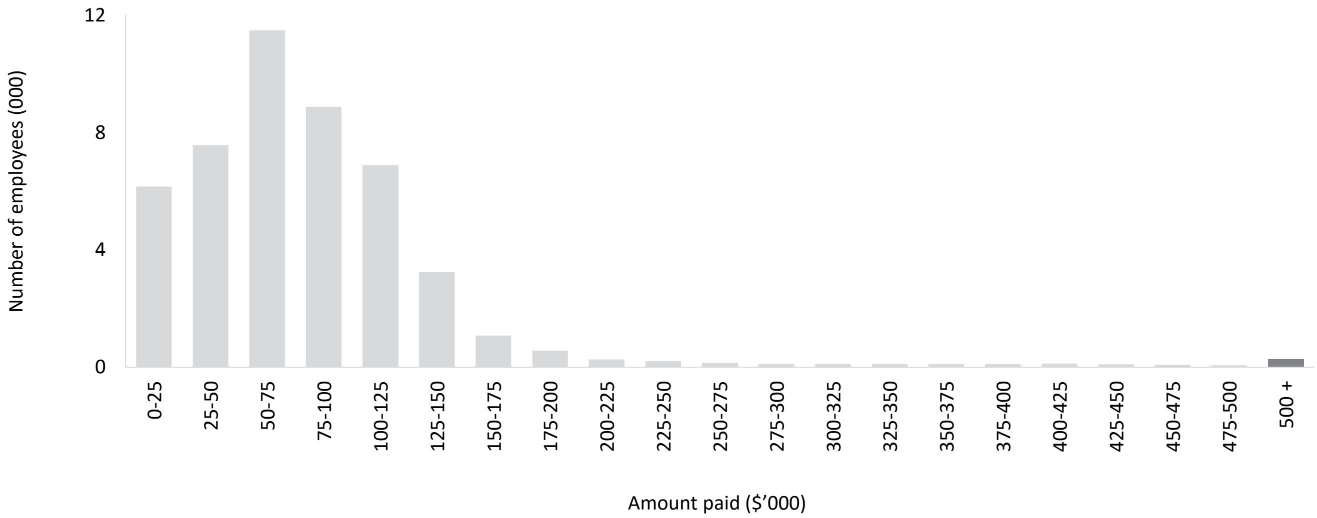
SA Ambulance Service Inc FTEs (unaudited)

	2017 Number	2018 Number	2019 Number
Total staff	1 349	1 480	1 617

Part of the increase in SAAS FTEs is attributable to an increase in frontline services staff, as reflected in the 2018-19 State Budget, and the transition of MedSTAR staff from CALHN.

Overall analysis of payments to SA Health staff

Our analysis of remuneration to all SA Health employees for 2018-19 shows the following breakdown. The chart shows remuneration to individuals (not FTEs) and includes all costs of employment.



Hospital activity statistics

The tables below indicate the trends over past years in inpatient activity (unweighted), length of hospital stay, and casualty and outpatient activity (unweighted).

The data in the tables was sourced from DHW's reporting systems and has not been audited. DHW advised that its processes to collate activity data for 2018-19 were not complete at the time of this Report and the figures presented are not final. Accordingly the activity statistics below are at a point in time and subject to change.

Inpatient activity (unaudited)

	2017 Number	2018 Number	2019 Number
Metropolitan hospitals:			
Overnight stay	177 959	177 131	178 913
Same day	148 101	146 718	155 123
Total	326 060	323 849	334 036
Country hospitals:			
Overnight stay	51 443	51 146	50 029
Same day	60 068	65 073	64 219
Total	111 511	116 219	114 248

Average length of overnight hospital stay (unaudited)

	2017 Days	2018 Days	2019 Days
Metropolitan hospitals	6.0	6.0	5.8
Country hospitals	4.7	4.8	5.1

Emergency department and public outpatient activity (unaudited)

	2017 Number	2018 Number	2019 Number
Metropolitan hospitals:			
Emergency department attendances	403 893	412 935	425 353
Outpatient occasions of service	1 122 092	1 122 289	1 165 743
Country hospitals:			
Emergency department attendances	183 573	192 795	195 920
Outpatient occasions of service	143 215	160 255	161 774

Department for Health and Wellbeing (DHW)

Financial statistics	Total expenses: Net cost of providing services: Revenue from SA Government: Employee benefits liability and related on-costs: Workers compensation liability: Number of FTEs:	$5618 million $3833 million $4168 million $73 million $1 million 1605
Significant events and transactions	— The SA Government has, through legislative change, changed the role and responsibility of the Chief Executive, DHW and has provided that local health networks will be governed by boards from 1 July 2019. — To support the devolution of governance and responsibility to governing boards, the SA Government and DHW are making significant changes to SA Health's governance and accountability frameworks. — An organisational restructure was implemented in May 2019. — The consolidated net cost of providing services was a $405 million deterioration from the original budget.	
Financial report opinion	**Unmodified**	
Controls opinion findings	— Procurement and contract management practices need to improve. — No risk management planning for some sampled procurement and contract management plans. — No conflict of interest declarations and confidentiality agreements for some sampled procurement. — Expenditure systems approval profiles not regularly reviewed. — Purchasing and procurement policy does not explicitly require approvers to consider budget when making procurement decisions.	

Other audit findings	— Employee payroll and leave management information not regularly reviewed. — Legal compliance framework not fully implemented. — Processes not adequate to ensure consistent and appropriate management of medical officers' professional development.

Functional responsibility

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

DHW is a funder or purchaser of health services, policy setter, strategic planner and provider of services. Note 2 of DHW's financial report provides details about its objectives.

DHW is charged with broad ranging policy and administrative responsibilities associated with the provision of health care in South Australia. The *Health Care Act 2008* (HC Act) makes the Chief Executive, DHW responsible for ensuring the proper allocation and use of resources between health regions and health services incorporated under the HC Act.

In line with AASB 10 *Consolidated Financial Statements*, consolidated financial statements have been prepared comprising DHW, the local health networks (LHNs) and SA Ambulance Service Inc (SAAS).

Collectively DHW, the LHNs and SAAS are known as SA Health or the Health sector.

Governance changes from 1 July 2019

From 1 July 2019 amendments to the HC Act provide for LHNs to be governed by boards. The amendments also change the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering LHNs.

Governing boards were established on and commenced from 1 July 2019. The board chairs and members were appointed by the Minister for Health and Wellbeing. The chairs and members were initially appointed in an advisory capacity during the transition in 2018-19 under the *Constitution Act 1934* to enable and support their induction and familiarisation.

Governing boards of LHNs are responsible for addressing the local need, providing strategic direction and monitoring their LHN's operating and financial performance. The Board must comply with any direction of the Minister for Health and Wellbeing or Chief Executive, DHW.

Under these changes DHW remains responsible for setting State-wide policy and the Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

To support devolving governance and responsibility for delivering public health services to the new LHN governing boards, the SA Government and DHW are making significant changes to SA Health's governance and accountability frameworks. The details of these changed arrangements are discussed in Part A of this Report.

Associated with the revised arrangements SA Health has made changes to its organisation structure, including transferring some staff and responsibilities to Shared Services SA (SSSA) from 1 July 2019. DHW is also considering which functions should be devolved from DHW to LHNs. The process for realigning employees is ongoing, with some expected to occur in 2019-20 and others deferred until later years.

At the time of this Report a second round of legislative amendments, the Health Care (Governance) (No 2) Amendment Bill 2019, was being debated in Parliament. It proposes provisions relating to the service agreements for LHNs as a key element of the performance framework, as well as provisions relating to the function and role of the Chief Executive, DHW.

Scope of the audit

Audit of the financial report

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

Financial services are provided through a mix of:

- central services provided by DHW for LHNs and SAAS
- services provided by SSSA.

Specific areas of audit attention in 2018-19 included:

- payroll
- accounts payable
- procurement
- contract management
- cash
- general ledger
- funding to health services
- funding to non-government organisations
- interstate transfers
- non-current assets
- inventory management
- revenues from the Commonwealth
- insurance services
- IT general controls
- professional development entitlements.

Internal audit activities were considered in designing and conducting audit procedures.

Controls opinion

We reviewed controls over across government facilities management arrangements, buildings and improvements and goods and services including procurement and contract management as part of our controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Procurement

Each year we review DHW's procurement processes and activities, including reviewing a sample of higher value or higher risk procurements.

Procurement of centralised contracts for intravenous (IV) consumables

We reviewed procurement of centralised contracts for IV consumables (needles, syringes and peripheral IV cannulas) established by DHW in 2018-19. Prior to the new contractual arrangements, DHW had a sole supplier agreement for needles and syringes with an extension that expired in December 2017. Former agreements for peripheral IV cannulas expired in 2014.

The procurement resulted in contracts with four suppliers for a period of three years with the option for a further two extensions of two years. The anticipated total cost of the procurement, including the extension options, was $27.7 million.

Our audit included reviewing procurement documentation against the mandated requirements of the State Procurement Board (SPB). We found that while DHW complied with most of the requirements, the following areas need improvement.

— *Evaluation plan not signed prior to evaluation processes*

An evaluation plan outlines the processes to be followed in evaluating tender proposals and includes timing, membership and weightings of selection criteria. The SPB *Supplier Selection Policy* requires agencies to develop and approve evaluation plans before opening any bids.

Our review found some evaluation team members did not sign the evaluation plan until after the bids were opened and assessed. In addition, one of the evaluation team members only signed an early version of the evaluation plan and did not sign the amended final evaluation plan.

We recommended DHW ensure final evaluation plans are endorsed by all members of the evaluation team and approved prior to opening any bids. DHW responded that it will remind staff of their responsibilities regarding evaluation plans.

— *Contract executed after the commencement date*

Our review found that the contract was executed after the commencement date. Any period without a formal instrument of agreement potentially impacts on DHW's ability to manage contractual obligations and conditions, including price.

DHW responded that in a minority of cases contracts may have a deliberate and negotiated retrospective effect. DHW indicate it would remind staff to identify whether a contract required retrospective effect and, if not, to ensure that the execution date precedes the commencement date of the contract.

— *Missing conflict of interest declarations and confidentiality agreements*

Staff involved in procurement processes are required to declare conflicts of interest and sign confidentiality forms under SA Health's procurement policy. Our review found this did not always occur.

Missing conflict of interest declarations can impact DHW's ability to mitigate the potential, perceived or actual risk of key personnel unduly influencing decision-making processes, thereby impacting the integrity of procurement processes.

DHW responded that it had taken action to prevent this from occurring, including reminding staff of their responsibilities regarding these declarations.

— *Improvements needed in risk management planning*

The SPB requires acquisition plans to include a separate risk management plan for all procurements assessed as high risk or valued at greater than $4.4 million.

Our review of the acquisition plan for the IV consumables found that while it included a risk register, it did not document key information that would be found in a risk management plan including:

- risk management responsibilities
- proposed treatments and monitoring of risks, including responsibilities and time frames.

We have raised similar issues in past years.

DHW responded that it had updated its acquisition plan templates to include a field to record the risk owner and treatment owner. It has also reminded staff of their responsibilities to ensure risk management plans include how risk will be monitored and managed.

Procurement of KordaMentha services for CALHN

In 2018-19 we also reviewed the procurement of KordaMentha's services for the Central Adelaide Local Health Network Incorporated (CALHN). We reviewed this procurement because it was a high value, multi-year service arrangement. It is also foundational to CALHN's critical goals to improve clinical and financial performance. We did not review contract performance.

The outcomes from our review and DHW's response are discussed in Part A of this Report. The commentary covers:

- compliance with the mandated requirements of the SPB and SA Health directives
- documenting evidence based support for a direct negotiation approach to the first stages of the procurement

- managing the supplier's inherent advantage when they became an incumbent supplier
- information and time available for respondents for an expression of interest.

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy (PO policy) mandates the use of requisitions and purchase orders unless the item purchased is listed in the approved purchase order exemption list or where the purchase is below $2200. Our review across DHW and LHNs found many payments without purchase orders where the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

In response to concerns raised last year DHW indicated it would regularly review a sample of invoices to ensure compliance with policy. Our review in 2018-19 found that this sample testing did not occur.

DHW responded to our 2018-19 concerns indicating it would monitor payments and contact approvers where the PO policy was not followed.

Purchasing and procurement policy does not require approvers to consider expenditure budget

The independent approval of all purchase requisitions plays an important role in SA Health's ability to manage its expenditure in line with established budgets.

Our review of the PO policy found no explicit requirement for requisition approvers to assess expenditure against budgets before approving a requisition.

DHW agreed with our recommendation to update its policies to reflect these responsibilities.

Contract management

Each year we review DHW's contract management, including a reviewing a sample of higher value or higher risk contracts.

The following section contains our findings and comments about DHW's contract management.

Information on the contract register not reliable or complete

We identified instances where information in the Procurement and Contract Management System (PCMS) was unreliable. This could prevent management from monitoring contract end dates and identifying when to commence new procurement activities. We also noted instances where current contracts were not on the system. We raised these concerns last year.

DHW responded that it had improved its reporting and review of contract data on PCMS. It indicated that it was reviewing PCMS system limitations and had developed a business case, subject to final approval, that may lead to a new system.

Contract management – SA Community Care (SACC) Panel Agreement

We reviewed DHW's management of the SACC Panel Agreement and in particular the arrangements with Silver Chain Group Limited (trading as Royal District Nursing Service of SA Limited). Expenditure on this contract in 2018-19 was $13 million. Our objective was to determine whether there was reasonable assurance that the contract was managed appropriately and services were provided in line with the contract.

We found the following areas that needed improvement.

— *Contract management plan did not adequately guide the management of the contract*

Contract management plans are internal documents that detail the key strategies, activities and tasks required to effectively manage contracts. They provide a systematic and accountable method to ensure both parties fulfil their contractual obligations.

Our review of the SACC contract management plan found that the actions needed to manage and monitor important obligations and responsibilities were not adequately documented. Consequently, the contract management plan on its own was not always a reliable management tool.

DHW responded that it would update and approve the plan and also remind staff to ensure that all contract management plans contain sufficient details.

— *Contract management plan developed after contract commencement date*

Our review found that the contract management plan for the SACC Panel Agreement was not finalised and authorised until 25 October 2018, while the contracts commenced from 1 July 2018. We have previously reported delays in establishing contract management plans.

DHW recognised that the contract management plan was not signed until 25 October 2018, but indicated that the plan was in draft and was adhered to. It responded that the delay was due to the sharing and co-signing of the plan with the supplier. It also indicated it had reminded staff to ensure contract management plans are implemented before the contract commencement date.

— *Risk management plan lacking key elements*

Effective contract management requires a commitment to manage risks. One of the responsibilities of the appointed contract manager is to ensure that contract risks are identified, monitored and managed. The SPB *Risk Management Guideline* requires the agency to monitor and review identified risks on an ongoing basis, including the effectiveness of treatments or mitigation strategies.

Our review of the contract management plan for the SACC Panel Agreement found that documentation relating to risk was limited to listing risk headings and did not demonstrate a robust assessment of the risks or discuss mitigation strategies.

DHW responded that it had reminded staff of these responsibilities and was in the process of updating applicable contract management plans.

— *Forecasting reports provided to supplier outside agreed time frames*

The SACC contract requires that DHW provide the supplier with forecasts of the anticipated number of referrals by contracted service types. Inadequate provision of forecast demand to suppliers may impact the suppliers' ability to meet demand efficiently and effectively, consequently impacting services to clients and the community.

SACC contract management meetings minutes noted concerns that DHW had not met its forecasting obligations under the contract.

DHW acknowledged that it had not met the required timing for these forecasts, indicating that activity across the program had been very variable and difficult to predict. DHW did, however, indicate that it had implemented a process to ensure forecast timelines are met.

Goods and services

Accounts payable services are provided to DHW, the LHNs and SAAS by SSSA under service level determinations.

System-based expenditure approval profiles not regularly reviewed

Our review of the Oracle and Basware expenditure processing systems found financial delegations assigned to users in these systems were not regularly compared to approved financial delegations. Consequently, management may not detect employees with Oracle or Basware approval powers that exceed the authority provided to them by the financial delegations, resulting in the potential for invalid or unauthorised payments. This issue has been raised for several years.

DHW responded that it would continue to monitor and escalate incomplete reviews to appropriate management in DHW and LHNs. It also indicated it would review its processes in light of the new SA Health structures from 1 July 2019.

Super delegate, special delegate and manual transactions not adequately reviewed.

We reviewed controls over transactions approved by super or special delegates in Basware, as well as manual payments. These transactions are processed outside of the normal Basware system approval processes and are generally of a higher value and/or higher risk.

Our review found that DHW processes did not ensure these payments were always independently reviewed across SA Health.

DHW indicated it would review its processes and implement an escalation process to ensure such transactions are reviewed.

Other audit findings

Governance and accountability

Legal compliance framework not yet fully implemented

Last year we reported that while DHW had progressed towards implementing its legislative compliance framework it had not implemented the framework, including developing compliance registers and certification processes.

We followed up DHW and SA Health progress in 2018-19. We found SA Health had established a legislative compliance register at each business unit and has implemented an annual certification cycle for eight specified legislative obligation themes, being confidentiality, health and safety of workers, industrial relations, recordkeeping, public administration, access to information, expending public money and compliance with SPB policies and guidelines.

For these themes, LHN Chief Executive Officers and DHW Deputy Chief Executives were required to certify that they have:

- adopted the legislative compliance policy directive
- effective controls to ensure employees know how to access to information about their legislative obligations
- efficient systems to monitor compliance risks
- systems and processes to address identified breaches.

In 2018-19 SA Health had intended to expand the certification to additional legislative obligation themes, including LHN and SAAS business unit activities.

DHW advised that it had deferred its implementation of stage two while the SA Government's health reform agenda is underway.

Medical officer professional development (PD)

SA Health's enterprise agreements establish medical officers' PD entitlements. They include paid leave and reimbursement of expenses incurred in obtaining PD. Entitlements vary under each enterprise agreement. For example, certain medical officers are entitled to:

- up to 20 days PD leave over any two-year period
- a cumulative reimbursement, for eligible PD expenditure over any two-year period, up to a maximum of $44 000.

Since 2015-16 we have reported concerns about SA Health's management of PD entitlements.

Our follow-up of these matters in 2018-19 noted that DHW had started a project to develop systems and controls to manage PD leave and reimbursements.

SA Health intends to use the iExpense module of its Oracle financial system to provide a single, integrated approach for managing PD reimbursements and to maintain PD leave balances. DHW advised its intended time frame to implement the program across SA Health in two stages with expected go-live dates in February 2020 and May 2020.

Payroll

Employee benefit expenses are a significant cost, totalling $200 million for DHW and $4.2 billion across the consolidated entity in 2018-19.

Payroll services are provided through a combination of:

- central payroll services provided by DHW for SA Health
- central payroll services provided by SSSA for SA Health
- payroll activities located in each LHN.

A summary of our findings for payroll activities in LHNs can be found under 'Communicating our audit findings' in the sections of this Report for each LHN.

Findings relating to the central and DHW specific payroll services provided by DHW are reported below.

Insufficient review of payroll information

Many DHW employees are paid standard hours without direct reference to actual time records. In this environment it is important to ensure regular management review of individual employee payments and leave records. In recent years we have reported deficiencies in management's review of bona fide and leave reports.

Managers/Team leaders are required to log on to the payroll system and review a report to confirm the bona fide nature of employee payments and leave taken. We reviewed five pay runs in the period July 2018 to May 2019. We found managers had not reviewed an average of 23% of bona fide certificates and 25% of leave taken reports. In one run in April 2019, 53% of bona fide reports were not reviewed. In another period in January 2019, 37% of leave taken reports were not reviewed.

DHW responded that compliance with these requirements is increasing and indicated that it would develop a compliance summary report by early 2020 to manage and escalate non-compliance.

Payroll system access profiles not regularly reviewed

Our review found that payroll system user assess was not consistently reviewed. Failure to detect inappropriate user access permissions may allow processing of unauthorised transactions, potentially resulting in financial loss. We have raised this issue over a number of years.

We recommended DHW implement monitoring processes to ensure LHN managers review the quarterly user access profiles report to check that user access is limited to the individual's required functionality. We also recommended DHW introduce procedures that clearly define the processes and responsibilities.

DHW responded that review of user profiles is in place and that it was developing operational procedures.

IT general controls review

In 2018-19 we conducted an IT general controls review of SA Health's Oracle Corporate System (OCS) and PCMS. Controls we tested for both environments included password management, user access, patch management, change management, backup and disaster recovery management.

We found that, generally, SA Health controls over these aspects of the OCS and PCMS environments were good. We did, however, identify several areas for improvement.

Oracle Corporate System

We found that:

- segregation of duties conflicts with the design of user access
- vendor patching of the OCS application and database server was not implemented during the period reviewed
- privileged user access on the OCS application and database servers was not regularly reviewed
- OCS user access was not terminated in a timely manner.

SA Health responded positively to these findings with details of proposed remediation action, expected to be completed by November 2019.

Procurement and Contract Management System

We found:

- weaknesses in password configuration settings
- weaknesses user access management
- weaknesses in the change management process
- weaknesses in disaster recovery documentation and testing.

SA Health responded positively to these findings with details of proposed remediation action, expected to be completed by February 2020.

Interpretation and analysis of the financial report

Highlights of the financial report – Department for Health and Wellbeing (parent)

	2019 $'million	2018 $'million
Expenses		
Employee benefit expenses	200	189
Supplies, services and other expenses	583	557
Grants, subsidies and client payments	4 835	5 028
Total expenses	5 618	5 774
Income		
Fees and charges	357	344
Grants and contributions	1 396	1 428
Other	31	29
Total income	1 784	1 801
Net cost of providing services	3 833	3 973
Total revenues from SA Government	4 168	3 986
Net result	334	13
Other comprehensive income	-	(2)
Total comprehensive result	334	11

	2019 $'million	2018 $'million
Net cash provided by (used in) operating activities	342	8
Assets		
Current assets	875	483
Non-current assets	94	112
Total assets	970	595
Liabilities		
Current liabilities	196	171
Non-current liabilities	176	161
Total liabilities	372	332
Total equity	598	263

Statement of Comprehensive Income – Department for Health and Wellbeing (parent)

Expenses

Employee benefit expenses

Employee benefit expenses increased by $12 million to $200 million. Contributing to the increase was an increase in long service leave expense, up $11 million, mainly due to the impact of changed actuarial assumptions used to estimate the associated liability, including the decrease in the discount rate. From 1 July 2019, DHW transferred its centralised financial accounting functions (81 FTEs) to SSSA.

The number of employees whose remuneration received/receivable exceeded base executive level ($151 000) totalled 73 (77), comprising 39 (36) executive, 21 (25) administration, eight (11) medical and five (five) nursing employees. Total remuneration for these employees was $17 million ($18 million). Over the past five years the number of employees whose remuneration received or receivable exceeds base executive level has decreased by 17%.

Supplies and services expenses

Supplies and services expenses amounted to $540 million ($514 million). Significant components of supplies and services were:

- contract of services – $116 million ($105 million)
- cost of goods sold to incorporated health services – $105 million ($101 million)
- computing costs – $96 million ($97 million)
- insurance – $49 million ($53 million)
- interstate patient transfers – $43 million ($37 million).
- repairs and maintenance – $23 million ($21 million).

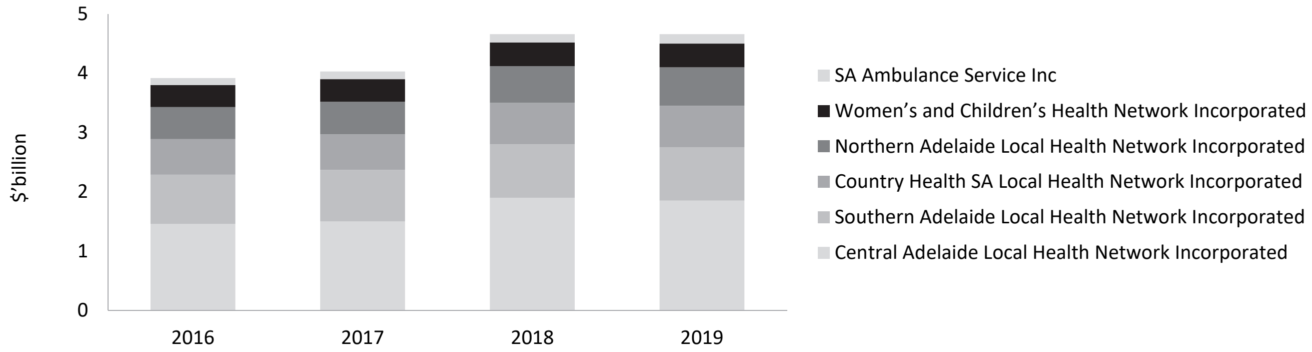
Grants and subsidies

Grants and subsidies expense decreased by $192 million to $4.8 billion. It consists mainly of recurrent and capital grants to LHNs and SAAS.

Recurrent funding to incorporated health services

Recurrent funding to incorporated health services remained at $4.7 billion. Recurrent funding is provided to health services to meet their cost of services.

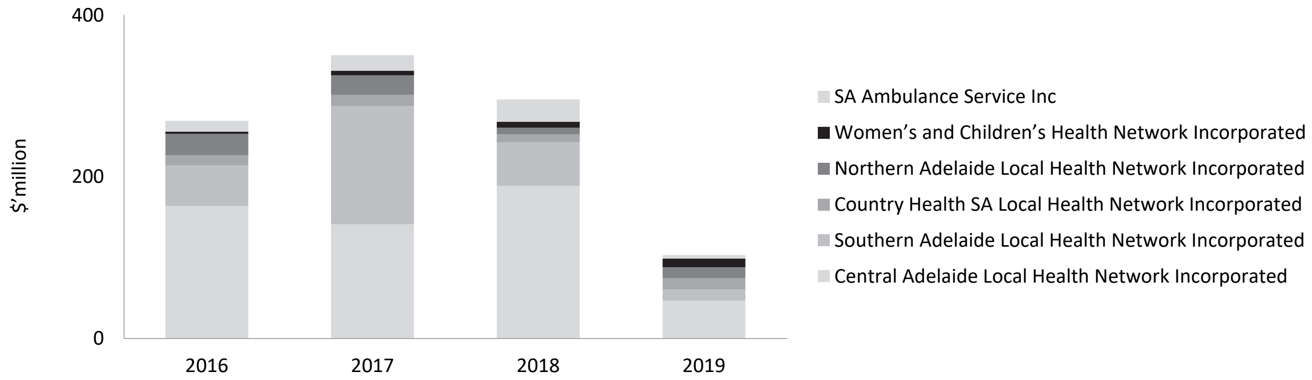
The following chart shows recurrent funding provided to incorporated health services over the last four years.



Total recurrent funding has increased over the four years, from $3.9 billion in 2016 to $4.7 billion in 2018 (refer note 5.1 of DHW's financial report).

Capital funding to incorporated health services

The following chart shows capital funding to incorporated health services for the four years to 2019.



In 2019 total capital funding decreased by $193 million to $103 million. This was mainly due to several major capital works projects finishing in 2017-18. These included the neo natal unit at the Flinders Medical Centre, emergency department at Noarlunga Hospital and works at the Royal Adelaide Hospital (RAH).

Revenues

Income

Income for 2018-19 amounted to $1.8 billion ($1.8 billion) and principally comprised Commonwealth Government National Health Reform Agreement funding of $1.306 billion ($1.335 billion). DHW receives Commonwealth Government grants paid from the State Pool account in line with the funding agreement under the National Health Reform Agreement.

Revenues from the SA Government

Included with revenues from the SA Government was appropriation of $4187 million, including contingency funds from the Department of Treasury and Finance of $83 million and targeted voluntary separation package recoveries of $2 million. These appropriations comprised:

- $4046 million original appropriation – *Appropriation Act 2018*, 2018-19 State Budget
- additional $59 million provided through the December 2018 mid-year budget review to support the transition to the new RAH and to meet ongoing growth in the health system
- additional $95 million provided at the end of the year and announced in the 2019-20 State Budget to ensure the health system continued to provide the necessary services required by the community
- additional $36 million relating to the return of cash previously paid to the SA Government under the cash alignment policy
- reduction of $39 million due to approved carryover of expenditure to future years
- reduction of $10 million for various other approved budget variations.

Revenues from the SA Government increased by $217 million to $4.2 billion (5%).

Statement of Financial Position – Department for Health and Wellbeing (parent)

Assets

Current assets increased by $392 million to $875 million as at 30 June 2019 and essentially comprise cash and cash equivalents and receivables ($225 million), which includes $175 million for interstate patient transfers.

Cash and cash equivalents

Cash and cash equivalents increased by $341 million to $633 million. Cash flows contributing to this increase are disclosed in the cash flow statement. As DHW is a funder of health services, the timing of receipts from government and payments to LHNs and SAAS can impact the amount of cash held.

Liabilities

DHW's total liabilities were $372 million at 30 June 2019, an increase of $40 million from the previous year. Significant components of liabilities were:

- payables, $169 million ($147 million) – the increase mainly related to a $26 million increase in payables for interstate patient transfers owing to interstate jurisdictions for SA residents treated in interstate public hospitals
- employee benefits liabilities and related on-costs, $73 million ($61 million) – contributing to the increase was the impact of changes in actuarial estimates used to measure long service leave liabilities, including a decrease in the discount rate
- provision for insurance, $131 million ($119 million) – the increase is due mainly to the revision of the actuarial assessment of future claims estimate and new claims.

DHW manages the public health system insurance program. It pays premiums to SAicorp and retains responsibility for claims up to certain amounts. The provision estimates the value of claims directly payable by SA Health.

The provision for insurance estimates DHW's liability for professional indemnity (including medical malpractice) and general public liability. The determination of the insurance provision was carried out through an actuarial assessment in line with AASB 1023 *General Insurance Contracts* and takes into account prudential margins, inflation, taxes, claims incurred but not reported and current claim values (refer note 27.2 of DHW's financial report).

Equity

As at 30 June 2019, DHW had a net assets position of $598 million ($263 million). It did not receive any equity contribution from the SA Government in 2018-19.

Highlights of the financial report – consolidated entity

The consolidated entity comprises:

- Department for Health and Wellbeing
- Central Adelaide Local Health Network Incorporated
- Country Health SA Local Health Network Incorporated
- Northern Adelaide Local Health Network Incorporated
- SA Ambulance Service Inc
- Southern Adelaide Local Health Network Incorporated
- Women's and Children's Health Network Incorporated.

	2019 $'million	2018 $'million
Expenses		
Employee benefit expenses	4 221	3 916
Supplies, services and other expenses	2 072	2 008
Borrowing costs	169	263
Depreciation and amortisation	287	256
Grants and subsidies	35	39
Total expenses	6 784	6 482
Income		
Fees and charges	638	580
Grants and contributions	1 772	1 769
Other	142	129
Total income	2 552	2 478
Net cost of providing services	4 232	4 004
Total revenues from SA Government	4 168	3 986
Net result	(64)	(18)
Other comprehensive income		
Changes in property plant and equipment asset revaluation surplus	-	331
Gains or losses recognised directly in equity	(14)	2
Total other comprehensive income	(14)	333
Total comprehensive result	(78)	315

	2019 $’million	2018 $’million
Net cash provided by (used in) operating activities	417	386
Net cash provided by (used in) investing activities	(96)	(232)
Assets		
Current assets	1 419	1 045
Non-current assets	5 992	6 193
Total assets	7 411	7 238
Liabilities		
Current liabilities	1 185	1 053
Non-current liabilities	3 723	3 607
Total liabilities	4 908	4 660
Total equity	2 503	2 578

Statement of Comprehensive Income – consolidated entity

Expenses

Total expenses increased by $302 million to $6.8 billion (5%) and principally comprised employee benefit expenses of $4.2 billion and supplies and services expenses of $2 billion.

Employee benefit expenses

Employee benefits, clearly the most significant health sector expense, increased by $305 million to $4.2 billion. Contributing to this increase were:

- a $155 million increase in salaries and wages and superannuation to $3.6 billion (4.5%), largely from a 3% rise in FTEs to 32 814 and salaries and wages rises associated with various enterprise agreements

- a $143 million increase in long service leave expense, mainly due to the impact of changed actuarial assumptions used to estimate the associated liability, including a decrease in the discount rate used.

The number of employees whose remuneration received/receivable exceeded base executive level ($151 000) totalled 3395 (3232), comprising 104 (104) executive, 121 (136) non-medical and 2512 (2415) medical, 271 (202) nursing and 387 (375) operational employees. Over the past five years the number of employees whose remuneration received or receivable exceeds base executive level has increased by 21%.

Total remuneration for these employees was $921 million ($861 million).

The following table summarises the remuneration of employees for 2018-19, included in note 3.4 of DHW’s financial report.

	Executive Number	Medical Number	Non-medical Number	Nursing Number	Operational Number	Total Number
$151 001 - $251 000	75	1 250	116	267	367	2 075
$251 001 - $351 000	22	444	3	2	12	483
$351 001 - $451 000	2	424	2	1	2	431
$451 001 - $551 000	2	246	-	1	5	254
$551 001 - $651 000	2	107	-	-	1	110
$651 001 - $751 000	1	29	-	-	-	30
$751 001 - $851 000	-	5	-	-	-	5
$851 001 - $951 000	-	3	-	-	-	3
$951 001 - $1 051 000	-	1	-	-	-	1
$1 051 001 -$1 151 000	-	1	-	-	-	1
$1 151 000 - $1 251 000	-	1	-	-	-	1
$1 551 001 - $1 651 000	-	1	-	-	-	1
Total	104	2 512	121	271	387	3 395

Supplies and services expenses

Supplies and services increased by $78 million to $2 billion. Significant components of supplies and services were:

- medical, surgical and laboratory supplies – $319 million ($309 million)
- drug supplies – $265 million ($226 million)
- contract of services – $149 million ($136 million)
- fee-for-service – $170 million ($168 million)
- contractors – agency staff – $88 million ($99 million)
- public private partnership operating expenses – $86 million ($62 million)
- electricity, gas and fuel – $49 million ($54 million)
- insurance – $51 million ($55 million)
- computing – $104 million ($109 million)
- housekeeping – $79 million ($83 million).

Income

Income for 2018-19 amounted to $2.6 billion ($2.5 billion) and principally comprised Commonwealth Government National Health Reform Agreement grants of $1.3 billion ($1.3 billion) and revenue from fees and charges of $638 million ($580 million).

DHW receives Commonwealth Government grants paid from the State Pool account in line with the revised funding agreement under the National Health Reform Agreement.

Comparison of actual expenses to original budget

For 2018-19, the net cost of providing health services exceeded the original budget by $405 million. Note 35 of DHW's financial report provides budgetary reporting information, including some explanations of major variances between DHW's original budget provided to Parliament and actuals reported in the financial statements.

In summary, the key items reported (all exceeding budget) are:

	Variance $'million
Total expenses	478
Total income	73
Net cost of providing services	405
Revenues from SA Government	107
Net result	298

Note 35 states that the unfavourable variance of $478 million in total expenses compared with the original budget is mainly due to the increased cost of providing hospital services. Most of these costs are incurred across a large range of areas and are not separately disclosed in this note because of the number and breadth of areas involved.

Statement of Financial Position – consolidated entity

As at 30 June 2019, the consolidated entity had a net assets position of $2.5 billion.

Liabilities

Employment liabilities make up $1.6 billion of the consolidated entity's total liabilities at 30 June 2019, comprising:

- employee benefits liabilities and related on-costs, $1.5 billion ($1.3 billion) – the increase was mainly due to an increase in long service leave liability of $179 million to $895 million, and in particular the impact of changed actuarial assumptions used to estimate the associate liability, including a decrease in the discount rate used
- provision for workers compensation, $105 million ($109 million). The worker compensation provision was estimated by an independent actuary as at 30 June 2019. The provisions include non-statutory provisions for certain work related injuries as part of enterprise bargaining agreements.

Assets

The consolidated entity's financial position is dominated by non-current property, plant and equipment assets, representing 79% of total assets.

The carrying value of property, plant and equipment decreased by $180 million to $5.9 billion. Key movements during the year were:

- depreciation and amortisation of $265 million
- additions of $90 million, including $74 million capital works in progress additions.

The main categories of property, plant and equipment were:

- land, $344 million
- buildings, $2.4 billion
- buildings under public private partnership, $2.5 billion
- capital works in progress, $60 million
- leasehold improvements, $36 million
- plant and equipment, $227 million
- plant and equipment under public private partnership, $242 million.

Central Adelaide Local Health Network Incorporated (CALHN)

Financial statistics

Total expenses:	$2718 million
Net cost of providing services:	$2044 million
Revenues from SA Government:	$1899 million
Staff benefits liability and related on-costs:	$535 million
Workers compensation liability:	$19 million
Number of FTEs:	11 454

Significant events and transactions

- The Chair of the CALHN Transition Board was appointed on 2 August 2018.
- Remaining members of the CALHN Transition Board were appointed in August and November 2018.
- On 26 November 2018 the Department for Health and Wellbeing (DHW) appointed KordaMentha to oversee a financial recovery program for CALHN.
- Effective 6 June 2018, Celsus renegotiated its finance for the new Royal Adelaide Hospital (RAH) which resulted in a reduction in quarterly service payments in line with the Project Agreement. The full year saving to CALHN on the interest rate reduction was around $94 million.
- Quarterly service payments of $279 million for the new RAH were paid in line with the Project Agreement.
- The CALHN Governing Board commenced operation from 1 July 2019 in line with amendments to the *Health Care Act 2008*.
- On 21 August 2019, Spotless, Celsus and the SA Government announced they had reached in principle agreement in relation to the delivery of services by Spotless at the new RAH. It is intended that a finalised agreement will take financial effect from 1 July 2019.

Financial report opinion **Unmodified**

Controls opinion findings	— Asset management processes under the across government facilities managements could be improved. — Some controls over procurement, contracting and purchasing could be improved. — Payroll planning, monitoring and approval processes could be improved.
Other audit findings	— Management of professional development leave could be improved. — Weaknesses in some SA Pharmacy processes. — Weaknesses in processes to ensure completeness of revenue and prompt debt collection. — No complete reviews of user access for several systems. — Patient billing practices could be improved.

Financial recovery program – appointment of KordaMentha

Initial appointment of KordaMentha

In 2018-19, CALHN planned to address a very significant and recurring financial deficit and improve the quality of its services over three years. CALHN considered it did not have the skillset to support the necessary programs and aimed to implement its plan with the support of a range of experts.

CALHN initially sought to procure this expertise to introduce the required skillsets and transfer knowledge to CALHN employees from the experts over a short period of time (up to six months). The initial plan recognised, however, that the level of skills transfer in the initial stages and the complexity of solutions suggested might mean that longer term assistance was required.

The overall procurement objectives included improvements to:

- clinical performance – reducing emergency department and elective wait times, length of stay and clinical complications
- financial performance – remove a $264 million deficit over three years and meet national efficient price (NEP) targets for service provision.

CALHN engaged KordaMentha in August 2018 as a consultancy to undertake diagnostics (phase 1) and develop and document an implementation plan (phase 2). The estimated cost of the 12-week consultancy was $880 000.

Contract variation and additional contract

In September 2018 the Minister approved a $1.1 million contract variation, extending KordaMentha's services by another seven weeks. The purpose was to initiate works under an 'expedited implementation'. As a result, KordaMentha commenced work on some aspects of implementation.

Separately, KordaMentha provided two FTEs for 10 weeks from 24 September 2018 for two business operations positions.

Implementation phase – CALHN restructuring and financial turnaround implementation services

The acquisition plan for procuring phase 1 and 2 expertise anticipated that the third phase, implementation, would be performed in-house or by an implementation partner. It envisaged the contract would be for 36 months including two one-year extensions. The plan estimated the cost of the engagement as $45 million, being $15 million for the base contract term and $15 million for each one-year option. KordaMentha was awarded the implementation contract following an expression of interest process and direct negotiation.

Further commentary on the procurement of these services is contained in Part A of this Report.

Financial recovery program

On 26 November 2018 DHW entered into a 12-month contract with KordaMentha to implement the financial recovery program at CALHN. The program is expected to take three years; however the current contract ends on 25 November 2019. Certain key performance indicators need to be achieved before the contract is extended.

During the year, KordaMentha reported to:

- CALHN's Chief Executive Officer
- the CALHN Organisational and Financial Recovery Plan Steering Committee, whose members included the Chief Executive and Deputy Chief Executive, DHW, the Chief Executive Officer of CALHN, KordaMentha and Transition Board members.

In 2018-19, KordaMentha conducted work across a range of areas at CALHN. This included working with CALHN management to understand current operational issues in these areas and develop plans for improvement. KordaMentha staff have also been involved in reviewing procurement across CALHN, with financial delegations reduced for most procurement and purchase requests reviewed.

CALHN expects that significant changes to the operations of an organisation of its size and complexity will take time to develop and implement. This was recognised in the planning for its financial recovery, with an expectation that changes would need to be made over three years.

On 12 July 2019, PKF was engaged to review the overall performance of KordaMentha against the existing contract including assessing value for money, compliance, achievement of target dates and quality of work. At the time of this Report the PKF analysis was being reviewed by DHW and CALHN.

Under the contract with KordaMentha, DHW was to notify KordaMentha in writing by 25 August 2019 if it wished to extend the contract. At the time of this Report, DHW had requested a six-week extension to this date and had not formally advised a decision about extending contract.

As at 30 June 2019, CALHN had paid KordaMentha $13.4 million for work performed under its contracts.

The Royal Adelaide Hospital

In principle agreement between Spotless, Celsus and the SA Government

The State's public private partnership (PPP) arrangement for the RAH is with Celsus. Celsus, in turn, contracted Spotless to deliver a range of operational services under the arrangement.

On 5 June 2018, Spotless issued Celsus with three Notices of Dispute under the contractual arrangements relating to operational matters. On the same day, Celsus issued corresponding Notices of Dispute to the State.

On 21 August 2019, Spotless, Celsus and the SA Government announced they had reached in principle agreement in relation to the delivery of services by Spotless at the RAH. The agreement, outlined in a terms sheet, remains subject to various approvals by all parties. It addresses:

- settlement of historical abatement claims
- a revised key performance indicator and abatement regime designed to better reflect the services provided by Spotless
- an increase to Spotless' monthly service fee
- commitments by the parties to work collaboratively on initiatives to further reduce costs and improve patient outcomes.

Details of the agreement are commercially confidential.

It is expected that a finalised settlement agreement will take financial effect from 1 July 2019.

Legal action in progress

On 1 August 2017, the builder (Hansen Yuncken Pty Ltd and CPB Contractors Pty Ltd (formerly Leighton Contractors Pty Ltd)) filed legal proceedings against Celsus, independent certifier Donald Cant Watts Corke Pty Ltd and the State of South Australia for alleged breaches of contract and other matters in relation to the construction of the new RAH. At the time of this Report the arbitration process was still in progress.

Functional responsibility

CALHN is established under the *Health Care Act 2008.*

CALHN's powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

In 2018-19, under the *Health Care Act 2008,* the Chief Executive, DHW was directly responsible for administering incorporated hospitals. This includes appointing the Chief Executive Officer of CALHN. The Chief Executive, DHW cannot give a direction about a person's clinical treatment.

Governance changes from 1 July 2019

From 1 July 2019 amendments to the *Health Care Act 2008* provide for local health networks (LHNs) including CALHN to be governed by boards. The amendments also change the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering LHNs.

The CALHN Governing Board was established on and commenced from 1 July 2019. The Board Chair and members were appointed by the Minister for Health and Wellbeing. The Chair and members were initially appointed in an advisory capacity during the transition in 2018-19 under the *Constitution Act 1934* to enable and support their induction and familiarisation.

The Governing Board is responsible for addressing local need, providing strategic direction and monitoring CALHN's operating and financial performance. It must comply with any direction of the Minister for Health and Wellbeing or Chief Executive, DHW.

Under these changes DHW remains responsible for setting State-wide policy and the Minister for Health and Wellbeing remains responsible for setting reform agenda and priorities.

To support devolving of governance and responsibility for the delivery of public health services to the new LHN governing boards, the SA Government and DHW are making significant changes to the SA Health governance and accountability frameworks.

Associated with the revised arrangements, SA Health has changed its organisation structure, including transferring some staff and responsibilities to Shared Services SA from 1 July 2019. DHW is also considering which functions should be devolved from DHW to LHNs. The process for realigning employees is ongoing, with some expected to occur in 2019-20 and others deferred until later years.

At the time of this Report a second round of legislative amendments, the Health Care (Governance) (No 2) Amendment Bill 2019, was progressing through Parliament. It sets out provisions relating to the service agreements for LHNs as a key element of the performance framework, as well as provisions relating to the function and role of the Chief Executive, DHW.

Scope of the audit

Audit of the financial report

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

Financial services for CALHN are provided through a combination of:

- central services provided by DHW through an integrated finance service model
- finance services located within CALHN
- services provided by Shared Services SA (SSSA).

The audit included review of systems at DHW's central services, CALHN and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

Specific areas of audit attention in 2018-19 included:

- governance
- payroll
- borrowings
- goods and services expenditure and accounts payable
- property, plant and equipment
- patient billing
- accounts receivable and other revenue
- SA Pharmacy
- SA Pathology
- cash and online banking
- general ledger and financial accounting.

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

Controls opinion

We reviewed controls over bank accounts, employee expenses, goods and services expenditure, borrowings, buildings and improvements, and across government facilities management arrangements (AGFMA) as part of our controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Payroll planning, monitoring and approval processes could be improved

CALHN employs more than 11 000 FTEs and payroll related costs are significant, with $1.5 billion in staff benefits paid and $508 million in staff benefit liabilities as at 30 June 2019. As a result of the significance of these costs, we review key payroll controls each year.

CALHN was finalising its response to the payroll matters outlined below at the time of this Report.

CALHN's system records indicate that over half of its staff did not have a current performance review in May 2019

As part of our controls opinion work we chose to look at performance review processes in 2018-19 at a number of agencies, including CALHN.

Our review of system records in May 2019 indicated that around 50% of performance reviews for CALHN staff were not current. We also noted low completion rates for several mandatory CALHN professional development courses, supporting our view that current performance review processes could be improved.

CALHN did not have a consolidated workforce plan

As part of our controls opinion work we also reviewed workforce planning at a high level for a number of agencies this year, considering the guidance on workforce planning issued by the Commissioner for Public Sector Employment.

While there were some aspects of workforce planning covered by existing CALHN and DHW documents, we found CALHN did not have a consolidated workforce plan in place during 2018-19. We noted that CALHN was in the process of developing a workforce plan with KordaMentha's assistance.

Key payroll information was not always reviewed for CALHN staff

Key payroll reports for CALHN's staff differ depending on the type of staff member. We review the effectiveness of the review of these reports to ensure payments to staff are being consistently reviewed.

For CALHN staff who are automatically paid each fortnight, key payroll information is captured on bona fide reports and leave return reports.

For nursing staff, the key payroll information is contained in the ProAct rostering system, as this interfaces with the payroll system.

There are also other CALHN staff, around 17%, who are only paid based on timesheets and medical staff who are paid significant allowances based on timesheets in addition to their base pay, which is paid automatically.

In 2018-19 we found:

- no consistent review of payroll information or leave information across all employee types
- only 55% of bona fide reports and leave returns were approved and returned as at May 2019
- overpayments to staff had increased to around $900 000 in 2018-19
- an example of a staff member who had been underpaid for several years
- there remained no effective process to ensure medical officer timesheets were submitted promptly, with several examples of multiple timesheets being submitted in bulk.

Where employee payroll information is not always reviewed, there is an increased risk of inaccurate payments to staff, potentially resulting in financial loss for CALHN.

Some controls over procurement, contracting and purchasing could be improved

CALHN spent over $860 million on supplies and services in 2018-19. We identified issues in procurement, contracting and purchasing in our work on goods and services expenditure for the controls opinion.

We found:

- examples where significant expenditure was undertaken with suppliers, but there was no contract in place. This included spending more than $6 million between July 2018 and April 2019 on locum services from several suppliers
- instances where no contract management plan existed, services extended beyond the contracted period and required retrospective approval and charges were not reviewed against detailed support before being paid
- examples of CALHN contracts that were not reflected in CALHN's contract register, indicating the register was not complete
- that CALHN did not have a current contract management framework covering the processes that should be followed to manage its contracts
- significant spending with non-contracted suppliers, such as temporary nursing services, that exceeded amounts paid to panel providers of the same service. We noted more than $3.6 million was paid to a non-contracted nursing agency between July 2018 and April 2019. CALHN advised the use of the non-contracted agency reflected a lack of capacity to address its needs from the contracted providers during that time
- specific gaps in compliance for procurements around clinical coding, including instances of missing procurement documentation, such as conflict of interest forms
- there were delays in reviewing key expenditure system user access reports and instances where special and super delegations were used. We note these reports are important for ensuring the right people have access to systems and that special and super delegations are only used for higher risk manual payments and transactions requiring special delegations.

We note that a number of these matters are being addressed through work CALHN is doing with assistance from KordaMentha.

In relation to the uncontracted expenditure on locum services, we understand there were delays in finalising an SA Health contract for locum services and that CALHN was waiting for this contract to be in place.

During the audit, we noted that the use of agency nurses had declined overall and CALHN advised us of further processes it was putting in place to manage the use of non-panel nursing providers.

CALHN was finalising its response to these matters at the time of this Report.

Asset management processes could be improved

CALHN has property, plant and equipment worth $3.3 billion. Its main asset apart from the RAH is The Queen Elizabeth Hospital (TQEH). As part of our controls opinion work in 2018-19 we considered CALHN's control processes for managing the maintenance of these assets, including considering the AGFMA.

In conducting our review, we considered the application of AGFMA arrangements to CALHN sites excluding the RAH, as maintenance of the RAH is covered by the separate PPP arrangements.

We found CALHN:

- had a number of documents that addressed some aspects of strategic asset management planning but did not have a consolidated strategic asset management plan in place. Our review of asset management processes considered the aspects of strategic asset management planning contained in the Department of Planning, Transport and Infrastructure's *Strategic Asset Management Framework*
- did not have comprehensive asset management plans or local procedures to support them for assets outside of the RAH
- deemed condition reporting assessments provided by the facilities services provider were not reliable, with the exception of data obtained when breakdown maintenance is performed, and as a result they were not used for strategic management purposes.

CALHN was finalising its response to these matters at the time of this Report.

Other audit findings

Management of professional development leave could be improved

SA Health enterprise agreements provide for medical officers to access up to 20 days professional development leave over a two-year period.

Consistent with our previous findings, we found that CALHN did not have a consistent procedure for recording and monitoring medical officers' professional development leave. While leave taken is recorded in the payroll system, there is no central record of professional development entitlements.

As at April 2019, we noted 149 medical officers had taken more than 20 days professional development leave in the period since 1 July 2017, with the highest amount just over 50 days in this period.

We understand SA Health are working on a medical officer professional development reimbursement system to address this issue, expecting that testing would begin in September 2019.

SA Pharmacy

SA Pharmacy operates pharmacies for all LHNs and spent more than $241 million on drug supplies in 2018-19.

Requisition forms for drugs of dependence not always returned

When drugs of dependence are needed, wards complete a requisition form. Pharmacy staff record all requisition forms received in the drugs of dependence receipt log. Two staff at the ward then receive drugs and sign the requisition form and return it to the pharmacy. We noted that before May 2019 pharmacy staff did not follow up requisition forms that were not received back from the wards. As a result there was no assurance that all drugs of dependence issued were received by the appropriate people.

SA Pharmacy noted the issue and advised that there was a signature of receipt log at the delivery ward and that the Southern Adelaide Local Health Network Incorporated (where the issue was identified) was planning to implement a new registry book for ordering and receipt of drugs of dependence by late 2019.

Monitoring access to pharmacies needs to improve

We previously identified that monitoring swipe card access and after-hours access to pharmacies needed to improve to ensure access was restricted and stock was safe.

SA Pharmacy previously agreed that, although reviews started to occur in the second half of 2016-17, there was no procedure in place for the consistent review of pharmacy access. SA Pharmacy advised it would develop an after-hours pharmacy access policy to provide guidance to all sites.

In 2018-19, we noted that the procedure was still being developed and the RAH pharmacy stores had been working with Spotless to develop a monthly access report, in place from April 2019.

SA Pharmacy advised it was continuing to establish a localised security procedure for the RAH pharmacy.

iPharmacy masterfile changes were not reviewed as required by SA Pharmacy

SA Pharmacy procedures require a review of all changes to the supplier catalogue in iPharmacy inventory management system at least every two weeks. We noted that this requirement applied from early September 2018.

Our review of this process at the Lyell McEwin Hospital found the report had been generated and reviewed three times from September 2018, but that most of the year had been covered by these three reports.

SA Pharmacy acknowledged the finding and advised it would communicate with the appropriate staff at the Lyell McEwin Hospital's pharmacy department.

Segregation of iPharmacy user access changes

SA Pharmacy policy requires segregated approval of user access to iPharmacy. We noted that the iPharmacy administrator often both authorises and updates access to iPharmacy.

The lack of independent review and segregation between authorising and updating user access to iPharmacy increases the risk of error and the potential for fraud.

SA Pharmacy acknowledged the issue and advised it would communicate with the appropriate staff in its pharmacy departments.

SA Pathology

SA Pathology patient fees for public and private patients totalled more than $129 million in 2018-19.

Delayed or incomplete billing

While noting the work performed by SA Pathology to address billing issues in 2018-19, we found that further improvement was needed to ensure billing was complete and accurate. We found SA Pathology did not effectively reconcile its laboratory system (EPLIS) records to revenue system records (PBRC) in 2018-19.

EPLIS was implemented in 2017-18 and there has been a significant increase in the number of errors preventing transactions from being processed in PBRC since that time. The number of errors identified each day exceeds the number that can be followed up and corrected and, as a result, is growing larger over time. In 2018-19 program fixes were successfully applied to reduce large amounts of the backlog of unbilled data, but a significant backlog remains. Errors included:

- items raised in EPLIS but not billed in PBRC
- items raised in EPLIS but rejected by PBRC
- EPLIS items rejected by Medicare/health funds.

We noted that throughout 2018-19 different resolutions had been implemented to improve the timing of SA Pathology billing and these should improve billing time frames in 2019-20.

SA Pathology acknowledged the finding and advised that the issue relates to EPLIS data that is non-compliant but allows a valid account to be raised. SA Pathology initiated several actions to remediate these matters and was actively working with the EPLIS vendor (Cerner) and DHW ICT. Actions include engaging additional resources, business analysts and program fixes. A Billing Remediation Control Group has been formed with senior stakeholder representatives and is reporting to the EPLIS Governance Board and DHW.

Debtor management

For a number of years we have raised issues in debtor management and noted that a system issue is preventing final and demand notices from being issued. SA Pathology advised that it would attempt to resolve this matter in 2017-18. In 2018-19 it received a quote from a software company to amend the document generation and printing process, to allow reminder notices, final reminder notices and letter of demands to be issued.

Although there was progress to address this matter in 2018-19, our follow-up found that the system was still unable to generate final and demand letters. As a result, we understand final and demand letters have not been sent for outstanding amounts.

SA Pathology acknowledged the issue and advised that SA Pathology has worked with Hospital Revenue Services, who are responsible for governance of the PBRC billing system, to scope and cost the solution. SA Pathology has agreed to the scope and system changes and Hospital Revenue Services will work with Powerhealth Solutions to implement the change to PBRC. SA Pathology has a staff member dedicated to this project to ensure its implementation in 2019-20.

Pathology system access

We reviewed SA Pathology’s controls over EPLIS system access, considering controls that restrict user access, help segregate incompatible duties and prevent unauthorised processing or unauthorised access to confidential patient records. This review follows previous findings for SA Pathology systems which found weaknesses in user access management.

We noted that while a monthly review of inactive users was implemented in 2018-19, there was no regular review of all user access to EPLIS.

SA Pathology agreed with our recommendation to regularly review user access. It advised that a full user audit including level of access was in progress and awaiting responses from SA Pathology Directorate Managers to confirm user status and level of access required. SA Pathology had prepared a report on users not logged in for 60 days to assist with the review.

No reconciliation between PBRC and the laboratory system

In previous years we have highlighted that a reconciliation between PBRC and the laboratory system had not been performed and we were advised by SA Pathology that this was due to system limitations. SA Pathology expected that once EPLIS was fully implemented, a reconciliation between the systems would be possible to ensure that all information was completely and accurately invoiced.

EPLIS was fully implemented in 2017-18 and our follow-up revealed that a reconciliation between EPLIS and PBRC had not yet been developed. A pilot process to reconcile source extracts to PBRC was tested in January and February 2019 and resulted in the discovery of duplication errors.

SA Pathology acknowledged the finding and stated that a draft report had been developed but further work was still required. After 12 months of experience with EPLIS, including more detailed knowledge of where errors are occurring, a wider scope to address the reconciliation was needed.

Patient billing

CALHN's revenue from patient and client fees was over $273 million in 2018-19, with a further $46 million recorded in private practice fees controlled by CALHN. In addition, $74 million was collected on behalf of medical officers and DHW in administered revenue from private practice arrangements.

CALHN was finalising its response to these patient billing matters at the time of this Report.

Inadequate review of Sunrise EMR user access

Last year we found that no complete review of user access profiles was performed for Sunrise EMR patient administration system (formerly known as EPAS) as required.

Hospital Revenue Services' policy requires user access profiles for revenue systems to be reviewed each year. A review of existing Sunrise EMR users and their level of access was not performed in 2018-19.

Without a regular review of Sunrise EMR user access and profiles there is a risk of inappropriate access, which could result in inaccurate or unauthorised changes being made to data or unauthorised access to patient information.

Invoices with double billed line items

Patient invoices are generated by the Sunrise Financial Module once all the required data has been entered. Amounts charged are automatically calculated based on standard algorithms.

In 2017-18, Hospital Billing staff at TQEH and the RAH noticed duplicate charges on patient invoices. This duplication error was raised with the Sunrise EMR support team and billing staff implemented a manual review of all invoices to ensure charges were correct. Discussions with Hospital Billing this year confirmed the system error had not been fixed.

We noted that the billing team continued to manually check every invoice created before they were sent throughout 2018-19.

Manually checking each invoice decreases any efficiencies gained by having an automated invoicing system.

No policy or procedure for the coding of patient treatments and coding audits

The coding unit reviews patient files to identify procedures undertaken and apply a code for each treatment. Invoices cannot be generated until a patient's treatment has been coded. The code allocated impacts on the total amount charged to health funds, the Return to Work Corporation of South Australia or the Lifetime Support Authority of South Australia. This process is not documented in a policy or procedure.

Reviews are conducted by the coding unit to ensure codes applied are complete and accurate. We understand CALHN also plans to recommence external coding audits.

We noted that the development of policies and procedures for coding commenced after we completed our audit.

Private practice billing

Private practice revenues are billed on behalf of salaried medical officers and subsequently distributed to SA Health and salaried medical officers according to private practice agreements.

Private practice billing impacted by system difficulties

Under the rights of private practice, salaried medical officers and clinical academics are able to treat private patients and charge them for services. If CALHN staff administer the billing function, CALHN receives a 9% administration fee on total revenue.

CALHN noted that the invoice duplication issue discussed above and difficulties in getting some report information had resulted in an increase in Medicare rejections, with manual processes required to follow up and correct the errors. Our follow-up review confirmed that these system issues had not been fixed.

These system issues have resulted in a significant increase in Medicare rejections. The follow-up and correction of these rejections is a manual and time-consuming process, significantly reducing any gains from having an automated invoicing system.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019		2018	
	Consolidated $'million	Parent $'million	Consolidated $'million	Parent $'million
Expenses				
Staff benefit expenses	1 525	1 516	1 415	1 407
Supplies and services	869	866	849	845
Depreciation and amortisation	128	127	124	124
Borrowing costs	168	168	261	261
Other expenses	28	28	68	68
Total expenses	2 718	2 705	2 717	2 705
Income				
Revenue from fees and services	395	382	353	342
Grants and contributions	214	214	183	184
Other income	65	64	53	52
Total income	674	660	589	578
Net cost of providing services	2 044	2 045	2 128	2 127
Revenues from SA Government	1 899	1 899	2 133	2 133
Net result	(145)	(146)	5	6
Other comprehensive income	-	-	47	47
Total comprehensive result for the year	(145)	(146)	52	53
Assets				
Current assets	274	264	262	253
Non-current assets	3 407	3 400	3 503	3 497
Total assets	3 681	3 664	3 765	3 750
Liabilities				
Current liabilities	417	415	359	357
Non-current	2 974	2 974	2 971	2 971
Total liabilities	3 391	3 389	3 330	3 328
Net assets	290	275	435	422

Statement of Comprehensive Income

Expenses

In 2018-19 the consolidated entity's total expenses remained steady at $2.7 billion.

Staff benefit expenses

Staff benefit expenses, $1.5 billion, represent more than 50% of CALHN's total expenses and increased by $110 million in 2018-19.

The increase in staff benefit expenses is due to:

- a $41 million increase in salaries and wages, mainly from wage rises associated with enterprise agreements
- an increase in long service leave expenses of $67 million mainly associated with the actuarially assessed revaluation of the liability conducted for 30 June 2019, with a decrease in the Government bond rate from 2.57% to 1.25% used in the calculation being the main contributor
- an increase in superannuation staff on-costs and annual leave expense of $17 million
- a $10 million decrease in workers compensation reflecting a reduction mainly resulting from the actuarial reassessment of this liability
- a decrease of $6 million in targeted voluntary separation packages of $3 million ($9 million) that were paid to 27 (101) employees.

The number of employees whose remuneration received/receivable exceeded the base executive level ($151 000) totalled 1226 (1185), comprising 1047 medical, 76 non-medical, 79 nursing and 24 executive employees. Total remuneration for these employees was $357 million ($338 million). The number of staff whose remuneration exceeds the base executive level has increased by 17% over the last five years.

Nursing remuneration included in these figures increased by 15 employees and $3 million in 2018-19 as a result of enterprise agreement salary increments.

Supplies and services expenses

Supplies and services expenses increased by $20 million (2%) to $869 million. Significant components of supplies and services expenses were:

- drug supplies, which increased by $28 million (13%) to $242 million
- PPP operating expenses, which increased by $24 million to $86 million and relate to the operations of the RAH (security, cleaning, maintenance, food supplies)
- repairs and maintenance, which decreased by $4 million (15%) to $23 million
- Contractors – agency staff costs, which decreased by $7 million to $35 million
- minor equipment, which decreased by $7 million (49%) to $7 million.

Other expenses

Overall other expenses reduced by $40 million to $28 million. The following were once-off expenses that were recorded in 2017-18:

- impairment expenses of $14 million mostly related to the write-down in value of the old RAH car park, recognising it will transfer to the Urban Renewal Authority for $0 consideration
- land revaluation decreases of $18 million that were expensed due to the revaluation reserve being exhausted from previous old RAH decrements
- donated assets of $15 million relating to transfers of other buildings at the old RAH site to the Urban Renewal Authority for $0 consideration.

Revenues

CALHN is principally funded through recurrent and capital funding from DHW. In 2018-19, CALHN received recurrent funding of $1.85 billion and capital funding of $46 million mainly for works at TQEH.

On 29 June 2018 CALHN received $41 million in recurrent funding that related to 2018-19. This funding was recognised as revenue on receipt in 2017-18 but was unspent, with the amount then fully spent in 2018-19. This timing difference contributes to CALHN's deficit result in 2018-19.

Commonwealth grants and contributions received directly by CALHN increased by $26 million to $189 million, due to an increase of $29 million in the PBS Commonwealth subsidies to $187 million.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represent 91% of total assets.

The carrying value of property, plant and equipment remained at $3.3 billion.

Significant movements in property, plant and equipment in 2018-19 were:

- depreciation and amortisation expenses remaining steady at $117 million
- capital works in progress increasing by $9 million, with $21 million of works commencing on the TQEH redevelopment that were offset by $12 million of completed works transferred out of work in progress.

Liabilities

Current liabilities increased by $58 million to $417 million during the year and exceeded current assets of $274 million at 30 June 2019. CALHN works with DHW to ensure sufficient funding is provided to CALHN to meet expected cash flows for its administration and program delivery. Cash and cash equivalents of $125 million are not sufficient to meet current payables of $139 million.

Staff benefits are the largest element of current liabilities, totalling $208 million at 30 June 2019, and include leave entitlements expected to be taken within 12 months.

Total liabilities increased by $61 million to $3.3 billion, reflecting increases in payables to Celsus and the increase in long service leave entitlements.

Staff liabilities and associated on-costs make up $554 million of CALHN's total liabilities at 30 June 2019, comprising:

- staff benefits liabilities and related on-costs, $535 million ($464 million)
- provision for workers compensation, $19 million ($26 million).

Staff benefits liabilities were calculated using an actuarial assessment performed by the Department of Treasury and Finance based on assumptions on employee data over the SA Government entities and the health sector. Assumptions about the timing of future cash flows, leave taken in service and enterprise bargaining are used to derive the liability, with the greatest effect on the calculation being the impact of the bond yield rate. The bond yield rate decreased from 2.57% to 1.25%, with the net financial effect of all changes to the assumptions of $43.2 million.

The $7 million decrease in the provision for workers compensation reflects the movement as a result of the actuarial valuation of the liability.

Country Health SA Local Health Network Incorporated (CHSALHN)

Financial statistics

Total expenses:	$983 million
Net cost of providing services:	$757 million
Revenues from SA Government:	$706 million
Staff benefits liability and related on-costs:	$191 million
Workers compensation liability:	$10 million
Number of FTEs:	5970

Significant events and transactions

- The *Health Care (Governance) Amendment Act 2018* was proclaimed in August 2018 and will be operational from 1 July 2019. It changes governance arrangements, including that local health networks (LHNs) will be governed by boards from that date.
- In August 2018 six new regional incorporated hospitals (LHNs) were proclaimed under the *Health Care Act 2008*. These new regional LHNs will take over the function of providing health services from CHSALHN from 1 July 2019.
- A proclamation coming into effect on 1 July 2019 dissolved CHSALHN and transferred its assets, rights and liabilities to the regional LHNs.

Financial report opinion

Unmodified

Controls opinion findings

- No formalised and approved rural workforce plan.
- Inconsistent management of medical practitioners' rosters.
- Invoices paid without purchase orders.

Other audit findings

- Contracts with general practitioners need updating to reflect overarching agreements.
- Specialists working in CHSALHN without contractual agreements.
- Systems access not restricted to ensure incompatible tasks are segregated.

Functional responsibility

CHSALHN is established under the *Health Care Act 2008.*

CHSALHN's powers and functions are to provide health services in rural areas of South Australia.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Wellbeing (DHW) assumes direct responsibility for administering incorporated hospitals. This includes appointing the Chief Executive Officer of CHSALHN. The Chief Executive, DHW cannot give a direction about a person's clinical treatment.

The consolidated accounts of CHSALHN include the assets, liabilities, revenues and expenses of the Health Advisory Councils. These councils were established under the *Health Care Act 2008* to undertake an advocacy role on behalf of the community, to provide advice about the provision of health services, health issues, goals, priorities, plans and other strategic initiatives, and to perform other functions as determined under the *Health Care Act 2008.*

New regional local health networks operational from 1 July 2019

The following six regional incorporated hospitals (LHNs) were proclaimed under the *Health Care Act 2008*:

- Barossa Hills Fleurieu Local Health Network Incorporated
- Eyre and Far North Local Health Network Incorporated
- Flinders and Upper North Local Health Network Incorporated
- Riverland Mallee Coorong Local Health Network Incorporated
- Limestone Coast Local Health Network Incorporated
- Yorke and Northern Local Health Network Incorporated.

A proclamation under the *Health Care Act 2008,* coming into effect on 1 July 2019, dissolved CHSALHN and transferred its assets, rights and liabilities to the six regional LHNs. The new LHNs took over the functions of providing health services from CHSALHN from that date.

The Rural Support Service within the Barossa Hills Fleurieu Local Health Network Incorporated will provide some centralised support to the six regional LHNs.

Governance changes from 1 July 2019

From 1 July 2019 amendments to the *Health Care Act 2008* provide for the new regional LHNs to be governed by boards. The amendments also change the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering LHNs.

The governing boards were established on and commenced from 1 July 2019. The board chairs and members were appointed by the Minister for Health and Wellbeing. The chairs and members were initially appointed in an advisory capacity during the transition in 2018-19 under the *Constitution Act 1934* to enable and support their induction and familiarisation.

Governing boards of LHNs are responsible for addressing the local need, providing strategic direction and monitoring the LHN's operating and financial performance. The Board must comply with any direction of the Minister for Health and Wellbeing or Chief Executive, DHW.

Under these changes DHW remains responsible for setting State-wide policy and the Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

To support devolving of governance and responsibility for delivering public health services to the new LHN governing boards, the SA Government and DHW are making significant changes to the SA Health governance and accountability frameworks.

Associated with the revised arrangements SA Health has changed its organisation structure including transferring some staff and responsibilities to Shared Services SA (SSSA) from 1 July 2019. DHW is also considering which functions should be devolved from DHW to LHNs. The process for realigning employees is ongoing, with some expected to occur in 2019-20 and others deferred until later years.

At the time of this Report a second round of legislative amendments, the Health Care (Governance) (No 2) Amendment Bill 2019, was being debated in Parliament. It proposes provisions relating to the service agreements for LHNs as a key element of the performance framework, as well as provisions relating to the function and role of the Chief Executive, DHW.

Scope of the audit

Audit of the financial report

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

Financial services for CHSALHN are provided through a mix of:

- central services provided by DHW through an integrated finance service model
- finance services located within CHSALHN
- services provided by SSSA.

CHSALHN continued to operate some legacy systems. Consequently, our audit included the review of new and legacy systems and completing audit work at DHW’s central services, CHSALHN and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A Chartered Accounting firm assisted the Auditor-General with the audit of CHSALHN.

Specific areas of audit attention in 2018-19 included:

- payroll
- accounts payable
- patient revenue including accounts receivable
- Electronic Medical Report (EMR) revenue at Port Augusta
- fee-for-service

- property, plant and equipment
- cash
- general ledger.

Internal audit activities were considered in designing and performing audit procedures.

Controls opinion

We reviewed controls over buildings and improvements, employee expenses and goods and services as part of our controls opinion, which is discussed in Part B of this Report.

Other audit work

At the time of this Report we were conducting a performance audit of property maintenance at CHSALHN. The object of this audit is to assess whether CHSALHN effectively managed the maintenance of its property assets to enable it to meet its service delivery requirements to the public. I intend to table a separate Report detailing the outcomes of this review.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer of CHSALHN and copied to the Chief Executive, DHW.

As discussed under 'New regional local health networks operational from 1 July 2019', from 1 July 2019 CHSALHN ceased to exist and six regional LHNs took over the functions of providing health services from CHSALHN. The findings and recommendations from our 2018-19 audit of CHSALHN will be relevant to the new regional LHNs going forward. A response to our letter from the Chief Executive Officer of the Barossa Hills Fleurieu Local Health Network indicated the report would be available to each of the new LHNs. It responded on behalf of the former CHSALHN to each of the findings and identified actions, where possible, to address the issues raised.

The main findings and responses are discussed below.

Controls opinion findings

Absence of a formalised and approved rural workforce plan

We found that CHSALHN did not have an approved workforce plan. CHSALHN established a steering committee in 2018 to provide high-level oversight and governance to the Rural Health Workforce Strategy. At the time of our audit a Rural Health Workforce Strategy project plan was in draft. A key deliverable of this project was developing and implementing a Rural Health Workforce Plan.

Not having a workforce plan or framework may impact CHSALHN's ability to ensure the appropriate workforce is available to meet its strategic or operational objectives. This may result in it needing temporary resources, at a premium cost, to deliver against objectives or may compromise the effective delivery of outcomes where resources cannot be found in shorter time frames.

We recommended CHSALHN continue to develop a workforce plan in line with the Rural Health Workforce Strategy project plan.

CHSALHN responded that the Rural Health Workforce steering committee is overseeing the development of workforce plan(s) for the entire rural health workforce, which includes areas outside of rural LHNs such as general practitioners (GPs), the SA Ambulance Service Inc, practice nurses etc. CHSALHN anticipated that each LHN will develop its own specific workforce plans based on overarching guidance and recommendations by June 2022.

Inconsistent management of medical practitioners' rosters

Our review of medical practitioners' rostering processes noted inconsistent practices across CHSALHN. At the time of our audit CHSALHN had 165 salaried medical practitioners employed under the SA Health Salaried Medical Officers Enterprise Agreement 2017 (MOEA). Many of the medical practitioners work a seven-day roster in line with the MOEA. We reviewed roster practices at two different locations and noted:

- rosters templates used were not uniform across locations
- no roster system controls to ensure compliance with the MOEA (such as break time between shifts) or operational rules
- no CHSALHN frameworks or other guidance on establishing and approving rosters.

Inconsistent rostering practices can impact CHSALHN's ability to manage award conditions, service capacity and efficient use of resources.

In response CHSALHN discussed that the scope of SA Health's electronic timesheet project includes the regional LHNs. Phase two of the project relates to medical rostering. It indicated that LHNs will consider standardising the rostering of trainee medical officers using the ProAct rostering system, in line with the time frames of the project's steering committee.

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders unless the item purchased is listed in the approved purchase order exemption list or where the purchase is below $2200. Our review found payments without purchase orders for which the exemptions did not apply. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

CHSALHN advised that it would raise details of the audit findings with the six new LHNs, as compliance with the policy will be their responsibility going forward.

Other audit findings

Payments to medical practitioners – fee-for-service

CHSALHN pays medical practitioners in line with the terms of the South Australian Rural Fee Agreement. Our review identified a number of opportunities to improve control processes relating to fee-for-service payments.

Contracts with general practitioners need updating to reflect new overarching agreements

In December 2017 CHSALHN established new agreements with the Australian Medical Association (AMA) and the Rural Doctors Association of South Australia (RDA). These agreements require GPs and GP registrars who provide public inpatient medical services to enter into a fee-for-service agreement with CHSALHN.

We reported last year that many fee-for-service contracts with GPs and GP registrars were not updated to reflect current terms and conditions established under the new overarching agreements. Our follow-up in 2018-19 found that while CHSALHN had worked to establish updated contracts, many remaining GPs or clinics were operating without updated agreements.

CHSALHN's response did not specifically address our recommendation that all contracts with GPs and/or clinics be updated to reflect the current overarching agreements. Its response indicated that it had agreed with DHW to work towards an appropriate recording mechanism in SA Health's procurement and contract management system.

Specialists working in CHSALHN hospitals without contractual agreements

Specialist doctors (specialists) provide public medical services at CHSALHN hospitals and charge CHSALHN on a fee-for-service basis. We found there were a number of specialists operating in CHSALHN without contractual agreements. We also noted there were no overarching agreements between CHSALHN, AMA and RDA defining terms and conditions for contracts between CHSALHN and specialists. We recommended CHSALHN ensure agreements are in place with specialists. This recommendation was also made last year.

CHSALHN responded that it was awaiting AMA (SA Branch) readiness to commence negotiations to develop an agreement for contracted specialists.

Chiron system access restrictions insufficient

Our review of fee-for-service and patient billing in the Chiron patient billing system found opportunities to improve segregation of duties through independent review processes or restricting user access. We also found staff could manually override code rates used to automatically generate fee-for-service payments. These matters were also raised last year.

CHSALHN responded that it would review staff access to various modules in Chiron as part of the devolution to the six new LHNs. It also indicated that DHW's eHealth Systems division would limit access to codes and rates to improve segregation.

Revenue

Expired agreements with medical practices (GP clinics)

CHSALHN provides medical services at a number of regional GP clinics. Where these arrangements exist, CHSALHN enters into agreements with doctors to share the revenue of the GP clinic. We found that several agreements for this type of arrangement had expired or were not in place.

CHSALHN's response indicated that it was reviewing the agreements and would finalise new templates for engaging medical practitioners within LHN owned practices by September 2019.

Undercharging of private patient fees

Medical procedures performed in a public hospital on a same day patient who has elected to be treated as a private patient attract a fee. The fees are based on the type of procedure performed and the band within which treatment falls. SA Health's Fees and Charges Manual provides details of the bands.

Our review of patient revenue at a regional hospital noted the wrong band rates were used when charging for particular same day eye surgeries, resulting in under charging these patients.

CHSALHN responded that it was reviewing the error and would re-invoice for the correct amount. It also indicated it would review the relevant processes and conduct staff training in 2019-20.

Policies and procedures

In recent years we have reported to CHSALHN that policies and procedures for patient invoicing, aged care residential fees and sundry invoicing processes were not documented. Our follow-up of actions taken found that opportunities for improvement remain. We also found instances where control practices were inconsistently performed. This matter has been raised for a number of years.

CHSALHN's response indicated that LHNs would continue to develop work instructions. It advised that procedures will be the responsibility of the new regional LHNs and indicated that they may come up with solutions that are not consistent.

Electronic Medical Record (EMR) system revenue – Port Augusta

EMR (previously called EPAS) is operational at the Port Augusta Hospital and Health Service.

Billing officers can access billing data at other hospitals

Our review of EMR access found that Port Augusta billing officers had access to modify billing data at other hospitals using EMR and vice versa. We recommended CHSALHN ensure that access rights controls are in place to restrict access to the user's specific area of responsibility. This matter has been raised for a number of years.

CHSALHN responded that the issue is with DHW's eHealth Systems division for review and resolution, indicating it will monitor its progress. It also indicated the issue will be raised with chief finance officers of the LHNs who use EMR.

Need to restrict access to make billing changes

Compensable and private patients are invoiced through EMR based on a number of different variables including admission and discharge dates, patient elections and admission type. We found access to make changes to these inputs is not adequately restricted. We also found CHSALHN's management of changes made was not adequate. Where management does not detect inappropriate or unauthorised changes to invoices or invoicing master files there is an increased risk of fraud or error. We recommended CHSALHN restrict access to make changes or introduce additional review processes to identify and assess changes made. This matter has been raised for a number of years.

CHSALHN responded that it was unable to modify or restrict access due to limitations in EMR. To manage the associated risk, it had implemented a manual review of all adjustments to confirm they have been authorised and documented.

Aged care

Residential aged care agreements incorrectly in the name of CHSALHN

CHSALHN provides services to Mid-West Health and Aged Care Incorporated, which operates an aged care facility in regional South Australia. Mid-West Health and Aged Care Incorporated is a current provider of aged care services registered with the Australian Government.

We found residential aged care agreements for residents that are currently residing in the Mid-West Health and Aged Care facility were in the name of CHSALHN. CHSALHN was not the aged care provider. In these circumstance residents may incorrectly believe they are residing in a CHSALHN owned and operated facility. There may also be concerns in the event of a dispute.

CHSALHN responded that it would review the current agreements in 2019-20.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019		2018	
	Consolidated $'million	Parent $'million	Consolidated $'million	Parent $'million
Expenses				
Staff benefit expenses	604	604	551	551
Supplies and services	331	331	317	317
Depreciation and amortisation	43	25	35	20
Other expenses	5	7	8	13
Total expenses	983	967	911	901
Income				
Revenue from fees and services	78	78	78	78
Grants and contributions	138	139	135	137
Other income	10	9	12	8
Total income	226	226	225	223
Net cost of providing services	757	741	685	678
Revenues from SA Government	706	706	661	661
Net result	(50)	(34)	(24)	(17)
Other comprehensive income	-	-	61	44
Total comprehensive result for the year	(50)	(34)	37	28

	2019		2018	
	Consolidated $'million	Parent $'million	Consolidated $'million	Parent $'million
Assets				
Current assets	145	126	149	130
Non-current assets	842	447	873	461
Total assets	987	572	1 022	591
Liabilities				
Current liabilities	197	197	193	193
Non-current liabilities	124	124	113	113
Total liabilities	321	321	306	306
Net assets	666	251	716	285

Statement of Comprehensive Income – Consolidated

Expenses

In 2018-19 total expenses increased by $73 million (8%) to $983 million.

Staff benefit expenses

Staff benefit expenses increased by $52 million to $604 million mainly due to:

- an increase in salaries and wages of $26 million to $472 million
- an increase in long service leave expense of $13 million to $29 million, mainly due to the impact of actuarial assessments of the associated liability
- an increase in workers compensation expense of $6 million to $5 million, mainly due to the impact of actuarial assessments of the associated liability
- an increase in annual leave expense of $3 million to $45 million.

Staff benefit expenses represent 61% of CHSALHN's total expenses. The number of employees whose remuneration received/receivable exceeded base executive level ($151 000) totalled 149 (122), comprising 71 (67) medical (excluding nursing), 61 (37) nursing, 14 (14) executive and three (four) non-medical employees. Total remuneration for these employees was $41 million ($32 million). Over the past five years the number of staff whose remuneration received or receivable exceeds the base executive level has increased by 51%.

Supplies and services expenses

Supplies and services expenses increased by $13 million to $331 million.

Significant components of supplies and services were:

- fee-for-service payments to medical practitioners – $89 million ($84 million)
- medical, surgical and laboratory supplies – $46 million ($46 million)
- contractors – agency staff – $11 million ($10 million)
- patient transport – $20 million ($20 million)
- repairs and maintenance – $27 million ($27 million).

Revenues

Revenues from SA Government

CHSALHN is principally funded by DHW. In 2018-19, funding of $706 million ($661 million) comprised recurrent funding of $692 million ($651 million) and capital funding of $14 million ($10 million).

Statement of Financial Position – Consolidated

Property, plant and equipment

Property, plant and equipment represents 85% of CHSALHN's total assets. The carrying value of property, plant and equipment decreased by $29 million to $837 million. This decrease was primarily due to:

- depreciation and amortisation of $42 million
- additions of $14 million, including capital work in progress of $10 million.

Liabilities

Current liabilities of $197 million exceeded current assets of $145 million at balance date.

Cash and cash equivalents of $21 million were not sufficient to meet current payables of $30 million. CHSALHN is funded to meet expected cash flows for its current program delivery.

Staff related liabilities make up $201 million of CHSALHN's total liabilities at 30 June 2019, comprising:

- staff benefits liabilities and related on-costs, $191 million ($172 million)
- provisions for workers compensation, $10 million ($9 million).

Note 26 of CHSALHN's financial report provides further information on the independent actuarial assessments of provisions for workers compensation, including that there is a high level of uncertainty as to their valuation.

Northern Adelaide Local Health Network Incorporated (NALHN)

Financial statistics	Total expenses:	$770 million
	Net cost of providing services:	$729 million
	Revenues from SA Government:	$666 million
	Staff benefits liability and related on-costs:	$168 million
	Workers compensation liability:	$5 million
	Number of FTEs:	3857

Significant events and transactions

- The Chair of the NALHN Transition Board was appointed in August 2018.
- Remaining members of the NALHN Transition Board were appointed in March 2019.
- The NALHN Governing Board commenced operation from 1 July 2019 in line with amendments to the *Health Care Act* 2008.

Financial report opinion

Unmodified

Controls opinion findings

- Asset management processes under the across government facilities management arrangements could be improved.
- Some controls over procurement, contracting and purchasing could be improved.
- Payroll planning, monitoring and approval processes could be improved.

Other audit findings

- Patient billing practices could be improved.
- No central record of professional development leave and weaknesses in records of leave taken.

Functional responsibility

NALHN is established under the *Health Care Act 2008*.

NALHN's powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

In 2018-19, under the *Health Care Act 2008,* the Chief Executive, Department for Health and Wellbeing (DHW) was directly responsible for administering incorporated hospitals, which included appointing the Chief Executive Officer of NALHN. The Chief Executive, DHW cannot give a direction about a person's clinical treatment.

Governance changes from 1 July 2019

From 1 July 2019 amendments to the *Health Care Act 2008* provide for local health networks (LHNs) including NALHN to be governed by boards. The amendments also change the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering LHNs.

The NALHN Governing Board was established on and commenced from 1 July 2019. The Board Chair and members were appointed by the Minister for Health and Wellbeing. The Chair and members were initially appointed in an advisory capacity during the transition in 2018-19 under the *Constitution Act 1934* to enable and support their induction and familiarisation.

The Governing Board is responsible for addressing local need, providing strategic direction and monitoring NALHN's operating and financial performance. It must comply with any direction of the Minister for Health and Wellbeing or Chief Executive, DHW.

Under these changes DHW remains responsible for setting State-wide policy and the Minister for Health and Wellbeing remains responsible for setting reform agenda and priorities.

To support devolving governance and responsibility for delivering public health services to the new LHN governing boards, the SA Government and DHW are making significant changes to the SA Health governance and accountability frameworks.

Associated with the revised arrangements, SA Health has changed its organisation structure, including transferring some staff and responsibilities to Shared Services SA (SSSA) from 1 July 2019. DHW is also considering which functions should be devolved from DHW to LHNs. The process for realigning employees is ongoing, with some expected to occur in 2019-20 and others deferred until later years.

At the time of this Report a second round of legislative amendments, the Health Care (Governance) (No 2) Amendment Bill 2019, was progressing through Parliament. It sets out provisions relating to the service agreements for LHNs as a key element of the performance framework, as well as provisions relating to the function and role of the Chief Executive, DHW.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. Financial services for NALHN are provided through a mix of:

- central services provided by DHW through an integrated finance service model
- finance services located within NALHN
- services provided by SSSA.

NALHN continues to operate some DHW legacy systems. Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, NALHN and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters
- governance.

Specific areas of audit attention in 2018-19 included:

- governance
- payroll
- goods and services expenditure and accounts payable
- property, plant and equipment
- patient billing
- medical officer professional development
- cash and online banking
- general ledger and financial accounting.

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

Controls opinion

We reviewed controls over bank accounts, employee expenses, goods and services expenditure, and across government facilities management arrangements (AGFMA) as part of our controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Asset management processes could be improved

NALHN has property, plant and equipment worth $419 million. As part of our controls opinion work in 2018-19 we considered the control processes in place to manage the maintenance of these assets at NALHN, including considering the AGFMA.

We found NALHN:

- had a number of documents that helped it to plan for and manage maintenance of its assets. While these documents cover a number of elements of a strategic asset management plan, as outlined by the Department of Planning, Transport and Infrastructure's (DPTI's) *Strategic Asset Management Framework*, there was no consolidated strategic asset management plan
- did not have formal, documented asset management plans in place, although some elements were captured in other documents
- recorded asset data in a number of different records but not in the asset management system provided by DPTI. As a result of the way records were kept, NALHN was not complying with the specific asset data requirements set out in Department of the Premier and Cabinet Circular 114 *Government Real Property Management*
- did not have a process to confirm that preventative maintenance outlined in its annual service delivery plan had been completed by DPTI's Facilities Services group (where they were responsible for the work), meaning there was a risk the work may not have been performed
- was completing its own asset condition assessments as DPTI Facilities Services had not performed any for NALHN, despite having this responsibility. While NALHN's approach ensured the assessments were undertaken, they were not considered by Facilities Services in developing the annual service delivery plan, meaning there was a risk the plan may not capture all required preventative maintenance.

NALHN responded that:

- it would enhance its asset management framework to address the identified gaps, capturing risks and service need requirements and incorporating recent master plan findings
- existing asset management reports will have maintenance strategies classified as preventative maintenance, replacement and refurbishment and be continuously monitored
- it will work with DPTI to ensure asset data is complete in DPTI's asset management system
- more detailed information on the progress of preventative maintenance will be requested from DPTI Facilities Services, including requesting an audit against the plan
- it would negotiate for condition assessments to be reported along with annual programmed maintenance work.

Some controls over procurement, contracting and purchasing could be improved

NALHN spent over $200 million on supplies and services in 2018-19. We identified issues in procurement, contracting and purchasing from our work on goods and services expenditure for the controls opinion.

We found:

- there were no contracts in place for a number of significant suppliers. NALHN did not have contracts for printing services (over $1 million spent in 2018-19), some capital maintenance contractors ($400 000) and translation services ($1.4 million). In addition NALHN had spent around $4 million to the end of April 2019 on locum services without a contract, as a whole-of-health contract was being finalised by DHW
- completed conflict of interest declarations for some evaluation team members for an imaging services procurement could not be found
- purchases of $5.5 million to 40 vendors between July 2018 and April 2019 which should have been subject to purchase orders did not have them.

NALHN responded that it:

- had confirmed a contract for locum services was expected to be finalised in August 2019 by DHW and advised it would arrange contracts for printing services in the interim until a whole-of-health contract was finalised. It advised more generally that it would conduct further procurement training for staff
- would educate key staff on the requirements of applying NALHN's procurement and contracting procedure, which reflects State Procurement Board requirements
- would undertake targeted education on purchase order requirements with staff involved in the specific transactions identified and would implement ongoing monitoring of transactions that do not have a purchase order number recorded.

Payroll planning, monitoring and approval processes could be improved

NALHN employs more than 3800 FTEs and payroll related costs are significant, with $521 million in staff benefits paid and $159 million in staff benefit liabilities at 30 June 2019. As a result of the significance of these costs, we review key payroll controls each year.

NALHN's system records indicate that over half of its staff did not have a current performance review in May 2019

As part of our controls opinion work we chose to look at performance review processes in 2018-19 at a number of agencies, including NALHN.

Our review of system records in May 2019 indicated that 57% of performance reviews for NALHN staff were not current. We noted that NALHN had processes in place to monitor performance reviews each month and that it was also a key divisional performance indicator.

NALHN also indicated during the audit that it considered there was a risk that the system records may understate the level of current reviews as it required a specific process to be completed, in addition to the review itself, to update the record held in the payroll system.

NALHN's response stated that it would reinforce the requirements for performance reviews to all staff and actively work with divisions to improve the level of reporting of performance reviews.

NALHN did not have a consolidated workforce plan

We also reviewed workforce planning at a high level for a number of agencies this year, considering the guidance on workforce planning from the Commissioner for Public Sector Employment.

We found NALHN had a number of workforce strategy documents and papers that addressed elements of workforce planning. We found that it did not have a consolidated workforce plan.

We also noted NALHN had identified a strategic priority to complete a consolidated workforce plan, with a target to complete this work in 2019-20.

NALHN advised it would continue its current work, aiming to have a workforce plan in place by the end of 2019-20.

Key payroll information was not always reviewed for NALHN staff

Key payroll reports for NALHN's staff differ depending on the type of staff member. We review the effectiveness of the review of these reports to ensure payments to staff are being consistently reviewed.

For NALHN staff who are automatically paid each fortnight, key payroll information is captured on bona fide reports and leave return certificates.

For nursing staff, key payroll information is contained in the ProAct rostering system, as this interfaces with the payroll system to pay these staff.

There are also other NALHN staff, around 15%, who are only paid based on timesheets and medical staff who are paid significant allowances based on timesheets in addition to their base pay, which is paid automatically.

In 2018-19 we found:

- the review of bona fide reports and leave return certificates to certify the accuracy of payments and leave taken records had improved compared to 2017-18, but required further improvement as only 49% of bona fide reports and 52% of leave return certificates had been reviewed and approved as at March 2019
- unlike automatically paid staff who are reported on bona fide certificates, there is no regular review to ensure payments made to staff who are only paid based on timesheets are correct once they have been processed into the payroll system
- around 7000, or 14%, of ProAct timesheets had not been authorised to March 2019. This was a deterioration compared to 2017-18, when only 4% were not authorised. We noted that a timesheet can become unauthorised if changes are made after it was originally authorised.

In response to these matters NALHN advised it would:

- reinforce the importance of prompt review and approval of bona fide and leave return certificates, make training available to managers as required, and establish an administrative instruction to support the review process

- continue work on the SA Health electronic timesheet project to expand the use of ProAct to other staff, with the first phase of the project expected to complete in December 2019
- reinforce the need to review all unapproved or modified ProAct timesheets before payment and investigate consolidating all unauthorised timesheets into a single report.

Inconsistent medical rostering practices across divisions

Consistent with 2017-18 we found that medical rostering practices varied between divisions. As there is no rostering system for medical officers, and no central training for staff preparing rosters, varying local practices have developed. The inconsistencies in rostering approaches increases the risk of different interpretations of complex enterprise agreements emerging between divisions.

NALHN advised its intention for medical officers to move to the ProAct system in phase two of the SA Health electronic timesheet project. A proof of concept process will commence in 2019-20, to be followed by project implementation pending the resolution of any issues. It is currently expected that the completion date for transitioning medical officers onto ProAct will be December 2020.

Recall allowances are not consistently reviewed for accuracy and some were unsubstantiated

We reviewed NALHN's processes to confirm the accuracy of recall allowances paid. Consistent with our 2017-18 findings, the degree of review for recall allowances varied between divisions and individual payments. There was no consistent practice of reviewing these allowances for accuracy. As a result, there is a risk that NALHN is paying recall allowances in circumstances where they should not be paid.

NALHN responded that it would develop a procedure for the review of recall allowances and provide it to staff.

Other audit findings

Patient billing processes can be improved

NALHN received $19.2 million in patient and client fees in 2018-19. Patient fees include compensable revenue amounts recoverable through compulsory third party arrangements for motor vehicle accidents, or through the Return to Work Corporation of South Australia for workplace related injuries.

Ineffective identification of compensable charges

We reviewed NALHN's processes for ensuring that all compensable revenue was identified at the Lyell McEwin Hospital and Modbury Hospital outpatient clinics and emergency departments. As we found in 2017-18, these processes varied significantly and there was potential for compensable revenue activity not to be identified.

NALHN responded that it would develop and implement a procedure to educate and train outpatient reception staff on the importance of confirming the compensable status of each patient visit, building on education being provided to emergency department personnel.

No follow-up recovery action for private insurance debts

In 2018-19 NALHN became responsible for following up private insurance debts. We found that no debt follow-up processes had occurred for any of the 1423 debts totalling $3.29 million (as of April 2019), with nearly 60% of those debts over three months old.

NALHN advised that, as the full transition of debt recovery services from DHW was now underway, it believed it would be in a position to implement full debt recovery processes by March 2020.

Professional development leave

No central record of professional development leave entitlements and weaknesses in records of leave taken

Consistent with what we have found in the past, there was no central record of professional development leave entitlements for medical officers. This is resulting in the inconsistent recording of professional development leave entitlements.

We also identified variances between the records of professional development leave taken, maintained by divisions, and the information in the payroll system for half of the 10 medical officers' leave we tested.

NALHN's response stated that DHW had established a project team to develop a State-wide solution, the SA Health Professional Development Reimbursement System, to address this issue.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Expenses		
Staff benefit expenses	521	463
Supplies and services	218	193
Depreciation and amortisation expense	30	28
Other expenses	1	-
Total expenses	770	684
Income		
Revenue from fees and charges	30	27
Grants and contributions	4	3
Other income	7	7
Total income	41	37
Net cost of providing services	729	647
Revenues from SA Government	666	627
Net result and total comprehensive result	(63)	(20)

	2019 $'million	2018 $'million
Assets		
Current assets	22	38
Non-current assets	420	438
Total assets	442	476
Liabilities		
Current liabilities	90	80
Non-current liabilities	96	77
Total liabilities	186	157
Net assets	256	319

Statement of Comprehensive Income

Expenses

In 2018-19 total expenses increased by $86 million (13%) to $770 million.

Staff benefit expenses

Staff benefit expenses of $521 million represent 68% of NALHN's total expenses. These costs have increased by $58 million, which is mainly attributable to:

- FTE growth of 274 compared to 2017-18, mainly from newly funded programs, changes in bed mix from high dependency to intensive care at sites, and a new model of care for the Lyell McEwin Hospital and Modbury Hospital emergency departments – around $29 million
- annual salary and allowance increases under enterprise agreements – around $8 million
- an increase of $15 million in long service leave expenditure associated with the actuarially assessed revaluation of the liability conducted for 30 June 2019, with a decrease in the Government bond rate from 2.79% to 1.25% used in the calculation being the main contributor.

The number of staff whose remuneration received/receivable exceeded base executive level ($151 000) totalled 420 (380), comprising 365 (338) medical officers, seven (six) executives, 46 (34) nursing staff and two (two) non-medical staff. Total remuneration of these staff was $119 million ($108 million). Over the past five years the number of staff whose remuneration received/receivable exceeds base executive level has increased by 27%.

Supplies and services

Supplies and services expenditure increased by $25 million (13%) in 2018-19 to $218 million. Significant components of supplies and services were:

- medical, surgical and laboratory supplies, which increased by $7.7 million (13%) to $65.7 million. The increase is mainly attributable to the increased cost of prosthesis and implants ($1.9 million) and rises in internal pathology and imaging charges ($3.9 million)
- repairs and maintenance, which increased by $2.7 million (29%). The increase is mainly attributable to a budgeted rise in minor repairs and maintenance works, as well as an increase in preventative maintenance programmed expenditure

- security, which increased by $5.2 million (62%) to $13.5 million. This is mainly due to additional security services deployed at James Nash House and ongoing security required for the Oakden site and hospital emergency departments.

Revenues

Revenues from SA Government

NALHN is principally funded through recurrent and capital funding from DHW. In 2018-19, NALHN received recurrent funding of $652.4 million and capital funding of $13.5 million mainly for the works at the Modbury Hospital and finalisation of Lyell McEwin Hospital (Stage C) redevelopments.

On 29 June 2018 NALHN received $12.9 million in recurrent funding that related to 2018-19. This funding was recognised as revenue on receipt in 2017-18 but was unspent, with the amount then fully spent in 2018-19. This timing difference contributes to NALHN's increased deficit result in 2018-19.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment assets represent 95% of total assets.

The carrying value of property, plant and equipment decreased by $17 million to $419 million. The decrease was mainly attributable to depreciation expenditure of $30.2 million, partially offset by additions of $13.2 million.

Liabilities

Current liabilities increased by $9.7 million to $89.6 million during the year and exceeded current assets by $68.1 million as at 30 June 2019. While NALHN works with DHW to ensure sufficient funding is provided to meet expected cash flows for the delivery of its administration and programs, cash and cash equivalents of $11 million as at 30 June 2019 are not sufficient to meet current payables of $18.7 million.

Staff liabilities make up $173.3 million (93%) of NALHN's total liabilities at 30 June 2019, comprising:

- staff benefits liabilities and related on-costs of $168.4 million ($137 million)
- workers compensation provisions of $4.9 million ($5.6 million).

The material increase in staff liabilities is mainly the result of a $23.9 million increase in the long service leave liability. Most of this increase is the result of an actuarially assessed revaluation conducted for 30 June 2019. A decrease in the Government bond rate used in the calculation from 2.79% to 1.25% was the main contributor, accounting for $15.6 million of the increase in the liability and associated on-costs.

This increase was partially offset by a reduction in the non-current provision for workers compensation of $700 000 (13%) as a consequence of an actuarially assessed revaluation of the liability as at 30 June 2019.

SA Ambulance Service Inc (SAAS)

Financial statistics	Total expenses:	$337 million
	Net cost of providing services:	$187 million
	Revenues from SA Government:	$165 million
	Staff benefits liability and related on-costs:	$139 million
	Workers compensation liability:	$19 million
	Number of FTEs:	1617

Significant events and transactions

— An actuarial assessment of SAAS's defined benefits superannuation scheme significantly increased the value of the associated liability by $19 million to $47 million.

— SAAS appointed a new Chief Executive Officer in 2018-19.

Financial report opinion

Unmodified

Audit findings

— Improvements needed to confirm the accuracy and completeness of timesheets submitted.

— Financial authorities in the payment system did not always match delegations.

— Improvements necessary to ensure transport charges are completely and accurately raised.

Functional responsibility

SAAS is a body corporate constituted under the *Health Care Act 2008.*

SAAS is the principal provider of ambulance services in South Australia. It delivers:

- out of hospital emergency care and transport
- non-emergency patient care and transport
- emergency and major event management
- medical retrieval services.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Wellbeing (DHW) assumes direct responsibility for administering SAAS. This includes appointing the Chief Executive Officer of SAAS. The Chief Executive, DHW cannot give a direction about a person's clinical treatment.

Scope of the audit

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

Financial services for SAAS are provided through a mix of:

- central services provided by DHW through an integrated finance service model
- finance services located within SAAS
- services provided by Shared Services SA (SSSA).

Our audit included the review of new and legacy systems and completing audit work at DHW's central services, SAAS and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A Chartered Accounting firm assisted the Auditor-General with the SAAS audit.

Specific areas of audit attention in 2018-19 included:

- payroll
- accounts payable
- revenue
- accounts receivable
- property, plant and equipment
- cash
- general ledger.

Internal audit activities were considered in designing and performing audit procedures.

Audit findings

Communicating our audit findings

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

Revenue

Improvements necessary to ensure transport charges are completely and accurately raised

SAAS runs legacy revenue systems that require considerable manual processing, including manual card records and associated data entry. Our review of these processes found improvements are necessary to ensure:

- management promptly raises invoices for all relevant dispatches, including following up missing manual card records
- data is completely and accurately interfaced between its dispatch and invoicing systems.

We have raised these concerns for several years.

SAAS responded that it had developed and implemented a review of missing manual card records. It would also develop a comprehensive process to ensure a complete and accurate interface between its dispatch and invoicing systems by June 2020. It indicated that in the meantime, it would continue to refine its manual record processes.

System user access rights not regularly reviewed

We recommended SAAS regularly review user access rights to its invoice system to ensure access levels are compatible with job functions. We also reported these concerns in 2018.

SAAS responded that it had implemented a monthly review of use access rights to its invoicing system.

Use of gazetted call-out fees not set out in policy

The South Australian Government Gazette lists two categories of call-out fees. SAAS only ever charges public call-outs at the higher classification. Its website also only indicates one rate (the higher rate). While this practice is supported by an internal memorandum, the categories and practice are not defined in policy. We recommended SAAS ensure its categories of emergency call-out fees are clearly defined by policy, match the gazetted rates and are available to and interpretable by the general public. We first reported this matter in 2017.

SAAS responded that by February 2020 it would develop a policy to inform that SAAS charges a higher call-out fee where the patient is not currently within the clinical governance of an SA Health Medical Officer. It indicated that this process was approved by the former Minister in April 2015.

Supplies and services expenditure

Purchase orders created outside of mandated financial system

SA Health's requisition, purchase order and invoice management policy mandates that purchase orders be created in the Oracle financial system. Consistent with concerns we have reported since 2017, we found that the fleet services team raises manual, Excel-based purchase orders that do not benefit from the system-based controls built into Oracle.

SAAS responded that it would communicate policy requirements and provide Oracle training information. It also said it would monitor discrepancies and highlight them to its executive.

Financial authorities in the payment system did not always match delegations

Our review of financial authorities assigned to users in the Basware payment authorisation system noted instances where they did not match the authorities in the Chief Executive Officer's instrument of delegation. Consequently, invoices may be paid without the required authority and outside of Treasurer's Instructions requirements. We raised a similar concern in 2018.

We recommended a regular review of financial authorities in Basware to the instrument of delegation. SAAS responded that it conducted quarterly checks. It indicated it would undertake a full reconciliation at least annually.

Invoices paid without purchase orders

SA Health's requisition, purchase order and invoice management policy mandates the use of requisitions and purchase orders unless the item purchased is listed in the approved purchase order exemption list or where the purchase is below $2200. Our review found payments without purchase orders that did not meet this criteria. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

SAAS responded that it had and would continue to remind staff of the requirements to use purchase orders and would monitor for non-compliance.

Expired contracts and contracts with cumulative spend over the contract amount

Our review of payments and contractual arrangements noted current suppliers who had expired contracts and other instances where the cumulative spend with suppliers exceeded the contracted amount. Expired contracts or spending outside of agreements can potentially impact SAAS's ability to manage contractual obligations and conditions, including price.

SAAS responded that it had created a contract database to:

- monitor expired contracts and provide procurement planning information
- alert managers when spend against contracts is getting close to the approved contract amounts.

It indicated it would continue to work closely with DHW Procurement and Supply Chain Management to ensure contracts do not expire. It indicated contract managers would be required to provide the financial authorities for any payments in excess of the contracted amount.

Payroll

Improvements needed to confirm the accuracy and completeness of timesheets submitted

Operational staff are paid two weeks in advance based on their contracted hours and roster cycle. Penalties, overtime hours and leave are processed in the payroll system only once a manual timesheet is provided to SSSA. Our review noted the following opportunities to improve timesheet processing:

- there were no processes in place to ensure timesheets are always received for processing
- there were no processes in place to ensure team leaders follow up timesheet errors
- our testing of transactions between 1 January 2019 and 19 March 2019 found 18 instances of staff members submitting five or more timesheets at the same time
- management did not validate certain types of overtime and allowances recorded on manual timesheets.

These matters were also reported last year.

SAAS responded with its intention to interface its rostering and payroll systems, which is being considered as part of an SA Health electronic timesheet project.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Expenses		
Staff benefit expenses	234	220
Supplies and services	65	63
Depreciation and amortisation expense	13	13
Other expenses	25	19
Total expenses	337	315
Income		
Revenue from fees and charges	139	129
Other income	11	11
Total income	150	140
Net cost of providing services	187	175
Revenues from SA Government	165	165
Net result	(22)	(10)
Other comprehensive income	(14)	31
Total comprehensive result for the year	(37)	21
Assets		
Current assets	43	34
Non-current assets	130	138
Total assets	173	172
Liabilities		
Current liabilities	80	64
Non-current liabilities	87	69
Total liabilities	167	133
Net assets	6	39

Statement of Comprehensive Income

Expenses

In 2018-19 total expenses increased by $22 million (7%) to $337 million. This was due mainly to a $14 million increase in staff related expenses, a $6 million increase in other expenses and a $2 million increase in supplies and services.

Staff benefit expenses

Staff benefit expenses of $234 million represented 69% of SAAS's total expenses.

Salaries and wages rose $7 million (4%) to $164 million. Long service leave expense increased by $2 million to $11 million mainly due to the impact of changed actuarial assumptions used to estimate the associated liability, including the decrease in the discount rate used.

The number of staff whose remuneration received/receivable exceeded the base executive level ($151 000) totalled 391 (388) comprising 348 (356) operational, 19 (20) medical, 17 nursing (0), five (eight) executive and two (four) administration staff. The increase in nursing staff relates to MedSTAR staff who were previously paid by the Central Adelaide Local Health Network Incorporated (CALHN). Total remuneration for staff across the categories was $73 million ($72 million). Over the past five years the number of staff whose remuneration received or receivable exceeds the base executive level has increased by 29%.

Supplies and services expenses

Supplies and services expenses increased by $2 million to $65 million. Significant components of supplies and services were:

- contractors – agency staff – $4 million ($5 million). The decrease mainly relates to MedSTAR staff included for part of 2017-18 as contractors (recharged from CALHN) who are now paid through employee benefits
- patient transport – $20 million ($18 million)
- motor vehicle expenses – $5 million ($5 million)
- medical, surgical and laboratory supplies – $4 million ($4 million)
- communication – $3 million ($3 million).

Other expenses

Impairment loss on receivables increased by $5 million to $7 million. SAAS measures impairment on receivables using an expected credit loss model in line with AASB 9 *Financial Instruments.*

Revenues

Revenues from SA Government

SAAS is dependent on revenue from the SA Government, which comprises 52% of total revenue.

In 2018-19 total revenues from the SA Government remained at $165 million and comprised recurrent funding of $161 million ($137 million) and capital funding of $4 million ($28 million).

Capital funding in 2017-18 included funding to construct new stations and a rescue retrieval and aviation base. There were no similar capital programs in 2018-19.

Revenues from fees and charges

Revenues from fees and charges increased by $10 million to $139 million. Significant components were:

- ambulance cover – $28 million ($27 million)
- ambulance transport – $103 million ($94 million).

Ambulance cover revenue is from member subscriptions to the SAAS ambulance cover scheme to cover against the cost of ambulance transport. Ambulance transport revenue is earned from patient transport services to the general public, $75 million, and local health networks, $28 million. The ambulance transport increase of 9.6% mainly relates to increased transport services of 5.3% and a gazetted fee rise of 2.2%.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 74% of SAAS's total assets. The carrying value of property, plant and equipment decreased by $9 million to $127 million. This was primarily due to:

- depreciation and amortisation of $13 million
- disposals of $1 million
- $4 million in additions to capital work in progress, which mainly relate to ambulance station upgrades and the purchase of stretchers and loaders

Liabilities

Staff liabilities make up $158 million (95%) of SAAS's total liabilities at 30 June 2019, comprising:

- staff benefits liabilities and related on-costs, $139 million ($110 million)
- provision for workers compensation, $19 million ($15 million).

Staff benefits liabilities increased significantly by $29 million to $133 million due mainly to:

- a $19 million increase in defined benefits superannuation scheme liabilities reflecting an actuarial assessment as at 30 June 2019. Major factors impacting the increase were changes in the assumptions used to calculate the defined benefit liability, including a decrease in the discount rate from 2.6% to 1.3%
- an $8 million increase in long service leave liabilities. Contributing to this increase was an impact of $3.3 million relating to changed actuarial assumptions including a change in discount rate from 2.57% to 1.25%
- a $2 million increase in annual leave liabilities.

Provisions for workers compensation increased by $4 million to $19 million. Workers compensation provisions are based on independent actuarial assessments. The provisions included non-statutory provisions for certain work related injuries as part of enterprise bargaining arrangements and industrial awards. As at 30 June 2019 SAAS recognised a workers compensation non-statutory provision of $8 million ($9 million). There is a high level of uncertainty about the value of the provision because of the absence of claims experience. Note 23.1 of SAAS's financial report provides information on the actuarial assessment.

Current liabilities, $80 million, exceeded current assets, $43 million, at 30 June 2019. SAAS is funded to meet expected cash flows for its current program delivery. Note 1.5 of its financial report provides information about the continuity of operations.

Southern Adelaide Local Health Network Incorporated (SALHN)

Financial statistics

Total expenses:	$1123 million
Net cost of providing services:	$1046 million
Revenues from SA Government:	$958 million
Staff benefits liability and related on-costs:	$280 million
Workers compensation liability:	$43 million
Number of FTEs:	5593

Significant events and transactions

- The Chair of the SALHN Transition Board was appointed in August 2018.
- Remaining members of the SALHN Transition Board were appointed in March 2019.
- The SALHN Governing Board commenced operation from 1 July 2019 in line with amendments to the *Health Care Act 2008.*
- Construction projects at the Flinders Medical Centre totalling $25 million were completed and capitalised in 2018-19. This included $14 million for the neonatal unit.
- 20 additional long stay beds were opened at the Repat Health Precinct (RHP) in 2018-19.
- The SA Government announced concept plans and its intention to develop new facilities at the RHP site including a State-wide brain and spinal rehabilitation unit, another 26 beds across two specialist units and associated rehabilitation facilities.

Financial report opinion

Unmodified

Controls opinion findings

- Payroll planning, monitoring and approval processes could be improved.
- Some contract management and purchasing controls could be improved.
- Asset management processes under the Across Government Facilities Management Arrangements could be improved.

Other audit findings

- Weaknesses in hospital billing processes.
- Management of professional development entitlements needs to improve.

Functional responsibility

SALHN is established under the *Health Care Act 2008*.

SALHN's powers and functions are to establish, provide, maintain and enhance hospital, medical and allied health services in its local area.

In 2018-19, under the *Health Care Act 2008,* the Chief Executive, Department for Health and Wellbeing (DHW) assumed direct responsibility for administering incorporated hospitals. This included appointing the Chief Executive Officer of SALHN. The Chief Executive, DHW cannot give a direction about a person's clinical treatment.

Governance changes from 1 July 2019

From 1 July 2019 amendments to the *Health Care Act 2008* provide for local health networks (LHNs) including SALHN to be governed by boards. The amendments also change the role of the Chief Executive, DHW, from 1 July 2019 to remove direct responsibility for administering LHNs.

The SALHN Governing Board was established on and commenced from 1 July 2019. The Board Chair and members were appointed by the Minister for Health and Wellbeing. The Chair and members were initially appointed in an advisory capacity during the transition in 2018-19 under the *Constitution Act 1934* to enable and support their induction and familiarisation.

The Governing Board is responsible for addressing local need, providing strategic direction and monitoring SALHN's operating and financial performance. It must comply with any direction of the Minister for Health and Wellbeing or Chief Executive, DHW.

Under these changes DHW remains responsible for setting State-wide policy and the Minister for Health and Wellbeing remains responsible for setting reform agenda and priorities.

To support devolving governance and responsibility for delivering public health services to the new LHN governing board, the SA Government and DHW are making significant changes to the SA Health governance and accountability frameworks.

Associated with the revised arrangements, SA Health has changed its organisation structure, including transferring some staff and responsibilities to Shared Services SA (SSSA) from 1 July 2019. DHW is also considering which functions should be devolved from DHW to LHNs. The process for realigning employees is ongoing, with some expected to occur in 2019-20 and other deferred until later years.

At the time of this Report a second round of legislative amendments, the Health Care (Governance) (No 2) Amendment Bill 2019 was progressing through Parliament. It sets out provisions relating to the service agreements for LHNs as a key element of the performance framework, as well as provisions relating to the function and role of the Chief Executive, DHW.

Scope of the audit

Audit of the financial report

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

Financial services for SALHN are provided through a mix of:

- central services provided by DHW through an integrated finance service model
- finance services located within SALHN
- services provided by SSSA.

SALHN continued to operate a legacy revenue system at the Flinders Medical Centre (FMC). Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, SALHN and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

Specific areas of audit attention in 2018-19 included:

- governance
- accounts payable and goods and services expenditure
- payroll
- patient billing
- medical officer professional development
- cash and online banking
- general ledger
- property, plant and equipment.

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

Controls opinion

We reviewed controls over bank accounts, employee expenses, goods and services expenditure, buildings and improvements and across government facilities management arrangements (AGFMA) as part of our controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Payroll planning, monitoring and approval processes could be improved

SALHN employs more than 5500 FTEs and payroll related costs are significant, with $781 million in staff benefit expenses paid and $265 million in staff benefit liabilities at 30 June 2019. As a result of the significance of these costs, we review key payroll controls each year.

SALHN was finalising its response to the payroll matters outlined below at the time of this Report.

SALHN did not have a consolidated workforce plan

As part of our controls opinion work we reviewed workforce planning at a high level for a number of agencies this year, considering the guidance on workforce planning from the Commissioner for Public Sector Employment.

We found that SALHN had addressed several aspects of workforce planning through internal documents and plans and in combination with SA Health policies, guidelines and strategies. We also noted SALHN had, in August 2018, established a workforce planning committee to develop a consolidated workforce plan.

While it was evident that SALHN had and continued to actively work towards a consolidated workforce plan, one was not yet in place at the time of our audit.

SALHN's records indicate around 40% of its staff did not have a current performance review in April 2019

We also reviewed performance review processes at several agencies in 2018-19, including SALHN.

Our review of SALHN's data at April 2019 indicated that around 40% of SALHN staff did not have a current performance review. We noted SALHN had processes in place to monitor performance reviews and had focused on improving the number of reviews that were current in 2018-19, with the 60% rate a substantial improvement.

Key payroll information was not always reviewed for SALHN staff

Key payroll reports for SALHN's staff differ depending on the type of staff member. We review the effectiveness of these reports to ensure payments to staff are consistently reviewed.

For some SALHN staff who are automatically paid each fortnight, key payroll information is captured on bona fide reports and leave return certificates. At SALHN, these processes only captured around 370 staff in 2018-19.

For nursing staff, key payroll information is contained in the ProAct rostering system, as this interfaces with the payroll system to pay these staff.

Other SALHN staff, including medical staff, are paid based on timesheets. Some of them are exclusively paid based on timesheet information and others are paid a base salary automatically and then have allowances and penalties paid based on the timesheets they submit.

In 2018-19 we found:

- while there were checks performed on information before it was sent to SSSA payroll, as in previous years there were no consistent processes to ensure the actual payments processed in the payroll system were complete and accurate – including that bona fide reports were not always approved and that there was no process to confirm amounts paid to staff using manual timesheets matched approved amounts
- leave balances were not consistently checked, with staff whose balances are reported on leave return reports, the same population using bona fide reports, not always reviewed
- around 11% of ProAct timesheets were not authorised between July 2018 and March 2019. This was an improvement compared to 2017-18 when around 21% were unauthorised
- we noted overall there were around 200 SALHN staff with negative leave balances, with SALHN implementing regular reviews to address this, and a number who had excessive annual leave balances (more than two years' entitlement).

We understand SA Health's electronic timesheet project, which aims to expand the use of ProAct to other staff, is intended to address many of these matters. We also understand the first phase of this project is due to complete in December 2019. If this is successful, SALHN intends to use ProAct for most staff.

SALHN identified that the remaining unauthorised ProAct timesheets mostly related to early payrun cut-offs and delays in authorisation around public holidays. We also noted that ProAct timesheets can be amended after their original authorisation, when they once again become unauthorised.

Inconsistent medical rostering practices

We reviewed medical rostering practices and found that there were inconsistent approaches between the four divisions we sampled. While one division used a rostering system, the remaining three used spreadsheets. Without a consistent rostering system for medical officers and a lack of central training for staff preparing rosters, varying local practices have developed. As a result of this inconsistency, there is a greater risk of differences in interpreting complex enterprise agreements emerging between divisions.

We recommended a more standard approach be developed and adopted across SALHN, noting that SA Health's electronic timesheet project to expand the use of ProAct may address this issue in future.

On-call allowances were not always reviewed

We have previously identified that on-call allowances were not reviewed every six months, as required by enterprise agreements. In 2018-19, we found that SALHN had implemented new instructions for staff that these reviews should occur in October and April each year.

At the time of our audit the April review was underway so we reviewed the October process and found that only one area had completed the review and the report used for the process did not include 18 other staff who had received on-call allowances and should have been subject to review.

We understand that SALHN Human Resources was following up all divisions to monitor compliance.

Some contract management and purchasing controls could be improved

SALHN paid over $298 million for supplies and services in 2018-19. A large proportion of these expenses are approved for payment using online approval functions in SA Health's key financial systems, Oracle and Basware. We identified some issues in contract management and purchasing from our work on goods and services expenditure for the controls opinion.

We found:

- SALHN had introduced a new process to review Basware and Oracle financial delegations in 2018-19. This involved providing a report to all divisions of current Basware delegations for review. We found that the review was not undertaken consistently by all areas, with some not reviewing the information
- SALHN did not have a documented contract management framework for most of 2018-19, with development of a new framework completed in June 2019
- there were no contracts in place for a number of significant suppliers, as was the case in prior years. In 2018-19 we identified seven contracts, with collective expenditure of more than $5 million between July 2018 and February 2019, where regular spending was not supported by contracts
- services were delivered under one contract for more than a year before a contract was agreed, with almost $3 million spent in 2018-19 up to the end of February 2019. The contract for this arrangement was finalised in May 2019
- contract management processes for the contract with Flinders Private Hospital could be improved, with no contract management plan and changes made to the arrangement that were not supported by a formal Deed of Variation to the contract. We also noted instances where charges under this arrangement were not checked to the contract before payment.

SALHN responded:

- it would develop a new template certification for the review of financial delegations and implement a review by SALHN Finance to ensure each division had completed the review at least every three months
- it would implement contract management plans under its new contract management framework in 2019-20
- it would ensure contracts were in place for regular suppliers. SALHN noted procurement processes for the contracts we identified, except the one finalised in May 2019, were in progress, but not complete, at the time of our audit. SALHN also advised it had implemented six-monthly reports to identify other arrangements that should be subject to contracts
- there was a contract management plan, although not formally signed, in place for the Flinders Private Hospital contract supported by detailed checklists for managing the arrangement. SALHN also advised it would ensure a Deed of Variation was completed for future contract changes and remind divisions of the need to confirm charges were accurate.

Asset management processes could be improved

SALHN has property, plant and equipment worth $739 million. As part of our controls opinion work in 2018-19, we considered the control processes in place to manage the maintenance of these assets at SALHN, including considering the AGFMA.

We found SALHN:

- had documents that helped it to plan for and manage maintenance of its assets, but did not have a consolidated strategic asset management plan, as outlined by the Department of Planning, Transport and Infrastructure's (DPTI's) *Strategic Asset Management Framework*. We found SALHN was finalising a Clinical Services Plan, which was subject to consultation, and that this would inform strategic asset management planning once completed
- did not have documented asset management plans in place, reflecting that it expected these to be delivered by the AGFMA contractor
- did not have specific asset management policies and procedures in place, including documentation of the roles and responsibilities of SALHN, Spotless (the AGFMA contractor), DPTI and DHW
- recorded asset data in its own records but not in the asset management system provided by DPTI. We noted SALHN's data did not meet all of the specific asset data requirements set out in Department of the Premier and Cabinet Circular 114 *Government Real Property Management*. We noted Spotless updated some information in the asset management system, but that this data was not useful for SALHN and was therefore not used
- was not using asset condition reports prepared by Spotless (as the facilities services provider) as a result of multiple instances where the assets flagged for work could not be located. We noted SALHN was engaging external consultants to perform asset condition assessments directly in response to these issues.

SALHN responded that:

- it would liaise with DHW Infrastructure on a strategic asset management framework, building on a strategic asset management policy that was issued for consultation in January 2019. SALHN also advised it would work collaboratively to develop a strategic asset management plan and aim to complete templates by April 2020
- an asset management plan with a detailed checklist will be developed and progressed to Executive for approval and implementation by April 2020
- work instructions would be developed for asset management by December 2019
- it would liaise with DPTI and Spotless to update the asset management system with all plant records by January 2020
- it would liaise with DPTI and Spotless to update asset management system records and seek to improve condition reporting to include FMC asset numbers and locations, with these issues to be raised in regular contract meetings by December 2019.

Other audit findings

Hospital billing processes can improve

Our audit covered the major financial functions for hospital billing. The Sunrise EMR system (formerly known as EPAS) is used for patient billing at part of the FMC and Noarlunga Hospital, with Homer used for most patient billing at the FMC.

SALHN's revenue from patient and client fees was over $29 million in 2018-19, with a further $3 million recorded in private practice fees controlled by SALHN. In addition, a further $15 million was collected on behalf of medical officers and DHW in administered revenue from private practice arrangements.

No complete review of Sunrise EMR user access

In previous years, we found that there had not been a complete review of Sunrise EMR user access.

In 2018-19, SALHN performed a partial review of Sunrise EMR user access, reviewing that access for staff in the Hospital Billing team at SALHN to the Sunrise Financial Module was appropriate. This review did not include other officers who had access to this module, or user access to the system's clinical module.

Without a full review of Sunrise EMR user access, there is a risk that staff may have access to information that is not relevant to their roles or that could result in inaccurate and/or unauthorised changes being made to data or unauthorised access to patient information.

SALHN advised that it would extend the user access review to all Sunrise EMR users and establish a work instruction by May 2020.

Private insurance debt follow-up can be improved

From 2018-19, SALHN has been responsible for following up private insurance debts, previously performed by SA Health. Specific resources for this function were only available from May 2019, with priority given to following up debts close to two years old, the maximum period within which a claim can be made.

Private patient debts for the period from 1 July 2018 to 30 April 2019 were $6.24 million, with $1.28 million (20.5%) outstanding for more than 90 days.

Prompt debt recovery assists financial sustainability and enables better debtor management. Where debt recovery is delayed, there is a reduced likelihood of success and potential for increased costs from further recovery action.

SALHN advised that the function was transferred from DHW to SALHN in 2018-19 with no resources or funding. SALHN had allocated resources to the function and would continue to follow up outstanding private patient debts to ensure they were paid promptly and additional information requested by health funds was provided to ensure payments were received.

Processes to identify compensable outpatients can be strengthened

Consistent with what we found in 2017-18, we noted that the process to identify whether an outpatient visit was compensable or not varied at the two clinics we visited this year. Where established processes are not followed, there is an increased risk that SALHN will not receive all of the revenue it is entitled to.

SALHN advised it would reinforce the requirement to identify compensable patients at education sessions and also remind outpatient staff in a written communication by October 2019.

Management of professional development entitlements

SA Health enterprise agreements provide for medical officers to claim an allowance of up to $44 000 over a two-year period for professional development expenses. We found SALHN had paid over $16 million for professional development allowances over the two-year period from 14 April 2017 to 13 April 2019.

In addition, salaried medical officers are also entitled to up to 10 days of professional development leave a year.

SALHN was finalising its response to the matters we identified around the management of professional develop leave and allowances at the time of this Report, including considering the impact of a State-wide solution by DHW, the SA Health Professional Development Reimbursement System.

Ineffective monitoring of medical officers' professional development leave entitlements

We have previously identified that SALHN did not a have a process to monitor professional development leave entitlements for medical officers against the limits in SA Health's enterprise agreements. SALHN has previously advised that:

- it would ensure Clinical Divisions advised line managers approving professional development leave to confirm leave totals for the individual before approving a professional development application
- a biannual report would be provided to the Executive Director Medical Services detailing leave levels for each clinician eligible for professional development leave.

In 2018-19, we found that SALHN had not fully implemented the proposed measures. SALHN could not provide a biannual report of professional development leave levels for each clinician and there was uncertainty about responsibility for producing the report.

We also noted that no policies or procedures had been established to ensure that professional development leave was appropriately approved and monitored at the unit level.

The absence of effective controls over professional development leave increases the risk that medical officers will apply for, and be granted, leave without reference to remaining leave entitlements, and could take more leave than they are entitled to.

Some staff had taken more professional development leave than the maximums allowed

In 2018-19, we reviewed payroll system transaction records for the period from 14 April 2017 to 13 April 2019. We identified 25 medical officers who had exceeded the 20-day maximum for professional development leave over that period. This is an increase from the 11 medical officers we identified in 2017-18.

This data reinforces the need for SALHN to implement active monitoring of professional development leave taken and the remaining entitlement.

Some staff had been paid more than the maximum professional development allowance

We reviewed accounts payable data for the period from 14 April 2017 to 13 April 2019 and found 38 employees had been paid more than $44 000 in professional development allowances over that two-year period. This is an increase from the 24 medical officers we identified in 2017-18. We also noted that SALHN had not investigated any of the prior year instances.

Payments for professional development expenses above the cap established in enterprise agreements may result in financial loss to SALHN.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Expenses		
Staff benefit expenses	781	736
Supplies and services	298	299
Depreciation and amortisation	41	32
Other expenses	3	3
Total expenses	1 123	1 070
Income		
Revenue from fees and charges	54	53
Grants and contributions	5	5
Other income	18	18
Total income	77	76
Net cost of providing services	1 046	994
Revenues from SA Government	958	996
Net result	(88)	2
Other comprehensive income	-	82
Total comprehensive result for the year	(88)	84
Assets		
Current assets	40	55
Non-current assets	748	776
Total assets	788	831
Liabilities		
Current liabilities	154	143
Non-current liabilities	197	163
Total liabilities	351	306
Total equity	437	525

Statement of Comprehensive Income

Expenses

In 2018-19 total expenses increased by $53 million (5%) to $1.12 billion.

Staff benefit expenses

Staff benefit expenses of $781 million represent 70% of SALHN's total expenses. These costs have increased by $45 million in 2018-19 mainly due to:

- a $25 million increase in salaries and wages expense to $594 million, mainly from FTE growth of 120 in 2018-19 and annual salary and allowance increases associated with enterprise agreements
- a $25 million increase in long service leave expense associated with the actuarially assessed revaluation of the liability conducted for 30 June 2019, with a decrease in the Government bond rate from 2.69% to 1.25% used in the calculation being the main contributor.

The number of staff whose remuneration received or receivable exceeded the base executive level ($151 000) totalled 632 (586), comprising 578 (537) medical officers, 42 (34) nursing staff, seven (nine) executives and five (six) non-medical staff. Total remuneration for these staff was $178 million ($163 million). Over the past five years the number of staff whose remuneration received or receivable exceeds base executive level has increased by 13%.

Supplies and services expenses

Supplies and services expenses decreased marginally by $1 million (0.4%) to $298 million in 2018-19. Significant components in supplies and services were:

- medical, surgery and laboratory supplies, which increased by $5.3 million (6%) to $93 million
- fee for service, which increased by $1.7 million (5%) to $38 million
- contractors – agency staff, which decreased by $3.7 million (18%) to $17 million mainly due to higher levels of agency staffing in 2017-18 during the transition of the former Repatriation General Hospital (RGH) to new facilities at the FMC
- repairs and maintenance, which decreased by $4.3 million (23%) to $14.7 million mainly due to major repairs and upgrades to facilities at the FMC in 2017-18 to accommodate the transition of former RGH activity.

Revenue

SALHN is dependent on revenue from the Commonwealth and SA Governments.

Revenues from SA Government

Revenue from the SA Government comprises capital and recurrent funding. In 2018-19, overall revenues decreased by $38 million (4%) to $958 million due to decreased capital funding of $39 million, which was offset by increased recurrent funding of $1 million.

Capital funding decreased by $39 million (74%) to $13 million mainly due to the completion of key capital works at the FMC in 2018-19 and 2017-18.

On 29 June 2018 SALHN received $21 million in recurrent funding that related to 2018-19. This was recognised as revenue on receipt in 2017-18 but was unspent, with the amount then fully spent in 2018-19. This timing difference contributed to SALHN’s operating deficit in 2018-19.

Revenues from fees and charges

Revenues from fees and charges increased marginally by $1 million (2%) due to a $1 million (4%) increase in patient and client fees received by SALHN under compulsory third party arrangements for motor vehicle accident related treatments.

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 94% of SALHN's total assets. The carrying value of property, plant and equipment decreased by $28 million to $739 million. This decrease is due mainly to:

- additions of $10 million for new facilities and other infrastructure upgrades at the FMC
- additions of $3 million for new medical and surgical equipment at the FMC
- offset by depreciation expenses of $41 million.

Liabilities

Current liabilities increased by $11 million to $154 million during the year and exceeded current assets by $114 million at balance date. Cash and cash equivalents of $15 million were insufficient to meet current payables of $31 million at 30 June 2019. SALHN works with DHW to ensure sufficient funding is provided to SALHN to meet expected cash flows for its administration and program delivery.

Total liabilities increased by $45 million to $351 million.

Staff liabilities make up $323 million (92%) of SALHN's total liabilities at 30 June 2019, comprising:

- staff benefits liabilities and related on-costs of $280 million ($239 million)
- workers compensation provisions of $43 million ($39 million).

The movement in staff liabilities is mainly due to:

- a $38 million (29%) increase in long service leave liabilities primarily resulting from the actuarially assessed revaluation of the liability conducted for 30 June 2019, with a decrease in the Government bond rate from 2.69% to 1.25% used in the calculation being the main contributor
- a $4 million (10%) increase in workers compensation provisions reflecting changes in the actuarial assessment mainly reflecting valuation changes, including the decreased bond rate which is also used in assessing and valuing this liability.

Further commentary on operations

SALHN infrastructure changes

Flinders Medical Centre redevelopment

A number of FMC works were completed in 2018-19, including:

- a new neonatal unit, with a total spend of $14 million
- new operating theatres, with a total spend of $3 million
- a new ophthalmology clinic, with a total spend of $427 000
- a new infusion centre, with a total spend of $755 000
- plant upgrades to FMC facilities, with a total spend of $4 million.

As at 30 June 2019, capital works of $5 million remained in progress, mainly for general ward and plant upgrades at the FMC.

Repat Health Precinct reactivation

The SA Government announced a concept master plan for the reactivation of the former RGH, now known as Repat Health Precinct (RHP), in February 2019.

The State and Commonwealth Governments have announced joint funding commitments for the RHP which include:

- from the Commonwealth Government:
  - $30 million for a new State-wide brain injury and spinal cord injury rehabilitation unit, including a new 53-bed inpatient facility
  - more than $1.3 million to fund the operation of an eight-bed specialised Dementia Care Unit, in addition to the 18-bed unit in Ward 18
  - $5 million for a Veteran's Wellbeing Centre
  - $5 million for a new State-wide Eating Disorder Service facility
- from the SA Government:
  - $14.5 million towards an 18-bed specialised facility to care for South Australians suffering extreme Behavioural and Psychological Symptoms of Dementia (BPSD) and site preparation works for the development of a dementia village
  - $24.6 million for a state-of-the-art gymnasium for brain injury and spinal cord injury patients and athletes, as well as a 'town square' in the heart of the RHP to create a community hub and outdoor space.

In addition, SA Health is working with proponents for the development of a dementia village facility to provide 78 places in a home-like environment for care and support for people with dementia who have complex care needs, consistent with severe BPSD.

SA Health is further assessing responses to a request for information from interested developers and private health service providers about how they could collaborate with SA Health and LHNs in the provision of facilities and services relating to surgical and procedural services in the reactivated RHP.

Women's and Children's Health Network Incorporated (WCHN)

Financial statistics	Total expenses:	$492 million
	Net cost of providing services:	$442 million
	Revenues from SA Government:	$413 million
	Staff benefits liability and related on-costs:	$127 million
	Workers compensation liability:	$9 million
	Number of FTEs:	2718

Significant events and transactions

- The SA Government has, through legislative change, provided that local health networks including WCHN will be governed by boards from 1 July 2019.
- The 2019-20 State Budget includes a provision of $550 million in the forward estimates to start to construct a new Women's and Children's Hospital.

Financial report opinion

Unmodified

Audit findings

- Inconsistent management of medical practitioners rosters.
- Insufficient review of payroll information.

Functional responsibility

WCHN is an incorporated hospital established under the *Health Care Act 2008*.

The functions of WCHN include the provision of health services to women and children. The principal unit within WCHN is the Women's and Children's Hospital.

Under the *Health Care Act 2008* the Chief Executive, Department for Health and Wellbeing (DHW) assumed direct responsibility for administering incorporated hospitals including WCHN. This included appointing the Chief Executive Officer of WCHN. The Chief Executive, DHW cannot give a direction about a person's clinical treatment.

Governance changes from 1 July 2019

From 1 July 2019 amendments to the *Health Care Act 2008* provide for local health networks (LHNs) including WCHN to be governed by boards. The amendments also change the role of the Chief Executive, DHW from 1 July 2019 to remove direct responsibility for administering LHNs.

The WCHN Governing Board was established on and commenced from 1 July 2019. The Board Chair and members were appointed by the Minister for Health and Wellbeing. The Chairman and members were initially appointed in an advisory capacity during the transition in 2018-19 under the *Constitution Act 1934* to enable and support their induction and familiarisation.

The Governing Board is responsible for addressing the local need, providing strategic direction and monitoring WCHN's operating and financial performance. It must comply with any direction of the Minister for Health and Wellbeing or Chief Executive, DHW.

Under these changes DHW remains responsible for setting State-wide policy and the Minister for Health and Wellbeing remains responsible for setting reform agendas and priorities.

To support devolving governance and responsibility for delivering public health services to the new LHN governing boards, the SA Government and DHW are making significant changes to the SA Health governance and accountability frameworks.

Associated with the revised arrangements, SA Health has changed its organisation structure including transferring some staff and responsibilities to Shared Services SA from 1 July 2019. DHW is also considering which functions should be devolved from DHW to LHNs. The process for realigning employees is ongoing, with some changes expected to occur in 2019-20 and others deferred until later years.

At the time of this Report a second round of legislative amendments, the Health Care (Governance) (No 2) Amendment Bill 2019*,* was being debated in Parliament. It proposes provisions relating to the service agreements for LHNs as a key element of the performance framework, as well as provisions relating to the function and role of the Chief Executive, DHW.

Scope of the audit

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

Financial services for WCHN are provided through a mix of:

- central services provided by the DHW through an integrated finance service model
- finance services located within WCHN
- services provided by Shared Services SA (SSSA).

Consequently, our audit included the review of new and legacy systems and completing audit work at DHW's central services, WCHN and SSSA.

Audit findings across health services fall into the following categories:

- common findings reflecting central services and/or systems
- matters for individual health services
- SSSA matters.

A Chartered Accounting firm assisted the Auditor-General with the audit of WCHN.

Specific areas of audit attention in 2018-19 included:

- payroll
- accounts payable
- revenue
- patient revenue including accounts receivable
- property, plant and equipment
- cash
- general ledger.

We considered internal audit activities in designing and performing audit procedures.

Audit findings

Communicating our audit findings

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

Payroll

Insufficient review of payroll information

As in previous years we found that WCHN managers and team leaders did not always review payroll reports to ensure the accuracy and completeness of staff payments. We found that WCHN did not follow up managers and team leaders who had not completed the review. At the time of our audit in April 2019, 1031 of 3782 bona fide reports were not approved. Of these, 574 remained outstanding for more than 100 days.

Failure to ensure payroll information is valid and accurate may result in fraudulent or incorrect payments. We recommended that WCHN monitor and follow up to ensure managers and team leaders promptly review payroll bona fide reports to ensure the accuracy and completeness of staff payments.

WCHN accepted the recommendation and indicated that efforts are being placed on achieving full compliance in future.

Inconsistent management of medical practitioners rosters

Our review of medical practitioners rostering processes noted inconsistent practices across WCHN. At the time of our audit, WCHN had 907 salaried medical practitioners employed under the SA Health Salaried Medical Officers Enterprise Agreement 2017 (MOEA). Many of them work a seven-day roster in line with the MOEA. We reviewed rostering practices at two different locations and noted:

- roster templates used were not uniform across departments
- in some cases rosters were maintained in spreadsheets, requiring significant manual data entry
- no roster system controls to ensure compliance with the MOEA (for example, break time between shifts) and operational rules
- no WCHN frameworks or other guidance on establishing and approving rosters.

Inconsistent rostering practices can impact WCHN's ability to manage award conditions, service capacity and efficient use of resources.

In response WCHN provided an update on SA Health's electronic timesheet project. Phase two of this project relates to medical rosters. WCHN indicated that it had nominated to be the first LHN to develop general and medical rosters. As this is a State-wide project, it is cognisant of whole-of-health requirements, especially employee engagement. WCHN advised that the time line of the project may extend beyond 30 September 2020.

Supplies and services expenditure

Invoices paid without purchase orders

SA Health's requisitioning, purchase order and invoice management policy mandates the use of requisitions and purchase orders unless the item purchased is listed in the approved purchase order exemption list or is below $2200. Our review found payments without purchase orders that did not meet the exemptions criteria. Where this occurs there is an increased risk that payments may be made for goods or services not received or not at the agreed price.

WCHN responded that it would remind staff of their responsibilities under the SA Health policy.

Patient billing

Revenue system access rights not reviewed

In past years we reported that management did not review a complete list of user access rights in the Homer revenue system. Our follow-up in 2018-19 found similar concerns. Without regular management review WCHN may not detect inappropriate levels of access within Homer, increasing the risk of inaccurate or unauthorised changes to revenue transactions.

WCHN responded that it had commenced a review of user profiles in Homer to simplify its user access reviews. It indicated that after this review it would be in a better position to perform regular monthly reviews of all Homer users.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2019 $'million	2018 $'million
Expenses		
Staff benefits expenses	364	350
Supplies and services	111	107
Depreciation and amortisation expense	17	8
Total expenses	492	465
Income		
Revenue from fees and charges	33	32
Grants and contributions	8	9
Other income	9	9
Total income	50	50
Net cost of providing services	442	415
Revenues from SA Government	413	413
Net result	(29)	(3)
Changes in assets revaluation surplus	-	117
Total comprehensive result for the year	(29)	114
Assets		
Current assets	31	37
Non-current assets	366	373
Total assets	397	410
Liabilities		
Current liabilities	62	58
Non-current liabilities	84	73
Total liabilities	146	131
Net assets	251	279

* Table may not add due to rounding.

Statement of Comprehensive Income

Expenses

In 2018-19 total expenses increased by $27 million to $492 million.

Staff benefits expenses

Staff benefits expenses, $364 million, represent 74% of WCHN's total expenses. The number of staff whose remuneration received/receivable exceeded the base executive level ($151 000) totalled 278 (261), comprising 242 (231) medical, 22 (15) nursing, seven (eight) administration and seven (seven) executive staff. Total remuneration for these staff was $80 million ($72 million). Over the past five years the number of staff whose remuneration received or receivable exceeded the base executive level has increased by 20%.

Supplies and services expenses

Supplies and services expenses increased by $4 million to $111 million. Significant components of supplies and services were:

- medical, surgical and laboratory supplies – $25 million ($25 million)
- drug supplies – $9 million ($8 million)
- contractors – agency staff – $7 million ($9 million)
- housekeeping – $11 million ($10 million)
- repairs and maintenance – $6 million ($5 million).

Revenues

Revenues from SA Government

WCHN is principally funded by DHW. In 2018-19, funding of $413 million ($413 million) comprised recurrent funding of $402 million ($405 million) and capital funding of $11 million ($7 million).

Statement of Financial Position

Property, plant and equipment

Property, plant and equipment represents 87% of WCHN's total assets. The carrying value of property, plant and equipment decreased by $8 million to $346 million. This increase was primarily due to:

- depreciation and amortisation of $17 million
- $8 million in additions to capital work in progress.

The 2019-20 State Budget includes a provision of $550 million in the forward estimates to start to construct a new Women's and Children's Hospital.

Liabilities

Current liabilities increased by $5 million to $63 million and exceeded current assets of $31 million at balance date. Cash and cash equivalents of $23 million are sufficient to meet current payables of $13 million.

Staff benefits are the largest element of current liabilities, totalling $46 million at 30 June 2019. They mainly comprise leave entitlements expected to be taken within 12 months.

Staff liabilities make up $136 million of WCHN's total liabilities at 30 June 2019, comprising:

- staff benefits liabilities and related on-costs, $127 million ($110 million)
- provision for workers compensation, $9 million ($13 million).

HomeStart Finance (HomeStart)

Financial statistics	Loans and advances:	$2.2 billion
	Short-term borrowings:	$768 million
	Long-term borrowings:	$1.3 billion
	Profit before income tax:	$23 million
	Dividends paid:	$14.8 million
	Number of FTEs:	105
	Number of loans outstanding at 30 June:	13 415

Significant events and transactions

— Dividends of $14.8 million were paid after a recommendation from the Board and approval by the Minister and Treasurer.

— HomeStart is now required to pay a dividend equal to 100% of after tax profit each year.

— Loans and advances, together with the borrowings necessary to support these loans, increased by $142 million to $2.2 billion due mainly to the growth in graduate loans.

— Net interest income increased by $5.4 million, reflecting the 6.9% increase in net loans and advances.

Financial report opinion — **Unmodified**

Controls opinion findings — No significant findings.

Functional responsibility

HomeStart is a statutory corporation established by Regulation under the *Urban Renewal Act 1995*. It has a Board of Management appointed by the Minister for Transport, Infrastructure and Local Government and is subject to the control and direction of the Minister.

HomeStart's functions include:

- lending money or providing other financial assistance to facilitate home ownership for people who would otherwise have difficulty obtaining finance
- providing, marketing and managing home finance products
- providing, managing or facilitating finance for housing schemes or housing associations and for mortgage relief schemes within South Australia
- providing, managing or facilitating finance for the development, ownership or operation of aged care residential accommodation or facilities.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- lending, including arrears management and allowance for impairment
- investment
- purchases and payments
- payroll
- treasury
- regulatory framework
- IT general controls.

Controls opinion

We reviewed controls over loans and advances and borrowings as part of our controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chair of the HomeStart Audit Committee.

Controls opinion findings

Two opportunities for improvement, of a minor nature, were identified. They did not impact the controls opinion.

Other audit findings

A small number of minor matters were identified.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2019 $'million	2018 $'million
Interest income	112	101
Interest expense	(44)	(39)
Net interest income	68	63
Other income	12	11
Other expenses	(27)	(26)
Government guarantee fee	(30)	(29)
Profit (Loss) before income tax equivalents	23	19
Income tax equivalents expense	(7)	(6)
Profit (Loss) after income tax equivalents expense	16	13
Other comprehensive income	(2)	1
Total comprehensive result	14	15
Assets		
Loans and advances	2 208	2 065
Other assets	12	12
Total assets	2 220	2 077
Liabilities		
Borrowings	2 040	1 898
Other liabilities	21	17
Total liabilities	2 061	1 915
Total equity	159	162

* Totals may not add due to rounding.

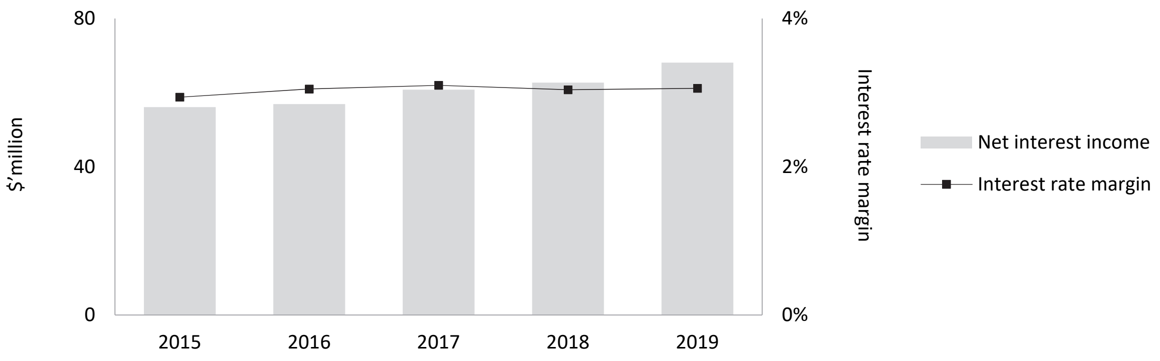
Statement of Comprehensive Income

Profit for the year

Profit before income tax equivalents increased by $4.4 million to $23 million. The analysis below outlines the main factors contributing to this result.

Net interest income

The following chart compares the net interest income to the interest rate margin between loans and cost of funds, excluding the cost of the government guarantee fee.



Net interest income increased by $5.4 million (8.6%) to $68.1 million. This mainly reflects a 6.9% increase in net loans and advances during the year.

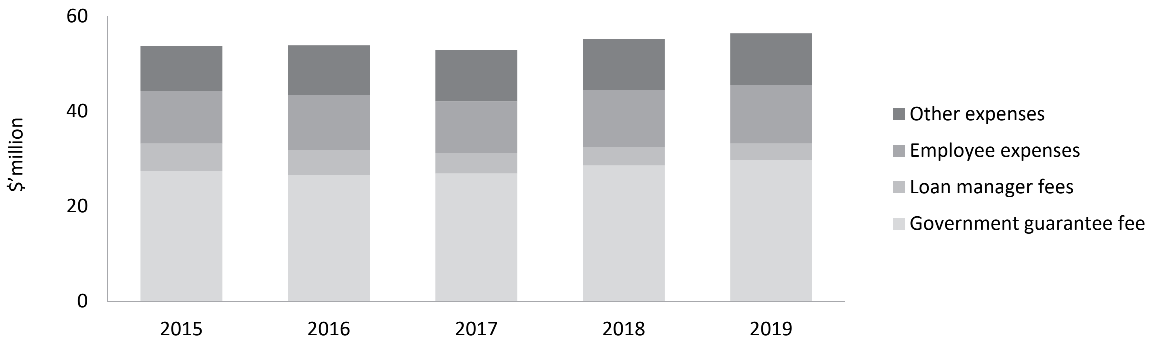
The chart shows that the interest rate margin between loans and cost of funds has remained stable at around 3% for the last five years.

Other income

Other income increased by $241 000 to $11.6 million due mainly to increased Equity Start Grant income of $641 000, partially offset by the absence of unrealised gains in the fair value of breakthrough and shared equity option loans for 2018-19 ($355 000 in 2017-18). A loss of $494 000 this year is discussed below under 'Expenses other than interest'.

Expenses other than interest

The movement in expenses other than interest over the last five years is shown in the following chart.



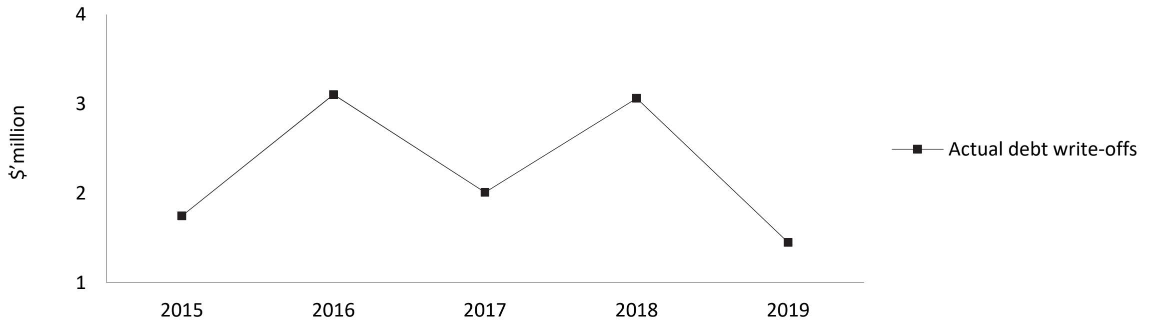
Expenses have increased marginally since 2015. The more significant movements in 2019 were:

- an increase in the government guarantee fee of $1.1 million attributable to the increase in the value of borrowings. The government guarantee fee rate of 1.36% applies to debt instruments undertaken from 23 April 2018
- an unrealised fair value loss in breakthrough and shared equity option loans of $494 000, reflecting the minimal growth in property values in South Australia in 2018-19
- loan manager fees decreasing by $430 000 reflecting the transition to using brokers (rather than loan managers) in writing new loans. Commissions paid to brokers are lower than for loan managers. These costs are amortised over the life of the loan and will continue to decline over coming years.

Bad and impaired loans expense

HomeStart's bad and impaired loans expense for the year was $1.5 million, a decrease from the $2.4 million expense in 2017-18 due to the lower value of write-offs this year.

The total provision for impairment as at 30 June 2019 was $18.6 million ($17.5 million). The following chart shows the actual debt write-offs through the provision and the Statement of Comprehensive Income for the last five years.



The chart demonstrates the relative volatility of debt write-offs over the past five years, reflecting the impact of the economic circumstances of borrowers.

The decrease in bad debt write-offs was mainly attributable to a reduction in the quantum of losses on the disposal of properties held following an increase in mortgagees in possession in 2018 and the improvement of the overall credit quality of the remaining portfolio.

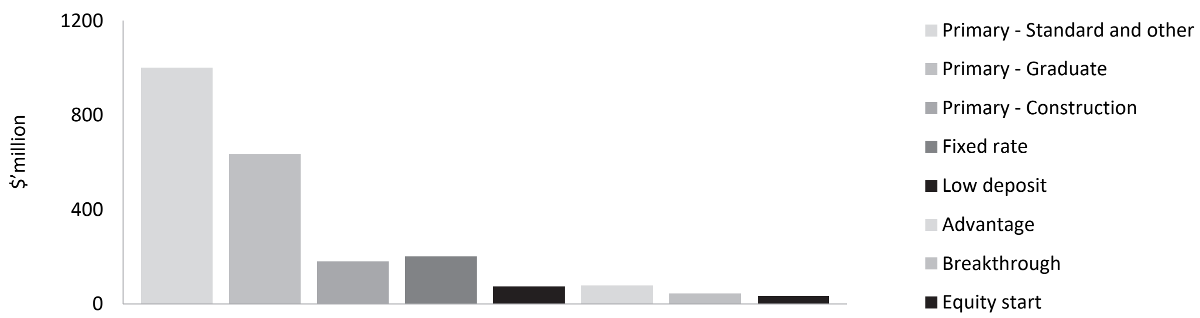
Statement of Financial Position

Loans and advances

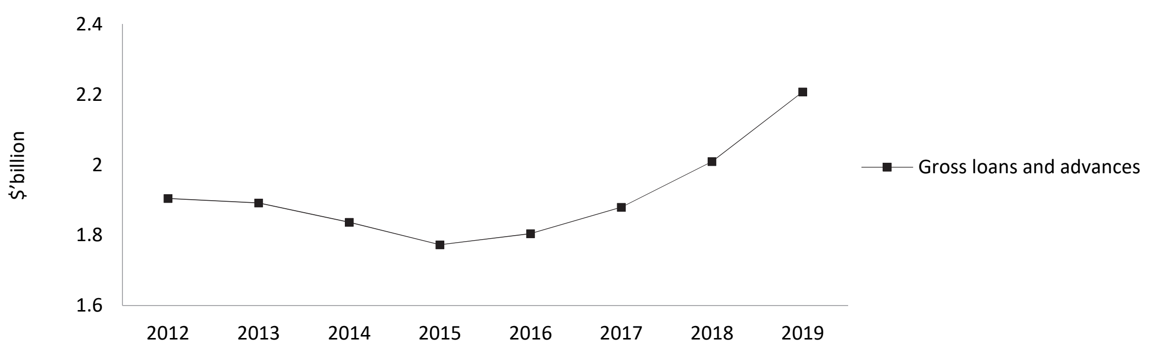
At 30 June 2019 gross loans and advances totalled $2.2 billion, an increase of $142.3 million from the previous year. This increase was due mainly to a $155.3 million increase in graduate loans, partially offset by a decrease in variable loans of $12.9 million.

On initial application of AASB 9 *Financial Instruments,* seniors equity loans of $75.3 million were reclassified from loans at amortised cost to loans at fair value through profit and loss. There was no material re-measurement impact associated with this reclassification.

The following chart shows the value, by loan type, of HomeStart's loan portfolio at 30 June 2019.



The following chart shows the value of gross loans and advances over the past eight years.



The decrease in gross loans over the three years to 2015 reflected higher levels of loan discharges driven by:

- refinancing as a result of lower market interest rates from other lenders
- higher loan repayments and discharges due to lower interest rates allowing faster repayment of outstanding principal amounts.

The increase in gross loans from 2015 is primarily the result of the growth in graduate loans. HomeStart changed the lending criteria for these loans in 2015, allowing students with a TAFE SA certificate III qualification to be eligible for a graduate loan.

Breakthrough loans and shared equity option loans

Breakthrough loans and shared equity option loans are comprised of two components:

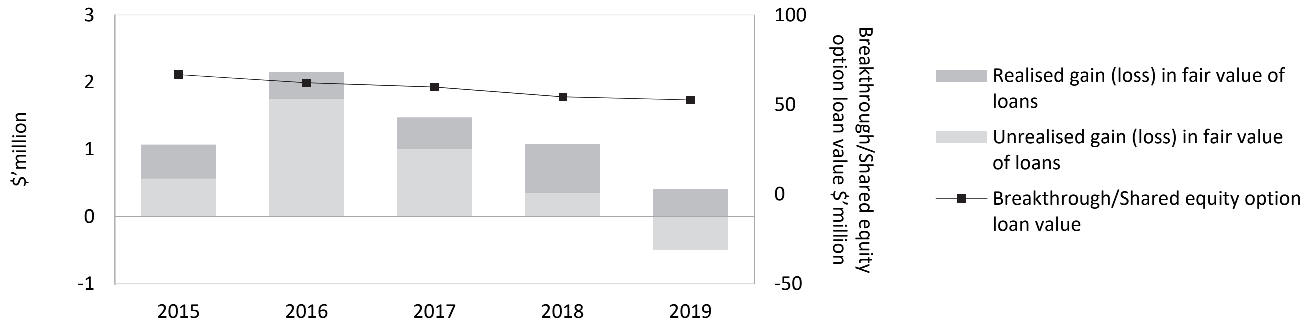
- a standard loan component with standard interest rates and repayments
- a shared appreciation component where the loan is repaid along with a percentage of the increase in property value when the property is sold.

The shared appreciation component of these loans is recognised at fair value through profit and loss, while the standard loan component is recognised at amortised cost.

These loans represent a relatively small portion of total loans and advances, with the breakthrough and shared equity loans representing 2% of HomeStart's total loan portfolio. The impact that the shared appreciation component has on HomeStart's operating result, however, has meant that HomeStart has implemented specific risk management strategies for these loans. One of those strategies is placing a cap on the total value of these loans that will be written or outstanding at any given time.

In 2019 a net $82 000 loss ($1.1 million gain) was recognised for these loans, comprising a $494 000 loss ($355 000 gain) recognised from revaluation and a $412 000 gain ($722 000 gain) recognised on discharge of breakthrough loans. The movement in the value of the shared appreciation component, and the impact of these loans on the operating result, follows the minimal growth in the general property market from the prior year.

The chart below shows the impact of breakthrough loans on HomeStart's operating result and the total value of loans since 2015.



The breakthrough loan product was withdrawn from December 2017, with the new shared equity option loan released in April 2018.

Provisions for impairment

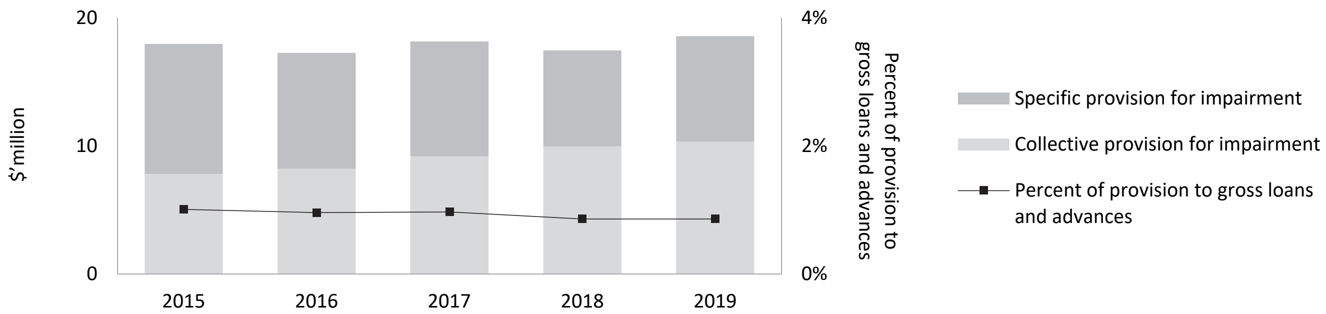
The Australian Accounting Standards Board has issued a new accounting standard AASB 9 *Financial Instruments,* which HomeStart adopted from 1 July 2018. The standard contains a new classification and measurement approach for financial assets and impacts on impairment requirements and other elements. The methodology for determining the provision for credit impairment has changed significantly from an 'incurred loss' model to an 'expected credit loss' model following the application of AASB 9.

HomeStart also assesses whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired at each balance date.

The total provision for impairment increased by $1.1 million to $18.6 million. It has two components based on lifetime expected credit losses:

- the specific provision – representing loans and advances that are individually assessed as impaired. As at 30 June 2019 this was $8.2 million ($7.5 million) with the increase primarily due to a higher level of newly impaired assets
- the collective provision – based on AASB 9. As at 30 June 2019 this was $10.4 million ($10 million). The expected credit loss model is used to calculate this provision.

The following chart shows the level of the total provisions and their composition over the past five years.



Notwithstanding the changes in 2019, the chart shows that the overall level of provisioning has remained consistent, relative to total gross loans and advances, over the period.

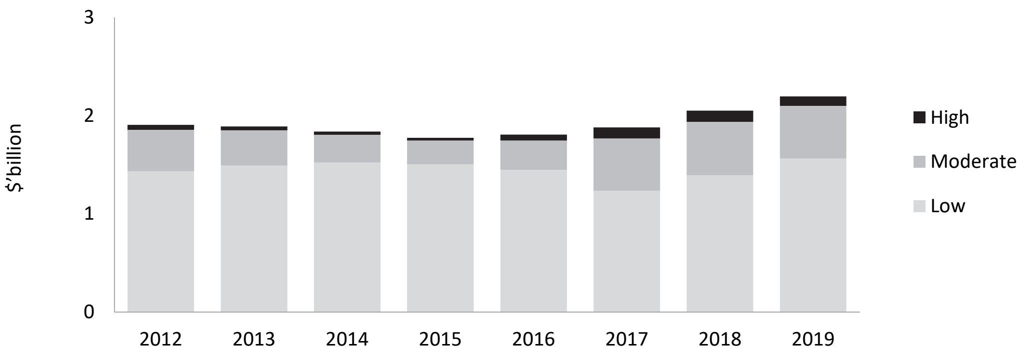
General reserve for credit losses

The use of a general reserve for credit losses, to set aside additional funds in excess of the specific and collective provisions, in line with HomeStart's charter, is consistent with the Australian Prudential Regulation Authority's prudential risk management requirement to retain sufficient retained earnings for capital adequacy purposes. The charter requires HomeStart to maintain a capital adequacy ratio of at least 12%. As at 30 June 2019, HomeStart's capital adequacy ratio was 12.5%. The balance of the reserve at 30 June 2019 was $7.3 million ($8.1 million), which is attributed to maintaining a lower level of arrears during the year.

The combined provisions for impairment and general reserve for credit losses take the total amount set aside for potential losses to $25.9 million ($25.6 million), representing 1.18% (1.25%) of gross loans and advances.

Loan quality

HomeStart assesses the gross value of loans and advances to customers by credit risk grading. The following chart summarises that assessment.



The chart shows that the proportion of high and moderate credit risk category loans reduced until 2015, with most loans assessed as low credit risk. There was an increase in high and moderate credit risk loans from 2016 mainly as a result of changes to the credit risk classifications based on credit scores. The application of AASB 9 has resulted a larger number of loans now assessed as low risk with reductions in high and moderate risk loans.

Risk management for loans

HomeStart's risk profile for its loans has a higher inherent risk than a commercial lender's loan portfolio. Key differences include:

- generally HomeStart customers have lower incomes and borrow a greater percentage of their home value
- there is a significant concentration of lending in regional South Australia and outer metropolitan suburbs
- customers are not required to take out mortgage insurance because HomeStart self-insures losses incurred.

There are geographic areas with a greater concentration of HomeStart loans, with 33% of loans by value secured against properties in the City of Playford and the City of Salisbury. A further 22% of loans by value are secured against properties outside of the Adelaide metropolitan area.

HomeStart manages the risks associated with these concentrations of lending through its general lending policies, including loan to valuation ratios and limits on lending in some instances. As HomeStart lends only to individual owner-occupiers, it holds collateral against the value of the loans outstanding through mortgages on the associated properties.

HomeStart's principal exposure is to the risk of a borrower not being able to repay the loan. Where this occurs, the property may be subject to sale as a mortgagee in possession, with HomeStart seeking to recover outstanding amounts by selling the property. In this situation HomeStart is exposed to market risk that the price achieved for the property's sale does not cover the outstanding balance. HomeStart manages this risk by monitoring property valuations annually and complying with loan to valuation ratios for new loans.

As discussed above, HomeStart seeks to manage the risks associated with loan quality by maintaining a specific provision, a collective provision and a general reserve for credit losses. It also seeks to maintain appropriate capital reserves to cover any significant losses from loan defaults.

Liabilities

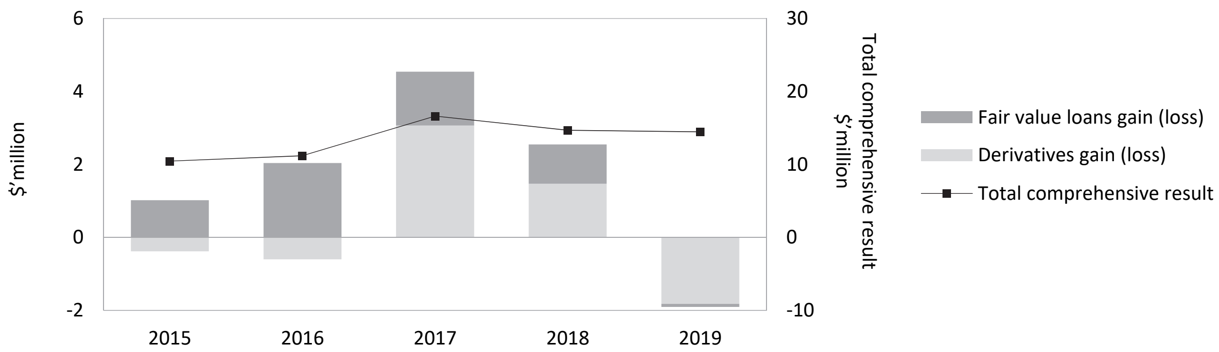
Borrowings at 30 June 2019 were $2 billion ($1.9 billion) and represent 99% (99%) of HomeStart's liabilities. HomeStart is required to use the South Australian Government Financing Authority (SAFA) as its sole counterparty for all funding transactions. At 30 June 2019, HomeStart had a current approved borrowing limit of $2.4 billion ($2.1 billion). All of its borrowings from SAFA mature within five years, with $814 million (including interest) of SAFA debt maturing over the next 12 months.

Fair value and comprehensive result

HomeStart recognises derivatives and certain investments, including breakthrough loans and the shared equity option loan products, at fair value. The changes in market value of these items can impact its Statement of Financial Position and Statement of Comprehensive Income.

Derivatives are used to hedge (protect against) changes in interest rates. While these hedges remain effective (as defined by the accounting standards), changes in the fair value of hedges do not affect profit as they are recognised in the derivatives valuation reserve within equity. However, the realised and unrealised changes in breakthrough and shared equity option loans at fair value are recorded in other expenses or income in the Statement of Comprehensive Income.

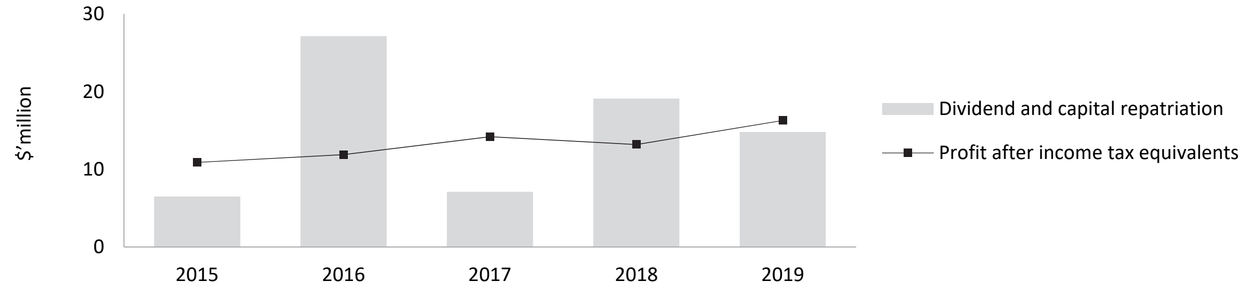
The impact of all these changes is included in the total comprehensive result reported in the Statement of Comprehensive Income. HomeStart's total comprehensive result decreased by $205 000 to $14.5 million in 2018-19. The chart below shows the impact of the changes in the fair value of derivatives and loans classified as fair value through profit and loss on HomeStart's total comprehensive result for the last five years. As mentioned previously the fair value losses follow the minimal growth in the general property market from the prior year.



It is important to appreciate that the financial report combines the financial assets and financial liabilities measured at either fair value or cost. The fair value of net financial assets is $147.9 million ($153.2 million), while the carrying value of net financial assets is $154 million ($158.2 million). The decrease in the margin between fair value and carrying value is as a result of reductions in interest rates during the year.

Distributions to government

The following chart shows profit after income tax equivalents and distributions for the past five years, highlighting HomeStart's sustained profit performance over that period.



In June 2019 the Treasurer approved the payment of a dividend of $14.8 million, noting the remaining dividend from HomeStart's final operating result would be paid in 2019-20. In May 2019, the SA Government determined that all government businesses are now required to pay a dividend ratio of 100% of after tax profit each year from 2018-19. The dividend HomeStart paid is comprised of:

- a dividend adjustment of $212 000 to account for the difference between the forecast profit after tax and the final tax profit in 2017-18
- a dividend of $14.6 million relating to 100% of HomeStart's forecast after tax profit for 2018-19, in line with its 2018-19 performance statement.

HomeStart recognised a dividend payable of $1.7 million ($212 000) at 30 June 2019 for the difference between the forecast profit after tax and the final tax profit in 2018-19, which is not included in the chart above.

HomeStart aims to return dividends to the SA Government regularly, in line with its established performance statement and the requirements of the *Public Corporations Act 1993*. Dividends are recommended by the Board and then approved by the Treasurer.

HomeStart's payments to the SA Government include dividends, guarantee fees and income tax equivalents. It also receives community service obligation (CSO) funding for advantage loans and administering the Nunga loan program.

The following table summarises these transactions with the SA Government for the four years to 2019.

	2016 $'million	2017 $'million	2018 $'million	2019 $'million
SA Government:				
Dividend	27	7	19	15
Tax	5	5	6	7
Government guarantee fee	27	28	29	30
Total to SA Government	59	40	54	52
CSO income	(6)	(6)	(7)	(7)
Net amount provided to SA Government	53	34	47	45

Statement of Cash Flows

Net cash flows

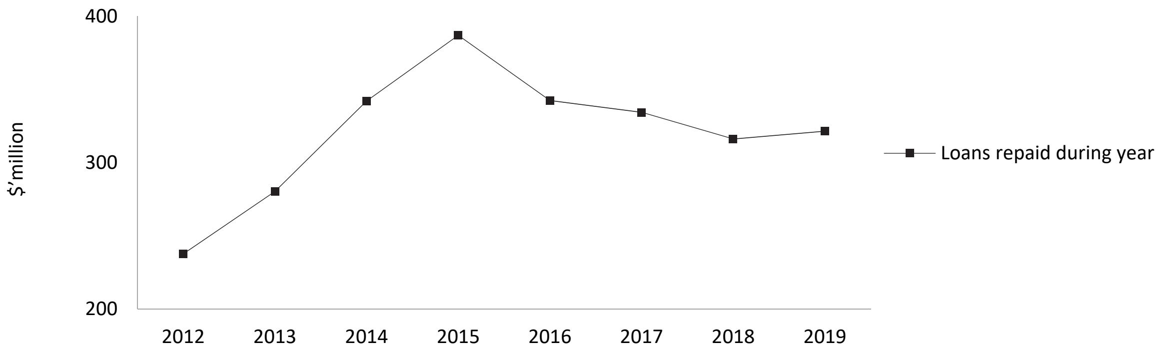
The following table summarises the net cash flows for the four years to 2019.

	2016 $'million	2017 $'million	2018 $'million	2019 $'million
Net cash flows:				
Operating	10	12	10	15
Investing	(29)	(19)	(161)	(142)
Financing	19	10	149	128
Change in cash	-	3	2	-
Cash at 30 June	2	5	3	3

Investing activities relate primarily to the provision of loans to customers. In 2019 there was a net $141.8 million cash outflow for customer loans, which corresponded to the increase in gross loans and advances. The net financing cash inflow of $128 million reflects new SAFA borrowings ($200 million), offset by repayment of borrowings ($58 million) and dividends paid ($14.8 million).

Customer loans repaid

The following chart shows loan repayments, including discharges, since 2012.



Customer repayments increased substantially between 2012 and 2015. This was due largely to the reduction in interest rates resulting in:

- customers choosing to repay more debt or refinance with other institutions to take advantage of more suitable loan arrangements
- fixed repayment loan products repaying proportionately more principal.

The slight increase in repayments in 2019 reflects the increase in average loan value, impacting the average customer loan repayments.

Discharges in 2019 were $244 million, consistent with the prior year.

HomeStart operating parameters

HomeStart is required to operate within financial parameters set down in its charter and performance statement approved annually by the Treasurer and the Minister for Transport, Infrastructure and Local Government.

HomeStart's performance targets compared to actual results are detailed below.

	Cabinet approved operating parameters	Performance statement target for 2019	2018 result	2019 result
Operating profit before tax	n/a	$18.37 million	$18.9 million	$23.3 million
Return on equity	9%	11.3%	11.52%	14.49%
Cost to income ratio	55%	52.1%	53.33%	49.99%
Capital adequacy ratio	12%	14.6%	13.7%	12.5%

The most significant factor contributing to HomeStart's above-parameter return on equity in 2019 was its strong net interest income.

The Treasurer has approved HomeStart's borrowing limit of $2.197 billion.

Department of Human Services (DHS)

Financial statistics	Net cost of providing services:	$1.6 billion
	Revenues from SA Government:	$1.6 billion
	Total assets:	$359 million
	Number of FTEs:	2623.6

Significant events and transactions

- 872 DHS employees transferred to the South Australian Housing Trust (SAHT) in 2018-19 as a result of two machinery of government changes.
- DHS received $470.2 million in additional appropriation from the Treasurer towards a once-off grant payment of $602 million to the SAHT to reprioritise its operations and support its viability.
- DHS incurred $26.8 million of targeted voluntary separation package (TVSP) expenses for 345 employees. Contingency appropriations of $27.5 million were recovered from the Department of Treasury and Finance to cover this cost.
- DHS disposed of $19.4 million of land and buildings, including the sale of land at Magill and the Parks Community Centre. Proceeds totalled $16.8 million.
- Disability clients continued to transition to the National Disability Insurance Scheme (NDIS), with all eligible State funded disability clients transferring by 30 June 2019.
- DHS has transferred business units and responsibilities to the non-government sector in 2018-19, including Adult Therapy Services (ASSIST) and Child and Youth Services (CYS).

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Other audit findings

- Weaknesses in brokerage care services controls.
- Outstanding concessions issues from prior years.
- Bona fide reports not reviewed promptly.
- Domiciliary equipment asset reconciliation not performed.

Functional responsibility

DHS is an administrative unit established under the *Public Sector Act 2009.* It reports to the Minister for Human Services.

The objective of DHS is to deliver and fund quality services that protect and enhance the community's wellbeing and provide support to people when they need it.

DHS previously functioned as a service provider to the SAHT through its Housing SA division. Effective 1 July 2018, Housing SA employees were transferred to the employment of the Chief Executive SAHT. In 2018-19 DHS continued to provide funding to the SAHT for its operations. It also continues to provide services to SAHT under a Memorandum of Administrative Arrangement for procurement, people and culture, internal audit and legal services.

For more information about DHS's objectives and functions refer note 1 of its financial report.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- follow-up of issues raised in 2017-18
- governance review of the transformation of DHS's structure and operations
- compliance with legislation and other government requirements
- expenditure, including grant payments, concessions and brokerage care services
- payroll
- revenue
- cash and general ledger
- fixed assets
- client trust accounts.

We also considered DHS's internal audit coverage when designing and performing audit procedures.

Controls opinion

We reviewed controls over bank accounts as part of our overall controls opinion. Audit outcomes that impacted our controls opinion are discussed in Part B of this Report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

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

Other audit findings

Brokerage care services

In 2018-19 DHS paid $115.1 million ($195.1 million) to care service providers who were engaged through brokerage arrangements.

Weaknesses in brokerage care services controls and processes

For a number of years we have recommended that DHS improve its controls to ensure that brokerage care services invoiced by non-government organisations (NGOs) are received by clients prior to DHS making payment. The importance of improving controls in this area was highlighted in 2015-16, when an NGO that had been providing care and support services to DHS clients through brokerage funded arrangements was investigated about whether services had been provided in line with payments made by DHS.

In 2017-18, DHS advised us that in line with the expectation that all eligible clients will be transitioned to the NDIS by 30 June 2019, the staff allocated to the brokerage system will also decrease. DHS is only able to monitor the delivery and quality of services within available resources.

Our review in 2018-19 identified that due to a high turnover of staff in the brokerage care services area, controls implemented in prior years were not being performed, or were not being performed as intended. We also noted that DHS had identified a potential billing anomaly with a service provider that is being investigated. This instance further demonstrates the need for adequate controls to ensure services are provided prior to payment.

Without adequate controls in place DHS may pay for brokerage care services that have not been received, or are not meeting the standard required under contracts with NGOs. We understand that brokerage care services will no longer be provided after the full transition of clients to the NDIS. We were advised that a team will remain for the first few months of 2019-20 to complete the closure of these services.

DHS responded that it will conduct an internal audit review of the brokerage system to coincide with the closure of these services, which will consider whether further follow-up of brokerage payments is warranted.

Concessions payments

In 2018-19 DHS made concessions payments of $155.8 million ($160.6 million).

Outstanding concessions issues from prior years

In prior years we have comprehensively reviewed concessions administered by DHS. This included a data analytics review of concessions in 2015-16 that resulted in a Supplementary Report to Parliament. As part of this data analytics review, and a follow-up review performed in 2016-17, we identified and reported a number of issues and recommended improvements to the way DHS administers concessions, including the systems used.

In 2016-17 DHS advised us that an external review of its ConcessionsSA business would be performed, covering the concession systems, processes and scheme design. In 2017-18 DHS advised us that this review had been completed and that the recommendations made may address the outstanding issues we raised. We have reviewed the current status of the outstanding issues and found further action is still required to resolve them, as discussed below.

— *Limited validation of water and sewerage concession payments to pensioners prior to payment*

We have previously reported that there is limited validation of the accuracy of water and sewerage concession payments to pensioners prior to payment. DHS previously advised that it is considering options for increasing the validation of these payments in the future.

In 2018-19 we found that DHS is still considering its options, pending the completion of the energy administration transfer project (discussed further below).

— *DHS and energy retailers operating outside of the established energy concession scheme*

We previously identified that DHS and energy retailers are operating outside of the established SA Government Customer Concession Scheme for Energy (the scheme). DHS previously advised that although it believes it adheres to the intent of the scheme, it does not follow certain aspects of it as it considers it impractical to do so.

To partially mitigate the risk of operating outside of the scheme, DHS issued letters to energy retailers outlining each party's responsibilities. Based on legal advice this acts as a contractual agreement. Despite this, DHS agreed in 2016-17 that the scheme should be updated following the completion of the external review.

We were advised that a project has commenced to explore the potential transfer of energy administration to retailers and analyse potential new models for concession administration. We note the update of the scheme has been repeatedly delayed due to the external reviews undertaken to reform ConcessionsSA.

If the issues we have raised are not adequately addressed, inappropriate concessions payments may be made resulting in financial loss or reputational risks to DHS.

DHS responded that residual concessions issues will be addressed through the outcome of the energy concession administration review.

Payroll

In 2018-19 DHS's salaries and wages expense totalled $201.9 million.

Bona fide reports not reviewed promptly

Reviewing and approving bona fide reports provides assurance that payroll payments are only made to valid employees. If they are not promptly reviewed, inaccurate payments may be made to employees. We reviewed bona fide reports at DHS and found instances where reports were not reviewed and approved promptly.

This was also raised as an issue with DHS in prior years. In 2018-19, we found a significant increase in the number of days reports were outstanding. We understand this increase is largely due to DHS restructuring throughout the year. We were advised this has led to gaps in how the reports are escalated to senior managers. With many employees separating from DHS at the end of June, this issue is likely to be further exacerbated.

DHS responded that restructuring has resulted in delays in updating the payroll system for reporting. It expects that once the reform initiatives are completed the payroll data will stabilise. In the meantime, DHS has reminded managers to promptly review the bona fide reports.

Assets

The carrying amount of DHS's domiciliary equipment assets is $6.7 million ($5.7 million).

Domiciliary equipment asset reconciliation not performed

Domiciliary Equipment Services (DES) uses an inventory management system to manage its equipment assets. We found that DES was not reconciling the inventory management system to the Shared Services SA managed fixed asset register.

We raised this as an issue in 2017-18, and DHS told us that DES had reviewed the equipment assets recorded and had undertaken reconciliations within available resources.

Without regular reconciliations, discrepancies between the systems may not be identified resulting in inaccurate asset balances in the financial report.

In 2018-19 DHS responded that additional resources have been provided to DES and trained to reconcile the systems.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	308	389
Supplies and services	212	305
Grants and subsidies	1 031	642
Other expenses	222	186
Total expenses	1 773	1 522
Income		
Fees and charges	51	125
Commonwealth grants	101	116
Other revenues	34	43
Total income	186	284
Net cost of providing services	1 587	1 238
Revenues from (Payments to) SA Government	1 548	1 258
Net result	(39)	20
Other comprehensive income	-	-
Total comprehensive result	(39)	20
Net cash provided by (used in) operating activities	(74)	74
Assets		
Current assets	188	273
Non-current assets	171	193
Total assets	359	466
Liabilities		
Current liabilities	111	165
Non-current liabilities	63	79
Total liabilities	174	244
Total equity	185	222

Statement of Comprehensive Income

Expenses

In 2018-19 total expenses increased by $252 million to $1.8 billion. This included increases in grants and subsidies ($389 million) and other expenses ($34.1 million), partially offset by decreases in supplies and services ($92.4 million) and employee benefits expenses ($80.9 million).

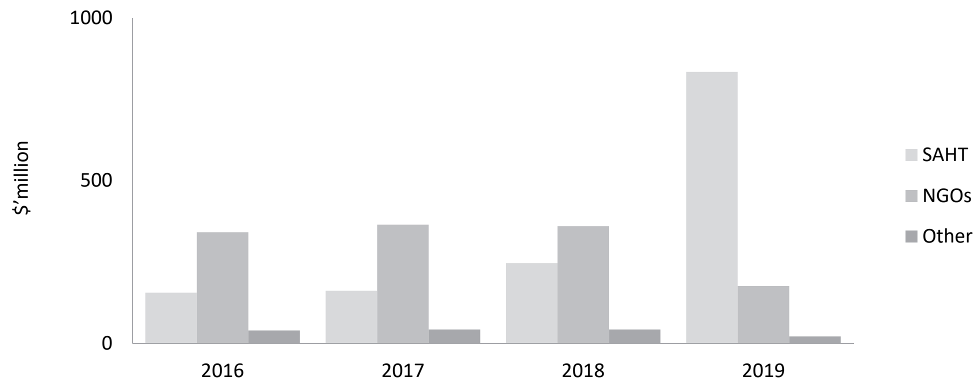
Grants and subsidies

Grants and subsidies of $1 billion ($641.9 million) are DHS's largest expenditure category. The major grant expenses by program in 2018-19 include:

- SAHT, $834.2 million ($245.7 million), which increased by $588.5 million largely because of a once-off grant payment of $602 million to help it reprioritise its operations and support its ongoing viability
- disability grants, $132.7 million ($262.8 million), which fell because of the impact of the NDIS transition.

In 2018-19 no payments were made for the specialist homelessness services grant, as responsibility was transferred to the SAHT. $65.5 million was paid in 2017-18.

Note 3.3 of DHS's financial report discloses a detailed list of grants, subsidies and client payments by program and recipient type. The following chart shows the breakdown by recipient type for the four years to 2019.



Note 3.3 of DHS's financial report provides a detailed list of NGO payments by organisation. Funding to NGOs decreased by $184.4 million in 2018-19 to $175.6 million. This significant decrease is due to disability clients transitioning to the NDIS and other disability and aged care reforms transferring the provision of these services from DHS to the non-government sector. The discussion under 'Disability and aged care reform' below provides more information on this.

Other expenses

The increase in other expenses of $34.1 million is largely due to an $87.1 million increase in NDIS payments. This increase is due to the continuing transition of clients to the NDIS in 2018-19, with associated funding transferred from DHS to the National Disability Insurance Agency (NDIA). Transition eligibility was:

- children aged between zero and 14 years from 1 July 2013 (based on age)
- young people aged between 15 and 17 from 1 January 2017
- adults aged between 18 and 64 from 1 July 2017.

In 2018-19 NDIS expenditure totalled $183.1 million including the fixed State contribution under the full scheme bilateral agreement, offset by cash ceiling adjustments and in kind provision of services (such as the supported accommodation DHS continues to provide to disability clients).

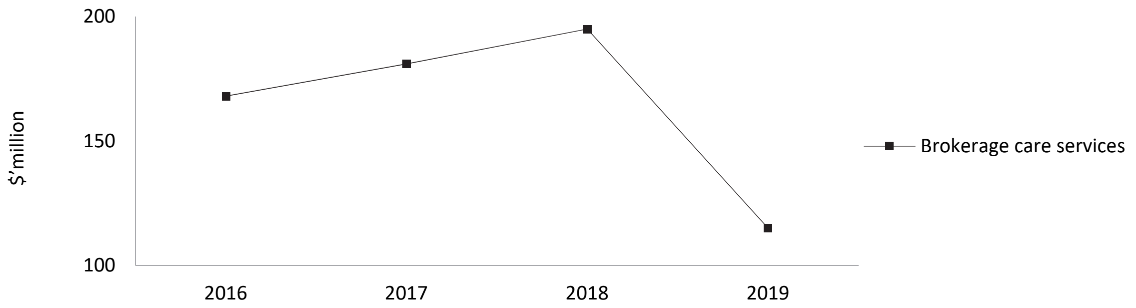
The increase in NDIS payments was offset by a $53 million decrease in aged care and disability services reform payments to the Commonwealth, down from $77.8 million in 2017-18 to $24.8 million. This payment is for services provided by the Commonwealth to clients that are the State's responsibility under the Transition to a National Disability Insurance Scheme bilateral agreement. The transitional agreement ended in 2018-19.

Supplies and services

In 2018-19 supplies and services expenses decreased by $92.4 million to $211.8 million. Brokerage care services expenses of $115.1 million account for 54% of this total and decreased by $80 million from 2017-18.

Brokerage care services expenses have significantly decreased as eligible disability clients transitioned to the NDIS during the year. Given all eligible disability clients were transferred by 30 June 2019, brokerage care services expenses will reduce further in 2019-20 as payments are finalised.

The following chart highlights the changing demand for brokerage care services and the associated expenses for the four years to 2019.



Employee benefits expenses

Employee benefits expenses decreased by $80.9 million to $307.8 million in 2018-19. This is mainly due to:

- an $83.7 million decrease in salaries and wages (29%). DHS reduced its FTEs as at 30 June 2019 by 1307.7 (33%), which is partially offset by increases in salary rates. There is a corresponding decrease in superannuation ($10.1 million), annual leave ($8 million) and payroll tax ($4.9 million). Most of the reduction in FTEs relates to the machinery of government change that transferred employees to the SAHT
- a $1.8 million decrease in eligible termination payments (ETP). In 2017-18 ETP expenses related to Domiciliary Care employees who were paid a sector retention payment to transfer to the Royal District Nursing Services South Australia (RDNS). In 2018-19 ETPs were paid to CYS and ASSIST employees transferring out of DHS, and to other staff who were materially affected by disability and aged care reforms. Overall, fewer staff received ETPs in 2018-19, resulting in the decrease
- a $24.3 million increase in TVSPs. 345 employees received TVSPs compared to 28 in 2017-18. Most related to employees in the NDIS Reform and Services division, with other major areas affected including Accommodation Services and corporate divisions
- a $6.5 million increase in workers compensation expense, attributable to an increase in payments and the workers compensation provision being revalued to a higher amount after an actuarial assessment. The discount rate applied in the actuarial assessment decreased in 2018-19, resulting in a higher liability.

Income

In 2018-19 total income decreased by $97.9 million to $186.2 million. This included decreases in fees and charges ($74.2 million), Commonwealth grants ($14.7 million), other income ($6.9 million) and resources received free of charge ($2.1 million).

Fees and charges

Fees and charges decreased by $74.2 million to $51.2 million largely due to:

- a $66.6 million decrease in recoveries for employee related services for Housing SA. Housing SA employees transferred to the SAHT effective 1 July 2018
- a $7.4 million decrease in business services income that resulted from the second tranche of corporate services employees transferring to SAHT effective 1 December 2018.

Commonwealth grants

Commonwealth grants decreased to $101.2 million in 2018-19 from $115.9 million. This decrease of $14.7 million is primarily due to:

- an increase in revenue from the DisabilityCare Australia Fund of $37.6 million. Revenue raised by the Commonwealth for the July 2014 increase to the Medicare levy is received into the DisabilityCare Australia Fund to reimburse governments for NDIS expenditure. 2018-19 is the first year DHS has received the full fixed amount from the fund
- an increase of $18.6 million for the Continuity of Support Programme. This program was new in 2017-18 and only recognised for one quarter. 2018-19 revenue represents a full year of funding. The Continuity of Support agreement covers accommodation support – group homes, funding for accommodation support – institutions, and therapy support
- a $32.4 million decrease in aged care and disability services reform (specialist disability services) grants, which is for providing services to disability clients over the age of 65 who are the responsibility of the Commonwealth under the Transition to a National Disability Insurance Scheme bilateral agreement. In 2018-19 the transitional agreement ceased
- a $23.5 million decrease in Commonwealth Home Support Programme revenue. The reduction is a result of the transfer of Domiciliary Care to the RDNS at the end of 2017-18. Consequently, DHS no longer receives funding for this
- a $9 million decrease in national partnership payments for homelessness. In 2018-19 responsibility for this grant program transferred to the SAHT.

Other income

Other income decreased to $29 million in 2018-19 from $35.9 million. This decrease of $6.9 million is primarily due to:

- other income of $6.6 million in 2017-18 including revenue from the transfer of Domiciliary Care services from DHS to the RDNS. In 2018-19 there is other income of $2.1 million including revenue from the transfer of ASSIST from DHS to Minda. Refer to the discussion under ‘Disability and aged care reform’ below for more information

- a decrease in NDIS revenue of $2.8 million. DHS received less funding as a result of CYS transferring to Kudos Services in 2018-19. This is partially offset by an increase in NDIS revenue for DES.

Revenues from and payments to SA Government

Revenues from the SA Government increased by $292.4 million to $1.6 billion in 2018-19, largely due to:

- a $273.6 million increase in appropriations from the Consolidated Account. DHS's original budgeted appropriation for 2018-19 was $1.1 billion. The original amount DHS received under the *Appropriation Act* was not varied, however it received additional appropriation of $470.2 million from the Treasurer through an adjustment under section 13 of the *Public Finance and Audit Act 1987* and the Governor's Appropriation Fund. The increase in appropriations was received by DHS for an increase in grants paid to the SAHT
- an $18.7 million increase in contingency funding to recover the cost of TVSP payments.

Payments to the SA Government increased by $1.8 million to $16.6 million in 2018-19. This relates to the return of proceeds for asset sales, including land at Magill and the Parks Community Centre.

Statement of Financial Position

Assets

Cash and cash equivalents of $164.1 million and property, plant and equipment of $163.1 million represent 91% of DHS's total assets.

Total assets decreased from $466.5 million to $359 million as at 30 June 2019, largely due to:

- a $63.9 million decrease in DHS's cash and cash equivalents balance. This is due to additional cash held at 30 June 2018 for material NDIS and Commonwealth invoices that were subsequently paid in July 2018, and a decrease in amounts held within the Accrual Appropriation Excess Funds Account, which is not available for general use but can only be used in line with the Treasurer's/Under-Treasurer's approval. The account had a balance of $90.1 million at 30 June 2019, down from $142.9 million at 30 June 2018
- a $19.2 million decrease in assets held for sale as the Parks Community Centre and land at Magill were sold in 2018-19
- a $17.1 million decrease in receivables mainly due to employee related services recoverable from the SAHT being derecognised as a result of the machinery of government change that saw Housing SA employees transfer from DHS to SAHT effective 1 July 2018.

Liabilities

Total liabilities decreased by $70.1 million to $173.7 million. This was largely due to:

- a $64.7 million decrease in payables resulting from accruals in 2017-18 including a $25.9 million payable to the Commonwealth for the Continuity of Support Programme, $16 million payable for the NDIS State contribution and a $10 million payable to the Department of Treasury and Finance's Consolidated Account for the repayment of proceeds for asset sales throughout the year. The reduction in payables is also due to less accrued brokerage care services expenses. This function of DHS is ending as the NDIS is fully transitioned

- a $6.1 million decrease in employee benefit liabilities. While DHS's FTEs decreased from 3931.3 to 2623.6 at 30 June 2019, many employees separated from DHS at the end of June 2019. The liability for these employees was paid in July 2019.

Highlights of the financial report – administered items

	2019 $'million	2018 $'million
Expenses		
Grants, subsidies and client payments	190	202
Client trust payments	12	13
Other expenses	5	5
Total expenses	207	220
Income		
Grants and contributions	11	11
Client trust receipts	11	12
Other income	1	2
Total income	23	25
Net cost of providing services	184	195
Revenues from (Payments to) SA Government	185	197
Net result	1	2
Other comprehensive income	3	-
Total comprehensive result	4	2
Assets		
Current assets	74	71
Non-current assets	27	26
Total assets	101	97
Liabilities		
Current liabilities	10	11
Total liabilities	10	11
Total equity	91	86

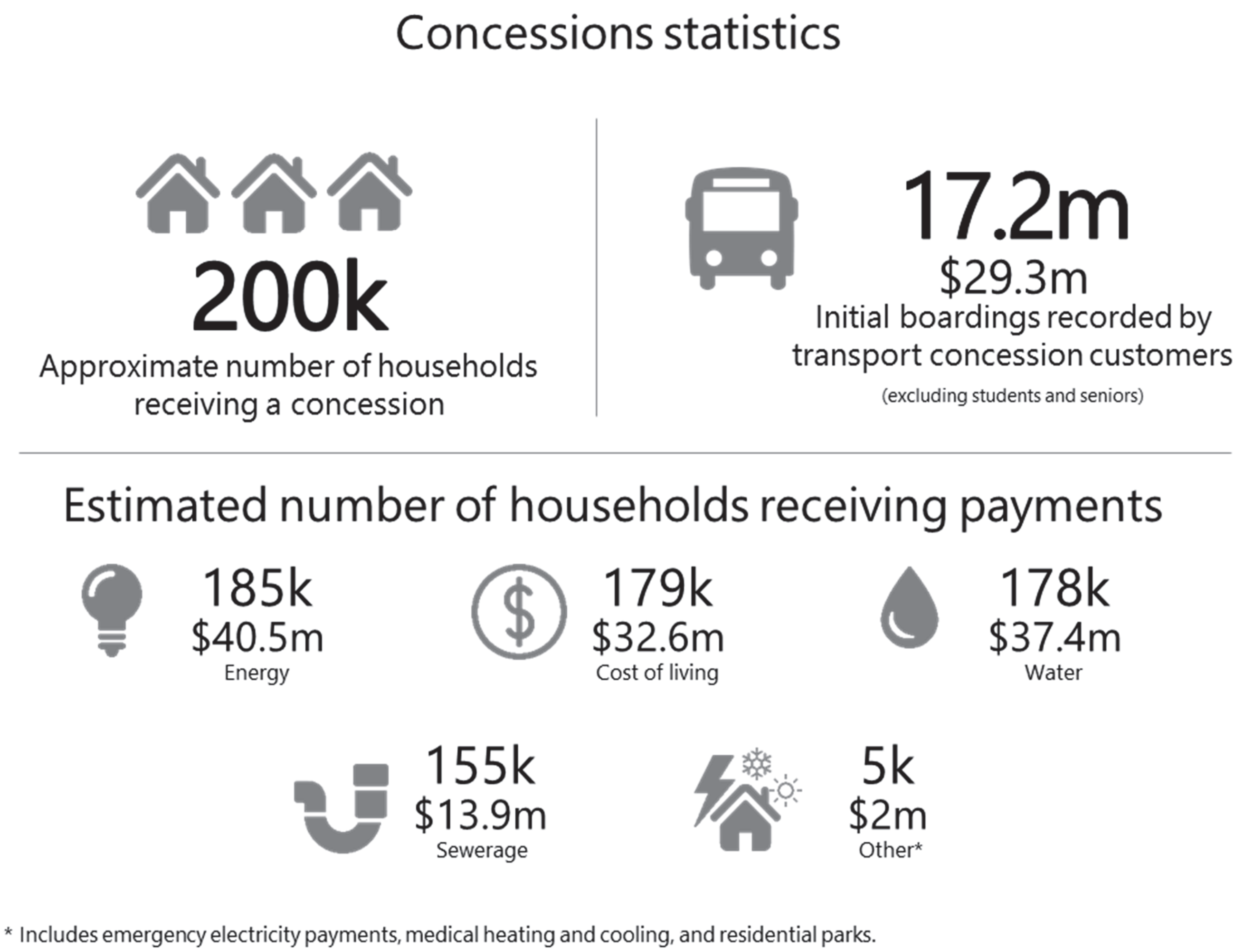
Statement of Administered Comprehensive Income

Administered expenses

Grants, subsidies and client payments of $190.2 million represent 92% of total administered expenses. This balance is largely made up of concession payments (82%).

Concession payments decreased by $4.8 million to $155.8 million. This is largely due to a $6.5 million decrease in Emergency Services levy payments. Responsibility for the Emergency Services levy remission transferred to the Department of Treasury and Finance in 2018-19. This was offset by increases in energy, water and sewerage rate and cost of living concessions due in part to annual CPI increases.

The following chart highlights concession payments by number and value in 2018-19.



DHS advised that approximately 200 000 households received an SA Government concession in 2018-19. Most of these households received more than one concession type during the year and therefore one household may show up in more than one concession type in the above chart.

Further commentary on operations

National Disability Insurance Scheme

The NDIS has been gradually rolled out across Australia since 2013. From 1 July 2017 adults aged 18 to 64 were able to enter the scheme (depending on geographical location). It was expected all eligible State funded disability clients would transition to the NDIS by 30 June 2018. Due to delays, the actual transition of eligible clients was completed by 30 June 2019.

The primary role of South Australia under the bilateral agreement with the Commonwealth is to plan, assist, encourage and manage eligible participants to transition to the NDIS. The NDIS involves agreed payments between the Commonwealth and SA Governments to fund the scheme.

Annual expenditure on disability services in South Australia will rise significantly to $1.5 billion by 2019-20 (indexed annually), with $752 million provided by the SA Government.

The State's bilateral contribution to the NDIS scheme in 2018-19 was forecast to be $723.1 million. However, due to the delays in the transition of existing South Australian specialist disability clients, the actual NDIS payment to the Commonwealth in 2018-19 was $183.1 million. The State's contribution has been reduced by a fixed cost discount of $39.7 million, a variable per person contribution discount of $255.7 million, a $120 million cash ceiling adjustment and $127.2 million for 'in-kind services' (such as the supported accommodation DHS continues to provide to disability clients). This is an increase from 2017-18 payments of $96.1 million.

In 2018-19, DHS's expenditure relating to disability services decreased as clients transitioned to the NDIS. This includes a reduction in brokerage care expenses (part of supplies and services expenses) and disability grants. Refer to commentary under 'Expenses' above.

In 2018-19, the total expenditure for the NDIS and Disability Services program was $753.3 million. This consists of $183.2 million supplies and services expenditure (predominantly brokerage care expenses) and $134.6 million grant expenditure, mainly relating to the funding of disability services to the NGOs for existing clients who had not yet transitioned to the NDIS. There are also bilateral agreement payments of $183.1 million for NDIS payments for clients who have transitioned and $24.8 million for Aged Care and Disability Services Reform payments to the Commonwealth. The rest of the NDIS Reform program expenditure relates to employee benefits expenses for DHS employees, NDIS projects and initiatives and depreciation and amortisation.

We performed reviews in 2016-17 and 2017-18 that considered the role of DHS in the transition to the NDIS, focusing on governance and risk. In 2018-19 we undertook a review to understand the impact the transition to the NDIS had on DHS's operations, including reducing disability grants and brokerage care expenditure and transferring functions to the non-government sector. Refer to the discussion under 'Disability and aged care reform' below.

Disability and aged care reform

On 7 February 2017 the SA Government approved a number of significant changes to the way disability services will be provided in South Australia, in response to Commonwealth disability and aged care reform. These changes, along with the transition to the NDIS, had a significant impact on DHS's operations, structure and finances in 2018-19 and will continue to do so in future years. Key aspects of this reform in 2018-19 include:

- the transition of the CYS division to an employee-led mutual
- the transition of ASSIST to the non-government sector.

Our 2018-19 audit sought to gain an understanding of the changes occurring at DHS in 2018-19 and beyond to identify risks and determine if DHS had appropriately managed transitioning business units to the non-government sector. The scope of our review included ensuring that:

- the transformation of structure and operations at DHS are effectively monitored
- services are being appropriately managed during the transitions to prevent negative client impact
- the impact of transitions on the DHS workforce have been determined
- transitional risks to DHS and the State are appropriately managed.

There were no significant findings from our review.

Transition of CYS to an employee-led mutual for early childhood early intervention (ECEI) services

An employee-led mutual was set up as a company limited by guarantee on 8 February 2018 for the provision of ECEI services under the NDIS. The employee-led mutual was established separate from the public sector to deliver the ECEI services through a cooperative or mutual governance structure, whereby members of the organisation can be involved in decision-making. The NDIA provided funding of $2.2 million to support the establishment of the new service provider.

A grant agreement was signed between the SA Government and the NDIA for the provision of ECEI services in South Australia, which runs from 1 March 2018 to 31 December 2022. This agreement was initially delivered by DHS's CYS division while the employee-led mutual was established. CYS transferred to the new mutual, Kudos Services, from 1 October 2018, along with the responsibility for ECEI services under the grant agreement.

A total of 114 employees transferred to the mutual. DHS paid a sector retention payment to all eligible DHS employees transferring to the mutual, to encourage them to remain with the mutual to ensure continuity of care for clients. 44 employees received these payments, totalling $660 000. DHS also made a payment to Kudos Services to take on $1.3 million of employee benefit liabilities for the transferring staff.

Transition of ASSIST to the NGO sector

ASSIST provides allied health/therapy services for adults with a disability. ASSIST transferred to Minda Incorporated effective 30 November 2018 after a market process. Minda made a payment of $1.5 million to DHS for the ASSIST business unit, which has been recognised in other income.

65 employees transferred to Minda, with DHS de-recognising $1 million of employee benefit liabilities for these staff. 39 employees received a sector retention payment to a combined value of $585 000. This is reflected as eligible termination payments in employee benefit expenses.

Other planned disability and aged care reforms

Other planned disability and aged care reforms impacting DHS in the future include the transfer of DES to the non-government sector. A market process commenced in 2018-19, however DHS did not identify a suitable provider to meet the objectives of the transfer.

Machinery of government changes

DHS was affected by multiple machinery of government transfers in 2018-19. The most significant of them related to the SAHT:

- The Public Sector (Reorganisation of Public Sector Operations – South Australian Housing Trust) Notice 2018, gazetted on 28 June 2018, transferred all 831 employees from Housing SA within DHS to the SAHT, effective 1 July 2018. As a result DHS transferred $25.1 million of liabilities to the SAHT. DHS derecognised a corresponding $25.2 million of employee related services recoverable from receivables, as the previous administrative arrangements were that the SAHT repaid DHS for Housing SA employee benefit expenses.

- A further transfer of 41 employees from DHS to the SAHT occurred as a result of the Public Sector (Reorganisation of Public Sector Operations – South Australian Housing Trust No. 2) Notice 2018 gazetted on 6 December 2018, effective 1 December 2018. These employees were part of DHS's corporate services division. $1.4 million of liabilities were transferred to the SAHT, resulting in a net increase to equity.
- The Public Sector (Reorganisation of Public Sector Operations) Notice 2018, gazetted on 14 June 2018, transferred 11 employees from Multicultural Affairs within DHS to the Department of the Premier and Cabinet, effective 1 July 2018.
- The Early Intervention and Research Development unit transferred from the Department of the Premier and Cabinet to DHS effective 1 October 2018. A total of six positions transferred.

Further machinery of government changes will occur in 2019-20, including:

- Child and Family Support Services will be transferring to DHS from the Department of Education and Department for Child Protection effective 1 July 2019. The Public Sector (Reorganisation of Public Sector Operations – Child and Family Intensive Support System) Notice 2019, gazetted on 27 June 2019, identifies 232 employees who will transfer.

Independent Commissioner Against Corruption (ICAC)

Financial statistics	Net cost of providing services:	$13.6 million
	Revenues from SA Government:	$13.7 million
	Number of FTEs:	70.1

Significant events and transactions

— The Commissioner released four major reports in 2018-19:

- Evaluation of the Practice, Policies & Procedures of the Regulatory Arm of SafeWork SA
- ICAC Public Integrity Survey 2018
- A Twelve Month Review of the Police Complaints and Discipline Act 2016
- The Trusted Insider – An Examination of Issues from Two ICAC Investigations.

Financial report opinion **Unmodified**

Functional responsibility

The Independent Commissioner Against Corruption (the Commissioner) and the Office for Public Integrity (the OPI) are established under the *Independent Commissioner Against Corruption Act 2012*.

The activities of both the Commissioner and the OPI are included in the financial report as they constitute a single entity, ICAC, for financial reporting purposes.

The primary functions of the Commissioner are to identify and investigate corruption in public administration and prevent or minimise corruption, misconduct and maladministration in public administration through referral of potential issues, education and evaluating practices, policies and procedures.

The primary function of the OPI is to receive and assess complaints and reports about public administration, corruption, misconduct and maladministration and to make recommendations for taking action on them.

Note 1.2 of the ICAC financial report further explains the objectives and functions of the Commissioner and the OPI.

Scope of the audit

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

Specific areas of audit attention in 2018-19 included:

- governance
- expenditure
- payroll
- revenue
- cash
- general ledger processing.

We considered internal audit activities in designing and performing audit procedures.

Audit findings

Communicating our audit findings

We did not identify any audit findings that required a management letter to the Commissioner.

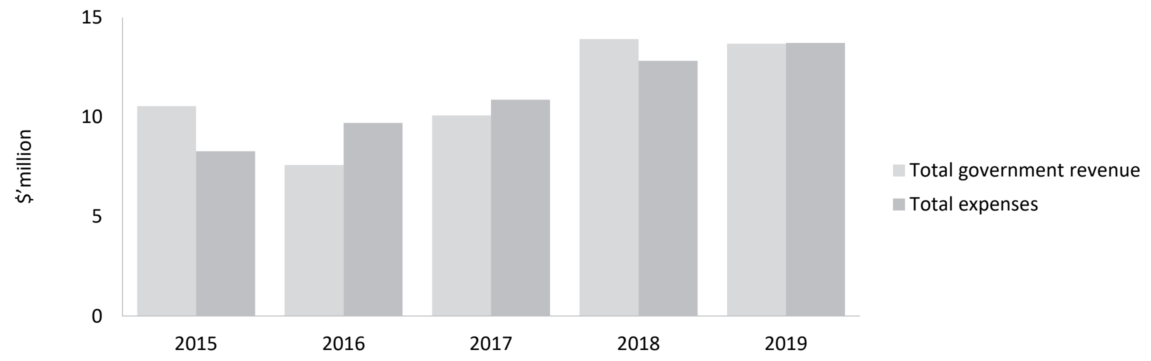
Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	9	8
Supplies and services	4	4
Other expenses	1	1
Total expenses	14	13
Net cost of providing services	14	13
Revenues from SA Government	14	14
Net result and total comprehensive result	-	1
Net cash provided by (used in) operating activities	1	3
Net cash provided by (used in) investing activities	-	(1)
Assets		
Current assets	6	6
Non-current assets	4	5
Total assets	10	11
Liabilities		
Current liabilities	2	3
Non-current liabilities	1	1
Total liabilities	3	4
Total equity	7	7

Statement of Comprehensive Income

The following chart shows total expenses and total government revenue over the past five years.



The chart shows that both expenses and government revenue remained stable in 2019 following increased activity in 2018.

Expenses

ICAC's expenses increased by $880 000 to $13.7 million.

Employee benefits expenses increased by $893 000 mainly due to increases in salaries and wages of $522 000 and long service leave of $217 000. Salaries and wages increased due to the creation of new positions while long service leave increased due to the transfer of employees from other government departments and the impact of the decrease in the bond rate used to calculate liabilities.

Supplies and services decreased by $133 000 mainly due to decreased legal fees of $476 000. In 2017-18 ICAC engaged external legal services to assist in investigations into maladministration in public administration, in particular the Oakden review. The decrease was offset by:

- increased ICT expenses of $220 000 due to an increase in network, software and hardware maintenance costs
- increased operating lease minimum payments of $153 000 due to the full-year effect of the transfer of the Police Ombudsman office accommodation to ICAC.

Income

ICAC relies on revenues from the SA Government, which decreased by $232 000 to $13.7 million because in 2017-18 ICAC received additional funding for the Oakden investigation.

Statement of Financial Position

Assets

ICAC's assets decreased by $586 000 to $10.5 million. This is mainly due to a decrease in property, plant and equipment of $994 000 as a result of depreciation and amortisation.

These decreases were offset by an increase in cash of $627 000. 'Statement of Cash Flows' below explains the increase.

Liabilities

ICAC's liabilities decreased by $679 000 to $3.7 million. The major items causing this change were:

- payables decreasing by $1.2 million. As at 30 June 2018 there was an outstanding amount in creditors for office fitout of $1.2 million
- employee benefit liabilities increasing by $444 000 to $2.3 million. Annual leave was up $64 000 and long service leave was up $384 000, of which $138 000 was due to the decrease in the bond rate used to calculate the long service liability, with the remainder due to the transfer of employees from other government agencies and their associated leave entitlements.

Statement of Cash Flows

Cash and cash equivalents at 30 June 2019 were $6.1 million ($5.5 million). Net cash provided by operating activities was $553 000, a decrease of $2.3 million from 2018 due to increases in employee benefits payments, up $818 000, and supplies and services payments, up $1.2 million.

Department for Innovation and Skills (DIS)

Financial statistics

Net cost of providing services:	$458 million
Revenues from SA Government:	$450 million
Infrastructure recharge – TAFE SA:	$54 million
Grants and subsidies:	$386 million
Supplies and services:	$80 million
Employee benefits:	$56 million
Number of FTEs:	349

Significant events and transactions

— DIS was involved in a number of machinery of government changes in 2018-19:

- its name changed to the Department for Innovation and Skills in April 2019
- responsibility for International Engagement, Trade, Health Industries South Australia, Industry and Business Growth, Case Management, Regions and Industry, Policy and Analytics and a number of corporate employees transferred from DIS to the new Department for Trade, Tourism and Investment
- responsibility for Arts South Australia, Aboriginal Affairs and Reconciliation and the Aboriginal Heritage Fund transferred from DIS to the Department of the Premier and Cabinet from 1 July 2018
- a number of corporate employees transferred from DIS to the new Department for Energy and Mining.

— DIS provided total funding to TAFE SA of $259 million, for the provision of vocational education and training (VET) and other grant funding.

— the Skilling South Australia initiative commenced, to be funded by $100 million from the SA Government and a further $92 million from the Commonwealth Government. The initiative aims to create an additional 20 800 apprenticeships in South Australia over four years.

Financial report opinion

Unmodified

Controls opinion findings	DIS used its special deposit account for transactions of the Small Business Commissioner, outside of the established purpose of the account.
Other audit findings	— Clear activity targets were not set in the Memorandum of Administrative Arrangement (MoAA) with TAFE SA. — Nominal hours for units of competency were not reviewed for reasonableness. — A grant payment was made before a variation to the MoAA was executed. — Grant payments continued to a grant recipient although obligations had not been met.

Functional responsibility

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

Its main function is to drive economic growth and create jobs while supporting South Australia's economic transformation.

Full details of DIS's objectives are contained in note 1.2 of its financial report.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- expenditure, including funding to TAFE SA and private service providers, grants and accounts payable
- employee benefits and payroll processing
- revenue from fees and charges
- property, plant and equipment
- cash management, including bank reconciliations
- general ledger.

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

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

DIS used its special deposit account for transactions of the Small Business Commissioner

We found that DIS used its special deposit account to record expenditure and revenue of the Small Business Commissioner in 2018-19. Each special deposit account has an approved purpose and using the DIS account to record receipts and payments for the Small Business Commissioner, a separate entity, was not covered by the approved purpose.

We recommended DIS establish a separate special deposit account for the Small Business Commissioner.

In response DIS advised that a separate special deposit account for the Small Business Commissioner was in place from 1 July 2019.

Other audit findings

Payments to TAFE SA and private service providers

DIS provided $259 million in funding to TAFE SA, with $145 million of this for VET subsidies based on resulted hours by TAFE SA. It also provided $48 million of VET subsidies to other service providers.

Clear VET activity targets were not set in the 2018-19 MoAA with TAFE SA

DIS entered into a number of interim MoAAs with TAFE SA before the final MoAA was set in May 2019.

The MoAA is intended to be the key document outlining the arrangements between DIS, as the funding body, and TAFE SA as the service provider. In this context, these documents should be in place from the start of the financial year to which they relate, with subsequent issues addressed through amendments as required.

The final MoAA requires DIS to pay subsidies to TAFE SA for certain VET services and to make other payments under schedules to the MoAA, with total payments to agree to the approved budget in the Department of Treasury and Finance's budget monitoring system.

Previous MoAAs have specified the expected number of training hours TAFE SA would deliver, but that was not included in the 2018-19 MoAA. As a result there is no clear target for TAFE SA VET delivery and it is not clear how DIS is ensuring its VET policy outcomes are being achieved.

DIS responded that an updated MoAA for 2019-20 was executed on 3 July 2019 with the services required outlined in an attachment to the MoAA. The attachment included the delivery profile and hours available to TAFE SA to support industry skill needs.

Nominal hours for units of competency were not reviewed for reasonableness

DIS makes subsidy payments to training providers based in part on the nominal number of hours allocated to each unit of competency. The nominal hours for nationally endorsed training packages are sourced from the Victorian Purchasing Guide (VPG).

We found DIS had not assessed whether the VPG hours were appropriate for use in the South Australian VET subsidy environment. DIS verifies the VPG nominal hours against the nominal hours contained within DIS's system, but this is a check to confirm they are the same, not a review of their appropriateness.

Without assessing whether the nominal hours determined in the VPG are appropriate for South Australia, there is a risk that DIS may be paying more (or less) than is appropriate for a given unit of competency.

DIS agreed with this finding in principle, noting that additional resources would be needed to effectively assess nominal hours. It advised it would investigate alternative solutions that are cost effective and aligned with the recommendation to review the VPG hours.

Arts and cultural grants

In 2018-19 DIS paid $20 million in arts and cultural grants.

A grant payment was made to a recipient before a variation to the MoAA was executed

DIS's grants procedure requires divisions to verify that there is an executed agreement before payments are made. We identified that a payment to an SA Government agency grant recipient was made before a variation to the existing MoAA was executed.

Paying funds before the terms and conditions of the funding agreement are agreed increases the risk of mismanagement of allocated funds.

DIS agreed with the finding, noting the payment was made based on initial advice that a variation was not required. DIS advised that a variation was subsequently agreed and it would ensure that similar instances do not occur in future.

Grant payments to a grant recipient continued although obligations had not been met

DIS's grants procedure lists actions required where there are outstanding grant obligations. They include reminders and follow-ups and not making further payments until requirements are met.

We found one instance where an SA Government agency grant recipient had not met grant agreement requirements but continued to be paid.

Where DIS does not regularly monitor compliance with grant conditions, there is a risk that recipients are not using the funds as intended and the objective of the grant may not be met.

DIS acknowledged that payment of the grant was made prior to a key performance indicator being satisfied. However DIS noted that it had regular meetings with the grant recipient and that changes in management and personnel at the grantee resulted in delays in meeting the reporting obligation.

DIS also considered that the risk of making payment was low due to the strong financial position of the recipient and advised that the required information had now been provided.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Expenses		
Grants and subsidies	386	559
Employee benefits expenses	56	76
Supplies, services and other expenses	87	119
Total expenses	529	754
Income		
Infrastructure recharge – TAFE SA	54	54
Other revenues	17	28
Total income	71	82
Net cost of providing services	458	672
Revenues from (Payments to) SA Government		
Revenues from SA Government	450	675
Payments to SA Government	-	(45)
Net result	(8)	(42)
Net cash provided by (used in) operating activities	-	(44)
Assets		
Current assets	39	68
Non-current assets	42	228
Total assets	81	296
Liabilities		
Current liabilities	32	36
Non-current liabilities	13	18
Total liabilities	45	54
Total equity	36	242

Transfer of significant DIS functions in 2018-19 machinery of government changes

The decrease in expenses, revenues from SA Government and decreases in Statement of Financial Position balances mainly reflects the impact of significant machinery of government changes affecting DIS in 2018-19.

DIS was impacted by several transfers, with the largest being:

- the transfer of the Aboriginal Heritage Fund, Aboriginal Affairs and Reconciliation, corporate functions and Arts South Australia to the Department of the Premier and Cabinet from 1 July 2018. Total net assets associated with this transfer were a reduction of $208 million in DIS's Statement of Financial Position
- the transfer of Health Industries South Australia, International Engagement, Trade and corporate functions to the Department for Trade, Tourism and Investment from 1 July 2018. Total net assets associated with this transfer were a reduction of $5.6 million in DIS's Statement of Financial Position.

There were other smaller transfers in 2018-19, bringing the total impact on DIS's Statement of Financial Position from restructures to a reduction in net assets of $211.7 million.

As a result, amounts are not directly comparable between 2018 and 2019.

Statement of Comprehensive Income

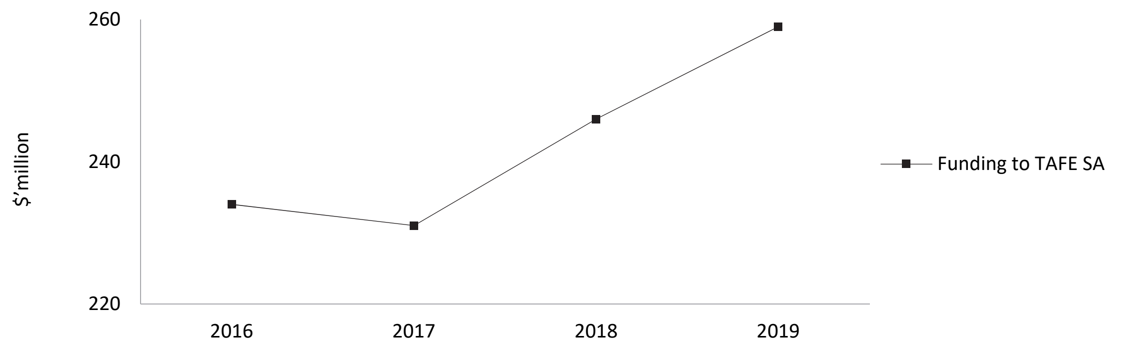
Expenses

Total expenses for 2018-19 were $529 million. The main expenses were grants and subsidies of $386 million ($559 million), supplies and services of $80 million ($103 million) and employee benefits of $56 million ($76 million), which collectively account for 99% (98%) of total expenses.

Grants and subsidies

Funding to TAFE SA

Grants and subsidies to TAFE SA totalled $259 million ($246 million) for 2018-19. The following chart shows that total funding provided to TAFE SA was steady from 2016 to 2017 but increased by $15 million in 2017-18 and again by a further $13 million in 2018-19.



The amounts shown in the chart include a number of elements: VET subsidies, structural support, capital grant funding, targeted voluntary separation package support (this was provided directly by the Department of Treasury and Finance in 2018-19) and other funding.

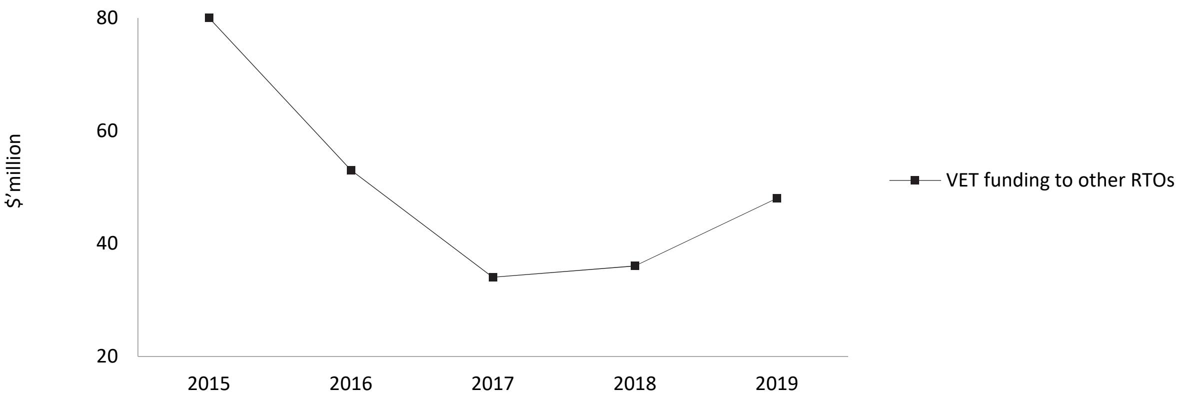
DIS funding of $251 million to TAFE SA was agreed in the final MoAA for 2018-19. The MoAA requires DIS to pay TAFE SA funding:

- for training subsidies for all VET training subsidy services based on the number of hours of training delivered
- for community services
- to support delivering the services under the Skilling Australians Fund
- for other funding equal to the total approved budget in the Department of Treasury and Finance's budget monitoring system.

Most of the remaining $8 million in funding to TAFE SA was subject to separate MoAAs. This includes capital grants of $5 million and funding for excess staff costs of $2 million. DIS pays excess staff funding to TAFE SA to meet the employment costs of excess employees needed while TAFE SA transitions its business structure.

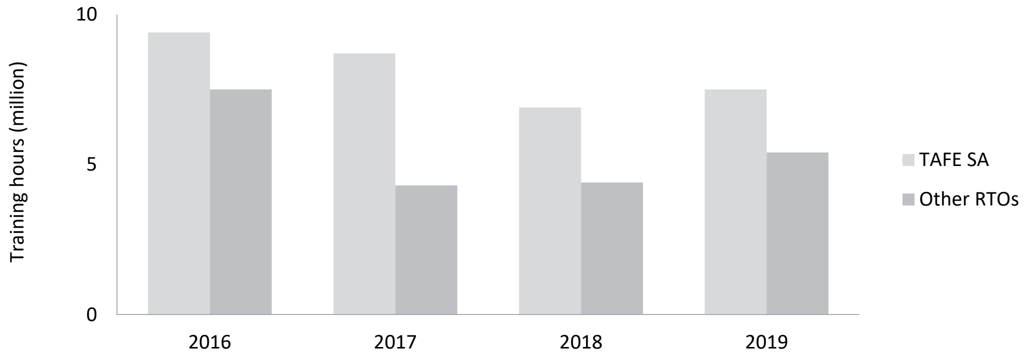
Other VET funding

DIS also provides VET funding to other registered training organisations (RTOs). The chart below shows the amount provided for the last four years.



Funding to other RTOs decreased from 2016 to 2017, remained steady in 2018 and increased by $12 million in 2018-19. The overall reduction in funding to other RTOs in 2017 reflected the smaller number of subsidised courses on the subsidised training list and a funding focus on supporting TAFE SA. The increase in 2018-19 mainly reflects increased funding as a result of an increase in paid training hours from 4.4 million to 5.4 million this year. Training subsidy prices also increased due to indexation and subsidy price reviews.

The following chart shows the number of training hours funded by DIS over the past four years, split between TAFE SA and other RTOs.



Source: Data on the number of funded training hours was provided by DIS and is unaudited.

The chart shows that total funded training hours have decreased over the last four years, reflecting decreased subsidised training payments.

There was an overall 1.6 million hour (14%) increase in funded training hours in 2018-19, with increases in both TAFE SA training hours and those of other RTOs.

Arts and cultural grants

Arts and cultural grants decreased by $125 million to $20 million in 2018-19 reflecting the transfer of Arts South Australia to the Department of the Premier and Cabinet from 1 July 2018. The largest recipient of arts and cultural grants for 2018-19 was the South Australian Film Corporation, which was paid $13.2 million.

Other grants

Other major categories of grants include industry and innovation grants of $32 million ($40 million) and other skills and employment grants of $24 million ($37 million). These grants generally include specific milestones or deliverables that are monitored by DIS.

Industry and innovation grants include payments to South Australian universities of $7 million for the National Collaborative Research Infrastructure Strategy, a Commonwealth Government initiative to support Australian researchers in addressing key national and global challenges. Other payments included:

- $3 million to the University of South Australia Future Industries Institute to support the Future Industries program through research activities
- $3 million from the Science and Research Fund to support health, digital health technologies, medical devices, co-operative research centres and other research.

Other skills and employment grants included payments of $9 million to businesses, groups and training providers under the Skilling South Australians scheme. Overall funding in this category decreased by $13 million, mainly as a result of various employment programs ending.

Income

DIS is predominantly funded by appropriation. Revenues from the SA Government were $450 million, 86% of its total income.

DIS's other significant income stream was infrastructure recharges from TAFE SA of $54 million ($54 million). TAFE SA pays these amounts to DIS for the use of TAFE SA campuses. This income is fully offset by funding DIS provides to TAFE SA, with an element of that funding specifically for these costs.

Statement of Financial Position

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

	2018 $'million	2019 $'million
Assets		
Cash	55	29
Property, plant and equipment	209	32
Liabilities		
Payables	29	27
Employee benefits	23	16

The decrease in property, plant and equipment, cash and employee benefits mainly reflects machinery of government changes in 2018-19, with significant property, plant and equipment assets and employees transferring to other agencies.

Further commentary on operations

TAFE SA campuses

The 2019-20 State Budget announced the SA Government's intention to transfer ownership of TAFE SA campuses from the Urban Renewal Authority to TAFE SA in 2019-20.

These properties are currently leased to DIS, which in turn subleases them to TAFE SA. The existing lease cost funding and lease recharge income of $54 million that DIS pays and receives, respectively, will no longer be required under this revised ownership structure.

Lifetime Support Authority of South Australia (LSA)

Financial statistics	Provision for future costs of current participants: $502 million Lifetime Support Scheme Fund levy net of duty: $141 million Investments: $761 million Net assets: $257 million Number of FTEs: 59.44 Number of interim participants as at 30 June: 83 Number of lifetime participants as at 30 June: 126
Significant events and transactions	— The provision for the future cost of caring for current participants increased by $104 million. — The total number of participants increased from 166 to 209. — The LSA made an operating surplus of $58 million and has net assets totalling $257 million, meaning the Lifetime Support Scheme remains fully funded at 30 June 2019.
Financial report opinion	**Unmodified** An emphasis of matter was included in the financial report opinion relating to significant inherent uncertainty surrounding the estimate of the provision for participant treatment care and support services because of the long-term nature of the provision and limited participant experience to date.
Controls opinion findings	No significant findings.
Other audit findings	— Delegation breaches meant some transactions were not properly authorised. — Inappropriate purchase card expenditure. — Attractive items register not up to date. — A contract was executed before the procurement process was complete. — Justification for limiting the number of quotes in a procurement process was not adequate. — No contract management policies.

Functional responsibility

The LSA is established under the *Motor Vehicle Accidents (Lifetime Support Scheme) Act 2013* (the LSS Act).

The LSA administers the Lifetime Support Scheme (LSS or the Scheme) and the LSS Fund established by the LSS Act to support people who suffer very serious injuries in motor vehicle accidents in South Australia, regardless of fault. A person can be accepted as an interim or lifetime Scheme participant depending on their eligibility under the LSS rules.

Lifetime Support Scheme Fund

Levies on motor vehicle registrations to pay for the Scheme expenses are collected by the Registrar of Motor Vehicles and paid into the LSS Fund. The LSA invests the levies with the Superannuation Funds Management Corporation of South Australia (Funds SA) until needed to pay for participant treatment, care and support and other costs of operating the Scheme.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- process for determining applications from people injured in motor vehicle accidents
- procurement of service providers
- payment for service providers according to service plans tailored to the needs of each participant
- employee benefits and other administrative expenses
- investments
- service level agreements with other SA Government agencies.

Internal audit activities were considered in planning and conducting the audit.

Controls opinion

We reviewed controls over bank accounts and the need for the LSA to reinsure the Scheme as part of our controls opinion, which is discussed in Part B of this Report.

Audit findings

Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report issued for the LSA's 2018-19 financial report, which is unmodified but notes a significant inherent uncertainty relating to the provision for participant treatment, care and support services.

Opinion

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Lifetime Support Authority of South Australian as at 30 June 2019, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the Public Finance and Audit Act 1987 *and Australian Accounting Standards.*

Significant inherent uncertainty – provision for participant treatment, care and support services

Without qualification to the opinion expressed above, attention is drawn to note 7.2 of the financial report. There is a significant inherent uncertainty surrounding the estimate of the provision for participant treatment, care and support services because of the long-term nature of the provision and limited participant experience to date. This uncertainty will remain until sufficient participant experience is available.

Communicating our audit findings

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

Controls opinion findings

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

Other audit findings

Delegation breaches

During the year a number of delegation changes approved by the LSA Board were not actioned in the LSA's financial systems. As a result a number of transactions were not approved by the appropriate delegate. A review initiated by the LSA identified 387 transaction breaches totalling $368 000.

This increases the risk of the LSA not complying with Treasurer's Instruction 8 *Financial Authorisations* and the potential for transactions to not be properly authorised.

In response the LSA advised that it had introduced a mechanism to review all delegations before they are entered into financial systems.

Inappropriate purchase card expenditure

Our audit found that the LSA's policies governing purchase cards could be improved to more clearly explain where expenditure is appropriate for business purposes.

During our audit we were advised by the LSA of instances where purchase cards were used inappropriately for non-approved business purposes, including expenditure of a personal nature. Our testing also identified instances where it was unclear whether purchases fell within approved policies.

Without a policy that clearly explains what is appropriate and not appropriate to buy with a purchase card, there is a risk that improper expenditure could occur.

In response the LSA advised that it is currently undertaking a review of all corporate policies including finance policies, and that the purchase card policy in particular will have more clarity about appropriate expenditure. The LSA also engaged a consultant to review the use of purchase cards in 2018-19.

Attractive items register not up to date

We found that the LSA has an attractive items register, but that it was not updated regularly. We identified a total of $79 600 of ICT equipment that qualified as attractive items purchased to April 2019, but some of these items were not on the attractive items register.

Attractive items not included on the register are susceptible to theft and loss that might not be identified.

In response the LSA advised that it is currently reviewing all corporate policies and that it will ensure appropriate records are in place for managing attractive items.

Contract executed before procurement process complete

Our audit identified an instance where the LSA entered into a contract for the value of $82 500 before the procurement process was finalised.

If the appropriate procurement process is not followed there is a risk that contracts may be entered into that might not reflect the needs of the business.

The LSA noted this finding.

Justification for limiting numbers of quotes not adequate

Our audit identified an instance where the LSA did not provide adequate justification in its documentation for limiting the procurement process to one supplier. In particular, we noted that a robust market assessment of potential suppliers was not performed.

Under State Procurement Board guidelines, where a procurement between $33 000 and $220 000 is undertaken the LSA must seek a minimum of three quotes, with at least one from a South Australian supplier. Where the LSA has legitimate reasons, the number of quotes sought can be less than the minimum number prescribed.

There is a risk that limiting the number of suppliers may impact the integrity of the procurement process and may not provide value for money.

The LSA noted this finding.

No contract management policies

We found that the LSA has no contract management policies or procedures that outline its expectations for contract management. We were advised that LSA staff are required to follow Department of Human Services policies, however we note that they do not have access to these policies.

If contracts are not managed appropriately there is a risk that the LSA will not receive services in line with contract requirements.

In response the LSA advised that this issue would be resolved as part of a procurement authority project.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Expenses		
Participant treatment, care and support expenses	122	130
Duty on LSS Fund levy	15	15
Other	16	13
Total expenses	153	158
Income		
LSS Fund levy	156	151
Investment revenue	55	49
Other	-	-
Total income	211	200
Net result from operating activities	58	42
Total comprehensive result	58	42
Net cash provided by operating activities	109	107
Net cash used in investing activities	108	107
Assets		
Current assets	4	4
Non-current assets	761	598
Total assets	765	602
Liabilities		
Current liabilities	43	41
Non-current liabilities	465	362
Total liabilities	508	403
Total equity	257	199

Statement of Comprehensive Income

Net result

The LSA achieved a surplus of $58 million ($42.1 million). Actual outcomes in 2018-19 were:

- the LSS Fund levy received was $1.5 million over the $154.7 million estimate

- actual LSS costs were $153.4 million, including a $104.2 million increase in the provision for participant care costs.

The LSA's net result depends significantly on the interdependence between the LSS Fund levy set before the start of the year and the movement in the provision for the cost of participant treatment, care and support services determined at the end of the year. Both the levy and the provision are determined using reports prepared by an independent actuary appointed by the LSA (refer to commentary under 'Liabilities' and 'Required fund contribution' below).

The net result was also impacted by investment revenues of $55.2 million ($49.5 million).

Expenses

The LSA's expenses of $153.4 million ($158.2 million) comprised:

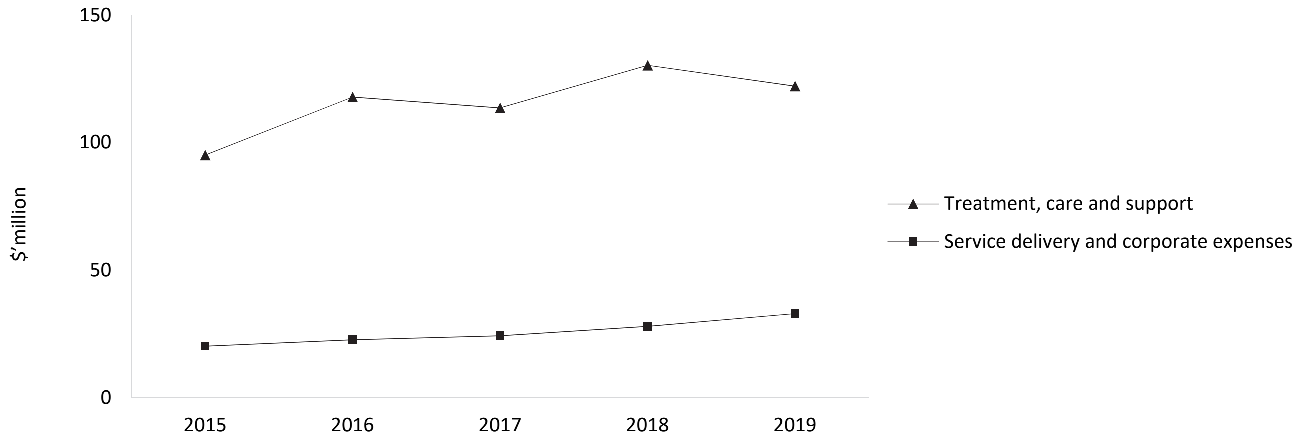
- $122.1 million ($130.2 million) for participant treatment, care and support expenses, of which $104.2 million was the increase in the estimate of future expenses for participants injured in motor vehicle accidents up to 30 June 2019

- $15.5 million ($15 million) paid to the SA Government for the 11% duty on the LSS Fund levy payable under the *Stamp Duties Act 1923*

- $2.7 million ($2.8 million) for brokerage fees and premiums paid to reinsurers who provide cover for significantly larger than expected liabilities for estimated future participant care costs

- $13.1 million ($10.2 million) for general operating expenses, including $6.7 million ($4.8 million) for employee benefits and $2.2 million ($2.5 million) for research, education and programs.

The following chart highlights the continued growth of costs of participant treatment, care and support and the continued increase in operational expenses that the LSA incurs in the ongoing administration of the Scheme. Note that participant treatment, care and support expenses include the expense recognised each year for the movement in the provision for participant treatment, care and support. These increased costs are a result of participant numbers growing from 39 in 2015 to 209 in 2019.



Income

The LSA's income of $211.4 million ($200.3 million) mainly comprised:

- $156.2 million ($150.7 million) of LSS Fund levy on South Australian motor vehicle registrations. No GST is payable on the levy
- $55.2 million ($49.5 million) of investment revenue. This result reflected favourable investment markets. There were no changes in LSS Fund strategy in 2018-19.

Statement of Financial Position

The LSA's financial position depends significantly on the value of its investments exceeding the provision for participant treatment, care and support services. The LSA's net assets increased by $58 million to $256.9 million and reflect the net result from operations discussed under 'Net result' above.

Assets

The LSA's assets of $765.2 million ($602.2 million) consist mainly of cash, investments and receivables. During the year additional funds totalling $108 million were invested with Funds SA.

Investments

At 30 June 2019 the LSA had $760.9 million invested with Funds SA in line with the investment strategy approved by the LSA Board. This an increase of $163.1 million from 2017-18.

The LSA must maintain investments to fund its present and likely liabilities for participant treatment, care and support services. The LSA investment strategy takes into account its current risk appetite and the need to match investment returns to the long-term nature and timing of payments associated with the needs of Scheme participants.

The LSA's investments with Funds SA earned a nominal return of 8.2% in 2018-19 compared to its target of 6.25%.

Liabilities

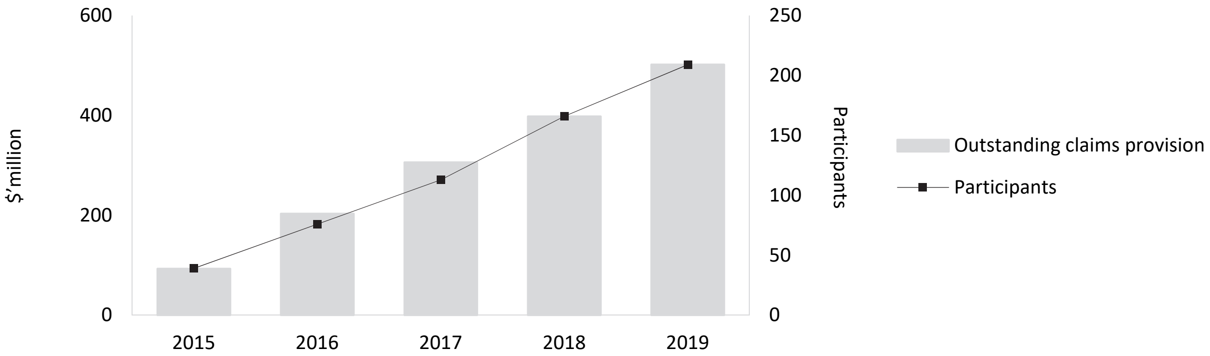
The LSA's liabilities of $508.3 million consist mainly of the provision for participant treatment, care and support services.

Provision for participant treatment, care and support services

The provision was estimated to be $502 million at 30 June 2019, a rise of $104.2 million.

The main reason for the increase was the rise in the number of participants from 166 in 2017-18 to 209 in 2018-19. The inflation rate and investment return rate used in the actuarial calculation remained the same as in 2017-18. Other assumptions such as the weighted mean term (estimated length of claim) changed only marginally in 2018-19. Refer note 7.2 of the LSA's financial report for further details.

The following chart highlights the consistent growth in the outstanding claims provision and the growth in the total number of participants since the Scheme commenced in 2015.



The LSA appointed an independent actuary to estimate the liabilities of the Scheme, measured as the present value of the expected future payments for claims incurred up to 30 June 2019, including claims incurred but not yet reported. The LSA Board approved the valuation prepared by the actuary after also considering the report from a peer review actuary.

Information relating to the actuarial estimation is provided in note 7.2 of the LSA's financial report.

Significant inherent uncertainty in the provision

The LSA's actuary report refers to the continued significant inherent uncertainty surrounding the actuarial estimation and the uncertain drivers of the liability. These include sensitivities of the estimation to changes in future claims inflation, mortality risks and the future improvement of participants, along with the uncertain estimation of support requirements for participants. This further reinforces the long-term nature of the liabilities and volatility in the number of participants and their injury severity. In estimating the liability at 30 June 2019, the actuary noted that the LSS is still in its infancy and limited experience exists to assess the reasonableness of initial LSS costings. The actuary also noted that, due to the very long-term nature of the LSS, the actual experience in the short period since 1 July 2014 tells very little about the Scheme and is not sufficient, in isolation, to inform long-term future assumptions.

The independent actuary referred to the significant inherent uncertainty in the projected outcomes of future claim costs for long-term claims. The main areas of uncertainty identified were the:

- adequacy of benchmarks for defining the lifetime care and support needs of participants, including models of expected cash flows for an individual of a specific age with a specific injury
- future inflation levels for services, especially increases in attendant care hourly rates. Changes in best practice treatment also mean liabilities could increase significantly
- final stable severity for each participant's injury. The current assessment for each participant is at very early duration since injury
- future life expectancy and changes to the types of support required leading up to end of life.

The sensitivity analysis in note 7.2 of the LSA's financial report illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars.

For example, a 1% increase in the mortality improvement assumption can increase the provision by $40.8 million and a 1% increase in the long-term gap, being the difference between the inflation rate and the discount rate, can increase the provision by $85.6 million.

Note 7.2 of the LSA's financial report also indicates the time frame over which it must manage claims. The uninflated, undiscounted weighted mean term is 20.3 years.

Independent reviewing actuary

The LSA had the actuarial estimate confirmed by an independent reviewing actuary, who noted that the valuation results were not unreasonable in the circumstances and early development of the Scheme.

Having an independent reviewing actuary is prudent given the long-term purpose of the Scheme and the critical role actuarial expertise has in setting the levy annually and estimating the outcome at the end of each year.

The Scheme is not an insurance scheme

The LSA determined the provision under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and not AASB 1023 *General Insurance Contracts*. The latter is more prescriptive in the permitted choice of the rate of investment return (discount rate) to be adopted in deriving the present value of liabilities. It also requires risk margins to be added to the central estimate of the liability, increasing the liability. Consistent with similar interstate schemes, the LSA has not applied a risk margin to its central estimate.

Probability of sufficiency

As at 30 June 2019 the probability of sufficiency for the LSS remained the same as 2017-18 at 86%. The LSA has a target minimum probability of sufficiency of 75% (the chance that the capital of the LSS is expected to be adequate to cover actual outcomes) through a solvency margin in excess of actuarial provisions.

Current liabilities

At 30 June 2019 current liabilities exceeded current assets by $39.3 million. Most of the balance of current liabilities is the $38.2 million provision for participant treatment, care and support services. The LSA can access funds from its Funds SA investments if required.

Required fund contribution

The LSA must determine, before the beginning of each financial year, an amount it considers is required to be contributed to the LSS Fund to meet expenses for the period. This amount is to:

- fund the present and likely future liabilities for participants who enter the Scheme in the period
- meet payments from the LSS Fund that exceed previously provided amounts estimated
- pay stamp duties
- provide for other matters in connection with any LSA liability under the LSS Act, including paying for any past liability that would otherwise be unfunded.

That determination is made in line with a report from an independent actuary engaged by the LSA after consulting the Treasurer. The LSA must report its determination to the Minister before the beginning of each financial year.

The Minister must, on receiving a report and taking into account such matters (including matters not covered by the report) as the Minister thinks fit, and after consulting the Treasurer, determine an amount to be paid to the LSA for contribution to the LSS Fund for the relevant period (the required fund contribution).

If the Minister makes a determination that is inconsistent with the LSA's determination, the LSA must report that in its annual report.

Setting levies at an appropriate level is critical to the LSS. If break-even levies are charged each year and if all underlying assumptions used to set the levy eventuate, the LSS will always be fully funded. If the levy is set too low each year, liabilities will eventually exceed assets causing the LSS to be under-funded.

Annual contribution and levy

The estimated levy of $154.7 million including duty was required to cover the costs of operating the Scheme in 2018-19 and probable liability increase at 30 June 2019.

The following table sets out the required fund contribution and levy for the past two years and for next year.

	2018	2019	2020
Required fund contribution:			
LSA recommended ($'million)	147.6	154.7	159.9
Minister approved	Yes	Yes	Yes
Average levy ($)	102.54	104.59	106.17
Average increase per vehicle over previous year ($)	-	2.05	1.58

The actuary's estimates used to set the levy are, as with the estimated provision, sensitive to the number of LSS participants and the severity of their injuries. Small changes in these numbers can impact significantly on the estimates.

2019-20 levy

The estimated 2019-20 levy was based on an actuarial estimate at 31 December 2018.

Statement of Cash Flows

The Statement of Cash Flows reflects the investment of $108 million with Funds SA using the LSS Fund levy of $156 million. The LSA will use these investments to meet the costs of treatment, care and support services over the life of the Scheme participants.

Motor Accident Commission (MAC)

Financial statistics	Reinsurance asset and prepaid claims management expenses: $700 million Outstanding claims liability: $700 million Other financial assets: $275 million Other financial liabilities: $210 million Return of capital: $143 million MAC Fund assets exceeded the targeted solvency level by $19 million (102% of the targeted level).
Significant events and transactions	— All of MAC's outstanding claims were reinsured under an arrangement entered into with the National Indemnity Corporation (NICO), a subsidiary of Berkshire Hathaway. — The cost of the reinsurance to MAC was $718 million, for full reinsurance of outstanding claims totalling $756 million. — 2018-19 saw a $153 million reduction in the remaining outstanding claims liability. — MAC's staff ceased work on 30 June 2019, with MAC administration now performed by the South Australian Government Financing Authority (SAFA). — MAC's Board consists of Department of Treasury and Finance (DTF) staff from 1 July 2019. — From 1 July 2019 responsibility for road safety functions transferred to South Australia Police (SAPOL) and the Department of Planning, Transport and Infrastructure (DPTI).
Financial report opinion	**Unmodified**
Controls opinion findings	No significant findings.

Functional responsibility

MAC is established under the *Motor Accident Commission Act 1992* (MAC Act).

MAC's main functions up to 30 June 2019 were to promote road safety awareness and manage the run-off of claims against compulsory third party (CTP) insurance policies issued to motor vehicle users in South Australia before 1 July 2016.

From 1 July 2019 MAC will no longer be responsible for promoting road safety awareness. These functions were transferred to SAPOL and DPTI. MAC's sole responsibility will be to oversee the reinsurance arrangements with NICO, as discussed below. MAC's administration will be performed by SAFA from 1 July 2019, and the MAC Board is now comprised of DTF staff.

Reinsurance of MAC's remaining outstanding claims liability

In January 2018 NICO, a subsidiary of Berkshire Hathaway, lodged an unsolicited proposal with the SA Government for the management and settlement of MAC's remaining outstanding claims liability.

DTF assessed the unsolicited proposal against its guidelines for assessing unsolicited proposals. The assessment process involved a number of stages and included the use of market analysis to understand the value to the State of the proposal.

The contract with NICO arising from the proposal had a significant value, with $718 million to be paid over the life of the contract.

The SA Government approved the proposal to enter into the contract in November 2018.

In December 2018 MAC entered into a reinsurance arrangement with NICO. Under the contract, NICO assumed responsibility for the settlement and management of MAC's remaining outstanding claims liability at 1 January 2019, which had a value of $756 million. MAC will compensate NICO for assuming this responsibility with:

- a $418 million initial payment
- a $200 million balance that will be held by MAC and used to pay NICO for claims as they settle. It is currently expected that all of the $200 million will be paid by the end of 2019-20
- a $100 million final payment, initially retained by MAC for five years and used to support local fund managers.

In addition, MAC will pay NICO $13 million in interest as a result of retaining the $100 million for five years.

On 1 January 2019 the payment from MAC to NICO represented a gain of $38 million, being the difference between the estimated value of outstanding claims, $756 million, and the amounts MAC will pay NICO, $718 million. The $38 million gain will be recognised as income over the life of the arrangement at a rate consistent with the reduction in the outstanding claims liability.

This reinsurance arrangement reduces the State's risk as the cost of settling claims now lies with NICO. The reinsurance arrangement is designed to provide certainty to the State, subject only to satisfactory contract performance by NICO. Under the arrangement if claims settle for more than the amount estimated at 1 January 2019, the additional cost will be borne by NICO. In the same way, should NICO be able to settle claims more favourably than expected in the January 2019 valuation, it will benefit from the reduced cost.

As the contract with NICO is a reinsurance arrangement, meaning that claims are still in MAC's name, the outstanding claims will remain on MAC's statement of financial position until they are extinguished, with an offsetting reinsurance receivable. Therefore MAC will need to maintain oversight over the outstanding claims liability to ensure claims are being managed and settled appropriately by NICO.

MAC had a claims management contract in place with Allianz, which was due to end on 30 June 2019. Under the arrangements with NICO, between 1 January 2019 and 30 June 2019 Allianz provided claims management services to NICO.

From 1 July 2019 NICO will perform the claims management.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- investment assets
- outstanding claims liability
- claim payments
- reinsurance transaction and reinsurance assets
- return of capital
- review of unsolicited bid assessment.

Controls opinion

We reviewed controls over the bank account, financial assets and outstanding claims as part of our controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

We did not identify any audit findings that required a management letter to the Chief Executive.

Controls opinion findings

There were no significant findings for our controls opinion work at MAC.

Interpretation and analysis of the financial report

Highlights of MAC's consolidated financial report

	2019 $'million	2018 $'million
Net claims	-	128
Net investment returns and fees	7	(7)
Road safety expenses	(13)	(14)
Management expenses	(8)	(26)
Total revenue	14	14
Net result before market value movements	-	95
Investment market value movements	20	48
Total comprehensive result	20	143
Assets		
Current assets	519	1 024
Non-current assets	468	3
Total assets	987	1 027
Liabilities		
Current liabilities	375	266
Non-current liabilities	591	616
Total liabilities	966	882
Equity	21	145

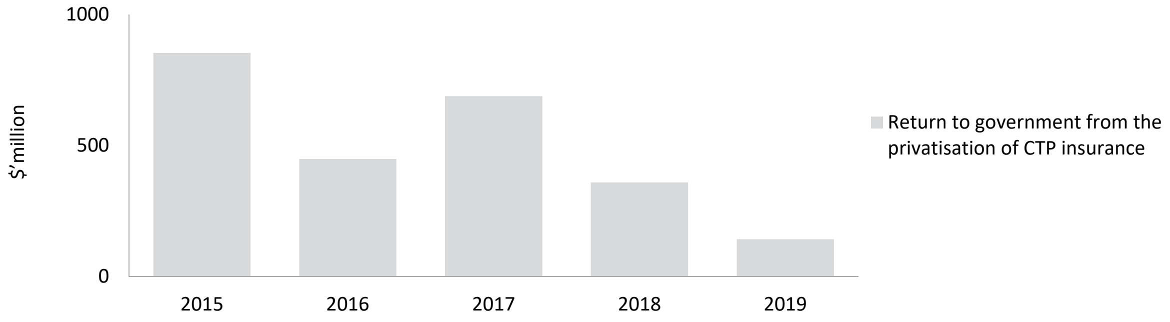
Return of capital

The 2014-15 State Budget identified that, after ceasing to be the sole CTP insurance provider for South Australia, MAC would be able to return surplus net assets to the Highways Fund to improve road safety.

In June 2019 MAC paid $143 million ($359 million) to the Highways Fund. This payment was made out of net assets in excess of the level required for sufficient solvency of the MAC Fund. The Treasurer directed that, consistent with section 26(2) of the MAC Act, the payment be made to the Highways Fund, which is administered by DPTI.

As the payment has been made from MAC's surplus net assets as directed by the Treasurer, it was treated as a return of capital in the financial report and recorded as a reduction in MAC's assets and total equity. As such, this payment is not reflected in MAC's total comprehensive result for 2018-19.

The following chart shows that a total of $2.5 billion has been returned to government by MAC in the last five years. The reinsurance arrangement with NICO discussed above means no more returns are expected.



Road safety funding

In July 2016 MAC entered into a three-year funding arrangement with the CTP Regulator. Funding of $14.4 million ($13.9 million) was provided to MAC in 2018-19 to perform its road safety functions. These activities were previously funded from MAC's premium revenues but were specifically funded through the CTP Regulator as a component of CTP premiums after MAC stopped writing its own insurance policies on 1 July 2016. As required by MAC's charter, transactions related to road safety activities are maintained by MAC in a separately established Road Safety Fund.

From 1 July 2019 these activities will be performed by SAPOL and DPTI.

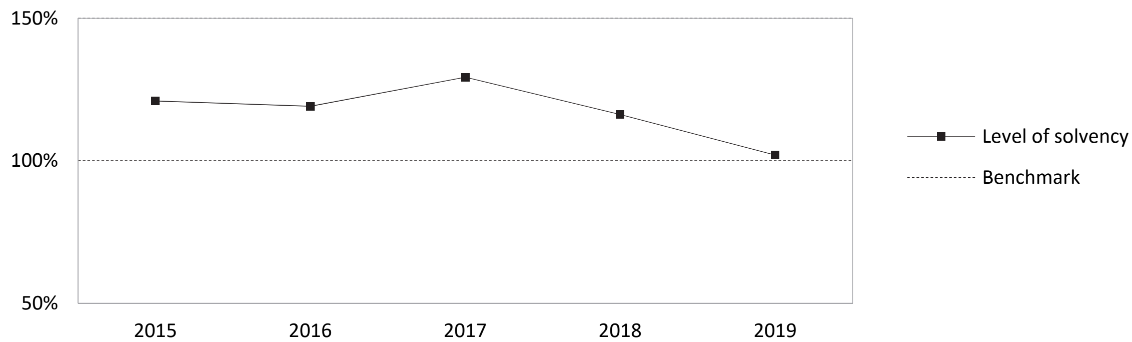
Solvency level is above the target level

Section 13A of the MAC Act requires MAC to seek to achieve and maintain a sufficient level of solvency for the MAC Fund using a formula determined by the Treasurer.

The formula issued by the Treasurer in December 2016 specifies the MAC Fund will have a sufficient level of solvency if its assets exceed its liabilities. Full details are included in note 24 of MAC's financial report.

As at 30 June 2019 the target level of solvency was $964 million and total assets were $983 million, $19 million above the target level. This equates to 102% (116.1%) of the targeted solvency level.

The following chart shows the level of solvency achieved over the past five years.



The importance of the solvency level increased in recent years as MAC ceased writing new CTP policies and was running off existing claims. The reinsurance arrangement with NICO now means that most of the risk associated with settling claims rests with NICO.

Outstanding claims liability

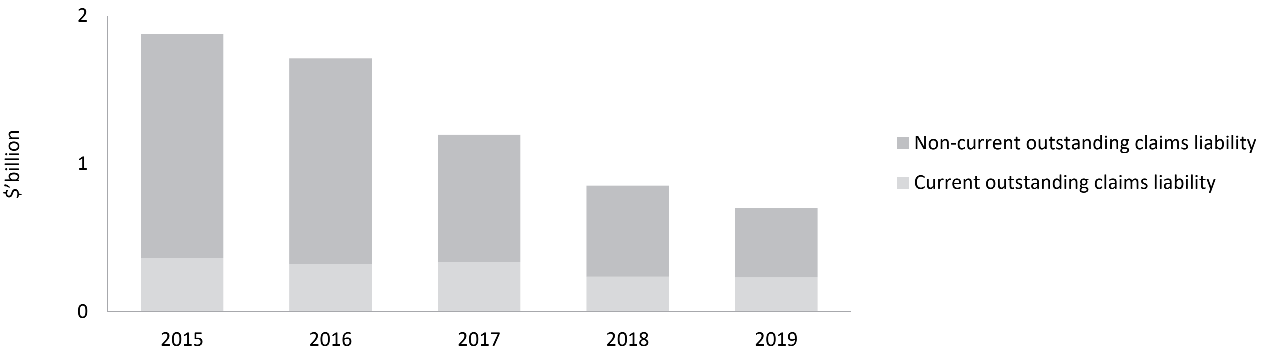
MAC’s liability for outstanding claims is from the period before 1 July 2016, totalling $700 million at 30 June 2019. The liability covers claims reported but not yet paid, claims incurred but not yet reported, the anticipated costs of settling those claims and other insurance costs.

As noted above, while MAC has entered into a full reinsurance arrangement with NICO from 1 January 2019, it still remains legally liable for outstanding claims and the liability. This liability, along with the offsetting reinsurance asset, will continue to be valued and recognised in MAC’s financial statements until they are extinguished.

Calculating the liability is an estimation process and a range of factors, including economic assumptions, affect it. As a result, professional actuaries need to perform the calculation and, for reporting purposes, detailed disclosure of the assumptions needs to be included in the notes of the financial report.

In 2018-19 MAC’s primary independent actuary was Finity Consulting Pty Ltd (Finity), consistent with the prior year. Details of the actuary’s calculations and assumptions are provided in note 15 of MAC’s financial report.

The following chart shows the outstanding claims liability for the five years to 2019, with the continuing decrease a reflection of the run-off process since 1 July 2016.



Factors considered by the actuary that impact the estimate of outstanding claims include the:

- number of claims incurred
- length of time taken to settle the claim
- average amount of claim payments
- inflation and discount rates used.

The outstanding claims liability consists of the ‘old scheme’ for claims prior to 1 July 2013, and the ‘new scheme’ for claims from that date to 30 June 2016. Legislative reform from 1 July 2013 changed scheme entitlements and, as a result, the two schemes are considered separately by Finity.

The new scheme introduced thresholds for economic and non-economic loss and placed caps on legal fees. Compensation for non-economic loss under the new scheme is based on a severity of injury scale, with an indexed maximum cap on damages.

Examples of the potential impact of changes to these assumptions are included in note 15 of MAC’s financial report. Some are shown in the table below.

	Impact on provision %	Financial impact $'million
Average size of large claims increased by 43% (old scheme)	9.6	62
Average size of large claims increased by 43% (new scheme)	5.8	37
Average size of attritional claims increased by 15% (new scheme)	6.8	44

The risk margin achieves 80% probability the provision is adequate

Also impacting on the outstanding claims liability calculation are the solvency requirements determined by the Treasurer under the MAC Act that require a risk margin to be included in the provision to achieve an 80% probability the provision is adequate. This requirement exceeds the Australian Prudential Regulation Authority's nominated target of 75% probability, as set out in Prudential Standard GPS 320 *Actuarial and Related Matters*.

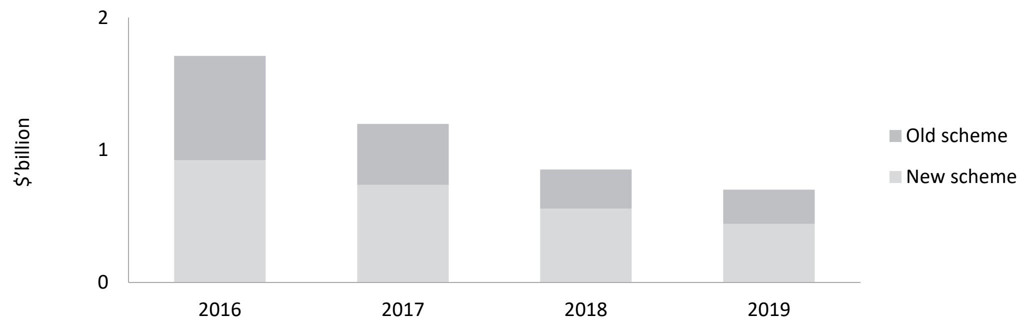
$153 million reduction in the outstanding claims liability

The $153 million decrease in the liability at 30 June 2019 was due to:

- a $172 million decrease due to a reduced number of expected future claim payments due to:
  - a $136 million decrease in expected payments based on claims experience
  - $93 million in payments made to settle claims in 2018-19

  offset by:
  - a $45 million increase due to lower payment volumes in both schemes
  - a $10 million increase due to changes in the expectation of payments for smaller new scheme settlements
- a $16 million reduction in the risk margins, following claim payments and decreases in expected future claims
- offset by a $36 million reduction in discount to present value due to claims being a year closer to expected settlement.

The chart below shows the proportion of outstanding claims for the old and new schemes for the last four years.



As at 30 June 2019, CTP claims under the new scheme represented 63% (65%) of the outstanding claims liability. Claim numbers and values have so far been lower than expected under the new scheme and the outstanding claims liability calculation has therefore been adjusted to reflect this.

While the higher proportion of new scheme claims has a role in the reduction of the outstanding claims liability, as expected after introducing scheme reform there is a higher level of uncertainty about these claims due to the limited claims experience to date. Accordingly, MAC has included a higher risk margin for the new scheme compared to the risk margin applied to the older claims, increasing the estimated liability when calculating the outstanding claims liability.

The claim estimate process is externally peer reviewed

As was the case in 2018, in 2019 the claims liability calculation was subject to external peer review by Taylor Fry Consulting Actuaries. The independent reviewing actuary reported that:

- nothing had come to their attention that would lead them to believe the actuarial assessment conducted by Finity was unreasonable
- overall the projected claim costs lie within a reasonable range and the changes to the valuation assumptions are reasonable
- the valuation provides a balance between optimistic and cautious assumptions and therefore represents a reasonable central estimate
- the claims handling expense assumptions and risk margin are reasonable.

Estimated timing of the settlement of claims

The estimated timing of payments to settle claims is shown in the following table.

Up to 1 year $'million	2-4 years $'million	5-9 years $'million	10-14 years $'million	15-19 years $'million	Total $'million
233	332	90	37	5	697

Reinsurance assets and prepaid claims handling expenses

As a result of the reinsurance arrangement entered into with NICO, MAC now also recognises reinsurance assets and prepaid claims handling expenses for an amount that offsets the balance of outstanding claims.

Given the nature of the arrangement with NICO, the reinsurance assets and prepaid claims handling expenses will be revalued each year in the same way as the outstanding claims liability, as they fully offset it.

Statement of Comprehensive Income

MAC's financial performance is significantly influenced by the investment result.

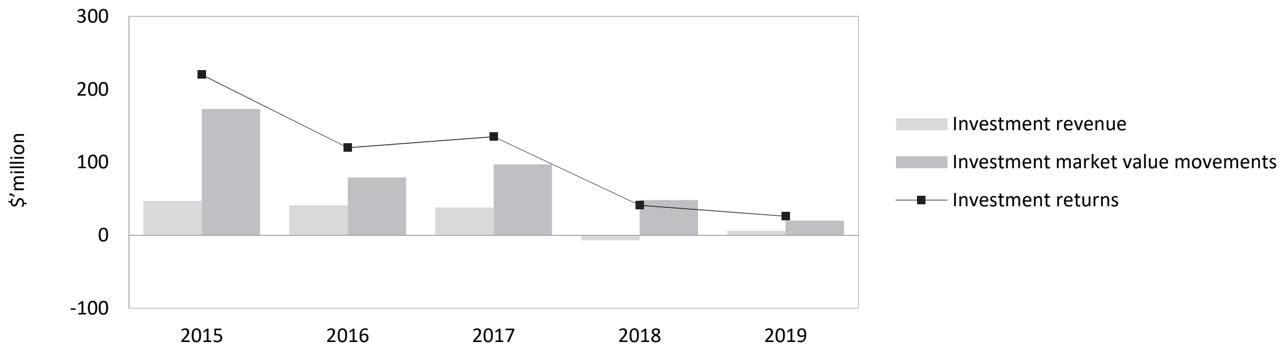
AASB 1023 *General Insurance Contracts* requires market value accounting to be adopted when valuing investments. This means the investment result includes not only interest and related income received, but also changes in the market values of investments held at balance date. Changes in the market values of investments can be subject to wide fluctuations and it is important to emphasise that investment market value movements recognised in MAC's financial report are unrealised. That is, until the investments are sold, no gain or loss is actually received or incurred by MAC.

Investment result

MAC uses the Superannuation Funds Management Corporation of South Australia (Funds SA), the SA Government's investment body, to manage its investment portfolio. MAC holds investments in unit trusts within Funds SA where the majority of income is derived through movements in the value of unit holdings rather than through direct receipt of interest and dividend income.

MAC's investment returns this financial year resulted in a surplus of $26 million compared with $41 million the previous year. The investment result is a combination of investment revenue and investment market value movements, offset by Funds SA management fees and direct operating costs. Investment returns decreased by $15 million due mainly to a decrease in the market value movement, reflecting the reduced amounts invested.

An analysis of MAC's investment result for the five years to 2019 is shown in the following chart.



In considering the impact of market movements on investments, it should be noted that the total invested has reduced significantly as a result of the reinsurance arrangement with NICO.

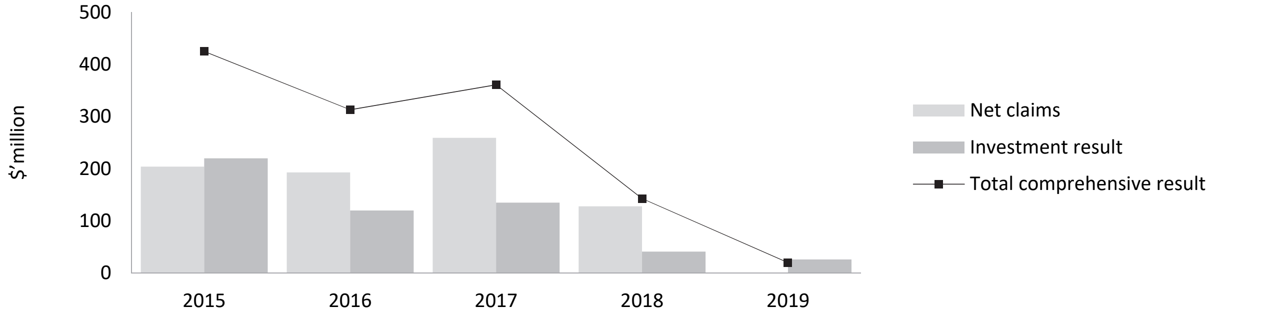
Net claims

Net claims now have very little effect on the total comprehensive result under the reinsurance arrangement with NICO. There has been no premium income since MAC ceased issuing new policies from 1 July 2016 and movements in the claims adjustment are offset by movements in the reinsurance asset.

Total comprehensive result

MAC's total comprehensive result for 2019 was a profit of $20 million compared to a $143 million profit in the previous year. The $123 million decrease is a result of the factors previously mentioned.

The following chart provides a breakdown of the contribution of the net claims and investment results to the total comprehensive result.

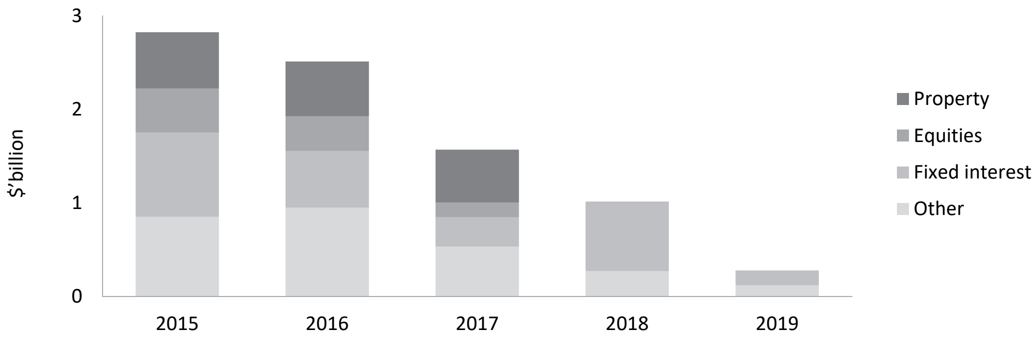


Statement of Financial Position

Investments

MAC does not directly hold investments in equities but rather has interests in Funds SA's pooled investment portfolios. MAC is responsible for setting the investment objectives and strategic asset allocation for the various investment sectors. Funds SA is responsible for managing the investment portfolios in line with the agreed asset allocations and regularly reporting investment performance.

For the five years to 2019 a structural analysis of investment assets (excluding cash) is shown in the following chart.



The chart shows a decrease in total investment assets, excluding cash, from $1 billion in 2018 to $275 million in 2019. The decrease of $737 million in 2019 was principally due to:

- the $418 million initial payment to NICO
- $91 million in additional payments from the $200 million funds withheld to NICO
- a $143 million return of capital
- payments for operating expenses and claims in the first six months of 2018-19, when MAC was still responsible for direct settlement.

The chart also shows the move to more defensive assets in 2018 and 2019, as discussed below.

MAC increases the proportion of defensive assets

In July 2018 the Treasurer approved MAC's asset allocation to 100% defensive assets. From 30 June 2018 the actual asset allocation of investments managed by Funds SA was a 100% allocation to defensive assets, with an associated reduction in the targeted rate of return.

The move to an increased allocation of defensive assets reflects the need to carefully manage existing holdings while still remaining liquid enough to repay funds when required.

Department of Planning, Transport and Infrastructure (DPTI)

Financial statistics

Total expenses:	$1833 million
Commonwealth grants income:	$554 million
Net cost of providing services:	$55 million
Net revenues from SA Government:	$465 million
Equity contributions from SA Government:	$277 million
Capital expenditure:	$945 million
Total non-current assets:	$26 793 million
Number of FTEs (excluding Rail Commissioner):	2528
Administered	
Total income:	$1315 million
Disbursements to third parties:	$1039 million
Payments to Consolidated Account:	$200 million
Unearned land services contract revenue:	$1459 million

Significant events and transactions

- The Office of the Valuer-General and Office of the Registrar-General were transferred to DPTI as at 1 July 2018, resulting in controlled net assets received of $29 million, an additional $70 million of expenditure to the contracted service provider and administered liabilities for unearned revenue of $1.5 billion assumed.
- The Office of Recreation and Sport was established as a separate reporting entity, resulting in net assets of $277 million transferred out of DPTI.
- $143 million was received from the Motor Accident Commission and paid into the Highways Fund.
- There was a decrease in Commonwealth grants of $189 million, mainly related to road and rail capital projects.
- Property, network assets and plant and equipment assets were revalued upwards by $535 million.

Financial report opinion

Unmodified

Controls opinion findings	—	Across government facilities management arrangements are not operating as intended.
	—	Some opportunities to improve asset management practices were noted.
	—	Improvements in procurement and contract management are necessary.
	—	Improvements are also required for project governance and delivery.
Other audit findings	—	Payroll controls need to be better to ensure all payments are bona fide and accurate, and that all leave is recorded.
	—	Further action is required to improve IT controls for selected systems.
	—	More work is required to adopt the new accounting standard for leases, with further delays risking completion of agency financial reporting for 2019-20.

Functional responsibility

DPTI is an administrative unit established under the *Public Sector Act 2009* and is responsible for transport systems and services, infrastructure planning and provision, and strategic land use for South Australia.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- accounts payable
- payroll
- bus contracts
- fees and charges, including motor registrations, drivers licences and public transport revenue
- income and expenditure for maintenance, property rental and building construction services
- accounts receivable
- bank reconciliation
- general ledger
- governance, including risk management and legal compliance
- fixed assets, including capital works, network assets, land and buildings, and plant and equipment
- IT general controls.

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

Controls opinion

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

- facilities maintenance services managed by DPTI for other SA Government agencies
- purchasing non-current assets including procurement, contract management and project delivery
- asset management for selected road, marine and rail assets, and for the Adelaide Oval
- acquisition and disposal of land and buildings
- operating expenditure
- motor registration related revenue
- expenditure of Commonwealth money
- bank accounts.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Across government facilities management arrangements (AGFMA) are not operating as intended

The AGFMA is an integral part of the SA Government's approach to maintaining, managing and improving building assets (including building fabric, plant and equipment). The arrangements are designed to enable the SA Government to identify the building work that needs to be done, negotiate a fair price, manage risk and maintain public records of work performed. Over 30 agencies participate in the AGFMA.

AGFMA services comprise:

- mandated services, which include preventative maintenance, replacement/refurbishment maintenance, minor works less than $150 000 and breakdown maintenance
- non-mandated services carried out at the agency's discretion, which include small construction works, property services (cleaning, security, waste management) and handyperson maintenance.

In 2018-19 these services amounted to $289 million and were provided by two facilities management (FM) service providers:

- Spotless Pty Ltd (Spotless) for the central and northern Adelaide regions ($152 million)
- DPTI's Facilities Services unit for the southern Adelaide region and country South Australia ($137 million), which operates under a services framework.

Both the outsourced contract and services framework aim to provide a similar service to agencies.

DPTI is responsible for administering the AGFMA. Its role as administrator includes providing IT support systems, auditing FM service provider performance, managing the outsourced contractor, assisting agencies in the annual planning process, providing information to assist with legislative compliance, managing systems, payments, ongoing development and refinement of the AGFMA and coordinating and resolving disputes.

Agencies are responsible for managing their designated locations, which includes portfolio and asset planning, specifying service needs and detailed statements of requirements, confirming the annual works program and budget, issuing work requests, verifying completion of work and FM service provider payment claims, and managing the funds allocated to works.

Our 2018-19 audit of the AGFMA focused on DPTI's controls for governance, contract management, asset data collection, asset condition monitoring, subcontractor accreditation and IT user access controls. The main findings are summarised below.

Governance requires improvement

Strong governance of the AGFMA is important to ensure:

- the use of government resources is properly planned, with priority given to assets presenting the greatest risk and/or complexity
- facility management services are efficiently and effectively coordinated across the participating agencies and regions
- transparency of decision-making, with clear accountability for outcomes
- services are delivered at a required level of quality and for the best price
- the performance of contract service providers is monitored, and the public obtains the value for money expected through procurement processes
- service providers are accountable for service delivery.

Our review identified the need for significant improvement in governance arrangements. We found that:

- DPTI does not enter signed service level agreements (or similar) with AGFMA participating agencies, detailing their respective roles and responsibilities. Our review of asset management practices across the SA Government in 2018-19 has noted that agencies remain unclear on their roles and responsibilities under the AGFMA. In my opinion, expecting all participants to sign service level agreements will strengthen the engagement and understanding by all parties and increase the likelihood of the AGFMA's success
- information provided or made available to AGFMA participating agencies does not clarify their responsibilities with regard to asset data and monitoring work performed by the FM service providers
- DPTI's contract management plan did not address Spotless' obligations for asset inspections and condition assessments. DPTI advised that the contract management plan was not used and our testing found that there were no other controls implemented to ensure that asset inspections and condition assessments were performed

- DPTI is not actively monitoring the performance of the Facilities Services unit to ensure that it is meeting its responsibilities under its service framework
- independent audits to ensure charges for work performed by the FM service providers are accurate and valid did not include all types of work performed and did not assess the procurement process
- the Facilities Management Governance Group, which is responsible for the oversight of the AGFMA, was not provided with some important information on the performance of the AGFMA's two FM service providers in 2018-19.

In response DPTI advised it will liaise with participating agencies to execute signed agreements to clarify roles and responsibilities, review its contract management plan and contract administration manual as part of a new AGFMA improvement program, and review the oversight controls for Facilities Services and reporting to the Facilities Management Governance Group.

Insufficient asset data collection

Relevant and current information on an entity's assets provides the foundations for effective asset management planning. To assist this aim, DPTI operates and provides agencies with access to the Strategic Asset Management information System (SAMIS). SAMIS is intended to include information designed to support agency asset management decision-making. While its use is not mandatory, it is the SA Government's preferred repository of data.

Our review of asset data collection found the following:

- In May 2018 DPTI noted that only about 40% of participating agencies had established asset hierarchies in SAMIS. Asset hierarchies detail the specific location of agency assets – including site, building, level (floor) and room. Without this degree of specificity in asset information, FM service providers cannot provide a condition and lifecycle assessment (expected replacement date and cost). This information is important for effective asset management.

  In addition to managing the AGFMA, DPTI also provides an advisory service to SA Government agencies on asset planning systems and frameworks. While we appreciate that DPTI has made some effort to communicate the importance of this issue to agencies, given the importance of accurate SAMIS information for proper asset management planning a more substantial response is necessary.
- Neither Spotless nor the Facilities Services unit prepared an Annual Inspection, Testing and Audit Plan for 2018-19. These plans are important for identifying the locations, buildings and assets that the FM service provider intends to physically inspect and assess for the year.
- DPTI has not established a control to ensure that the outsourced contractor is performing site inspections at designated locations at least once every three years. The Facilities Services unit was also unable to demonstrate that it had met this obligation.
- Audits of a small sample of jobs indicated that a significant amount of data had not been appropriately updated to SAMIS by the FM service providers.

DPTI's response indicated it will review asset data management and systems as a part of its AGFMA improvement program, liaise with agencies to develop a data improvement program and ensure the inspection plan is prepared, inspections are occurring and asset information is updated.

Asset condition monitoring not adequately performed

Asset condition information is important for ensuring agencies can adequately plan for asset replacement and maintenance. While DPTI guidelines recognise the importance of structured condition assessments, we noted:

- DPTI has not implemented a control to monitor that Spotless has completed condition and lifecycle assessments of all nominated assets
- Facilities Services is not meeting its responsibility for providing agencies with asset condition reports. DPTI advised it was updating asset data, including condition ratings, in the plant and equipment register and SAMIS. This project is expected to be completed in the next 18-24 months.

DPTI responded that it will ensure additional controls are in place to ensure life cycle assessments take place and that asset condition data will be collected and updated as sites are inspected.

Controls do not ensure only qualified subcontractors are used

Both FM service providers use subcontractors to perform work at agencies. A key aspect of ensuring that work is performed to a proper standard is ensuring that subcontractors hold the appropriate qualifications, licences and clearances.

We concluded that DPTI has not established effective controls to ensure that subcontractors hold and maintain appropriate qualifications, licences and clearances. We noted:

- DPTI does not review any supporting documents to confirm the qualifications, licences and clearances of subcontractors used by Spotless, either when they are engaged or periodically
- Facilities Services has not implemented controls to ensure subcontractor qualifications, licences and clearances remain valid.

DPTI advised that it will implement assurance activities to ensure subcontractors hold the appropriate qualifications, licences and clearances.

Other matters

Our review of Facilities Services noted that:

- a key reconciliation to ensure that payments to contractors are recovered from the AGFMA unit was not performed
- responsibility for payment approval, data entry and checking invoice processing was not segregated at regional offices, increasing the risk of invalid or incorrect payments not being identified and actioned
- subcontractor invoices were not checked that they had been approved in line with the delegations prior to payment.

Audit comment

While DPTI is responsible for administering the AGFMA, participating agencies are ultimately responsible for the effective management of their fixed assets.

To support the AGFMA it is important that participating agencies:

- engage with and understand their roles and responsibilities under the AGFMA
- set asset management and maintenance priorities in line with government policy
- specify their service needs in consultation with their FM service provider
- ensure their annual works program and budget is considered and approved
- implement processes to ensure work is performed and approve FM service provider claims for payment
- ensure work, health and safety standards are met.

Our review of asset management and maintenance practices across government has noted the need for participating agencies to:

- actively work with DPTI to ensure they are aware of their roles and responsibilities
- revisit/improve their asset management controls to support the effective provision of facilities management services for their assets.

Some opportunities to improve asset management practices were noted

We reviewed DPTI's asset management practices and controls against aspects of the International Standard on asset management (ISO 55000), with specific focus on selected road and marine assets and rail infrastructure assets. This included considering governance and management frameworks, levels of services and performance measures, maintaining asset information and processes to assess asset condition.

We also reviewed how DPTI's responsibilities for the Adelaide Oval were documented, undertaken and monitored to ensure responsibilities of all parties were met satisfactorily and within expected time frames.

DPTI has demonstrated a strong commitment to applying best practice principles to asset management. We did, however, note the following opportunities to improve.

Road and marine asset management

DPTI's road and marine assets have a replacement value of over $16 billion and comprise the following assets:

- sealed roads
- road corridor, which includes signs and safety barriers
- unsealed roads
- bridges and structures
- electrical assets, which includes lighting and traffic signals
- marine assets
- data and systems, including asset and traffic information.

Our review focused on DPTI's management of sealed roads (pavements), bridges and structures.

We found that DPTI has established a framework and structure for managing these assets. It includes an asset management policy, asset management objectives, a comprehensive strategic asset management plan for road and marine assets, asset management plans for specified groups of assets, systems to collect data on assets and an approach to determining asset conditions.

We identified the following opportunities to improve the management of road and marine assets:

- DPTI had not established desired levels of service (ie performance targets) to compare to the actual performance of the assets, and there were no performance measures or desired levels of service based on customer consultation and/or satisfaction evaluations. In addition, there was no analysis of tends in historical asset condition included in the sealed roads asset management plan.
- The register of bridge and marine assets contained inaccurate details on asset inspections.

DPTI advised that it:

- was continuing to develop and establish technical levels of service and minimum performance targets and levels of service, however at this time it does not intend to seek customer feedback
- updated the register of bridge assets.

Rail asset management

DPTI's rail infrastructure assets have a replacement value of over $1.5 billion and include civil structures, rolling stock, communications, signalling systems, overhead wire, traction power and track assets.

Our review focused on DPTI's management of track assets and civil structures.

We found that DPTI has established a framework and structure for managing its rail infrastructure assets. It includes an asset management policy, asset management objectives, a comprehensive strategic asset management plan for rail infrastructure assets, individual asset management plans for each of the six identified rail infrastructure engineering asset groupings, systems to collect data for rail assets and an approach to determining asset conditions.

We identified some minor opportunities to improve the management of rail assets. We noted that the asset management plans we reviewed did not:

- consider internal and external factors, and future demand that may impact asset management
- include current performance results for some levels of service statements and the results of the condition assessment for some assets
- include desired levels of service based on customer consultation and/or satisfaction evaluations.

DPTI responded:

- that rail asset constraints are known and recognised, and assets are managed within a steady state – meaning that consideration of internal and external factors, and future demand, sit outside of the strategic asset management plan
- advising of improvements to condition assessments
- that a customer satisfaction survey is currently being conducted and will influence the rail performance improvement plan and subsequent measures.

Adelaide Oval asset management

The *Adelaide Oval Redevelopment and Management Act 2011* (the AORM Act) provides for the future care, control and management of Adelaide Oval and the area closely surrounding the stadium. The Minister for Transport, Infrastructure and Local Government (the Minister) has subleased the asset to the Adelaide Oval SMA Ltd (AOSMA) until 2091. DPTI helps the Minister to administer related leases, licenses and certain requirements of the AORM Act.

The effect of the above arrangements is that while the AOSMA is responsible for managing, operating and maintaining the Adelaide Oval stadium, it remains a State asset with DPTI responsible for ensuring the AOSMA meets its obligations.

The AORM Act requires the AOSMA to make contributions to a sinking fund to maintain the Adelaide Oval as a world class multi-use facility. Contributions to the sinking fund are subject to the Treasurer's approval. The AOSMA engaged a consultant to develop a long-term maintenance plan to meet its non-recurrent maintenance and sinking fund obligations.

Our review found that DPTI has an established asset management policy applicable to all asset categories, and manages certain legislative and other requirements associated with the Adelaide Oval precinct. This includes ensuring the AOSMA prepares and maintains a long-term maintenance plan, comparing independent asset valuations to long-term maintenance plans and reviewing information provided by the AOSMA for planned contributions to, and expenditure from, the sinking fund.

Our review identified specific areas where we consider DPTI could improve its internal controls for asset management for the Adelaide Oval precinct. This includes:

- documenting a contract management plan and supporting work programs for legislative, lease and related asset management requirements for the Adelaide Oval
- documenting the identification, assessment and treatment of risks associated with the management, maintenance and leasing of Adelaide Oval assets
- improving the depth of review of the long-term maintenance plan prepared by the AOSMA.

In response DPTI noted that although aspects of managing the AOSMA lease agreements are included in DPTI's lease management system, it will create a contract management plan for this unique asset, which will incorporate a risk assessment and DPTI's approach to reviewing the AOSMA's compliance with its obligations.

Improvements in procurement and contract management are necessary

Procurement and contract management is a significant aspect of DPTI's operations, with DPTI spending over $2 billion on goods, services and construction annually.

We reviewed aspects of procurement and contract management. Our review considered:

- acquisition plans, tender assessments, conflict of interest declarations and managing prequalified suppliers
- contract management processes and the information recorded in the contract register. This included reviewing a sample of the contract management plans, approvals and payments.

We noted the following:

- The conflict of interest forms for two members on a tender selection panel were missing, potentially compromising the integrity processes over the tender evaluation process.
- The prequalified contractors register included many contractors without an expiry date and some contractors where the prequalification reassessment was overdue. In addition, there were no post-contract performance reviews performed to inform a contractor's prequalification status.
- Contract risks for a contract to provide project management and contract administration services for a design and construct project were not identified and assessed.
- DPTI's whole-of-department contract register was incomplete and inaccurate and there were no documented policies and procedures for maintaining a contract register.
- Instances where contract management plans were absent and an instance where the contract management plan was not approved until 12 months after construction had commenced.
- An example where variations to a contract were not approved in line with the Treasurer's Instructions or by the client agency responsible for the work.
- Policies and procedures need review and updating. We noted that DPTI has previously identified the need to review its policies and procedures and was progressively working through the update process.

In response DPTI advised it has identified the need for an updated policy framework encompassing the whole suite of policies and procedures for procurement and contracting. It is also developing a business case to procure a new software system to cover the complete procurement and contract life cycle. Further, in response to the above issues, DPTI advised it will:

- review where management of conflict of interest forms can be improved
- improve the documentation in the prequalified contractors register
- document requirements for post-contact review processes, management of project management contractors and contract management plans in the new contract management framework
- continue to update the accuracy of the contract register and implemented a policy in July 2019 detailing responsibilities for maintaining the register
- continue to review and update policies and procedures, noting that further changes may be required as part of the new contract management framework.

Internal audits identified concerns with procurement and contract management

In 2018-19 DPTI's internal audit function reviewed aspects of procurement and contract management. From these reviews we noted:

- tender evaluation plans for a road construction project were not approved until after issuing the tender, the suitability of the tender evaluation methodology and criteria was not established in the tender evaluation plan, a contract for management services was not executed, and a design and construct contract was executed before the development of contractual key result areas and key performance indicators
- a sample of smaller procurements for maintenance found examples where controls for segregation of duties and recordkeeping could be improved.

In September 2019 DPTI advised us that it had identified actions to address the matters raised by internal audit, including providing staff training and reviewing relevant procedures.

Further improvements required in project governance and project delivery

Project delivery is a core component of DPTI's operations that warrants a strong control environment. In 2018-19 DPTI spent about $945 million on constructing and purchasing assets, and $336 million on building projects for other SA Government agencies.

DPTI has previously identified gaps in how it manages project and program delivery

DPTI reviewed its approach to managing project and program delivery in 2015, with an external consultant's report making a range of recommendations to improve project delivery governance arrangements across all aspects of DPTI's operations, including projects delivered on behalf of other SA Government agencies.

Since then DPTI has continued to make changes to how it manages project delivery.

Recent progress

— *Portfolio, Program and Project Management Office (3PMO) developments*

The 3PMO establishes the minimum governance, monitoring and reporting requirements applicable to all projects and provides a review with those requirements. Over the last year DPTI has made the following changes in the 3PMO's governance processes:

- re-established an annual program governance and established a strategic governance process
- provided new guidance that all high value and high risk projects must have a risk management plan not just a risk register
- piloted new project management software, which was used to produce a four-year forward program and 10-year investment strategy.

We noted that the 3PMO was still developing tools and templates, and a new reporting tool, for procurement management, stakeholder management, resource management and project closure.

— *Changes in governance committees*

The Project Review Panel (PRP) was established in 2017-18 to provide assurance to the Chief Executive that programs and projects are on time, are within scope and budget and that risks are being managed effectively. The PRP monitors programs and projects to ensure that they are managed effectively and achieve planned outcomes and benefits. The PRP included an Independent Chair.

In 2018-19 a new Strategic Executive Committee (SEC) was established. The purpose of SEC is to set the medium to long-term strategic direction for land use, transport and infrastructure development strategies prepared by DPTI. It also makes decisions about investment priorities and outcomes sought from capital projects. SEC members include DPTI's executive directors and meetings are scheduled monthly.

DPTI advised that its governance committees have been reviewed and the Major Projects Executive Committee was established to replace the PRP, with supporting governance committees still to be established.

— Changes in the organisation structure for delivering capital projects

In November 2018 the Infrastructure Delivery operations moved under the Capital Initiatives directorate. In February 2019, an organisational restructure resulted in Infrastructure Delivery being renamed the Transport Project Delivery division, and the Building Projects section moving to a newly created Across Government Services division. The changes reflect a desire to separate the delivery of DPTI's transport infrastructure projects from infrastructure projects delivered on behalf of other SA Government agencies.

Findings from our review of project delivery and management

We have reviewed aspects of project management for DPTI construction projects, and for projects delivered by DPTI on behalf of other SA Government agencies. Our review included testing compliance with the Treasurer's Instructions, SA Government and DPTI approval requirements, DPTI's project governance framework and reviewing the outcome of internal audit reviews.

We noted:

- DPTI has not documented its expectations on the use of project management plans, and some project management plans were not approved or were not approved in a timely manner
- DPTI has not documented its procedures for the regular review of project risk registers and our review of the Queen Elizabeth Hospital new car park addition and Adelaide Women's Prison projects was unable to verify that their risk registers had been recently reviewed
- key project governance documents were not completed or were missing details for the metropolitan program of works bundle, the Oaklands Crossing, Her Majesty's Theatre redevelopment, Queen Elizabeth Hospital new car park addition and Adelaide Women's Prison projects
- lessons learnt registers were not maintained for Her Majesty's Theatre redevelopment, Queen Elizabeth Hospital new car park addition and Adelaide Women's Prison projects
- a project definition report for the Oaklands Crossing project was not signed by an appropriate delegate.

These issues increase the risk that projects are not managed effectively.

In response DPTI advised that it will further develop its project management framework to provide more instruction to project managers for project management plans, governance documents and lessons learnt registers. DPTI further advised it will investigate reinstating a handover document to ensure documents are prepared and endorsed at the appropriate phases of the project life cycle.

Internal audits identified concerns with project delivery

In 2018-19 DPTI's internal audit function also reviewed some projects and made similar observations. These are detailed below.

— *Internal audit of the Gawler East Link Road project*

An internal audit review identified important concerns for the Gawler East Link Road project. These included that:

- several planning documents were not completed and approved. These included the business case, benefits profile document and business requirements document
- project benefits were not sufficiently defined to enable a meaningful and measurable assessment of whether the project benefits are realised
- the project management plan was not approved and did not contain several aspects/strategies
- the risk management plan was not approved and was incomplete
- the communication engagement plans were in draft
- the benefits realisation management plan did not define the benefits management strategy
- multiple project registers had either not been developed or once created were not used. These included a benefits register, lessons learned register, issues register and decisions register.

DPTI advised that recommendations from the review have been assigned for action. It further noted that the project and risk management plans were updated and signed in May 2019 and that relevant registers have now been established.

— *Internal audit of major project risk management*

Issues identified by the internal audit review of major projects risk management included that:

- the current mechanisms for accessing lessons learnt across units and project teams were not practical, and lessons learnt were typically performed at the completion of a project rather than during it, increasing the risk that important lessons learnt are not effectively identified or used in future projects
- the content and format of the 3PMO reporting tool did not fully support the effective communication of strategic project risks
- a large volume of high-value and high-risk projects were allocated to one senior responsible officer, increasing the risks of delays in decision-making and approvals, insufficient oversight, and key personnel risk
- specialised expertise and timing of resources was not expressly addressed at the early stages of projects, increasing the risk that appropriate capabilities, expertise or specialised technical knowledge are not available at appropriate times in the project life cycle
- the project management plans and risk management plans were not finalised, and the business cases were not approved, for the Gawler East Link Road project and the Gawler Rail Electrification project
- many officers had no formal training from DPTI on risk management or internal risk management processes/expectations, resulting in significant variations in complexity of risk registers, terminology, quantification of risk consequences and likelihood ratings, and monitoring of risk treatment/controls.

DPTI advised that recommendations from the review have been assigned for action.

— *Internal audit of gateway reviews*

A gateway review is a short, independent review of a program or project undertaken at key decision points in the program or project's life cycle. An internal audit consulting review of the gateway review process observed:

- the standard recommendation action plans template was not consistently used, and sampled plans included ineffective or no actions to address the gateway review recommendations
- there was no clear process to verify that recommendations were appropriately addressed and actions were completed. There was no assurance/reporting function providing oversight to senior stakeholders on the status of each action. It was noted that several actions in the plans had been closed even though the recommendation was not addressed.

In response to our inquiry on these issues, DPTI advised that the 3PMO implemented improvements to the standard recommendation action plans template and review processes to ensure recommendations are appropriately addressed.

Audit comment

The scope, complexity and variety of construction projects for which DPTI is responsible mean that it is difficult – and impractical – to develop a rigid, singular approach to project management. It must maintain a flexible approach that allows it to adapt to different circumstances and ensure it remains efficient in its project delivery.

While DPTI must maintain flexibility in management approach, it is equally important that its staff are clear on the processes required to ensure project risks are effectively managed and good project outcomes are consistently achieved.

Our observations and those of DPTI's internal audit predominantly relate to the need for clarity in the use of key project governance documents, or the inconsistent use of them in projects. Clarity over management expectations is an important element of any control environment, but is particularly relevant when the scope and complexity of project risks mean that staff need to exercise significant judgement.

DPTI advised it will further develop its project management framework to provide more detailed instruction to project managers for project management plans and other core project documents. In addition, a review of risk management plans and registers on projects is being conducted to provide recommendations for improvement.

Review of Basware users and delegations is incomplete

DPTI uses the Basware payment system to create and approve purchase orders and payment transactions. In 2019 it processed $2.2 billion through Basware. System functionality includes assigning users with delegation limits for approving transactions.

Our audit noted that:

- DPTI's check of user delegation limits in Basware did not consider invoice approval delegations and did not cover all users. Approximately 40% of DPTI's transactions (by value) are processed through this method

- the checking of the validity and approval of manual payments excluded some transactions.

DPTI acknowledged the findings and indicated it would implement controls to address them.

Other audit findings

Payroll controls need to be better to ensure all payments are bona fide and accurate, and that all leave is recorded

In 2018-19 DPTI's employee benefits expenses amounted to $245 million, with related liabilities amounting to $107 million.

Payroll processing services are provided by Shared Services SA (SSSA) in line with a service level determination. While SSSA is responsible for the complete and accurate processing of the payroll data it receives, DPTI is responsible for ensuring payroll transactions are valid, accurate and complete.

DPTI's payroll verification process comprises a quarterly review of employee details (staff establishments report) and a monthly review of employee pay variations and leave variances between the attendance records and the payroll system (staff exceptions report).

Our review noted:

- a significant number of reports were either not reviewed or were not reviewed promptly, with many of them overdue by more than 30 days
- DPTI has not established an effective control to monitor and certify employee attendance. The absence of this control increases the risk that employees are paid for work not actually performed and that leave records in the payroll system are inaccurate.

DPTI's response advised it would review the current process for tracking staff establishment to identify opportunities for improvements. For attendance monitoring, DPTI considered it is the employee's responsibility to complete time records accurately and honestly and that managers are responsible for monitoring and reviewing time records in conjunction with the approval of staff establishment and reporting and exception reporting. DPTI advised it will reinforce these requirements with its business units.

Further action is required to improve IT controls for selected systems

We reviewed password management, privileged user access, audit logging, patch management, change management, backup and disaster recovery management for the following systems:

- motor registration and licensing system (TRUMPS)
- fee and resource management system (FARMS)
- facilities management information system (FAMIS).

We also followed up the progress of addressing issues we raised last year for the Masterpiece financial system (Masterpiece) and Adelaide fare collection system (Metrocard).

We identified shortcomings in the following aspects of DPTI's information security controls:

- Password settings for applications, databases and operating system environments did not meet DPTI's documented password standards or the Australian Government Information Security Manual standards (aspects for all systems reviewed).

- Some staff can perform multiple functions across the change management process, including developing, testing and migrating changes into the production environment (TRUMPS, FARMS, FAMIS and Masterpiece).
- Patching of software for security vulnerabilities could be improved (all systems reviewed).
- Disaster recovery plans and testing were not in place (FAMIS, FARMS and Masterpiece).

DPTI responded positively to our findings with details of remediation action and time frames, with most actions to be addressed in 2019-20.

More work is required to adopt AASB 16, with further delays risking completion of agency financial reporting for 2019-20

From 1 July 2019 DPTI and its lessee agencies will be required to recognise lease assets and liabilities in their Statements of Financial Position. AASB 16 Leases will also result in changes to how revenues and expenses associated with lease activities are recognised in the Statement of Comprehensive Income, and require lessees to include extensive financial reporting disclosures.

Most government agencies must apply the new standard from 1 July 2019, with their 2018-19 financial report including disclosures explaining the nature and expected financial impact of these changes in future financial periods. In addition to preparing information for its own reporting purposes, DPTI is required to provide its lessee agencies with the information necessary for these disclosures.

We noted that DPTI had not completed all of the work required to prepare for 1 July 2019 adoption, with the following matters needing resolution:

- separating non-lease components when calculating lease liabilities and lease assets, which is required by AASB 16 and the Accounting Policy Statements issued by the Department of Treasury and Finance (DTF)
- improving the documentation of all relevant facts and circumstances that create an economic incentive for the lessee either to exercise, or not to exercise, the lease term option for each lease
- applying rent reviews consistently when calculating lease liabilities and related assets.

DPTI responded that it will liaise with DTF to develop definitions and a calculation model for separating non-lease components. DPTI further advised that appropriate evidence will be available and that it has made changes to the lease data to correct calculations for rent reviews.

DPTI's response outlined some options for calculating non-lease components. For one option, DPTI estimated that it would take them between six and nine months to review each of its approximately 900 leases and develop a reliable model to identify and separate non-lease components. A delay of this length risks compromising agency financial reporting for 2019-20.

Financial information on the value of lease assets and liabilities, included in most agency financial reports for 30 June 2020, will be prepared by DPTI. Once DPTI has completed its calculations, agency staff will be expected to validate this data and my staff will be required to audit the figures prepared.

There will be limited time to perform our work if DPTI cannot complete its calculations until May 2020. Any delay beyond this date will significantly compromise my ability to complete the audit work necessary to form an opinion on agency financial reports for 2019-20.

Other commentary

Adelaide Oval redevelopment

On 29 September 2011 the AORM Act came into operation. Its primary purpose is to facilitate the redevelopment of Adelaide Oval and to provide for the future care, control and management of Adelaide Oval. DPTI has the principal construction management role and responsibility for the redevelopment project.

The AORM Act also requires financial supervision of the project by the Auditor-General and provides for the Auditor-General to report to Parliament on specific financial matters associated with the redevelopment and the ongoing management of Adelaide Oval. Six-monthly reports are provided to the Parliament discharging the requirements of the AORM Act. The first Report was provided to the Parliament on 29 February 2012 and the most recent Report was on 30 August 2019.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	245	226
Supplies and services	1 005	911
Depreciation and amortisation	425	427
Grants and subsidies	77	176
Other expenses	82	45
Total expenses	1 833	1 785
Income		
Fees and charges	699	642
Commonwealth revenues	554	743
Sale of goods and services	174	166
Rental income	218	222
Other income	135	139
Total income	1 779	1 912
Net revenue from (cost of) providing services	(55)	128
Revenues from (Payments to) SA Government		
Revenues from SA Government	541	990
Payments to SA Government	(76)	(30)
Total revenues from (payments to) SA Government	465	960
Net result	410	1 087
Other comprehensive income		
Changes in revaluation surplus	535	281
Total comprehensive result	945	1 369

	2019 $'million	2018 $'million
Net cash provided by (used in) operating activities	936	1 505
Net cash provided by (used in) investing activities	(927)	(1 143)
Net cash provided by (used in) financing activities	273	258
Assets		
Current assets	4 413	4 142
Non-current assets	26 793	26 080
Total assets	31 205	30 222
Liabilities		
Current liabilities	297	300
Non-current liabilities	156	141
Total liabilities	453	441
Total equity	30 753	29 781

* Table may not add due to rounding.

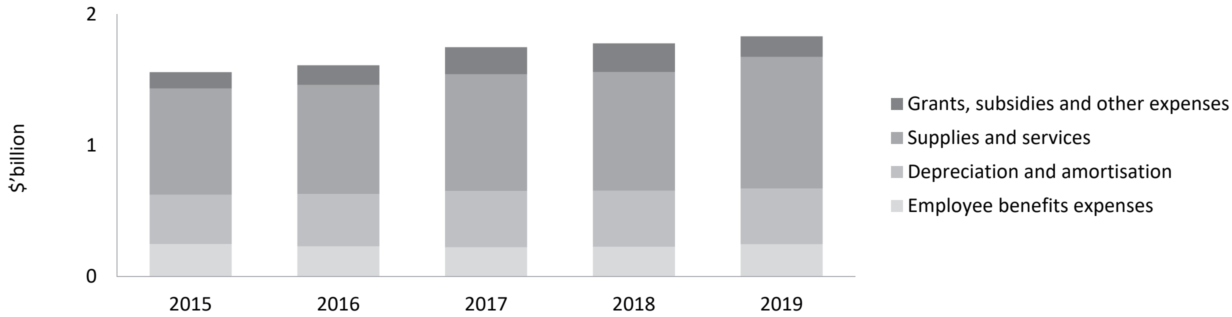
The following chart shows the breadth and scale of DPTI's activities, identifying 2018-19 operating expenses by activity and the value of fixed assets held to support these activities.

Note: The net loss or gain on the disposal of non-current assets is recognised by activity in the chart above.

Statement of Comprehensive Income

Expenses

For the five years to 2019, a structural analysis of DPTI's major expense items is shown in the following chart.



Expenses for the year totalled $1833 million ($1785 million) and are mainly attributable to:

- supplies and services expenses of $1005 million (55%), of which $213 million was for bus service contract payments, $203 million was for operating costs of major infrastructure maintenance and other service contracts, $167 million was for operating lease expenses and $148 million was for property expenses
- depreciation and amortisation expense of $425 million (23%), of which $302 million was for network assets, $62 million was for buildings and facilities and $52 million was for plant and equipment
- employee benefits expenses of $245 million (13%).

Total expenses increased by $48 million (3%), with the more notable movements including:

- supplies and services expenses increasing by $94 million, largely as a result of:
  - the transfer of responsibilities of the Office of the Valuer-General and Office of the Registrar-General from 1 July 2018 – expenses for 2019 include $70 million in land service fees paid by DPTI for the first time
  - an increase in major infrastructure maintenance contracts expenditure of $23 million due mainly to construction works performed for external entities
  - a decrease in Service SA charges of $35 million following the transfer of responsibility for Service SA to DPTI from 1 July 2018 – while DPTI is no longer required to pay Service SA charges directly, it is responsible for the additional employee benefits expenses and other expenses associated with operating Service SA
- employee benefits expenses increasing by $19 million, largely due to the transfer of responsibility for Service SA
- other expenses increasing by $37 million following the transfer of the Adelaide Botanic High School assets of $28 million to the Department for Education and the transfer of heritage assets valued at $18 million to the Department for Environment and Water
- grants and subsidies expenses decreasing by $99 million, due mainly to 2017-18 expenses including:
  - $59 million for Office of Recreation and Sport grants, with this activity transferring out of DPTI on 1 July 2018
  - $32 million in taxi industry assistance grants paid, which ceased in 2018-19.

Income

Income (excluding revenues from the SA Government) totalled $1779 million. DPTI's revenue sources are shown in the following chart, which demonstrates the importance of Commonwealth revenues (used largely for capital projects) and the significance of fees charged for motor registrations.

$1.78b in revenue

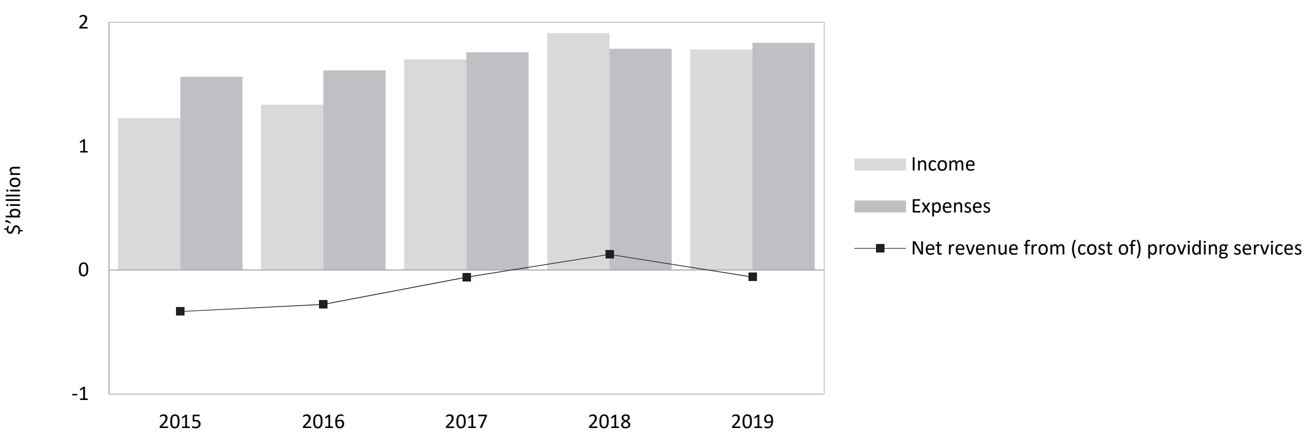
Fees and charges		Commonwealth revenues		Other revenues	
$699m		$554m		$526m	
$451m	Motor registrations	$190m	Northern Connector	$179m	Office accommodation
$77m	Driver's licence fees	$94m	North South Corridor – Darlington upgrade	$29m	Government employee housing
$94m	Metrotickets	$25m	South Road upgrade – Torrens to Torrens	$136m	Maintenance services
		$29m	Recurrent grants	$59m	Concessional passenger income
		$64m	Gawler RailLine Electrification		
		$52m	Oaklands Crossing		

Total income (excluding revenues from the SA Government and changes in the revaluation surplus) decreased by $134 million (7%) to $1779 million, due mainly to the following movements:

- Commonwealth funding decreasing by $189 million predominantly for road projects
- fees and charges increasing by $57 million due mainly to:
  - drivers licence fees increasing by $16 million (25%), with drivers generally electing to take out longer licence duration compared to the previous year, an increase in number of transactions and an increase in the licence fee
  - motor registration charges increasing by $21 million (5%) due mainly to fee increases and growth in vehicle registrations
  - land services fees increasing by $15 million due to the transfer to the Office of the Valuer-General and Office of the Registrar-General to DPTI from 1 July 2018.

Net cost of providing services

The following chart shows the income, expenses and net revenue from or cost of providing services for the five years to 2019.



DPTI has recorded a net cost of providing services for the year of $55 million (net revenue of $128 million). A significant factor in the $183 million change from the 2018 result was the level of Commonwealth funding received, which decreased by $189 million to $554 million. Commonwealth funding was mainly for capital projects and is reported as income in the year it is received.

Revenues from (Payments to) SA Government

Net revenues from the SA Government decreased by $495 million to $465 million, due mainly to:

- a $217 million decrease in cash received from the Motor Accident Commission – further details are provided under 'Cash' below
- a decrease in appropriations from the Consolidated Account of $212 million
- an increase in payments to the SA Government of $46 million, largely due to an increase in the return of surplus cash of $42 million under the SA Government's cash alignment policy.

In 2019 DPTI received an equity contribution from the SA Government under the *Appropriation Act* of $277 million ($262 million). Equity contributions are recognised in the Statement of Changes in Equity.

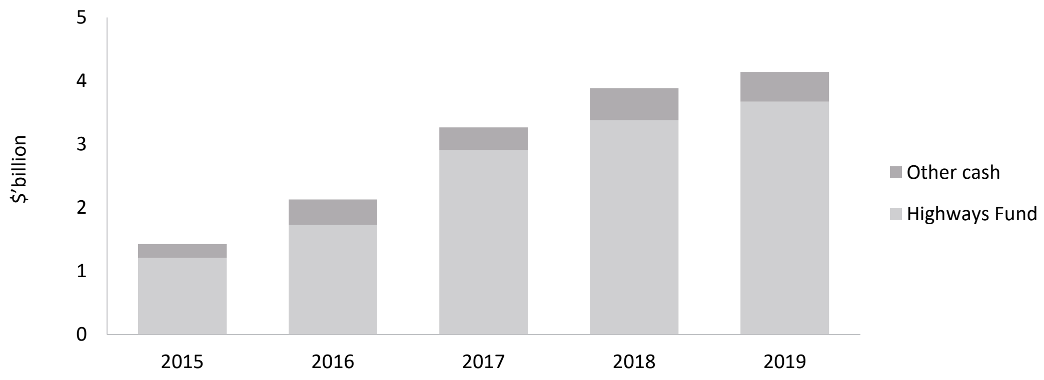
Statement of Financial Position

DPTI's total assets as at 30 June 2019 were $31.2 billion ($30.2 billion) and are discussed below.

DPTI's liabilities amounted to $453 million ($441 million) and mainly comprised payables of $246 million ($242 million), employee benefits of $107 million ($95 million) and lease incentives of $40 million ($43 million).

Cash

DPTI's cash amounted to $4.2 billion ($3.9 billion) and includes $3.7 billion ($3.4 billion) held in the Highways Fund established under *Highways Act 1926*. The balance of the Highways Fund and other cash is shown in the following chart.



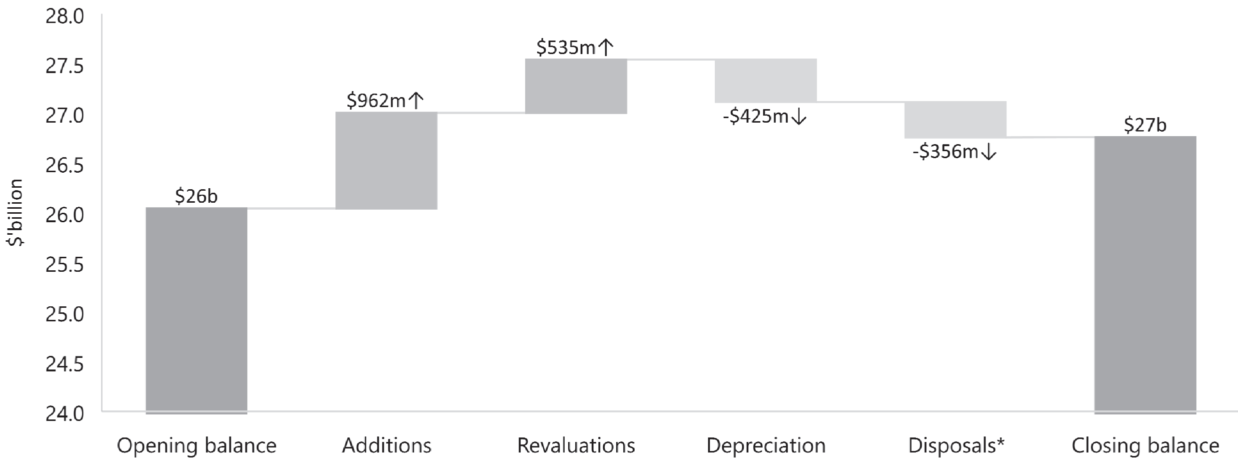
The marked increase in amounts held in the Highways Fund largely reflects the following transfers since 2015:

- surplus funds from the Motor Accident Commission totalling $2.5 billion. Further details on the transfer from the Motor Accident Commission are included in the commentary under 'Motor Accident Commission' in this Report

- money from private insurer participation in compulsory third party arrangements amounting to $259 million.

Fixed assets

DPTI's fixed assets include network assets of $21.8 billion ($20.8 billion), land, buildings and facilities of $2.6 billion ($2.7 billion), capital work in progress of $1.7 billion ($1.9 billion) and plant and equipment of $670 million ($610 million). The following chart shows the movement in fixed assets during the year.



* Includes assets transferred out of DPTI from machinery of government changes, donated assets and assets transferred to held for sale.

Network assets

Network assets amounted to $21.8 billion and represented 81% of total non-current assets. Network assets comprise roads with a written down value of $16.9 billion (78%), structures with a written down value of $2.4 billion (11%) and rail and bus track assets with a written down value of $2.5 billion (11%).

The written down value of network assets increased by $995 million to $21.8 billion. The main movements were:

- capitalisation of network projects totalling $976 million, comprising $627 million for roads, $74 million for structures and $274 million for rail and bus track assets
- a net revaluation upwards of $328 million, comprising a $229 million increment for roads, $76 million increment for structures and $24 million for rail and bus track assets
- offset by depreciation expense of $302 million, comprising $185 million for roads, $46 million for structures and $71 million for rail and bus track assets.

Capital works in progress

The value of capital works in progress decreased by $228 million to $1.7 billion. The major movements in capital works are shown in the following table.

Projects	Carrying amount 01.07.18 $'million	Additions $'million	Transfer to assets $'million	Closing balance 30.06.19 $'million
Northern Connector	482	196	1	677
Torrens to Torrens Project	571	53	623	1
North-South Corridor Darlington Upgrade	378	131	-	509
Oaklands Rail Crossing	21	100	106	15
Tram extension to the old RAH	86	13	93	6
Gawler Line Electrification and Modernisation	42	57*	-	99
Railcar overhaul	33	24	57	-
North-South Corridor Regency road to Pym street	-	51	35	16
Festival Precinct Plaza	30	5	-	35
Train Control Centre	8	29	34	3
Flinders Link – Tonsley line extension	12	14	-	26
Bus purchase program	5	24	25	4
Torrens Rail Junction	18	4	20	2

* Includes $11.5 million reinstatement of costs written off in an earlier year.

Land, buildings and facilities

Land, buildings and facilities decreased by $124 million to $2.6 billion due mainly to:

- a decrease of $277 million for Office of Recreation and Sport assets transferred out of DPTI as a result of machinery of government changes
- the transfer of the Adelaide Botanic High School assets of $28 million and heritage assets valued at $18 million for $0 consideration
- depreciation expense of $63 million
- the reclassification of $16 million in land and buildings as assets held for sale.

All of this was partially offset by:

- a revaluation upwards of $207 million, attributable mainly to increases in the value of marine buildings and facilities of $149 million, marine land of $33 million and metropolitan rail land of $11 million. Valuations were performed by the Valuer-General. The marine assets include ports, jetties and breakwaters and includes Port Bonython built assets that were revalued upwards by $107 million to $163 million. This asset has been significantly upgraded in recent years
- asset additions including transfers from capital works in progress amounting to $76 million, which included $43 million of land acquisitions for current projects and $11 million for building assets for the Train Control Centre.

Plant and equipment

Plant and equipment totalled $670 million, an increase of $60 million from the previous year. The main movements for the year were:

- asset additions and transfers from capital works in progress of $116 million, which included $57 million for train rolling stock upgrades and $25 million for the bus purchase program
- depreciation expense of $52 million.

Statement of Cash Flows

Cash increased by $282 million to $4.2 billion. A contributing factor was the receipt of $143 million from the Motor Accident Commission.

The cash used in investing activities decreased by $216 million to $927 million, reflecting a decrease in DPTI's capital works program.

The net cash flows from financing activities increased by $15 million to $273 million, due mainly to an increase in the equity contribution from the SA Government from $262 million to $277 million.

Gross cash inflows from the SA Government amounted to $817 million ($1.3 billion) including the transfer of $143 million ($359 million) from the Motor Accident Commission, operating appropriations of $387 million ($600 million) and equity contributions of $277 million ($262 million).

Impact of AASB 16 at 1 July 2019

From 1 July 2019 a new accounting standard for leases, AASB 16, takes effect and will result in operating leases entered into by DPTI being recognised as lease assets and liabilities in the Statement of Financial Position. It will also result in changes to how revenues and expenses associated with lease activities are recognised in the Statement of Comprehensive Income and require lessees to include extensive financial reporting disclosures.

Under current SA Government policy, DPTI is responsible for most office accommodation for SA Government agencies. Under these arrangements, DPTI leases office accommodation from private sector landlords, which is subleased to SA Government agencies. Consequently, DPTI's Statement of Financial Position will include lease assets and liabilities relating to much of the public sector.

DPTI has assessed that adopting AASB 16 will have a material impact on its Statement of Financial Position, with an additional $1 billion in lease liabilities being recognised, offset by $927 million finance lease receivables from SA Government agencies and $71 million right of use assets that DPTI uses.

DPTI estimates that its 2019-20 Statement of Comprehensive Income will report an increase in cost of services of $61 million, and include:

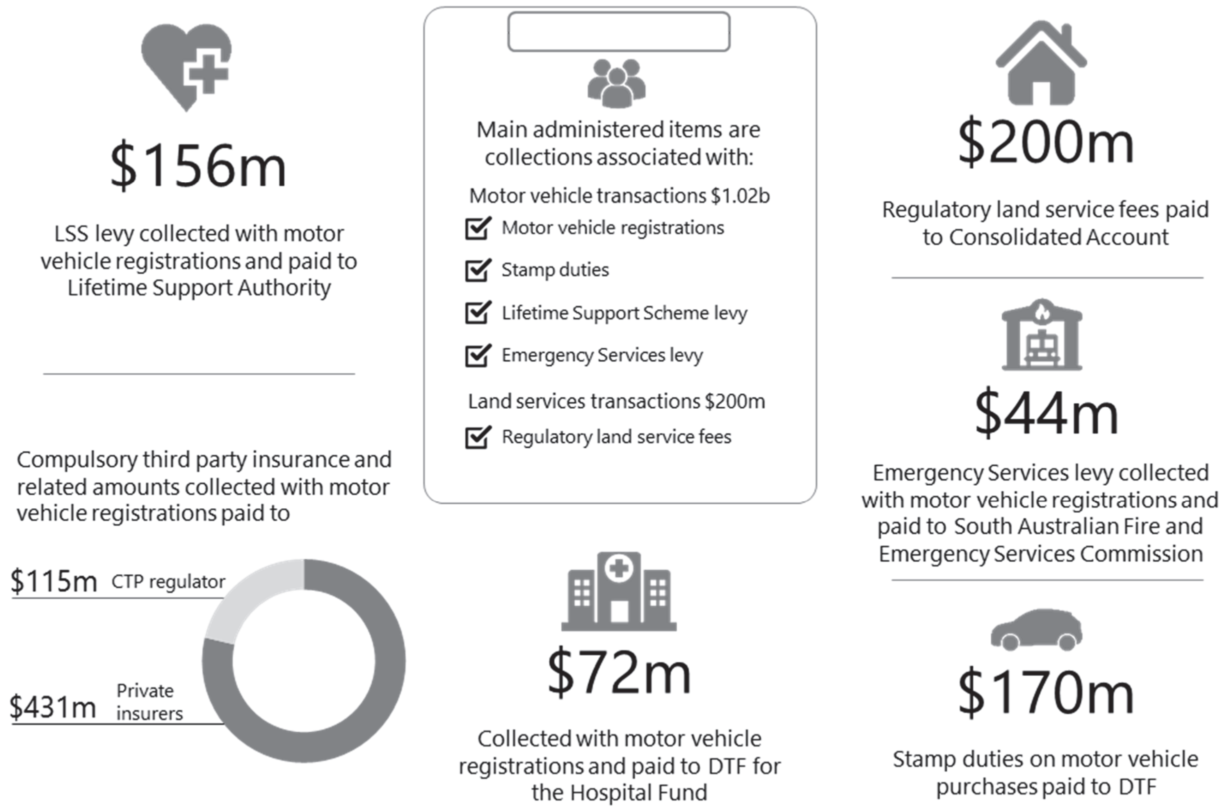
- a reduction of property rental income of $177 million
- a reduction of supplies and services costs of $136 million.

The amounts disclosed are estimates only. DPTI is continuing to refine its calculations of lease assets and liabilities for 2019-20 financial reporting purposes and expects that these figures will change. This includes accounting for lease components (refer comments under 'Communicating our audit findings' above).

Administered items

DPTI is responsible for managing a range of activities on behalf of the SA Government. These activities are identified as administered items and reported separately where, for example, DPTI does not control these activities but is responsible for transferring amounts to other eligible beneficiaries. In 2019 DPTI was responsible for administering the following activities.

Administered items 2019



DPTI's administered revenue and expenses totalled $1.3 billion, and reflected:

- an increase in regulatory land services fees from $115 million to $200 million, due mainly to machinery of government changes that transferred the responsibility for this activity to DPTI on 1 July 2018. This activity was previously transferred out of DPTI to DTF on 1 February 2018
- an additional $38 million in other income from the land services commercialisation (refer below).

Land services

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

Land Services SA (LSSA) is the exclusive provider of land services

The SA Government commercialised the State's land services operations in 2017-18.

On 10 August 2017, LSSA, a private sector operator, entered into a 40-year contract with the State to provide land services to customers on behalf of the SA Government under a fee-for-service arrangement. Services to be provided include land titling, registration and valuation services. LSSA started providing land services to customers on 13 October 2017.

Under the LSSA arrangements the statutory roles of the Registrar-General and the Valuer-General have continued with legal, policy and regulatory functions remaining with the Lands Titles Office and the State Valuation Office. The Valuer-General also continues to oversee the objection and grievance process and valuations of SA Government owned land.

Fee rates for land titling, property valuations and other land services are still set by the SA Government under various legislation and the fees collected by LSSA are paid into the Consolidated Account.

The State received a $1.605 billion up-front payment from LSSA

On entering the contract, LSSA paid $1.605 billion to the State comprising:

- $1.525 billion principally for the right to be the exclusive provider of land services, the right to use the State's land information assets and the right to use the State's software (the SAILIS system)
- $80 million for the exclusive right to negotiate to become the service provider for other State registries that the State decides to commercialise. Under the contract this amount is to be repaid with interest if the State does not progress with the commercialisation of the motor vehicle registry within three years or does not extend the existing land services contract by seven years.

Accounting for the up-front payment from LSSA

The accounting treatment applied by DTF to the transaction in October 2017 was:

- cash of $1.6 billion
- unearned revenue of $1.5 billion
- financial liability of $80 million (for the right to negotiate for the other registries).

The rationale and assessment of this accounting approach is detailed in my 2018 Annual Report.[1] This noted the accounting approach taken was to apply the concepts in AASB 1059 *Service Concession Arrangements: Grantors*, an accounting standard that is not mandatory until 30 June 2021 financial reports.

On transition to AASB 1059 in July 2020, a further asset – the data in the land title registries – will also need to be considered. These assets must be measured at current replacement cost under AASB 1059. A valuation determined with reference to market prices or income modelling is not permitted by AASB 1059. There is no standard industry practice of accounting for the value of such intangible assets as land title data in this manner.

Impact on DPTI's financial statements of the LSSA arrangements

The transfer of the Office of the Registrar-General and Office of the Valuer-General to DPTI on 1 July 2018 resulted in DPTI:

- recognising a $1.5 billion liability in the Statement of Administered Financial Position for unearned revenue. Over the 38-year term of the agreement with LSSA this liability will be progressively reduced, with $38 million revenue recognised in the Statement of Administered Comprehensive Income in 2019

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[1] Report 5 of 2018 *Annual report for the year ended 30 June 2018, Part B: Agency audit reports,* page 461.

- assuming responsibility for LSSA costs, which for 2019 amounted to $70 million and are recognised in DPTI's Statement of Financial Position. DPTI received appropriation funding for the LSSA fees
- recognising SAILIS as a service concession asset valued at $17.1 million in DPTI's Statement of Financial Position.

The State's liability for LSSA's upfront payment of $80 million for the exclusive right to negotiate on other State registries was retained by DTF and is not included in DPTI's financial statements.

Department of the Premier and Cabinet (DPC)

Financial statistics	Net cost of providing services:	$228 million
	Total appropriation:	$232 million
	Number of FTEs:	415

Significant events and transactions

— DPC was involved in a number of significant machinery of government changes which took effect on 1 July 2018:

- Responsibility for Arts South Australia and Aboriginal Affairs and Reconciliation transferred to DPC from the Department for Innovation and Skills.
- Responsibility for Shared Services SA, Electorate Services, Fleet Services, ICT Transformation, Return to Work Services and Industrial Relations, along with some other functions, transferred to the Department of Treasury and Finance (DTF).
- Service SA and associated corporate staff transferred to the Department of Planning, Transport and Infrastructure.
- Mineral Resources, Energy Resources, Energy and Technical Regulator, the Energy Plan Implementation Taskforce and other functions transferred to the Department for Energy and Mining.

— DPC was also involved in a number of smaller transfers in 2018-19, mostly associated with transferring functions to other agencies.

Financial report opinion — **Unmodified**

Controls opinion findings — No significant findings.

Functional responsibility

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

DPC's responsibilities include providing specialist policy advice, supporting the Cabinet process, leading implementation of the SA Government's strategic priorities and policy commitments, and providing a range of other government services. Details are contained in note 1 of DPC's financial report.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- payroll
- accounts payable
- ICT revenue
- general ledger
- intra-government transfers
- grants.

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

Controls opinion

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

Audit findings

Communicating our audit findings

We communicated a small number of low risk audit findings in management letters to the Chief Executive and received a satisfactory response from DPC.

Controls opinion findings

There were no significant findings for our controls opinions work at DPC.

Interpretation and analysis of the financial report

Transfer of significant functions as a result of machinery of government changes in 2018-19

The significant overall decreases in expenses, revenues and revenues from the SA Government and increases in grants and subsidies and non-current asset balances shown below mainly reflect the impact of significant machinery of government changes affecting DPC in 2018-19.

DPC was impacted by several transfers, with the largest being:

- the transfer of Aboriginal Affairs and Reconciliation and Arts South Australia, along with associated corporate functions, to DPC from the Department for Innovation and Skills on 1 July 2018. Total net assets associated with this restructure was an increase of $208 million for DPC's Statement of Financial Position

- the transfer of Mineral Resources, Energy Resources, Energy and Technical Regulator, the Energy Plan Implementation Taskforce and other functions to the Department for Energy and Mining on 1 July 2018. Total net assets associated with this restructure was a decrease of $71 million in DPC’s Statement of Financial Position
- the transfer of Shared Services SA, Electorate Services, Fleet Services (ministerial chauffeurs), ICT transformation, Return to Work Services and Industrial Relations, along with some other functions, to DTF on 1 July 2018. Total net assets associated with this restructure was an increase of $17 million in DPC’s Statement of Financial Position, reflecting the large number of staff involved with this transfer and the associated significant reduction in employee benefits liabilities.

There were a number of other smaller transfers that also affected DPC in 2018-19, bringing the total net impact on DPC’s Statement of Financial Position to an increase of $146 million.

As a result of these restructures and transfers, amounts are not directly comparable between 2018 and 2019.

Highlights of the financial report – controlled items

	2019 $’million	2018 $’million
Expenses		
Employee benefits	59	184
Supplies and services	61	248
Grants and subsidies	153	89
Other expenses	17	11
Total expenses	290	532
Income		
Fees and charges	52	141
Grants	3	5
Resources received free of charge	1	4
Other	6	9
Total income	62	159
Net cost of providing services	228	373
Revenues from (Payments to) SA Government		
Revenues from SA Government	232	397
Payments to SA Government	(31)	-
Total revenues from (Payments to) SA Government	201	397
Net result and total comprehensive result	(27)	24
Net cash provided by (used in) operating activities	(22)	19
Net cash provided by (used in) investing activities	(13)	(10)
Net cash provided by (used in) financing activities	(40)	4
Assets		
Current assets	82	161
Non-current assets	205	83
Total assets	287	244

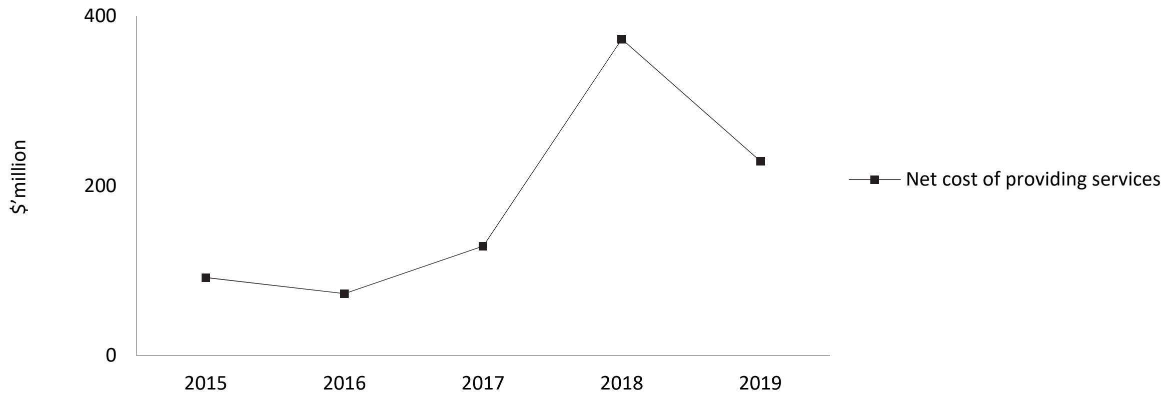
	2019 $'million	2018 $'million
Liabilities		
Current liabilities	20	62
Non-current liabilities	14	48
Total liabilities	34	110
Total equity	253	134

Statement of Comprehensive Income

Net cost of providing services

The significant machinery of government changes highlighted above resulted in a decrease in the net cost of providing services, reflecting the net overall transfer of functions out of DPC.

The following chart shows the impacts of the transfers into and out of DPC on the net cost of providing services for the five years to 2019, reflecting that it has varied significantly in the last five years.



Expenses

The significant restructures affecting DPC in 2018-19 saw total expenses for the year decrease by $242.5 million (46%) to $290 million.

Employee benefits expense decreased by $125.3 million (68%) and supplies and services by $186.4 million (75%). These decreases reflect the reduction in staff numbers from the transfers and reduced expenditure due to functions now being performed by other departments.

Grants and subsidies increased by $64.8 million (73%) to $153 million, reflecting that DPC now has responsibility for the Arts South Australia grants program.

The significant grant programs included:

- $125 million to major arts organisations to fund their operations
- $5.2 million for Aboriginal Affairs and Reconciliation grants
- $5 million in local government grants
- $3.1 million for the Ageing Well Initiative
- $2.5 million in multicultural grants.

The funding to major arts organisations mainly reflects annual funding to SA Government agencies. Out of the total $125 million in funding for these organisations, $103 million (82%) was provided to the Libraries Board of South Australia, the Adelaide Festival Centre Trust, the Art Gallery Board, Museum Board, Adelaide Festival Corporation and the South Australian Country Arts Trust.

Income

Total income (excluding revenues from the SA Government) for the year was $61.6 million, a decrease of $97.2 million (61%) from the previous year.

The major decrease in 2018-19 was in fees and charges income, which decreased by $89.2 million to $52 million. This reflects that major sources of fees and charges transferred to other departments, including Service SA ($35 million), mining and petroleum application fees rentals and licences ($22 million) and industry licence fees ($10 million).

Net revenues from the SA Government decreased by $196.1 million to $200.7 million, reflecting the transfer of functions to other agencies and consequent decreased costs.

Statement of Financial Position

Net assets increased by $119 million (89%) to $253 million. This mainly reflects the increase in property, plant and equipment of $124 million, mostly related to Arts South Australia assets including the Adelaide Festival Centre and the Adelaide Studios at Glenside.

As at 30 June 2019 cash and cash equivalents of $66 million make up 23% of the total asset balance and decreased significantly from $140 million in 2017-18, due to cash transfers associated with restructuring and the repayment of $31 million in surplus cash to DTF.

Employee benefits liabilities were also significantly impacted by restructures, with the overall reduction in DPC FTEs of more than 1300 resulting in a $42 million reduction in these liabilities.

Highlights of the financial report – administered items

As described above, the administered financial report is also not directly comparable between 2018 and 2019 as a result of the significant restructuring that occurred in 2018-19.

	2019 $'million	2018 $'million
Expenses		
Disbursements on behalf of third parties	-	355
Payments to SA Government	-	237
Other expenses	16	7
Total expenses	16	599
Income		
Collections on behalf of third parties	-	355
Royalties	-	237
Revenues from SA Government	17	3
Fees and charges	4	4
Total income	21	599

	2019 $'million	2018 $'million
Net result	5	-
Total comprehensive result	5	-
Net cash provided by (used in) operating activities	6	9
Net cash provided by (used in) financing activities	6	-
Assets		
Current assets	44	37
Total assets	44	37
Liabilities		
Current liabilities	2	35
Total liabilities	2	35
Total equity	42	2

Statement of Administered Comprehensive Income

Administered expenses and income reduced significantly in 2018-19, reflecting that responsibility for mineral and petroleum royalties ($237 million in 2017-18) is now with the Department for Energy and Mining and Service SA transactions, reflected as disbursements and collections on behalf of third parties, totalling $355 million in 2017-18 are now administered by the Department of Planning, Transport and Infrastructure.

Statement of Financial Position

Administered current assets increased to $44 million in 2018-19. This was mainly due to an increase in cash and cash equivalents of $11 million, mostly due to cash balances associated with administered items of Aboriginal Affairs and Reconciliation, partially offset by a decrease in receivables.

The $33 million reduction in administered payables mainly reflects that there was a $32 million payables balance in 2017-18 for mineral and petroleum royalties, a responsibility which is now with the Department for Energy and Mining.

Department of Primary Industries and Regions (PIRSA)

Financial statistics	Net cost of providing services:	$86 million
	Net revenues from SA Government:	$104 million
	Commonwealth revenues:	$34 million
	Advances and grants revenue:	$57 million
	Grants and subsidies expense:	$50 million
	Number of FTEs:	819.1

Significant events and transactions

- PIRSA continued to deliver the $265 million South Australian River Murray Sustainability (SARMS) program. $31.5 million was received from the Commonwealth in 2018-19, representing the final year of revenue under the program. $23 million was paid out in grants for SARMS projects during the year. Grant payments will continue in 2019-20 to finalise the program.
- The Pastoral Board and Pastoral Unit were transferred from the Department for Environment and Water as part of a machinery of government change effective 1 January 2019. This included $54.1 million of land being recognised in PIRSA's administered financial report.
- PIRSA's Regional Development Fund (RDF) closed after the change of government in March 2018. A Regional Growth Fund (RGF) was introduced by the new SA Government. In 2018-19 payments for approved grants totalled $7.3 million from the RDF and $440 000 from the RGF.
- On initial application of AASB 9 *Financial Instruments,* PIRSA revalued its investments in shares previously held at historical cost of $4.5 million to fair value of $20.6 million.
- PIRSA incurred $4.5 million of targeted voluntary separation package (TVSP) expenses for 50 employees. Contingency appropriations were received from the Department of Treasury and Finance (DTF) to cover this cost.

Financial report opinion — **Unmodified**

Controls opinion findings — No significant findings.

Other audit findings

— Bona fide and leave return reports not promptly reviewed.

— Implementation of the legislative compliance framework needs to improve.

Functional responsibility

PIRSA is an administrative unit established under the *Public Sector Act 2009*. It reports to the Minister for Primary Industries and Regional Development.

PIRSA's objective is to grow primary industries and drive regional development in South Australia.

For more information about PIRSA's objectives and activities refer note 1.2 of its financial report.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- follow-up of 2017-18 audit findings
- governance
- revenue, including licence revenue, South Australian Research and Development Institute (SARDI) grant revenue, SARMS program Commonwealth revenue and sundry revenue
- expenditure, including supplies and services, and grant expenditure for the SARMS, RDF and RGF programs
- payroll
- cash and general ledger
- concessional loan schemes
- fixed assets
- other financial assets, including investments in shares.

The audit considered control processes performed by both PIRSA and Shared Services SA.

We also considered PIRSA's internal audit coverage when designing and performing audit procedures.

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

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

Other audit findings

Payroll

Employee benefits expenses for the year were $95.9 million ($95.1 million).

Bona fide and leave return reports not promptly reviewed

Our 2018-19 review identified instances of bona fide and leave return reports that were not reviewed and approved in the time frames outlined in PIRSA's procedures.

This was also raised as an issue with PIRSA in prior years. In 2018-19 PIRSA extended the time frame for review in its procedures to 10 business days, however there are still instances of non-compliance.

For example, our review of bona fide reports for 10 material pay points identified a report that took more than 28 days to be reviewed. Our review of leave return reports for the same pay points also identified a report that took more than 46 days to review.

If bona fide and leave return reports are not promptly reviewed and approved, payroll errors may not be identified and corrected and inappropriate payments may be made.

PIRSA responded that this issue would be addressed by continuing to issue reminders to bona fide and leave return report approvers about the time frames outlined in its procedures. Now that these reports have been automated, an email is sent as reports are made available. Functionality exists to identify non-compliant managers, which can be reported to the relevant divisional business lead.

Legislative compliance

Implementation of legislative compliance framework needs to improve

In 2016-17 we recommended PIRSA develop a legislative compliance framework in response to our finding that there was no coordinated approach to identifying relevant legislation, monitoring compliance and reporting breaches. Since then PIRSA has undertaken a significant amount of work to create a legislative compliance framework and register.

We reviewed the implementation of PIRSA's legislative compliance framework in 2018-19. We found that there is now a register in place and a coordinated approach to identifying legislative obligations and changes to obligations. PIRSA's procedures outline that the register should reference policies and procedures, and the internal controls that address the legislative requirements. We found that at the time of our audit, this information was not in the register.

We also found there was no central record of identified breaches of legislation to facilitate reporting to executive.

Without a coordinated approach to monitoring and assessing compliance with legislation, breaches may not be identified or reported.

PIRSA responded that it would continue to refine the implementation of the framework, focusing on monitoring potential breaches of legislation. PIRSA agreed to implement a mechanism for reporting breaches to executive.

Interpretation and analysis of the financial report

Highlights of the financial report – controlled items

	2019 $'million	2018 $'million
Expenses		
Employee benefits	96	95
Supplies and services	53	51
Grant and subsidies	50	83
Other expenses	10	17
Total expenses	209	246
Income		
Fees and charges	15	14
Advances and grants	57	57
Commonwealth revenues	34	26
Other income	17	13
Total income	123	110
Net cost of providing services	86	136
Revenues from (Payments to) SA Government		
Revenues from SA Government	104	107
Payments to SA Government	-	(20)
Net result	18	(49)
Other comprehensive income	3	14
Total comprehensive income	21	(35)
Net cash provided by (used in) operating activities	20	(37)
Assets		
Current assets	147	142
Non-current assets	165	152
Total assets	312	294
Liabilities		
Current liabilities	38	51
Non-current liabilities	46	50
Total liabilities	84	101
Total equity	228	193

Statement of Comprehensive Income

Expenses

Employee benefits expenses

Employee benefits expenses increased by $820 000 to $95.9 million largely due to:

- an increase in TVSP payments of $4.5 million. In 2018-19 TVSPs were paid/payable to 50 employees, mainly affecting the Corporate Services and Agriculture, Food and Wine divisions. PIRSA received $4.6 million additional appropriation from the Treasurer's Contingency Fund as recovery for this expense. No TVSPs were paid in 2017-18
- a decrease in salaries and wages of $3.5 million primarily due to FTEs decreasing from 890.3 at 30 June 2018 to 819.1 at 30 June 2019 (an overall reduction of 8%).

Grants and subsidies expense

Total grants and subsidies decreased by $32.6 million to $50 million, mainly due to:

- a $7.5 million decrease in grant payments made from the RDF (see discussion under 'Regional Development Fund' below)
- a $22.9 million decrease in SARMS grant payments as the program is ending
- a $2.6 million decrease in grants paid for the economic sustainability program
- a $1 million decrease in industry development and restructuring initiative grants.

South Australian River Murray Sustainability program

In August 2013 a National Partnership Agreement between the Commonwealth and SA Governments was signed, allocating $265 million in Commonwealth funding to the SARMS program over six years, with the aim of returning 40 gigalitres of water to the River Murray. Of the $265 million, $240 million has been allocated to the Irrigation Industry Improvement program and $25 million to the Regional Economic Development program. These components are designed to provide a comprehensive set of programs supporting regional research, economic diversification and development in River Murray communities.

— *Irrigation Industry Improvement program (3IP)*

3IP is a competitive grants program created by industry to support the restoration of a healthy Murray-Darling Basin environment. It supports SA River Murray irrigators to remain at the forefront of irrigation practices, and also helps irrigators and the wider community respond to the Murray-Darling Basin Plan and be more resilient to the effects of fluctuating water availability.

Since 3IP's inception, PIRSA has entered into the following grant funding agreements:

- round one (2014-15) – 108 grant funding agreements for $102.5 million to return 19.8 gigalitres of water to the River Murray
- round two (2014-15) – 53 grant funding agreements for $60.9 million to return 13.1 gigalitres of water to the River Murray

- round three (2015-16) – 21 grant funding agreements for $12.7 million to return 1.9 gigalitres of water to the River Murray
- round four (2017-18) – 71 grant funding agreements for $32.7 million to return 4.5 gigalitres of water to the River Murray. There were three contracts still to be executed as at 30 June 2018, which subsequently occurred in 2018-19.

No further rounds of grant funding occurred in 2018-19 as the program has now closed, however payments continued under the existing agreements.

PIRSA advised that as at 30 June 2019, $207.6 million has been paid out in grants for 3IP projects and the full 40 gigalitres of water has been returned to the River Murray.

— *Regional Economic Development program*

Funding of $25 million for the Regional Economic Development program has been allocated across three areas as follows:

- $12.5 million for the Regional Development and Innovation Fund – to date there has been $11 million in grants awarded to support 17 projects across four rounds of funding. No funding was offered in 2017-18 or 2018-19
- $5 million for the Industry-Led Research Sub-Program – to date there has been $2.9 million in grants awarded to support nine projects across two rounds of funding. No further funding has been offered since 2015-16
- $7.5 million for the Loxton Research Centre redevelopment. The redevelopment was substantially completed in 2016-17 although some minor work continued through to 2018-19.

Total SARMS grant payments for the year for both 3IP and the Regional Economic Development program were $23 million ($45.9 million) as funds are not paid on approval, but over time as project milestones are achieved. $31.5 million ($25 million) in Commonwealth SARMS funding was received in 2018-19 to support this grant program.

Regional Development Fund/Regional Growth Fund

Grant funding from the RDF supported efforts to grow stronger, more sustainable and competitive regions. Grants are intended to support economic growth, improved infrastructure and job creation in the regions.

Since the RDF's inception, PIRSA has entered into the following grant funding agreements:

- round one (2014-15) – $17.6 million for 39 projects. These projects involve direct investment of around $330 million and aim to create 637 direct, ongoing FTE jobs
- round two (2015-16) – $13.9 million for 24 projects. These projects involve direct investment of around $152 million and aim to create 273 direct, ongoing FTE jobs
- round three (2016-17) – $13.6 million for 22 projects. These projects involve direct investment of around $147 million and aim to create 417 direct, ongoing FTE jobs
- unsolicited requests for funding in 2017-18 – $10.3 million for 29 projects. These projects involve direct investment of around $67 million and aim to create 367 direct, ongoing FTE jobs.

The RDF has now closed, with no new grant funding agreements entered into in 2018-19.

Total payments from the RDF for the year were $7.3 million ($14.8 million) as funds are not paid on approval, but over time as project milestones are achieved.

With the change in government in March 2018, the RDF was repurposed as the RGF. The RGF includes $150 million available over 10 years to support regional South Australia. Its purpose is to unlock new economic activity in regional South Australia, deliver critical economic infrastructure to create direct benefit across regional industries and strengthen regional communities.

To date PIRSA has entered into $24 million of grant funding agreements from the RGF for 16 projects. There were seven contracts still to be executed as at 30 June 2019. Total expenses for the RGF were $440 000 in 2018-19 as funds are not paid on approval, but over time as project milestones are achieved.

Other expenses

Other expenses decreased by $7.1 million to $2.8 million largely due to:

- a $2.5 million decrease in workers compensation liability revaluation expense. This was due to a decrease in PIRSA's workers compensation liability as at 30 June 2019 resulting from a review of the liability by a consulting actuary. The write-down of the provision by $3.2 million is recognised in other income
- a $4.8 million revaluation expense being recognised in 2017-18. A full revaluation of PIRSA's land and building assets was performed as at 30 June 2018. A desktop revaluation was performed in 2018-19. No adjustments were made as PIRSA management deemed the difference to be immaterial.

Income

Commonwealth grants (National Partnership payments)

Commonwealth revenues increased by $7.2 million largely due to a $6.5 million increase in SARMS program funding. The amount of Commonwealth SARMS funding received in 2018-19 of $31.5 million ($25 million) is in line with the funding schedules in the National Partnership Agreement on South Australian River Murray Sustainability Program Part A and Part B, taking into account any approved variations to the funding schedules. See more discussion on the SARMS program under 'South Australian River Murray Sustainability program' above.

$1.7 million in grant funding was also received for pest animal and weed management in drought affected areas. No funding was received under this program in 2017-18.

Revenues from (Payments to) SA Government

Net revenue from the SA Government increased by $17.1 million to $103.9 million largely due to:

- a $3.1 million decrease in revenues from the SA Government, reflecting the funding impacts from changes in government priorities and budget initiatives and savings strategies. The decrease includes a reduction of $7.5 million in appropriation under the *Appropriation Act*, partially offset by $4.6 million received from the Treasurer's Contingency Fund for TVSP payments

- a $20.3 million decrease in payments to the SA Government. $20.1 million of surplus cash was returned under the cash alignment policy in 2017-18. No return of surplus cash occurred in 2018-19.

Statement of Financial Position

Assets

Total assets increased by $18.4 million to $311.9 million. This was primarily due to an increase in other financial assets as discussed below.

Other financial assets

Other financial assets increased by $16.1 million to $20.6 million at 30 June 2019. They include investment in shares for unlisted public companies.

Equity instruments were revalued to fair value on adoption of AASB 9 *Financial Instruments*. PIRSA has made an irrevocable election to hold equity instruments at fair value through other comprehensive income. Previously these shares were held at historical cost.

PIRSA engaged an independent valuer to value investments in shares at 1 July 2018 (the initial application date of AASB 9 *Financial Instruments)* and again at 31 May 2019. The income method based on discounted cash flows was used to value unlisted equity instruments that are infrequently traded. PIRSA reviewed the valuation figures and determined the mid-point of the valuation estimates would be used as the fair value.

A $13.2 million adjustment to retained earnings was made at 1 July 2018 as the new standard was not applied retrospectively in line with the Treasurer's Instructions (Accounting Policy Statements). A further $3 million increase in fair value has been recognised in other comprehensive income.

Cash and cash equivalents

PIRSA held cash of $130.6 million ($123.7 million) at 30 June 2019. The main components of cash held were:

- funds held in the Accrual Appropriation Excess Funds Account – $18 million
- funds held under the *Rural Industry Adjustment and Development Act 1985* and other State and Commonwealth schemes for rural financial assistance – $57.3 million
- external funds held in the nature of grants or under cooperative agreements where unspent funds may be returned to the funder – $15.6 million
- Commonwealth funds held for the SARMS program – $12.1 million
- Commonwealth funds held for the various concessional loans schemes – $591 000
- deposits with the Treasurer held as working capital – $27 million.

The increase in cash is largely represented by a $3.4 million increase in Commonwealth funds held for the SARMS program and a $15 million increase in deposits with the Treasurer held as working capital which are subject to DTF budget and cash alignment policies, offset by a $9.6 million decrease in Commonwealth funds held for concessional loans schemes.

The increase in funds held for the SARMS program is largely due to grants paid out under the SARMS program totalling $23 million in 2018-19, while $31.5 million in Commonwealth revenue was received during the year.

The increase in PIRSA's cash held as working capital is largely due to appropriation funded grant expenditure carried forward into 2019-20.

The decrease in funds held for concessional loans schemes is due to changes in the administration of these schemes. From 1 July 2018 PIRSA was no longer responsible for granting loan applications. This is discussed under 'Concessional loans schemes' below.

Liabilities

Total liabilities decreased by $16.8 million to $84.1 million ($100.9 million). This decrease was largely due to a $12.2 million decrease in borrowings. This is discussed under 'Concessional loans schemes' and 'Loans to cooperatives' below.

Concessional loans schemes

PIRSA's financial liabilities balance of $18.8 million ($31 million) is largely made up of borrowings associated with the following concessional loans schemes:

- farm finance concessional loans scheme
- drought concessional loans scheme
- drought recovery concessional loans scheme
- dairy recovery concessional loans scheme
- farm business concessional loans scheme.

The Commonwealth pays funds for these loans schemes in advance in agreed amounts and these funds are held in a special deposit account until paid to approved applicants. When the loans schemes are closed to new applicants, any amounts that are not paid to loan recipients are returned to the Commonwealth.

Farm finance concessional loans were made available to applicants to restructure their debt. This scheme closed on 30 June 2015.

Drought concessional loans were made available to applicants for debt refinancing, operating expenses and to meet the costs of drought recovery and readiness activities. Applications for round one of the scheme closed on 30 June 2015 and applications for round two of the scheme closed on 31 October 2016.

Drought recovery concessional loans were made available to applicants for new debt for planting and restocking activities or refinancing of an existing drought concessional loan. This scheme closed on 31 October 2016.

Dairy recovery concessional loans were made available to dairy farm businesses affected by the May 2016 decision of Murray Goulburn and Fonterra to reduce farm gate milk prices. They were for debt restructuring or new debt, operating expenses and costs associated with productivity enhancement measures. This scheme closed on 31 October 2016.

Farm business concessional loans are made up of drought assistance concessional loans, dairy recovery concessional loans and business improvement concessional loans. Round one of this scheme commenced in December 2016 and closed on 30 June 2017 for drought assistance and dairy recovery concessional loans. Loan payments for round one were paid to eligible applicants in 2017-18 and any unpaid amounts were returned to the Commonwealth.

The Commonwealth requested that States and Territories continue to deliver the farm business concessional loans scheme until 30 June 2018. Round two of the scheme included a new loan measure, business improvement concessional loans, in addition to continuing the drought assistance concessional loans and dairy recovery concessional loans. Loans were made to eligible applicants in 2017-18 and continued in 2018-19 as, while the scheme closed on 30 June 2018, application assessments were made after this date. Loan advances in 2018-19 totalled $2.1 million. Unpaid amounts were returned to the Commonwealth in 2018-19.

From 1 July 2018, farm business concessional loans applications are made to the Commonwealth Government's single national administrator, the Regional Investment Corporation. PIRSA will continue to administer the existing loan agreements until the loan term ends or the loan is repaid/refinanced.

Concessional loans drawn down as at 30 June 2019 totalled $17.9 million, made up of the following amounts:

- drought concessional loans scheme – $792 000 (round one)
- drought concessional loans scheme – $4.1 million (round two)
- drought recovery concessional loans scheme – $830 000
- dairy recovery concessional loans scheme – $5 million
- farm business concessional loans scheme – $5.2 million (round one)
- farm business concessional loans scheme – $1.9 million (round two).

As at 30 June 2019 there were no impaired loans and all amounts are expected to be repaid in line with the repayment schedules.

Loans to cooperatives

PIRSA also administers loans provided by the SA Government. In 2018-19 the existing balance for loans to cooperatives and the corresponding receivable of $1.3 million were written off after the Treasurer approved a waiver of the loan. The waiver related to one loan recipient, and was provided to alleviate the impact for the company and growers of hail damage that occurred in the Adelaide Hills and other regions in 2017.

This write-off has a zero net effect on PIRSA, which recognised an expense for the forgiveness of the loan receivable and income for the forgiveness of the indebtedness to the Treasurer. The loss will be borne by the State.

Administered items

PIRSA administers 18 funds that are reported in its administered financial report. The main administered revenues are industry contributions and aquaculture and fishing licence fees. These are then paid out as grants and subsidies to support promotion, research and development, and other activities to benefit the different groups that have paid the contributions.

Total fees and charges revenue, including industry contributions and aquaculture and fishing licences, was $28 million ($29.5 million) and grants and subsidies paid out during the year totalled $30 million ($33.6 million). The Fisheries Research and Development Fund paid $13.3 million to carry out research, exploration and experiments for the conservation and management of living resources found in waters.

PIRSA also received $4.9 million ($5.5 million) in revenues from the SA Government for the administered activities. $4.5 million of this amount was used for payments to the South Australian Forestry Corporation for community service obligations including native forest management and fire protection.

Cash of $22.7 million ($20.8 million) was previously the main asset recognised for the administered activities. On 1 January 2019 a machinery of government change saw the Pastoral Board transfer from the Department for Environment and Water to PIRSA. This resulted in a new administered fund, the Pastoral Land Management Fund. The transfer included $54.1 million of pastoral land now included in property, plant and equipment.

Return to Work Corporation of South Australia (RTWSA)

Financial statistics	Total comprehensive result: ($153.4 million) Premium revenue: $510 million Net claims paid: $350 million Outstanding claims liability: $3.2 billion Net assets: $373.6 million The number of seriously injured claimants in the Return to Work Scheme as at 30 June 2019 was 595 (518), an increase of 14.9%. The average premium rate was 1.7% in 2018-19, a 0.10% decrease from the 2017-18 rate of 1.8%. Number of FTEs: 244.1
Significant events and transactions	— The provision for outstanding claims increased by $486 million. — Net investment profit was $271.6 million. — RTWSA achieved a funding ratio of 111.5%, meaning that the Return to Work Scheme is fully funded. — Mr Greg McCarthy was appointed as Chair of the Board from 1 March 2019 until 28 February 2022.
Financial report opinion	**Unmodified** An emphasis of matter was included in the financial report opinion relating to inherent uncertainty in the estimate of the outstanding claims liability and the funding ratio.
Controls opinion findings	No significant findings.

Functional responsibility

RTWSA was established under the *Return to Work Corporation of South Australia Act 1994* (RTWSA Act).

RTWSA administers the Return to Work Scheme (the Scheme) under the *Return to Work Act 2014* (RTW Act). The Scheme compensates injured workers and helps them return to work using premium and investment income from the Compensation Fund.

Legislative changes

Legislative changes have impacted significantly on the Scheme. The changes aim to get injured workers back to work more promptly and reduce the cost of the Scheme. This will lead to reductions in the Scheme's net claims and premium rates.

On 4 December 2014 the RTW Act was proclaimed, with most provisions commencing on 1 July 2015 and some commencing earlier. The RTW Act replaced the *Workers Rehabilitation and Compensation Act 1986* on 1 July 2015.

The legislative changes separate claims into two categories:

- short-term claims for injured workers with less than 30% whole person impairment (WPI) – will receive income support for up to two years and treatment costs for up to three years. The legislation also introduces a new lump sum benefit for economic loss available to workers with a WPI of at least 5%
- serious injury claims for injured workers with 30% or higher WPI – will receive income support until retirement age, and treatment and other care costs for life.

The Scheme's focus is on getting short-term claimants back to work and, in the case of serious injury claimants, providing lifetime care.

Under transitional arrangements, claimants injured before 1 July 2015 with a WPI below 30% received income support until 30 June 2017, unless they exited the Scheme earlier.

Under previous legislation, a worker's income support was reduced by 10% at 13 weeks and a further 10% at 26 weeks, equating to 80% of their pre-injury earnings. Under current legislation, a worker's income support will not be reduced until 52 weeks, at which point it will be reduced to 80% of their pre-injury earnings. This means workers will receive more income support in their first year under current legislation.

The following table shows the percentage of claimants back at work at key intervals after the date of their injury.

Year	4 weeks	13 weeks	26 weeks	52 weeks
2014-15	75%	83%	86%	88%
2015-16	75%	83%	86%	88%
2016-17	75%	83%	87%	88%
2017-18	79%	87%	90%	93%
2018-19	80%	86%	89%	93%

The numbers shown in this table were provided by RTWSA and are unaudited.

Overview of Return to Work Scheme

Employers must pay a premium to RTWSA based on remuneration provided to their workers. RTWSA invests the premium revenue until needed to pay compensation and other costs of operating the Scheme, including the claim management fees of two claims agents for managing workers compensation claims. Very small employers are not required to pay a premium, while self-insured employers must pay a fee instead of a premium.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- agent assurance framework
- premium income
- investments
- claims expenses
- actuarial estimates of outstanding claims liabilities
- determination of claims for workers compensation
- workers compensation payments including income support, lump sums and medical costs
- general operating expenses
- claims management fees
- payroll expenditure
- ICT infrastructure and systems.

We considered internal audit activities in designing and performing our audit procedures. We made use of the IT general controls work performed by internal audit.

Controls opinion

We reviewed controls over premiums income, investments, claims expenses and outstanding claims liability as part of our overall controls opinion, which is discussed in Part B of this Report.

Audit findings

Auditor's report on the financial report

The following is an extract from the Independent Auditor's Report on RTWSA's 2018-19 financial report, which is unmodified but notes a significant inherent uncertainty relating to the outstanding claims provisions and funding ratio implications.

> ***Opinion***
>
> *In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Return to Work Corporation of South Australia as at 30 June 2019, its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions issued under the provisions of the* Public Finance and Audit Act 1987 *and Australian Accounting Standards.*
>
> ***Inherent uncertainty – outstanding claims liability and funding ratio***
>
> *Without qualification to the opinion expressed above, attention is drawn to notes 4, 9 and 10 of the financial report. There is a significant uncertainty surrounding the financial impact of legislative reforms which will only become clearer as outstanding claims experience emerges in future financial periods. If in future years the actual cost of claims described in notes 9 and 10 are greater than the balances recorded in the financial statements, this will adversely impact the funding ratio described in note 6.*

Communicating our audit findings

Our audit did not identify any matters that required communication to RTWSA.

Controls opinion findings

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

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Underwriting result		
Premium revenue from registered employers	510	521
Net claims paid	(350)	(305)
Increase in net outstanding claims liability	(483)	(294)
Claim management fees	(53)	(62)
Other underwriting expenses	(2)	(16)
Underwriting result	(378)	(156)
Net investment and other income		
Net investment profit	272	219
Other income	12	13
Net investment profit and other income	284	232
Operating expenses		
Employee benefits expenses	(32)	(30)
Other expenses	(27)	(28)
Total operating expenses	(59)	(58)
Result from operating activities before tax equivalents	(153)	18
Tax equivalents	-	-
Other comprehensive income		
Re-measurements of defined benefits liability	-	9
Total comprehensive result	(153)	27
Net cash provided by (used in) operating activities	171	121
Net cash provided by (used in) investing activities	(152)	(123)
Assets		
Investments	3 571	3 231
Other assets	60	75
Total assets	3 631	3 306
Liabilities		
Outstanding claims	3 235	2 749
Other liabilities	23	29
Total liabilities	3 258	2 778
Total equity	373	528

Statement of Comprehensive Income

Total comprehensive result

RTWSA's comprehensive result depends significantly on:

- premium rates being set before the start of the financial year with the aim of ensuring premium revenue and investment income will at least cover the cost of new claims incurred during the financial year and administrative costs. The premium setting process depends significantly on the actuarial estimate of the cost of new claims likely to be received in the coming year and other factors determined by RTWSA's Board of Management
- the actuarial estimate of the outstanding claims provision
- movements in the market value of its investments.

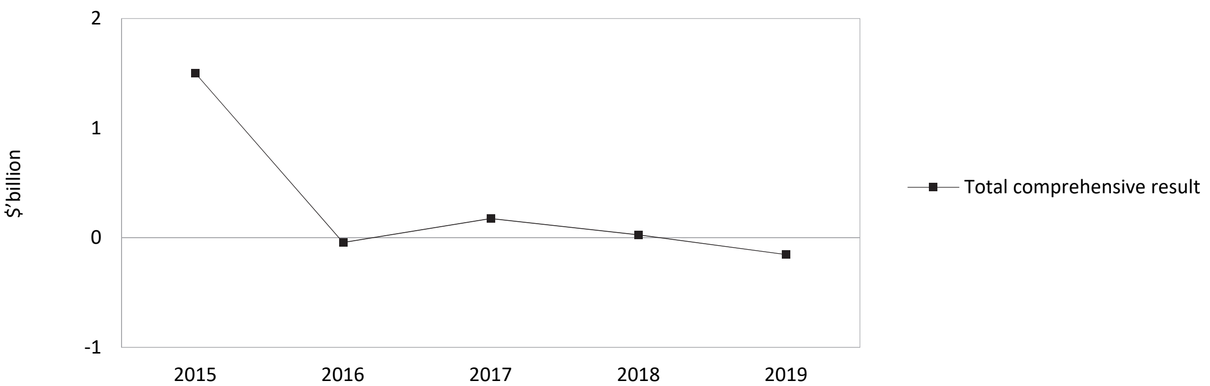
The total comprehensive result for the year was a loss of $153 million (profit of $27 million). The decrease of $180 million in the total comprehensive result was due mainly to a $219 million increase in the cost of claims. The increase in the net outstanding claims liability of $486 million was the major contributor to the increased cost of claims (refer commentary under 'Liabilities' below).

Other factors impacting the result for the year were:

- an increase in net investment profit of $52.7 million
- a decrease in premium revenue of $11 million
- a decrease in claims management fees of $8.2 million.

In 2018-19 and 2017-18 the total comprehensive result did not include any tax equivalents required to be paid under Treasurer's Instruction 22 *Tax Equivalent Payments*. The RTWSA Act restricts the application of tax equivalents to financial years in which RTWSA makes a profit and has achieved both a funding level of at least 100% (with its outstanding claims liabilities at a 75% probability of sufficiency) and a profit from insurance operations. Under the tax equivalents regime, the corporate tax rate (30%) is applied to the operating profit. In 2018-19 and 2017-18 RTWSA made a loss on its insurance operations and therefore was not required to pay any tax equivalents.

The following chart shows RTWSA's total comprehensive result for the five years to 2019.



Over this time the comprehensive result has been relatively stable, other than in 2015. The 2015 result was impacted by the significant decrease in the net outstanding claims liability as a result of introducing the new legislation.

Underwriting result

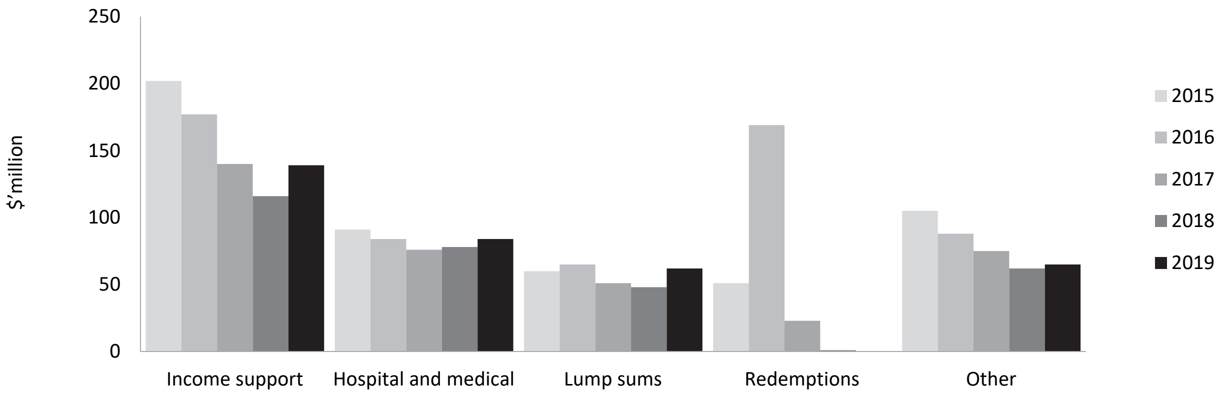
The underwriting result is essentially registered employer premium revenue less claims expense. Investment income does not form part of the underwriting result. AASB 1023 *General Insurance Contracts* requires the underwriting result to be shown separately in the Statement of Comprehensive Income to help show the extent to which underwriting activities rely on investment income for the payment of claims.

The underwriting result was a loss of $378 million, compared to a loss of $156 million in 2017-18. The $222 million downturn reflects a $219 million increase in the cost of claims, mainly as a result of:

- a $483 million increase in the net outstanding claims liability
- a $45 million increase in claims payments due mainly to:
    - income support increasing by $23 million to $139 million as a result of more claims being received (reflecting employment growth), higher average income support payments (reflecting wage inflation and a change in the mix of claims to higher wage industries) and a small increase in duration (reflecting a very slight deterioration in return to work outcomes)
    - lump sum payments paid to claimants increasing by $14 million as a result of an $8 million increase in economic loss lump sum payments and the cessation of the redemption program
- an $11 million decrease in premiums due mainly to a reduction in the average premium rate to 1.7%
- an $8 million decrease in claim management fees due to claim managers not fully achieving performance bonus targets.

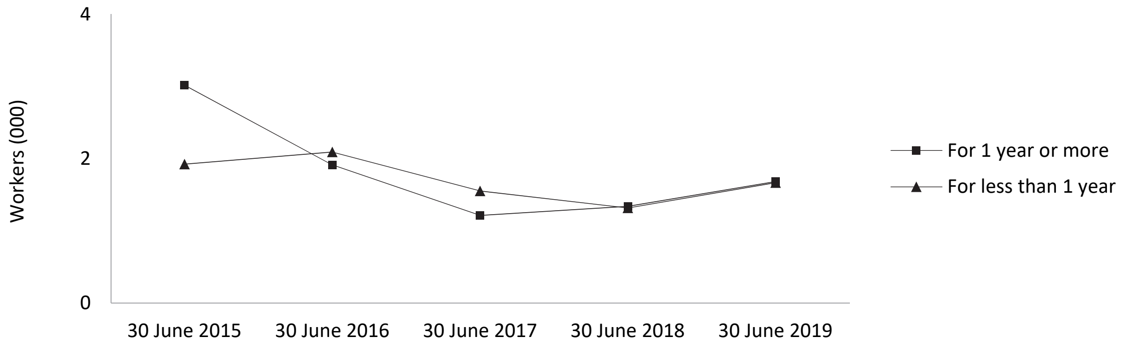
Claim payments

The following chart analyses claim payments for the five years to 2019.



The chart shows an increase in income support payments in 2019 ($23 million) due mainly to a deterioration in claims frequency and wages growth. Lump sum payments also increased in 2019 ($14 million) as a result of the increase in economic loss lump sum payments under the RTW Act and the cessation in the redemption program, which finished in 2018.

The change in the number of workers receiving income support for the five years to 2019 is reflected in the following chart.

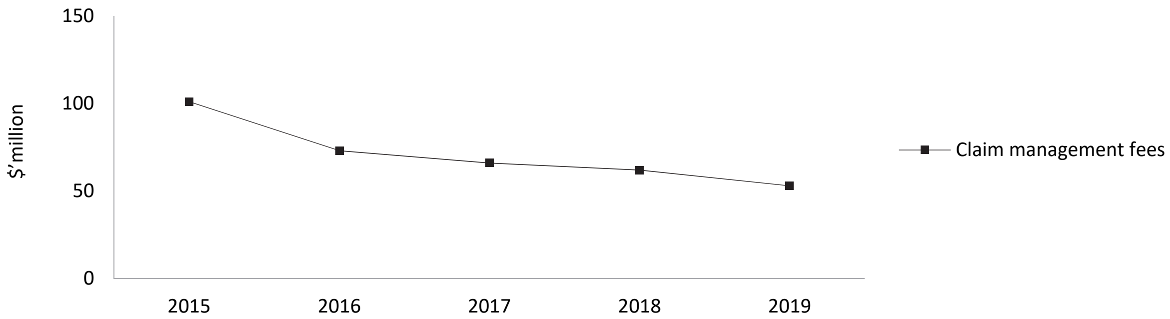


The numbers shown in this chart were provided by RTWSA and are unaudited.

The chart shows that the number of workers receiving income support started decreasing in 2015. In 2019 the number of workers receiving income support for a year or more (long-term claims) increased by 25.6%, and for less than a year increased by 26.7%. This was mainly due to employment growth and a slight deterioration in return to work outcomes in the last 12 months.

Claim management fees

The following chart shows claim management fees for the five years to 2019.



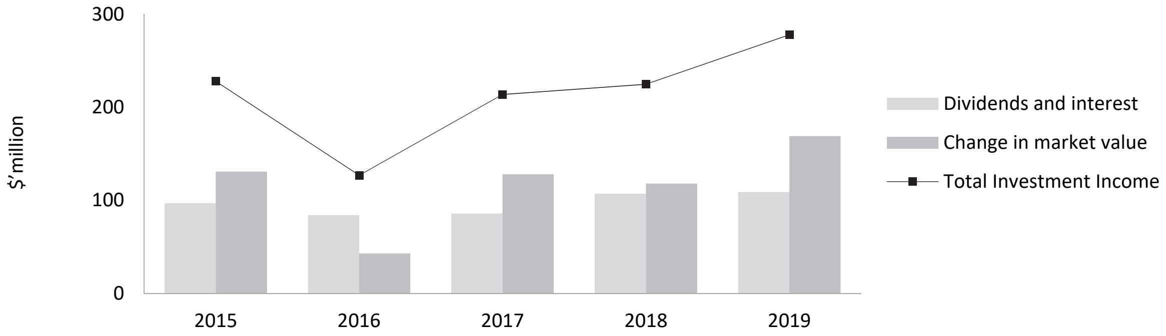
Claim management fees are paid to RTWSA's two claims agents for managing workers compensation claims.

In 2015 claim managers were paid new incentives for managing RTWSA's initiatives for getting claimants back to work, as well as additional payments to cover the extra costs incurred by the agents due to Scheme reform. Claim management fees have been steadily decreasing since 2015 due mainly to the removal of the additional payments. In 2019, claim management fees decreased by $8 million to $53 million, mainly as a result of claim managers not fully reaching performance targets for activating incentive payments.

Investment profits

RTWSA's investment profits have fluctuated significantly over recent years as a result of changes in the market value of its investments, which depend on financial market conditions and macroeconomic influences.

The following chart shows RTWSA's investment income for the five years to 2019.

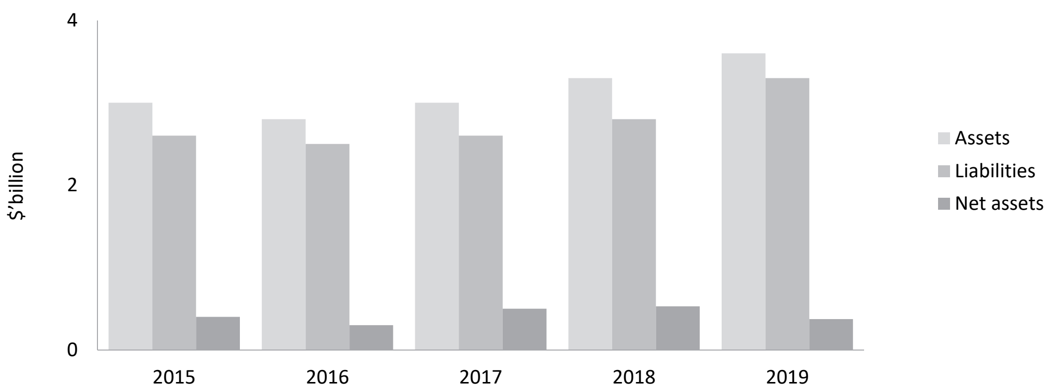


As shown, dividend and interest income has remained relatively stable with gradual growth over the past four years. The market values of RTWSA's investments have significantly increased since 2016 as a result of the upturn in investment markets and this is reflected in total investment income since that time.

Statement of Financial Position

In 2019 there was a decrease in net assets of $154 million, due mainly to an increase in the provision of outstanding claims of $486 million to $3.235 billion as a result of an actuarial valuation. This was partly offset by an increase in the value of investments of $340 million to $3.571 billion, as a result of increases in the market values of investments of $190 million and additional funds allocated to investments of $150 million.

The following chart analyses RTWSA's assets and liabilities for the five years to 2019.



The chart shows that since the 2014 legislative changes and its initiatives to get claimants back to work sooner, RTWSA's net asset position has remained stable. In 2014-15 the Scheme became fully funded for the first time in many years. The funding ratio (assets divided by liabilities) was 111.5% in 2018-19 compared to 119% in 2017-18.

Liabilities

Outstanding claims – Compensation Fund

Outstanding claims for the Compensation Fund comprised 97% (96%) of RTWSA's liabilities. The outstanding claims liability covers expected future payments including those related to claims reported but not yet paid, incurred but not yet reported and incurred but under-reported.

The liability is determined by RTWSA's management and Board of Management considering and assessing a comprehensive actuarial review of claims exposures by an independent actuary. Information about the actuarial estimation of outstanding claims liabilities is provided in notes 4 and 9 of RTWSA's financial report.

The central estimate of outstanding claims liabilities was $2.778 billion at 30 June 2019. The net outstanding claims provision was $3.103 billion at 30 June 2019, including a risk margin of $389 million intended to achieve a 75% probability of sufficiency.

The net liability for outstanding claims has increased from $2.616 billion at 30 June 2018. The $486 million increase can be attributed to:

- a $316 million increase due to economic assumptions reflecting decreases in risk free long-term discount rates. A decrease in the discount rate leads to an increase in the liability. Although changes to discount and inflation rate assumptions are impacted by events outside of RTWSA's control, the actuary determines the rates with reference to market practice. The actuary decreased the discount rate from 3.33% in 2018 to 2.1% in 2019
- a $166 million increase due to the inclusion of another year of claims
- a $26 million increase due to a more unfavourable claims experience than was projected for both short-term and serious injury claims
- a decrease of $21 million in the risk margin, which reduced from 15% to 14%.

The liability for long-term claims may extend for many years beyond the current year, causing the liability to grow. Long-term claims make up a greater proportion of total claims. This is reflected in the weighted average expected term to settlement of claims remaining at 15 years in 2019 (refer note 9(a) of RTWSA's financial report).

Sensitivity to changes in key assumptions

The sensitivity analysis in note 9(f) of RTWSA's financial report illustrates that relatively small changes to key assumptions in the estimate can result in changes in the order of millions of dollars.

For example, a 1% decrease in the real discount rate would lead to an increase in the net outstanding claims provision of $431 million. There is also significant uncertainty regarding the serious injury claims cost arising from factors such as life expectancy, superimposed inflation and the ultimate number of claims. The actuary's sensitivity analysis suggests that changes to each of these assumptions could change the net outstanding claims provision in the order of $100 million to $500 million.

Impact of outstanding claims liability on funding ratio and premiums

As a result of legislative changes and RTWSA's initiatives to get claimants back to work sooner, the Scheme became fully funded for the first time in many years in 2014-15. The funding ratio (assets divided by liabilities) was 119% in 2017-18 and 111.5% in 2018-19.

RTWSA reduced the average premium rate from 1.8% in 2017-18 to 1.7% in 2018-19.

Legislative reform and other developments affecting the uncertainty of the outstanding claims liability

The actuarial estimation is primarily based on the anticipated impact of new legislation. The impact will only become clearer as actual claims experience emerges under the legislation. Further, note 9 of RTWSA's financial report specifies the nature of a number of key uncertainties associated with the actuarial estimation and the sensitivities of the estimation to changes in key assumptions. Of particular note are the uncertain actual experience for short-term claims and serious injury claims and WPI assessments. The independent actuary noted the following:

- Legal precedent – the RTW Act has elements that are subject to interpretation and legal challenge. A number of decisions have gone against RTWSA's interpretation of the WPI assessment rules, and there are still many claims in dispute seeking to access higher levels of benefits than RTWSA has determined. The outcome of any challenges and the potential impact on the Scheme are unknown.
- WPI assessments – under the RTW Act, there are significant differences between the compensation available to claims above the 30% WPI threshold and those below. This factor means there is pressure on WPI assessments. The Scheme will face significant financial consequences if this leads to more claims getting over the 30% WPI threshold. The robustness of the WPI assessment rules under the legislation is an important area of risk.
- Serious injury claim costs – these claims are entitled to benefits for life and key uncertainties include:
  - claim numbers – these include claimants delaying their WPI assessments, as well as the large number of outstanding serious injury application disputes and WPI disputes
  - life expectancy
  - cost escalation – the potential for future cost escalation in a number of medical, care and treatment related items.
- Claim number increases and return to work rates – the potential improvements to Scheme culture as a result of new hard boundaries may encourage earlier return to work for short-term claims. Counter to this, the potential for benefits to continue while claims are in dispute may encourage further disputes and worsen return to work experience up to the two year cut-off. Over the last 12 to 18 months there has been an increase in claim numbers and slippage in return to work outcomes for claims managed entirely under the RTW Act.
- Outcomes for claims with current disputes – the valuation basis assumes a high level of success on currently disputed claims. Open dispute numbers remain high and more claims are moving into the later stages of the dispute resolution process.

We note there are still key areas of the RTW Act being tested in the courts, and there is as yet only limited information on the number of serious injury claims that will emerge from these cases.

Audit approach to the estimate of outstanding claims liability

Due to the nature and significance of the Scheme estimate of outstanding claims liability, our audit approach has included focused review of the Scheme actuary's projections by an independent professional actuary engaged by the Auditor-General. The nature and impact of the legislative changes continued to warrant a high level of audit scrutiny, particularly at the start of the new Scheme arrangements.

Our audit did not identify any issues or variations from expected practice that would suggest the estimate of outstanding claims liability is unreasonable or that the estimate for 30 June 2019 should be adjusted in any material way. The inherent uncertainty associated with the new Scheme arrangements, however, prevents the degree of certainty over the estimate that would warrant no comment or clarification to the audit opinion.

The key valuation uncertainties in this valuation are: potential legal challenges; the unwind of legislative changes; the eventual outcomes from operational strategies; resolution of existing disputes; future cost growth in medical and treatment related expenditure items for long-term claims; actual experience for two-year income support claims; and WPI assessments and actual experience for serious injury claims. The uncertainties may have favourable as well as unfavourable outcomes for the Scheme.

Probability of sufficiency

As disclosed in note 9 of RTWSA's financial report, the estimate of outstanding claims liability is determined by reference to a 75% probability that the provision for outstanding claims will be adequate. With a key court case being resolved favourably for RTWSA on appeal, there is still considerable uncertainty in the Scheme. RTWSA has adopted the actuary's lower risk margin of 14% as at 30 June 2019 (15% in 2018), so that the net liability is adequately provided to around a 75% probability of sufficiency. RTWSA's performance statement, authorised by the Treasurer, requires it to estimate its claims liabilities using a risk margin with at least 65% probability of sufficiency for the net liability. The Australian Prudential Regulation Authority sets a minimum of 75% in Prudential Standard GPS 320 *Actuarial and Related Matters*. Public sector entities are not bound by this requirement but the parameters adopted by RTWSA are consistent with the requirements of the standard.

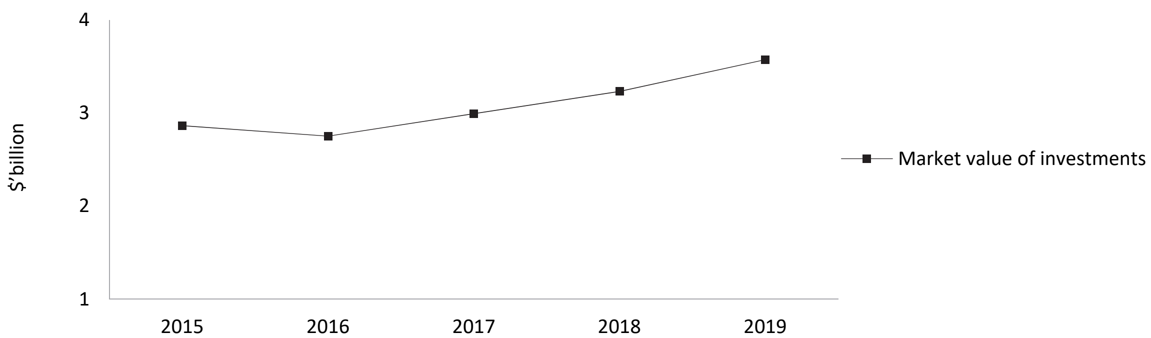
Investments

RTWSA's investment portfolio of $3.571 billion ($3.231 billion) mainly comprises investments in pooled funds, discrete mandate funds and fixed-term deposits. RTWSA has appointed the National Australia Bank to be custodian of the pooled funds and discrete mandate funds.

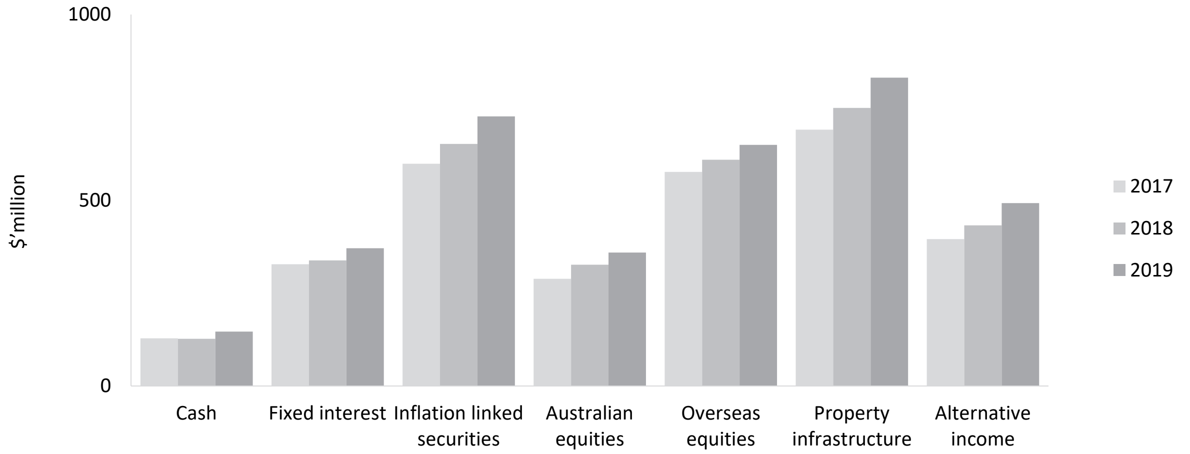
Investment decisions

RTWSA investment officers implement its investment strategy, which involves rebalancing the investment portfolio held in pooled funds, discrete mandate funds and fixed-term deposits to minimise risk and achieve target returns. The investment officers also receive expert advice on investment matters from an external consultant.

The following chart shows the market value of RTWSA's investments for the five years to 2019.



The following chart shows the RTWSA's investments by asset class for the three years to 2019.



According to RTWSA, the return on investments measured in line with Australian Investment Performance Standards for the last five years to 2019 were as shown in the following table.

	2015	2016	2017	2018	2019
Return on investments	8.6%	4.6%	7.7%	7.5%	8.4%
RTWSA Board of Management approved targeted return	5.0%	4.5%	4.9%	4.6%	4.2%

The current long-term objective for the investment program is a return of CPI plus 2.5% as approved by RTWSA's Board of Management. The actual return on investments has exceeded these targets.

South Australia Police (SAPOL)

Financial statistics	Employee benefits expense:	$750 million
	Net cost of providing services:	$896 million
	Total net revenues from SA Government:	$888 million
	Property, plant and equipment:	$325 million
	Employee benefits liability and related on-costs:	$327 million
	Provisions including workers compensation liability:	$121 million
	Number of active FTEs:	
	Police Act 1998 employees	4787
	Unsworn employees	942
	Protective Security	126
	Total	5855
	Administered items:	
	Revenue from expiation fees	$62 million
	Revenue from Victims of Crime levy	$10 million

Significant events and transactions

- The workers compensation provision increased by $14 million following a change in the average outstanding claim size and a decrease in the government bond rate. This liability estimate is subject to a high degree of uncertainty.
- The additional compensation provision decreased by $14 million due to a decrease in the projected number of known and incurred but not reported claims, partially offset by the impact of a reduction in the government bond rate. This liability estimate is subject to a high degree of uncertainty.
- $10 million was returned to the Consolidated Account under the cash alignment policy.
- Expiation fees collected decreased by $5 million due to lower detections.

Financial report opinion

Unmodified

Controls opinion findings

- No active performance management plan for half the workforce.
- No control to ensure performance learning action plans are implemented.
- Instances where timesheets were not certified or approved.

Other audit findings

— Controls over workers compensation:

- No documented policy or procedure for assessing and processing claims for additional compensation.
- Policies and procedures supporting activities of the Health, Safety and Welfare branch need updating to reflect current practice.
- Payment of inaccurate lump sum amounts.

Functional responsibility

SAPOL is an administrative unit established under the *Public Sector Act 2009* and operates under a legislative framework prescribed by the *Police Act 1998*.

The functions of SAPOL are to:

- uphold the law
- preserve the peace
- prevent crime
- assist the public in emergency situations
- coordinate and manage responses to emergencies
- regulate road use and prevent vehicle collisions.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- payroll
- workers compensation
- cash
- expiation revenue
- revenue from fees and charges
- expenditure
- police records management system – Shield Business Transformation program.

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

Controls opinion

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

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Commissioner of Police. The main findings and SAPOL's responses are discussed below.

Controls opinion findings

No active performance management plan for half the workforce and no control to ensure performance learning action plans are implemented

We noted that SAPOL has not implemented controls to ensure that all staff have an active performance management plan. We found that as at March 2019 about 50% of SAPOL staff did not have an active plan in the performance management system.

SAPOL has developed a performance management program to ensure that employees have a clear understanding of their individual accountabilities and responsibilities, and how they are expected to achieve them. The accountabilities for each position are integrated with SAPOL's strategic priorities. SAPOL's General Orders require all SAPOL employees below the classification of Assistant Commissioner or Director to have an active performance management plan.

Without an active performance management plan employees may be unaware of the performance standards for their position, if they are reaching them and how their performance could improve. This could compromise SAPOL's ability to achieve its strategic priorities.

We also noted that SAPOL has not implemented a control to ensure that employees with an ineffective performance rating on their performance management plan are placed on a performance learning action plan. SAPOL's General Orders require an action plan to be implemented when significant deficiencies are detected in the employee's performance management plan and are rated as ineffective.

SAPOL responded that it will address our concerns with the volume of active performance management plans, and introduce a new approach to performance and development in early 2019-20. This approach will no longer include the performance rating scale of 'ineffective'. Minor, low level performance issues that are not systemic will be addressed in the performance improvement discussion record. Where there are significant or persistent deficiencies or no improvement after ongoing interventions, it will be addressed in a performance learning action plan.

Instances where timesheets were not certified or approved

Our review of timesheets for a pay period in November 2018 found the following types of exceptions for around 13% of the population we tested:

- employees not certifying their timesheets as accurate
- no approval of the employee's timesheet by their immediate supervisor
- approval of timesheets by a supervisor of the same rank. SAPOL's General Orders do not permit the approval of timesheets by members of equal rank

- approval of police officers' timesheets by an administrative public sector staff member who did not supervise the employee during the timesheet period.

SAPOL responded that:

- where a timesheet is not certified for accuracy by the employee prior to the pay period close, the employee will only receive their base pay. Adjustments will then occur when the employee certifies their timesheet
- employees are only paid overtime, shift penalties and timesheet allowances from timesheets that are approved by supervisors
- the exceptions we identified included 32 timesheets that were approved by a supervisor of the same rank. These timesheets were subsequently reviewed and assessed as appropriate because of a large number of Acting Sergeants and Acting Senior Sergeants who, on the day they approved the timesheets, were of a higher rank and therefore met SAPOL's approval requirements.

Further, SAPOL noted that while the timesheet system should accurately record an employee's absence from work, recording leave on a timesheet has no impact on an employee's leave entitlement. All leave applications are required to be applied through the payroll system to ensure that leave taken is deducted from an employee's leave entitlements. The payroll system manages and maintains employee leave entitlements therefore making it 'the source of truth'.

SAPOL's response demonstrates a misunderstanding of the importance of the timesheet approval process. SAPOL's control to ensure all leave is processed into the payroll system, and therefore deducted from an employee's leave entitlement, relies on the completeness of leave recorded in the timesheet system. If timesheets are not reviewed and approved by a supervisor with knowledge of the employee's attendance, the utility of this reconciliation is compromised and SAPOL is exposed to a risk of inaccurate leave recording.

In 2017-18 we identified 79 600 hours of leave recorded on timesheets that were not recorded in the payroll system.

Other audit findings

Workers compensation

As at 30 June 2019, provisions for workers compensation and additional compensation totalled $121 million.

We identified the need for SAPOL to document a policy and procedures for assessing and processing claims for additional compensation, and to update existing policies and procedures supporting other activities of the Health, Safety and Welfare Branch.

Documented and up-to-date policies and procedures are the foundation of an effective internal control environment. Without them, work practices and controls may be performed inconsistently, not performed at all or may result in poor work practices or fraud.

We also identified calculation errors in two of the three lump sum workers compensation payments we tested, with one claimant underpaid by $89 000. We recommended that SAPOL make changes to its lump sum calculator to reduce the likelihood of similar errors occurring in the future.

SAPOL responded that:

- the Health, Safety and Welfare Branch will develop a policy for the additional compensation arrangements
- the Officer in Charge of the branch is aware of the action and is in the process of resourcing to ensure procedures are updated
- both payment errors were attributed to a training and compliance issue. Procedures have been implemented to ensure no further instances of inaccurate payments.

IT general controls review

Shared Services SA is largely responsible for the IT controls supporting SAPOL's payroll system. SAPOL is responsible for user access management of this system.

In 2018-19, we reviewed the IT general controls applied to the payroll system that are exercised by SAPOL and identified some areas where controls can be further improved, notably:

- privileged user access
- onboarding and offboarding
- user access reviews.

These shortcomings increase the risk of unauthorised access and/or unauthorised changes to SAPOL's payroll system environment. No instances of unauthorised access were identified.

SAPOL responded positively to our findings and recommendations, advising that most had been addressed. In addition, a review of the user access request process was to occur by the end of 2019.

Information and communications technology and control

Police records management system – Shield Business Transformation program (Shield program) status

In 2018-19 SAPOL progressed its program to implement a new police records management system, referred to as the Shield program. The program included the implementation of Stage 1 (custody management and criminal associations) for an approved budget of $12 million, with a further $43 million budgeted to implement Stages 2 to 4.

At the time of our review Stage 1 was completed, with work continuing on Stages 2 to 4.

As at 30 June 2019 investment expenditure on the Shield program totalled $33 million, while operating and recurrent expenditure totalled $14 million.

The remaining budget available for investment expenditure is $5 million, while the remaining budget available for operating and recurrent expenditure is $3 million.

SAPOL has experienced delays with the full implementation of Stages 2 to 4. The project is likely to be extended by up to two years, with SAPOL currently reviewing its funding requirements.

Interpretation and analysis of the financial report

Highlights of the financial report*

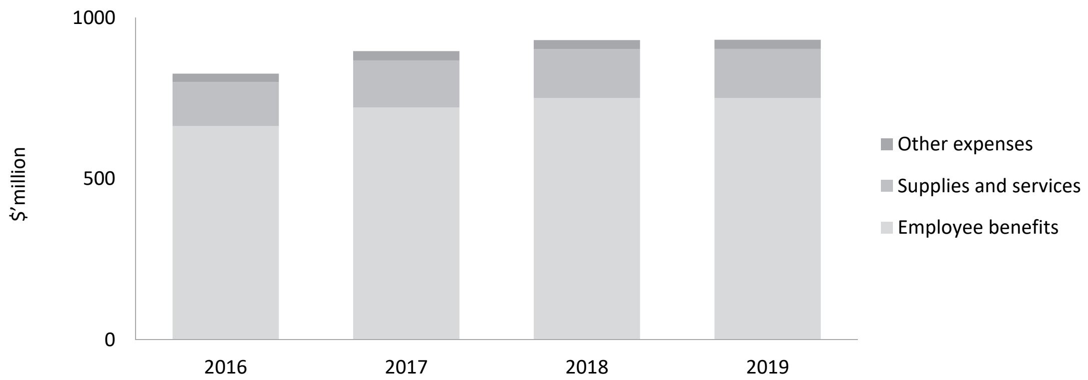
	2019 $'million	2018 $'million
Expenses		
Employee benefits	750	750
Supplies and services	153	152
Other expenses	28	28
Total expenses	931	930
Income		
Fees and charges	25	27
Other revenues	10	12
Total income	35	39
Net cost of providing services	896	891
Revenues from (Payments to) SA Government	888	841
Net result	(8)	(50)
Other comprehensive income	(5)	5
Total comprehensive result	(13)	(45)
Net cash provided by (used in) operating activities	49	(1)
Assets		
Current assets	201	174
Non-current assets	365	378
Total assets	566	552
Liabilities		
Current liabilities	128	126
Non-current liabilities	352	327
Total liabilities	480	453
Total equity	86	99

* Table may not add due to rounding.

Statement of Comprehensive Income

Expenses

The following chart shows SAPOL's main expense items for the four years to 2018-19.



Total expenses for 2019 remain consistent with the 2018 results, with employee benefits accounting for 80% of total expenses.

While total employee benefit expenses for 2018-19 remain steady from the prior year, significant movements in employee related liabilities, which impact total employee benefit expenses, were experienced.

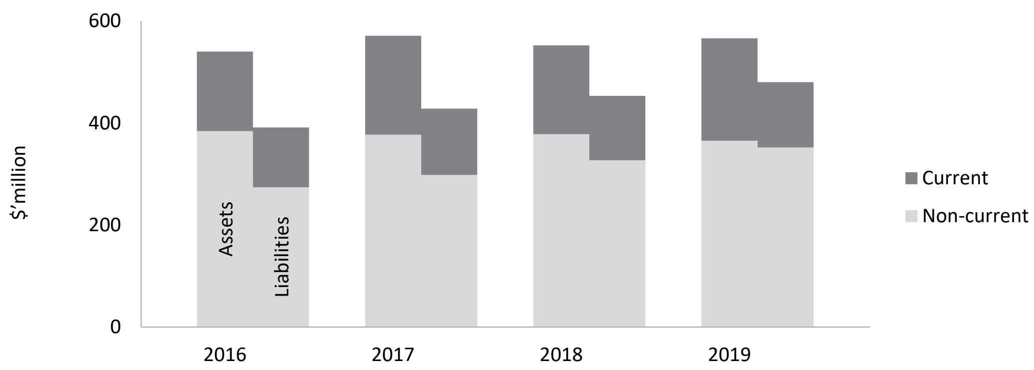
The movements in the long service leave liability and the workers compensation and additional compensation liabilities, are explained under 'Statement of Financial Position' below.

Income

SAPOL receives government funding based on annual budgeted expenditure, less estimated revenues from fees and charges and other sources. Net revenues from the SA Government increased by $47 million to $888 million, largely reflecting an increase in appropriations of $17 million and a $25 million decrease in returns to the Consolidated Account. In 2018, $35 million was returned to the Consolidated Account. Returns to the Consolidated Account under the cash alignment policy reflect the build-up of surplus cash.

Statement of Financial Position

For the four years to 2018-19, a structural analysis of assets and liabilities is shown in the following chart.



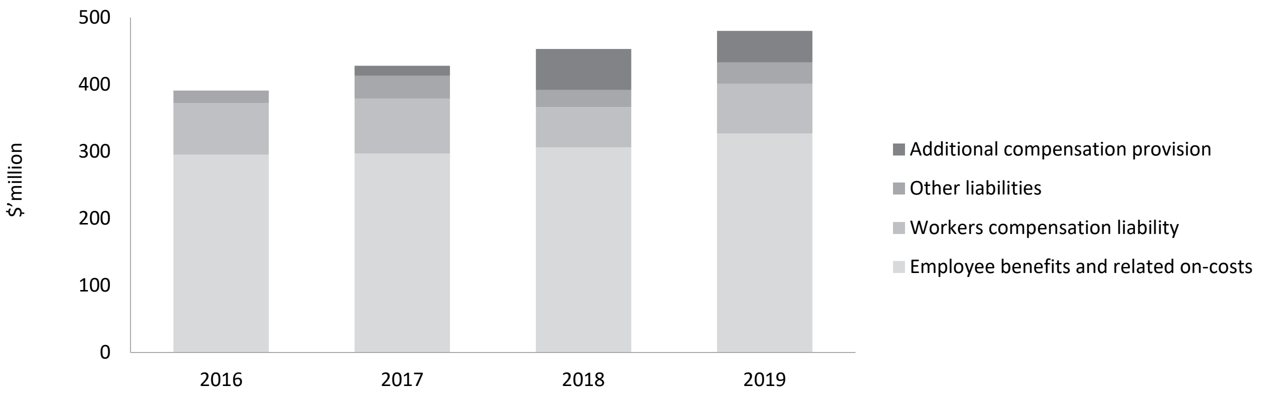
Assets and liabilities

Current assets increased by $27 million, driven by a $29 million increase in cash.

The increase in cash included a $24 million increase in the Accrual Appropriation Excess Fund Account. Funds held in this account can be accessed with the Treasurer's approval in a financial year when cash requirements exceed the appropriation provided for accrual requirements.

Non-current assets decreased by $13 million due mainly to a $15 million decrease in property, plant and equipment and a $6 million decrease in capital works in progress, both partially offset by increases in intangible assets of $8 million. The decrease in property, plant and equipment reflects a net revaluation downwards of $5 million and depreciation charges of $21 million, offset by transfers from capital works in progress of $11 million.

The significance of employee related liabilities compared to total liabilities is shown in the following chart.



Total liabilities increased by $27 million (6%) due mainly to an $18 million increase in employee benefits, an increase in other liabilities of $5 million and a $4 million increase in payables.

The employee benefits liability increased by $18 million due mainly to a $24 million increase in the long service leave liability, partially offset by small decreases in accrued salaries and wages ($3 million), annual leave ($2 million) and police service leave ($1 million).

Long service leave liabilities increased by $24 million to $232 million, due mainly to a decrease in the discount rate used to estimate the present value of future long service leave cash flows. A decrease in the discount rate results in an increase in the reported long service leave liability.

Other liabilities increased by $5 million as a result of recognising a Commonwealth grant received in advance. During the year, SAPOL received funding under the Indigenous Advancement Strategy to increase the police presence in remote communities. SAPOL is yet to provide these services.

Total payables increased by $4 million, due mainly to an increase in non-current employment on-costs as a result of the increase in the long service leave liability.

Workers compensation provision

The workers compensation liability increased by $14 million in 2019 due mainly to:

- an increase in the average outstanding claim size based on the profile of the claimants and their recent payment history
- a decrease in the government bond rate used to discount expected future cash flows, resulting in an increase in the liability.

There is a significant degree of uncertainty associated with estimating future claim and expense payments. The liability is impacted by agency claim experience relative to other agencies, average claim sizes and other economic and actuarial assumptions.

Additional compensation provision

The additional compensation liability decreased by $14 million in 2019, due mainly to:

- a decrease in the projected number of known claims

- a decrease in the projected number of incurred but not reported claims, based on the history of successful known claims, offset by economic assumptions based on the profile of the claimant and their recent payment history
- an increase in the average outstanding claim size based on the profile of the claimant and their recent payment history
- a decrease in the government bond rate used to discount expected future cash flows, resulting in an increase in the liability.

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

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

Impact of AASB 16 at 1 July 2019

SAPOL has assessed the estimated impact on the Statement of Financial Position of adopting AASB 16 *Leases* with the transition requirements mandated by the Treasurer's Instructions (Accounting Policy Statements).

AASB 16 requires lessees to recognise assets and liabilities for all leases that are not subject to a recognition exemption or scoped out of its application. Applying AASB 16 will result in leases previously classified as operating leases having right-of-use assets and related lease liabilities being recognised in the Statement of Financial Position for the first time.

AASB 16 is expected to have a material impact on SAPOL’s Statement of Financial Position as at 1 July 2019. The estimated impact on right-of-use assets and related lease liabilities is $393 million. This includes SAPOL’s recently signed new lease for its Angus St Headquarters until 2039.

The amounts disclosed are current estimates only. SAPOL is continuing to refine its calculations of lease assets and liabilities for 2019-20 financial reporting purposes and expects that these figures will change. This includes accounting for non-lease components.

Administered items

Expiation fees

Expiation fees are collected by SAPOL on behalf of the SA Government. SAPOL treats the collection of expiation revenue under the *Expiation of Offences Act 1996* as an administered item and pays the revenue to the Consolidated Account. Expiation fees collected decreased by $5 million to $62 million in 2018-19. The decrease is due to lower detections.

Victims of Crime levy

SAPOL collects money associated with the *Victims of Crime Act 2001* from the expiation of offences included on expiation notices issued by police officers and other authorised officers. The *Victims of*

Crime Act 2001 provides for paying compensation to people who suffer injury as a result of criminal acts and recovering the money from offenders.

SAPOL collects money and remits it to a special interest bearing deposit account managed by the Attorney-General's Department.

In 2018-19, Victims of Crime levy receipts paid to the Attorney-General's Department totalled $10 million.

Further commentary on operations

Staffing

SAPOL employed the following active FTEs by category as at 30 June for the past two years.

	2019 FTEs	2018 FTEs
Police Act 1998 employees	4 787	4 845
Unsworn employees	914	913
Unsworn casuals	28	21
Protective Security	126	125
Total	5 855	5 904

Source: FTE data was supplied by SAPOL and is unaudited.

South Australian Fire and Emergency Services Commission (SAFECOM)

Financial statistics	Consolidated net cost of providing services:	$311 million
	Total consolidated contributions from the Community Emergency Services Fund:	$280 million
	Employee benefits liability and related on-costs:	$70 million
	Workers compensation liability:	$86 million
	Number of FTEs (SAFECOM consolidated):	1334
Significant events and transactions	The workers compensation liability increased by $29 million due to an increase in the number of claims under the firefighter presumptive cancer compensation arrangements and a decrease in the government bond rate. This liability estimate is subject to a high degree of uncertainty.	
Financial report opinion	**Unmodified**	
Controls opinion findings	No significant findings.	
Other audit findings	SAFECOM is yet to implement a legislative compliance framework.	

Functional responsibility

SAFECOM is established by the *Fire and Emergency Services Act 2005*.

The functions of SAFECOM include responsibility for corporate services across the emergency services sector. SAFECOM supports and allocates sector resources and has a leadership role in state-wide emergency management.

SAFECOM administers the Community Emergency Services Fund (the Fund), the main source of funding for all emergency services sector agencies.

Scope of the audit

Audit of the financial report

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

The audit included access to systems and information maintained by SAFECOM and the emergency services organisations to conduct relevant financial transaction and control compliance tests. The emergency services organisations are the:

- South Australian Metropolitan Fire Service (SAMFS)
- South Australian Country Fire Service (SACFS)
- South Australian State Emergency Service (SASES).

Specific areas of audit attention in 2018-19 included:

- expenditure
- payroll
- revenue
- non-current assets, including capital works in progress
- cash
- financial accounting
- workers compensation
- governance
- the Fund.

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

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

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

Other audit findings

SAFECOM is yet to implement a legislative compliance framework

We identified the need for SAFECOM to implement a formal legislative compliance framework to monitor compliance with the sector's legal and regulatory obligations.

An effective legal compliance framework includes identifying relevant legislative and regulatory requirements, assigning responsibility for compliance, review processes to ensure legislative and regulatory requirements are complied with, and mechanisms for dealing with non-compliance. This should include periodic reporting to senior management and SAFECOM.

SAFECOM responded to these observations by stating that developing and establishing a legislative compliance program will be completed as a priority this calendar year, as set out in the approved internal audit plan. The legislative compliance program will include a legislative framework and register to support the monitoring of legislative obligations.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated emergency services sector*

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	206	225
Supplies and services	92	83
Depreciation and amortisation	22	22
Other expenses	5	5
Total expenses	324	334
Total income	13	11
Net cost of providing services	311	323
Revenues from SA Government	290	257
Net result and total comprehensive result	(20)	(66)
Net cash provided by (used in) operating activities	38	23
Net cash provided by (used in) investing activities	(27)	(30)
Assets		
Current assets	46	32
Non-current assets	366	360
Total assets	411	393
Liabilities		
Current liabilities	59	53
Non-current liabilities	131	99
Total liabilities	190	152
Total equity	221	241

* Table may not add due to rounding.

Statement of Comprehensive Income

Expenses

Total expenses decreased by $10 million to $324 million mainly as a result of a $20 million decrease in employee benefits expenses, partially offset by a $9 million increase in supplies and services.

Employee benefits expenses

Employee benefits expenses of $206 million ($225 million) represent 63% of total expenses. In 2018-19, employee benefits expenses decreased by $19 million due mainly to significant movements in employee related liabilities, partially offset by a $6 million increase in salaries and wages. An additional compensation liability fund was established at a cost of $18 million last year, meaning that 2017-18 employee benefits expenses were unusually high. SAFECOM's workers compensation expense of $35 million was lower than last year ($45 million), also contributing to lower overall employee benefits expenses. The movements in the long service leave liability and workers compensation liabilities are explained under 'Statement of Financial Position' below.

Salaries and wages increased by $6 million following enterprise agreement salary increases and the employment of an additional 52 FTEs across the sector. See commentary under 'Further commentary on operations' for an explanation of this increase in FTEs.

The number of employees whose normal remuneration is equal to or greater than the base executive remuneration level requiring disclosure this year was 170 (134). The aggregate remuneration paid or payable for those employees was $28.8 million ($22.4 million). The increase largely reflects an additional 39 SAMFS officers now included in the disclosure.

Supplies and services

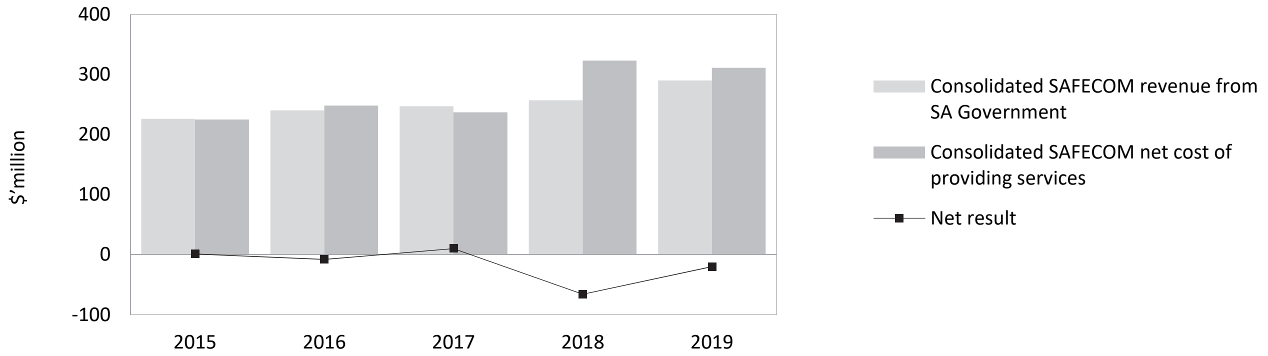
Supplies and services expenses increased by $9 million to $92 million mainly due to:

- a $3.6 million increase in aerial firefighting costs associated with an increased number of incidents
- a $1.6 million increase in communication expenses primarily related to the emergency alert project
- a $1 million increase in consultants, contractor and legal fees, due to number of litigation matters currently being undertaken.

Revenue

The main source of revenue for the consolidated sector is contributions from the Fund of $280 million ($251 million), which account for 93% of total income.

The following chart shows the funding received by the consolidated sector from the SA Government (including the Fund), the net cost of providing services and the net result for the past five years. It illustrates that revenue from the SA Government has largely been sufficient to meet the net cost of providing services. The $20 million shortfall in 2019 follows a $66 million shortfall in 2018, with both due mainly to the increase in the workers compensation and additional compensation provisions, both of which have a non-cash impact on the net result.



Statement of Financial Position

At 30 June 2019 current liabilities of $59 million exceeded current assets of $46 million. While a deficiency in working capital can be of concern, the consolidated sector is funded principally from the Fund. The sector works with the Fund to determine cash flows associated with its government approved program of work to ensure funding meets the expected cash flows. The consolidated sector receives its funding monthly, which significantly reduces the risk.

Assets

Property, plant and equipment assets of $363 million represent 88% of total assets. The main asset classes held are land ($66 million), buildings ($112 million) and vehicles ($129 million).

Liabilities

Total liabilities increased by $38 million to $190 million.

This large increase in liabilities is mainly attributable to the $29 million increase in the provision for workers compensation and an increase of $6 million in long service leave employee benefits liabilities.

Long service leave liabilities increased by $6 million, due mainly to a decrease in the discount rate used to estimate the present value of future long service leave cash flows. A decrease in the bond yield results in an increase in the reported long service leave liability.

Provision for workers compensation

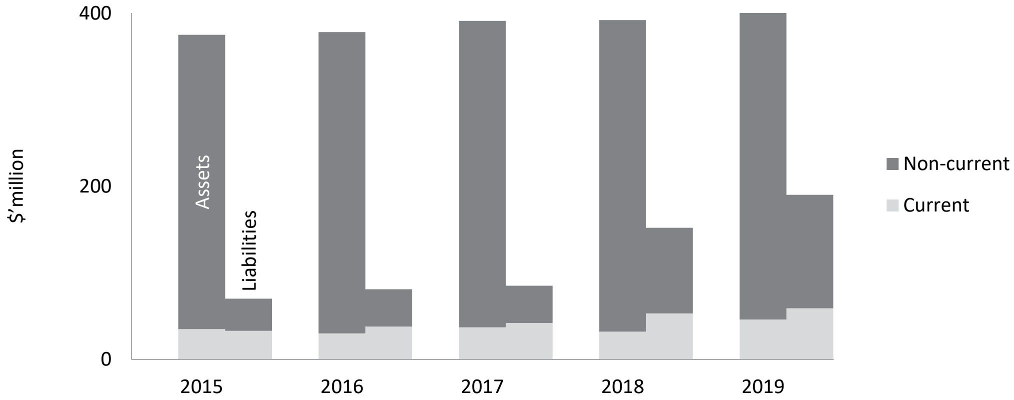
The workers compensation liability increased by $29 million to $86 million. The workers compensation provision is based on an actuarial assessment of the outstanding liability as at 30 June 2019, provided by a consulting actuary engaged through the Office for the Public Sector. The increase in the workers compensation liability in 2019 was impacted by:

- an increase in the number of known seriously injured firefighter cancer claims
- an increase in the allowance for incurred but not yet reported firefighter cancer claims estimated by the actuary
- a decrease in the government bond rate used to discount expected future cash flows, resulting in an increase in the liability.

The increase in the estimate for seriously injured firefighter cancer claims was driven by the identification of 20 new claims in 2018-19.

There is a significant degree of uncertainty associated with estimating future claim and expense payments. The liability is impacted by agency claim experience, average claim sizes and other economic and actuarial assumptions.

For the five years to 2019, a structural analysis of assets and liabilities is shown in the following chart, which demonstrates the impact of the workers compensation and additional compensation provisions on total liabilities in 2018 and 2019.



Statement of Cash Flows

Net cash provided by operating activities increased by $15 million in 2019 due mainly to additional contributions from the Fund of $29 million. Investing cash outflows decreased by $2 million to $27 million following a decrease in cash payments for the acquisition of property, plant and equipment across the sector.

The following table summarises the consolidated sector's net cash flows for the five years to 2019.*

	2015 $'million	2016 $'million	2017 $'million	2018 $'million	2019 $'million
Net cash flows					
Operating	24	26	32	23	38
Investing	(31)	(29)	(26)	(29)	(27)
Change in cash	(7)	(2)	6	(6)	11
Cash at 30 June	25	23	29	23	35

* Table may not add due to rounding.

Highlights of the financial report – SAFECOM*

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	8	8
Supplies and services	7	6
Other expenses	5	5
Total expenses	20	20
Total income	1	1
Net cost of providing services	19	19
Revenues from SA Government	23	17
Net result and total comprehensive result	4	(2)

	2019 $'million	2018 $'million
Net cash provided by (used in) operating activities	4	2
Assets		
Current assets	8	7
Non-current assets	4	2
Total assets	13	9
Liabilities		
Current liabilities	4	4
Non-current liabilities	3	3
Total liabilities	7	6
Total equity	6	2

* Table may not add due to rounding.

Statement of Comprehensive Income

Revenues from SA Government

The main source of funds for SAFECOM is revenue from the Fund of $18 million ($15 million), which accounts for 75% of revenues. The increase in revenue from the Fund was due mainly to increased funds to replace the Alert SA system.

Expenses

Employee benefits expenses are SAFECOM's main expense category and totalled $8 million ($8 million), which is 41% of total expenses.

Supplies and services totalled $7 million ($6 million).

Highlights of the financial report – administered items*

	2019 $'million	2018 $'million
Expenses		
Contributions to SA Government administrative units	309	279
Grants and subsidies	6	6
Other expenses	8	8
Total expenses	323	293
Income		
Revenues from levy sources	320	300
Other revenues	2	2
Total income	322	301
Net result and total comprehensive result	(1)	9
Net cash provided by (used in) operating activities	1	8
Assets		
Current assets	34	32
Total assets	34	32

	2019 $'million	2018 $'million
Liabilities		
Current liabilities	4	1
Total liabilities	4	1
Total equity	30	32

* Table may not add due to rounding.

Community Emergency Services Fund

Contributions, by way of levies, are made by all land owners (including State and Local Governments) for fixed and mobile property to fund the provision of emergency services. Levies are collected in line with the *Emergency Services Funding Act 1998*. The levies are set to cover the budgeted emergency services expenditure for the coming financial year.

The levy on fixed properties is collected by RevenueSA and applies to capital values adjusted for location and land use. The levy on mobile properties is collected by the Department of Planning, Transport and Infrastructure using the vehicle registration system. Once collected, these levies are paid into the Fund.

In addition, the SA Government has made direct contributions to the Fund in the form of remissions of levies (both fixed and mobile property) and concession subsidy payments through the Department of Human Services for eligible people.

The costs of collecting levies and expenses relating to administration are also met from the Fund.

Statement of Administered Comprehensive Income

For the year ended 30 June 2019 the Fund's net result was a deficit of $1.5 million (surplus of $9 million).

This deficit of $1.5 million is funded from cash balances in the Fund and was due mainly to expenditure carried forward from 2017-18 for Surf Life Saving redevelopments.

Administered revenue

Levies and other revenues are collected in line with the *Emergency Services Funding Act 1998* to fund the budget of SA Government administrative units, grants and subsidies to various bodies and other payments approved by the Minister for providing emergency services. Emergency services levies increased by $20 million to $320 million.

The increase in levy revenue and changes in remissions are shown in the table below.

	2015 $'million	2016 $'million	2017 $'million	2018 $'million	2019 $'million
Fixed property collections	191	199	216	221	146
Fixed property remissions*	20	26	25	25	119
Mobile collections	41	43	43	44	44
Mobile remissions*	4	3	3	3	4
Government concessions	7	7	6	6	6
	263	278	294	300	320

* Remissions are provided by the SA Government.

In the 2018-19 State Budget the SA Government announced the reintroduction of general remissions for fixed property collections and its commitment to funding the anticipated shortfall. The decrease in fixed property collections of $75 million and the $94 million increase in fixed property remissions in 2018-19, funded from the Consolidated Account, reflect this change.

The net increase in receipts to the Fund reflects growth in the base expenditure and new initiatives, including funding for the new Alert SA system, improved aerial firefighting capacity and the SAMFS enterprise bargaining agreement.

Administered expenses

The following table shows the contributions made by the Fund to SA Government entities over the past five years.

	2015 $'million	2016 $'million	2017 $'million	*2018 $'million	*2019 $'million
SAMFS	124	136	137	139	148
SACFS	74	74	76	77	93
South Australia Police	21	21	21	22	22
SASES	15	16	20	20	21
SAFECOM	11	11	12	15	18
Other SA Government entities	5	6	6	6	6
	250	264	272	279	309

* Refer note A2.1 of SAFECOM's financial report for the year ended 30 June 2019.

Over the period contributions paid increased by $59 million, with most of the increase being received by the SAMFS ($24 million) and the SACFS ($19 million).

In 2019, contributions to SA Government entities increased by $30 million to $309 million, representing an 11% increase. The increase in expenditure was mainly due to additional funding to the SACFS for presumptive cancer workers compensation, growth in the base expenditure and new initiatives, including funding for the new Alert SA system, improved aerial firefighting capacity and the SAMFS enterprise bargaining agreement.

Grants and subsidies of $6 million were paid to Surf Life Saving South Australia, Volunteer Marine Rescue and Shark Beach Patrol.

Other expenses of $6 million were paid to RevenueSA for collection costs under the *Emergency Services Funding Act 1998* for administering the collection of fixed property levies. The Department of Planning, Transport and Infrastructure was paid $1 million in collection costs for collecting the mobile property levies.

Statement of Administered Financial Position

Net assets for the Fund at 30 June 2019 were $30 million ($32 million).

At 30 June 2019, current assets totalled $34 million ($32 million), predominately comprising cash and cash equivalents.

At 30 June 2019, current liabilities totalled $4 million ($1 million), predominately comprising a payable to the Department for Environment and Water for its share of contributions from the Fund.

Further commentary on operations

Staffing

SAFECOM and the emergency services organisations employed the following active FTEs as at 30 June for the past two years.

	*2018 FTEs	*2019 FTEs
SAFECOM	65	70
SAMFS	995	1 042
SACFS	153	157
SASES	70	66
Total	1 283	1 335

* FTE data was supplied by SAFECOM and is unaudited.

The increase in SAMFS FTEs related to the Firefighters Enterprise Agreement 2017, which provided for additional FTEs to be recruited. Due to the time frames required to recruit and train firefighters, the SAMFS's strategy is to recruit more than required in the agreement to accommodate attrition and the new additional FTEs.

Volunteers

The SACFS and SASES had the following active volunteers as at 30 June for the past two years.

	*2018 FTEs	*2019 FTEs
SACFS	13 275	13 149
SASES	1 549	1 541
Total	14 824	14 690

* Volunteer data was supplied by SAFECOM and is unaudited.

South Australian Government Financing Authority (SAFA)

Financial statistics	Profit before income tax equivalents:	$56 million
	Total loans on issue:	$24.3 billion
	Total bonds, notes and debentures on issue:	$20.8 billion
	Outstanding insurance claims:	$586 million
	Fleet vehicles (including held for sale):	$182.8 million
	Number of fleet vehicles (including held for sale):	7081
Significant events and transactions	— SAFA paid a $49 million dividend in June 2019. — SAFA paid $35 million in income tax equivalents in June 2019. — SAFA revalued its motor vehicles upwards by $6 million at 30 June 2019. — South Australia's participation in the National Redress Scheme for Institutional Child Sexual Abuse commenced in February 2019.	
Financial report opinion	**Unmodified**	
Controls opinion findings	No significant findings.	

Functional responsibility

SAFA, a body corporate, was established under the *Government Financing Authority Act 1982* (SAFA Act).

SAFA is the central borrowing authority for the State, and is responsible for managing most of the State's debt and for implementing the SA Government's debt management policy as determined by the Treasurer.

Under section 15 of the SAFA Act, SAFA's liabilities are guaranteed by the Treasurer.

SAFA also administers the SA Government's:

- insurance and risk management arrangements through its insurance division, trading as SAicorp
- passenger and light commercial vehicle fleet operations through Fleet SA.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- cash
- financing
- treasury
- general ledger.

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

We considered the work performed by SAFA's compliance unit and internal audit function for elements of our program, in particular:

- quarterly reporting by SAFA's compliance unit
- internal audit's reviews of treasury operations, cloud governance, business continuity management and disaster recovery and credit risk management.

Controls opinion

We reviewed controls over SAFA's borrowings, investments, interest expense, guarantees and indemnities, reinsurance process and bank accounts as part of our controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

No significant matters were identified by the audit.

Controls opinion findings

There were no significant findings for our controls opinion work at SAFA.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Interest revenue	1 167	1 036
Interest expense	(1 174)	(1 034)
Net interest revenue	(7)	2
Net gain (loss) on financial instruments and derivatives	76	88
Leasing and hire revenue	55	58
Insurance premium revenue	60	55
Recoveries	4	3
Other income (including net gain on sale of property, plant and equipment)	12	12
Vehicle operating costs (including depreciation and impairment)	(46)	(48)
Insurance claims	(91)	(35)
Other expenses	(7)	(22)
Profit before income tax equivalents	56	113
Income tax equivalent expense	(17)	(34)
Profit after income tax equivalents	39	79
Other comprehensive income	4	-
Total comprehensive income	43	79
Assets		
Cash, short-term assets and investments	8 598	6 883
Loans	24 253	20 961
Derivatives receivable	61	200
Property, plant and equipment (including held for sale)	183	170
Other assets	75	56
Total assets	33 170	28 270
Liabilities		
Deposits and short-term borrowings	11 205	9 297
Bonds, notes and debentures	20 826	17 782
Outstanding claims	586	390
Derivatives payable	77	166
Payables and other liabilities	61	215
Total liabilities	32 755	27 850
Total equity	415	420

Statement of Comprehensive Income

Interest revenue and expense

Interest revenue and expense are recognised on a market value accounting basis and accrued in line with the terms and conditions of the underlying financial instruments. Interest revenue increased by $131 million or 13%, associated with a corresponding increase in interest expense of $140 million or 14%.

The increase in interest revenue and interest expense reflects that there has been a significant increase in total assets and liabilities in 2018-19, as discussed below. Interest revenue and expense are also impacted by the timing of maturities and settlements for financial instruments, including derivatives.

Net gain on financial instruments and derivatives

SAFA's 2018-19 operating result includes a net gain of $76 million on financial instruments and derivatives. This gain represents the profit to SAFA from movements in the prices of financial instruments and derivatives it held mostly as a result of changes in market rates.

SAFA's risk management approach is discussed further under 'Business risk management' below.

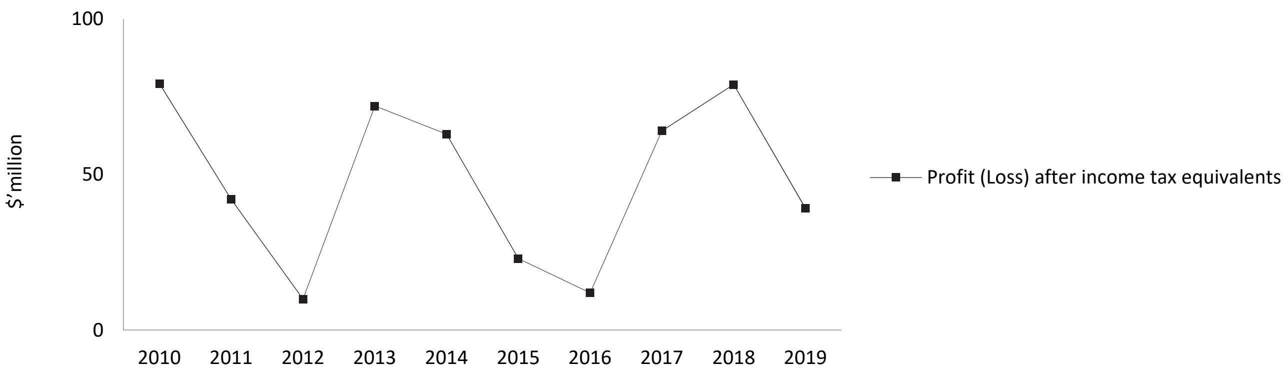
Leasing and hire revenue

Leasing and hire revenue reflects the fees charged to other government agencies for leasing fleet vehicles.

Profit (Loss)

SAFA's profit before income tax equivalents was $56 million. SAFA is required to pay the Treasurer an income tax equivalent on this amount, calculated by applying a tax rate of 30% to profit or loss before tax.

The 10-year trend in SAFA's profit or loss after income tax equivalent expense is shown in the following chart.



The chart highlights the volatility in SAFA's results, which comes from the financial performance of its insurance activities.

The 2019 profit after income tax equivalents of $39 million is primarily attributable to profit on SAFA's insurance activities of $24 million and treasury activities of $8 million, as explained in note 3 of SAFA's financial report.

Insurance activity impact on profit (loss)

SAFA's insurance activities are designated into four funds (Fund 1, Fund 2, Fund 3 and Fund 4). Its result after income tax equivalents is, in net terms, only affected by Fund 1 and Fund 4 results, as SAFA is indemnified by the Treasurer against any operating profit or loss arising from the activities of Funds 2 and 3.

Fund 2 is used to fund liabilities arising from insurable incidents that:

- occurred before 1 July 1994

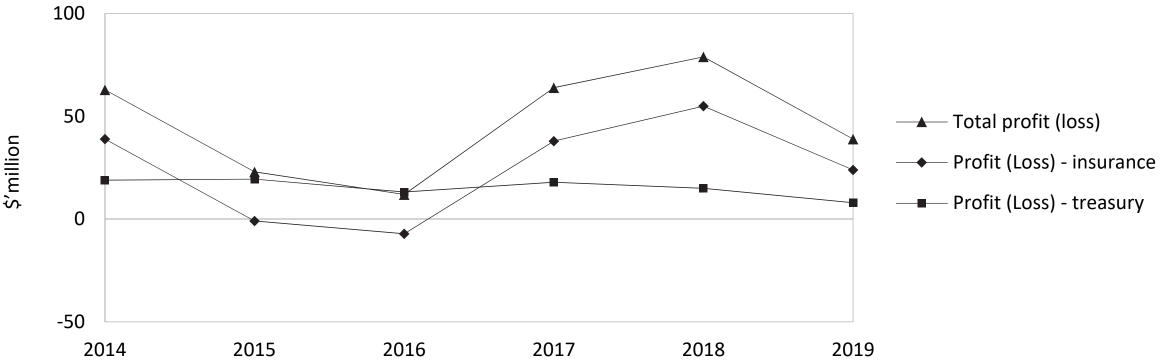
- involve claims under the building warranty indemnity reinsurance arrangements up to 30 June 2013
- involve the former State Government Insurance Commission residual claims and workers compensation claims previously managed by the former South Australian Asset Management Corporation
- are historical workers compensation and asbestos claims previously managed by other SA Government entities.

Fund 3 is used to fund liabilities arising from claims under the building indemnity insurance scheme effective from 1 July 2013.

Fund 4 is a new fund. It was established to manage liabilities for the SA Government's participation in the National Redress Scheme for Institutional Child Sexual Abuse. The background to Fund 4 is discussed further under 'National Redress Scheme for Institutional Child Sexual Abuse' below.

All of SAFA's remaining insurance activities are funded through Fund 1.

The impact of SAFA's insurance activities on its profit or loss after income tax equivalent expense is highlighted in the following chart.



SAFA's insurance activities reported a 2018-19 profit after tax of $24 million (profit of $55 million). The decrease in the insurance profit was mainly a result of a $56.2 million increase in claim expenses.

This increase in claim expenses was mainly due to:

- a $36.9 million increase in Fund 1 outstanding claims liabilities, mostly due to changes in economic assumptions, primarily a reduction in discount rates, offset by a fall in the inflation rate
- a $7.5 million increase in Fund 2 outstanding claims liabilities, mostly due to new claims during the year and an increased estimate for an existing medical malpractice claim
- a $14.9 million increase in Fund 3 outstanding claims liabilities, mostly due to new builders' indemnity claims during the year.

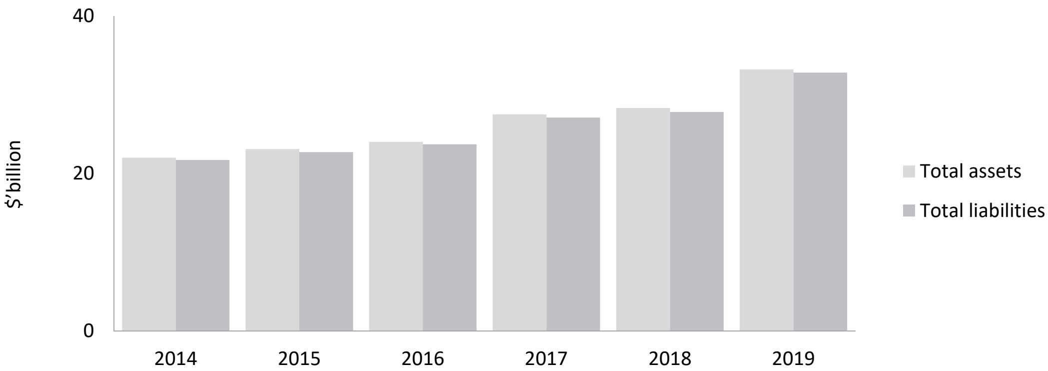
These changes highlight the inherent volatility of insurance activities, and the impact on SAFA's financial performance.

Fund 4 became operational in 2018-19, reflecting that the SA Government provided $146.4 million in funding in June 2018 and South Australia's participation in the National Redress Scheme formally commenced in February 2019.

Statement of Financial Position

Assets and liabilities

A structural analysis of assets and liabilities for the six years to 2019 is shown in the following chart.



The chart illustrates the gradual increase in SAFA's assets between 2014 and 2016. Over the same period SAFA's total liabilities increased by a corresponding amount, reflecting its activities in financial markets to fund the accumulated deficits and loans to public authorities.

The vast majority of SAFA's financial assets used for treasury operations relate to financial liabilities financed by market borrowings. The remaining balance of financial assets is funded from SAFA's equity ($415 million as at 30 June 2019).

In 2017, there was a significant increase in SAFA's total assets and liabilities. This is mainly due to increases in investment assets ($2.9 billion) and bonds, notes and debentures liabilities ($2.8 billion). These increases are primarily attributable to changes in SAFA's liquidity policy. SAFA sought to increase its liquidity to ensure greater alignment with market best practice and regulator and rating agencies' guidelines. To increase the amount of liquid funds available, new select line bonds were issued, with the proceeds placed in investments.

In 2018 there was a gradual increase in SAFA's borrowings, with assets increasing by a corresponding amount.

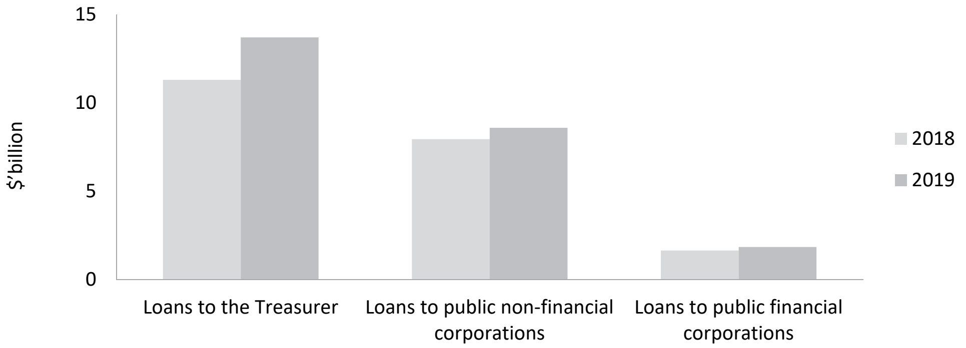
In 2019 there was a $4.9 billion increase in SAFA's total liabilities, with total assets increasing by a corresponding amount. This is mainly due to an increase in loans ($3.3 billion) and bonds, notes and debentures ($3 billion). The increase was mainly a result of an increased overall Treasurer's funding requirement for 2018-19.

Loans to government agencies

Total assets include loans of $24.3 billion, comprising SAFA's loans to the Treasurer to fund accumulated Consolidated Account deficits and loans to other public authorities.

At 30 June 2019 SAFA's loans to the Treasurer totalled $13.7 billion, an increase of $2.4 billion since 30 June 2018. The Treasurer also has funds on deposit with SAFA totalling $8.7 billion ($7.1 billion) as at 30 June 2019.

The chart below highlights SAFA's current and prior year government sector loan composition.



There was a $2.4 billion current year increase in loans to the Treasurer, while loans to public non-financial and financial corporations increased by $639 million and $203 million respectively. The increase in loans to the Treasurer was primarily to fund the deficit in the Consolidated Account for 2018-19 ($2 billion).

The main loans to public non-financial corporations were to the South Australian Water Corporation (SA Water), the Urban Renewal Authority and the Adelaide Venue Management Corporation.

Capital and distributions

At 30 June 2019 SAFA's capital reserves comprised its retained earnings, which stood at $409 million ($420 million), and asset revaluation surplus, $6 million ($0). A $49 million ($26 million) dividend distribution was made to the Treasurer in 2018-19.

This dividend payment was made under section 12(2) of the SAFA Act, which states that any surplus of funds remaining after SAFA's costs have been met in any financial year must be paid into the general revenue of the State or otherwise dealt with as the Treasurer determines. The Treasurer approved SAFA's dividend payment in June 2019, which comprised a final amount from 2017-18 and an interim amount for 2018-19.

Statement of Cash Flows

SAFA's cash position fluctuates in line with the net effects of its various operating, investing and financing activities. Cash balances have been maintained in line with liquidity requirements.

Further commentary on operations

SAFA Advisory Board

The SAFA Act provides that SAFA is constituted of the Under Treasurer and establishes the South Australian Government Financing Authority Advisory Board (the Advisory Board). The Advisory Board comprises up to seven members, one of whom is the Under Treasurer who is also Presiding Member.

The SAFA Act provides that the Under Treasurer may request advice from the Advisory Board and consider any advice given. The Advisory Board may provide advice, as it sees fit, to the Treasurer or SAFA. SAFA's annual report must include details of any advice from the Advisory Board that the Treasurer or SAFA has decided not to follow and the reason for that decision.

Business risk management

Operational risk management

SAFA has a number of mechanisms to manage operational risks, including:

- an annual risk assessment facilitated by the contracted internal auditors addressing changes to SAFA's operating environment and the financial markets it transacts with. This assessment is used to determine the scope of the internal audit program
- a policy manual that details parameters within which SAFA pursues its core objectives, including dealings with financial markets, reporting requirements and managing assets and liabilities. This manual is reviewed annually and subject to the Treasurer's approval
- a central procedures manual that provides a high level summary of the actions that SAFA expects to be maintained within the treasury, insurance, fleet and operational support units. The procedures manual is also subject to annual review
- the compliance unit performing daily, weekly, monthly and quarterly reviews to ensure compliance with policy requirements. The compliance unit's work is reviewed and tested by SAFA's contracted internal auditor
- a Risk and Performance Committee comprising three independent members appointed by the Under Treasurer.

SAFA's treasury portfolio structure

To help manage SAFA's treasury function and its associated risks, the assets and liabilities on its balance sheet are separated into distinct portfolios. The portfolio structure and related procedures contribute to transparency of operations, risk identification and management and performance measurement and reporting.

SAFA's portfolio structure consists of:

- SAFA's principal portfolios
- the Treasurer's cost of funds portfolio
- client asset/liability management portfolios.

SAFA's principal portfolios

SAFA maintains the following principal portfolios:

- funding
- liquidity
- foreign exchange hedging service.

The funding portfolio contains all of SAFA's term loans to clients, around $10.1 billion in assets. Its major function is to provide funding to clients on a defined maturity and rate basis.

The liquidity portfolio contains:

- all of SAFA's liquid assets and the funding that supports them
- deposits of excess cash from clients
- transactions relating to the cash loan to the Treasurer
- the Treasurer's deposit with SAFA.

The liquidity portfolio holds liabilities, assets and hedging instruments (including derivatives). It is run on a basis where mismatches between assets and liabilities are managed within risk parameters, with assets of $16.2 billion at 30 June 2019. These parameters are managed on a daily basis within the guidelines stipulated in the policy manual.

The foreign exchange hedging service portfolio covers all transactions associated with the service SAFA provides to public sector clients relating to the hedging of foreign currency exposures, mainly associated with purchases and sales of goods and services. The portfolio had a net asset position of $2000 at 30 June 2019.

Any profits or losses from the operations of the principal portfolios are recorded in SAFA's Statement of Comprehensive Income.

Treasurer's cost of funds portfolio

The Treasurer's cost of funds portfolio is the primary portfolio for the Treasurer. It contains liabilities and assets managed against a benchmark range. The main management task for this portfolio is to minimise interest rate risk within the portfolio relative to the policy benchmark range set by the Treasurer. The net expenses of this portfolio are borne by the Treasurer.

There are transactions in the Treasurer's cost of funds portfolio that are not measured and reported against the benchmark range, such as new Royal Adelaide Hospital transactions out to 2033. The interest rate exposure on the new Royal Adelaide Hospital transactions is managed by fixing the interest rate for a defined term.

Client asset/liability management portfolios

The client asset/liability management portfolios do not reside on SAFA's Statement of Financial Position and only impact on SAFA's profit and loss through fee income received. This includes SA Water's Financial Bureau Services Agreement.

SA Water manages its own debt. SAFA's role is to develop and document, in conjunction with SA Water and within strict policy guidelines, a risk management strategy for SA Water's exposures. The strategy must have regard to the likely impact of interest rate exposures on SA Water's results, an assessment of SA Water's ability to carry interest rate risk and SA Water's regulatory framework.

The Treasurer also makes loans directly to government entities and other bodies, including loans by the Treasurer to government departments and statutory authorities. SAFA administers these loans on behalf of the Treasurer. Since 2017-18 this has included administering the Future Jobs Fund and Economic Investment Fund, which were established as a result of the 2016-17 State Budget. The activities of these Funds are recognised in the Treasurer's statements and are listed as loans to the Treasurer in SAFA's financial statements.

General market risk management

SAFA is the State's central borrowing authority and manages most of the State's debt. It lends funds raised from financial markets to a number of South Australian public sector clients, including the Treasurer who borrows on behalf of public sector agencies to support their operational requirements.

SAFA's Risk Appetite Statement indicates it performs its treasury, insurance and fleet functions with a low risk appetite, protects the interests of its owners and clients and protects its reputation as a provider of services consistent with its strategic direction.

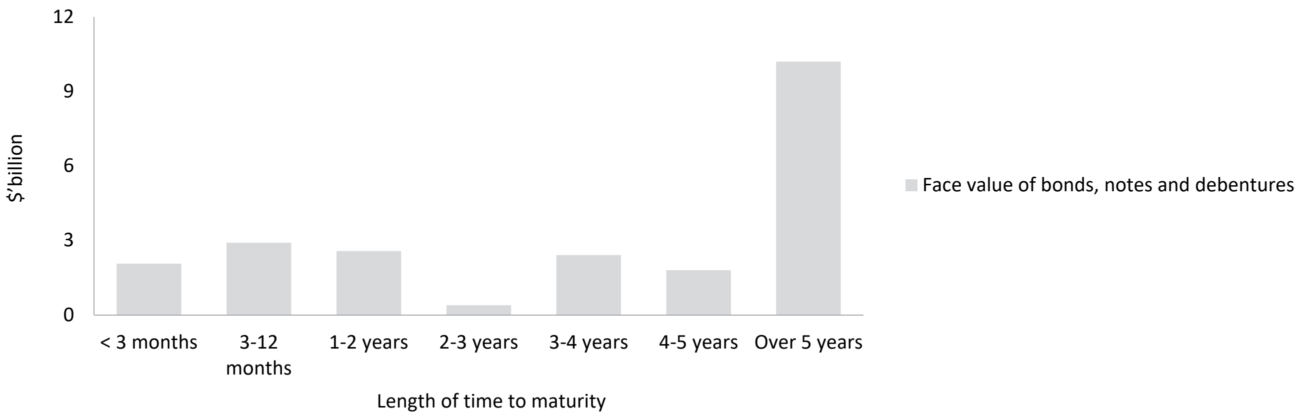
A low risk appetite approach means some exposure to identified risk is tolerated that is within well defined, approved parameters consistent with the organisation's strategic direction and business objectives.

Funding risk management

SAFA raises funds from domestic and international financial markets to support the SA Government's budgetary funding requirements.

Funding risk refers to the prospect of SAFA either being unable to raise funds when required, or only being able to raise funds at a higher cost. Accordingly, SAFA's objective for funding risk is to ensure that it is not exposed to a significant refinancing or funding risk within any financial year. Guidelines for funding risk are set by the Under Treasurer.

A maturity profile of the undiscounted principal and interest repayment amounts for SAFA's bonds, notes and debentures as at 30 June 2019 is presented in the following chart. Bonds, notes and debentures include SAFA's core funding issue of select lines and floating rate notes.



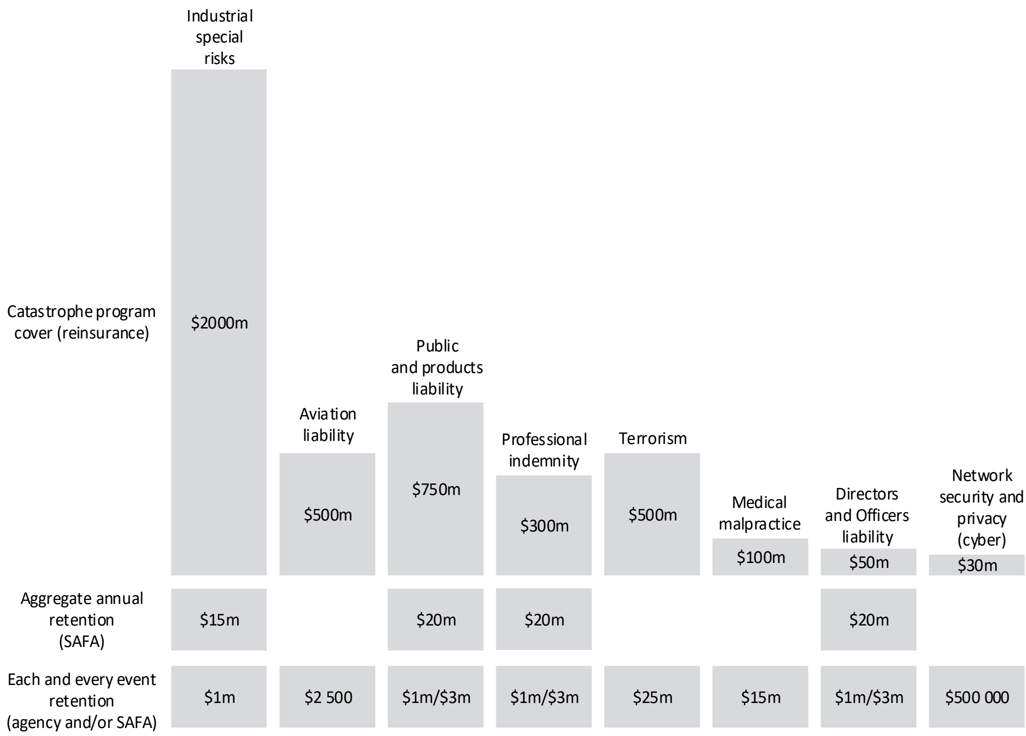
The chart illustrates that SAFA's principal and interest repayments vary each year for the next four years. From 2025, SAFA will have $10.2 billion of principal and interest repayments.

The chart does not include expectations for the SA Government's early refinancing or future financing requirements.

Catastrophe reinsurance program

The SA Government is fundamentally a self-insurer. However, to protect the State's finances against a very large loss or claim or a series of large losses or claims in a year, a commercial catastrophe reinsurance program is placed in the international insurance market. The reinsurance program is renewed annually and then approved by the Treasurer after consideration by the Advisory Board.

The structure of SAFA's catastrophe reinsurance program for 2018-19 is shown in the following diagram.



SAFA's catastrophe reinsurance premium expense for 2018-19 was $8.9 million ($8.3 million), an increase of 7%. The increased cost in 2018-19 mainly reflected a hardening of the property insurance market due to several significant natural catastrophe events.

SAFA reviews its coverage levels annually. While various factors influence its final choice of cover, key drivers in this evaluation are the market's willingness to accept risk for SAFA's preferred coverage, and SAFA's internal value-for-money assessments of the prevailing insurance market.

School loans scheme

In the 2016-17 State Budget the SA Government established a new $250 million low interest loan scheme to help non-government schools upgrade infrastructure and facilities.

Loans of between $500 000 and $10 million per school will be made available over five years, with loan terms up to 15 years. All non-government schools are eligible to apply and access will be granted based on highest need, taking into account a school's socio economic status score. Priority will be given to projects that invest in science, technology, engineering and maths, as well as early years facilities.

Since the scheme's inception there have been five funding rounds.

The first loan was drawn down under the scheme in February 2017. Total funds advanced to non-government schools as at 30 June 2019 were $54.5 million, made up of $40.2 million (face value) in loans and $14.3 million in overdraft facilities. As at 30 June 2019, $3 million had been paid back.

The total value of approved school loans at 30 June 2019 was $90.3 million, with $33 million not yet drawn down.

SA Venture Capital Fund

On 6 July 2017 SAFA entered into an investment management agreement to establish the $50 million SA Venture Capital Fund (the Fund), with the objective of helping early-stage South Australian companies to attract private sources of co-investment from national and international investors.

Blue Sky Venture Capital Pty Ltd, a subsidiary of Blue Sky Alternative Investment Limited, was appointed as the fund manager. Blue Sky Alternative Investment Limited is also a party to the agreement and is a guarantor for Blue Sky Venture Capital Pty Ltd.

While Blue Sky Alternative Investment Ltd was placed in administration in May 2019, Blue Sky Venture Capital Pty Ltd continued to provide investment and management services for the Fund, until the investment management agreement was temporarily novated to Melbourne Securities Corporation in August 2019. Blue Sky Venture Capital Pty Ltd and Blue Sky Alternative Investment Limited have no further involvement with the Fund.

An expression of interest for a new fund manager was released in August 2019 with submissions due by 17 September 2019.

Investments from the Fund are required to meet a range of criteria, including requirements for assets and staff to be located in South Australia within 12 months of the initial investment date.

In 2018-19 there was one investment made from the Fund for $1.5 million.

As at 30 June 2019, three investments have been made from the Fund totalling $6 million.

National Redress Scheme for Institutional Child Sexual Abuse

On 25 May 2018 the SA Government approved South Australia's participation in the National Redress Scheme for Institutional Child Sexual Abuse (the Scheme) and for SAicorp to administer all payments associated with this. On 6 June 2018 the Premier signed an Intergovernmental Agreement confirming South Australia's participation.

The start date for the Scheme was 1 February 2019 and it will accept applications until 30 June 2027.

The Treasurer approved the transfer of $146.4 million from the Victims of Crime Fund to SAicorp on 24 June 2018 to meet the cost of paying claims made under the Scheme. Any funds not paid under the Scheme will be returned to the Victims of Crime Fund following closure of the Scheme.

The Scheme is administered through a separate fund, Fund 4. As at 30 June 2019 the outstanding claims liability for Fund 4 was $136.7 million. The liability was calculated by an external actuary who considered:

- the number of applications for which the SA Government will have full or partial liability
- the average monetary payment for Scheme applications
- other relevant Scheme payments, including counselling, legal and administration costs
- the expected payment pattern and impact of discounting.

While the current estimate of claims is below the level of funding provided, the estimate is subject to change because the Scheme is open until 2027.

There were 95 Scheme applications as at 30 June 2019.

As at 30 June 2019 no redress payments had been made.

South Australian Housing Trust (SAHT)

Financial statistics	Net cost of providing services:	$382 million
	Rental income:	$247 million
	Rental property expenses:	$383 million
	Total revenue from SA Government:	$825 million
	Total comprehensive result:	$745 million
	Value of rental property:	$7.3 billion
	Number of lettable rental properties:	34 666
	Number of FTEs (as advised by the SAHT):	857

Significant events and transactions

- The SAHT started operating as an independent housing authority with a new governance structure. Previously the SAHT had no Chief Executive and no employees, and depended on other agencies to deliver its services. A new SAHT Board was appointed, a Chief Executive was appointed and 1038 staff transferred to the SAHT.
- The SA Government provided additional once-off grants of $604 million and an equity contribution of $124 million. The SAHT will receive equity contributions totalling $778 million from 2019-20 to 2022-23 but minimal recurrent grants, resulting in large annual operating deficits expected during this period.
- Responsibility for paying grants to specialist homelessness service providers transferred on 1 July 2018 from the Department of Human Services to the SAHT. Grants paid were $67 million.

Financial report opinion

Unmodified

Controls opinion findings

- The SAHT needs a documented plan to achieve its targeted level of asset management maturity within three to five years.
- Although the SAHT has improved its management of maintenance contractors, further action is required.
- Opportunities to improve the management of community housing providers were identified.

Other audit findings	The SAHT's Procurement Framework and Contract Management Guidelines need updating to ensure a consistent approach to performance management and the use of due diligence checks.

Functional responsibility

The SAHT is established by the *South Australian Housing Trust Act 1995* (SAHT Act).

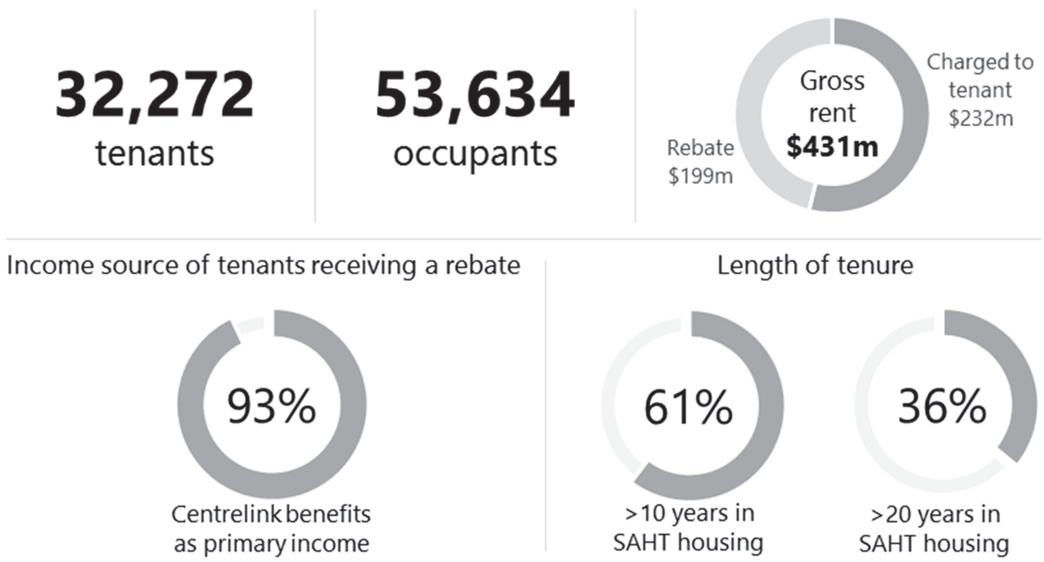
The functions of the SAHT include:

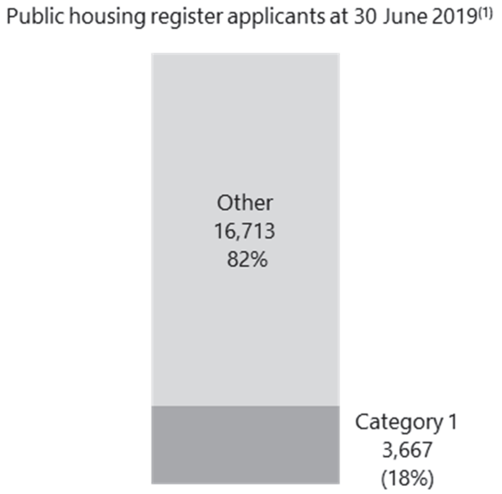
- the construction, purchase, ownership and management of houses and units for tenant occupation
- managing SAHT tenancies and housing grant programs.

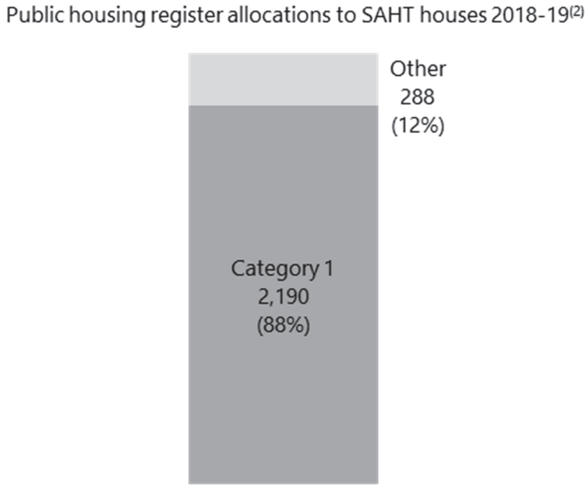
The Minister for Human Services established a new governance structure for the SAHT. Previously it had no Chief Executive and no employees and depended on the Department of Human Services (DHS) and the Urban Renewal Authority (URA) to deliver services on its behalf. In 2018-19 a new SAHT Board was appointed, a Chief Executive was appointed and the employment of 872 DHS and 166 URA staff transferred to the SAHT. The SAHT has operated independently from the DHS and the URA since 1 July 2018.

Snapshot of SAHT operations

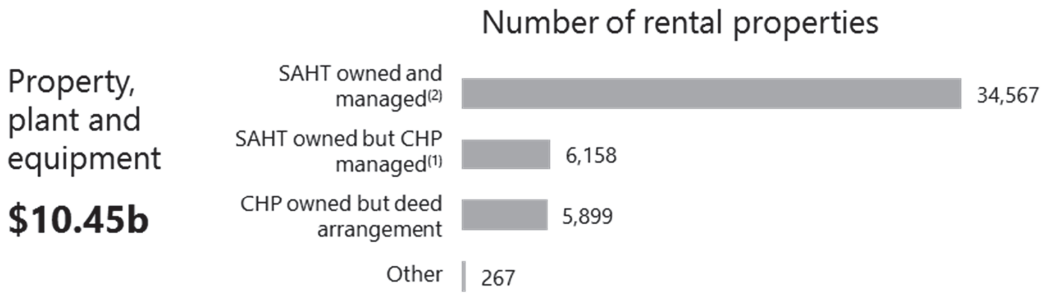
The SAHT's public housing operations (excluding SAHT housing managed by community housing providers (CHPs)) are summarised below.







(1) Excludes tenants requesting a transfer to another property.
(2) Excludes tenants transferring between properties.



(1) Includes rental stock transferred from the SAHT to CHPs and specialist housing program stock managed by CHPs.
(2) Includes unlettable properties and excludes specialist housing program stock managed by CHPs.

All data included in the snapshot of SAHT operations was provided by the SAHT and is unaudited except for the value of rental income, rebates and property, plant and equipment.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- revenue including rent, recoveries and debt write-offs
- accounts payable
- payroll

- maintenance
- council and water rates
- fixed assets including rental properties and capital works
- private rental assistance
- grants to specialist homelessness service providers
- house sales
- general ledger.

In addition, some services, including payroll and accounts payable processing, were undertaken by Shared Services SA (SSSA) and reviewed as part of our audit of SSSA.

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

Controls opinion

We reviewed controls over the following areas as part of our controls opinion, which is discussed in Part B of this Report:

- rental income
- managing land, buildings and assets under arrangements
- managing the SAHT Operating Account.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Opportunities to improve the SAHT's asset management processes

The SAHT manages 34 567 rental properties worth in excess of $7 billion.

We reviewed the SAHT's asset management practices and controls against aspects of International Standard on asset management (ISO 55000), and identified areas where the SAHT could improve its asset management.

The SAHT has demonstrated a commitment to applying best practice principles to asset management. In November 2018 the SAHT Board approved an asset management policy describing asset management and reporting principles, and a Strategic Asset Management Methodology (SAMM). The SAMM contains asset management objectives to guide the asset planning process for creating and maintaining a public housing portfolio that will achieve its organisational objectives. Development of the SAMM was guided by ISO 55000 and the Strategic Asset Management Framework published by the Department of Planning, Transport and Infrastructure (DPTI).

We noted that the SAHT could improve its asset management processes and related internal controls in the following ways:

- developing and documenting its plan to achieve its targeted level of asset management maturity within three to five years. In 2017-18 the SAHT self-assessed its asset management practices using a framework developed by Main Roads Western Australia that identifies six levels of asset management maturity. The self-assessment concluded that the SAHT's asset management practices were developing, with knowledge of the correct process – level 3 in the framework's hierarchy, with level 1 representing best practice. The SAHT has set itself the goal of achieving a competent level of asset management maturity, level 2 in the hierarchy, in three to five years
- determining time frames for achieving each of the asset management objectives in the SAMM and developing key performance indicators (KPIs) and reporting to measure progress. The SAHT has implemented this process for some, but not all, of its asset management objectives. The SAMM identifies 12 asset management objectives to guide the asset planning process for creating and maintaining a housing portfolio that will achieve the SAHT's organisational objectives
- developing and implementing reporting that will enable the Capital Programs and Projects Steering Group (CPPSG) to evaluate asset management performance. This group was formed in March 2019 to evaluate asset management performance.

Importantly, the SAHT has not yet completed its assessment of the condition of its housing stock. The asset condition assessment program, which started in February 2018, is scheduled for completion in 2021. These condition assessments can then be used to properly inform the SAHT's future maintenance and infrastructure costs, and future asset management plans.

The SAHT responded that:

- actions such as implementing the Connect asset and tenancy information system in 2020, asset condition inspection program and asset condition maintenance modelling, are in progress and should see improvements in future self-assessment scores
- areas for further improvement to achieve its targeted level of asset management will be identified through the annual audit of the asset management system and a plan for how to meet the targeted level of maturity will be included in the SAMM 2019-2021 update currently in development
- reporting on 2018-19 asset plans and objectives is in progress and will be presented through the Strategic Asset Management Planning Group, the Executive and the SAHT Board. CPPSG has implemented quarterly reporting through the Executive to the SAHT Board detailing program and project progress, with the first report to be presented to the SAHT Board in August 2019
- the CPPSG terms of reference do not include a function or role in evaluating asset management performance, but was established to provide direction and management support, including program planning and resource allocation to ensure the overall success of capital programs and projects delivery
- a review to ensure the most appropriate asset management governance arrangements will be conducted by 31 December 2019

- milestone dates and KPIs for the asset management objectives will be set once the objectives are updated to support the Housing Authority Strategic Plan. It is recognised that the current objectives combine both operational and longer term aspirational objectives. The 2019-2021 SAMM update will include a review of the objectives and set KPIs with time frames, noting external influences affecting the achievement of KPIs such as Treasury defined maintenance budgets.

Further action is required to improve the SAHT's management of maintenance contractors

We reviewed the SAHT's controls for properly maintaining the condition of its properties to:

- satisfy the accommodation standards set by the SAHT and the law, which includes the *Housing Improvement Act 1996*
- optimise the long-term service potential of the SAHT's properties.

In October 2013 the SAHT implemented a multi-trade contractors (MTCs) model to maintain its properties. MTCs manage most job orders issued by the SAHT for responsive, vacancy, programmed and capital upgrade maintenance within defined geographical areas.

The MTCs are responsible for all aspects of delivering the works and manage their own direct labour and subcontractors. The SAHT processes work orders and MTC invoices through its mainframe maintenance systems. The SAHT's contracts with its five MTCs are estimated to cost about $912 million over eight years (including renewal periods).

In past reports we have noted that the SAHT had not implemented a reliable method of measuring MTC performance and was yet to apply abatements (financial penalties) for poor performance.

In 2018-19 we noted that, although the SAHT has improved its processes for measuring MTC performance and has started applying abatements, there was no regular reporting provided centrally to senior management on:

- work inspection backlogs. The SAHT is not completing the number of inspections of MTC work determined by its sampling tool, compromising the accuracy of its performance assessments
- resolving disputes with MTCs over non-conformances identified through work inspections. Disputed non-conformances that are not resolved before the end of the six-monthly assessment period are excluded from the MTCs' performance assessments, potentially inflating their performance.

The SAHT responded that work inspection targets were not achieved for the period identified due to there being insufficient staff with the required building qualifications during a period of extended staff absence. The SAHT will investigate the potential outsourcing of compliance inspections to a private sector organisation(s) to clear inspection backlogs where they exist before the end of the MTCs' six-monthly assessment period. The SAHT will also assess the benefit of identifying and training a pool of qualified staff to use in the event of future staff shortages. The Director will institute regular reporting on the backlog of maintenance inspections.

The SAHT also noted that implementing the Maintenance Inspection Compliance Application (MICA) has enabled live tracking of outstanding non-conformance reports, which ensures disputed reports are identified and resolved promptly. The SAHT will monitor the outcomes of MICA and assess whether additional measures are required.

Opportunities to improve the management of community housing providers

Our review of the SAHT's controls to ensure CHPs meet their contractual obligations identified improvement opportunities for governing and reporting on CHP performance.

CHPs are privately operated organisations that provide social and affordable housing to people on low to moderate incomes. They operate under the National Regulatory System for Community Housing.

CHPs play a significant role in helping the SAHT achieve its objectives. They manage about $2.65 billion of properties on behalf of the SAHT under the following contractual arrangements:

- CHPs responsible for tenancy and property management for about 5125 SAHT properties using a concurrent lease and deed model. The SAHT retains legal title to these properties. The value of them recognised by the SAHT is $1.3 billion. CHPs operating under this model do not pay rent to the SAHT for using these properties.
- CHPs with legal title to about 4350 properties managed in line with a Master Community Housing Agreement (MCH Agreement). While legal title is held by the CHPs, Australian Accounting Standards require that these assets are recognised by the SAHT because of the level of control it maintains. The value of these properties recognised by the SAHT is $1.3 billion. CHPs operating under this model pay the SAHT about $13 million a year in rent for using these properties.

Agreements with the CHPs prescribe how the properties are to be used and managed on behalf of the SA Government, the eligible tenants that are entitled to use them and the rent that can be charged by the CHP.

Community housing providers operating under the concurrent lease and deed model

The SAHT has contracted with five CHPs to manage the tenancies, maintenance and redevelopment of about 5125 SAHT properties. The contracts comprise a Housing Transfer Management Deed and concurrent lease together with Development Deeds for redeveloping the properties.

The management deeds require CHPs to manage properties and tenancies in line with the SAHT's policies and guidelines and:

- meet all operating costs including responsive and programmed maintenance
- charge Commonwealth rent assistance based rents
- implement a stock renewal program acceptable to the SAHT.

A key principle of the arrangement is that tenants who have a tenancy lease with the SAHT (existing tenants) must not be financially worse off than if they remained under SAHT management.

We noted that the SAHT could improve its processes and controls for managing the CHP contracts by:

- re-establishing the governance committees that used to oversee the management of the CHP contractual arrangements. These committees, which comprised program management committees and project steering groups, ceased operation once the transfer of SAHT properties to the CHPs was complete

- providing the SAHT Board with more timely reports on the performance of the CHPs in meeting their contractual obligations. The SAHT Board is not receiving regular reporting on CHP performance, other than the outcomes of the SAHT's annual CHP contract reviews. The outcomes of these reviews are not finalised and reported to the SAHT Board until many months after the review period
- performing property audits more timely to speed up the annual CHP contract review process. The SAHT advised that delays in completing the property audits were delaying the finalisation of the annual contract reviews. Annual contract reviews include work designed to validate KPI performance, including property audits to determine whether CHPs have maintained SAHT properties to a designated standard. Property audits rely on information provided by the CHPs. The SAHT advised that, due to contractual conditions, the CHPs do not provide this information until after the review period, delaying the start of the property audits. We recommended that the SAHT review the annual contract review process and amend existing practices supporting the property audit cycle and when doing so, consider whether the SAHT can:
  - obtain the necessary CHP property data, and complete the property audits, on a more frequent basis to ensure a timelier annual contract review process, or
  - report on the outcomes from the property audits separately.

The SAHT responded that although it does not consider it necessary to re-establish the program management committee, it will strengthen existing governance and contract management functions by implementing quarterly reporting on compliance, risk and performance to both the SAHT Executive and the SAHT Board, commencing in October 2019.

The SAHT also noted that four of the five CHPs have agreed to bring forward the maintenance reporting due date to enable completion of property audits and annual reviews by the end of each year. This will be confirmed with CHPs in letters of variation. Property audit reporting will be completed separately for the fifth CHP while negotiations continue.

Community housing providers operating under the MCH Agreement model

The SAHT has entered into MCH Agreements with 43 CHPs for the management and use of about 4350 properties. The MCH Agreements contain requirements for determining a person's eligibility for community housing, setting tenant rents and maintaining properties. The CHPs must at all times comply with the KPIs for these requirements.

We noted that the SAHT could improve its processes and controls for managing the MCH Agreements by:

- establishing a governance committee to oversee the management of the agreements
- establishing contract management plans for the agreements that:
  - document the key strategies, activities and tasks required to manage the agreements
  - provide a systematic and accountable method to ensure that both parties fulfil their contractual obligations
  - include details on key risks and how they will be managed
- providing the SAHT Board with more timely reports on the performance of the CHPs in meeting their contractual obligations.

The SAHT has responded that it will strengthen existing governance arrangements by providing quarterly reporting on compliance, risk and performance to the SAHT Executive and the SAHT Board. A contract management plan is currently in development and is expected to be completed for SAHT Executive consideration by 31 October 2019.

Other audit findings

The SAHT's procurement framework and contract management guidelines need updating

We reviewed the SAHT's procurement and contract management controls that ensure:

- construction contractors are procured in a transparent and fair manner that achieves best value for money
- construction contracts are managed effectively to ensure contract outcomes are achieved.

We identified that controls would be improved by specifying the following in the SAHT's procurement framework and contract management guidelines:

- the due diligence checks that must be performed on preferred suppliers (builders) to ensure contracts are only awarded to reliable suppliers with appropriate qualifications and sufficient financial and credit security
- the circumstances under which a statutory declaration is required from contractors that they are meeting their obligations to pay workers and subcontractors
- how SAHT's contract managers are expected to document the outcome of their performance meetings with construction contractors. While our review of a sample of construction contracts indicated that meetings with contractors were regularly occurring, documentation of meeting outcomes varied between emails, formal minutes and action lists.

The SAHT noted the following in its response:

- The SAHT's procurement framework will be revised by December 2019 to document and formalise the due diligence checking processes that are in place including, among other things, the requirement that:
  - solvency statutory declarations be provided by preferred suppliers before awarding them a contract
  - financial and credit risk assessment reports be obtained from an independent credit agency on preferred suppliers before awarding them a contract, and obtained again when any concerning information or matters arise during the contract
  - payment statutory declarations be provided by suppliers for final progress claims and on request during the contract if necessary.
- It has purchased new software to document the outcome of performance meetings with construction contractors, including site issues and builder progress. The software provides universal templates that cover site meetings and site visits. The minutes are saved and can be shared with external parties. Contract managers have received training and are using the software.

The SAHT could consider data matching with other government agencies to identify undeclared occupants living in SAHT houses and undeclared household income

The SAHT's rental policy is that no tenant will pay more than 25% of their household income on rent. Where the assessed market rent is more than 25% of a tenant's household income, the tenant can apply for a rent reduction. About 88% of tenants receive rent reductions totalling about $199 million a year.

The SAHT's calculation of the rent reduction depends on the household information supplied by the tenant, including the identity of all persons living in the household and their income. About 55% of the SAHT's three bedroom houses that are tenanted have two or more bedrooms exceeding the number needed by the household. The SAHT is therefore at risk of undeclared household income and rent foregone.

The SAHT's Compliance and Collections Unit performs regular investigations to identify tenants receiving rent reductions that they may not be entitled to. This may be due to, but is not limited to, undeclared occupants living in SAHT houses. Investigations are initiated by referrals from the public and SAHT officers.

The *Public Sector (Data Sharing) Act 2016* is designed to facilitate the sharing of data between public sector agencies. We noted, however, that the SAHT does not use data held by other public sector agencies to help it identify undeclared occupants living in SAHT houses.

The Registrar of Motor Vehicles and the Electoral Commission of South Australia both hold data that would help the SAHT validate the identity of all tenants living in SAHT houses, although we appreciate that both entities must ensure they only release data in line with their governing legislation.

In 2017-18 we recommended the SAHT consult with the Registrar of Motor Vehicles and the Electoral Commission of South Australia to find a lawful way of identifying undeclared occupants living in SAHT houses.

We noted this year that the SAHT was still investigating our recommendation.

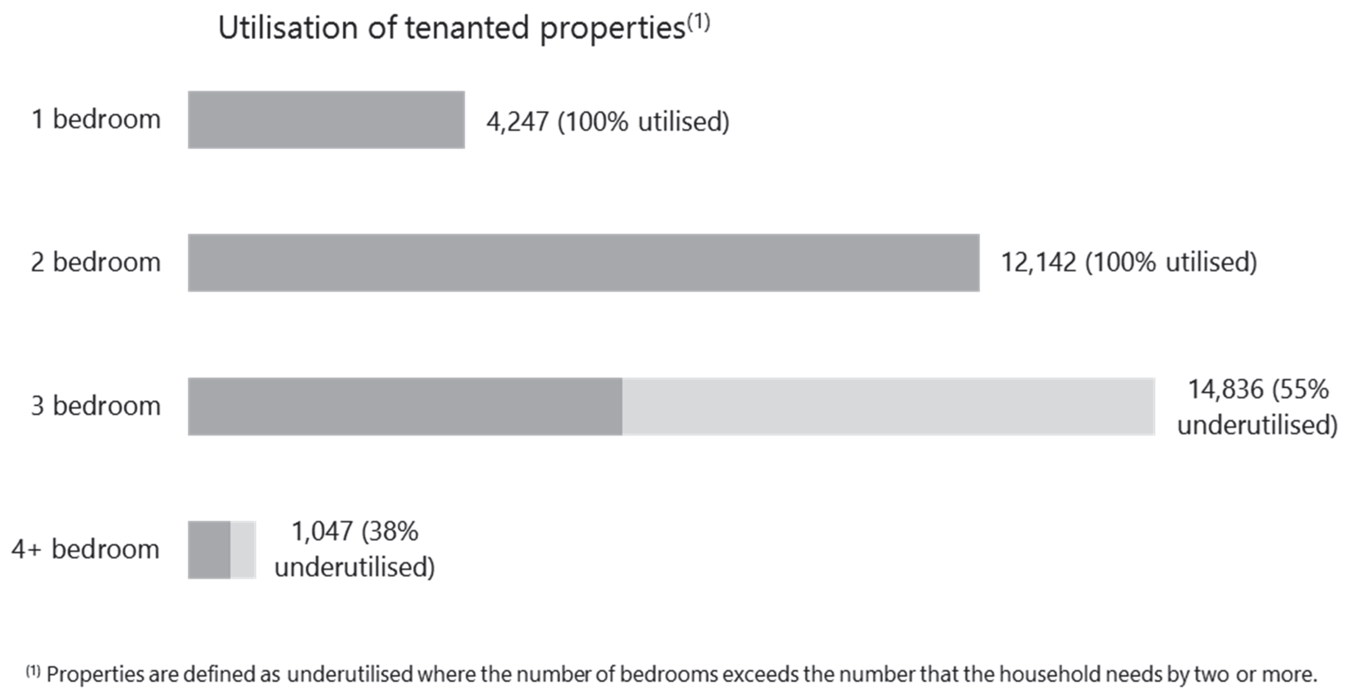
The SAHT responded that it will:

- continue to work with other government agencies notwithstanding that initial investigation revealed that data sharing (address matching) is likely to be unreliable and require significant resourcing to investigate for negligible return
- make a formal request to DPTI to enable data matching of motor vehicle registration addresses and undertake a trial to understand the efficacy and resourcing requirements.

Other comments

Underutilisation of SAHT properties

About 55% of the SAHT's three bedroom houses that are tenanted are underutilised. This means the number of bedrooms exceeds the number the household needs by two or more. The SAHT has introduced a number of initiatives to increase the utilisation of its properties. The most significant initiative is the SAHT's ongoing development of improved asset management strategies coupled with a number of renewal programs aimed at reconfiguring its housing stock to better match the needs of its tenants.



All data included in the above table was provided by the SAHT and is unaudited.

Renewing Our Streets and Suburbs (ROSAS) initiative

The SA Government has implemented the ROSAS initiative to rejuvenate older SAHT homes and improve the supply of affordable housing for rent or purchase while stimulating the construction sector. The following programs are key to the initiative:

- construction of 1000 new homes in 1000 days commencing in December 2015
- renewal of 4500 older SAHT homes within 10 kms of the city by 2020
- transferring responsibility for property and tenancy management for over 5000 SAHT properties to CHPs by 2018.

The ROSAS initiative is mostly self-funded through the sale of SAHT properties, together with a $65 million housing stimulus package from the SA Government.

The following summarises progress against each of the ROSAS programs as at 30 June 2019. This information was provided by the SAHT and is unaudited.

1000 homes in 1000 days

As at 30 June 2019, tenders to build 1000 homes have been released to the market, 152 homes were under construction and 833 homes were completed. The SAHT advised that the rest of the homes are due for completion in December 2020. It noted that delays in the program resulted from delays in tenant relocations, the desire to achieve innovative housing design and other factors affecting large-scale housing programs, including planning approvals, demolitions and weather.

Renewing 4500 older SAHT homes by 2020

As at 30 June 2019, 2652 homes were released to the market to renew through various programs and expressions of interest, 140 homes were under construction/refurbishment and 851 new or refurbished homes were completed. The SAHT advised that it is not expecting to complete this program within its original scheduled time line, with the delays impacted by the complexity of the projects.

Transfer of property and tenancy management to CHPs

The responsibility for property and tenancy management for over 5000 SAHT properties transferred to CHPs in two tranches. The first tranche of 1086 SAHT properties (valued at about $184 million) was transferred to two CHPs in October 2015. The second tranche of 4003 SAHT properties (valued at about $1.1 billion) transferred to five CHPs in September 2017. A further 47 properties transferred in March 2018 (valued at about $13 million).

The SAHT has applied a concurrent lease and deed model to these transfers. The leases for the first tranche had a three-year term that expired on 23 October 2018. The term was extended for 20 years. The leases for both the first and second tranche now have 20-year terms and require the CHPs to implement a stock renewal program.

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

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

All CHPs have established plans to support the stock renewal program.

CHPs must also comply with the SAHT’s tenancy conditions, ensuring the conditions of transferred tenants remain the same. Due to the lease and deed arrangements the housing stock remains recognised in the SAHT’s Statement of Financial Performance, classified as assets under arrangement.

Revised Commonwealth funding agreements and requirement to have a housing and homelessness strategy

From 1 July 2018 the National Housing and Homelessness Agreement (NHHA) replaced the former National Partnership Agreement on Homelessness, National Affordable Housing Agreement and the National Affordable Housing Specific Purpose Payment.

The NHHA sets out Commonwealth funding to be provided to the State to contribute towards the following aspirational, overarching national outcomes including:

- a well functioning social housing system that operates efficiently, sustainably and is effective in helping low income households and priority homelessness cohorts to manage their needs
- affordable housing options for people on low to moderate incomes

- an effective homelessness service system, which responds to and supports people who are homeless or at risk of homelessness to achieve and maintain housing, and addresses the incidence and prevalence of homelessness
- improved housing outcomes for Indigenous Australians
- a well functioning housing market that responds to local conditions
- improved transparency and accountability in housing and homelessness strategies, spending and outcomes.

The NHHA requires the States to have a publicly available housing strategy that indicates the level of housing supply to respond to projected demand and outlines the reforms and initiatives that will contribute to meeting this need, as well as a publicly available homelessness strategy that addresses priority areas of need. The SAHT, with its sector and industry partners, is preparing the housing and homelessness strategy on behalf of the State. On 2 July 2019, the SAHT made a strategic intent document available to the public, outlining a shared vision for housing, homelessness and support in the State over the next 10 years. It includes outcomes, objectives and principles that aim to improve housing outcomes for South Australians. The final housing and homelessness strategy is expected to be released by 31 December 2019

Triennial review

Section 43 of the SAHT Act requires the Minister, once in every three years, to report on the operations and administration of the SAHT.

The triennial review for the period 2013-14 to 2016-17 was presented to Parliament on 4 July 2018. Performed by an external consultant, it included several significant observations on the governance arrangements that support SAHT operations. Some of the more notable findings included:

- the SAHT currently has no clear performance framework set out through Ministerial direction or funding arrangements
- year-on-year funding under the State budget process has varied, which impacts the SAHT's ability to develop and deliver long-term plans
- the new Commonwealth funding agreement (NHHA) that commenced on 1 July 2018 requires the State to develop a housing strategy
- property condition profiles have not been kept up to date by the SAHT in recent years and this has resulted in an unclear picture of the maintenance backlog. The SAHT has started but not yet finished inspecting the condition of its properties
- underutilisation and overcrowding figures indicate properties do not meet changing tenant profile needs. The SAHT has taken action to redevelop properties, including transferring properties to the community housing sector for redevelopment.

The triennial review also identified the following areas in which the SAHT needed to improve its operations and administration:

- To support a modern housing system, a business model should be developed that enables policy objectives to be achieved in the most effective and sustainable manner.

- Improved benchmarks and indicators should be implemented to measure strategic targets and operational performance.
- The SAHT should evolve its service and asset delivery to meet the needs of its growing primary tenant cohort of single aged households.
- Options to increase rental revenue include looking to a 30% household income cap like some other jurisdictions or tailoring the rental policy to encourage employment and mobility within the housing system.

The Minister for Human Services responded in Parliament that the SAHT will operate under a new governance structure. A key deliverable of the new SAHT is developing a new housing and homelessness strategy.

In 2018-19 the Minister for Human Services established a new governance structure for the SAHT. Under the former governance structure the SAHT had no Chief Executive and no employees and depended on the DHS and the URA to deliver its services. In 2018-19 a new SAHT Board was appointed, a Chief Executive was appointed and the employment of 872 DHS and 166 URA staff transferred to the SAHT. The SAHT has operated independently from the DHS and the URA since 1 July 2018. It is also developing a housing strategy on behalf of the State.

Business System Transformation program status update

The SAHT established the Business System Transformation program to replace its ageing legacy IT systems. This program will result in the acquisition of a core system replacement solution, comprising housing and software implementation services that cover broad business services including property management, tenancies management, procurement and contract management, and financial service requirements.

Total implementation costs for the program are estimated at $45 million, which includes a contract for program implementation, and cloud and related services. This cost will be funded from existing SAHT resources.

On October 2017 a cloud and related services agreement with Northgate Public Services Pty Ltd (NPS) was executed. Under this agreement NPS will provide a commercial off-the-shelf housing management solution to replace existing SAHT legacy systems. The initial term of the contract is seven years and two months, which includes five years of support and a five-year extension option. A subcontracting arrangement was also entered into through NPS for the provision of hosting services to run the software of the new housing management solution.

The program’s implementation stage started in late January 2018, with go-live expected in April 2020. After this the SAHT’s existing mainframe legacy system will be decommissioned and the support licence will cease.

SAHT management reporting indicates that the business system transformation program is tracking on time and within the approved budget.

We will continue to monitor the phased rollout of the program.

Interpretation and analysis of the financial report

Highlights of the financial report*

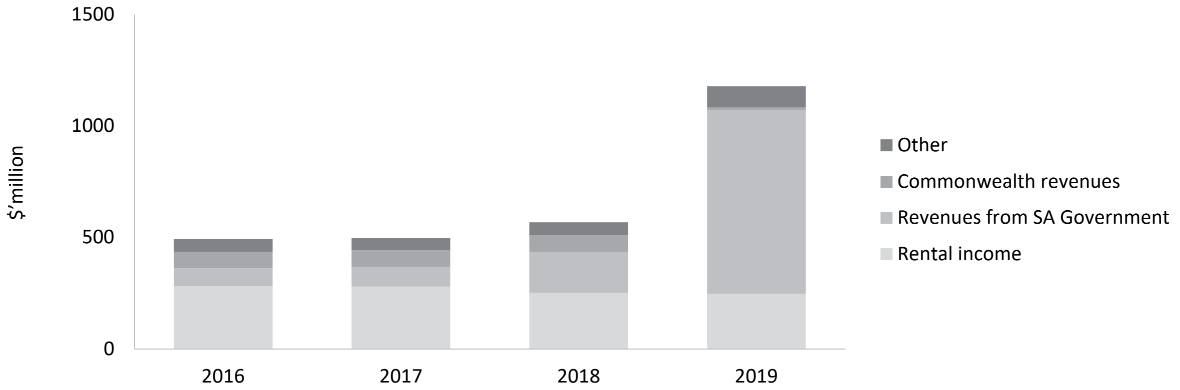
	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	85	73
Maintenance	111	108
Council rates and water rates	74	76
Land tax equivalent	196	190
Depreciation and amortisation	91	90
Grants and subsidies	103	33
Other expenses	75	92
Total expenses	735	662
Income		
Rental income	247	251
Commonwealth revenues	11	75
Other	95	58
Total income	353	384
Net cost of providing services	382	278
Revenues from SA Government	825	183
Net result	443	(95)
Other comprehensive income	302	408
Total comprehensive result	745	313
Net cash provided by (used in) operating activities	577	(27)
Assets		
Current assets	1 049	350
Non-current assets	10 473	10 253
Total assets	11 523	10 603
Liabilities		
Current liabilities	125	73
Non-current liabilities	21	20
Total liabilities	146	93
Total equity	11 376	10 510

* Table may not add due to rounding.

Statement of Comprehensive Income

Income

A structural analysis of the SAHT's income for the four years to 2019 is presented in the following chart.



Total income (including revenues from the SA Government) increased by $612 million to $1.18 billion in 2019, reflecting a $654 million increase in recurrent funding from the SA Government. In 2019, SA Government funding included additional once-off funding of $604 million to restructure the SAHT's operations and support its viability, an $11 million increase in tax equivalent reimbursements and $39 million increase in funding for the Homelessness Program. Responsibility for paying grants to specialist homelessness service providers under the Homelessness Program transferred from DHS to the SAHT on 1 July 2018.

Capital funding decreased by $12 million due mainly to the once-off transfer in 2017-18 of the Housing Loans Redemption Fund from the Department of Treasury and Finance following the repeal of the *Housing Loans Redemption Act 1962.*

The increase in total income for 2019 was also impacted by:

- gains on disposal of non-current assets increasing by $31 million due mainly to the sale of a large parcel of vacant land at Seaford Meadows for $52 million that had a carrying amount of $14 million
- Commonwealth Government revenues decreasing by $64 million to $11 million. Commonwealth Government funding for public housing received under the NHHA was transferred to the SAHT by the SA Government as an equity contribution, whereas in 2017-18 funding of this nature was transferred as a grant.

Proceeds from the disposal of non-current assets support the SAHT's financial viability strategy and its housing renewal and capital programs. Proceeds from the disposal of non-current assets in 2018-19 totalled $184 million. Cost of sales, including the carrying amount, for non-current assets disposed totalled $135 million, leaving a net gain on disposal of $48 million.

Rental operations

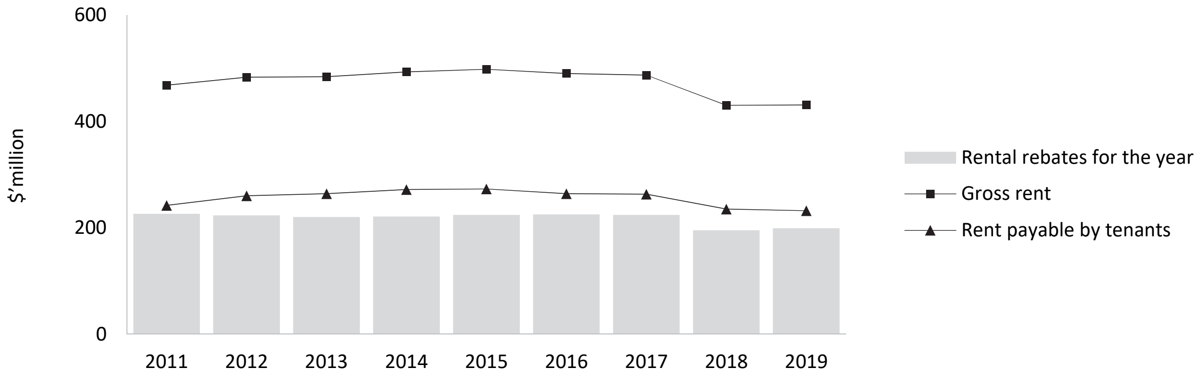
The following table shows the level of housing stock as at 30 June for the past five years. The data includes specialist housing program stock managed by the CHPs and excludes unlettable properties.

	2015 Number	2016 Number	2017 Number	2018 Number	2019 Number
Properties	41 726	39 855	39 074	34 706	34 666

The table highlights that housing stock decreased by 40 in 2019 compared to a 4368 decrease in 2018. The 2018 decrease arose mainly from the transfer of property and tenancy management for about 4050 public housing properties to the community housing sector.

Information provided by the SAHT records that 87% (87%) of tenants pay reduced (rebated) rent. The amount of rent rebates depends on each tenant's circumstances, with rent payable charged at 25% of household income or market rent, whichever is lower.

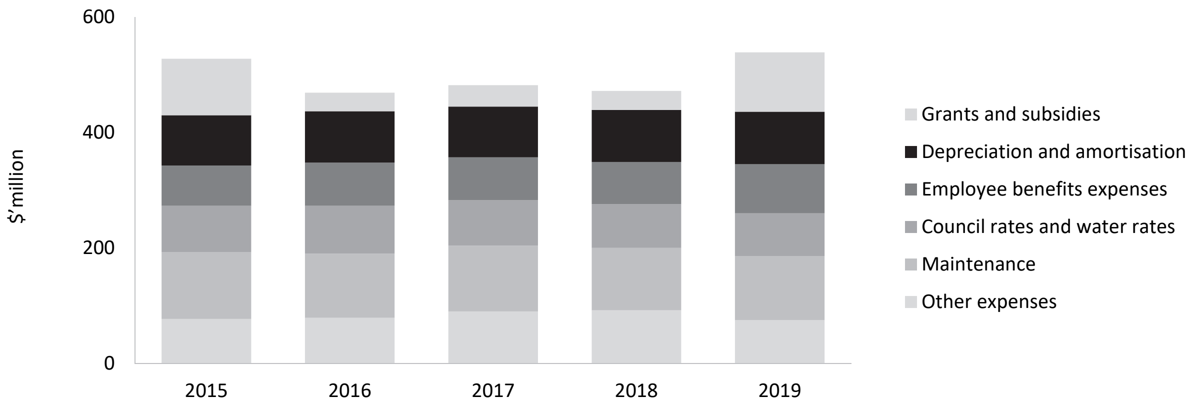
Data relating to housing stock levels and tenancies was provided by the SAHT and is unaudited. The trend of rents and rebates is illustrated in the following chart.



The chart highlights that gross rent steadily increased to 2015 due to increases in market rents. While market rents have continued to increase since then, gross rent has reduced following the transfer of responsibility for tenancy management of over 5000 properties to the community housing sector between 2016 and 2018. The rent on these properties is retained by the community housing sector. Gross rent increased by $1 million in 2019 while rebates increased by $5 million. Although market rents have increased, rents charged to most tenants is capped at 25% of household income resulting in rebates marginally increasing.

Expenses

For the five years to 2019, the major expense items for the SAHT, other than land tax equivalent expenses, are shown in the following chart.



The chart shows a downward trend in expenses until 2019 when expenses increased.

In 2019 total expenses (excluding land tax equivalent expenses) increased by $67 million to $539 million due mainly to the following movements in expenses:

- grants and subsidies increasing by $71 million due mainly to the payment of grants of $67 million to specialist homelessness service providers. Responsibility for paying these grants was transferred from DHS to the SAHT in 2018-19
- supplies and services increasing by $5 million due mainly to a $3 million increase in computer expenses. Computer costs incurred as business service fees under the former service level arrangements with DHS are now directly incurred by the SAHT
- business service fees decreasing by $12 million to $12 million due to the reduced service level arrangements with DHS and the URA resulting from the SAHT now employing its own staff. Employee benefits expenses increased by a similar amount
- impairment expenses decreasing by $11 million, resulting from a $6 million decrease in asset write-offs due to less property demolitions relating to the SAHT's housing renewal programs, specifically the Better Neighbourhoods and 1000 Homes in 1000 Days programs. There was also a $4 million decrease in doubtful debts expense as a result of reduced debt write-offs. The SAHT completed a large debt review in 2017-18 that resulted in many debts being written off.

Land tax reimbursements

Effective 30 June 2013 the Commonwealth Government agreed to write off $320 million of South Australian public housing debt as part of a package to stimulate the housing construction sector. The Treasurer subsequently forgave $320 million of SAHT loans.

The SA Government has subsequently reduced reimbursements for land tax equivalents expense to recoup the loans forgiven and achieve budget savings.

In 2019 the land tax expense was $196 million, with $179 million reimbursed by the SA Government resulting in $17 million returned to the State Budget.

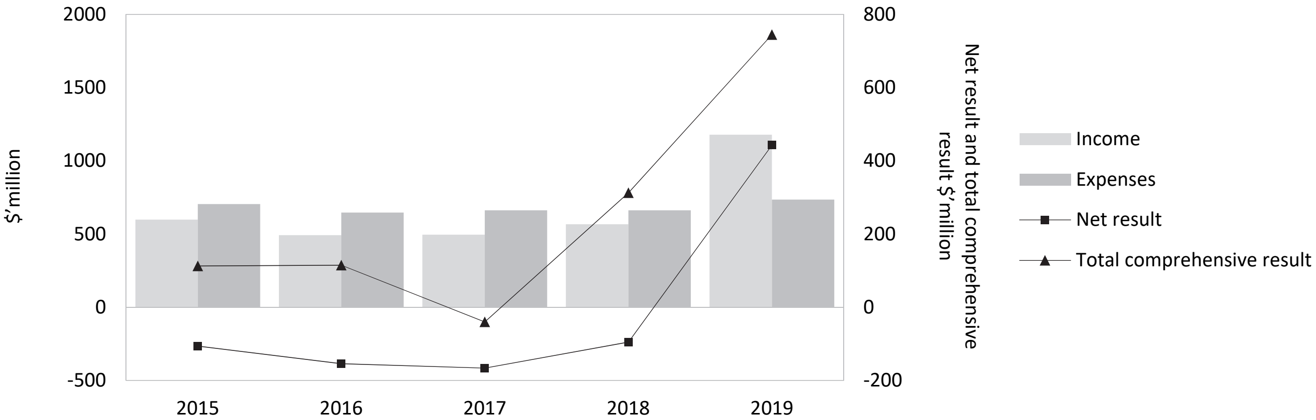
Since introducing this arrangement six years ago, the SAHT has returned $421 million to the State budget, which exceeds the $320 million SAHT loans forgiven by the Treasurer.

The following table shows the amount returned to the State budget by the SAHT for the past six years.

	2014 $'million	2015 $'million	2016 $'million	2017 $'million	2018 $'million	2019 $'million
Land tax equivalent expense	178	176	178	180	190	196
Tax equivalent reimbursement	99	87	72	73	167	179
Amount returned to State budget	79	89	106	107	23	17

Net result, total comprehensive result and equity contributions

The following chart shows the income and expenses (including income tax equivalent but excluding administrative restructure), net result and total comprehensive result for the five years to 2019.



The chart shows that the net result for 2019 was a significant surplus, following consecutive deficits in prior years. The SAHT's total comprehensive result in 2019, which includes the impact of fixed asset revaluations, dramatically improved to $745 million reflecting:

- a $302 million ($408 million) revaluation upwards for total property, plant and equipment
- a $443 million net surplus ($95 million deficit) due mainly to increased revenues from the SA Government.

Revenues from the SA Government are recognised as revenue when the SAHT obtains control over the funding, which is normally on receipt.

Where money has been appropriated in the form of an equity contribution, the Treasurer has acquired a financial interest in the net assets of the SAHT and the appropriation is recorded as contributed equity and not recognised in the comprehensive result.

From 1 July 2018, the SAHT started operating as an independent housing authority with a new governance structure. In recognition of this change, and to restructure and recapitalise the SAHT, the SA Government provided additional once-off grants of $604 million and an equity contribution of $124 million. According to the 2019-20 State Budget, the SA Government will provide the SAHT with equity contributions totalling $778 million from 2019-20 to 2022-23 and minimal recurrent grants, resulting in large annual operating deficits during this period.

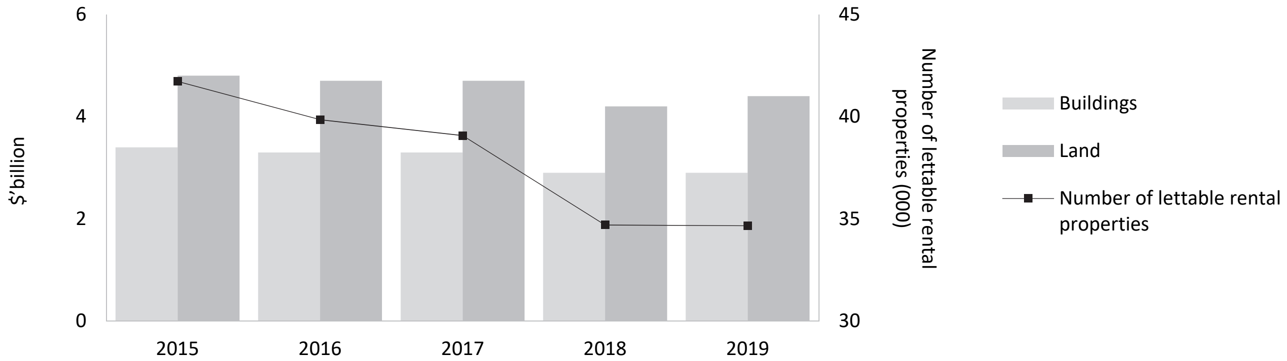
Statement of Financial Position

The SAHT's financial position is dominated by non-current property, plant and equipment assets and, for 2019, a significant cash balance. As at 30 June 2019 current liabilities amounted to $125 million ($73 million), while current assets were $1049 million ($350 million).

Rental properties

The SAHT's rental properties are estimated to be worth $7.3 billion and comprise 70% of the SAHT's property, plant and equipment of $10.4 billion.

The following chart shows the movements in the number and value of the SAHT's rental properties over the past five years.



The chart shows that while the value of rental properties has remained relatively constant between 2015 and 2017, maintained mainly through upward revaluations of individual properties and capital upgrades, the level of housing stock was reducing. The average value of an SAHT rental property, based on the totals, changed from $197 000 in 2015 to $211 000 in 2019.

In 2019 the level of housing stock reduced by 40 properties to 34 666, following a reduction of 4368 properties in 2018. The large reduction in 2018 was due mainly to the transfer of property and tenancy management of public housing properties to the community housing sector. This followed the first tranche of CHP property transfers in 2016.

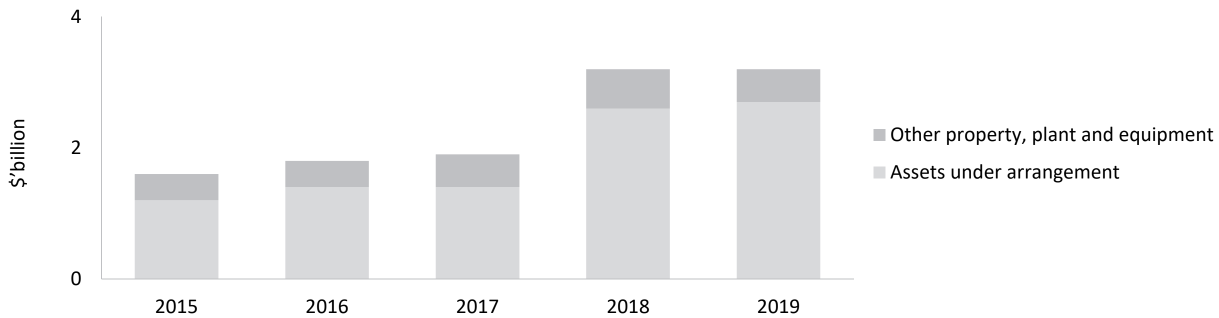
These properties are now classified as assets under arrangement and included in the commentary under 'Other property, plant and equipment' below.

In 2019 the value of rental properties increased by $221 million to $7.3 billion. This reflects an upward revaluation of land and buildings of $219 million, and additions of $208 million including completed capital works and maintenance upgrades. These impacts were partially offset by transfers to other asset categories of $91 million (principally to capital work in progress) and to assets held for sale of $3 million, disposals of $53 million and depreciation expense of $59 million.

It is important to note that the SAHT revalues most land and buildings annually using the Valuer-General's values. Because of the timing of the update of the Valuer-General's database and the SAHT's financial reporting obligations, reported values lag current market values. The values for 2019 were issued by the Valuer-General as at 1 July 2018. This policy has been consistently applied and reflects the practicality of valuing a very large housing stock. The Valuer-General has published a notice in The South Australian Government Gazette advising that the average percentage change in site values is 4.6% as at 1 July 2018 for 2018-19 and 5.8% as at 1 July 2019 for 2019-20.

Other property, plant and equipment (excluding rental properties)

The following chart shows the value of the SAHT's other property, plant and equipment assets over the past five years.



The SAHT's other property, plant and equipment rose sharply in 2017-18 due mainly to:

- assets under arrangement increasing by $1.1 billion due mainly to the transfer of the responsibility for property and tenancy management of 4050 properties to the community housing sector in 2017-18. These properties are no longer classified as rental properties. In 2018-19 they increased by $77 million due mainly to upward revaluations of land and buildings
- capital works in progress increasing by $104 million to $296 million, reflecting the increased activity in the SAHT's housing renewal programs. In 2018-19 capital works in progress reduced to $185 million, reflecting the completion of works.

Intangible assets

Intangible assets increased by $10 million due to the capitalisation of development costs relating to the Business Systems Transformation program. The SAHT is currently developing replacement computer systems, which are scheduled for use from April 2020.

Current assets

Current assets increased by $699 million to $1.049 billion due mainly to a $689 million increase in cash and South Australian Government Financing Authority deposits. The increase in cash is explained further under 'Statement of Cash Flows' below.

Current liabilities

Current liabilities increased by $52 million to $125 million due mainly to the last quarter of land tax for 2018-19 of $49 million being paid in July 2019.

Statement of Cash Flows

In 2019 the SAHT recorded a cash increase of $689 million compared to a decrease of $28 million for the previous year. This change of $717 million was due mainly to:

- a $642 million increase in receipts from the SA Government due mainly to additional once-off funding for the SAHT to restructure its operations and to support its viability
- a $42 million increase in proceeds from sales of properties due mainly to the sale of a large parcel of vacant land at Seaford Meadows for $52 million
- a $43 million decrease in payments for land tax equivalents, noting the final quarter land tax payment for 2019 remained outstanding as at 30 June 2019 – annual land tax was fully paid by 30 June in the prior year
- a $68 million increase in grants and subsidies expense due mainly to the payment of grants to specialist homelessness service providers. Responsibility for paying these grants was transferred from DHS to the SAHT in 2019. While funding from the Commonwealth Government decreased by a similar amount, this is because Commonwealth Government funding for public housing received under the NHHA was transferred to the SAHT by the SA Government as an equity contribution. In 2018 funding was recognised as a grant. This has resulted in a $116 million increase in capital contributions from the SA Government.

South Australian Tourism Commission (SATC)

Financial statistics	Net cost of providing services: Total appropriation:	$86 million $84 million
	Number of FTEs:	121

Significant events and transactions

— SATC held the 2019 Superloop Adelaide 500 motor race, which attracted an estimated 245 000 patrons across the four-day event. This is 28 500 less patrons than the 2018 event.

— SATC held the 2019 Santos Tour Down Under cycling event, which attracted an estimated 48 000 event specific visitors. This is 2000 more patrons than the 2018 event.

— Superloop was appointed as the naming rights sponsor for the Adelaide 500 for the 2019, 2020 and 2021 events.

Financial report opinion **Unmodified**

Functional responsibility

SATC is established by the *South Australian Tourism Commission Act 1993* and is a body corporate.

SATC's functions include promoting South Australia as a tourist destination and further developing and improving the State's tourism industry. It aims to achieve this by:

- ensuring a coordinated approach to promoting South Australia
- attracting, developing, owning and supporting major and strategic tourism events
- developing tourism resources to maintain and preserve South Australia's environmental and cultural heritage.

Scope of the audit

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

Specific areas of audit attention in 2018-19 included:

- income from sponsorships and event entrance fees

- employee benefits expenses
- expenditure on events, advertising and industry assistance
- general ledger processing.

In addition, some services, including payroll and accounts payable processing, were undertaken by Shared Services SA (SSSA) and were reviewed as part of our audit of SSSA.

Audit findings

Communicating our audit findings

No significant matters were identified by the audit.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	15	15
Advertising and promotion	37	40
Industry assistance	16	22
Event operations	41	44
Other	9	10
Total expenses	118	131
Income		
Revenues from SA Government	85	102
Other	32	32
Total income	117	134
Net result	(1)	3
Other comprehensive income	-	6
Total comprehensive result	(1)	9
Net cash provided by (used in) operating activities	4	4
Assets		
Current assets	19	17
Non-current assets	16	18
Total assets	35	35
Liabilities		
Current liabilities	8	8
Non-current liabilities	3	2
Total liabilities	11	10
Total equity	24	24

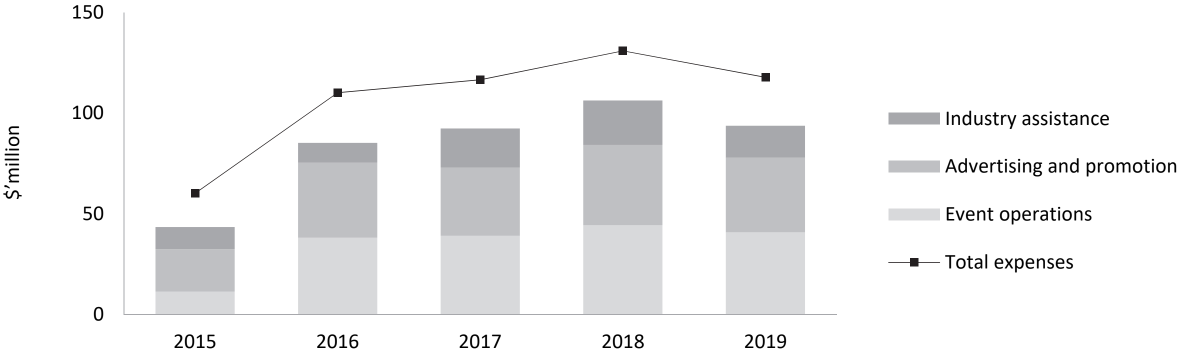
* Table may not add due to rounding.

Statement of Comprehensive Income

SATC relies on SA Government funding as its major revenue source to fund its operations. The level and timing of SATC's financial activities vary from year to year depending on the planned mix of marketing, destination development and events supported, and the extent to which specific identified opportunities are funded. The main events managed by SATC are the Superloop Adelaide 500 motor race, Santos Tour Down Under cycling race, biennial Bridgestone World Solar Challenge (not held in 2018-19), National Pharmacies Christmas Pageant and Tasting Australia food and wine festival.

Expenses

The following chart shows a structural analysis of the main expense items for the five years to 2019.



Total expenses decreased by $13 million to $118 million in 2018-19 mainly as a result of:

- event operation expenses decreasing by $3 million due mainly to the biennial Bridgestone World Solar Challenge not being held in 2018-19 and decreased expenditure on entertainment and circuit construction for the Superloop Adelaide 500
- advertising and promotion expenses decreasing by $3 million due mainly to reduced television productions and film shoots for the China Brand Ambassador Campaign. SATC also held the Australian Tourism Exchange in 2017-18, Australia's largest annual networking event for the travel and tourism industry. The expense reductions were partially offset by the costs of new tourism marketing campaigns
- industry assistance expenses decreasing by $6 million due mainly to:
  - the transfer of responsibility for the Adelaide Convention Bid Fund to the Department for Trade, Tourism and Investment
  - reduced payments to promote tourist access to South Australia and reduced event sponsorship expense. In 2018, SATC sponsored the FIM Asia Road Racing Championship and the Tailem Bend Motor Sport Park Supercars event.

Total expenses increased by $50 million in 2016 following the transfer of activities of the former South Australian Motor Sport Board to SATC.

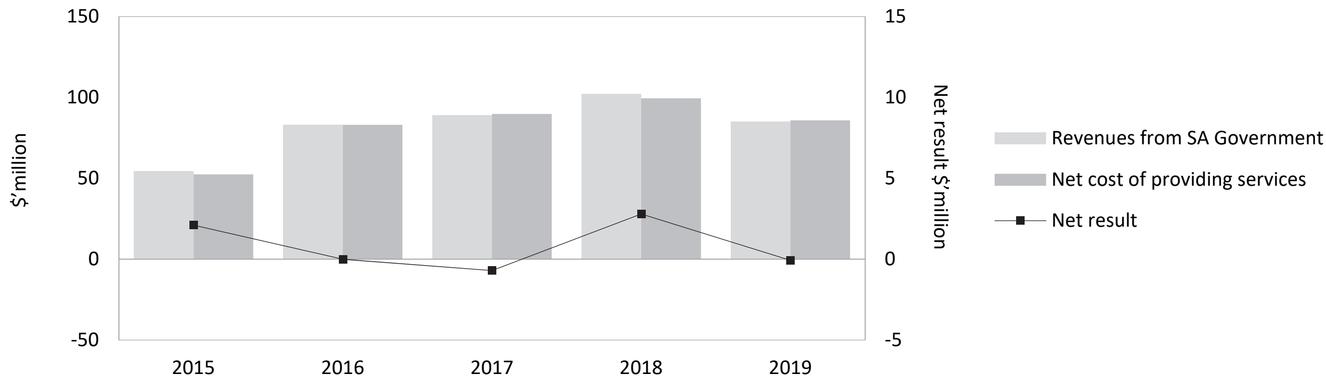
Income

Income for the year totalled $117 million ($134 million). Revenue from the SA Government was $85 million ($102 million) and represented 73% (76%) of total income. The $17 million reduction in revenue from the SA Government was due mainly to $13 million in extra funding provided in 2017-18 mainly for the Adelaide 500, Australian Tourism Exchange, Tailem Bend Motor Sport Park and Port Adelaide Passenger Terminal.

Other income remained consistent with the prior year at $32 million. A grant of $3 million from the SA State Government's Economic and Business Growth Fund for the Winter marketing campaign to boost visitor numbers to South Australia in the colder months and increased Tour Down Under entrance fee income were both largely offset by a $1 million reduction in sponsorship fee income and a $1 million reduction in entry fee income from mainly the Superloop Adelaide 500, Tasting Australia and the biennial Bridgestone World Solar Challenge (not held in 2018-19).

Net result

The following chart shows revenues from the SA Government, the net cost of providing services and the net result for the five years to 2019.



The chart shows that the net cost of services exceeded funding from the SA Government by $727 000 in 2018-19.

Other comprehensive income

There was no other comprehensive income in 2018-19. The $6 million recorded in 2017-18 related solely to a revaluation increment on motor sport infrastructure assets revalued by SATC at 30 June 2018. Infrastructure assets include buildings, barriers and fencing.

Statement of Financial Position

Current assets and liabilities

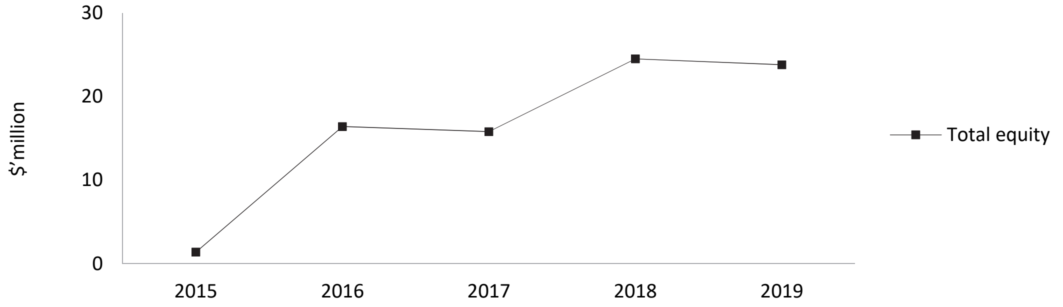
At 30 June 2019 current assets were $19 million ($17 million), exceeding current liabilities of $8 million ($8 million). Current assets increased due mainly to a $2 million increase in cash held. Cash provided by the SA Government of $85 million exceeded net cash used in operations and net cash used in investing activities of $83 million.

Non-current assets

At 30 June 2019 plant and equipment was $16 million ($18 million). The $2 million decrease in plant and equipment was due mainly to depreciation expense.

Equity (net assets)

The following chart shows total equity as at 30 June for the past five years.



Total equity (net assets) remained largely unchanged for 2018-19. The $15 million increase in total equity in 2015-16 was due to the transfer of the former South Australian Motor Sport Board on 1 July 2015.

Further commentary on operations

Naming rights sponsor for Adelaide 500

The naming rights sponsorship for the Adelaide 500 concluded after the 2017 event. This was a significant portion of SATC's sponsorship revenue. In 2017-18 the SA Government provided extra funding for the event while SATC was consulting with potential new naming rights sponsors for the 2019 event. SATC has now appointed Superloop as the naming rights sponsor for the Adelaide 500 for the 2019, 2020 and 2021 events.

South Australian Water Corporation (SA Water)

Financial statistics	Water and sewer rates and charges: $1.25 billion Community service obligations: $140 million Borrowing costs: $330 million Profit before income tax: $272 million Infrastructure, plant and equipment: $14.2 billion Borrowings: $6.7 billion Net assets: $5.6 billion Number of FTEs: 1560.8
Significant events and transactions	— SA Water's profit before tax increased by $70 million (35%) to $272 million, mainly attributable to a 14 gigalitre increase in the volume of water sold and a 1.9% increase in rates charged for residential use. — SA Water is now required to pay a dividend equal to 100% of after tax profit each year. — Work started on the $390 million Zero Cost Energy Future program with $35 million spent in 2018-19. — Work continued on the $155.6 million Northern Adelaide Irrigation Scheme with $73 million spent in 2018-19, bringing the total spent so far to $94 million. — Work continued on the $119.9 million upgrade of Kangaroo Creek Dam safety with $37.4 million spent in 2018-19, bringing the total spent so far to $94 million. — Infrastructure, plant and equipment was revalued upwards by $117 million, mainly as a result of increases in the values of water and sewer infrastructure assets. — An inquiry into South Australian water prices considered the valuation of the regulatory asset base and other matters.
Financial report opinion	**Unmodified**
Controls opinion findings	SA Water is seeking legal advice on the interpretation of section 16A of the *Parliamentary Committees Act 1991*.
Other audit findings	A number of IT general control issues were reported.

Functional responsibility

SA Water is established under the *South Australian Water Corporation Act 1994*. It is responsible to the Minister for Environment and Water.

SA Water's primary functions are to provide services for the storage, treatment and supply of water and removal and treatment of wastewater.

The *Public Corporations Act 1993* applies to SA Water and requires a charter and performance statement to be prepared by the Minister and the Treasurer after consultation with SA Water.

SA Water is a for-profit entity under Accounting Policy Framework II *General Purpose Financial Statements Framework*, APS 2.4.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- revenue raising, collection, receipting and banking
- procurement and contract management
- operating and capital expenditure
- payroll
- financial accounting
- asset management
- non-current asset recording, valuation and depreciation
- borrowing and finance leases
- governance arrangements
- general IT controls.

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

Controls opinion

We reviewed controls over the purchase of non-financial assets, management of water and sewerage assets and the sale of goods and services (water and sewerage revenue) as part of our controls opinion, which is discussed in Part B of this Report.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Purchase of non-financial assets

Zero cost energy future project not referred to the Public Works Committee before amounts applied

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

We noted that SA Water incurred expenditure to procure goods and services for the Zero Cost Energy Future project before the Public Works Committee presented its final report on the project. This project meets the definition of a public work for the purpose of the PC Act, with costs expected to exceed $390 million.

SA Water responded that no payments for construction were made to the supplier before the Public Works Committee report was tabled in Parliament, meaning there was no breach of the PC Act. SA Water advised us that it is seeking legal advice to confirm this interpretation of the PC Act.

Sale of goods and services (water and sewerage revenue)

Billing the correct customers following a subdivision, in line with the law

We noted that SA Water's process for invoicing customers who have subdivided their property is in breach of the *Water Retail Code – Major retailers* issued by the Essential Service Commission of South Australia (ESCOSA) and SA Water's standard customer contract.

SA Water receives daily updates from Land Services SA that include an effective date for the cancelling and creation of new accounts, including those for subdivisions. These dates, however, are on financial year boundaries – all cancellations are dated 30 June and all creations are dated 1 July. These dates are unlikely to be the actual date of the land transfer. SA Water's CSIS customer billing system uses these dates for billing purposes.

This means that billing for newly subdivided land does not comply with the requirements of the *Water Retail Code*, which requires SA Water to bill customers who own land.

SA Water advised that the necessary changes to the subdivided land billing process have now occurred and that it is now complying with the *Water Retail Code*.

No control to ensure all new meter connections are recorded in the customer billing system

SA Water uses the Customer Application Management System (CAMS) to manage all new customer connections. We identified that SA Water does not reconcile new meters recorded in CAMS to the meters recorded in CSIS, to ensure that all meters connected are recorded on the billing system.

We found that CSIS produces an auto-generated report that is not reliable in ensuring that data in CSIS captures all connection information.

SA Water replied that it currently uses a manual system, which it will improve until an automated solution is developed.

Other audit findings

IT general controls review

We reviewed the IT general controls applied to SA Water's customer billing system CSIS and Chris21 payroll system. We also followed up the remediation status of prior year issues raised for the Ellipse expenditure system.

We observed certain positive controls, including a well established change and patch management process and a robust backup management process. However we also identified shortcomings requiring remediation. These included:

- weaknesses in password configuration settings for CSIS, Chris21 and Ellipse
- inappropriately assigned privileged user access in CSIS
- weaknesses in CSIS's user offboarding process
- inadequate reviews of CSIS's user access
- lack of audit logging of privileged user account activities in CSIS.

These shortcomings increase the risk of unauthorised access and/or unauthorised changes to the IT environment.

SA Water responded positively to our findings and recommendations and advised that all remediation would be completed by December 2019.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2019 $'million	2018 $'million
Income		
Water and sewer rates and charges	1 247	1 164
Community service obligations	140	145
Other	195	186
Total income	1 582	1 495
Expenses		
Depreciation and amortisation expense	361	357
Borrowing costs	330	330
Operational and service contracts	219	185
Employee benefits expense	137	127
Other expenses	263	294
Total expenses	1 310	1 293
Net profit before income tax equivalents expense	272	202
Income tax expense	80	58
Net profit after income tax equivalents expense	193	143
Other comprehensive income (net of tax)	85	73
Total comprehensive result	278	216

	2019 $'million	2018 $'million
Net cash inflows (outflows) from operating activities	476	487
Assets		
Current assets	258	237
Non-current assets	14 408	14 080
Total assets	14 666	14 317
Liabilities		
Current liabilities	305	293
Non-current liabilities	8 737	8 518
Total liabilities	9 042	8 810
Total equity	5 624	5 507

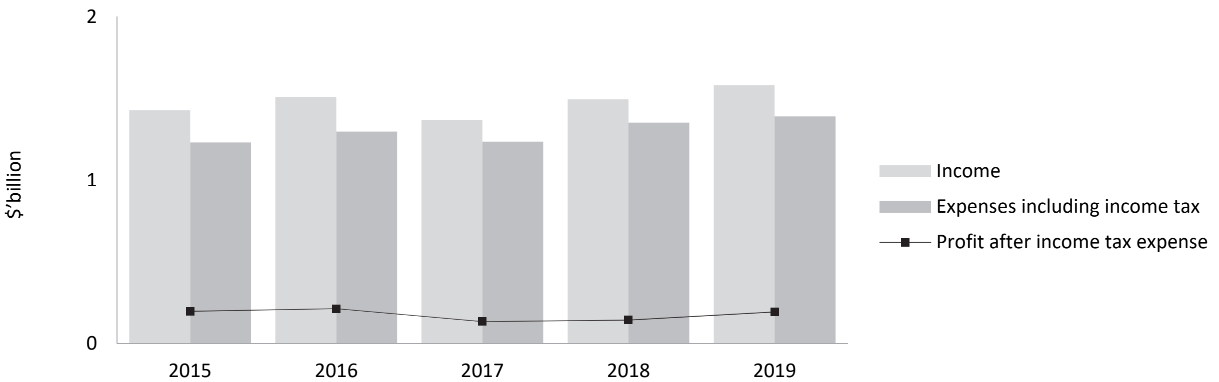
* Table may not add due to rounding.

Statement of Comprehensive Income

Operating result

SA Water's profit after income tax equivalents expense (income tax) increased by $50 million to $193 million.

The following chart shows the income, expenses (including income tax) and profit after income tax for the five years to 2019.

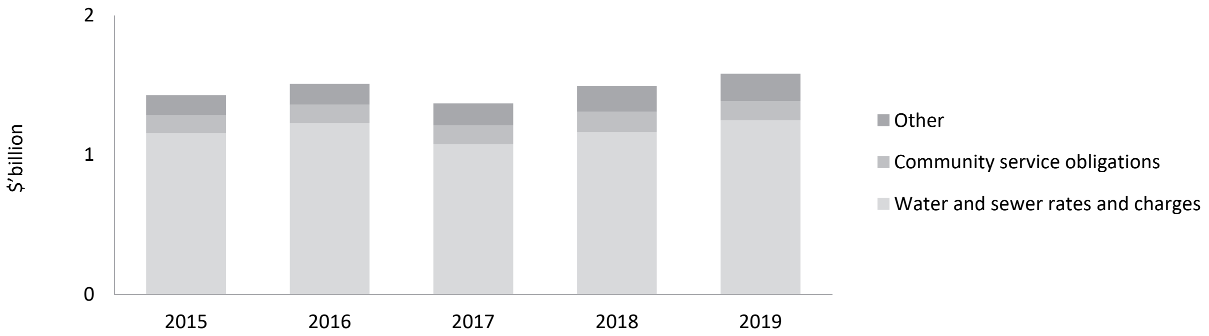


Since 2014 ESCOSA has regulated the revenue that SA Water can earn from providing drinking water and sewerage retail services. ESCOSA determines the revenue (not price) that SA Water may derive from these services, with SA Water setting annual water and sewerage charges to achieve the revenue limits determined by ESCOSA, and ESCOSA monitoring SA Water's performance. Further information on ESCOSA's role in making price determinations is provided below under 'Further commentary on operations'.

The chart shows that since 2015 SA Water's profit after income tax has increased each year from the previous year, except in 2017 when it experienced an 11% decrease in water usage. Further explanation of the movements in income and expenses is provided below.

Income

The following chart shows the main sources of income for SA Water for the five years to 2019.



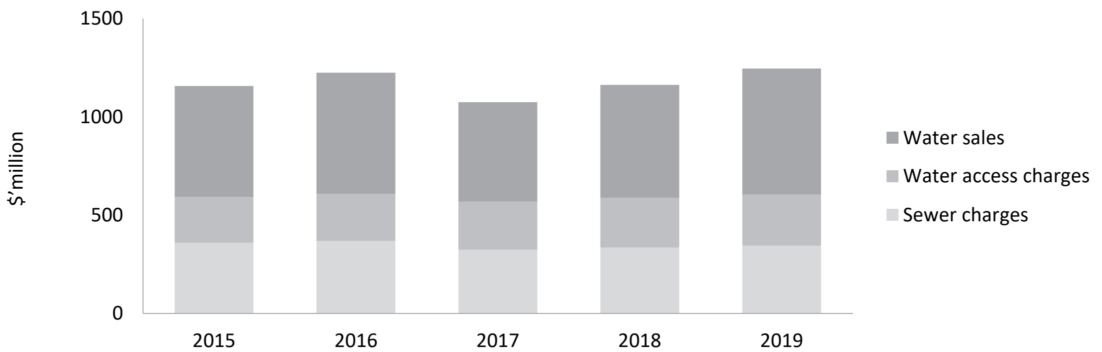
The chart shows total income generally increasing to 2019 except in 2017, when income from water and sewer rates and charges were at the lowest level of the previous five years. Total income increased by $88 million to $1.58 billion in 2019. Factors that impact this movement are discussed below.

Water and sewer rates and charges

The major source of SA Water's income is water and sewer rates and charges. These mainly comprise:

- sewer charges, mainly set on property values
- water access charges, mainly set at a fixed amount
- water sales, charged by volume of water used.

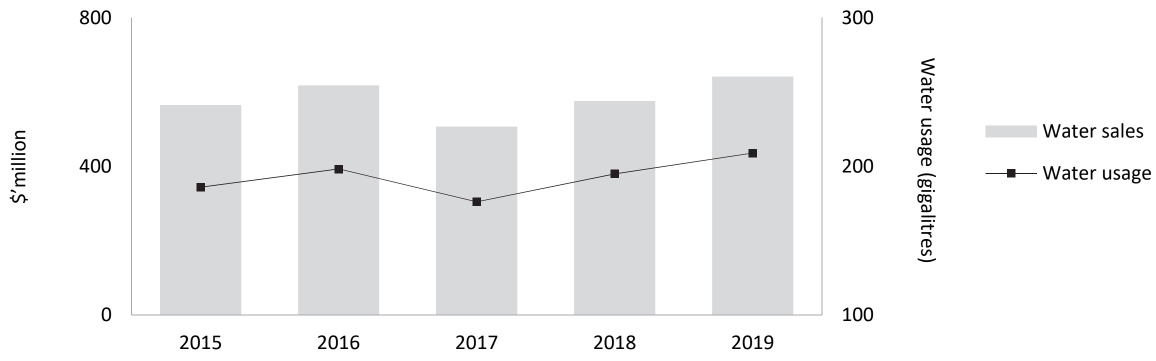
The following chart shows these components for the past five years.



Water and sewer rates and charges revenue is affected by changes in price and water consumption. Water sales increased by $65 million in 2019 due to a 1.9% price increase and an increase in the demand for water. Demand for water is discussed further in the next chart. In 2017 water pricing decreased by an average of 3%.

In 2019 sewer charges increased by $10 million to $344 million, also due to a 1.9% price increase and an increase in customer growth of $3.5 million. Water access charges increased by $7 million to $261 million mainly as a result of customer growth and pricing.

The following chart shows the relationship between water usage and water sales income.



Water usage increased in 2015 and 2016, which SA Water attributed to hotter and drier summer weather conditions, especially for 2016. In 2017 water usage fell to 176.2 gigalitres, down from 198.3 gigalitres in the previous year. This reflected above average rainfall and below average temperatures in South Australia in 2017. In 2018 water usage increased to 195 gigalitres, and again in 2019 to 209 gigalitres due to hotter and drier weather conditions, resulting in a $70 million increase in revenue in 2018 and a further $66 million increase in 2019.

The factors affecting water and sewer prices are discussed further under 'Further commentary on operations' below.

Community service obligations (CSOs)

SA Water is required to provide a number of non-commercial services to the community on behalf of the SA Government. The SA Government provides SA Water with CSO funding to compensate for these non-commercial activities. CSO revenue decreased by $5 million to $140 million in 2019, due mainly to once-off funding of $5.5 million received in 2018 for relocating the waste water pump station at the Osborne naval shipyard. The main CSOs are to compensate SA Water for:

- the shortfall in recovery of costs associated with country water and sewer services (due to the requirement for State-wide pricing). SA Water received $108 million ($108 million) for this CSO
- the provision of water and sewer exemptions and concessions to certain properties including charities and public schools. SA Water received $19.2 million ($18 million) for this CSO
- other payments such as the administration of the Pensioner Concession Scheme, South Australian Government Radio Network and emergency management services, and maintaining water and sewerage services in remote communities.

CSOs are provided under SA Water's financial ownership framework agreed with the Department of Treasury and Finance.

Other income

Income from all other sources increased by $9 million to $195 million and comprises mainly income from contributed assets and recoverable works, which can vary from year to year depending on economic conditions and government initiatives, and gains on the disposal of infrastructure and other assets.

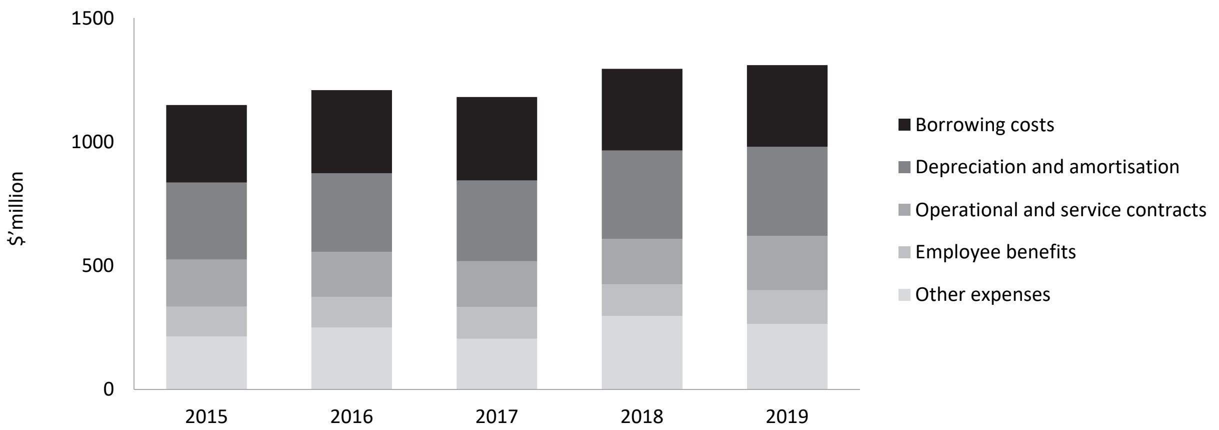
The increase in all other income for 2019 was due mainly to an increase in income from recoverable works ($32 million increase for the South Australian Riverland Floodplains Integrated Infrastructure Program), offset by a reductions in contributed assets of $14 million and a loss of $5 million ($18 million gain in 2018) following the surrender of renewable energy certificates of $18 million in 2019.

Expenses

Total expenses increased by $17 million (1.3%) to $1.3 billion. The major contributing components were:

- an increase in electricity charges of $21 million due mainly to decreased natural inflows, increased prices and increased demand for water in hot and drier summer weather conditions resulting in additional pumping of water to reservoirs
- an increase in employee benefits expense of $10 million due to increases in salary rates, an increase of 21.6 average FTEs and increases in employee leave entitlements and workers compensation provisions
- an increase in recoverable works of $29 million for the South Australian Riverland Floodplains Integrated Infrastructure Program
- a loss of $5 million following the surrender of renewable energy certificates – as prices started to fall significantly these were sold to avoid further losses
- all partially offset by a reduction of $50 million in asset write-offs. In 2009 and 2010 the SA Government granted approval for SA Water to purchase temporary seasonal water allocations to be used for critical human water needs for future years in response to the Millennium Drought. In 2017-18, due to a shortage of water held in the Murray-Darling Basin, SA Water was advised by the Department for Environment and Water that the temporary seasonal water allocations were no longer available to carry forward. In 2017-18 a permanent reduction in the remaining water allocation of 120 gigalitres was recognised as an expense of $38 million.

The following chart analyses SA Water’s main expense items, excluding income tax expense, for the five years to 2019.



Since 2015 expenses have increased by $161 million (14%). Major factors affecting expenses have been:

- increased recoverable works, which drove the $52 million increase in other costs over the period
- a $49 million increase in depreciation and amortisation costs, which are highly responsive to asset revaluations and additions
- increased borrowing costs of $16 million due mainly to the increase in borrowings as a result of a change in SA Water's capital structure. SA Water maintains a minimum debt to asset ratio of 45%
- an increase in employee benefits expenses of $16 million due mainly to increased salary rates
- an increase in service contracts of $20 million mainly to Allwater for the maintenance of Adelaide metropolitan water and sewerage infrastructure.

Adelaide Desalination Plant (ADP) operation and maintenance contract

The ADP was a major construction undertaking that commenced in 2008-09. The objective of the project was to construct and operate infrastructure that obtains and treats seawater to produce drinking quality water.

SA Water has major ADP contracts for the:

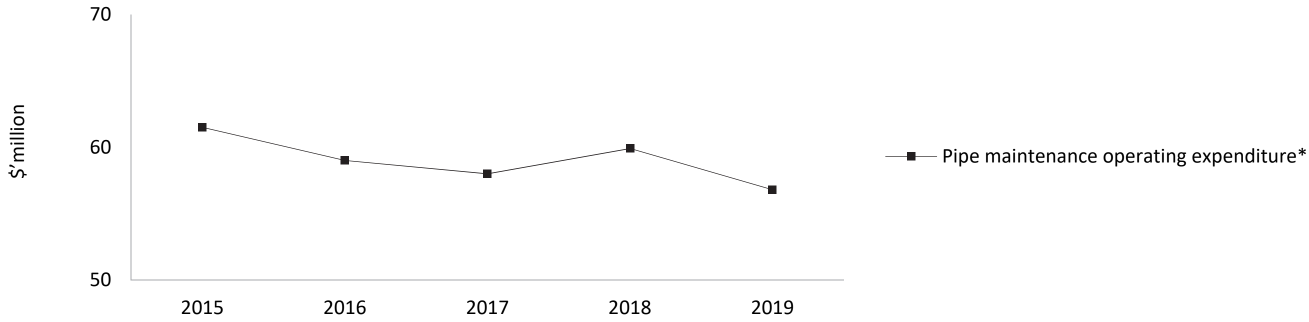
- operation and maintenance of the desalination plant (O&M contract). The O&M contract is for 20 years from 2012. In 2018-19 expenditure for operating the plant was $20 million ($20 million). Water produced by the plant increased by approximately 0.6 gigalitres to 5 gigalitres (4.4 gigalitres) in 2018-19. The increase was due to operational requirements
- power to operate the desalination plant. As part of the approval for the ADP, a commitment was made that renewable energy would be used to produce the desalinated water and transfer it to the distribution network. In September 2009 SA Water entered into a 20-year contract for the supply of operational power for the ADP. In 2018-19 expenditure for operational power (including relevant used renewable energy certificates) was $11.2 million.

In June 2019 SA Water gave notice that it would be exercising its Termination for Convenience clause under its Renewable Energy Supply Agreement, effective 1 June 2020. After June 2020, SA Water will procure black energy, renewable energy certificates and Australian carbon credit units from the wholesale market to meet its renewable energy obligations for the ADP. This is expected to save $49 million over the remaining 13-year term of the agreement, depending on future demand, electricity prices and renewable energy certificate prices.

The total depreciation expense (including intangible assets) for the ADP was $53 million ($53 million) in 2018-19.

SA Water maintenance expenditure

The following chart shows SA Water's routine maintenance and repairs expenditure since 2014 on water and sewerage assets.



* Data on specific pipe maintenance expenditure by year provided by SA Water and unaudited.

SA Water's routine maintenance and repairs expenditure, including pipe maintenance, decreased from $62 million in 2015 to $57 million in 2019. There are a number of factors that affect the level of maintenance, including the nature of the pipe being maintained (metropolitan versus country infrastructure), location, age and reason for maintenance. SA Water also has capital expenditure to renew its network, which is described further below.

Pipe bursts data

Maintenance includes the costs of responding to pipe failures, or bursts. The number of bursts over the last four years, with data provided by SA Water and unaudited, is shown in the table below.

	2015-16 Number	2016-17 Number	2017-18 Number	2018-19 Number
Reported pipe bursts:				
Metropolitan	2 056	1 689	1 693	2 026
Country	1 920	1 968	2 168	2 020
Total	3 976	3 657	3 861	4 046

For the time frame shown, the number of water and sewer pipe bursts has remained relatively constant, with an increase in metropolitan burst rates in 2018-19 due mainly to climactic factors.

The Australian Government Bureau of Meteorology's *National performance report 2017-18: urban water utilities* reports that SA Water's water main burst rates ranked fifth lowest amongst 14 large urban water utilities.

When the data on the number of bursts is considered with the pipe maintenance costs, there has not been a significant increase in maintenance costs due to pipe bursts, which is consistent with SA Water's analysis that the number of bursts is in line with longer-term trends.

Other comprehensive income

Other comprehensive income includes gains and losses on the revaluation of property, plant and infrastructure and available-for-sale financial assets. In 2019 other comprehensive income totalled $85 million ($73 million), principally due to an increase in the value of water and sewer infrastructure assets following their revaluation.

Statement of Financial Position

SA Water's financial position is dominated by non-current water and sewer infrastructure assets and related borrowings and tax liabilities. Since 2015 total assets have increased by $708 million reflecting revaluation increments and additions to water and sewer infrastructure, offset by depreciation.

The following data provides an overview of water and sewer infrastructure assets for 2019.

Water	Assets*	Value
Water customer connections	781,339	$700m
Pipes	27,204km	$4.5b
Water treatment plants	35	$770m
Dams/Weirs	36	$551m
Desalination plants	4	$1.5b

* Data on assets provided by SA Water and unaudited.

Sewerage	Assets*	Value
Customer wastewater connections	612,350	$628m
Wastewater mains	9,078km	$2.1b
Treatment plants	26	$1.2b

* Data on assets provided by SA Water and unaudited.

In 2019 total assets were $14.7 billion. Significant movements affecting assets during the year were:

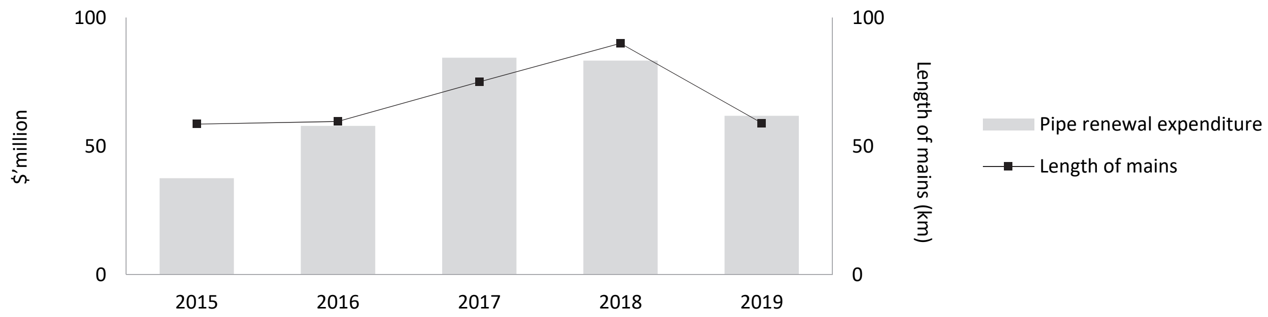
- the acquisition of infrastructure, plant and equipment of $549 million (including water and sewer pipe network renewal). Major capital expenditure includes completed water infrastructure projects of $185 million and sewerage infrastructure projects of $93 million
- a net $117 million revaluation upwards of infrastructure, plant and equipment. This was due mainly to revaluation increments of $150 million for water infrastructure, $80 million for sewer pipe and pump infrastructure and $10 million for land and buildings, offset by a revaluation downwards for waste water treatment plants of $127 million following an external valuation.

  Waste water treatment plants were last independently revalued in 2014-15. Since then it has been revalued annually using a producer price index. This has resulted in a total revaluation upwards since 2015 of $172 million. The 2018-19 independent valuation was higher than the 2015 value, but below the accumulated value of indexation increases over this period. This resulted in a write-down in the value of the waste water treatment plants to $1.2 billion
- depreciation and amortisation charges of $361 million.

In 2019 liabilities increased by $232 million due mainly to increased borrowings of $221 million to fund capital expenditure and an increase in payables of $15 million due mainly to the termination of the ADP Renewal Energy Supply Agreement and an increase in the land tax accrual of $2.7 million.

Renewal of the water and sewer pipe networks

The following chart shows SA Water's pipe network renewal (based on data provided by SA Water) for both water and sewer pipes, which includes major projects for each year and the length, in kilometres of mains replaced, of water reticulation pipes only.



The chart shows that pipe renewals increased in 2017 and 2018, due to an initiative to replace water mains, before reducing again in 2019 to 2016 levels.

Current assets and liabilities

At 30 June 2019 current liabilities amounted to $305 million, exceeding current assets of $258 million by $47 million. While such a deficiency in working capital can be of concern, SA Water has a strong cash flow position from operating activities and access to sufficient borrowing facilities with the South Australian Government Financing Authority (SAFA), which would enable all of its current liabilities to be met. A large component of current liabilities is payables, comprising 74% (72%) of the balance, which includes obligations for capital purchases.

Statement of Cash Flows

While cash decreased marginally to $2.8 million, SA Water's cash position is subject to significant inflows and outflows associated with its operating, investing and financing activities. Factors affecting cash flows include:

- receipts from customers of $1.5 billion, largely reflecting water and sewerage charges
- investment in the construction and purchase of infrastructure, plant and equipment and intangible assets. In 2019 investing payments for assets amounted to $548 million ($438 million), representing an increased number of large infrastructure projects
- payment of a cash dividend to the SA Government of $179 million ($139 million)
- an increase in SA Water's financing requirements, with cash inflows from net borrowings totalling $221 million ($66 million).

Further commentary on operations

Financial ownership framework, charter and performance statement

SA Water operates under a financial ownership framework, charter and performance statement, all approved by the Treasurer and Minister.

The performance statement defines the contribution to the SA Government in terms of dividends, repayment of capital, income tax equivalents and other rates and taxes. The key financial performance measures agreed to in the performance statement are set out in the following table.

Performance measure	Target 2018-19	Actual results 2018-19
Profit ($'million)	233.5	272.5
Tax expense ($'million)	70.1	79.6
Dividend ($'million)	155.3	179.4
Total contribution ($'million)	225.4	259.0
Gearing ratio (%)*	45.9	45.8

* Total interest bearing debt (including borrowings and lease liabilities) divided by total assets.

SA Water's total contribution was $33.6 million above the performance statement target of $225.4 million.

The dividend target of $155.3 million was calculated at 95% of profit.

In May 2019, the SA Government determined that all government businesses are now required to pay a dividend ratio of 100% of after tax profit each year from 2018-19 onwards.

The performance statement and financial ownership framework includes CSO payments from the SA Government to support non-commercial services and maintaining a gearing ratio of at least 45% and specifying a ratio of 45.9% for 2018-19.

The following table summarises movements in the major items influencing borrowings.

	2015 $'million	2016 $'million	2017 $'million	2018 $'million	2019 $'million
Net cash inflows from operating activities	454	504	395	487	476
Net cash outflows from investing activities	(246)	(295)	(290)	(413)	(527)
Surplus (Shortfall in) cash from operations after investing activities	208	209	105	74	(51)
Dividend payments to owners	(184)	(205)	(193)	(139)	(179)
Surplus (Shortfall in) funds to pay for dividends and investing activities	24	4	(88)	(65)	(230)
Net increase in borrowings	(17)	6	95	66	221

There were relatively small changes in net borrowings between 2015 and 2018, increasing in 2019. The $95 million increase in net borrowings in 2017 followed a direction from the Treasurer under section 30(5) of the *Public Corporations Act 1993* for an interim dividend of $71 million.

In 2015 the Treasurer recommended to the SA Water Board that an interim dividend of $2.7 billion be paid to the Consolidated Account, funded by the transfer of debt. This increase in SA Water's total debt was designed to bring its debt to asset gearing ratio to 45%, a value consistent with interstate statutory water corporations. The table above does not show the impact of the $2.7 billion increase in borrowings because it relates to a non-cash transfer.

Net borrowings increased by $221 million to $6.6 billion in 2019, representing additional borrowings for increased capital expenditure and working capital requirements.

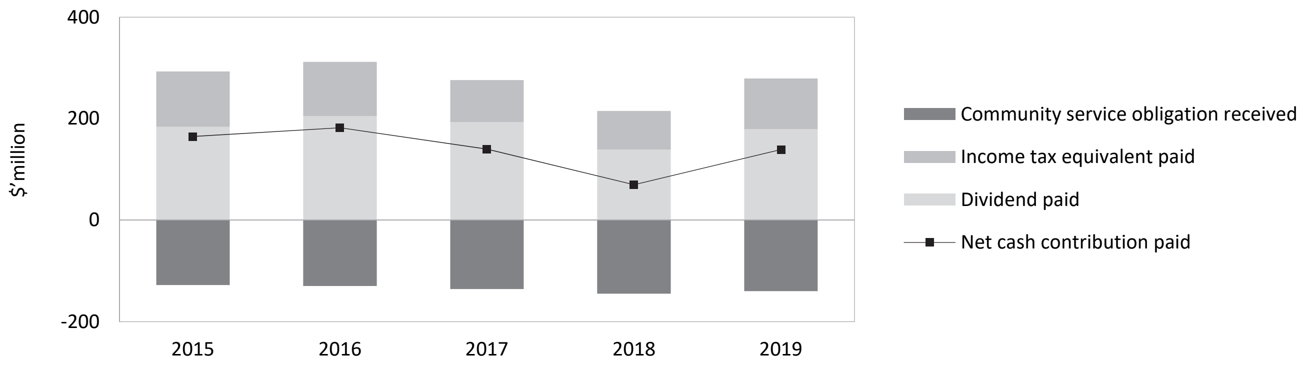
In 2018 the Treasurer approved an increase in the core debt facility limit with SAFA by $608 million to $7.04 billion for the future. The Treasurer also approved amendments to SA Water's interest rate risk management policy and liquidity risk management policy and an increase in its working capital facility limit with SAFA to $150 million, up from $100 million, to be reviewed every two years.

The 2018-19 performance statement included a decision to maintain SA Water's debt to asset ratio of at least 45% and specifically 45.9% in 2018-19.

SA Water returned a dividend of $179 million ($139 million) calculated at 100% as discussed above.

Income tax equivalent amounts of $100 million ($76 million) were also paid in 2018-19.

A structural analysis of SA Water's cash contributions (dividends, income tax equivalent) to the SA Government and CSO funding provided by the SA Government for the five years to 2019 is shown in the following chart. As the $2.7 billion debt transfer in 2015 was not a cash transaction, it is not included in the chart.



The chart shows the amount of money returned to the SA Government through income tax equivalent and dividend payments reducing between 2016 and 2018, and then increasing in 2019.

The increase in 2019 recognises the $40 million increase in dividends paid.

Comparison with other water utilities

As discussed above, when announcing the initial $2.7 billion dividend the SA Government noted that the revised arrangements would bring, or maintain, SA Water's debt arrangements in line with other interstate water utilities. SA Water's debt to asset ratio at 30 June 2019, in line with this policy, is 45.8%.

The table below details SA Water's 2019 gearing ratio and the gearing ratios for four major water utilities from around Australia as at 30 June 2018.

	SA Water	Sydney Water	Water Corporation of Western Australia	Yarra Valley Water	Unitywater
Total debt ($'billion)	6.708	8.189	6.141	2.414	1.558
Total assets ($'billion)	14.666	19.093	17.490	4.966	3.778
Gearing ratio (%)	46	43	35	49	41

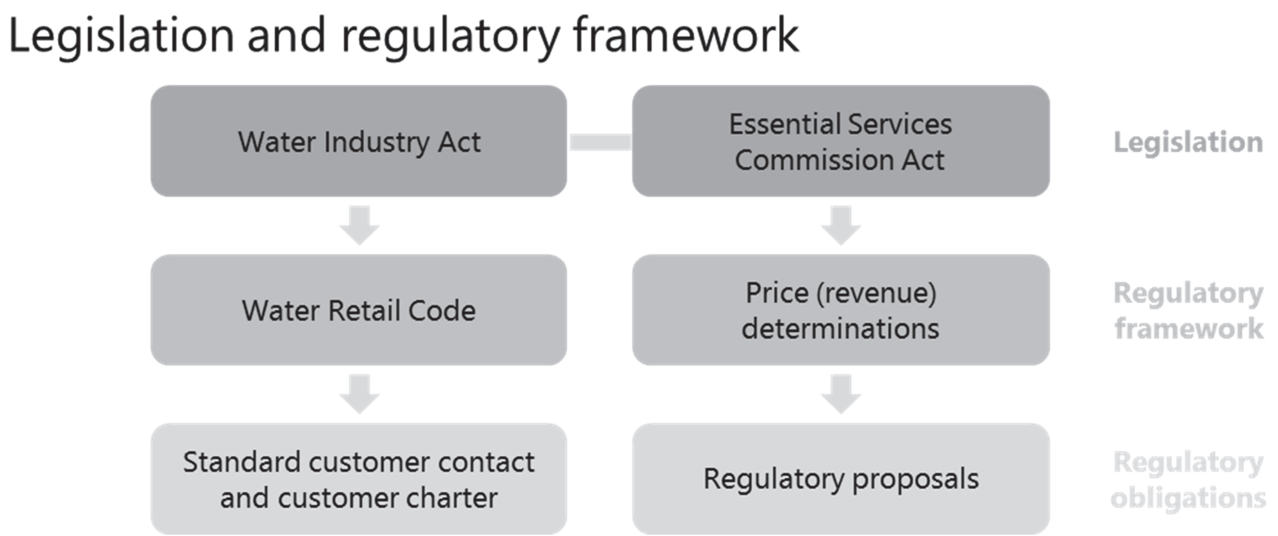
SA Water's revised gearing ratio is similar to those of Yarra Valley Water in Victoria, Sydney Water and Unitywater in Queensland.

Water and sewer rates and charges

Essential Services Commission of South Australia

Under the *Water Industry Act 2012* (the WI Act) ESCOSA is appointed as the independent economic regulator for the South Australian water industry. ESCOSA commenced its role as regulator on 1 January 2013. SA Water operates within the requirements of the WI Act by holding a licence, and continuing to provide water supply and sewerage services.

Under the WI Act, ESCOSA is responsible for making price determinations. In making them, the WI Act requires ESCOSA to comply with the requirements of any pricing order issued by the Treasurer under the WI Act.



Pricing orders

Under the WI Act, the Treasurer has issued a number of pricing orders since September 2012. They have specified that ESCOSA is to determine the revenue (not price) that may be derived from the provision of drinking water and sewerage retail services (separately).

Both the first regulatory period (1 July 2013 to 30 June 2016) and the second regulatory period (1 July 2016 to 30 June 2020) included the requirement that ESCOSA adopt specified values for SA Water's retail water and sewerage regulatory asset bases (RAB), at $7.77 billion and $3.58 billion respectively as at 1 July 2013 (in December 2012 dollars).

The first regulatory period (1 July 2013 to 30 June 2016) had a 190 gigalitre drinking water demand forecast for each year. For the second regulatory period (1 July 2016 to 30 June 2020), the demand forecast was set each year ranging from 190.1 gigalitres for 2016-17 to 194.5 gigalitres for 2019-20.

SA Water sets annual water and sewerage charges to achieve the revenue limits determined by ESCOSA, with ESCOSA then monitoring SA Water's performance.

ESCOSA determinations

In June 2016 ESCOSA issued a final determination establishing the maximum revenue that can be recovered by SA Water for the provision of drinking water and sewerage retail services for the four years commencing 1 July 2016.

The determination set SA Water's maximum allowable revenue for drinking water retail services at $3.12 billion over the four years (averaging $780 million p.a.) and $1.3 billion for sewerage retail services (averaging $326 million p.a.). These amounts are based on December 2014 dollars.

The new regulatory period (SAW RD20) begins on 1 July 2020. ESCOSA has started its process to inform SAW RD20, including the release of eight guidance papers that explain the requirements, methodology and process that it will apply.

SA Water has made submissions in response to the first seven guidance papers. Notably it expressed concerns with the:

- use of expenditure allowances when making revenue projections before SA Water has revised its 10-year corporate business plan
- proposed methodology for the regulatory rate of return
- absence of a financial viability test in ESCOSA's revenue assessment
- treatment of inflation in the regulatory rate of return
- average period of the risk-free rate.

SA Water's submissions highlight ESCOSA's challenge in making a final determination on SA Water's maximum revenues for drinking water and sewerage services that reasonably considers the efficient costs of providing those services.

SA Water pricing

SA Water is responsible for setting the prices charged to consumers during the regulatory period based on maximum allowable revenues. Those prices must comply with ESCOSA's revenue determination.

ESCOSA's 2016-2020 revenue determination set four-year total revenue caps for water and sewerage services. Both caps are subject to a demand adjustment mechanism if actual water sales or sewerage connections are materially different to forecasts. ESCOSA monitors compliance with these caps annually but any adjustments allowed under the regulatory framework, including any demand adjustments required, will be assessed at the end of the regulatory period that ends on 30 June 2020. SA Water prices vary according to customer type. The charges for water for residential customers for the five years to 2018-19 are detailed below.

Residential water charges	2015-16 $	2016-17 $	2017-18 $	2018-19 $	2019-20 $
First tier: first 0.3288 kL per day	2.35/kL	2.27/kL	2.32/kL	2.36/kl	2.39/kl
Second tier: from 0.3288 kL to 1.4247 kL per day	3.36/kL	3.24/kL	3.31/kL	3.37/kl	3.41/kl
Third tier: over 1.4247 kL per day	3.63/kL	3.51/kL	3.58/kL	3.65/kl	3.70/kl
Annual residential water supply charge per year	286.40	286.40	292.40	297.80	301.60

As discussed above, 2016-17 was the first year of the second regulatory period. ESCOSA set maximum levels of revenue for drinking water and sewerage services across the regulatory period (1 July 2016 to 30 June 2020) of $3.12 billion and $1.3 billion respectively. This resulted in a reduction in residential water charges of approximately 3.5% in 2016-17 (apart from the annual residential water supply charge per year). Prices rose in line with inflation for the remaining years of the second regulatory period. Residential water charges for 2019-20 will increase by 1.3%.

Asset value accounting matters – RAB differs from financial report

When determining the prices for water and sewerage services ESCOSA considers the RAB. As detailed above, the opening RAB value at the beginning of regulation was determined by the Treasurer in the second pricing order. We provided no opinion on the amount of the regulated asset base set by the Treasurer.

Each year the RAB is then rolled forward based on regulatory principles to adjust for net capital additions, disposals and depreciation.

The RAB differs from the value of assets reported in SA Water's financial report. The total RAB assets as at 1 July 2013 specified in the pricing order were $11.35 billion in December 2012 dollars (comprising $7.77 billion for water services and $3.58 billion for sewerage services). This compared to SA Water's total assets at 30 June 2013 of $13.8 billion.

Under the current regulatory parameters the RAB, as initially determined by the Treasurer, is the value of assets on which significant regulatory revenues are determined.

Following an independent inquiry into South Australian water prices, the *Abridged Advice – Final Report of the SA Inquiry into Water Prices* was released in July 2019. This report covers a range of issues including the valuation of the RAB and other matters. The SA Government is currently considering the report and is yet to announce any changes to the RAB. Changes to the RAB will likely impact on the level of revenue SA Water can recover.

Regulatory accounting statements

SA Water is required to submit regulatory accounting statements to ESCOSA. Under Water Industry Guideline 2 *Water regulatory information requirements for major retailers*, issued under section 8 of the *Essential Services Commission Act 2002*, ESCOSA has specified requirements for major retailers for the collection, allocation, recording and reporting to ESCOSA of regulated business data in line with Guideline 2. Under Guideline 2, SA Water is required to submit special purpose financial statements.

Superannuation sector overview

South Australian public sector superannuation

The SA Government and its controlled entities contribute to defined benefit and defined contribution superannuation schemes for their employees.

Defined benefit schemes provide post-employment benefits to members as defined by the relevant scheme rules. The main defined benefit schemes are now closed to new members.

Defined contribution schemes are post-employment benefit schemes under which the employer pays fixed contributions into a fund. The amount of benefits payable to members depends on a number of factors such as the amount of member and employer contributions, investment earnings and fees charged to the member's account.

The Auditor-General audits the following South Australian public sector superannuation schemes.

Scheme	Type	Membership/Beneficiaries
South Australian Superannuation Scheme (SASS)	Hybrid (defined benefit and defined contribution)	***Pension Scheme*** SA Government employees who elected to contribute to SASS before 30 May 1986 ***Lump Sum Scheme*** SA Government employees who elected to contribute to SASS after 1 July 1988 and before 4 May 1994
Police Superannuation Scheme (Police Super)	Defined benefit	South Australian police officers who commenced employment with South Australia Police on or before 31 May 1990
Southern State Superannuation Scheme (Triple S)	Defined contribution	SA Government employees from 1 July 1995
SA Metropolitan Fire Service Superannuation Scheme (SAMFSSS)	Hybrid(defined benefit and defined contribution)	Employees of the South Australian Metropolitan Fire Service
South Australian Ambulance Service Superannuation Scheme (Ambulance Super)	Hybrid (defined benefit and defined contribution)	Employees of the SA Ambulance Service Inc
Super SA Retirement Investment Fund (SSARIF)	Mixed (income stream and defined contribution)	SA Government employees who have retired, or are nearing retirement age, or have ceased employment with the SA Government
Parliamentary Superannuation Scheme (Parliamentary Super)	Hybrid (defined benefit and defined contribution)	Members of Parliament
Super SA Select (Select)	Defined contribution	SA Government employees earning income of up to $37 000 p.a.
Judges' Pensions Scheme (JPS)	Defined benefit	South Australian judges
Governors' Pensions Scheme (GPS)	Defined benefit	Former Governors of the State

With the exception of Select and SSARIF income stream all schemes offer insurance services to their members, which may include income protection, death, and total and permanent disability.

All public sector superannuation schemes are exempt public sector superannuation schemes, which are superannuation schemes that are not regulated by the Australian Prudential Regulatory Authority (APRA) under Schedule 1AA of the Superannuation Industry (Supervision) Regulations 1994. Exempt public sector superannuation schemes have unique attributes that include, but are not limited to, the following:

- concessional contributions (ie contributions before tax) plus earnings may be released from the age of 55 (or 50 for Police Super members), on termination of South Australian public sector employment. This does not require permanent retirement
- non-concessional contributions plus earnings may be released irrespective of age on terminating South Australian public sector employment
- a member's preservation age will generally remain at age 55 (or 50 for Police Super members) and not increase to age 60
- due to their exempt status, the schemes are not regulated by APRA. However, for statutory purposes, the schemes report to APRA under an agreement between the Commonwealth and State Governments.

A number of South Australian public sector superannuation schemes are also constitutionally protected (ie Triple S, SASS, Parliamentary Super, JPS, GPS, Police Super). As a result, these schemes have the following unique attributes:

- concessional contributions are not taxed on receipt into the scheme, and therefore there is no requirement to deduct the 15% contributions tax
- there is no tax payable on contributions or earnings until the member leaves the scheme. This includes tax on fund income
- there are no annual concessional contribution caps, but a lifetime concessional contribution cap is in place
- annual non-concessional caps do apply to members of the constitutionally protected fund, however any tax payable levied by the ATO is against the member.

Administration and funds management

The following table shows the entities responsible for administering (ie receipting contributions and paying benefits) each of the public sector superannuation schemes.

Scheme	Entity responsible for administration
SASS, Triple S, SSARIF, Ambulance Super	South Australian Superannuation Board
Parliamentary Super	South Australian Parliamentary Superannuation Board
JPS, GPS	Legislation is committed to the Treasurer
SAMFSSS	SA Metropolitan Fire Service Superannuation Pty Ltd
Select	Southern Select Super Corporation
Police Super	Police Superannuation Board

Except for Police Super and the SAMFSSS, the Department of Treasury and Finance – State Superannuation Office (Super SA) provides outsourced administration services to the schemes. The Police Super Office, an administrative unit of South Australia Police, provides administration services to Police Super. Mercer Outsourcing (Australia) Pty Ltd provides administration services to the SAMFSSS.

The Superannuation Funds Management Corporation of South Australia (Funds SA) is responsible for investing and managing the superannuation schemes' funds in line with the *Superannuation Funds Management Corporation of South Australia Act 1995*.

Investments and related performance

As at 30 June 2019, the superannuation schemes had $32.3 billion ($29.8 billion) in investments. In 2018-19 these assets increased in fair value by $2.5 billion ($2.8 billion).

Total investment assets have steadily increased, reflecting growth in membership as well as additional contributions. In 2018-19 the continued strong net investment revenues contributed to this growth.

In 2018-19, net investment income decreased by $285 million (11%). Actual investment returns, while remaining strong, were lower than in 2017-18. In particular, property and Australian equities recorded returns of around 9% to 10% (12% to 13%).

Investment expenses decreased in 2018-19 reflecting lower transactional and operational costs to Funds SA, due to lower investment returns, as costs (including performance fees) are applied on a percentage basis of funds under management.

The following table summarises the rates of return advised by Funds SA for the balanced and growth options for tax exempt (ie constitutionally protected) schemes.

	2017	2018	2019
	%	%	%
Balanced	11.0	9.5	8.1
Growth	12.4	10.6	8.1

Further details are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

Surplus (Deficit) of net assets to member benefits liabilities

The SA Government controls and funds a number of defined benefit superannuation schemes designed to provide employees with pensions or defined lump sum benefits on retirement. Except for JPS and GPS, these schemes are now closed to new members. The SAMFSSS, while still open to new members, is not controlled and funded by the SA Government.

As at 30 June 2019, the total deficit of net assets to member benefits liabilities was $4.6 billion ($4.9 billion). This is represented as shown in the table below.

	Net assets available for member benefits		Member benefits liabilities		Total equity over (under) funded	
	2018 $'million	2019 $'million	2018 $'million	2019 $'million	2018 $'million	2019 $'million
SASS	5 113	5 082	9 711	9 443	(4 598)	(4 361)
Police Super	1 852	1 978	2 209	2 257	(357)	(279)
Parliamentary Super(1)	246	222	192	196	54	26
Ambulance Super(1)	202	217	183	194	19	23
JPS	273	280	239	250	34	30
GPS	-	3	2	2	(2)	1
Total(2)	7 686	7 782	12 536	12 342	(4 850)	(4 560)

(1) Amounts included relate only to the defined benefit portion of the schemes.
(2) Table excludes the SAMFSSS as defined benefits are funded by its members.

The total unfunded member benefits liabilities (deficit of net assets to member benefits liabilities) were calculated in line with AASB 1056 *Superannuation Entities*.

Different liability balances are reported under separate accounting standards

The terms of these defined benefit schemes create an obligation for the SA Government to pay future benefits to scheme members. The SA Government estimates a $12.9 billion liability at 30 June 2019 for unfunded superannuation benefits in the 2019-20 State Budget (refer 2019-20 Budget Paper 3 *Budget Statement*, page 62). This figure is significantly larger than the accumulated deficit of net assets to accrued benefits of $4.6 billion identified above.

This variance is due mainly to the different discount rates used to calculate accrued member benefits liabilities under AASB 1056, and the rate required under AASB 119 *Employee Benefits*. While both standards require measurement of the present value of expected future benefit payments, superannuation schemes are required to use a market-determined, risk-adjusted discount rate appropriate to the scheme. The schemes apply discount rates ranging from 7% to 8% p.a.

For the purposes of the State Budget and whole-of-government financial reporting, the SA Government's unfunded superannuation liability is measured in line with AASB 119, which requires the use of a risk free discount rate reflecting the market yields on Commonwealth Government bonds. The discount rate at the time of the 2019-20 State Budget was 2.1% p.a. (refer 2019-20 Budget Paper 3 *Budget Statement*, page 63). The lower discount rate results in a higher present value liability calculation.

Catch-up funding cash payments continue

A program began in 1994-95 to fully fund all employer superannuation liabilities. The 2019-20 State Budget reports that the SA Government is on target to meet its commitment to have the defined benefit schemes fully funded by 2034 (refer 2019-20 Budget Paper 3 *Budget Statement*, page 63).

The past service liability contributions for 2018-19 were $444 million ($431 million). The purpose of this contribution is to catch up the shortage of funding for employment in years prior to the full funding policy. The past service contributions are affected by a number of factors including the long-term earnings rate on superannuation assets. Where investment performance exceeds the assumed rate, it is possible to reduce the level of past service payments required to fully fund superannuation liabilities by 2034. Additional contributions are needed to compensate for reduced earnings to remain on target.

South Australian Superannuation Board (SASB)

Financial statistics	Administration expense:	$29.1 million
	Total comprehensive result:	$250 000
	General reserve:	$1.2 million

Significant events and transactions

- SASB spent $23.6 million to 30 June 2019 on implementing the Bluedoor superannuation administration system, including costs for software and internal project management.
- SASB closed Phase 1 of the Bluedoor project (to administer three schemes: Triple S, SSARIF and Super SA Select) in December 2018 as it was deemed that the core functionality of the system had been delivered by the vendor.
- SASB decided not to proceed with Phase 2 of the Bluedoor project, with the remaining schemes administered using other systems.

Financial report opinion

Unmodified

Controls opinion findings

Delays in preparing bank reconciliations.

Other audit findings

- Unmatched contributions in Bluedoor.
- Delays in processing financial information.
- Payments over $300 000 processed without appropriate approval.
- IT general control issues.
- Difficulties tracing transaction data between the general ledger and Bluedoor.
- Key person risk.

Functional responsibility

SASB was established by the *Superannuation Act 1988* (the Super Act).

SASB is responsible to the Treasurer for administering the following superannuation schemes:

- South Australian Superannuation Scheme (SASS) under the Super Act
- Southern State Superannuation Scheme (Triple S) under the *Southern State Superannuation Act 2009*
- Super SA Retirement Investment Fund (SSARIF) under the Southern State Superannuation Regulations 2009
- South Australian Ambulance Service Superannuation Scheme (Ambulance Super) under the Super Act.

SASB's administration of these schemes involves maintaining:

- accounts in the names of all members
- employer contribution accounts
- proper accounts for each financial year on receiving contributions and paying benefits.

The Department of Treasury and Finance (DTF) – State Superannuation Office (Super SA) provides services to administer the schemes.

The Superannuation Funds Management Corporation of South Australia is responsible for investing and managing the schemes' funds under the above legislation and the *Superannuation Funds Management Corporation of South Australia Act 1995*.

Bluedoor system implementation

In 2015-16 the SA Government contracted DST Bluedoor to provide a new superannuation management system for all the superannuation schemes administered by SASB. Bluedoor, when fully implemented, was expected to provide SASB with an integrated administration system with a range of complementary capabilities including workflow management, document management and enhanced reporting systems and replace all existing superannuation administration systems used by SASB.

Bluedoor was originally expected to be implemented in 2016-17, in two phases. Project delays resulted in changed timing for implementation, with Bluedoor starting to be used for three schemes – Triple S, SSARIF and Super SA Select – in May 2018.

There remained a number of software functionality issues after this initial date. They impacted Super SA's resources and caused delays in internal processes. Super SA formally closed Phase 1 of the Bluedoor project in December 2018 following additional work to address software functionality issues and a conclusion that the core functionality of the system had been delivered by the vendor.

As a result of the delayed implementation of Phase 1 and the software functionality issues encountered, SASB also decided not to proceed with Phase 2 of the Bluedoor project.

The remaining schemes – SASS, South Australian Ambulance Service Superannuation Scheme, Parliamentary Superannuation Scheme, Judges' Pensions Scheme and Governors' Pensions Scheme – will continue to be administered on the existing legacy platforms.

System issues are still being addressed

While the core Bluedoor functionality is in place for the three Phase 1 schemes, SASB continues to work with DST Bluedoor and DTF to address some outstanding system matters, identified by internal audits, associated with:

- weaknesses in review processes to verify changes to member details or member bank account information
- unresolved weaknesses in processes to ensure member transfers from other schemes using SuperStream are correctly allocated where manual intervention is required
- no defined approach to investigate and allocate long outstanding unallocated contributions
- unprotected, editable files used to transfer some information between systems, increasing the risk of error and the potential for inappropriate changes to files.

Financial costs of the project

A May 2019 internal audit found that the total implementation cost of the Bluedoor project as at 31 December 2018 was $23.5 million. This was an increase of $5 million from the total spend as at 30 June 2018.

The Bluedoor software is included in DTF's financial statements as an intangible asset with a capitalised value of $15.2 million as at 30 June 2019. The remaining $8.4 million consists of operational expenditure and includes $2.4 million of capital expenditure for Phase 2 schemes that was written off in 2018-19 as a result of SASB's decision not to proceed with the Phase 2 implementation.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- administration expenses
- fees and charges revenue (recovery of administration fees from superannuation schemes)
- general ledger
- progress of ICT projects.

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

Controls opinion

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

Audit findings

Communicating our audit findings

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

Controls opinion findings

Delays in preparing bank reconciliations

Bluedoor software issues meant bank reconciliations for July to November 2018 were completed in December 2018. Once the software issues were addressed, all outstanding reconciliations were completed. Significant delays in processing financial information increases the risk of financial reporting errors.

SASB agreed with the importance of this control. SASB advised that Bluedoor enhancements and data fixes in December 2018 allowed the Financial Services team to commence a year-to-date reconciliation of the bank accounts to address this issue.

Other audit findings

The Bluedoor system is used to manage member balances of around $23.6 billion as at 30 June 2019.

Unmatched contributions in Bluedoor

There was a Bluedoor system issue that resulted in the creation of system entries representing around $458 million of unmatched contributions as at May 2019. System functionality limitations caused this balance as a result of the incorrect treatment of intra-scheme transfers and duplicated transactions.

No member funds were impacted by these issues, but they did increase the risk of errors due to the volume of data created by the entries.

To fix this issue, SASB deployed a number of Bluedoor system enhancements which addressed the incorrectly generated entries. As a result of the enhancements, the incorrect transactions were addressed and intra-scheme transfers are now treated correctly.

SASB advised that the actual unmatched contributions, reflecting actual member-related transactions, were around $600 000 at 30 June 2019, consistent with normal expectations and reflecting that there will always be some funds that require manual matching against member accounts.

Delays in processing financial information

The Bluedoor system issues identified above resulted in delays in key monthly financial reporting reconciliations from July to November 2018. While these issues were addressed after system enhancements in December 2018, our audit approach relied on substantive testing due to the sustained delays in key controls.

SASB agreed that delays in monthly reporting created control and monitoring risks until the December 2018 Bluedoor enhancements resolved this issue. SASB advised that reconciliations are now being completed monthly.

Payments over $300 000 processed without appropriate approval

SASB delegations require benefit payments of more than $300 000 to be approved by a team leader. Bluedoor's system workflow does not enforce this delegation and, as a result, there were 14 occasions between July 2018 and April 2019 when payments were not properly approved.

We recommended SASB implement a control in Bluedoor to enforce approval by an authorised delegate for payments over the $300 000 threshold.

SASB agreed with our recommendations and advised an interim measure had been put in place. SASB has implemented a report of all payments over $300 000 which is generated and checked daily to ensure appropriate approval.

SASB also advised it expected a Bluedoor enhancement to address this matter would be available in December 2019.

IT general control issues

The Bluedoor system issues and delays in enhancements being provided to SASB meant that a number of key IT controls could only be implemented from December 2018 onwards. While our audit confirmed that many aspects were addressed by May 2019, we could not rely on IT general controls for 2018-19.

SASB advised that its new Director of Finance Business Transformation would focus on addressing IT and process controls and that it had implemented controls to align Bluedoor with standards for other applications, including strengthening controls over user access through additional involvement from DTF's ICT group.

Difficulties tracing transaction data between the general ledger and Bluedoor

Our testing identified that the process to trace transactions between the general ledger and Bluedoor involved a significant number of steps and was very manual. We also noted that there was no single cause of these issues, with different manual processes required depending on the transaction type. Manual intervention for large volumes of data increases the risk of human error and inaccurate financial reporting.

We noted this issue also highlighted that SASB's general ledger system may need to be upgraded to enable it to work efficiently with Bluedoor.

SASB agreed with our observations and advised it would work to ensure that its enterprise practices align to superannuation industry standards and best practice principles, with the aim of completing this work by June 2020.

SASB also advised it would undertake a full technical review of the general ledger functionality to make a recommendation about SASB's future needs.

Key person risk

We noted that SASB relied on one key staff member and their knowledge of Bluedoor for performing key accounting reconciliations and analysis for the schemes using Bluedoor. Over reliance on one key individual can result in unintentional and undetected financial reporting errors where there is not effective oversight and review.

SASB agreed with our observations of key person risk and advised that the new Director of Finance Business Transformation would specifically consider this risk and ways to address it through their review of general ledger functionality. SASB also advised additional documentation would be created to capture key aspects of the staff member's work, informing the review process and helping to reduce the risk.

Interpretation and analysis of the financial report

SASB's financial report reflects its administration role in that:

- expenses relate mainly to fees paid to DTF to administer the superannuation schemes
- revenue is mainly to reimburse DTF fees from the superannuation schemes.

Highlights of the financial report

	2019 $'million	2018 $'million
Expenses and income		
Total expenses	29.4	28.4
Total income	29.6	27.6
Total comprehensive result	0.2	(0.8)
Net cash provided by (used in) operating activities	0.4	1.1
Assets		
Cash and cash equivalents	2.2	1.8
Receivables	0.6	0.6
Total assets	2.8	2.4
Total liabilities	1.0	0.9
Total equity	1.8	1.5

Statement of Comprehensive Income

The total comprehensive result for the year was a profit of $250 000 (loss of $791 000). This result mainly reflects:

- revenue from recoveries of administration fees of $29.6 million ($27.6 million). This amount represents the administration fees charged to the superannuation schemes administered by SASB. These fees are set by SASB to recover the costs of its operations from the schemes and are paid to DTF as a reimbursement of actual costs incurred in operating SASB
- administration expenses of $29.1 million ($28.4 million). This amount is paid to DTF for administrative services, which also includes the reimbursement of $5.1 million in ICT project costs for the Bluedoor system.

The increase in administration fees in 2018-19 was due to the increase in ICT management costs from the Bluedoor implementation and additional costs associated with work to address the initial system issues.

Statement of Financial Position

The main movement in the Statement of Financial Position was a $405 000 increase in cash as a result of increased administration fee recoveries in 2018-19.

General reserve

SASB has established a general reserve to:

- account for under and over spend in office expenditure
- provide for future project expenditure
- provide funding for the triennial SASB election.

In 2018-19, $242 000 was transferred from retained earnings to the general reserve due to the positive operating result for the period.

South Australian Superannuation Scheme (SASS)

Financial statistics	Member benefit liabilities:	$9.4 billion
	Net assets available for member benefits:	$5.1 billion
	Defined benefits underfunded:	$4.4 billion
	Past service liability funding:	$384 million
	Benefits paid and payable:	
	Pension Scheme	$653 million
	Lump Sum Scheme	$232 million
	Number of members:	
	Pension Scheme	15 081
	Lump Sum Scheme	3 151
	Total	18 232
Significant events and transactions	Changes in investments measured at fair value for 2018-19 were $431 million.	
Financial report opinion	**Unmodified**	

Functional responsibility

SASS was established by the *Superannuation Act 1988*.

SASS provides superannuation benefits for people employed by the SA Government and other prescribed people and makes provisions for their families.

SASS is divided into two segments – the Pension Scheme and the Lump Sum Scheme.

The Pension Scheme is the superannuation scheme for SA Government employees who elected to contribute to SASS before 30 May 1986. Contributors to the Pension Scheme are entitled to a pension based benefit.

The Lump Sum Scheme is the superannuation scheme for SA Government employees who elected to contribute to SASS after 1 July 1988 and up to 3 May 1994. Contributors to the Lump Sum Scheme are entitled to a lump sum based benefit.

Scope of the audit

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

Specific areas of audit attention in 2018-19 included:

- receipting and banking of contributions
- benefit payments
- member benefits liabilities
- maintenance of members' accounts
- investments.

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

Audit findings

Communicating our audit findings

We did not communicate any issues to the Chief Executive of Super SA relating specifically to SASS. Other matters communicated to the Chief Executive of Super SA and those charged with governance are discussed under the South Australian Superannuation Board commentary.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Assets		
Investments	5 101	5 116
Other assets	13	16
Total assets	5 114	5 132
Liabilities		
Benefits payable and other current liabilities	32	18
Total liabilities	32	18
Net asset available to pay benefits	5 082	5 113
Member benefits		
Defined benefit member liabilities	8 819	9 058
Defined contribution member liabilities	624	653
Total member liabilities	9 443	9 711
Equity		
Defined benefits that are over (under) funded	(4 361)	(4 598)
Total equity	(4 361)	(4 598)

	2019 $’million	2018 $’million
Revenue		
Changes in investments measured at fair value	431	583
Total revenue	431	583
Expenses		
Investment expenses	38	44
Higher education expense	9	9
Administration expenses	4	3
Total expenses	51	56
Result from superannuation activities	380	527
Net change in defined member benefits liabilities	45	(45)
Allocation to defined contribution member accounts	(188)	(203)
Operating result	237	279
Changes in member benefits		
Net contributions	473	466
Benefits to members (paid and payable)	(885)	(865)
Net cash flows from operating activities	(13)	(12)
Net cash flows from investing activities	408	415
Net cash flows from financing activities	(398)	(400)

Statement of Financial Position

Investments

Total investments decreased marginally by $15 million to $5.1 billion, as a result of increased payments to members and lower investment returns.

Member benefits liabilities

SASS is a defined benefit superannuation scheme. It is comprised of the old scheme whose members are entitled to a pension benefit payment and the new scheme whose members are entitled to a lump sum benefit payment.

Summarised below are the net assets available for member benefits, member benefits liabilities and the resulting excess of liabilities over net assets.

	2018 $’million	2019 $’million
Net assets available for member benefits	5 113	5 082
Member benefits liabilities	9 711	9 443
Over (Under) funded member benefits liabilities	(4 598)	(4 361)

The $9.4 billion member benefits liabilities comprise $8.8 billion (93%) for the defined benefit liability and $624 million (7%) for the defined contribution liability.

The total of unfunded member benefits liabilities decreased by $237 million to $4.4 billion. This was largely due to:

- the $431 million income from changes in investments measured at fair value in 2018-19
- the overall decline in member numbers, which is consistent with the ageing membership demographic and SASS's closure to new members since May 1986 (old scheme) and May 1994 (new scheme)
- the actuarial calculation of the liability and the effect of the past service liability funding of $384 million.

As mentioned in the 'Superannuation sector overview' section of this Report, the SA Government has committed to fully fund the defined benefit superannuation schemes by 30 June 2034.

The demographic assumptions of the 2016 triennial actuarial review were applied to the calculation of the member benefits liabilities. The following assumptions, which are consistent with the 2016 valuation, were used in calculating the 2019 member benefits liabilities:

- discount rate 7%
- long-term salary inflation 4%
- long-term CPI factor 2.5%.

Vested benefits

Vested benefits are the benefits members are entitled to had their membership been terminated at reporting date. The vested benefits as at 30 June 2019 were $9.6 billion ($9.8 billion) as disclosed in note 4 of SASS's financial report.

Income Statement

Investment revenue

Total revenue decreased by $152 million (26%) to $431 million as a result of lower earnings from changes in investments measured at fair value.

Overall investment performance was lower than 2017-18, with some categories not meeting their benchmarks this year. In particular, Australian equities and international equities recorded returns of around 8% to 10% (13% to 15%). Returns varied across investment categories with some smaller categories outperforming their benchmarks.

Further details on investment returns are included in the Superannuation Funds Management Corporation of South Australia (Funds SA) commentary in this Report.

Expenses

Investment expenses decreased by $6 million to $38 million. This was a result of lower Funds SA investment performance fees, reflecting that lower investment performance in 2018-19 resulted in less fees paid.

Statement of Changes in Member Benefits

Contribution revenue

Details of contribution revenue and membership statistics are presented in the following table.

	2018 $'million	2019 $'million
Contributions for past service liability	372	384
Contributions by employers	42	36
Public authority employer contributions	36	37
Contributions by members	15	14
Transfers from other superannuation entities	1	2
Total	466	473

	2017 Number	2018 Number	2019 Number
Pension Scheme	15 902	15 543	15 081
Lump Sum	3 951	3 559	3 151
Total	19 853	19 102	18 232

Net contributions marginally increased by $7 million (2%) to $473 million, mainly due to:

- an increase of $12 million (3%) in contributions for past service liabilities
- offset by a decrease of $6 million (14%) in contributions by employers.

Past service liability contributions represent funding from both the SA Government (since 1994) and public sector employers to meet accrued superannuation liabilities. The SA Government expects to fully fund its liabilities by 30 June 2034. During the year the SA Government transferred a total of $380 million ($367 million) into the South Australian Superannuation Scheme Contribution Account for past service liability funding. Public sector employers contributed $4 million ($5 million).

The reduction in employer contributions is indicative of a closed scheme where the number of active members is decreasing due to retirements.

Benefits to members

Benefits to members expense comprises the benefits paid and the change in the liability for accrued benefits. Benefits expense can fluctuate significantly due to changing assumptions in the calculation of the estimated liability for accrued benefits. In 2018-19 the assumptions used remained consistent, which is supported by the small increase in benefits to members of $20 million (2%) to $885 million this year. This increase is represented across both pension and lump sum members and reflects a decrease in member numbers, consistent with last year, offset by the indexation of pensions based on CPI.

An annual actuarial assessment of the defined benefit members liabilities is required by AASB 1056 *Superannuation Entities*. Details of the liability are provided under 'Statement of Financial Position' above.

Further commentary on operations

Funding of benefit payments

Benefit payments are funded from a number of sources that have remained relatively consistent. Over half of the benefit payments are funded from the South Australian Superannuation Scheme – Employer Account.

The South Australian Superannuation Fund (the Fund) portion of a benefit is fully funded. Member contributions are deposited into the Fund and, on payment of a benefit, a proportion of the amount is charged against the Fund. The amount charged is determined by legislation and regulation.

There are numerous arrangements covering the funding of the employer liability for accrued superannuation benefits. Depending on the employer's arrangement with the South Australian Superannuation Board they may either:

- make provisions for superannuation liabilities in their own accounts and pay for benefits as they emerge
- contribute fortnightly to employer contribution accounts managed by Funds SA, in this way funding their accruing liability
- make cash contributions to the Treasurer, which are invested with Funds SA.

Note 1(d) of SASS's financial report provides details of the various funding arrangements.

Although a portion of the total superannuation liability is currently unfunded, members' entitlements to benefits must be paid out of the Consolidated Account, or a special deposit account established for that purpose.

Membership statistics for the last three years, provided by Super SA, are shown in the following table.

Pension Scheme	2017 Number	2018 Number	2019 Number
Contributory	532	400	307
Preserved	339	296	245
Superannuants	15 031	14 847	14 529
Total	15 902	15 543	15 081

Lump Sum Scheme	2017 Number	2018 Number	2019 Number
Contributory	2 762	2 447	2 148
Preserved	1 189	1 112	1 003
Total	3 951	3 559	3 151

Total number of members	2017 Number	2018 Number	2019 Number
Contributory	3 294	2 847	2 455
Preserved	1 528	1 408	1 248
Superannuants	15 031	14 847	14 529
Total	19 853	19 102	18 232

Southern State Superannuation Scheme (Triple S)

Financial statistics	Net contribution revenue:	$1.8 billion
	Member benefits liabilities:	$18.7 billion
	Net assets available for member benefits:	$18.9 billion
	Benefits paid and payable:	$1.4 billion
	Number of members:	179 714
Significant events and transactions	Changes in investments measured at fair value for 2018-19 were $1.5 billion.	
Financial report opinion	**Unmodified**	

Functional responsibility

Triple S was established on 1 July 1995 by the *Southern State Superannuation Act 1994* and is continued under the *Southern State Superannuation Act 2009*.

Triple S is a defined contribution scheme that provides superannuation and other products and services for the benefit of people employed, or who have ceased employment, with the SA Government.

Scope of the audit

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

Specific areas of audit attention in 2018-19 included:

- receipting and banking of contributions
- benefit payments
- member benefits liabilities
- maintaining members' accounts
- investments
- reconciling superannuation data from the Bluedoor administration system to the general ledger.

The investment and management of Triple S's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

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

Audit findings

Communicating our audit findings

We did not communicate any issues to the Chief Executive of Super SA relating specifically to Triple S. Other matters communicated to the Chief Executive of Super SA and those charged with governance are discussed under the South Australian Superannuation Board commentary in this Report.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Assets		
Investments	18 983	17 242
Other assets	64	63
Total assets	19 047	17 305
Liabilities		
Benefits payable	96	87
Insurance liabilities	19	24
Other liabilities	-	1
Total liabilities	115	112
Net assets available for member benefits	18 932	17 193
Member benefits		
Member benefit liabilities	18 725	16 992
Total net assets	207	201
Total equity	207	201
Revenue		
Changes in investments measured at fair value	1 498	1 594
Total revenue	1 498	1 594
Expenses		
Investment expenses	105	111
Other expenses	14	17
Total expenses	119	128
Result from superannuation activities	1 379	1 466
Insurance expenses	(2)	10
Net benefits allocated to members accounts	1 375	1 435
Operating result	6	21

	2019 $'million	2018 $'million
Changes in member benefits		
Net contributions	1 795	1 639
Benefits to members (paid and payable)	(1 431)	(1 273)
Net cash flows from operating activities	(22)	(22)
Net cash flows from investing activities	(349)	(354)
Net cash flows from financing activities	378	381

Statement of Financial Position

The accumulative nature of Triple S (a defined contribution scheme) means that member benefits liabilities are fully funded.

Benefits payable

Benefits payable increased by $9 million (11%) mainly due to:

- an increase in retirement payout requests of $26 million
- offset by decreases of $17 million in requests for payments on resignation or to transfer to other superannuation funds.

Net assets available for member benefits

Net assets available to pay member benefits liabilities increased by $1.7 billion (10%) to $18.9 billion. This increase is indicative of the accumulative nature of Triple S, where the increases reflect the total of contributions received and net investment income less benefits paid and other expenses. In 2018-19, while the total dollar value of investments measured at fair value was higher, the actual return on investments was lower than in the previous year.

Income Statement

Revenue

Total revenue decreased by $96 million (6%) as a result of lower earnings from changes in investments measured at fair value.

Overall investment performance was lower than 2017-18, with some categories not meeting their benchmarks this year. In particular, Australian equities and international equities recorded returns of around 8% to 10% (13% to 15%). Returns varied across investment categories, with some smaller categories outperforming their benchmarks.

Further details on investment returns are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

Expenses

The decrease in total expenses of $9 million was mainly due to decreases in investment expenses of $6 million as a result of lower Funds SA investment performance fees. While there were increased funds under management, overall investment performance was lower resulting in lower fees paid.

Statement of Changes in Member Benefits

Net contribution revenue

Total contributions increased by $156 million (10%) to $1.8 billion. In 2018-19, increases occurred in all contribution categories, with significant increases in employer contributions and transfers from other superannuation entities. The overall increase reflects the growth in contributory member numbers and the impact of wage increases, which also flow through to higher superannuation contributions.

Details of contribution revenue and membership statistics, supplied by Super SA, are provided in the following table.

	2018 $'million	2019 $'million
Contributions by employers	1 157	1 188
Contributions by members	109	116
Transfers from other superannuation entities	372	490
Government co-contributions	1	1
Total	1 639	1 795

	2017 Number	2018 Number	2019 Number
Contributory members	29 474	29 707	31 024
Non-contributory members	87 645	92 725	91 004
Preserved members	59 887	58 431	57 001
Spouses	601	661	685
Total	177 607	181 524	179 714

Active members of Triple S (including spouse members) can elect to make contributions.

Employers are required to make contributions for active eligible contributory and non-contributory members of Triple S.

Contributory member numbers increased in 2018-19 by 4%, while overall member numbers were down slightly (1%).

Benefits paid and payable

Benefits paid and payable to members increased by $158 million (12%) to $1.4 billion mainly due to:

- a $337 million increase in amounts transferred to other superannuation funds
- an increase of $76 million in payments on retirement
- offset by a $279 million decrease in payments associated with resignations.

The increase in benefits paid and payable over recent years is shown in the following table.

	2016 $'billion	2017 $'billion	2018 $'billion	2019 $'billion
Benefits paid and payable	1.2	1.2	1.3	1.4

Statement of Cash Flows

The analysis of cash flows shows that Triple S maintains a relatively small balance of funds on hand. Amounts not used to pay benefits and other expenses are transferred to Funds SA for investment, which is reflected in the cash flows from investing and financing activities.

Super SA Retirement Investment Fund (SSARIF)

Financial statistics	Net contributions revenue:	$1.2 billion
	Member benefits liabilities:	$4.9 billion
	Net assets available for member benefits:	$4.9 billion
	Benefits paid and payable:	$955 million
	Number of members:	16 505
Significant events and transactions	Changes in investments measured at fair value for 2018-19 were $342 million.	
Financial report opinion	**Unmodified**	

Functional responsibility

SSARIF continues in existence under the *Southern State Superannuation Act 2009*.

SSARIF provides investment services and other products and services for the benefit of people who have retired, are reaching retirement age or have ceased employment with the SA Government.

Scope of the audit

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

Specific areas of audit attention in 2018-19 included:

- receipting and banking of contributions
- benefit payments
- investments
- reconciling superannuation data from the Bluedoor administration system to the general ledger.

The investment and management of SSARIF's assets is reviewed as part of the Superannuation Funds Management Corporation of South Australia (Funds SA) audit.

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

Audit findings

Communicating our audit findings

We did not communicate any issues to the Chief Executive of Super SA relating specifically to SSARIF. Other matters communicated to the Chief Executive of Super SA and those charged with governance are discussed under the South Australian Superannuation Board commentary in this Report.

Interpretation and analysis of the financial report

SSARIF comprises transactions for the Super SA Income Stream Product (Income Stream) and the Flexible Rollover product.

Highlights of the financial report

	2019 $'million	2018 $'million
Assets		
Investments	4 947	4 363
Other assets	24	27
Total assets	4 971	4 390
Liabilities		
Benefits payable	26	15
Other liabilities	29	23
Total liabilities	55	38
Net assets available for member benefits	4 916	4 352
Member benefits		
Income Stream member liabilities	3 595	3 179
Flexible Rollover product member liabilities	1 299	1 154
Total member liabilities	4 894	4 333
Total equity	22	19
Revenue		
Changes in investments measured at fair value	342	331
Other revenue	6	7
Total revenue	348	338
Expenses		
Investment expenses	25	25
Other expenses	3	4
Total expenses	28	29
Result from superannuation activities	320	309
Net benefits allocated to members accounts	313	300
Income tax expenses	4	(1)
Operating result	3	8

	2019 $'million	2018 $'million
Changes in member benefits		
Net contributions	1 202	1 118
Benefits to members (paid and payable)	(955)	(824)
Net cash flows from operating activities	(13)	(12)
Net cash flows from investing activities	(260)	(294)
Net cash flows from financing activities	271	315

Statement of Financial Position

Net assets available to pay member benefits increased by $564 million (13%) to $4.9 billion. This is the result of investment revenue earned, together with additional funds invested. It is indicative of the accumulative nature of SSARIF, where the increases reflect the total of contributions received and net investment income less benefits paid and other expenses. The accumulative nature of SSARIF also means that it is fully funded.

Income Statement

Revenue

Total revenue increased by $10 million (3%) due to the changes in investments measured at fair value as a result of increased returns for several categories of investments which outperformed their benchmarks. In particular property and diversified strategy growth investments recorded returns of around 8% to 9%.

Further details on investment returns are included in the Superannuation Funds Management Corporation of South Australia commentary in this Report.

Expenses

The decrease in total expenses to $28 million ($29 million) was mainly due to decreased investment expenses as a result of lower Funds SA investment performance fees. While there were increased funds under management, overall performance against benchmarks was lower in 2018-19.

Statement of Changes in Member Benefits

Total contributions increased by $84 million (8%) to $1.2 billion due to:

- an increase of $13 million in member contributions to the Flexible Rollover product
- an increase of $82 million in rollovers from other schemes
- offset by an increase of $10 million in income tax expense on rollovers.

Contributions to SSARIF are all voluntary and are therefore open to fluctuation.

Benefits paid or payable to members increased by $131 million (16%) to $955 million due to:

- an increase of $66 million (21%) in the Flexible Rollover product
- an increase of $65 million (13%) in the Income Stream product.

The increase in benefits paid and payable is mainly due to the overall increase in the number of members of SSARIF. In 2018-19, there were 1400 (9%) more members in the scheme.

Total benefits available to members ultimately depend on the investment strategy and investment performance, with no guarantee of return provided by the SA Government.

Statement of Cash Flows

The net cash from operating activities marginally decreased by $1 million as a result of increased income tax payments in 2019.

The net flows from investing activities increased by $34 million mainly due to increased receipts from Funds SA from the sale of investments.

The net flows from financing activities decreased by $44 million mainly due to increased benefit payments to members, offset by increased transfers from other superannuation entities in 2018-19.

Further commentary on operations

Membership statistics, provided by Super SA, and total investments for the last four years are provided in the following table.

	2016 Number	2017 Number	2018 Number	2019 Number
Flexible Rollover product	4 351	4 733	5 291	5 819
Income Stream	7 965	8 898	9 814	10 686
Total	12 316	13 631	15 105	16 505

	2016 $'000	2017 $'000	2018 $'000	2019 $'000
Total investments	3 185 000	3 758 000	4 363 000	4 947 000

Superannuation Funds Management Corporation of South Australia (Funds SA)

Financial statistics	Net surplus:	$1.3 million
	Number of FTEs:	46.3
	Funds under management:	$34.2 billion
	Net income of assets under management:	$2.5 billion

Significant events and transactions

- Funds under management grew by $1.9 billion to over $34 billion.
- The Motor Accident Commission redeemed $993 million of invested funds.

Financial report opinion — **Unmodified**

Controls opinion findings — No significant findings.

Functional responsibility

Funds SA is a statutory authority established by the *Superannuation Funds Management Corporation of South Australia Act 1995* (the SFMCSA Act).

Funds SA's main function is to invest and manage the public sector superannuation funds, nominated funds of approved authorities and other funds (funds under management) under strategies it formulates. For details of Funds SA's objectives and functions refer note 1.2 of its financial report.

Restrictions on operations

Under section 21(1) of the SFMCSA Act, Funds SA is subject to the direction and control of the Minister. However, a ministerial direction must not be given for an investment decision, dealing with property or the exercise of a voting right.

Funds SA has broad powers over the investment of funds under management. It cannot, however, borrow money or obtain any other form of financial accommodation unless authorised to do so by the Regulations under the SFMCSA Act or by the Minister. In addition, the Regulations impose restrictions so that Funds SA cannot invest in real property outside the State or enter into derivative transactions (eg futures contracts, forward contracts and swaps) without the Minister's authority. The Minister has provided authority for Funds SA to enter into such investments.

Structure

Funds SA operates with a small staff comprising portfolio managers, operations, corporate engagement and business services staff. This structure is complemented by extensive use of external fund management firms. Fund managers are used for all investment types, and there is a single custodian entity (which is responsible for holding, valuing and accounting for the assets) for the assets managed by most of those fund managers. Each fund manager and the custodian is appointed under an agreement that dictates the scope for investment, fees and reporting requirements.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- investment policy and strategy approval and compliance
- investment allocation and redemption
- investment income and valuation
- custodial and fund management activities
- administration expenses.

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

Controls opinion

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

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Chief Executive Officer.

Controls opinion findings

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

Other audit findings

Overall the findings were low risk and Funds SA responded that it will take action to address them.

Interpretation and analysis of the financial report

Highlights of the financial report

Funds SA	2019 $'million	2018 $'million
Total income	12.3	10.2
Total expenses	11.0	8.3
Net surplus (deficit) and total comprehensive result	1.3	1.9
Net cash provided by (used in) operating activities	0.9	0.5
Total assets	11.4	10.0
Total liabilities	2.6	2.5
Total equity	8.8	7.5

Funds under management	2019 $'billion	2018 $'billion
Net income	2.5	2.8
Net assets	34.2	32.3

Statement of Comprehensive Income

Funds SA's operating result for the year was a net surplus of $1.3 million ($1.9 million).

Revenues from fees and charges increased by $2 million as a result of higher fees charged for services provided to Funds SA clients. This was due in part to a higher rate charged for average funds under management of 0.04% (0.035%), and also a higher volume of funds under management. Funds SA aims to only recover its costs and from time to time will rebate amounts charged for its services if excessive amounts are recovered. No rebate was made in 2018-19.

Expenses increased by $2.7 million mainly as a result of an increase in employee benefits costs, up $1.9 million, and supplies and services, up $738 000.

The increase in employee benefits costs was due mainly to increased salaries and wages, up $1.8 million, as a result of hiring additional staff and increases in salaries for executive positions. This is in line with Funds SA's strategic plan to strengthen its capabilities to prepare for the challenges of the future.

The increase in supplies and services was mainly due to:

- increases in legal and advisory expenses, up $164 000, for consultancies relating to database development and human resources policy development

- travel and accommodation, up $148 000 due to an increase in both domestic and international travel by the investment team to meet with fund managers
- IT expenses, up $126 000, as part of implementing a new digital strategy.

Further commentary on operations

Funds under management

Funds SA responsibilities

As mentioned, Funds SA exists to invest and manage the public sector superannuation funds, funds of eligible superannuation schemes and nominated funds of approved authorities.

To do this, Funds SA has established a range of different investment options and tailored multi-sector strategies it offers to its clients. These investment options and strategies comprise a mix of differing strategic asset allocations to meet its client's investment objectives, differing time horizons and levels of acceptable risks.

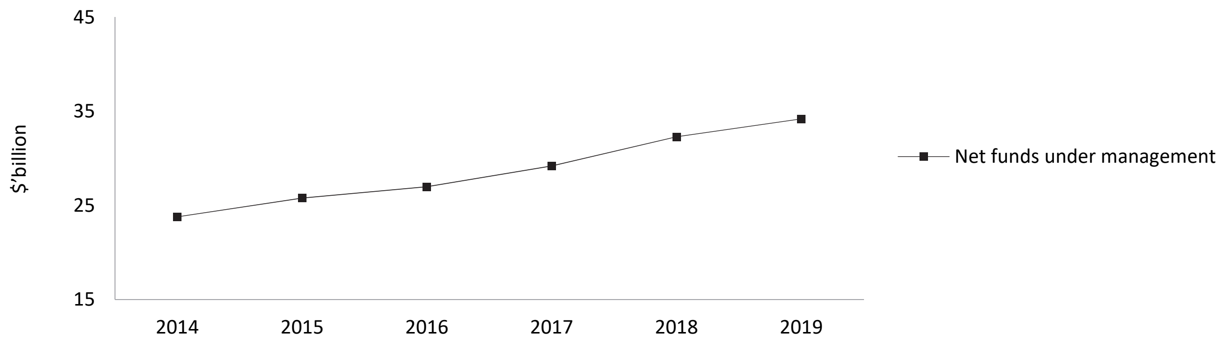
Funds SA is responsible for managing the investment portfolios it has established in line with asset allocations and investment performance reporting agreed with its clients.

Investor responsibilities

The public sector superannuation funds, eligible superannuation schemes and approved authorities decide which of Funds SA's options meets their investment needs. They deposit funds with Funds SA throughout the financial year to acquire units in an investment option, which in turn holds units in each of the asset classes that make up the investment option. They receive investment performance reporting as they require to meet their responsibilities for their invested funds.

Funds under management continue to grow

The following chart shows the net funds under management as at 30 June over the past six years.



Entities investing with Funds SA at 30 June 2019

The following table sets out the entities investing with Funds SA, the investment options used and funds under management at 30 June 2019.

Investor/Fund	Investment option	Funds under management $'million
Superannuation funds		
South Australian Superannuation Board:		
South Australian Superannuation Scheme:		
South Australian Superannuation Scheme – Employer Contribution Accounts	Defined benefit strategy	2 857
South Australian Superannuation Fund – Old Scheme Division	Defined benefit strategy	1 616
South Australian Superannuation Fund – New Scheme Division	Various	627
Southern State Superannuation Scheme:		
Southern State Superannuation Fund	Various	18 983
Super SA Retirement Investment Fund	Various	4 947
South Australian Ambulance Service Superannuation Scheme	Balanced B	288
Police Superannuation Board:		
Police Superannuation Scheme	Defined benefit strategy	1 979
South Australian Parliamentary Superannuation Board:		
Parliamentary Superannuation Scheme	Various	256
Trustee of the SA Metropolitan Fire Service Superannuation Scheme:		
SA Metropolitan Fire Service Superannuation Scheme	Various	434
Other superannuation schemes	Various	293
Approved authorities for the purpose of investing funds with Funds SA		
South Australian Government Financing Authority	Various	662
Motor Accident Commission	Motor Accident Commission A	165
Lifetime Support Authority of South Australia	Lifetime Support Authority Strategy	761
Other authorities	Various	304

Asset allocation

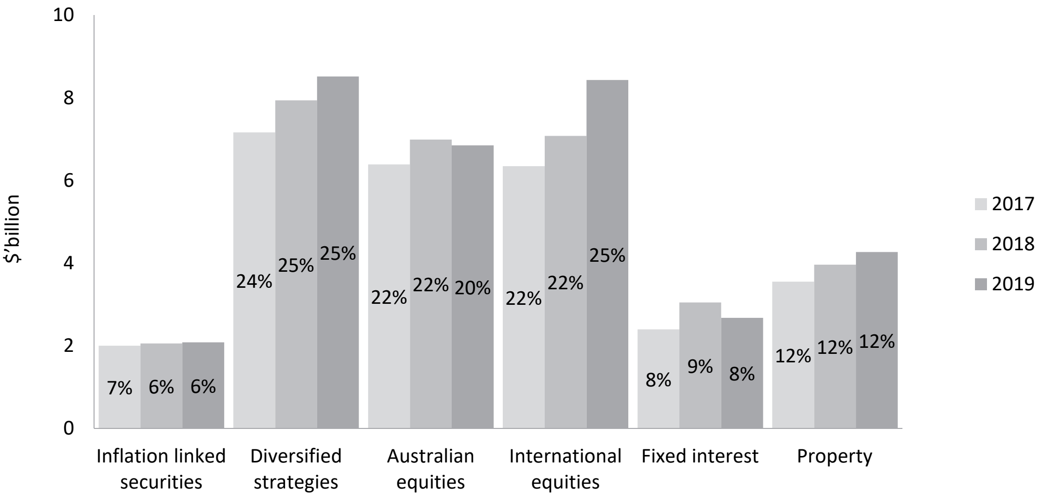
An investment policy drives decisions about how funds will be invested. Section 7 of the SFMCSA Act provides that Funds SA's objective in performing its functions is to achieve the highest return possible on investment of the funds while having proper regard for:

- the need to maintain the risks relating to investment at an acceptable level
- the need for liquidity in the funds
- any other matters that are prescribed by regulation.

Underpinning the investment policy and decision-making is an understanding of the financial risks facing Funds SA. One of the key strategies Funds SA uses in managing its financial risk is to diversify its funds under management into 17 asset classes.

Funds SA continually monitors investment performance during the year and makes adjustments to investment subclass holdings as required.

The holding of each asset class (excluding the cash and socially responsible investment classes, which in total only represent 4% (4%) of the total funds under management) as a percentage of total funds under management at 30 June for the last three financial years is shown in the following chart. The asset classes include both taxed and untaxed funds where applicable.



The chart shows the increased value of funds under management across most asset classes over the year. Asset class movements were due to investment returns and net investor cash inflows.

Long-term fixed interest, Australian equities and property were the strongest performing asset classes for the year, recording returns of around 10.8%, 9.5% and 9.5% respectively.

Australian equities decreased in value and in percentage of holdings due to redemptions from the asset class during the year. International equities increased in value and as a percentage of holdings due to a return of 8% and additional investments made during the year.

Diversified strategies (including both growth and income) asset classes increased in value from the prior year, but remained steady in their percentage of holdings. The diversified strategies growth asset class recorded returns of 8.8% as a result of strong returns from private equity markets, while diversified strategies income recorded a return of 5.5% due to the performance of both diversified debt and absolute return components of this asset class.

Property assets increased in value and percentage holdings remained steady as a result of strong returns from commercial office markets in Australia.

Fixed interest assets had strong performance in the Australian bond market in both short and long-term fixed interest asset classes, however the value and percentage holdings decreased. This is a result of redemptions from the Motor Accident Commission which previously had a large fixed interest holding. Inflation linked securities experienced positive returns resulting in a slight increase in its value with its percentage holdings remaining steady.

The primarily long-term nature of investment strategies means funds under management are exposed to periodic falls in financial markets as well as gains.

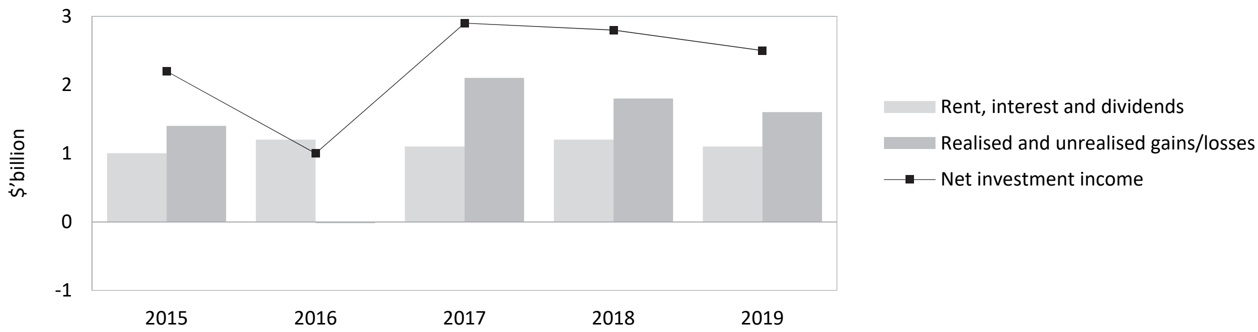
Income from investments

Net income from investment activities comprises income from rent, interest and dividends, and realised and unrealised gains and losses from investment valuations less expenses incurred in the investment activity.

Net income from investment activities was a surplus of $2.5 billion ($2.8 billion). Income comprised rent, interest and dividends of $1.1 billion ($1.2 billion), realised losses of $29.5 million ($363.9 million gain) and unrealised gains of $1.6 billion ($1.5 billion), offset by investment expenses of $205.2 million ($222.9 million).

Schedule 1 of Funds SA's financial report provides full details of income earned from investment activities for each asset class.

An analysis of the investment result for funds under management for the five years to 2019 is shown in the following chart.



As can be seen from this chart, positive realised and unrealised gains in 2015, 2017, 2018 and 2019 contributed significantly to the net investment income result. In 2016 there were realised and unrealised losses but they were offset by rent, interest and dividend income to still provide a positive net investment income result.

The following table shows a structural analysis of net income earned for the five years to 2019, highlighting the varying performance of the major investment asset classes. It should be noted that the magnitude of net income earned from investment activities in each year is a function of not only the performance of financial markets, especially equities, but also the size of total assets invested in the markets.

	2015 $'million	2016 $'million	2017 $'million	2018 $'million	2019 $'million
Inflation linked funds	103	28	57	81	147
Property	289	425	313	439	370
Australian equities	315	27	835	849	577
International equities	1 007	(125)	1 073	933	620
Fixed interest	109	162	4	72	224
Diversified strategies	320	403	566	417	533
Cash/Socially responsible/Other	52	50	50	34	31
Total net income	2 195	970	2 898	2 825	2 502
Total value of assets invested as at 30 June	25 797	26 986	29 246	32 321	34 179

The earlier chart showing asset class holdings indicated that Funds SA's investment strategy is weighted towards international equity and diversified strategies holdings. The table above shows a decrease in income for the Australian equities class in 2019, and a decrease in income from international equities, reflecting their respective market performance during the year. The volatile nature of these investments will cause their returns to fluctuate from year to year consistent with prevailing economic conditions. Income from diversified strategies increased reflecting the performance of the underlying assets during the year. Income from property decreased in 2019 due to lower returns than in the prior year. Income from fixed interest increased due to positive returns in both the short and long-term fixed interest portfolio. Income from inflation linked funds increased as a result of the strong performance of the internally managed investments.

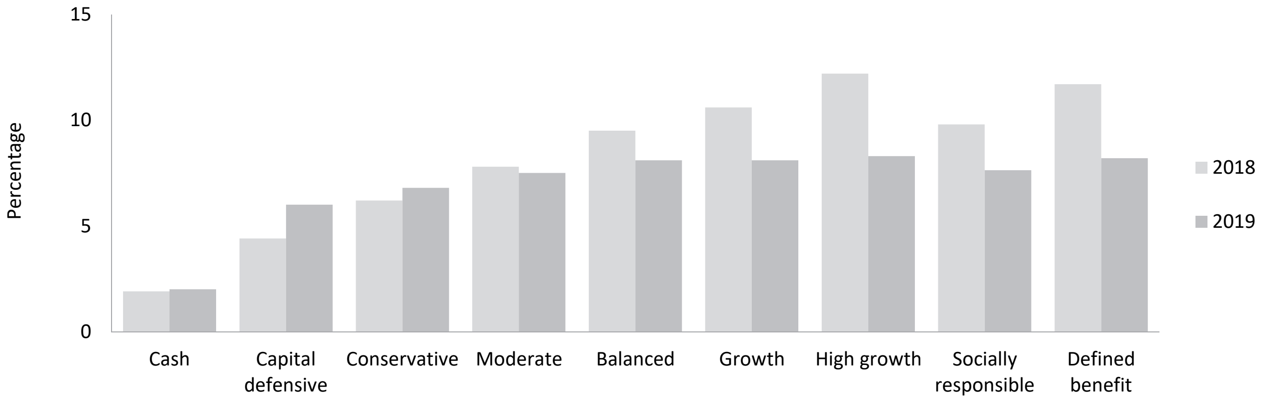
Investment expenses

In 2019 investment expenses amounted to $205 million, a decrease of $18 million from the previous year. The decrease is primarily the result of lower performance fees, which is especially evident in the diversified strategies growth asset class. Total investment expenses are 0.6% (0.7%) of average funds under management.

Year	Investment expenses $'million	Average funds under management $'billion
2015	153.4	25.1
2016	162.5	26.4
2017	208.7	28.5
2018	222.9	31.3
2019	205.2	32.6

Investment option performance

The chart below shows the returns for Funds SA's tax exempt investment options and multi-sector strategies as at 30 June for the past two years.



The chart shows that most investment options and multi-sector strategies achieved lower returns in 2018-19 than the previous year. The exceptions are the conservative, capital defensive and cash investment options. Funds SA's tax exempt investment options and multi-sector strategies range in return from 2% for cash to over 8.3% for high growth. The returns of each investment option and multi-sector strategy reflect the performance of the underlying asset classes.

The table below shows Funds SA's percentage return for each of the past 10 years for both the balanced and growth (tax exempt) funds, which together account for over 50% of total funds under management. These figures were provided by Funds SA and are unaudited.

	10 years	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
	% p.a.	%	%	%	%	%	%	%	%	%	%
Balanced	9.6	12.6	10.9	3.1	14.7	13.8	9.4	3.9	11.0	9.5	8.1
Growth	10.1	12.3	11.4	2.0	16.4	14.9	10.0	3.8	12.4	10.6	8.1

The performance of the balanced and growth funds for 2019 was ahead of the growth median return of 7% as surveyed by Chant West.

Asset class performance against benchmark

The performance against target benchmarks for certain asset classes for 2018-19 and for the three years ended 2018-19 is shown in the following table. These figures were provided by Funds SA and are unaudited.

	1 year Actual %	1 year Benchmark %	3 years Actual %	3 years Benchmark %
Cash	2.0	2.0	2.0	1.9
Short-term fixed interest	5.0	4.8	3.0	2.9
Long-term fixed interest	10.8	11.6	4.1	4.1
Inflation linked securities A	7.8	6.4	5.0	4.0
Diversified strategies income	5.5	6.9	4.4	4.8
Property A	9.5	7.2	10.7	9.6
Australian equities A	9.5	11.4	12.6	12.8
International equities A	8.0	9.4	14.3	14.5
Diversified strategies growth A	8.8	6.1	12.1	5.9
Inflation linked securities B	5.6	5.4	4.0	3.7
Property B	9.2	7.2	10.3	9.6
Australian equities B	9.2	11.4	12.5	12.8
International equities B	8.0	9.6	13.7	14.4
Diversified strategies growth B	8.5	6.1	11.6	5.9

The performance of asset classes against benchmark for 2018-19 varied depending on the asset class. The diversified strategies growth and property asset classes had the strongest performance against the benchmark, while Australian and international equities underperformed. Across a three-year time horizon asset classes performed closer to the benchmark.

TAFE SA

Financial statistics	Total expenses:	$366 million
	Net cost of providing services:	$8 million
	Total income from the Department for Innovation and Skills (DIS):	$259 million
	Number of FTEs (excluding casuals):*	1999
	Number of training hours funded by DIS:*	7.4 million
	Total training hours:*	14.9 million

* Data provided by TAFE SA and unaudited.

Significant events and transactions

— Total funding from DIS was $259 million, with $146 million received to provide 7.4 million training hours.

— A new Chief Executive commenced in April 2019.

— Seven new Board members were appointed in 2018-19, replacing the interim Board appointed in April 2018.

— 99 staff took targeted voluntary separation packages (TVSPs) in 2018-19, bringing the total over the last five years to 363.

— The Minister for Education announced a new strategy – A Fresh Start for TAFE SA – which aims to reform TAFE SA and enable it to compete in a future contestable vocational education and training (VET) market.

Financial report opinion

Unmodified

Controls opinion findings

No significant findings.

Other audit findings

— Some employee reporting relationships were not set up correctly in the payroll system.

— Review or approval of key payroll documents was not prompt.

— Controls over the hiring of, and payments to, hourly paid instructors could be improved.

— No formal independent reviews of altered grades.

— No IT disaster recovery master plan.

Functional responsibility

TAFE SA is established under the *TAFE SA Act 2012* and is a statutory corporation to which the provisions of the *Public Corporations Act 1993* (other than section 35) apply.

The TAFE SA Board is responsible to the Minister for Education.

TAFE SA's main function is to provide technical and further education.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- expenditure and accounts payable
- payroll processing
- revenue including funding from DIS, student revenue and accounts receivable
- general ledger and key reconciliations.

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

Controls opinion

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

Audit findings

Communicating our audit findings

We communicated our audit findings, including several that were raised in prior years, in a management letter to the Chair of the TAFE SA Board. The main matters raised and TAFE SA's responses are detailed below.

Controls opinion findings

There were no significant findings for our controls opinion work at TAFE SA.

Other audit findings

Payroll

Total salaries and wages expenses for TAFE SA employees were $188 million (including annual leave), of which $11 million was paid to hourly paid instructors (HPIs).

Some employee reporting relationships were not correctly set up in the payroll system

TAFE SA staff have been paid through the Chris21 payroll system since November 2017. Since then, TAFE SA has experienced ongoing issues with some reporting relationships in the system. This year, we found these issues had resulted in 23 employees not being assigned to key payroll reports. This meant these 23 staff did not appear on 50 affected key payroll reports used to check payments and leave processed.

As a result, there was an increased risk that the payment details for these employees were not reviewed to ensure that the hours they had worked and any leave they had taken was correctly recorded in the payroll system.

TAFE SA advised that it:

- had implemented an additional weekly report to identify incorrect or missing reporting relationships in the payroll system and a protocol to have these issues addressed immediately by Shared Services SA
- would continue to monitor reporting relationships prior to each payroll run
- had formally requested Shared Services SA to make the key reporting relationship fields mandatory in the payroll system, requiring all staff to be assigned to them when positions are created.

Review or approval of key payroll documents was not prompt

TAFE SA managers use bona fide certificates (BFCs) and leave return reports (LRRs) to verify that their salaried team members have been correctly paid and leave they have taken is correctly shown in the payroll system.

We found BFCs and LRRs were not effectively reviewed, as 49% of BFCs and 43% of LRRs were not reviewed in the five day time frame TAFE SA policy requires. We also found 5% of BFCs and 13% of LRRs were not reviewed at all between July and December 2018.

The ineffective review of these key reports increases the risk of financial loss to TAFE SA due to inaccurate payroll processing or leave recording in the payroll system.

TAFE SA responded that a dashboard, currently available to Education Business Unit Directors and HR Business Partners, which provides oversight of key payroll compliance would be rolled-out to all Directors and Executive Directors by 31 December 2019.

Controls over the hiring of, and payments to, hourly paid instructors could be improved

— A number of hourly paid instructors commenced work without a signed contract

We have reported for a number of years that contracts for HPIs were being signed after the HPI started working with TAFE SA. In 2018-19 we identified that 427 HPI contracts, 45% of total HPIs, commenced work before signing an employment agreement.

TAFE SA's policies require a contract to be in place before an HPI commences, in part to ensure there is a clear agreement on contract arrangements.

The absence of a signed employment contract increases the risk of HPIs not understanding their responsibilities as TAFE SA employees and TAFE SA not complying with its enterprise agreement.

TAFE SA responded that the Chief People and Culture Officer would reiterate the requirement to have executed contracts prior to any work being undertaken by HPIs. TAFE SA human resources personnel would provide formal warnings and subsequent disciplinary action to both hiring managers and HPIs where they continue to work without a valid employment contract.

TAFE SA also advised a letter would be issued to all HPIs at the commencement of each academic year stating that they will be in breach of TAFE SA requirements if they undertake work without an executed contract of employment. Each HPI will be required to sign an acceptance of the letter and return it, with escalation processes in place where that does not occur.

— *Lack of segregation for HPI claims processing*

The previous system through which HPI claims were processed was decommissioned in February 2018 and there was no replacement application at that time, resulting in a manual process for HPI claim approvals.

Without a system in place, there is no enforced segregation of HPI payments within the human resources systems team, with all members of the team able to review, make changes to and approve HPI claims without an independent review.

This increases the risk that HPI claims in manual spreadsheets may be incorrect due to human error or manipulation of data.

TAFE SA responded that it would improve security over data files used in this process to limit the potential for them to be manipulated. It will also include HPI employees in improved bona fide reporting, so that managers can confirm HPIs are valid employees before payment.

— *Some HPIs have worked more than 400 hours (the maximum allowed under the enterprise agreement)*

The enterprise agreement sets a maximum limit of 400 hours work for HPIs during the TAFE SA academic year (1 February to 31 January).

The enterprise agreement states that where the hours of instruction and assessment are regular and can reasonably be predicted to be more than 400 hours in this time, the arrangement must be treated as part-time employment, whether on a temporary or permanent basis.

We identified 89 HPIs who had claimed more than 400 hours during the 2018 TAFE SA year, with the highest claiming 684 hours.

There did not appear to be any active monitoring controls in place to identify HPIs who were approaching the 400-hour limit and allow appropriate time for alternative arrangements to be put in place for the associated teaching needs.

This increases the risk of potential staff dissatisfaction or legal disputes and claims in future from HPI staff who have been engaged beyond the 400-hour limit.

TAFE SA responded that:

- all HPI employees would be advised in writing of their obligation to not work in excess of 400 hours by the end of October 2019
- a process to advise HPIs and their managers when they have exceeded 300 hours would be in place by the end of November 2019, reminding HPIs not to exceed 400 hours
- a report identifying HPI employees who delay submitting their claims would be developed and continued instances would be escalated to the HPI's manager
- the current HPI Claim Tool would be enhanced by the end of 2019 to prevent payment of more than 400 hours in an academic year
- all claims would now require approval from the Educational Manager responsible for the HPI.

Student fees and other revenue

TAFE SA earned $33 million in student enrolment fees and charges in 2018-19.

No formal independent review of altered grades

The total number of students commencing in 2018-19 who then successfully passed a topic was 44 000.

We were advised that for the 2018 TAFE SA year there were 10 315 grade changes made by the Data Services Team. There was no evidence that these grade changes were being independently reviewed to ensure that changes were appropriate.

TAFE SA had previously advised it would implement an independent review process, however this was not in place as at April 2019.

This increases the risk that incorrect grades are entered in student results.

TAFE SA responded that it had undertaken a range of activities under a quality initiative relating to resulting – including reviews of data and high-risk functions in the Student Information System, identifying the need for staff training and some system changes to improve the resulting process. A revised resulting policy will also be implemented from October 2019, supported by professional development and training for all educational staff.

No IT disaster recovery master plan

We found that TAFE SA did not have an IT disaster recovery master plan. We were advised that development of the plan was in progress.

An IT disaster recovery master plan provides instructions for recovering critical applications and information in the event of a disaster, with the objective of recovering TAFE SA's normal IT supported business operations promptly.

TAFE SA responded that it had existing capabilities and processes in place to recover TAFE SA's IT and associated data in the event of a disaster. It advised an overarching IT disaster recovery plan was being finalised.

Interpretation and analysis of the financial report

Highlights of the financial report

	2019 $'million	2018 $'million
Expenses		
Employee benefits	237	226
Supplies and services	123	127
Other expenses	6	6
Total expenses	366	359
Income		
Grants and subsidies from DIS	259	246
Student and other fees and charges	84	89
Other income	15	8
Total income	358	343
Total comprehensive result	(8)	(16)
Assets		
Current assets	81	76
Non-current assets	25	27
Total assets	106	103
Liabilities		
Current liabilities	47	41
Non-current liabilities	52	48
Total liabilities	99	89
Total equity	7	14

Statement of Comprehensive Income

Expenses

Employee benefits

Employee benefits are TAFE SA's main expense, accounting for 65% (63%) of total expenses.

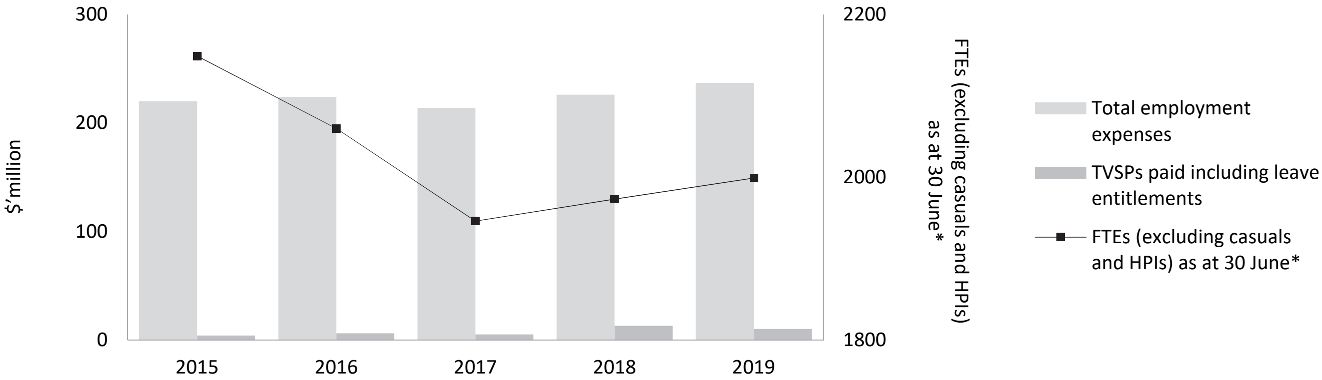
Employee benefits expenses increased by $11 million to $237 million in 2018-19. This was mainly due to an increase in salaries and wages of $7 million and an increase in long service leave expenses of $4 million.

The increase in salaries and wages included increases from enterprise bargaining agreements of around $4 million.

Long service leave expenses mainly increased due to the reduction in the discount rate, the yield on long-term Commonwealth Government bonds, used to measure the long service leave liability from 2.5% in 2018 to 1.25% in 2019. This caused an increase of $3.7 million in the long service leave expense.

Employee benefits expenses included payments of TVSPs and related leave of $10 million ($13 million) to 99 staff and payments totalling $2 million ($5 million) to staff identified as excess, for which TAFE SA receives specific funding from DIS.

The following chart shows total employment expenses, total TVSP payments and total FTE staff (excluding casuals and HPIs) for the last five years.



* FTE data sourced from TAFE SA and unaudited.

When the impact of TVSPs is excluded, the employee benefits expense has increased in each of the last three years.

This analysis highlights that decreases in overall staff numbers in prior years, including TVSPs to 363 staff over the last five years, have largely been absorbed by increases in payments to remaining staff through enterprise bargaining agreement wage rises, and an increase in FTEs over the last two years.

Salaried FTEs increased from 1973 as at 30 June 2018 to 1999 this year. FTEs as at 30 June 2019 consist of:

TAFE SA Act	1082
Public Sector Act	908
Excess staff	9

Total FTEs increased by 26 in 2018-19 even though 99 staff were paid TVSPs. The increase in staff was mainly due to:

- the expansion of the Quality Teaching and Learning Business unit in 2018-19
- additional crèche services in 2018-19, with the services a requirement of TAFE SA's delivery of the Commonwealth's Adult Migrant English Program (AMEP).

Supplies and services

Overall supplies and services expenses were $123 million, a decrease of $4 million from 2017-18. The main decrease was IT expense of $2 million, including a $1.5 million saving from exiting the SA Government's main network, StateNet.

Income

Funding from the Department for Innovation and Skills

TAFE SA's main income source is DIS. Total funding from DIS was $259 million ($246 million).

DIS funding continued to account for 72% of TAFE SA's total income in 2018-19 and is made up of the following components.

	2019 $'million	2018 $'million
VET subsidies	146	114
Other grant funding	93	100
Community services	12	12
Excess staff funding	2	5
Capital funding	5	4
TVSP reimbursement*	-	9
Other specific funding	1	2
Total income	259	246

* TAFE SA was reimbursed directly from the Department of Treasury and Finance for TVSPs in 2018-19.

Funding was agreed in a memorandum of administrative arrangement (MoAA) between TAFE SA and DIS for 2018-19. The MoAA requires DIS to pay TAFE SA:

- training subsidies for all VET training subsidy services based on the number of hours of training delivered
- community services
- funding to support services delivered under the Skilling Australians Fund
- other funding equal to the total approved budget in the Department of Treasury and Finance's budget monitoring system.

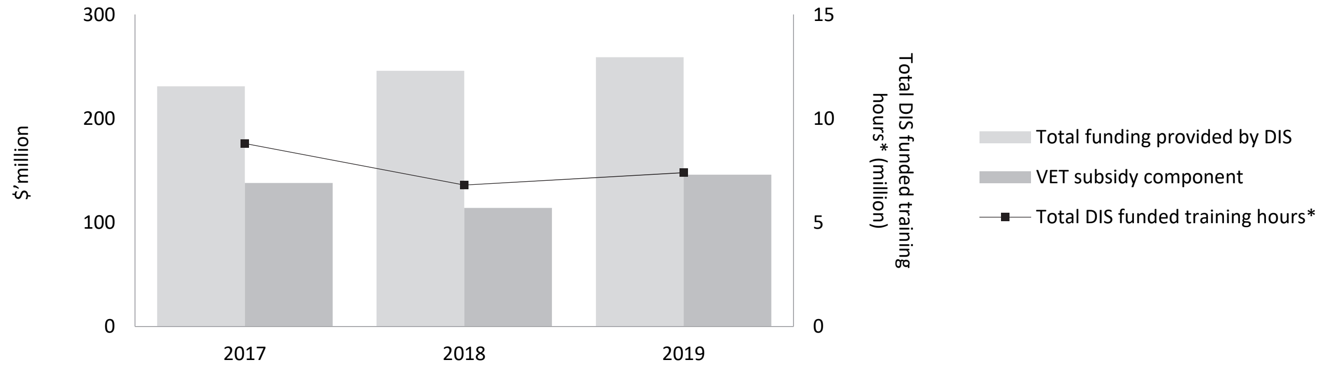
Total funding under the MoAA was $251 million.

TAFE SA also received funding from DIS of $2 million for excess staff under a separate MoAA for TAFE SA structural adjustment. This funding is to support TAFE SA changing its staff business structure.

The balance of $6 million was subject to separate arrangements.

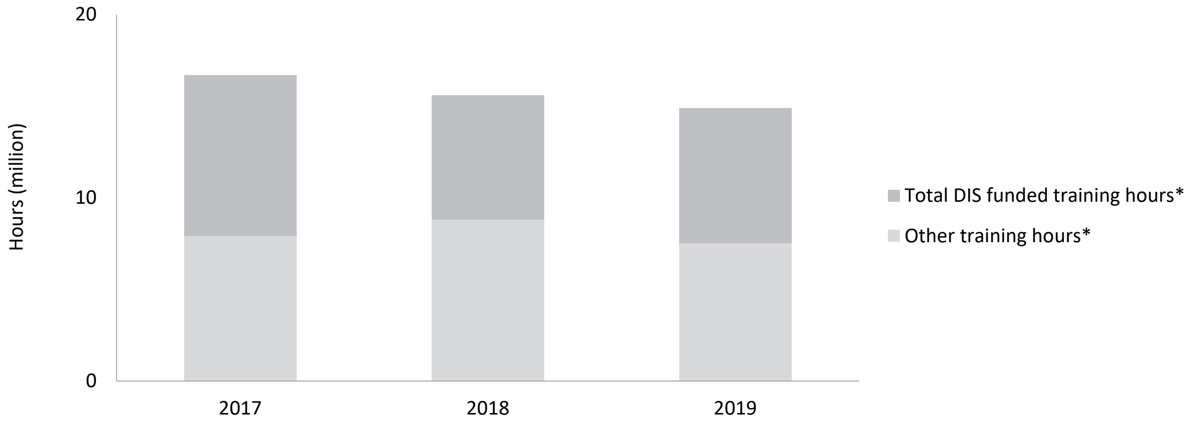
The VET subsidies component of the funding increased by $32 million, reflecting $13 million received from the Skilling Australia Fund in South Australia, an increase in training hours delivered, product mix changes and a change in rates for subsidised training activity.

The following chart shows the proportion of VET subsidies as part of overall DIS funding for the past three years, along with the total number of funded training hours delivered.



* Training hours provided by TAFE SA and unaudited.

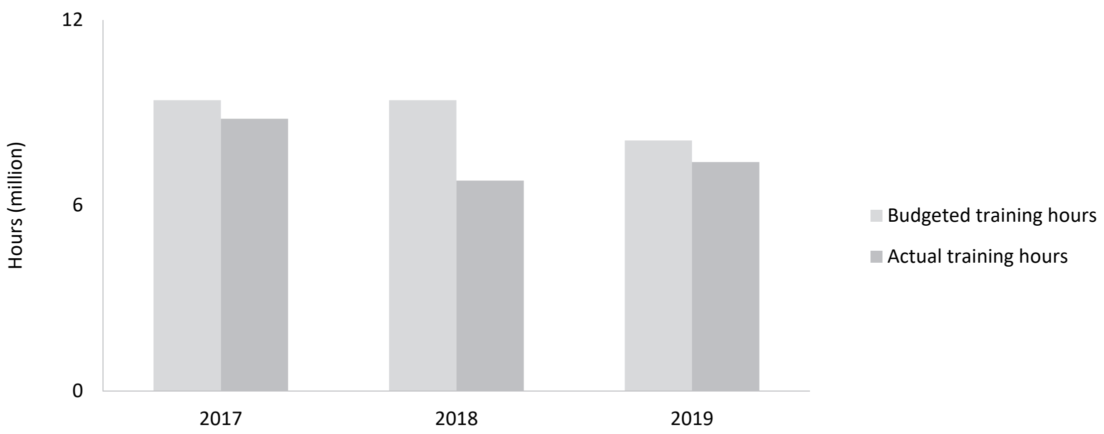
TAFE SA's overall training hours decreased in 2018-19. The following chart shows the total training hours delivered by TAFE SA over the last three years, and the proportion funded by DIS.



* Training hours provided by TAFE SA and unaudited.

The chart highlights the overall reduction in the number of training hours delivered over the last three years. There has been an 11% overall reduction in this time, with 1.8 million less training hours delivered in 2018-19 compared to 2016-17. This overall reduction is broken down between a 16% reduction in DIS-funded training hours over the three years and a decrease of 5% in other training hours.

The following chart analyses the actual training hours provided by TAFE SA for subsidised training compared to the budgeted training hours for the last three years.

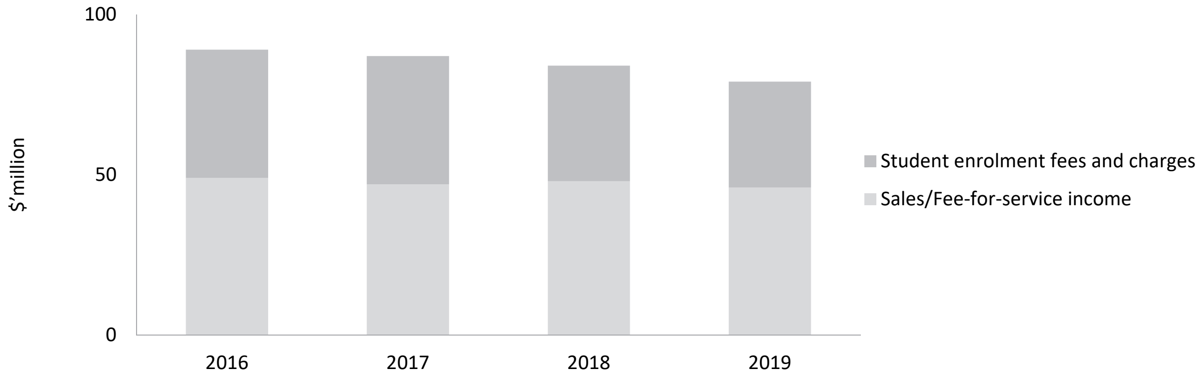


The chart shows that TAFE SA has consistently delivered less training hours than budgeted. 2018-19 saw improved performance against budget with 9% less hours delivered compared to budget, an improvement from the 28% less than budget in 2017-18.

Student and other fees and charges

Student and other fees and charges totalled $84 million ($89 million) and make up 23% (26%) of TAFE SA's total income.

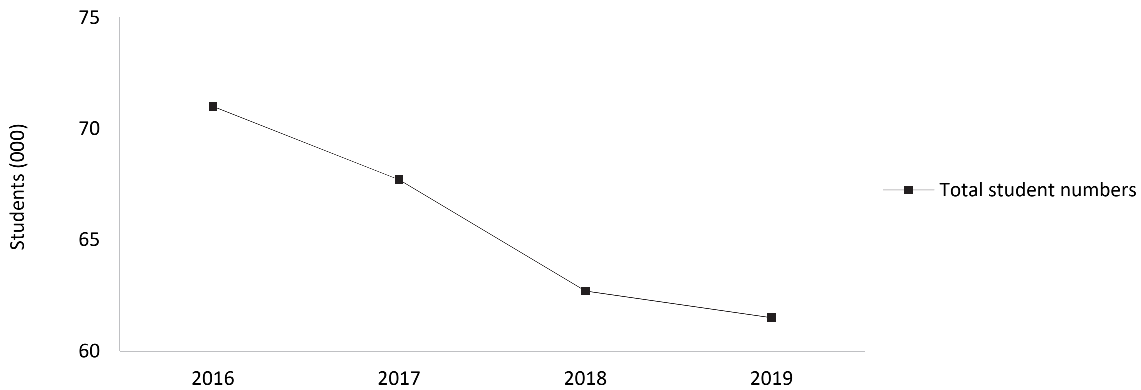
The main components of student and other fees and charges for the past three years are shown in the following chart.



The chart illustrates that sales/fee-for-service income has remained steady over this period while student enrolment fees and charges have decreased by $7 million.

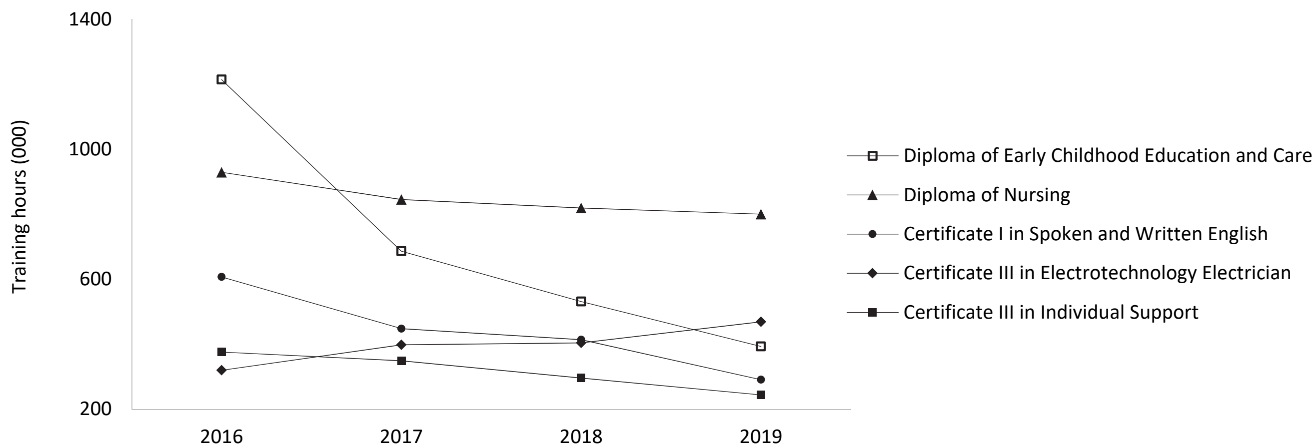
Total sales/fee for service revenue for 2018-19 was $46 million, of which $24 million was received from the Commonwealth Government for AMEP and the Skills for Education and Employment program.

Total student numbers have decreased over the last four years as shown in the following chart.

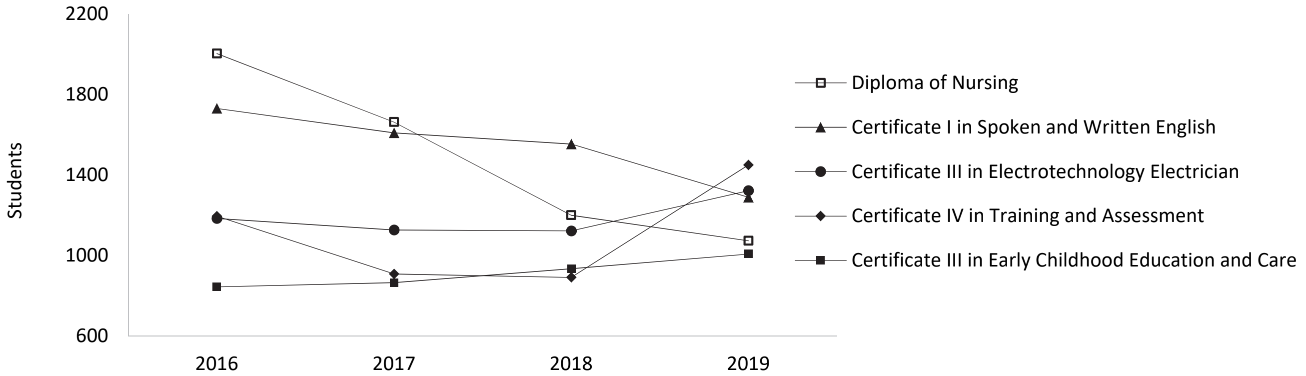


Source: Number of students data provided by TAFE SA and unaudited.

The chart below shows the number of training hours delivered in each of TAFE SA's top five courses (by revenue in 2018-19) over the last four years, showing the change in relative popularity of these courses over that time.



The chart below shows the relative popularity of TAFE SA's top courses when measured by the number of students over the same four year period.



Statement of Financial Position

The most significant items in TAFE SA's Statement of Financial Position are shown in the following table.

	2019 $'million	2018 $'million
Assets		
Cash and cash equivalents	58	55
Receivables	22	20
Property, plant and equipment and intangibles	25	27
Liabilities		
Payables	27	21
Employee benefits	66	61

Receivables as at 30 June 2019 include amounts owing from the Commonwealth Government of $4 million under the VET student loans schemes and AMEP. In addition, there is $7 million in GST recoverable from the ATO and $6 million for student fees owing.

Payables increased by $6 million in 2018-19. This includes accrued TVSP and related reimbursements of $2 million.

Employee benefits increased by $5 million, mainly due to an increase in long service leave liability of $4 million due to the reduction in the discount rate used to measure the liability.

Campus infrastructure

TAFE SA does not currently own its campus infrastructure, leasing it from DIS. Consequently, land and buildings are not presently a feature of TAFE SA's assets.

In 2018-19 the TAFE SA campuses are recognised as part of the Urban Renewal Authority's (URA's) non-current assets, with the URA leasing them to DIS and DIS sub-leasing them to TAFE SA.

The 2019-20 State Budget announced that the active TAFE SA campuses would transfer from the URA to TAFE SA's control in 2019-20, the first time TAFE SA will have full control of campus infrastructure since it was established as a separate statutory corporation in 2012.

Department of Treasury and Finance (DTF)

Financial statistics

Net cost of providing services:	$156 million
Total revenues from SA Government:	$160 million
Employee benefits expenses:	$163 million
Revenues from fees and charges:	$104 million
Administered taxation revenue:	$3.947 billion
Administered Commonwealth revenues:	$10.242 billion
Number of FTEs (including the South Australian Government Financing Authority and South Australian Superannuation Board):	1386

Significant events and transactions

- DTF was involved in a number of machinery of government changes in 2018-19:
  - Shared Services SA (SSSA), Electorate Services, Fleet Services, ICT Transformation, Strategic Procurement, Return to Work Services, Industrial Relations and some other units transferred to DTF from the Department of the Premier and Cabinet (DPC) on 1 July 2018.
  - SafeWork SA transferred to DTF from the Attorney-General's Department (AGD) on 1 July 2018.
  - Veterans SA transferred to DPC on 1 July 2018.
  - The Office of the Registrar-General and Office of the Valuer-General transferred to the Department of Planning, Transport and Infrastructure (DPTI) on 1 July 2018.
  - Responsibility for the South Australian Employment Tribunal transferred to DTF from the AGD on 1 October 2018.
  - The Simpler Regulation Unit transferred to the newly established Office of the South Australian Productivity Commission on 27 October 2018.
- These changes resulted in the transfer of net controlled assets of $44 million to DTF and the transfer of net administered liabilities of $1.5 billion from DTF.
- As a result of these restructures, the number of DTF FTEs increased by 648 to 1386 at 30 June 2019, from 738 FTEs at 30 June 2018.

Financial report opinion	**Unmodified**	
Controls opinion findings	—	Key payroll and accounts payable control processes at SSSA could be strengthened.
	—	Access and password controls and some other aspects of IT general controls could be improved for some of SSSA's main IT systems.
Other audit findings	—	Review of key payroll reports did not always occur and was not effectively monitored for some DTF business units.
	—	Taxation debts are outstanding for longer, with more than $32 million outstanding for over a year.
	—	Controls over two of RevenueSA's key taxation revenue systems could be strengthened (to be fully reported on in a separate Auditor-General's Report later this year).

Functional responsibility

DTF is an administrative unit established under the *Public Sector Act 2009*, and is responsible to the Treasurer.

On 1 July 2018 the following business units transferred from DPC to DTF:

- SSSA
- Electorate Services
- Fleet Services (Ministerial chauffers)
- ICT Transformation
- Strategic Procurement
- the Return to Work Services section of the Office for the Public Sector
- the Industrial Relations section of the Office for the Public Sector
- Policy Standards and Governance.

On 1 July 2018 SafeWork SA transferred from the AGD to DTF.

On 1 July 2018 Veterans SA transferred from DTF to DPC.

On 1 July 2018 the Office of the Registrar-General and the Office of the Valuer-General transferred from DTF to DPTI.

On 1 October 2018 the South Australian Employment Tribunal transferred from AGD to DTF.

On 27 October 2018 the Simpler Regulation Unit of DTF became the Office of the South Australian Productivity Commission.

DTF administers certain activities on behalf of the Treasurer, including transactions on behalf of the SA Government for the Consolidated Account.

Refer notes 1.2 and 12.1 of DTF's financial report for details of its functions and overview of its administered activities.

Scope of the audit

Audit of the financial report

The audit program covered major financial systems to obtain sufficient evidence to form an opinion on the financial report. It also considered the work of DTF's internal auditors.

Specific areas of audit attention in 2018-19 included:

- taxation revenue
- payroll
- expenditure
- general ledger maintenance and reconciliations
- receipting and banking
- debtor follow-up
- IT general controls reviews of the RevenueSA Information Online (RIO) and RevenueSA Online (RSAOL) taxation revenue systems.

Financing and insurance services

Commentary on these activities is included under 'South Australian Government Financing Authority' in this Report.

Superannuation services

Commentary on these activities is included under 'South Australian Superannuation Board' in this Report.

Public finances

We review various aspects of the public finances. The results will be reported in a separate Auditor-General's Report on the State Finances. The Treasurer's statements for the year ended 30 June 2019 will be published on the Auditor-General's Department website after this Annual Report is tabled in Parliament.

Controls opinion

We reviewed controls over the following areas as part of our controls opinion, which is discussed in Part B of this Report:

- Commonwealth Government revenue
- taxation revenue – payroll tax
- taxation revenue – stamp duty – conveyances on sale of property

- Treasurer's guarantees and indemnities
- unfunded superannuation liability
- SSSA – accounts payable and payroll functions
- Treasurer's statements A, F, G and I.

Audit findings

Communicating our audit findings

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

Controls opinion findings

Shared Services SA – financial systems and transaction processing controls

SSSA processes financial transactions on behalf of a large number of SA Government agencies under service level determinations. SSSA processing includes accounts payable, accounts receivable, payroll, general ledger and financial accounting.

Each year SSSA processes around 2.5 million employee pays for 109 000 employees using the Chris21 and VALEO payroll systems.

SSSA also processes around 2.3 million invoice payments for businesses that supply goods and services to government.

In addition to the payroll systems mentioned above, the main IT systems used by SSSA are:

- Readsoft – for scanning invoices
- Basware – workflow software to manage the approval of accounts payable transactions
- Masterpiece – accounts receivable, accounts payable and general ledger
- CommBiz – banking software used to process payments.

Payroll

SSSA payroll functions include:

- maintaining employee data
- processing, calculating and disbursing payroll
- identifying and managing salary overpayments
- calculating targeted voluntary separation package (TVSP) and termination payments.

Most SA Government payroll is processed through Chris21, with VALEO used for the Department for Education's payroll.

The more significant findings of our payroll review that we communicated to DTF and SSSA are detailed below.

— *Some pay run activities were not completed before key reports were run*

We noted a number of instances where some pay run activities were not completed before key payroll reports were run. The activities still outstanding were processes that could lead to changes in the final key payroll report. While all processes were eventually completed, if they are not performed completely before the next stage of the process there is an increased risk that not all changes will be reviewed.

SSSA responded that payroll services team members had been reminded to ensure that all requirements of the pay run checklist were completed in line with current procedures and in the correct sequence, prior to pay disbursement.

— *Final sign-off of some pay runs was not recorded before CommBiz authorisation to pay was given*

We noted 16 instances where the final sign-off on the pay run checklist from SSSA data integrity officers occurred after the authorisation to disburse the pay was provided in CommBiz. This increases the risk that not all the required tasks to ensure pay run accuracy were completed.

SSSA responded that it had reminded staff of their responsibility to ensure all requirements of the pay run checklist were completed in the correct sequence and in line with current procedures.

Accounts payable

SSSA processes payments on behalf of SA Government agencies. We annually review key controls over the SSSA processing environment and the main matters we identified in 2018-19 are detailed below.

— *Vendor maintenance processes could be strengthened*

Changes to vendor masterfile data should be subject to independent review to ensure the changes made are correct.

Our review of vendor maintenance processes in 2018-19 identified that:

- an independent reviewer could make changes to vendor details in the system when they were reviewing vendor details, without these being reported separately
- changes to vendor details could be made directly in Masterpiece accounts payable, rather than using the separate tool available, bypassing independent review processes.

This increases the risk of payments being made to incorrect vendors.

SSSA responded that a new report had been introduced following our audit to address the risk of changes not being subject to independent review. It also advised it would create a unique vendor masterfile access profile and assign this to a small group of staff in the vendor maintenance team to limit the potential for changes to be made directly in Masterpiece accounts payable.

— *Manual payment invoices were not always created in Basware promptly*

We identified several instances where manual payments were not created in Basware in the two day time frame established by SSSA. Delays in creating manual payments increase the risk of a duplicate payment, where an invoice is also paid through the regular Basware workflow.

SSSA responded that existing procedures were being updated to reduce the time frame for creating manual payments in Basware to one business day. In addition, staff had been reminded of the importance of completing the activity promptly.

— *Improvement is required over the security of external feed files for some agencies*

We have previously identified that the security of some external feed files needs to improve. In 2018-19 we found that TAFE SA and the Department of Human Services (formerly the Department for Communities and Social Inclusion) feed files still did not use the secure file transfer protocol.

This increases the risk of invalid and/or incorrect payments being processed through Masterpiece.

SSSA responded that it would continue to liaise with TAFE SA and the Department of Human Services to implement a secure file transfer protocol but that it relied on the agencies to implement the required changes.

IT general controls

Given the importance of SSSA's systems to SA Government transaction processing, we review IT general controls annually.

— *Basware*

We identified the following issues:

- an excessive number of staff had privileged user access to local database user accounts and there were several active user accounts, including privileged user accounts, that were no longer needed and should be removed
- SSSA did not maintain an audit log of activities at the database or operating system level
- there had been no disaster recovery testing for the SA Health and SA Government environments since September 2016 and 2014 respectively.

SSSA responded that:

- it had requested the removal of privileged user access for users highlighted as exceptions and would implement an appropriate user access management process for privileged users
- it was not possible to introduce audit logging in the current version of Basware at the level suggested. SSSA advised it had commenced a project to migrate Basware onto a cloud-based environment and the issues around audit logging and disaster recovery would be considered as part of the implementation.

— *Masterpiece*

We identified the following issues:

- weaknesses in password configuration settings

- a number of database privileged user accounts were no longer needed and should be removed
- inappropriate access to the payment file directory.

SSSA responded that:

- it had updated password configurations based on our 2017-18 recommendations but due to the legacy nature of Masterpiece it was not technically feasible to further strengthen password configuration
- it was reviewing database administrator accounts and would remove any that are no longer needed
- remaining user access exceptions for payment file directory permissions would be addressed.

— *CommBiz*

We identified the following issues:

- SSSA did not adequately review CommBiz cap limits and user accounts, resulting in inappropriate cap limits and user access
- terminated users' access was not always promptly removed
- inappropriate privileged user access permissions were granted to sensitive network files/folders.

SSSA responded that:

- it would update the CommBiz management procedure to ensure active user and cap limits were regularly reviewed and would introduce a review of inactive/dormant accounts
- each area would be reminded of their responsibility to promptly request the removal of CommBiz access
- it had addressed the list of users with inappropriate access and would implement an appropriate ongoing process for reviewing user access.

— *Chris21*

We identified the following issues:

- a number of privileged user accounts were no longer needed and should be removed
- reviews of change management exceptions could be improved
- regular patching and upgrades did not occur for the operating system and database.

SSSA responded that:

- it would review its current procedure to incorporate a more comprehensive and regular review of privileged user accounts
- it would review the change management exceptions and take appropriate action and update its change management procedures
- it was undertaking a significant upgrade of Chris21 to bring the application to a more current version. Once completed, a new approach will be implemented by the software vendor for the release of updates, incorporating more frequent patching.

Other audit findings

Review of key payroll reports did not always occur and was not effectively monitored for some DTF business units

DTF uses payroll system bona fide and leave return reports as the key payroll reports to monitor the accuracy of payments to staff. DTF's staff numbers increased in 2018-19 as a result of restructures and it paid $163 million in employee related expenses.

DTF's bona fide and leave reports procedure requires branches to review and certify the accuracy of fortnightly bona fide and monthly leave return reports. This provides DTF with assurance that only valid employees were paid and that they were paid correctly.

We identified 103 (5%) outstanding bona fide and 51 (10%) outstanding leave return reports for 2018-19. However, several business units that transferred into DTF in 2018-19, including SSSA, SafeWork SA, Electorate Services, Strategic Procurement and Work Injury Services, did not have effective monitoring of these key reports until mid-March 2019. As a result, it was not possible to accurately quantify the full number of reports not reviewed.

We recommended DTF follow up all outstanding 2018-19 bona fide and leave return reports and reinforce the importance of certifying the completeness and accuracy of bona fide and leave returns to all branches.

DTF responded that training on managing these processes was provided to SafeWork SA in August 2019 and similar training would also be provided to SSSA, Electorate Services, Strategic Procurement and Work Injury Services.

DTF also advised that it will continue to follow up outstanding bona fide and leave return reports with branches bi-monthly and would reinforce with branch heads the responsibilities managers have in certification processes.

Taxation debts are outstanding for longer, with more than $32 million outstanding for over a year

We noted that debts for outstanding land tax, Emergency Services levies and payroll tax were remaining outstanding for longer than they have been in the past, with more than $32 million outstanding for over a year as at 26 June 2019.

While overall taxation debt had reduced slightly, there was an increase in the amounts outstanding for longer.

We recommended that DTF finalise and implement its proposed debt reduction strategy.

DTF advised that it would finalise and implement this strategy. It also advised that total outstanding taxation debt was $61.6 million at 30 June 2019, a reduction of $1.6 million from total outstanding taxation debt at 30 June 2018.

Review of IT controls of the RIO and RSAOL taxation revenue systems

DTF uses RIO to calculate and process payroll and land taxes and Emergency Services levies. It uses RSAOL to enter and process stamp duties.

In 2018 DTF implemented a major system upgrade of RIO. This upgrade intended to strengthen user controls and remediate some of the matters raised in our previous RIO reviews.

In 2018-19 we reviewed RIO and RSAOL. While our review of RIO identified several improvements in system controls, we noted that several previously raised findings were still to be fully remediated. Our review of RSAOL identified several areas where controls could be strengthened.

Details of the RIO and RSAOL reviews will be communicated in a separate Auditor-General's Report to be tabled later this year.

Interpretation and analysis of the financial report

DTF has been impacted by significant transfers of functions as a result of machinery of government changes in 2018-19

As discussed under 'Functional responsibility' above, DTF has been impacted by a number of machinery of government changes in 2018-19, which significantly increased its workforce and changed its functions between 2018 and 2019.

As a result of these restructures and transfers, amounts are not directly comparable between 2018 and 2019.

Highlights of the financial report – controlled items*

	2019 $'million	2018 $'million
Expenses		
Employee benefits expenses	163	77
Supplies and services	144	108
Other expenses	11	7
Total expenses	318	192
Income		
Fees and charges	104	73
Other income	58	9
Total income	162	82
Net cost of providing services	156	110
Revenues from (Payments to) SA Government		
Revenues from SA Government	160	128
Payments to SA Government	(4)	-
Net result	-	17
Increase in intangible asset revaluation surplus	-	4
Net result and total comprehensive result	-	22
Assets		
Current assets	39	49
Non-current assets	63	67
Total assets	103	115

	2019 $'million	2018 $'million
Liabilities		
Current liabilities	30	23
Non-current liabilities	47	22
Total liabilities	77	46
Total equity	26	70

* Table may not add due to rounding.

Statement of Comprehensive Income (controlled items)

Expenses

Expenses increased by $126 million to $318 million in 2019 mainly due to:

- employee benefits expenses increasing by $85 million, mostly due to FTEs increasing as a result of the transfer of employees from DPC and AGD, taking total FTEs from 648 to 1386, a $6.5 million increase in TVSPs and a $3.5 million increase due to changes to assumptions used by the actuary to calculate the provision for long service leave (mostly reflecting the significant reduction in the Commonwealth bond rate used to calculate the liability).

  Employee expenses also include salaries and wages for staff provided by DTF to support the South Australian Government Financing Authority and the South Australian Superannuation Board. DTF recovers employee costs from these agencies under service level arrangements
- a $36 million increase in supplies and services expenses mainly due to additional supplies and services relating to business units that transferred from DPC and AGD in 2018-19, offset by a $2.3 million decrease in payments to consultants.

Income

Income increased by $80 million to $162 million in 2019 mainly due to:

- $31 million more in fees and charges mostly due to:
  - a $29 million increase in regulator fees due to the transfer of SafeWork SA from AGD on 1 July 2018
  - a $22 million increase in service provision fees due to the transfer of SSSA from DPC on 1 July 2018 and the South Australian Employment Tribunal from AGD on 1 October 2018
  - no land titling, registration and valuation fees being collected by Land Services SA (LSSA) on behalf of DTF in 2018-19, compared to $10 million in 2017-18
  - no fees being received from the CTP Regulator in 2018-19, compared to $5 million in 2017-18, as the DTF staff providing services to the CTP Regulator were transferred to the CTP Regulator on 1 July 2018
- a $49 million increase in other income mostly due to:
  - a $55 million recovery from DPTI for land title fees paid to LSSA in 2018-19, reflecting that LSSA transactions continued to be performed by DTF until around April 2019 (on behalf of DPTI)
  - a $6 million decrease in fees for services provided under the *Land and Business (Sale and Conveyancing) Act 1994*, due to the transfer of these services to DPTI on 1 July 2018

- a $1 million decrease in resources provided free of charge due to SSSA transferring from DPC on 1 July 2018.

Revenues from SA Government

Revenues from the SA Government increased by $32 million to $160 million mainly due to:

- an $84 million increase in appropriation from the Consolidated Account to fund the functions transferred from DPC and AGD in 2018-19
- no funding being received from the Governor's Appropriation Fund in 2018-19, compared to $50 million in 2017-18 to pay LSSA fees.

Statement of Financial Position (controlled items)

Assets

Total assets decreased by $12 million to $103 million in 2019 due mainly to:

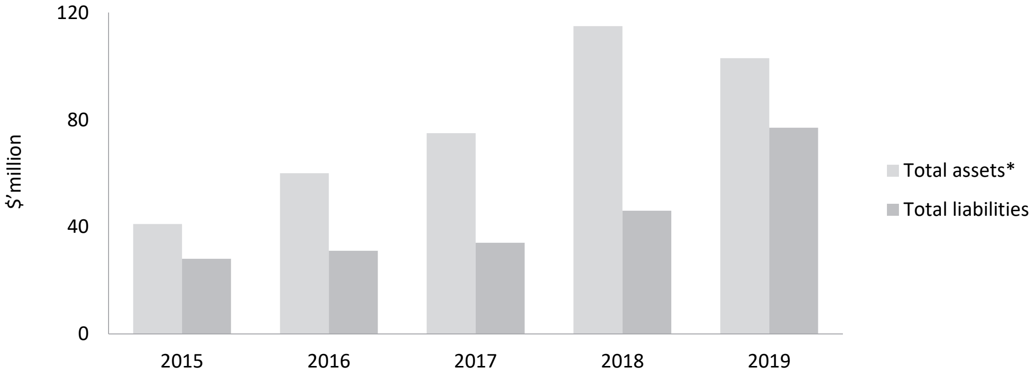
- a $10 million decrease in receivables mostly due to:
  - a $14 million decrease in receivables from DPTI, mostly representing assets held by DPTI on behalf of the Office of the Valuer-General and the Office of the Registrar-General that were transferred back to DPTI in 2018-19
  - a $700 000 increase in prepayments and $500 000 increase in accrued revenues
- a $17 million decrease in intangible assets mostly due to:
  - $17 million relating to the SAILIS system used by the Office of the Registrar-General transferred to DPTI on 1 July 2018
  - $5 million in amortisation expense
  - $3 million in disposals/write-offs
  - $5.6 million for new software developed for RevenueSA and Super SA and $1.4 million for Masterpiece licences for two years
- a $14 million increase in property, plant and equipment, including $13 million transferred in from AGD and DPC, and $3 million work in progress mainly relating to building fitouts, offset by $2 million in depreciation expense.

Liabilities

Total liabilities increased by $31 million to $77 million in 2019 mainly due to:

- a $28 million increase in employee benefit liabilities mainly as a result of the transfer of employees from DPC and AGD and a $3.5 million increase due to changes to assumptions used by the actuary to calculate the provision for long service leave
- a $4 million increase in provisions resulting from the transfer of employees from DPC and AGD and changes to assumptions used by the actuary to calculate the provision for workers compensation.

The following chart shows the movements in DTF's assets and liabilities since 2015.



* Total assets for 2016 and 2017 include $10 million for the construction of the ANZAC Centenary Memorial Garden Walk.

Assets have increased over the last five years, reflecting the development of software for RevenueSA and Super SA.

The significant increase in assets and liabilities in 2018 reflects the impact of the transfer of the Office of the Valuer-General and the Office of the Registrar-General to DTF.

The change in total assets in 2019 reflects the impact of the transfer of business units to and from DTF during the year.

The significant increase in total liabilities in 2019 reflects the impact of the net transfer of employees to DTF and changes to assumptions used by actuaries to calculate the provisions for long service leave and workers compensation.

Statement of Cash Flows

Significant changes in the cash flow amounts between 2018 and 2019 are largely attributable to the transfer of business units to and from DTF. Overall, however, there was only a $1 million increase in cash in 2018-19.

Highlights of the financial report – administered items*

The administered financial statements mainly reflect DTF's transactions on behalf of the SA Government for the Consolidated Account. The Consolidated Account result for 2019 is reported in the Treasurer's statements (published on the Auditor-General's Department website).

Impact of transfers in 2018-19

As for controlled items, there were significant transfers that impacted DTF administered items in 2018-19.

During the year the South Australian Employment Tribunal transferred from AGD to DTF, and the Office of the Valuer-General and the Office of the Registrar-General transferred from DTF to DPTI. As a result, some of the 2018 and 2019 figures are not directly comparable.

Expenses	*2019 $'million	*2018 $'million
Payments to SA Government	11 792	13 507
Grants, subsidies and transfers	3 547	3 356
Other expenses	832	819
Total expenses	16 171	17 682
Income		
Taxation	3 947	4 094
Commonwealth revenues	10 242	9 118
Revenues from SA Government	1 649	1 796
Other revenues	990	1 193
Total income	16 828	16 201
Net result	657	(1 482)
Assets		
Current assets	1 706	1 261
Non-current assets	22	13
Total assets	1 728	1 273
Liabilities		
Current liabilities	644	912
Non-current liabilities	115	1 573
Total liabilities	760	2 485
Total equity	968	(1 212)

* Table may not add due to rounding.

Statement of Comprehensive Income (administered items)

Administered expenses

Payments to the SA Government decreased by $1.7 billion to $11.8 billion in 2019, due mainly to:

- a $1.525 billion up-front payment received from LSSA in 2017-18 for the right to provide land titling, registration and valuation services on behalf of the State for 40 years on a fee-for-service basis and for the right to exploit the State's land information assets. The up-front payment was paid into the Consolidated Account and was recognised as unearned revenue
- the $174 million return of surplus cash in 2017-18 by SA Government agencies paid into the Consolidated Account.

Grants, subsidies and transfers increased by $191 million to $3.5 billion in 2019, mainly due to the transfer of increased funding from the Commonwealth under the Inter-Governmental Agreement on Federal Financial Relations (IGAFFR) to relevant SA Government agencies and more payments for purposes approved by the Treasurer using appropriations from the DTF administered items account. These payments included $117 million to agencies to reimburse TVSP costs and $59 million to the Department for Health and Wellbeing to meet increased service demands in the public health system.

Administered revenue

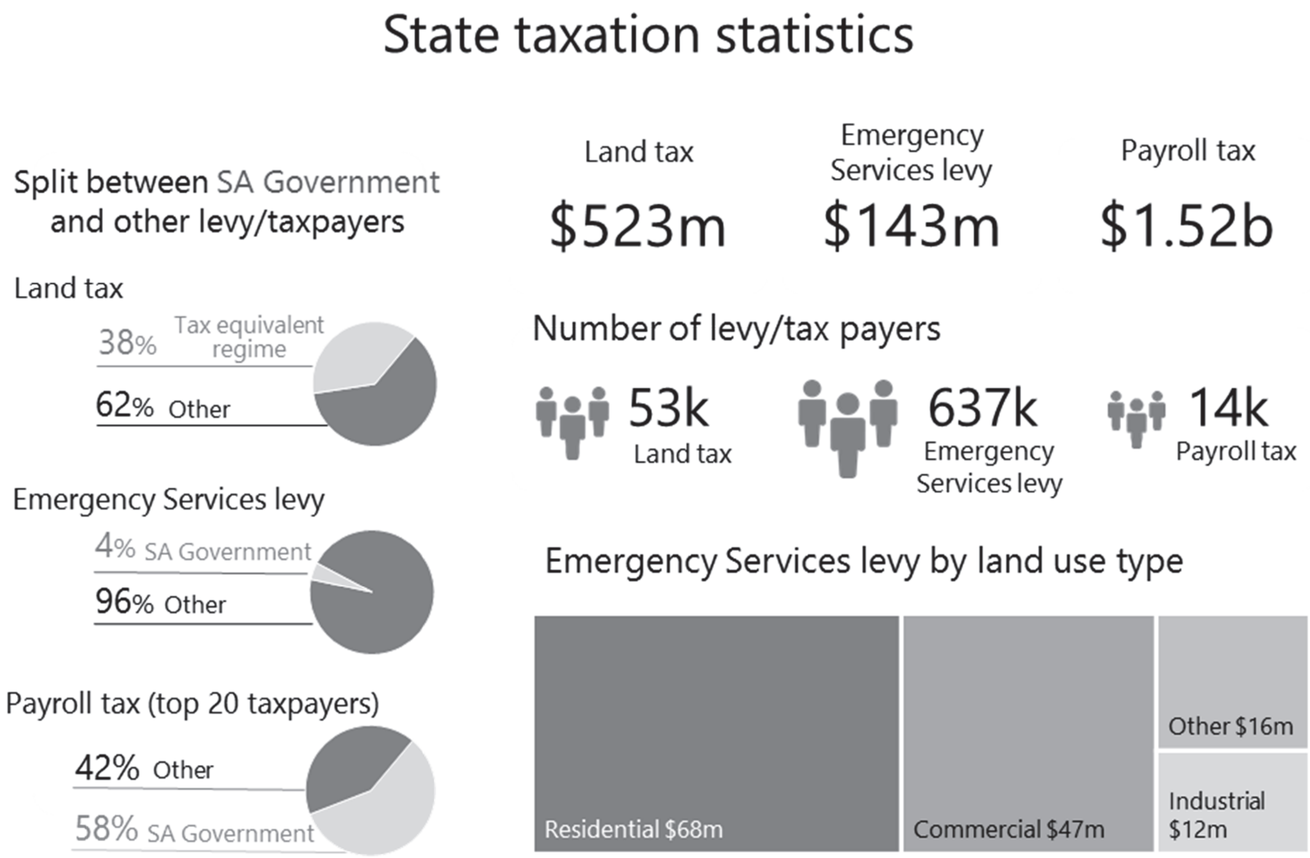
Taxation revenue decreased by $147 million in 2018-19 due mostly to:

- decreases of $87 million in land tax, $71 million in Emergency Services levies, $56 million in stamp duties on property sale conveyances and $34 million in income tax equivalents paid by SA Government agencies

- increases of $56 million in payroll tax and $24 million in other stamp duties.

The following table of State taxation statistics shows that SA Government agencies paid:

- 38% of land tax but only 4% of the Emergency Services levy in 2018-19
- 58% of payroll tax collected by RevenueSA from the top 20 taxpayers in 2018-19.



Commonwealth revenue increased by $1.1 billion to $10.2 billion in 2018-19 comprising mainly a $701 million increase in funding received under the IGAFFR, $265 million increase in GST revenue grants and $154 million increase in Council of Australian Government arrangements funding.

Revenues from the SA Government decreased by $147 million to $1.6 billion in 2018-19, reflecting decreased appropriation from the Consolidated Account for DTF's administered activities.

Other revenue decreased by $203 million to $990 million in 2018-19 due mostly to:

- a $117 million decrease in the return of surplus cash from agencies and a $113 million decrease in the return of capital to the Consolidated Account
- an $83 million decrease in land services fees due to the transfer of the Office of the Registrar-General to DPTI on 1 July 2018
- a $27 million decrease in revenue from land services commercialisation. The $1.498 billion balance of unearned revenue received from LSSA in 2017-18 was transferred to DPTI on 1 July 2018

- a $99 million increase in grants and contributions due mainly to increases in funding of $90 million in the Community Emergency Services Fund and $8 million in the Industry Financial Assistance Account
- a $49 million increase in dividends from SA Government agencies due mostly to increases of $40 million from the South Australian Water Corporation and $22 million from the South Australian Government Financing Authority, offset by decreases of $7 million from the Generation Lessor Corporation and $4 million from HomeStart Finance.

Administered net assets

Net assets changed from negative $1.212 billion in 2018 to $968 million in 2019. This was due to:

- administered liabilities decreasing by $1.725 billion due mainly to $1.498 billion in unearned revenues from the land services commercialisation being transferred to DPTI on 1 July 2018 and a $213 million decrease in revenues collected but not yet paid into the Consolidated Account
- administered assets increasing by $455 million due mainly to a $446 million increase in cash, in deposits with the Treasurer, reflecting the increase in the IGAFFR account in 2018-19.

Further commentary on operations

Commonwealth Government funding arrangements

The IGAFFR is the framework for the Commonwealth's financial relations with the States and Territories. It provides for the following types of Commonwealth payments:

- general revenue assistance, including the ongoing provision of GST payments, to be used by the States and Territories for any purpose
- national specific purpose payments (SPPs) to be spent in the key service delivery sectors agreed to between the Commonwealth and the States. Each national SPP is linked to a national agreement that contains objectives, outcomes, outputs and performance indicators, and clarifies the roles and responsibilities of each jurisdiction
- national partnership payments to support the delivery of specified outputs or projects, to facilitate reforms or to reward those jurisdictions that deliver on nationally significant reforms.

Under the IGAFFR all Commonwealth funding, with the exception of funding under the National Health Reform Agreement, is provided to DTF, which distributes funds to agencies. The Treasurer has established a special deposit account to receive and disburse money paid to the State for the national SPP purposes listed in Schedule F of the IGAFFR and the national partnership payments purposes listed in Schedule G.

The balance of the IGAFFR account at 30 June 2019 was $780 million ($26 million). This represents funds that DTF is yet to transfer to other agencies.

Commonwealth funding was provided in 2019 for the purposes shown in the following table. The Commonwealth provided $10.2 billion to DTF and $1.3 billion directly to the health sector. Of the Commonwealth funding, 58% related to GST revenue grants of $6.68 billion which can be used for any purpose, whereas most of the remaining Commonwealth funding is for specific purposes.

$11.5b in total Commonwealth funding

$10.2b paid to DTF and $1.3b paid to the health sector

$6.68b
GST payments

$1.37b
Health

$1.51b
Education

$1.29b
Infrastructure

$296m
Community services

$154m
Affordable housing

$77m
Environment

$149m
Other funding

Education

$957m
Private school funding

$519m
Public school funding

$28m
Early childhood education

Health

$1.32b
Total National Health Reform payments

$2.1m
Indigenous health

Community Services

$295m
DisabilityCare Australia

Infrastructure

$1.11b
Infrastructure Investment Program

$62m
Infrastructure Growth Packages

Source: Australian Government GovDex report as at 28 June 2019

University sector overview

Overview

The Auditor-General audits the State's three public universities:

- Flinders University
- University of Adelaide
- University of South Australia.

The universities advance learning and knowledge in South Australia by providing university education and conducting research activities.

Sector summary

Financial statistics

The following table shows key financial statistics for the three universities.

	2018 $'million	2017 $'million
Australian Government financial assistance	1 251	1 220
Fees and charges revenue	534	483
Employee related expenses	1 236	1 196
Assets	4 709	4 650
Liabilities	1 114	1 105
	2018 Number	**2017 Number**
FTEs	8 517	8 386
Students (EFTSLs)	61 800	60 572

Financial report opinions

We issued audit opinions for each university's financial report. Flinders University and the University of Adelaide received unmodified opinions.

Consistent with prior years, we modified the financial report opinion for the University of South Australia. In our opinion, its accounting for grant revenue does not comply with Australian Accounting Standards. This is further discussed in the University of South Australia's commentary under 'Auditor's report on the financial report'.

Controls opinion

All three universities are public authorities for the purpose of the *Public Finance and Audit Act 1987* and are included in work we perform to support our controls opinion.

We applied the controls opinion criteria described in Part B of this Report to identify areas of review at the universities and consequently assessed selected controls over:

- payroll and buildings and improvements for the University of Adelaide
- buildings and improvements for the University of South Australia
- buildings and improvements for Flinders University.

Our controls opinion is discussed in Part B of this Report.

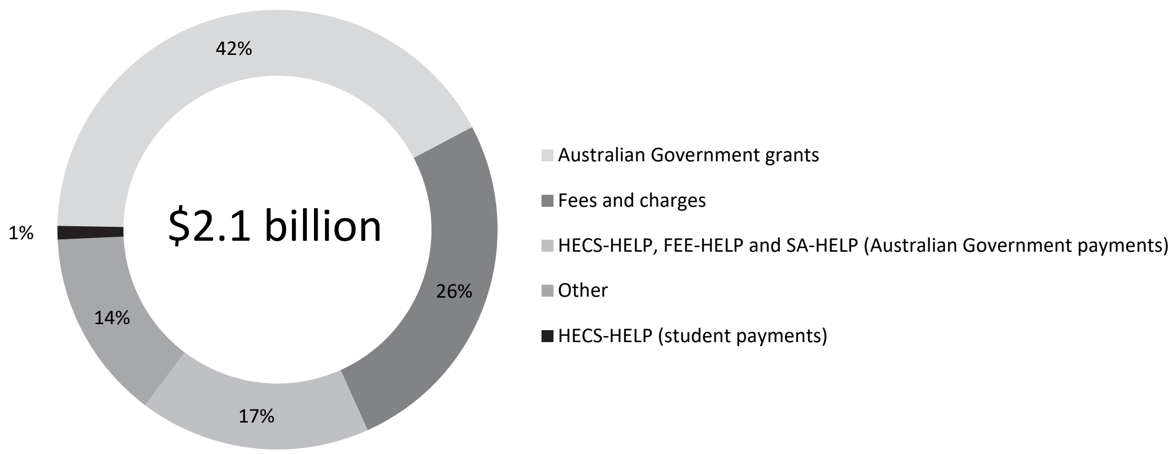
Other matters

Our financial statement audits review the control environments for all significant balances for each University. Matters arising from these reviews are disclosed in each university's commentary under 'Communicating our audit findings'.

Key financial statistics

Income

Total income for the three universities was $2.1 billion in 2018. The sources of income are shown in the following chart.



Australian Government grants and payments

The universities are highly dependent on Australian Government financial assistance. This amounted to 60% of their total income in 2018. It comprises the Commonwealth Grants Scheme, Higher Education Loan Program (HELP) income, research grants and other funding.

Further information is included in each university's commentary under 'Statement of Comprehensive Income'.

Fees and charges

In the last four years, fees and charges across the universities increased by 30%, from $412 million in

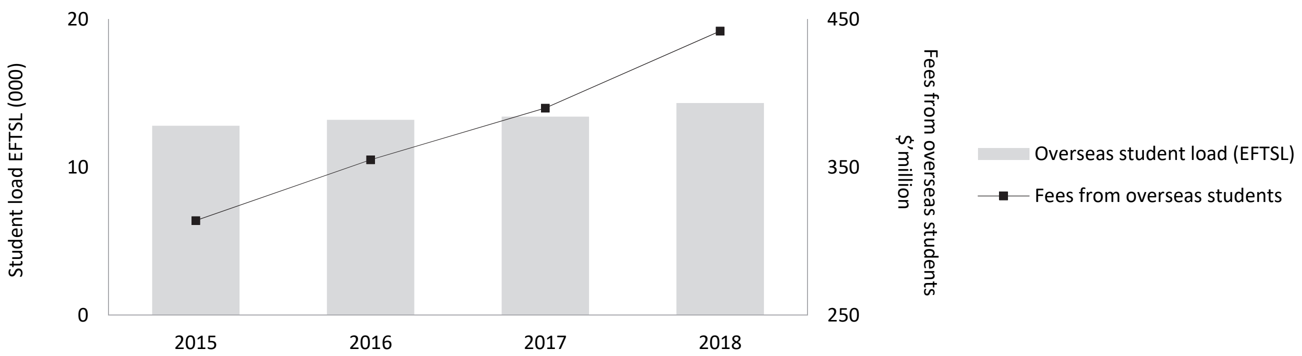
2015 to $534 million in 2018. The main driver of this increase has been fees and charges generated from overseas students.

The following table shows that total student loads have marginally increased over the last four years, with the sources of students remaining relatively stable at 77% domestic (78%) and 23% overseas (22%) in 2018.

	2015 Number	2016 Number	2017 Number	2018 Number
Domestic students	47 511	47 714	47 192	47 468
Overseas students	12 803	13 202	13 422	14 332
Total students	60 314	60 916	60 614	61 800

Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from data published by the three universities and are unaudited.

Revenue from fees and charges from overseas students increased by 41% over the last four years to $442 million in 2018. The number of overseas students increased by 12% over this time.

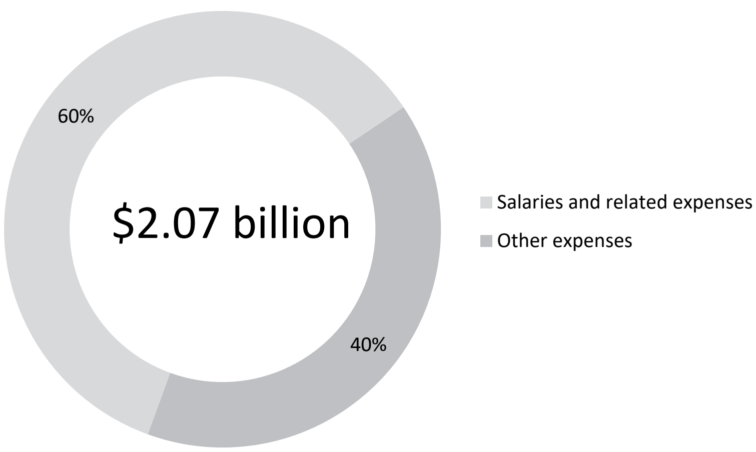


Source: Student numbers, which are based on EFTSL, were obtained from data published by the three universities and are unaudited.

Overseas students studying in South Australia come from a variety of countries. While the proportion from each country differs for each University, the main two countries of origin are China (around 40%) and India (around 15%).

Expenditure

Total expenditure for the three universities was $2.07 billion in 2018. The sources of expenditure are shown in the following chart.



Employee related expenses

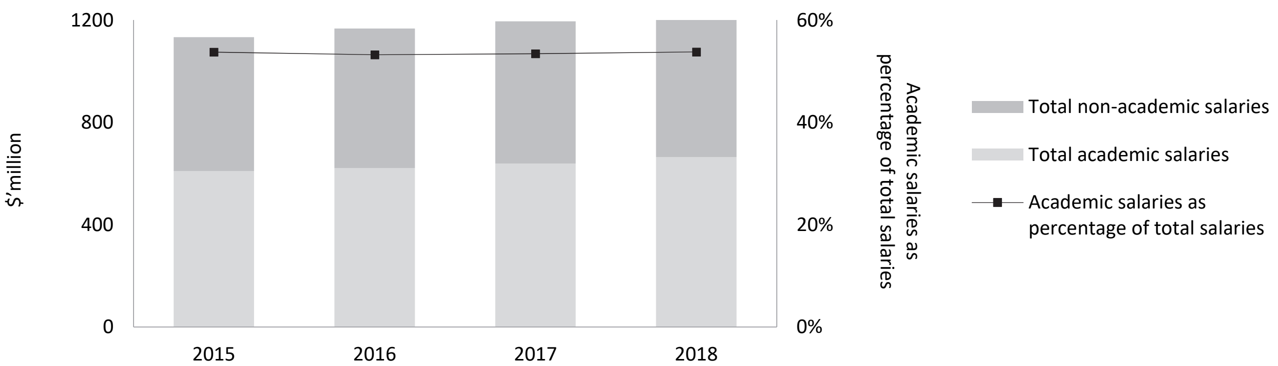
In the last four years, employee related expenses across the universities increased by 10% from $1.13 billion in 2015 to $1.24 billion in 2018.

The following table shows total staff numbers for all three universities, based on FTEs.

	2015 FTEs	2016 FTEs	2017 FTEs	2018 FTEs
Academic	3 781	3 634	3 681	3 721
Non-academic	4 761	4 700	4 705	4 796
Total FTEs	8 542	8 334	8 386	8 517
Percentage of academic staff	44%	44%	44%	44%

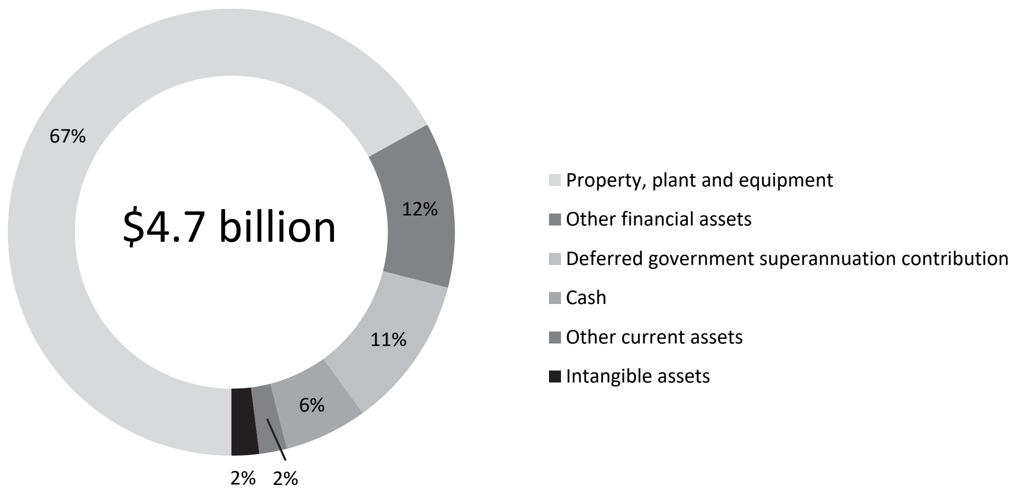
Source: Staff numbers, which are based on FTEs, were obtained from data published by the three universities and are unaudited.

The following chart shows academic salaries as a percentage of total salaries. The percentage remained consistent at 53% for 2016 and 2017, with a slight increase to 54% in 2018.



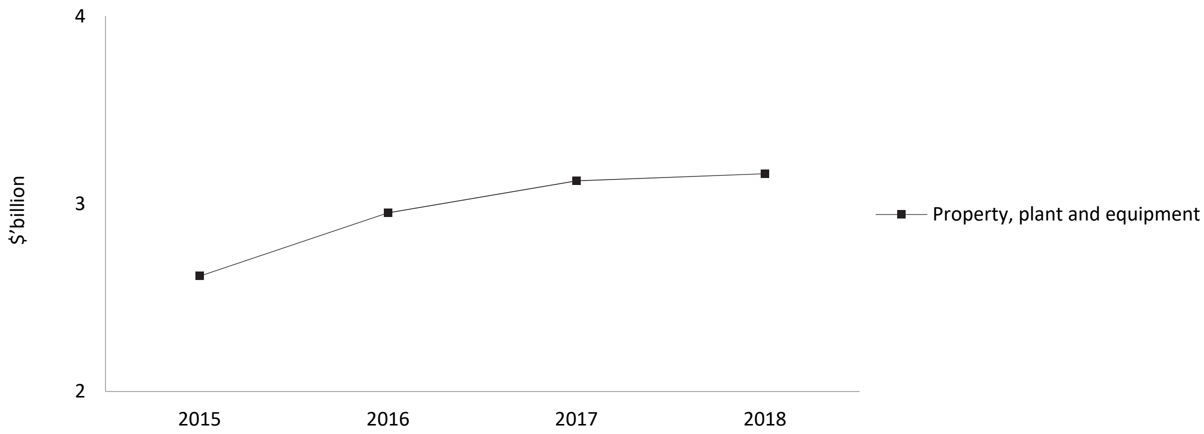
Assets

Total assets for the three universities were $4.7 billion in 2018. The categories of assets are presented in the following chart.



Property, plant and equipment

Property, plant and equipment totals $3.2 billion, which is 67% of the total value of assets held by the three universities. It primarily consists of $2.5 billion (78%) of buildings and infrastructure and land of $412 million (13%). The following chart shows the value of property, plant and equipment over the last four years.



In 2016 all three universities revalued their land, buildings and infrastructure. This resulted in a collective net revaluation gain across the universities of $110 million.

Capital work in progress totalled $41 million ($292 million) as at 31 December 2018 for the three universities. The decline is attributable to the completion of major capital works projects for the University of South Australia in particular. Further information on individual large capital works is provided in the commentary for each university under 'Statement of Financial Position'.

Deferred government superannuation contribution

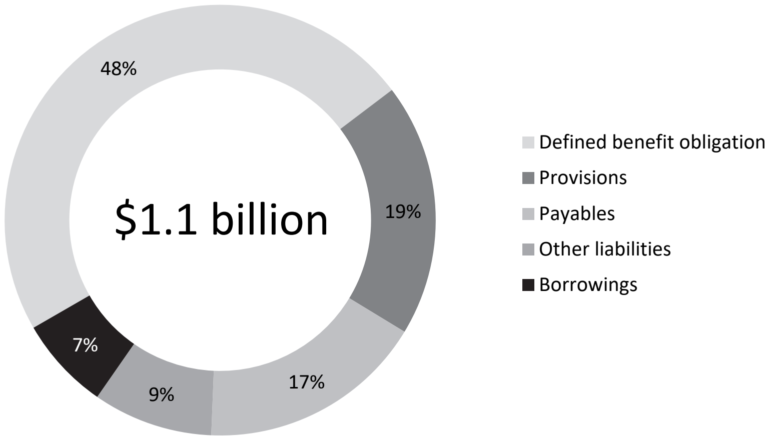
A number of present and former employees of the three universities, and their predecessor institutions, are members of State managed superannuation schemes. Under current arrangements the Commonwealth Government funds the universities on an emerging cost basis.

The defined benefit obligations of all three universities totalled $530 million, with a corresponding receivable of the same value being recognised from the Commonwealth Government. The receivables represent 11% of total assets held by the three universities.

For information on the individual schemes refer to the 2018 financial report for each university.

Liabilities

Total liabilities for the three universities were $1.1 billion in 2018. The categories of liabilities are presented in the following chart.



Defined benefit obligation

Defined benefit obligations total $530 million, 48% of the liabilities held by the three universities, and are offset by deferred government contributions as explained under 'Deferred government superannuation contribution' above.

Provisions

Provisions total $213 million, 19% of the liabilities held by the three universities. They primarily comprise $134 million in long service leave liabilities and $66 million in annual leave liabilities.

Emerging issues

Changes to Commonwealth funding arrangements

As noted above, the university sector in South Australia receives 60% of its funding from the Commonwealth Government, meaning changes to those funding arrangements can significantly impact the sector.

The Commonwealth Government announced a freeze on increases for Commonwealth Grant Scheme funding payable for bachelor degree courses in December 2017.

This funding was previously demand driven, increasing in line with student numbers. However, funding in 2018 and 2019 was capped at 2017 levels, regardless of any growth in student numbers. The number of Commonwealth supported places was not capped under this scheme. Universities still received the normal Commonwealth Grant Scheme payments for each place up to the cap limit on the same basis as previously used for funding Commonwealth supported places in designated courses.

From 2020, funding will be increased each year in line with national population growth of people in the 18 to 64 year old age bracket, with universities able to access this growth if they meet specified performance requirements. The Commonwealth has stated that performance-based funding is intended to ensure that universities focus on the quality of their teaching and student support, to ultimately achieve the best possible outcomes.

The final report of the expert panel appointed by the Commonwealth Minister for Education to lead consultation around performance-based funding models was released in June 2019. The report recommends performance be assessed against four areas: student experience, graduate outcomes, student success and equity group participation. The report also suggests that performance-based funding should be capped at 7.5% of Commonwealth Grant Scheme funding. The report refers to an estimated sector-wide amount of $80 million in performance funding for 2020, the first year of the approach.

The total amount of assistance a student can access under the HELP scheme was also capped from 1 January 2019.

Flinders University (Flinders)

Financial statistics	Net result:	$19 million
	Australian Government financial assistance:	$337 million
	Number of FTEs:	1 995
	Number of students (EFTSLs):	17 682
Significant events and transactions	Flinders announced plans to create Flinders Village, a mixed use community precinct including health research, commercial activity and residential living.	
Financial report opinion	**Unmodified**	
Controls opinion findings	No significant findings.	

Functional responsibility

Flinders is established by the *Flinders University Act 1966*.

The functions of Flinders include establishing and providing educational facilities and courses of study at a university standard, and generally disseminating knowledge and promoting scholarship.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018 included:

- expenditure
- research grant revenue
- cash and investments
- general ledger and reporting

- payroll
- property, plant and equipment
- Commonwealth financial assistance
- student revenue.

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

The audits of Flinders controlled entities for the year ended 31 December 2018 were carried out by private accounting firms.

Controls opinion

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

Audit findings

Communicating our audit findings

We communicated a small number of low risk audit findings in a management letter to the President and Vice-Chancellor and received a satisfactory response from Flinders.

Controls opinion findings

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

Interpretation and analysis of the financial report

Highlights of the financial report

	2018 $'million	2017 $'million
Income		
Australian Government grants	233	228
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	104	102
HECS-HELP (student payments)	7	7
Fees and charges	121	103
Other	50	57
Total income	515	497
Expenses		
Employee related expenses	322	310
Other expenses	174	161
Total expenses	496	471
Operating result	19	26
Net cash provided by (used in) operating activities	61	77
Net cash provided by (used in) investing activities	(63)	(87)

	2018 $'million	2017 $'million
Assets		
Current assets	116	119
Non-current assets	809	770
Total assets	925	889
Liabilities		
Current liabilities	90	86
Non-current liabilities	76	72
Total liabilities	166	158
Total equity	759	731

Income Statement

Income

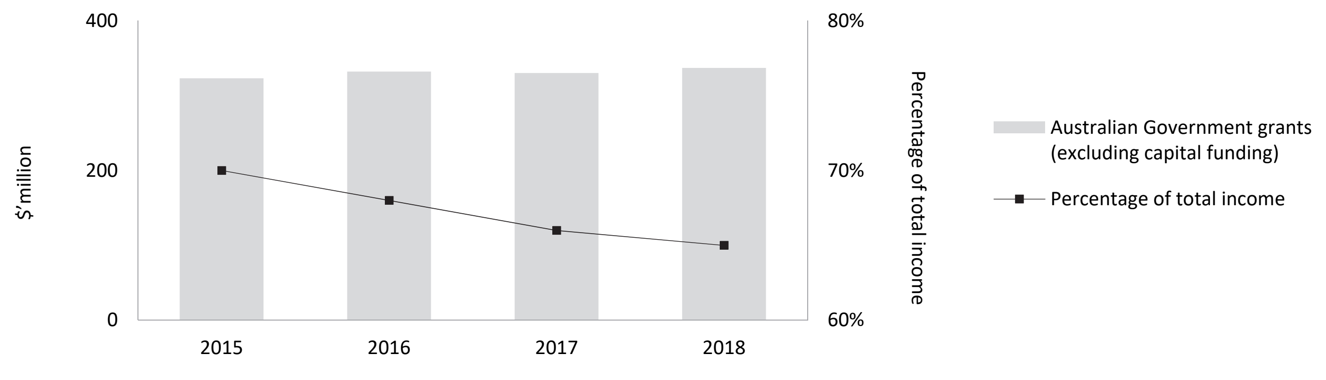
Flinders' income increased by $18 million (4%) in 2018, with increases in fees from overseas students offset by decreases in other revenue as explained below.

Australian Government grants and payments

The total Australian Government financial assistance received by Flinders in 2018 increased by $7 million to $337 million.

The chart below shows Australian Government grants and payments, excluding capital funding as this is not necessarily comparable from year to year. It shows that the proportion of non-capital Australian Government grants and payments to total income and has trended progressively lower in more recent years.

The continuing decrease in 2018 reflects the continued growth in fees and charges for the year.



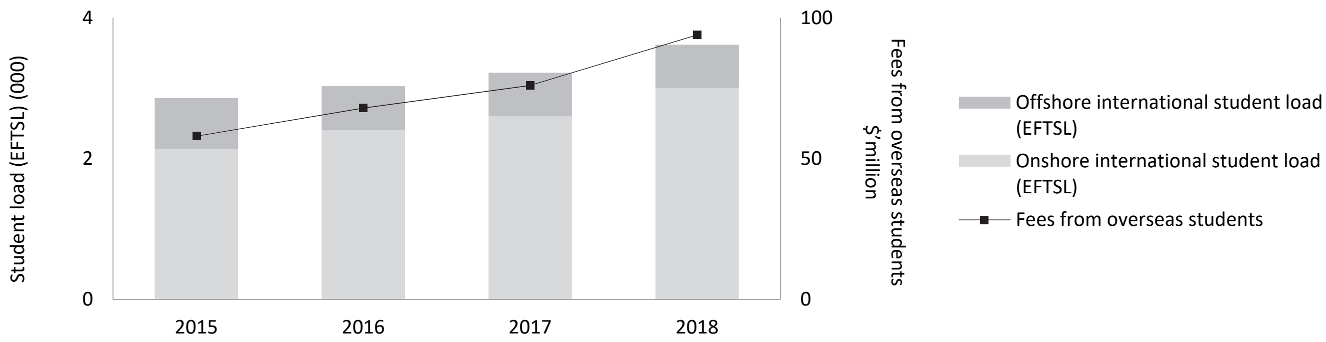
Australian Government grants and payments include the following major items:

- $104 million in Higher Education Loan Program (HELP) funding including HECS-HELP. In 2018 HECS-HELP funding increased by $2 million (2%) to $92 million, primarily due to growth in Commonwealth supported places (1%), price indexation and growth in the proportion of students opting to defer their contribution through the HELP program

- $54 million Australian Government funding for research activities including competitive research grant programs and research infrastructure grants, which was a $4 million increase in funding for 2018 mostly as a result of increased grant funding from the National Health and Medical Research Council
- $149 million Commonwealth Grants Scheme for Commonwealth supported student places. Commonwealth Grants Scheme funding remained steady in 2018.

Fees and charges

The following chart shows fees from overseas students together with international student numbers.



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from statistics published by Flinders and are unaudited.

Fees from overseas students increased by $18 million (24%) to $94 million primarily due to a 13% growth in international student numbers together with course price increases.

The following table shows that total student loads increased by 5% over the last four years, with a 1% increase in domestic students and a 23% increase in overseas students.

	2015 Number	2016 Number	2017 Number	2018 Number
Domestic students	13 847	14 112	14 081	14 022
Overseas students	2 965	3 075	3 250	3 661
Total students (EFTSL)	16 812	17 187	17 331	17 683

Source: Student load data is sourced from statistics published by Flinders and is unaudited.

Investment revenue and income

Investment revenue and income (net of losses) decreased by $6 million to $5 million due to decreases in the value of investments.

Expenses

Total expenses increased by $25 million (5%). This was primarily due to a $12 million (4%) increase in employee expenses and a $3 million increase in investment losses related to controlled entities.

Employee related expenses

Employee related expenses totalled $322 million in 2018. They increased by $12 million (4%) mainly due to payments in 2018 under the voluntary early retirement scheme (VERS) for academics of

$9 million and increases in payments due to enterprise agreements.

	2015 $'million	2016 $'million	2017 $'million	2018 $'million
Employee related expenses	298	314	310	322

The following table shows total staff numbers for Flinders based on FTEs. The numbers are relatively constant for the last four years, with falls in 2016 and 2017 largely reversed in 2018. The table also shows the percentage of academic staff.

	2015 FTEs	2016 FTEs	2017 FTEs	2018 FTEs
Academic	874	844	827	880
Non-academic	1 207	1 114	1 091	1 115
Total FTEs	2 081	1 958	1 918	1 995
Percentage of academic staff	42%	43%	43%	44%

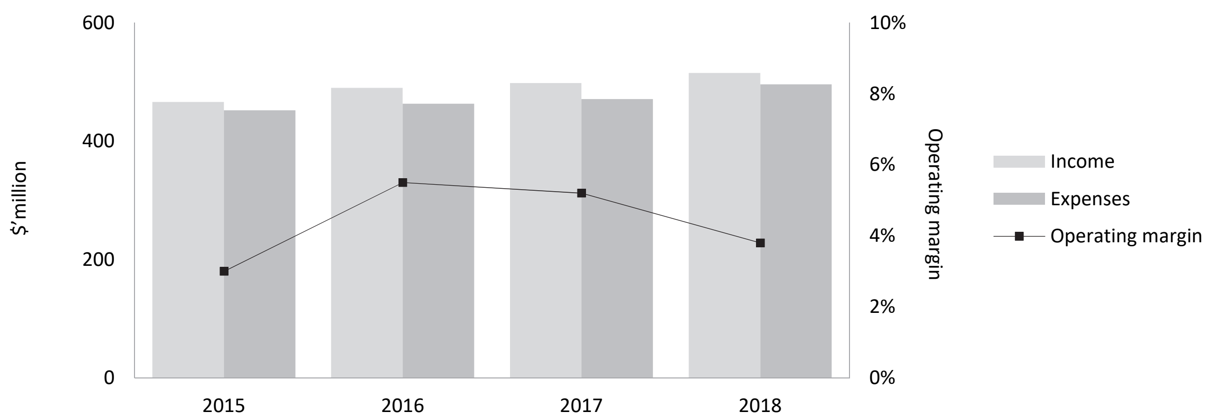
Source: Staff numbers, which are based on FTEs, were obtained from statistics published by Flinders and are unaudited.

Operating result

The operating surplus was $19 million, $7 million lower than 2017. The surplus was a result of:

- an $18 million increase in fees and charges as a result of an increase in fees from overseas students
- a $7 million increase in Australian Government financial assistance
- a $12 million increase in employee related expenses, mainly due to increased redundancy payments under the VERS in 2018.

The following chart shows the operating income, operating expenses and operating margin for the four years to 2018.



Flinders' operating margin (the operating result for the year divided by total income) decreased slightly in 2018, reflecting the slightly lower operating result.

Statement of Financial Position

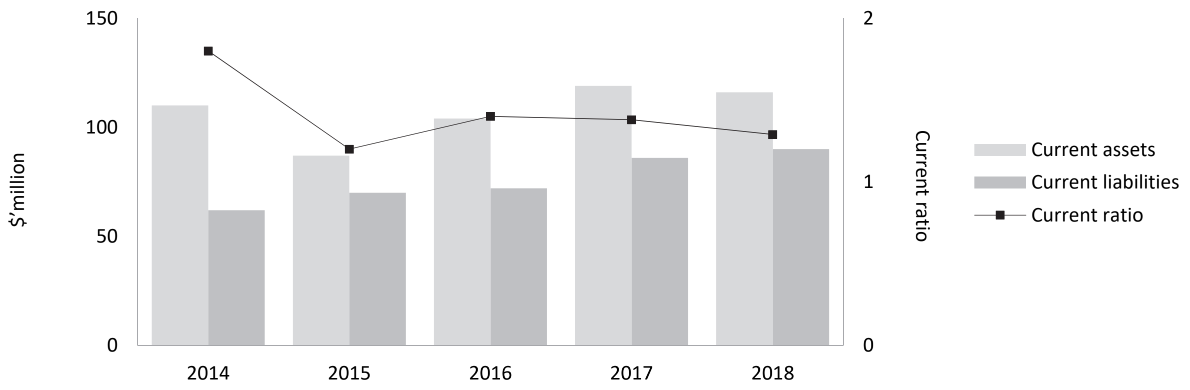
Flinders' consolidated net assets as at 31 December 2018 totalled $759 million ($731 million), an increase of $28 million.

Assets

Current assets

Flinders' cash and current financial assets (term deposits) decreased by $6 million to $92 million, primarily due to the increased payments for the academic VERS program.

The following chart shows Flinders' current assets and liabilities. The current ratio remains positive, with Flinders' current assets exceeding current liabilities by $26 million. The chart shows an early decline in its current ratio reflecting significant self-funded investments in infrastructure projects in 2014 and 2015, with the ratio remaining relatively consistent in more recent years.



Property, plant and equipment

The main item of Flinders' Statement of Financial Position is property, plant and equipment, representing 66% of total assets. The carrying value of property, plant and equipment increased by $7 million to $607 million mainly due to:

- asset additions of $38 million
- offset by $31 million in depreciation charges.

Liabilities

Flinders' liabilities increased by $8 million to $166 million. The major items contributing to this were an $8 million increase in trade payables and a $2 million increase in borrowings, offset by a $3 million decrease in other liabilities.

Statement of Cash Flows

Cash flows from operating activities decreased by $15 million to $61 million. Cash outflows for property, plant and equipment increased by $14 million due to the completion of major projects, offset by a decrease of $38 million in payments for financial assets. Total cash and cash equivalents decreased by $4 million to $39 million.

University of Adelaide (Uni Adelaide)

Financial statistics	Net operating result:	($4 million)
	Australian Government financial assistance:	$504 million
	Number of FTEs:	3 880
	Number of students (EFTSLs):	21 142

Significant events and transactions

- Professor Peter Rathjen AO commenced as Uni Adelaide's 22nd Vice-Chancellor and President in January 2018.
- Lockheed Martin Australia became a foundation partner with Uni Adelaide's Australian Institute of Machine Learning to undertake artificial intelligence machine learning research at the SA Government's innovation precinct, Lot Fourteen.

Financial report opinion

Unmodified

Controls opinion findings

- Ineffective review of payroll bona fide reports.
- Ineffective controls to monitor leave recorded.

Functional responsibility

Uni Adelaide is established by the *University of Adelaide Act 1971*.

Uni Adelaide's primary objective is advancing learning and knowledge, which it achieves by providing university education and conducting research activities.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018 included:

- corporate governance
- ICT
- Commonwealth financial assistance
- research grants, student fees and other revenue
- cash, investments and borrowings
- property, plant and equipment
- payroll
- accounts payable
- general ledger and financial accounting.

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

We made use of the work performed by internal audit over Uni Adelaide's ICT control environment.

Controls opinion

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

Audit findings

Communicating our audit findings

We communicated our audit findings in a management letter to the Vice-Chancellor and President. The main findings and Uni Adelaide's responses are discussed below.

Controls opinion findings

Payroll

Ineffective review of payroll bona fide reports

Uni Adelaide made payments for salaries and related expenses of $517 million to around 3900 FTEs in 2018.

Uni Adelaide relies on the review of bona fide reports by faculties and divisions to ensure that accurate information is recorded for its staff in the payroll system. If this control is not effective there is a risk that errors in payroll information may not be detected and corrected.

We identified that:

- some of the reports contained more than 150 staff, with reviewers noting that they had very little contact with some of those listed, and that some staff were geographically separated from the reviewers, significantly reducing their ability to verify the accuracy of some information

- the review process performed varied between cost centres, with some reviewing more information on the report than others.

We found that these reviews would not identify invalid employees or incorrect pay rates, but may identify variations in these areas for further investigation.

Uni Adelaide responded that it agreed improvements could be made to make the process more effective and that it would review the bona fide reports in 2019, also taking into account observations from recent internal audit work.

Ineffective controls to monitor leave recorded

Uni Adelaide had employee leave provisions of more than $85 million as at 31 December 2018.

Consistent with the last two years, we found that Uni Adelaide's control to ensure all leave taken is deducted from employee leave entitlement balances in the payroll system was ineffective. We found that leave taken data on bona fide reports was not being used to confirm the accuracy of leave taken, partly because of the reasons outlined under 'Ineffective review of payroll bona fide reports'.

Uni Adelaide did not identify another control to mitigate the risk that leave being recorded was incomplete or inaccurate. As a result, there is a risk that leave taken is not recorded in the payroll system, resulting in the potential overstatement of leave liabilities.

Uni Adelaide responded that it considered this issue would largely be addressed by the introduction of automatic scheduling of academic leave from January 2019 and did not require further action.

Interpretation and analysis of the financial report

Highlights of the financial report – consolidated

	2018 $'million	2017 $'million
Revenue		
Australian Government grants	385	377
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	119	118
HECS-HELP (student payments)	10	10
Fees and charges (course and non-course)	268	247
Other	151	195
Total revenue	933	947
Expenses		
Salaries and related expenses	517	509
Other expenses	420	382
Total expenses	937	891
Operating result from continuing operations	(4)	56
Other comprehensive income	6	-
Total comprehensive income	2	56

	2018 $'million	2017 $'million
Net cash provided by (used in) operating activities	83	77
Net cash provided by (used in) investing activities	(71)	(94)
Net cash provided by (used in) financing activities	(10)	10
Assets		
Current assets	102	96
Non-current assets	1 886	1 877
Total assets	1 988	1 973
Liabilities		
Current liabilities	137	117
Non-current liabilities	224	231
Total liabilities	361	348
Total equity	1 627	1 625

Statement of Comprehensive Income

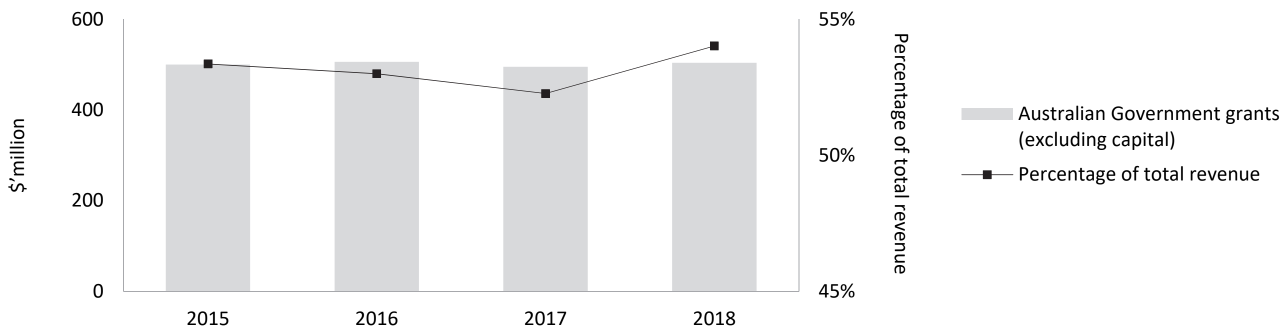
Revenue

Revenue in 2018 totalled $933 million which was slightly lower than 2017. Increases in fees and charges (course and non-course) and Australian Government grants were offset by a reduction in investment revenues.

Australian Government grants and payments

Total Australian Government financial assistance received by Uni Adelaide in 2018 increased by $9 million to $504 million.

The following chart shows Australian Government grants and payments, excluding capital funding as this is not necessarily comparable from year to year. It shows that there was a small rise in the proportion of non-capital Australian Government grants and payments to total income in 2018, up from 52% in 2017 to 54%.



In 2018 Australian Government grants and payments included the following major items:

- $166 million in Commonwealth Grants Scheme funding for Commonwealth supported student places which was consistent with 2017
- $119 million in Higher Education Loan Program (HELP) funding which included funding for HECS-HELP. In 2018 HECS-HELP rose slightly to $105 million.

Fees and charges

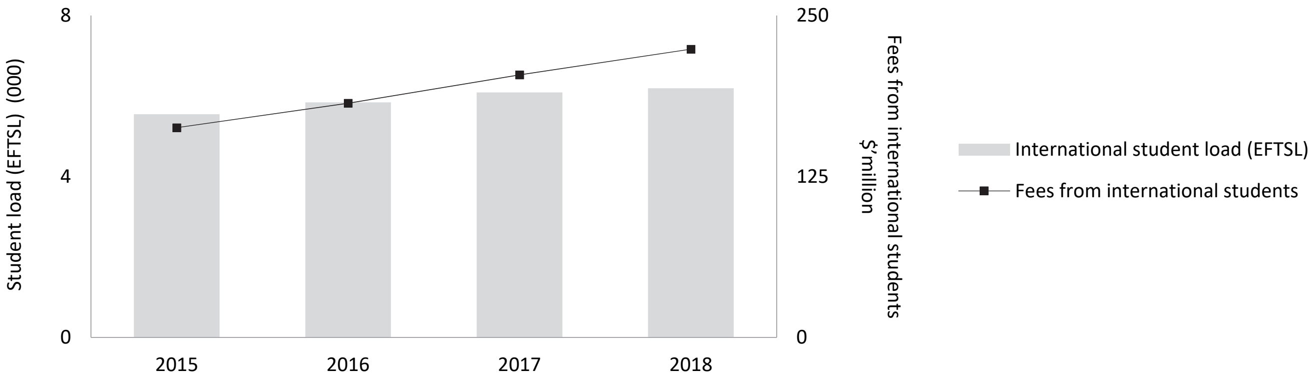
Fees and charges (course and non-course) increased by $21 million to $268 million in 2018. This increase is mainly attributable to a $20 million rise in revenue from international fee paying students.

The following table shows that overall the 2018 student load was steady. The composition of students has changed over the four years shown, with international student numbers proportionally increasing by 12% while domestic student numbers have declined 5%.

	2015 Number	2016 Number	2017 Number	2018 Number
Domestic students	15 688	15 618	15 050	14 946
International students	5 550	5 843	6 091	6 196
Total students (EFTSL)	21 238	21 461	21 141	21 142

Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from Uni Adelaide's annual report and are unaudited.

The following chart highlights the marked upward trend in revenue received from international fee paying students over the last four years.



Source: Student numbers, which are based on EFTSL, were obtained from Uni Adelaide's annual report and are unaudited.

Fees from international students increased by $20 million (10%) to $224 million in 2018, due primarily to a 2% increase in total international fee paying student numbers and an average 7% price increase in fees.

Other revenue

Other revenue decreased by $44 million (23%) to $151 million. The major items causing this change were:

- a net decrease of $35 million in unrealised returns on Uni Adelaide's Endowment Fund, mainly due to volatile equity markets in the last quarter of 2018. The overall unrealised loss for 2018 was $15 million compared to an unrealised gain of $20 million in 2017
- the changed classification of equity instruments on the introduction of a new Australian Accounting Standard for financial instruments. Gains or losses in the book value of these investments will now be recorded in other comprehensive income, instead of through other revenue. The impact in 2018 was that $9 million that would previously have been recognised in revenue was recognised in other comprehensive income.

Expenses

Expenses in 2018 totalled $937 million, an increase of $46 million (5%) compared to 2017. The increase mainly reflects an $8 million (2%) rise in employee related expenses, and an unrealised loss of $15 million on the Uni Adelaide's Endowment Fund as outlined above, and a $6 million (6%) rise in administration, communication and travel expenditure.

Employee related expenses

The $8 million increase in salaries and related expenses mainly reflects the impact of enterprise bargaining increases, including a $2000 payment per employee in March 2018.

The following table shows total staff numbers, based on FTEs. The numbers have remained steady over the last four years.

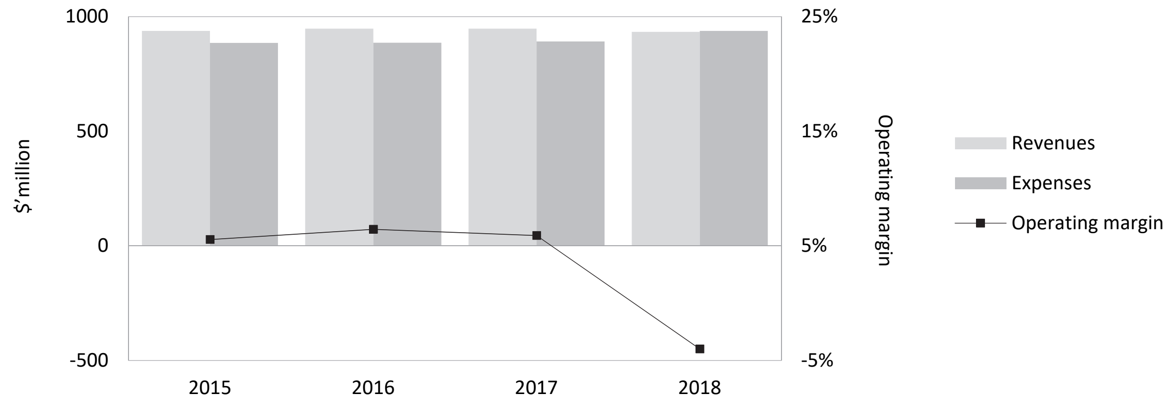
	2015 FTEs	2016 FTEs	2017 FTEs	2018 FTEs
Academic	1 781	1 729	1 732	1 710
Non-academic	2 084	2 155	2 141	2 170
Total FTEs	3 865	3 884	3 873	3 880
Percentage of academic staff	46%	45%	45%	44%

Source: Staff numbers, which are based on FTEs, were obtained from Uni Adelaide's annual report and are unaudited.

Operating result

The consolidated operating result for 2018 was a loss of $4 million compared to a $56 million surplus in 2017. The reduced operating result is explained by the movements in revenue and expenses outlined above.

The following chart shows the operating revenues, operating expenses and operating margin (the operating result for the year divided by total income) for the four years to 2018.



Uni Adelaide's operating margin was stable between 2015 and 2017 before declining sharply in 2018. The decline is mainly attributable to the net decrease of $35 million in unrealised returns on Uni Adelaide's Endowment Fund.

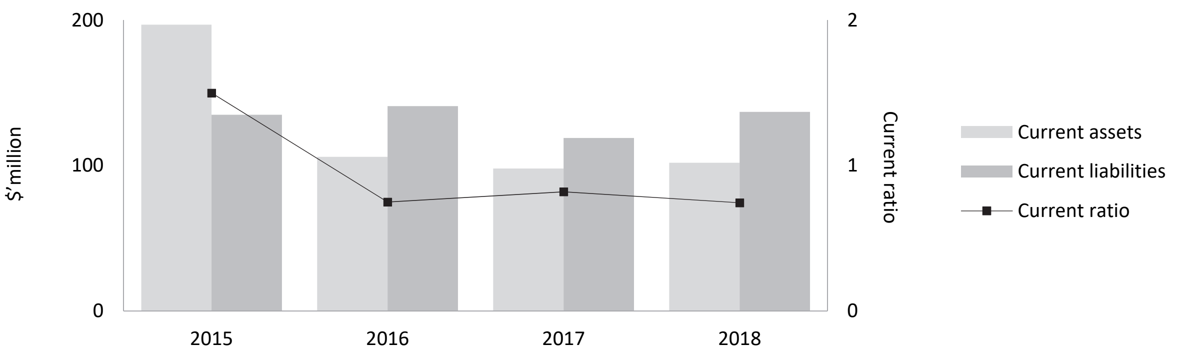
Statement of Financial Position

Uni Adelaide's consolidated net assets increased by $2 million to $1627 million at 31 December 2018 ($1625 million).

Assets

The value of Uni Adelaide's assets increased by $15 million (1%) in 2018. This was mainly a result of a $13 million increase in property, plant and equipment resulting from additions of $71 million, mostly related to buildings, offset by $49 million in depreciation and amortisation charges.

As at 31 December 2018, current assets of $102 million were less than current liabilities of $137 million. The following chart shows Uni Adelaide's current assets, current liabilities and current ratio for the four years to 2018.



Uni Adelaide's current ratio decreased in 2018, mainly as a result of a $5 million increase in other financial assets being offset by increases in payables of $12 million and other liabilities of $8 million, mainly associated with student tuition fees received in advance.

Liabilities

The value of Uni Adelaide's liabilities increased by $14 million (4%). The major items causing this change were:

- increases in payables of $12 million and other liabilities of $8 million, mostly related to student tuition fees received in advance
- offsetting decreases in borrowings of $5 million and employee benefit liabilities of $1 million.

Statement of Cash Flows

Total cash and cash equivalents at 31 December 2018 were $38 million ($36 million).

Net cash flows from operating activities increased by $6 million, due mainly to increases in Australian Government financial assistance of $12 million and fee paying student revenue increases of $17 million, offset by increases in salary and related expenditure cash outflows of $13 million.

Cash outflows for investing activities declined by $12 million mainly due to reductions in payments for major construction works.

University of South Australia (UniSA)

Financial statistics	Operating result before income tax:	$20 million
	Australian Government financial assistance:	$410 million
	Number of FTEs:	2 642
	Number of students (EFTSLs):	22 976

Significant events and transactions

- Construction of the $50 million Pridham Hall was completed in February 2018 and it officially opened on 7 May 2018.
- Construction of the $247 million UniSA Cancer Research Institute was completed in February 2018 and it was officially opened on 10 May 2018.
- Ms Pauline Carr commenced as the Chancellor of UniSA in September 2018, following the departure of Mr Jim McDowell from the position in July 2018.

Financial report opinion

Modified

UniSA recognised $30.2 million of unspent funding as a liability for the year ended 31 December 2018. These funds represent contributions and meet the recognition criteria of income under Australian Accounting Standard AASB 1004 *Contributions* and Accounting Policy Framework V *Income Framework*. UniSA controls these funds upon receipt and it is highly unlikely that they will be repaid.

Controls opinion findings

No significant findings.

Other audit findings

- No review of some casual employee timesheets.
- No review of system delegations for managing casual staff.

Functional responsibility

UniSA is established under the *University of South Australia Act 1990*.

UniSA's main functions are to provide tertiary education programs, preserve, extend and disseminate knowledge through teaching, research, scholarship and consultancy and to provide educational programs for the benefit of the wider community or the enhancement of its cultural life.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018 included:

- corporate governance
- Commonwealth financial assistance
- consultancy and research income
- student fees and other revenue
- accounts receivable
- cash, investments and borrowing
- property, plant and equipment
- payroll
- expenditure
- accounts payable
- general ledger and financial accounting
- major capital works.

The audits of UniSA's controlled entities for the year ended 31 December 2018 were carried out by a private accounting firm.

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

Controls opinion

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

Audit findings

Auditor's report on the financial report

The following is an extract from the 2018 Independent Auditor's Report that outlines the qualification of UniSA's financial report.

Qualified opinion

In my opinion, except for the effects of the matter described in the 'Basis for qualified opinion' section of my report, the accompanying financial report has been prepared in accordance with the Treasurer's Instructions issued under the provisions of the Public Finance and Audit Act 1987*, Division 60 of the* Australian Charities and Not-for-profits Commission Act 2012*, the* Higher Education Support Act 2003 *and Australian Accounting Standards.*

Basis for qualified opinion

The University and its controlled entities has recognised $30.2 million of unspent funding as a liability for the year ended 31 December 2018. These amounts have been accounted for as income received in advance and included in 'Other Liabilities - Commonwealth and State Government Grants', 'Other Liabilities - Income in advance on incomplete projects' and 'Other Liabilities – Other' in note 21 to the financial report. The University has disclosed its accounting treatment of these funds in note 21 to the financial report.

The funds represent contributions and meet the recognition criteria of income in accordance with Accounting Standard AASB 1004 Contributions*. The University controls these funds upon receipt and it is highly probable that any unspent funds will be spent in accordance with stipulated conditions. It is highly unlikely that unspent funds will need to be repaid to the granting bodies and as such funds should be recognised as income at the time of receipt.*

As a result, the following has been misstated in the 2018 financial report:

- *Revenue recognised as Australian Government grants is overstated by $2.2 million ($1.3 million understated in 2017)*
- *Revenue recognised as State and Local Government financial assistance is understated by $193 000 ($2.6 million understated in 2017)*
- *Revenue recognised as Consultancy and contract research is understated by $1.7 million ($1.6 million understated in 2017)*
- *Operating result attributable to members of University of South Australia is overstated by $308 000 ($5.6 million understated in 2017)*
- *Other liabilities is overstated by $30.2 million ($30.5 million overstated in 2017)*
- *Closing retained earnings is understated by $30.2 million ($30.5 million understated in 2017).*

Communicating our audit findings

We communicated our audit findings in a management letter to the Vice Chancellor and President. The main findings and UniSA's responses are detailed below.

Controls opinion findings

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

Other audit findings

Grant funding

Consistent with prior years UniSA has recognised a liability for unspent grant funding as at 31 December 2018. As mentioned in the 'Basis for qualified opinion' above, under AASB 1004 *Contributions* these grants should be recognised as revenue in the year of receipt.

Payroll

No review of some casual employee timesheets

UniSA pays more than $26 million a year for casual staff. A proportion of these staff have pre-filled timesheets. We previously identified that timesheets for casual employees, which are pre-filled with information about work hours already recorded in the Casual Administration System, were not reviewed before payment.

In 2018 UniSA completed an internal audit of the casual employee payroll process to identify opportunities to enhance internal controls for administering casual staff. The internal audit report made several recommendations to improve processes and controls, including those around monitoring and reporting.

We found that UniSA was still implementing changes to address the recommendations from the internal audit and the changes were not complete at the time of our audit. As a result there remained a risk of unauthorised rates and payments for some casual staff.

UniSA responded that it was continuing to implement the recommendations from the internal audit.

No review of system delegations for managing casual staff

UniSA uses a software system, APPIAN, to manage casual employees, including approving contracts and changes in hours and allowances.

UniSA's Vice Chancellor authorisations provide some staff with the authority to perform employment related tasks, including those listed above.

We reviewed whether the delegations established in APPIAN were consistent with the Vice Chancellor's authorisations and found:

- there was no process to check the APPIAN delegations matched the Vice Chancellor's authorisations
- changes to APPIAN delegations were performed manually as required and were not independently reviewed to ensure they matched the Vice Chancellor's authorisations.

If delegations in APPIAN do not match the Vice Chancellor's authorisations there is a risk that inaccurate or unauthorised changes could be made and an increased risk of incorrect payments to casual staff.

UniSA responded that the alignment of the Vice Chancellor's authorisations with APPIAN had been addressed and that it would implement regular reconciliations.

Interpretation and analysis of the financial report

Highlights of the financial report

	2018 $'million	2017 $'million
Income		
Australian Government grants	269	261
HECS-HELP, FEE-HELP and SA-HELP (Australian Government payments)	141	135
HECS-HELP (student payments)	10	10
Fees and charges	145	133
Other	93	72
Total income	658	611
Expenses		
Employee related expenses	397	377
Other expenses	241	221
Total expenses	638	598
Operating result before income tax	20	13
Net cash provided by (used in) operating activities	67	64
Net cash provided by (used in) investing activities	(73)	(194)
Assets		
Current assets	259	266
Non-current assets	1 537	1 520
Total assets	1 796	1 786
Liabilities		
Current liabilities	190	198
Non-current liabilities	397	399
Total liabilities	587	597
Total equity	1 209	1 189

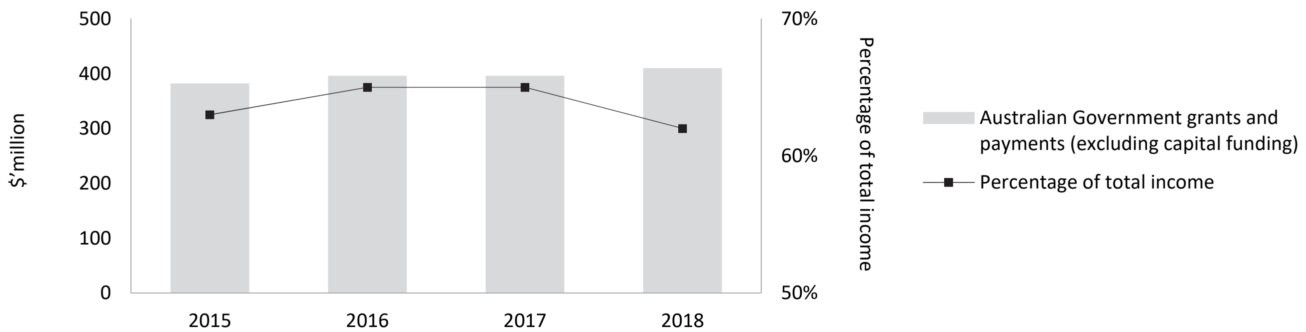
Statement of Comprehensive Income

Income

UniSA's total income increased by 8% in 2018.

Australian Government grants and payments

Total Australian Government financial assistance provided to UniSA (excluding capital funding as this is not necessarily comparable from year to year) is shown in the chart below. The chart shows that Australian Government financial assistance, excluding capital funding, continues to account for more than 60% of total income, although there was a 3% reduction in the percentage of total income in 2018, reflecting less reliance on this income than in 2017.



Australian Government grants increased by $8 million in 2018 to $269 million, mainly due to:

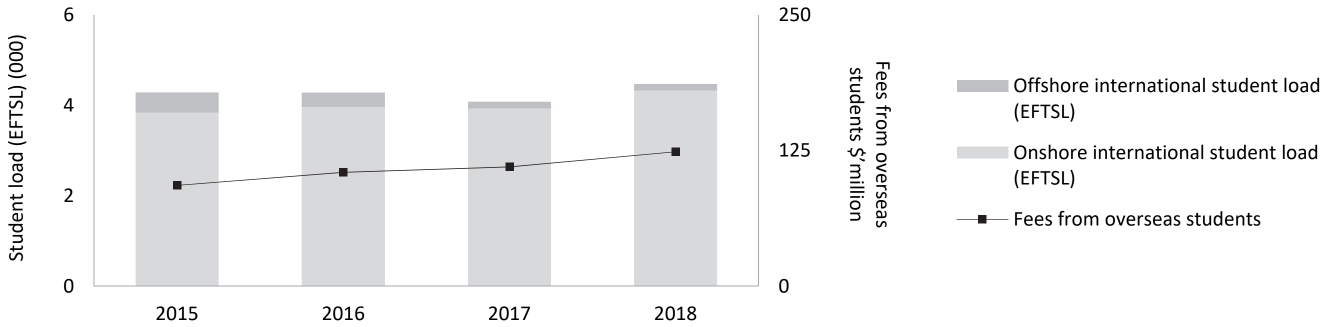
- $2 million in additional National Health and Medical Research Council research grants
- a $3 million increase in other Commonwealth Government research grants
- $2 million from other Commonwealth Government agencies for other projects.

Fees and charges

Fees and charges increased by $12 million in 2018 to $145 million. This was mainly a result of a $14 million increase in fee-paying onshore overseas students in 2018, offset by minor decreases in other fees.

The main component of fees and charges is fee-paying overseas students (85%), which represents 19% of total revenue.

The following chart shows that the fee-paying overseas student load increased by 10% in 2018. The $14 million increase in fee revenue from international students reflects increases in both the number of international students and their corresponding student load (EFTSL).



Source: Student numbers, which are based on equivalent full-time student load (EFTSL), were obtained from UniSA's annual reports and are unaudited.

The table below shows the 4% increase in student load (EFTSL) in 2018.

	2015 Number	2016 Number	2017 Number	2018 Number
Domestic students	17 976	17 984	18 061	18 500
Overseas students	4 288	4 284	4 081	4 476
Total students (EFTSL)	22 264	22 268	22 142	22 976

Source: Student numbers, which are based on EFTSL, were obtained from UniSA's annual reports and are unaudited.

Other revenue

Other revenue increased by $21 million to $93 million in 2018 largely from:

- a $7 million increase in investment revenue, reflecting a $9 million increase in dividends, offset by a $2 million reduction in interest income
- a $1.5 million increase in donations and bequests
- insurance proceeds of $8.5 million received for damage from a building fire in 2016
- increased consultancy and contract research revenue of $3 million as a result of receiving $2 million for commencing and ongoing international collaboration research and $1 million for new Co-operative Research Centre projects.

Expenses

Total expenses increased by $40 million (7%) to $638 million in 2018.

The split between employee expenses (62%) and other expenses (38%) remained stable in 2018.

Employee expenses

UniSA's main expense is employee related expenses, which increased by $20 million (5%) to $397 million in 2018 resulting from:

- enterprise agreement increases of $8 million
- additional staff of $4 million
- increases in payments to casual employees of $3 million
- increases in long service leave expenses of $3 million
- increases in superannuation expenses of $2 million.

The following table shows the breakdown of staff FTE numbers between academic and non-academic staff, along with the percentage of total staff classified as academic since 2015. There was an increase in overall staff numbers in 2018.

	2015 FTEs	2016 FTEs	2017 FTEs	2018 FTEs
Academic	1 126	1 061	1 122	1 131
Non-academic	1 470	1 431	1 473	1 511
Total FTEs	2 596	2 492	2 595	2 642
Percentage of academic staff	43%	43%	43%	43%

Source: Staff numbers, which are based on FTEs, were obtained from UniSA's annual report and are unaudited.

Other expenses

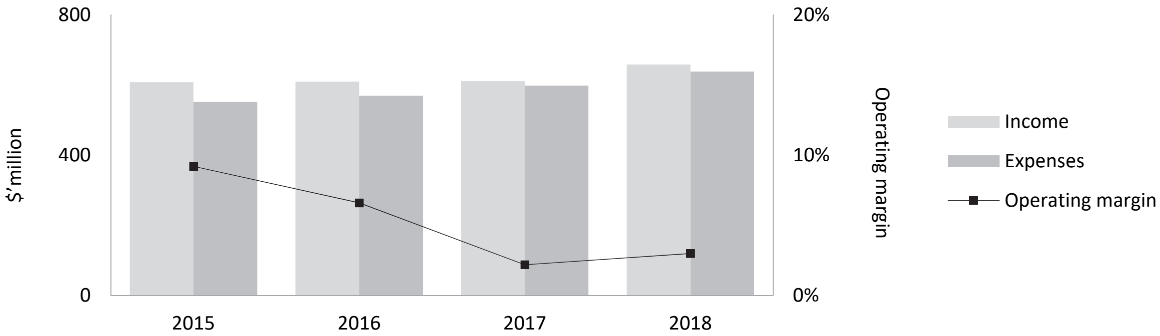
Other expenses increased by $20 million to $241 million in 2018. The main components of this change were:

- an increase of $7.1 million in depreciation and amortisation expenses, partly reflecting the completion of significant capital works in 2018 and the start of depreciation expenses being charged for them
- an increase of $8.1 million in external services, mainly reflecting increased agent, service provider and contractor fees
- an increase of $2.8 million in advertising, marketing and promotion expenses
- an increase of $2.8 million in utilities costs.

Operating result

The consolidated operating result before income tax for the year was a surplus of $20 million ($13 million). As mentioned in the analysis above, the increase is mainly due to an increase in total revenue of $47 million offset by an increase in total expenditure of $40 million.

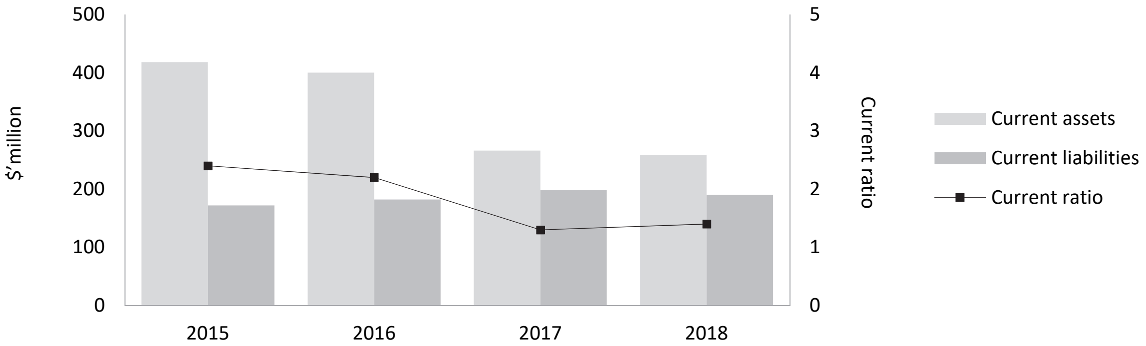
The following chart shows the movement in income, expenses and the operating margin for the last four years. The high operating margin in 2015 is a result of one-off receipts in that year. The increase in the operating margin to 3% this year reflects the increased operating result that was due to the overall increase in revenue for 2018.



Statement of Financial Position

UniSA's net assets at 31 December 2018 were $1209 million ($1189 million).

The following chart shows that UniSA's current ratio has reduced since 2015 as a result of reduced cash holdings, reflecting spending on property, plant and equipment. As at 31 December 2018 the current ratio increased marginally, with current assets exceeding current liabilities by $69 million.



Assets

Cash and cash equivalents

As at 31 December 2018 UniSA's cash and cash equivalents totalled $182 million compared to $188 million in 2017. The reduction in cash holdings is largely attributable to payments associated with completing the construction of major new buildings in 2018. These buildings opened in May 2018.

Property, plant and equipment

The main component of UniSA's Statement of Financial Position is property, plant and equipment, representing 62% of total assets. The carrying value of property, plant and equipment increased by $18 million to $1106 million due mainly to:

- asset additions of $59 million, mostly for construction of major buildings
- offset by depreciation charges of $39 million.

Capital program

UniSA completed significant elements of its capital program in 2018, including the construction of:

- the $247 million UniSA Cancer Research Institute
- Pridham Hall, a $50 million multi-purpose facility at City West.

Both buildings were completed in 2018 and opened in May 2018.

Liabilities

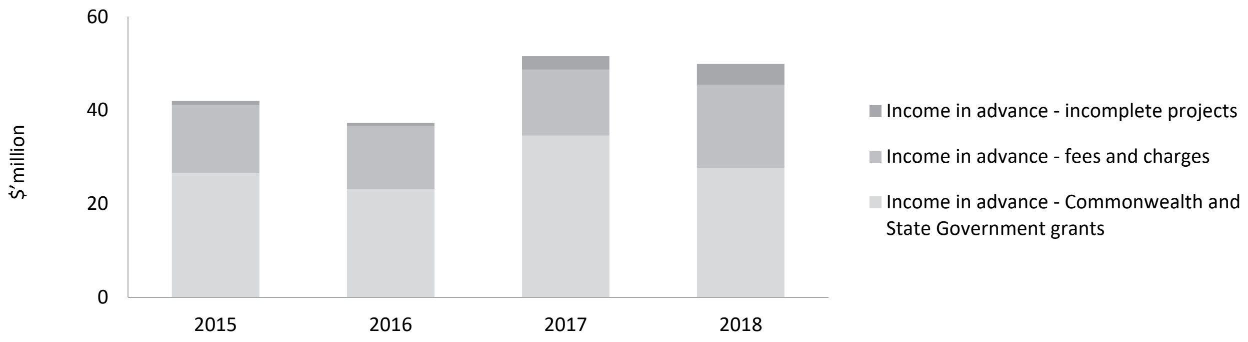
UniSA's liabilities decreased by $10 million to $587 million in 2018. The significant components contributing to total liabilities were:

- defined benefit superannuation obligations, which decreased by $4 million to $412 million as a result of increased investment returns and a decrease in the discount rate used to calculate the liability
- provisions for employee liabilities, which increased by $2 million to $74 million
- trade and other payables, which decreased by $7 million (13%) to $47 million in 2018.

Income in advance

The chart below shows the breakdown of income received in advance recorded in other liabilities. These liabilities represent the deferral of the income into future reporting periods based on UniSA's income recognition policies (refer to the qualification of other liabilities for the revenue deferral outlined under 'Auditor's report on the financial report' and note 21 of UniSA's financial report).

In 2018, income in advance decreased by $2 million to $50 million, with the main decrease in Commonwealth and State Government income due to less research grants deferred by UniSA, offset by an increase in fees and charges in advance.



Statement of Cash Flows

Net cash flows provided by operating activities increased by $3 million due mainly to increases in receipts from student fees and other customers and other receipts, partly offset by increases in payments to suppliers and employees.

Net cash used in investing activities decreased by $121 million as a result of decreased payments for major capital works projects, reflecting the completion of these works.

Further commentary on operations

In July 2019, UniSA announced its new Enterprise 25 strategy. This strategy will include embarking on a transformation involving an overhaul of its education program, including a simplified academic structure to direct resources into teaching, research and student support.

Enterprise 25 sets out UniSA's goals and the approach it will take to achieve them.

Urban Renewal Authority (URA)

Financial statistics	Sales:	$67 million
	Cost of sales:	$41 million
	Rental income:	$70 million
	Loss before income tax equivalent:	$206 million
	Inventories and investment properties:	$954 million
	Borrowings:	$904 million
	Number of FTEs:	131
	Hectares of land inventory:	3534

Significant events and transactions

- $206 million loss before income tax equivalent due to a $220 million net decrease in the value of inventory and investment properties. This amount includes the recognition of a $100 million provision for future development expenditure (liability) to estimate the URA's obligations arising from the SA Government's commitments to develop the Lot Fourteen site.
- The decrease in inventory asset values was driven by the removal of SA Government funding from the discounted cash flow models used by the URA to measure its development projects (inventory), following the Treasurer's decision to provide SA Government capital project funding as an equity contribution.
- Total liabilities of $1.059 billion now exceed total assets of $995 million.
- Machinery of government changes resulted in the transfer of 165 URA employees to the South Australian Housing Trust (SAHT) on 1 July 2018. Employee benefits expenses and the resulting cost recoveries revenue from the SAHT both reduced by $16 million.

Financial report opinion

Unmodified

Controls opinion findings

The URA's strategic plan needs revision.

Other audit findings

- Some procurement documents were not adequately stored and could not be located.
- More guidance for performing due diligence checks on potential suppliers is needed.

Functional responsibility

The URA is established by the *Urban Renewal Act 1995* (URA Act).

The URA is responsible for leading and coordinating urban renewal activity to ensure future housing needs are met through better planned, affordable and vibrant mixed use (residential and commercial) urban developments located near transport, employment, education and other services.

The URA's functions in the URA Act include:

- developing residential, commercial and industrial land in the public interest, particularly for urban renewal purposes
- facilitating public and private investment, undertaking development activities that are attractive to potential investors and participating in the development of the State
- managing the orderly development of areas through the management and release of land
- holding land and other property to be made available as appropriate for commercial, industrial, residential or other purposes.

The URA's trading name is Renewal SA. It is a for-profit entity under Accounting Policy Framework II *General Purpose Financial Statements Framework*.

Urban renewal program

The URA conducts its urban renewal program through a series of development projects. Its major projects are currently Lot Fourteen, Playford Alive, Tonsley Park, Woodville West and Bowden. A separate business plan is prepared for each project and progress against the plan is monitored. Refer to 'Major development projects' below for further discussion of these projects.

Scope of the audit

Audit of the financial report

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

Specific areas of audit attention in 2018-19 included:

- corporate governance
- project, procurement and contract management
- land sales
- property income
- expenditure
- payroll
- inventory.

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

Controls opinion

We reviewed controls over the following areas as part of our controls opinion, which is discussed in Part B of this Report:

- investment properties
- inventories, including land held for sale and development projects
- borrowings
- managing the Renewal SA Operating Account.

Audit findings

Communicating our audit findings

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

Controls opinion findings

The URA's strategic plan needs revision

The URA's strategic plan needs to be revised. Its 2015-2017 strategic plan has expired and included its mandated deliverables for the URA, the SAHT and the Riverbank Authority. The change of government and the consequential machinery of government changes resulted in the Riverbank Authority being abolished and the URA no longer has responsibilities for the SAHT.

The URA is developing a new strategic plan to support its future business that will take into account its revised mandate and intended long-term use of the URA's property portfolio. For further details refer to 'Further commentary on operations' below.

Other audit findings

Some procurement documents were not adequately stored and could not be located

The URA requires that procurements are conducted and documented in line with its procurement framework. Documentation can include:

- lists of received tenders that are signed by tender openers
- approved tender evaluation plans detailing tender evaluation criteria
- matrices recording the evaluation of each tender against the approved tender evaluation criteria, signed by all members of the tender evaluation panel
- minutes of tender evaluation panel meetings
- probity adviser reports (where appointed).

Periodically, the URA conducts internal audits of a sample of procurements to ensure they are conducted and documented in line with its procurement framework. Recent internal audits have identified records management issues, both in the way records were saved/stored and the difficulty locating some documents. As a result, in October 2018 the URA completed an internal audit of the adequacy and effectiveness of its records management arrangements.

The internal audit concluded that the URA has policies and procedures in place for effective records management, however poor practice had been allowed to develop and continue, with varying levels of staff commitment to using the records management system. The audit recommended that staff refresher training would potentially address this issue.

We reviewed a sample of 2018-19 procurements that had not been subject to an internal audit and noted that, for some procurements, a complete set of procurement documents was not stored in the URA's record management system and URA staff could not find the documents we requested or could not find the signed version.

Retention of the documentation sought in our review is important to demonstrate that the URA's procurement framework was complied with and that the URA:

- recorded all tenders received and evaluated, and tenders received after the closing date were dealt with appropriately
- determined the tender evaluation plan before tenders were received
- ensured that the views of all members of a tender evaluation panel were properly considered in the final tender evaluation
- justified its tender selection outcomes.

While the URA acknowledged that all required documents should be adequately stored, it rated the risks associated with the missing documents as low – noting other existing controls.

In particular, the URA responded that for all but one of the procurements we noted with missing documentation, an independent probity adviser was engaged to oversee and review each stage of the procurement. For each procurement the probity adviser provided written assurance that the procurement was conducted appropriately and maintained an appropriate level of probity.

The URA also noted that it has implemented strategies to improve the appropriate and timely storage of records. These include comprehensive training for all staff on records management requirements, upgrading the records management system and implementing a records management usage report to monitor compliance with the records management policy to adequately store documents.

More guidance for performing due diligence checks on potential suppliers is needed

At the time of our audit, the URA was reviewing the requirements of its procurement framework for performing due diligence checks when evaluating potential suppliers.

We noted that, although the URA was performing due diligence checks, the framework did not specify the:

- due diligence checks that must be performed when evaluating potential suppliers
- minimum credit rating that preferred suppliers must demonstrate before being contracted
- circumstances where a financial assessment check should be performed by URA Finance to assess the financial strength of the preferred supplier in addition to or in lieu of a credit check.

The URA responded that establishing a minimum level of due diligence checks would be inappropriate as it may result in inadequate due diligence for some transactions where there may be a case for more extensive actions. Notwithstanding, the URA acknowledged its plans to enhance its contract management and procurement frameworks to more comprehensively describe when due diligence should be undertaken and what due diligence steps would be appropriate given the assessed risks.

Interpretation and analysis of the financial report

Highlights of the financial report*

	2019 $'million	2018 $'million
Income		
Sales	67	87
Cost of sales	(41)	(49)
Revenues from government	8	9
Property income	81	80
Other revenues	6	23
Gain resulting from changes in value of non-current assets	-	2
Total income	121	152
Expenses		
Employee benefits expenses	16	32
Operating expenditure, depreciation and amortisation	51	51
Borrowing costs	41	40
Loss resulting from changes in value of non-current assets	220	-
Total expense	327	123
Profit (Loss) before income tax equivalent	(206)	29
Income tax equivalent	-	9
Total comprehensive result	(206)	21
Net cash provided by (used in) operating activities	(47)	54
Net cash provided by (used in) investing activities	2	3
Net cash provided by (used in) financing activities	23	(26)
Assets		
Current assets	99	123
Non-current assets	897	966
Total assets	995	1 089
Liabilities		
Current liabilities	400	212
Non-current liabilities	660	750
Total liabilities	1 059	962
Total equity	(64)	126

* Table may not add due to rounding.

Statement of Comprehensive Income

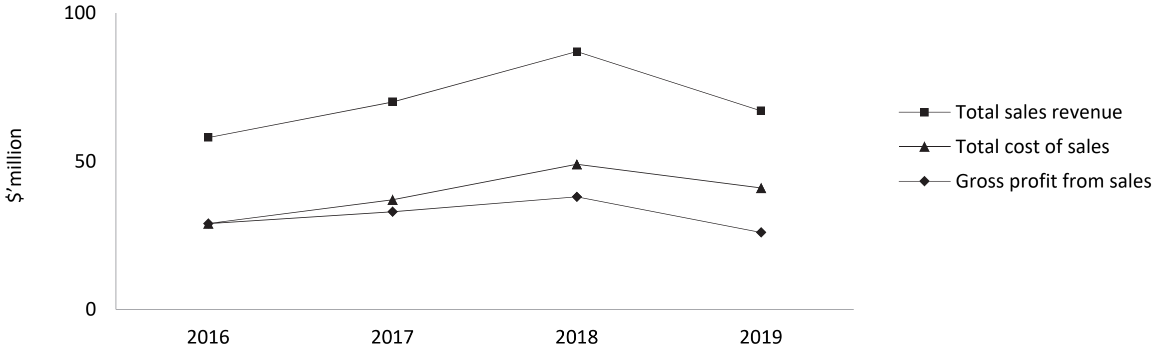
Income

Total income decreased by $31 million to $121 million due mainly to:

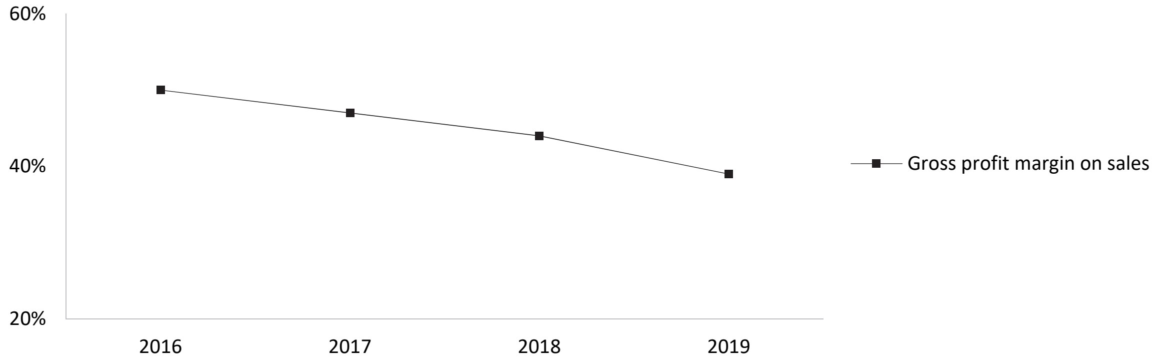
- gross profit from land sales decreasing by $13 million to $26 million, reflecting a $20 million decrease in sales offset by an $8 million decrease in the cost of sales. The decrease in sales was due largely to reduced residential land sales from the Woodville West project, which is close to completion, and Seaford Residential where the last allotments were sold in 2017-18

- consulting and employee services revenue decreasing by $16 million to $677 000, reflecting the cessation of service provision to the SAHT as a result of machinery of government changes from 1 July 2018.

The following chart shows total land sales and cost of sales for the four years to 2019.



The gross profit margin on sales is an important driver of URA's profitability and is influenced by market prices for land and the historic costs of acquisition and development. The following chart shows the gross profit margin on sales for the four years to 2019.



The decrease in gross profit margin in 2018-19 reflects a reduction in sales of undeveloped allotments, which have a higher gross profit margin. The SA Government sometimes requires the URA to undertake developments that are not purely commercial in nature, resulting in lower gross profit margins on developed allotments.

Expenses

Expenses increased by $204 million to $327 million largely following a $220 million net loss from decreases in the value of non-current assets due mainly to:

- a $95 million inventory write-down resulting from the SA Government's revised funding arrangements for the Lot Fourteen, Bowden and Tonsley projects. From 2019-20 payments made to the URA for capital works on these projects will be made by an equity contribution rather than as community service obligation (CSO) grants. In line with AASB 102 *Inventories*, the URA has removed these amounts from the discounted cash flow models used to estimate the net realisable value for these projects
- the recognition of a $100 million provision for future development expenditure (liability) to estimate the URA's obligations arising from the SA Government's commitments to develop the Lot Fourteen site. This liability was measured in line with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*

- a $19 million write-down in net inventory values due to revised sales and capital expenditure estimates, revised project strategies and market conditions
- a $6 million net investment property write-down.

These increases in expenses were partially offset by a $16 million decrease in employee benefits expenses following the transfer of 166 employees to the SAHT on 1 July 2018.

Dividend

Under section 26 of the URA Act, the URA is required to recommend to the Minister whether a dividend will be paid each financial year. In 2018-19 the Minister approved an additional dividend payment of $9.9 million relating to profit earnt in 2017-18.

The URA is also required to declare a dividend of 100% of the profit relating to the Adelaide Station and Environs Redevelopment (ASER) site under the requirements of the Cabinet decision to transfer the site from the Department of Planning, Transport and Infrastructure to the URA effective 30 June 2013. The Minister approved an ASER dividend payment of $1 million for 2018-19.

Statement of Financial Position

Total liabilities of $1.059 billion, mainly borrowings of $904 million and provisions of $101 million, exceed total assets of $995 million, with investment properties and inventories representing $954 million of this balance.

The URA's net liability position of $64 million represents a $190 million decline in its financial position, due mainly to:

- a $77 million decrease in the value of inventories and investment properties
- the recognition, for the first time, of a $100 million provision for future development expenditure for the URA's obligations arising from the Lot Fourteen development
- a decrease in cash and cash equivalents of $21 million.

The major movements of the Statement of Financial Position are discussed below.

Assets

Total assets decreased by $94 million to $995 million, reflecting a $68 million decrease in inventories, a $10 million decrease in investment properties and a $21 million decrease in cash and cash equivalents, all partially offset by an increase of $4 million in receivables.

Inventories

The URA's primary activities involve holding and developing land inventory for sale. The value of this inventory decreased by $68 million to $247 million and reflected:

- inventory additions mainly comprising:
  - $109 million ($55 million) in capitalised development costs including direct materials, salaries, land tax and borrowing costs where those costs are directly attributable to land currently under development. These costs are then recognised as part of cost of sales when inventories are sold
  - a $12 million ($9 million) reversal of past write-downs of inventory to net realisable value

- inventory reductions mainly comprising:
  - $18 million ($19 million) of CSO grants from the SA Government to fund the non-commercial components of projects that do not increase the likely sales value of inventory. From 2019-20, CSO grants will be reduced and replaced with equity contributions resulting in less funding adjustments against inventory
  - $41 million ($49 million) of inventory sold and included in cost of sales
  - $126 million ($5 million) of write-downs of inventory to net realisable value.

Inventory valuations and write-downs

In line with AASB 102 the URA recognises inventory at the lower of its cost and net realisable value. The measurement of the net realisable value of inventories depends on its intended use of the inventories. The URA has grouped its inventories into the following two classes:

- land held for sale requiring low capital investment. The URA intends to release this land for sale based on market conditions. As at 30 June 2019 the value of land in this class was $196 million ($208 million)
- development projects requiring significant capital investment over extended periods of time before the land can be sold. These projects may be initiated by the SA Government, which provides CSO grants or, from 1 July 2019, equity contributions to partly fund the projects. As at 30 June 2019 the development projects were valued at $52 million ($107 million).

In 2015-16, the URA wrote its inventory down by $137 million. The significant write-down related mostly to changes in its cash flow models used to determine the net realisable value of development projects. Importantly, these changes included reductions in revenue forecasts that occurred when the URA reassessed the likely outcomes of its business strategies for these projects. The revised revenue forecasts took into account the prevailing challenging market conditions and the extent to which the conditions were expected to continue into the future. In response, the URA modified its business strategies for some development projects to lower future costs. However, the URA considered its revised strategies would be insufficient to fully recover the past costs of some projects, and subsequently wrote them down.

In 2016-17 and 2017-18, the URA processed inventory write-downs and reversed some prior write-downs based on changed business strategies, updated estimates of sales and capital expenditures and retiming of project cash flows. The net impact over the two years was a $2 million net reversal of past write-downs.

In 2018-19, the URA wrote its inventory down by a net $114 million, reflecting:

- a $95 million inventory write-down resulting from the SA Government's revised arrangements for funding the URA's development projects. From 2019-20 payments made by the SA Government for capital works on the Lot Fourteen, Bowden and Tonsley projects will be made by an equity contribution rather than as CSO grants. In line with AASB 102 the URA has removed these amounts from the net realisable value calculations for these projects, resulting in write downs of $40 million for Lot Fourteen, $25 million for Bowden and $30 million for Tonsley
- $19 million of inventory write downs due to revised sales and capital expenditure estimates and revised project strategies mainly due to write downs of $24 million for Lot Fourteen and $10 million for Tonsley, both partially offset by the reversal of past write downs for Playford of $8 million and Bowden of $4 million.

The Treasurer's decision to provide SA Government capital project funding for development projects as an equity contribution also resulted in the URA recognising, for the first time, a provision for future development expenditure on the Lot Fourteen project of $100 million. This liability was measured in line with AASB 137 and represents the URA's best estimate of its future obligations arising from the SA Government's commitments to develop the Lot Fourteen site.

The previous government approved significant funding to develop Lot Fourteen. The current government's continued commitments for the site are specified in the Adelaide City Deal between the SA Government, Commonwealth Government and the Corporation of the City of Adelaide. The master plan and budget for the site is subject to future consideration and approval by the SA Government.

The following table shows the inventory and investment property write-downs and reversals that have occurred over the last four years.

	Write-downs (reversals)				Carrying amount	Provision amount	Land area
Inventory	2016 $'million	2017 $'million	2018 $'million	2019 $'million	30.06.19 $'million	30.06.19 $'million	30.06.19 Hectares
Development projects:							
Tonsley	54	(2)	(1)	40	25	-	43
Playford Alive	52	-	-	(8)	7	-	309
Bowden	17	(3)	(1)	21	9	-	10
Woodville West	5	0.5	(5)	(1)	7	-	3
Lot Fourteen	-	-	-	63	-	100	6
Land held for sale	9	7	3	(1)	200	-	2 932
Total inventory	137	2	(4)	114	247	-	3 303
Investment property	6	18	1	6	707	-	231
Lot Fourteen provision for future development expenditure	-	-	-	-	-	100	n/a
Total inventory and investment property	143	21	(2)	120	954	n/a	3 534

Note: Table may not add due to rounding.

The table highlights the impact in 2018-19 of reclassifying CSO grants as equity contributions when measuring the net realisable value of Lot Fourteen, Tonsley and Bowden.

The table also highlights the impact of the URA's sales forecasts and capitalisation policy on the carrying amount of long-term development projects and their net realisable value. Significant land tax and other holding costs are included in the determination of their net realisable value. Longer development periods result in higher holding costs and lower net realisable value. This is particularly evident for Playford Alive where the project is expected to end in 2025-26. After the $52 million write-down in 2016, the project, which currently has a land area of 309 hectares, has a carrying amount of $7 million. This is due to the level of investment required and the extended period over which revenue is expected to be realised.

Inventory is valued at lower of cost and net realisable value

AASB 102 requires that the value of inventory be measured at the lower of cost and net realisable value. Cost represents the actual cost of acquiring or constructing inventories, while net realisable value represents the estimated proceeds that will be received from the sale of the inventories less any remaining estimated construction costs.

The URA initially measures the carrying value of its inventories at their actual cost. At the end of each financial year, it estimates the net realisable value of the inventories for comparison to their carrying values. Inventory carrying values are written down when they exceed their net realisable values. However, when inventory net realisable values exceed their carrying values the URA does not, and is not required to by AASB 102, disclose their net realisable value. The URA's inventories have a carrying amount of $247 million ($315 million). If they were all measured at their net realisable value, the URA's financial position would be significantly improved.

Measuring net realisable value involves estimating

The URA is obliged to make a series of estimates when valuing inventories. Accordingly, inventory valuations can change from year to year because of changes that influence estimates made.

Measuring the net realisable value of land held for sale is determined by the URA using independent valuations of current market value less selling costs. Measuring the net realisable value of large development projects is more complex. For these projects, the URA determines net realisable value by estimating the future net cash flows of the projects (before interest) and discounting the cash flows back to present values.

The estimated cash flows are based on the amount and timing of sales and development costs, which for some projects extend many years into the future. The URA estimates when the development of each land parcel under current strategies will be completed and its market price once developed, and also estimates the development costs taking into account inflation. Changes to market conditions, policies or project strategies can also change the net realisable value of projects.

Investment properties

The URA holds significant investment properties valued at $707 million, including TAFE SA properties purchased from the former Department of State Development in March 2017 for $619 million. The fair value of investment properties has reduced by $10 million in 2018-19 and is supported by independent valuations performed as at 30 June 2019. In the 2019-20 State Budget the SA Government announced the transfer of a number of TAFE SA properties back to the general government sector in 2019-20 for $601 million.

Liabilities

Total liabilities increased by $97 million to $1.059 billion and reflected:

- liability increases mainly comprising:
  - a $100 million increase in provisions due to the creation of a $100 million provision for future development expenditure, reflecting the URA's best estimate of its obligations for the Lot Fourteen development as detailed above. The URA has classified the provision as a current liability as it expects the expenditure will be fully incurred in 2019-20. Changes to market conditions, policies or project strategies could change the net realisable value of Lot Fourteen and subsequently the provision
  - a $9 million increase in borrowings resulting from negative cash flows from operations. Borrowings of $904 million ($894 million) comprise 85% (93%) of total liabilities. Borrowings are primarily required to fund property purchases, capital development costs for inventories and operating expenditure. Refer to 'Borrowings and liquidity' below for further commentary on debt management

- liability decreases mainly comprising:
  - a $5 million decrease in employee benefits liability principally due to the transfer of 165 employees to the SAHT on 1 July 2018
  - a $5 million decrease in income tax equivalent payable to the SA Government. The income tax liability is based on the Treasurer's accounting profit method, which requires that the corporate income tax rate be applied to the profit for the reporting period. The URA made a loss in 2018-19 therefore no tax equivalent is payable.

Statement of Cash Flows

Cash and cash equivalents declined by $21 million following large movements in cash flows from operating and financing activities.

Net cash used in operating activities was $47 million in 2018-19, a $101 million turnaround from the $54 million net cash provided by operating activities in 2017-18. The movement followed a $54 million increase in land development payments, mainly attributable to the Lot Fourteen development, and a $29 million decrease in receipts from sales largely due to reduced residential land sales from the Woodville West project, which is close to completion, and Seaford Residential, where the last allotments were sold in 2017-18.

Net cash provided by financing activities increased by $49 million, largely reflecting $25 million in equity contributions from the SA Government and a $26 million increase in debt financing compared to the prior year.

Further commentary on operations

Revision of the URA's strategic plan

Section 16 (2)(a) of the *Urban Renewal Act 1995* requires the URA Board to ensure, as far as practicable, that appropriate strategic and operation plans and targets are established for the URA. The URA's 2015-2020 strategic plan has expired and included the URA's mandated deliverables for the URA, the SAHT and the Riverbank Authority.

Machinery of government changes resulted in the Riverbank Authority being abolished and the URA no longer has responsibilities for the SAHT. The URA is currently developing a 2019-2022 strategic plan to support its future business that will take into account its revised mandate.

The URA advised that it recently completed a strategic planning exercise, assisted by external consultants, and has consulted on the resulting draft strategic plan with multiple stakeholders including the Minister and the Premier. Changes to the membership of the URA Board became effective on 31 July 2019. The reconstituted URA Board is currently considering the draft strategic plan. The URA expects that it will be approved and implemented before 31 December 2019.

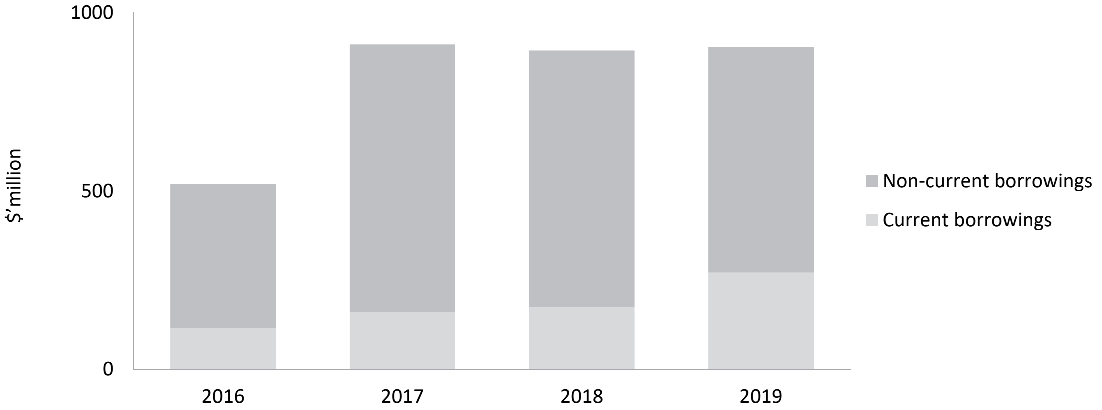
Borrowings and liquidity

The URA's borrowings from the South Australian Government Financing Authority at 30 June 2019 increased by $9 million to $904 million.

The URA's borrowings include:

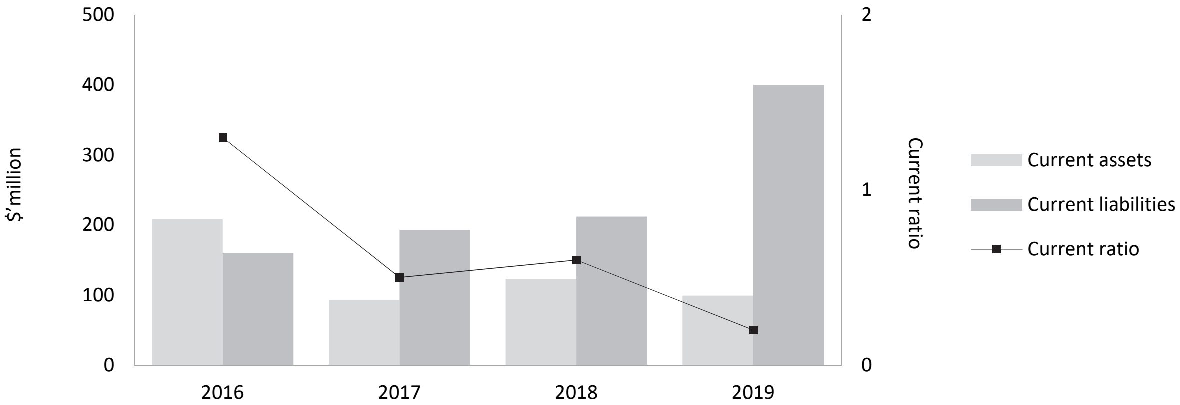
- debt incurred by the former Land Management Corporation
- borrowings incurred on the establishment of the URA to fund asset transfers from Defence SA and the SAHT
- $400 million of borrowings in 2017 to partly fund the purchase of TAFE SA properties from the former Department of State Development
- borrowings to fund land developments and operating expenditure. The URA's current business model requires a level of up-front investment in projects that result in an accumulation of borrowings, until such time as sufficient revenues are realised to progressively retire the loans.

The chart below shows the impact of the new borrowings in 2017.



Current borrowings increased in 2019 by $96 million in anticipation of the expected use of the proceeds from the TAFE SA transfer to repay debt.

The chart below shows the trend in the URA's liquidity measured by the ratio of current assets to current liabilities.



Current liabilities exceeded current assets in all years except 2016, when the SA Government provided the URA with a $135 million equity contribution. This increased the cash held by the URA at 30 June 2016 and its liquidity. The $135 million was used in 2017 to partly fund the purchase of TAFE SA properties. The improved liquidity in 2016 was therefore temporary. In future years, the rental income from TAFE SA properties was expected to gradually improve the URA's liquidity position and was evident in 2018. However, the creation of a $100 million provision for Lot Fourteen has reduced the liquidity position.

Although current liabilities exceed current assets, the URA has minimal liquidity risk provided the South Australian Government Financing Authority allows it to continue rolling over its borrowings as they mature, and the SA Government provides appropriate CSO and/or equity funding.

In the 2019-20 State Budget the SA Government announced the transfer of a number of TAFE SA properties owned by the URA to the general government sector for $601 million, being the carrying value of these properties at 30 June 2019. This, together with cash from the SA Government in the form of equity contributions, will improve the URA's liquidity position in 2019-20.

Debt management, financial sustainability and purchase of TAFE SA properties

The Department of Treasury and Finance requires the URA to adopt a core debt management facility approach, consistent with other public non-financial corporations. This requires approval by the Minister and Treasurer of an annual debt ceiling. In June 2016, the former Minister and Treasurer approved the core debt facility being increased by $390 million to $930 million with the continuation of a $50 million working capital facility. The additional borrowings, together with equity contributions from the SA Government of $219 million, were used to buy TAFE SA properties. The former Minister and Treasurer anticipated that these properties would provide a longer term commercial revenue stream for the URA and enable the debt to asset ratio to remain at prudent levels. In June 2018 the current Minister and Treasurer increased the URA's core debt facility by $194 million to $1124 million for 2018-19 ($904 million was used) and 2019-20 to accommodate investment by the URA in the Lot Fourteen redevelopment.

Status of major development projects

Lot Fourteen

In March 2018, the former Royal Adelaide Hospital site (renamed Lot Fourteen) was transferred to the URA from the then Department for Health and Ageing for $0 consideration.

The URA is developing Lot Fourteen into an Innovation and Commercialisation Precinct that is proposed to include an Innovation Centre, an International School of Culinary Excellence, Hospitality and Tourism, a National Aboriginal Art and Cultures Gallery, a Space Mission Control and a Space Discovery Centre.

The 2018-19 State Budget reported the estimated cost to the URA of redeveloping Lot Fourteen at $400 million over the expected nine-year life of the project. It also reported that the cost of the project would be partially funded through the sale or lease of allotments, with the balance funded by CSO payments from the SA Government.

In 2019 the URA demolished some buildings and leased some refitted heritage buildings to tenants.

CSO funding received in 2019 was $15 million, which included capital funding of $9 million. The capital funding was offset against the 2019 capital expenditure of $72 million, resulting in the project having a carrying value of $63 million. The SA Government's revised funding arrangements for Lot Fourteen, coupled with changes to the expected financial estimates for the project, has resulted in the URA writing down the $63 million carrying amount to $0 and recognising a provision for future development expenditure (liability). This liability represents the URA's best estimate of its obligations arising from the SA Government's commitments for the site.

Playford Alive

The Playford Alive project was approved by Cabinet in February 2006. The project involves renewing the suburbs of Davoren Park and Smithfield Plains and developing land at Munno Para, Munno Para Downs, Andrews Farm and Penfield. The URA delivers the renewal areas of the project for the SAHT and develops the greenfield component of the project in its own right. The project is expected to be completed in 2026.

Playford Alive inventory is valued at $7 million ($3 million) after reversing $8 million of previous write-downs following changes in the business strategy for the project. In 2016 the inventory was written down by $52 million. Income from inventory sales was $11 million in 2019 while capital expenditure was $4 million.

Tonsley

In December 2009, Cabinet approved the purchase of the former Mitsubishi Motors Tonsley Park manufacturing site at Clovelly Park. The URA is developing the site into a precinct that supports knowledge-intensive industries helping the economic growth of southern Adelaide. Land is also being developed and sold from the site. The project is expected to be completed in 2028.

Tonsley inventory is valued at $25 million ($69 million) after a $30 million write-down due to the cessation of CSO funding and a $10 million write-down due to increased estimated future capital expenditure for additional works. Income from inventory sales was $6 million in 2019 while capital expenditure was $10 million.

Woodville West

The Woodville West medium density residential development commenced in 2009 following Cabinet approval for the then Department for Communities and Social Inclusion to demolish outdated SAHT owned dwellings and create new dwellings. The project was transferred to the URA in April 2012. The project is expected to be completed in 2021.

Woodville West inventory is valued at $7 million ($10 million) after reversing $1 million of past write-downs due to improved sales forecasts. Income from inventory sales was $9 million in 2019 while capital expenditure was $2 million.

Bowden

Bowden is a higher density urban infill project expected to house approximately 3500 residents in over 2400 dwellings, and has a substantial commercial and retail component. The URA manages land development, remediation, infrastructure works, community engagement and marketing, with the private sector purchasing vacant developed land for building construction. The project is expected to be completed in 2026.

Bowden inventory is valued at $9 million ($25 million) after a $25 million write-down due to CSO funding ceasing, partially offset by a $4 million reversal of past write-downs due to improved sales forecasts and retiming of expenditure in line with the current delivery plan. Income from inventory sales was $9 million in 2019 while capital expenditure was $14 million.

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