

Report 8 of 2022

Annual report

for the year ended 30 June 2022

Part A: Executive summary



Report of the Auditor-General

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for the year ended 30 June 2022
Part A: Executive summary

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“This work evokes thoughts of warm earth, rock country and red sand dunes and speaks to Country as a broader concept. The purples here speak to dusk and smoke that gives way to an inky blue that is informed by the night sky. The reference to smoke is a direct reference to story telling and our shared histories. The imagery of the river and the pebbles speak to the concept of journey, and the section containing the detailed dot-work speaks to community, building community capability and those that are coming along on this journey to create change, empowerment and self-determination; they are being carried down the river to a place of understanding. I have also added some of my more distinct and iconic iconography including the drips - a motif I use to refer to the relative recency of non-Aboriginal occupation of this continent.”

“Wherever you are on this continent, you stand on Aboriginal Land.”

*The Auditor-General’s Department acknowledges and respects
Aboriginal people as the State’s first people and nations, and
recognises Aboriginal people as traditional owners and occupants of
South Australian land and waters.*



**Auditor-General’s
Department**

www.audit.sa.gov.au

Enquiries about this report should be directed to:

Auditor-General
Auditor-General’s Department
Level 9, 200 Victoria Square
Adelaide SA 5000

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Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

30 September 2022

President
Legislative Council
Parliament House
ADELAIDE SA 5000

Speaker
House of Assembly
Parliament House
ADELAIDE SA 5000

Dear President and Speaker

**Report of the Auditor-General:
Report 8 of 2022 *Annual report for the year ended 30 June 2022***

As required by the *Public Finance and Audit Act 1987* (PFAA), I present to you my 2022 Annual Report.

Content of this Report

This Report is in four parts – Part A, Part B, Part C and Part D.

Part A: Executive summary contains this letter of transmittal, which provides the opinions I am required to give under section 36 of the PFAA and identifies any examinations I have performed under section 32. It also summarises the key matters that should, in my opinion, be brought to the attention of the Parliament and the SA Government from our 2021-22 audits of public sector agencies. This includes significant financial outcomes, events and control matters communicated to agencies and small-scale specific reviews.

Part B: Controls opinion reports our approach to the controls opinion and the outcomes from our work.

Part C: Agency audit reports is a summary of the audit outcomes for each agency included in this Report. It has more detailed commentary on many of the matters in Parts A and B. 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 also lists the controls opinion findings and any other audit findings for each agency. It 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 significant financial transactions.

Part D: Extended audits reports on common outcomes of specific review work we have performed across a range of agencies.

Audited financial statements of all public authorities

The PFAA requires me to publish on a website the audited financial statements of all public authorities. This is a significant accountability measure that ensures they will all be available centrally.

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

Under section 36(1)(4) of the PFAA I will publish the financial statements of all agencies audited by me on the Auditor-General's Department website (www.audit.sa.gov.au) as their audits are completed.

A list of the financial statements of all agencies audited by me is provided in the Annexure to Part C of this Report and the Annexure to Report 4 of 2022 Agency audit reports.

Agency financial reports not included in this Report

Not every public sector agency I am required to audit is included in this Report. Five agencies were reported on in Report 4 of 2022 Agency audit reports to improve the timeliness of reporting on their activities. Some audits are continuing at the time of preparation, and some I have used my discretion to exclude. I give priority to areas I assess as important enough to be published in this Report.

To strengthen accountability for their activities, I prepare a report to Parliament annually that provides a summary of the audit outcomes for the agencies not included in my Annual Report, with a particular focus on agencies with:

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

I expect to complete this Report early 2023.

In addition, as noted above, all financial reports are published on the Auditor-General's Department website.

Auditor-General's opinions

Section 36(1)(a) of the PFAA sets out three opinions I must state in my Annual Report. I deal with each of them in this section.

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

The Treasurer's statements for the year ended 30 June 2022 will be published on the Auditor-General's Department website after this Report is tabled in Parliament.

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

I give this opinion for each of the public sector agencies included in this Report.

In addition, without modifying my opinion on the financial reports of the Lifetime Support Authority of South Australia 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 2022.

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

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

This year I have qualified the annual controls opinion in two respects.

Firstly, I have qualified contract management controls for the State contract with the private payroll software and service provider, Frontier. There was no contract management activity or risk assessment to conclude on, or test, Frontier's compliance with the data security and storage requirements included in the contract. No control operated to ensure that all hosting, support, maintenance and bureau services were conducted in the SA Government's separate environment, or assessed whether data was routinely taken outside of that environment. As publicly disclosed by the SA Government, a data breach occurred on Frontier's corporate network in November 2021 that affected more than 90,000 current and former SA Government employees.

Secondly, I have qualified my opinion for aspects of the processes used to select the recipients and determine the value of specific sporting and local infrastructure grants made in June 2022 as a result of election commitments. These processes were conducted outside of the usual public sector framework for government grants. Consequently, the controls that would be expected to operate over determining these grants were not applied.

Without further qualification to my controls opinion, we also identified and reported on a range of other control issues from the work we performed this year. Some are recurring from year to year. All of them are, in my opinion, areas in need of significant improvement for the public sector agencies we reviewed to meet the standards of financial probity, propriety and process expected of them and, at all times, to discharge their responsibilities within the letter and spirit of the law as instrumentalities of government discharging public functions.

Part B reports our approach to the controls opinion and the outcomes from this work. Part C explains any control opinion findings made at individual agencies.

Section 32 examinations

Section 36(1)(ab) of the PFAA requires me to report on any section 32 examinations that were completed during the year and briefly describe the outcome. In 2021-22 we completed and reported in Report 11 of 2021 (published 24 November 2021) on the examination of management of the Community Wastewater Management System Program. I concluded that, overall, the Local Government Association of South Australia had not effectively managed the Community Wastewater Management Systems Program in a manner that demonstrated the purpose and objectives of the funding were met.

Acknowledgments

I have great pleasure in recognising and thanking my professional and dedicated staff for their complete commitment and efforts in 2021-22. The high standard of their work and commitment to their responsibilities is evidenced in the timely production and quality content of this and our other reports.

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

I also extend my thanks to the Under Treasurer, Government Publishing SA and their staff for their part in producing this report.

Yours sincerely

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

Andrew Richardson
Auditor-General

Contents

1	Overview	1
2	Introduction	1
2.1	2021-22 audit outcomes and the coming years	1
2.2	A year of extraordinary events	3
2.3	The audit role	4
3	The 2021-22 controls opinion is qualified	6
3.1	Frontier data breach	6
3.2	Payment of sporting club and local infrastructure grants because of election commitments	8
3.3	Grants: payments for sporting organisations and local infrastructure and established standards of financial management practice	9
3.4	Other controls findings	14
4	Access to Cabinet records	15
4.1	Why the Auditor-General seeks to access privileged information	15
4.2	Authorised access to Cabinet records	15
4.3	Cabinet confidentiality	16
4.4	Access powers in some other jurisdictions	17
5	Auditor-General's Department functions	18
5.1	Funding the Auditor-General	18
5.2	Budget arrangements and independence of the Auditor-General	24
5.3	Queensland Coaldrake report	27
6	Controls opinion findings	30
6.1	Contract management	30
6.2	Workforce management – some priority matters	33
6.3	Infrastructure project and asset management	34
7	Cyber security and information technology project issues	38
7.1	Information technology general controls	38
7.2	Outcomes of our system authentication review	39
7.3	Whole-of-government Managed Platform Services arrangement	40
8	Managing climate change risk	44
8.1	Some climate change actions and further possibilities	44
8.2	Climate risk management practice is a priority	45

8.3	Methodically establishing governance and climate change management and accountability practice	45
8.4	Sustainability and climate-related reporting on global developments	46
8.5	International Sustainability Standards Board – proposed sustainability standards for consultation – a private sector focus	47
8.6	International Public Sector Accounting Standards Board – proposed dedicated global reporting framework – a public sector focus	49
9	Other specific matters	51
9.1	Summerfield decision and claim liability provisions	51
9.2	Observations on key government sector spending	51
9.3	Public finances	54
9.4	Summary of key items in the Treasurer’s statements	55
10	Local government	57
10.1	The new designated authority to independently advise on council plans	57
	Appendix – Abbreviations used in this Report	59

1 Overview

This Annual Report presents the results from the principal part of our 2021-22 audits. It meets the Auditor-General's annual reporting requirement in the *Public Finance and Audit Act 1987* (PFAA). Part A is the overview of our 2021-22 work. It refers to Parts B, C and D and to other reports we have delivered during the year. Part B reports our approach and the summary outcomes for our controls opinion work. Agency audit reports are in Part C. This year Part D reports on some extended, theme-based audits we did.

2 Introduction

2.1 2021-22 audit outcomes and the coming years

Each year we aim to complete audits and reports that offer the most value to the Parliament that we can provide. Working to ensure we meet our statutory and professional responsibilities, we make an audit risk assessment of agencies and public administration matters. We focus our resources on the areas we identify as most relevant for the reporting year and, where possible, the longer term.

In this introduction, we report on some issues and aspects of our work that stand out as essential considerations for public administration in the coming years.

2.1.1 Inherent risks rise with urgent and challenging government agendas

The State election in March 2022 resulted in a change of government. The new government's programme has some specific and challenging goals. They include:

- health and frontline service targets and funding
- no new taxes
- constructing a hydrogen electrolyser facility, power station and storage facility
- transitioning outsourced train and tram services back into public hands
- responsibly managing the State finances in a challenging environment.

The current SA Government has made quite clear that it intends to deliver its election commitments. It also acknowledges that the State, like much of the world, continues the transition to living with COVID-19 and faces a range of global and national pressures, including some that we have not experienced in recent history.

Among their responsibilities, public servants are obligated to implement government policies in a timely manner, regardless of the political party forming government, and to provide accurate, timely and comprehensive advice. Public sector employees will know there is urgency for them to achieve the SA Government's goals.

In this environment, the ongoing challenge of maintaining reasonable controls is inherently under more than usual strain. Officers feeling time pressures are more likely to regard some processes as onerous and time consuming and therefore a risk to them achieving outcomes. This is particularly so where they hear process referred to as bureaucracy and red tape.

2.1.2 Processes are designed to ensure good public administration

It is not unusual for urgency to be given as a reason for non-compliance with process. This was a valid, practical rationale in some of the early responses to the COVID-19 pandemic. However urgency sometimes results from failure in earlier processes, which can then undermine later controls. A consequence of lapses in reasonable controls is an increase in the risk of less than optimal outcomes.

Some of the issues associated with mounting time pressure that we have observed and reported on in the past include a lack of competitive tendering, poor project specification and risk identification, irregular or absent governance, and decision-makers essentially losing their right to adequately consider information before deciding or authorising a step to proceed because there seemed to be no time for discretion.

We have consistently observed, over many years, the importance and benefits of proper and thorough processes to effectively achieving goals and opportunities. Good outcomes mean:

- citizens receive services and benefits they need at the earliest time
- public finances are managed and used to maximise outcomes across all services
- public servants can achieve more in the same available time.

Process failure means some or all of these results are at higher risk.

The laws, processes and procedures that operate in the South Australian public sector were developed through many years of experience. They are designed to ensure that government transactions:

- are within the letter and spirit of the law
- maintain accountability to the Parliament.

They are also designed to support public interest principles of:

- integrity
- financial probity
- propriety
- value for money
- fairness and transparency
- appropriate record keeping.

It is expected that these laws, processes and procedures will be scrutinised and adjusted to ensure they are fit for purpose, efficient and effective. They should also be consistently brought up to date for emerging events.

Finding the right balance between urgency and process is a key responsibility for government and public sector managers. In our view, as the risk and value of a government transaction or matter rises, the attention to process should rise commensurately.

We recommend, especially when risk and value is high, that timely attention be given to ensuring all elements that are vital to optimal outcomes are identified, considered and addressed. Some of the elements we consider vital are:

- having clear goals and scope that are uniformly understood by key leaders and participants

- establishing clear governance and decision-making lines and authority limits
- understanding the realistic timelines and estimated financial resources required (within reason of certainty and contingency)
- assigning the right people
- understanding and mapping out the interdependent factors that enable success or that threaten failure
- establishing and reporting on milestones and gateways to enable progress to be actively managed, particularly aspects needing attention and resolution
- accurate, timely and reliable progress reporting of project dependent information including finances, risks, events and timelines.

Knowing the elements that are vital to optimal outcomes should enable the right processes for the goals, priorities and tasks to be identified, planned for and applied.

2.1.3 Some considerations for good public administration

This Annual Report, like other reports we deliver, brings to the attention of the SA Government and Parliament our audit observations and relates them to foreseeable issues in the years ahead, with a view to supporting the best outcomes from the available public finances.

Among the many areas we cover in this Report, I draw attention to our commentary on:

- the Frontier payroll software and bureau services data breach
- the payment of sporting club and local infrastructure grants because of election commitments
- contract management
- workforce management
- infrastructure project and asset management
- cyber security and IT project issues
- managing climate change risk.

2.2 A year of extraordinary events

For more than two years the South Australian community, like the rest of the world, has lived with the consequences of the global coronavirus (COVID-19) pandemic. In 2021-22 other world, national and local events that affect South Australia also arose or became more prominent.

The global pandemic continues. In November 2021, South Australia reopened its borders, as did all other Australian States and Territories at different times. By the end of June 2022, SA Health reported that COVID-19 had resulted in 576,000 cases and 527 deaths in South Australia.

The community has moved to living with COVID-19, with social activities and travel resuming and re-establishing. Precautions like multiple vaccinations, social distancing and mask wearing are now part of life. The rate of infections has resulted in a high demand for hospital beds and health services, and has caused disruption to both public and private services not experienced in many years.

Inflation re-emerged in Australia – it is the highest it has been since the early 1990s. In the Reserve Bank of Australia's (RBA's) September 2022 monetary policy decision, the RBA said 'Global factors explain much of the increase in inflation, but domestic factors are also playing a role. There are widespread upward pressures on prices from strong demand, a tight labour market and capacity constraints in some sectors of the economy'. The RBA's central forecast is for CPI inflation to be around 7.75% over 2022, a little above 4% over 2023 and around 3% over 2024.

Interest rates have started to rise as the RBA seeks to manage inflation within its target range. The RBA lifted the cash rate in each of the five months from May to September 2022 increasing it from 0.1%, where it had been since November 2020, to 2.35% in September 2022.

Globally, we have seen an unsettling continuing rise in tensions in geopolitical relationships among major nations. Russia's invasion of Ukraine is a war on the European continent unlike anything since World War II.

Acknowledgment and concern for the effects of climate change intensified over the year. Expectations about emissions targets, decarbonisation, adaptation, mitigation and other aspects featured in recent elections.

Other emerging events since the COVID-19 pandemic commenced include the extraordinary and sad shortage of housing for many who wish to be able to have an affordable roof over their head, skills shortages in a tight labour market, expansive infrastructure programs across Australian public sectors and global supply chain interruptions.

In March 2022, the State election resulted in a change of government, as did the Federal election in May 2022.

2.3 The audit role

Our primary role is to independently and objectively audit and report annually on the receipt and expenditure of the public finances and whether reasonable controls were exercised over the use of public money by the Executive Government through its public sector agencies. Our overall work is a mix of the audits of financial statements and financial controls, and deeper focused audits of specific transactions and activities through extended and performance audits. We also conduct audit work and report on aspects of local government.

Some of the many events previously mentioned directly affected our 2021-22 audit program. COVID-19 affected our decisions on what audits to do or the scope of some audits. We had the disruption of agency and audit staff contracting COVID-19 or being close contacts. Remote working greatly assisted wellbeing and the continuity of work in this environment, and became more prevalent.

We completed our audit program understanding that agencies were affected by COVID-19. We have not tried to anticipate and adjust for how affected they were. We discuss all of our audit findings with agencies, and they provide responses to what we raise. Where COVID-19 is a significant matter, we left it to agencies to advise us.

The tight labour market has led to increased staff turnover in my Department, and the continuous search for staff or contractors to conduct our audits. The change of government led to some changes to our audit program late in the year to capture spending decisions by the new government before 30 June 2022.

We anticipate that many of the events discussed, such as climate-related matters, will influence our 2022-23 program, as will the new SA Government's program reflected in the 2022-23 State Budget released on 2 June 2022.

Our departmental annual report describes our various audit responsibilities and the considerations and criteria we use to decide what work to do in our annual audit program.

3 The 2021-22 controls opinion is qualified

This year I have qualified the annual controls opinion in two respects.

Firstly, I have qualified contract management controls for the State contract with the private payroll software and service provider, Frontier. There was no contract management activity or risk assessment to conclude on, or test, Frontier's compliance with the data security and storage requirements included in the contract. No control operated to ensure that all hosting, support, maintenance and bureau services were conducted in the SA Government's separate environment, or assessed whether data was routinely taken outside of that environment. As publicly disclosed by the SA Government, a data breach occurred on Frontier's corporate network in November 2021 that affected more than 90,000 current and former SA Government employees.

Secondly, I have qualified my opinion for aspects of the processes used to select the recipients and determine the value of specific sporting and local infrastructure grants made in June 2022 as a result of election commitments. These processes were conducted outside of the usual public sector framework for government grants. Consequently, the controls that would be expected to operate over determining these grants were not applied.

These matters are explained in more detail below.

3.1 Frontier data breach

In November 2021 there was a data breach at the Department of Treasury and Finance's (DTF's) outsourced payroll software and service provider, Frontier. It was determined by PwC, the firm appointed by DTF to investigate the extent of the breach, to have impacted around 90,000 current and former SA Government employees. It involved several hundred thousand individual data files covering an extended period between 2015 and 2021.

Since PwC's review, further work by a firm contracted by Frontier has identified several thousand more staff who may have been impacted to some extent by the data breach.

In my opinion, the nature and extent of this data breach highlighted a material weakness in the contract management approach that DTF applied to the contract arrangements with Frontier.

Shared Services SA (SSSA), part of DTF, is responsible for payroll processing for most of the South Australian public sector. Most agency payroll is processed through the Chris21 payroll system, a product provided by Frontier.

Frontier has been providing payroll software and services to the SA Government since early-2001. Over time, the nature of the service provision and software products has evolved. The current contract with Frontier commenced in July 2014 and is due to expire in 2024.

Under this arrangement, Frontier provides payroll software and bureau services. This means that Frontier is not simply a software vendor, but also hosts the application and is inherently involved in processing the regular payroll transactions.

Most SA Government agencies use SSSA and Frontier’s Chris21 payroll system to pay their staff. The largest exception is the Department for Education, whose staff are paid through a separate payroll system.

Frontier established a specific environment to house SA Government payroll data that has logical network separation from its other corporate infrastructure. While Frontier provides payroll services to other clients, the environment in which SA Government payroll is processed is separate to the environment used for other clients. All hosting, support and maintenance, and bureau services were contractually required to be conducted in the specific SA Government environment. This was a deliberately designed approach to provide further security for SA Government payroll data.

SA Government payroll data was compromised

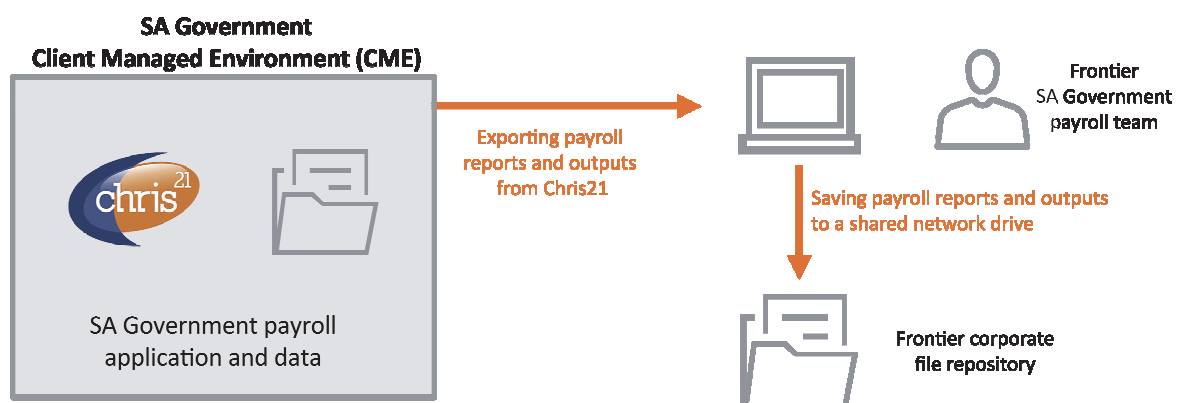
SA Government employee payroll data was compromised because of a cyber-attack on Frontier in November 2021.

The full extent of the data compromised has been comprehensively documented through the work undertaken by PwC on behalf of DTF. PwC concluded that, over an extended time dating as far back as 2015, a significant number of data files were compromised. More than 90,000 current and former SA Government employees were affected.

Investigations by Frontier and PwC revealed that the SA Government payroll data was taken from Frontier’s corporate network.

Despite the logical separation between the SA Government environment and Frontier’s corporate network, it is now apparent that Frontier’s business practices to deliver payroll services included routinely taking data from the separate environment and storing it on its corporate network. Figure 3.1 is a diagram from PwC’s report that summarises this activity, which we understand was in breach of the contract in place with the SA Government.

Figure 3.1: Frontier’s practice of taking data out of the SA Government environment



Payroll payments and payroll system integrity

Importantly, there was no indication that the data breach extended to direct access to the SA Government environment, or that there was any direct unauthorised access to the payroll processing environment itself.

As such, I do not have any evidence that affects my financial statement opinions for agencies using SSSA payroll services.

Recommendation and broader implications of this breach

I have recommended that SSSA strengthen its contract management approach to specifically consider evidence of compliance with key contract requirements.

I also consider that this incident highlights the need for all agencies with outsourced arrangements to conduct a thorough assessment of the risk of non-compliance with key contract terms, especially where the arrangement involves access to government or private data. The outcome of the risk assessment should explicitly inform the contract management approach taken.

3.2 Payment of sporting club and local infrastructure grants because of election commitments

For my 2021-22 controls opinion, I needed to consider grant payments made by the Office for Recreation, Sport and Racing (ORSR) and the Department for Infrastructure and Transport (DIT) to fund sporting clubs and local infrastructure projects as a result of election commitments.

Some of the grants provided as election commitments under these two programs were paid in June 2022, out of additional funding provided to ORSR and DIT in the 2022-23 State Budget. Funding allocated from the Governor's Appropriation Fund to both ORSR and DIT was used for these payments in 2021-22.

As explained in section 4, while I requested the SA Government submissions for the approval of these two programs, which were prepared by the Department of the Premier and Cabinet (DPC), they had not been provided to me at the time of this Report.

To review grant payments made, I requested evidence of the application of controls that would usually apply to such grants, namely:

- the types of projects these programs were intended to fund and the expected level of funding that would be made available
- the criteria by which funding under these two programs would be considered for approval

- the process by which the community as a whole was informed that these amounts were available
- the risk management approach applied to these programs
- the assessment and approval process that decided which projects would be funded
- the assessment approach that determined whether the funding provided was likely to achieve the outcomes sought for the individual projects.

In response, I was advised by DPC that there are no government records that capture the assessment processes and decisions about which individual sporting clubs and local infrastructure projects would receive grants or the value of the grants. This is because this process was undertaken by the South Australian Labor Party while in opposition.

This was consistent with my understanding from information the Premier provided to the Parliament, that the funding commitments were made by the South Australian Labor Party prior to the 19 March 2022 State election.

In summary, there are no government records of the Treasurer and public authorities that document the processes by which the potential for funding was advised to the community, the criteria that would be used to determine if projects should be funded and the assessment approach and approval processes that were applied to determine the projects that would receive funding.

Consequently, I qualified the controls opinion because the controls designed to operate within the public sector to assess and recommend recipients and values for such grants were not implemented in all material respects. Rather, these elements were conducted outside the public sector framework.

I make no criticism of the actions taken by ORSR and DIT. We were able to review Ministerial approvals and controls over actual payments that occurred to give effect to the grants.

3.3 Grants: payments for sporting organisations and local infrastructure and established standards of financial management practice

As explained, I have qualified my annual controls opinion because the processes to select and decide the value of funding to recipients of grant payments of \$133 million were not conducted within the public sector framework and processes.

In my opinion, the payment of public money should only occur after all public sector processes are completed.

3.3.1 Spending decisions made outside of the public sector controls framework avoid legislated and established standards of financial management practice and behaviour

The South Australian public sector operates within established standards of financial management practice. They include complying with Acts, regulations, Treasurer's Instructions, procurement guidance and agency policies.

Decisions made outside of this framework avoid the practices and accountabilities designed to be exercised to provide reasonable assurance that the financial transactions of the Treasurer and public authorities are conducted properly and in accordance with law.

In my opinion all decisions about the application of public money, such as the individual recipients and value of payments, should occur within that framework.

3.3.2 Election commitments

It is practice in Australia for election candidates and parties to announce policies on which electors can decide their voting. Parties also often release costings for their policies for consideration by the electorate. There is no legislated independent scrutiny or opinion issued for election commitments in this State.

Most election commitments by candidate parties and candidates are policies on priority service areas and infrastructure plans. They are typically pitched at a broad level. The elected government implements its policies within the public sector framework of legislated and established standards of financial management practice and behaviour.

During the March 2022 State election campaign, many commitments were made by the candidate parties. I have not sought to assess all promises and commitments made in the election.

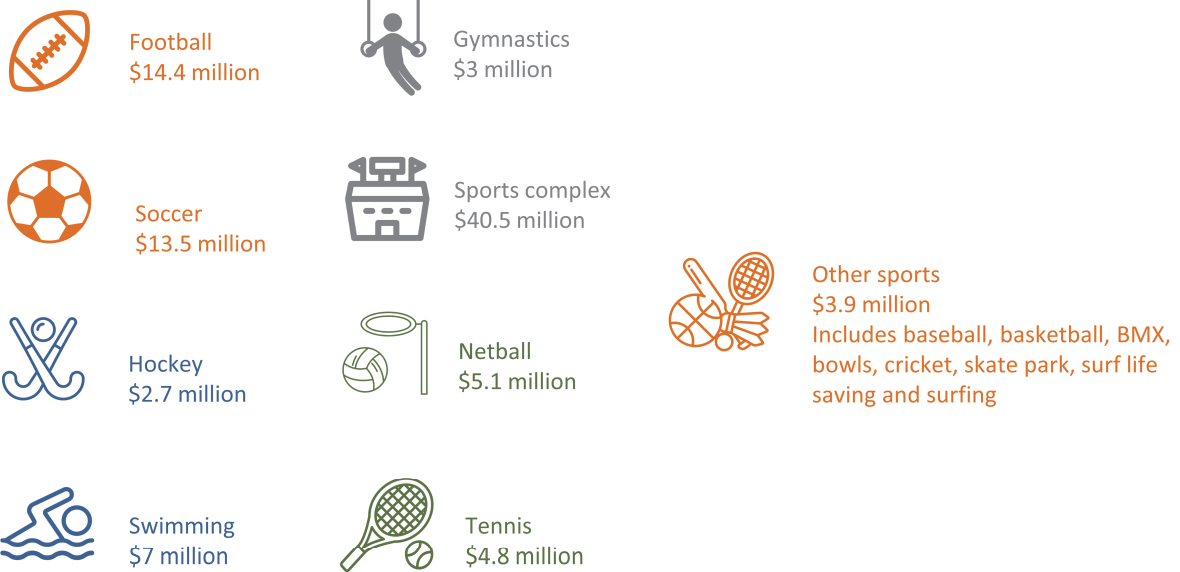
My concern arises from a series of payments made in June 2022 to sporting clubs and local government for local infrastructure projects, which fall within the scope of my obligation to form the annual opinion on controls.

The sporting club and local infrastructure project election commitments were not broad level promises. Rather, they were to individual sporting clubs and local infrastructure projects for specific amounts decided by the South Australian Labor Party in opposition, prior to the March 2022 State election. These amounts were then paid by the new government, having won the election.

Figure 3.2 summarises the amounts approved for payment to parties outside the SA Government as a result of the election commitments.

Figure 3.2: Grants to sporting clubs and local infrastructure projects as a result of election commitments

Sporting and recreation – election commitments total \$95.1 million



Local infrastructure upgrades – election commitments total \$38.2 million



In addition, there are some further specific works as a result of these election commitments that will be delivered by DIT as part of its own works program, estimated to be around \$10 million.

3.3.3 No comment on the merits of the individual grants made

I wish to be clear that my commentary in this section should not be read as any criticism of the grant recipients. I respect the efforts of fundraisers to further the opportunities for their local communities. I fully understand the value of clubs and projects to their communities. I greatly respect the tireless effort of volunteers who make clubs and projects possible at all.

I also understand that a club or project sponsor will naturally seek any opportunity to further its cause when a political party or government offers help.

3.3.4 No government records of why projects were chosen

After inquiry to DPC, I was advised that there are no government records that capture the assessment processes and decisions about which individual sporting clubs and local infrastructure projects would receive grants or the value of the grants. This is because this process was undertaken by the South Australian Labor Party while in opposition.

As I understand, in the lead-up to the 19 March 2022 State election, commitments for specific amounts were made to individual sporting clubs and local infrastructure projects. After the election, the new government instructed public servants to make the committed payments once they had grant agreements in place, without further consideration.

The 2022-23 State Budget records the commitments made. I understand the list of individual payments was approved by the SA Government but, as noted above, I have not been provided with access to evidence that supports that approval. I have only been provided with evidence of Ministerial approval of the amounts to be paid by ORSR and DIT.

In 2021-22, three things happened in relation to these commitments that were within the usual public sector framework and processes for grants:

- relevant Ministers approved individual grant amounts
- ORSR and DIT entered into grant agreements with the recipients of the grant funding
- payments totalling \$49.2 million were made by 30 June 2022 – \$25.3 million for sporting clubs and \$23.9 million for local infrastructure projects.

We sampled some of the grant agreements that were entered into with the recipients as part of our 2021-22 audit work, and are satisfied with the elements of the process delivered by DIT and ORSR.

3.3.5 Arbitrary exceptions to process increase the risk of undermining standards and eroding good culture

We have already seen in our local media reporting that making certain funding decisions exposes a government to accusations that such payments are designed for political purposes and lack the established safeguards against bias or subjective assessment.

In recent years, audits have identified issues with grant processes performed within the public sector framework. We have previously reported on Regional Growth Fund grants where two projects that were not supported by the responsible department were approved for grants by the former Minister, using his discretion.¹ The Auditor-Generals for Australia and New South Wales have reported about assessment and approval processes for grant

¹ Auditor-General's Report 6 of 2021 *Update to the annual report for the year ended 30 June 2020*, pp. 3-6.

programs. They found issues with processes, accountability and transparency for selecting funding recipients.^{2,3}

The processes public servants are required to perform are thorough and reflect the long history of expectations of acting in the public interest. Processes become more onerous as the risk and value associated with a transaction rise.

Arbitrarily avoiding practices that public servants are expected to carry out for all other public expenditure transactions, can be reasonably expected to risk undermining good practice.

3.3.6 Authority and proper process

Governments and public service employees must act within the powers and limits set by law. Key State legislation includes:

Public Sector Act 2009 which establishes general principles to guide public sector operations, and a code of conduct to enforce ethical behaviour and professional integrity in the public sector.

Public Finance and Audit Act 1987 that regulates the receipt and expenditure of public money and provides for auditing the receipt and expenditure of public money and for examining the degree of efficiency, economy and effectiveness with which public resources are used.

Public Sector (Honesty and Accountability) Act 1995 which imposes duties of honesty and accountability on public sector office holders, employees and contractors.

The *Public Sector Act 2009* sets the overall framework for the public sector. It requires public service employees to:

- implement the SA Government's policies in a timely manner and regardless of the political party forming government
- provide accurate, timely and comprehensive advice
- manage resources effectively, prudently and in a fully accountable manner
- avoid conflicts of interest, nepotism and patronage
- make decisions and provide advice fairly and without bias, caprice, favouritism or self-interest
- avoid conduct that will reflect adversely on the public sector
- submit to appropriate scrutiny.

Scrutiny includes that of the Auditor-General, Ombudsman and Independent Commissioner Against Corruption (ICAC).

² Australian National Audit Office 2020, Auditor-General's Report No. 23 2019–20 *Award of Funding under the Community Sport Infrastructure Program*, 15 January.

³ Audit Office of New South Wales 2022, *Integrity of grant program administration*, 8 February.

These established standards of financial management practice are designed to support lawful and sound public administration.

Making specific spending decisions about recipients and values outside this system, avoids requirements that form the basis of proper process and raises risks about process and trust.

All public spending processes and specific decisions should occur within the public sector controls framework of legislated and established standards of financial management practice and behaviour. This also ensures they are subject to established independent scrutiny provisions and openness about the processes performed.

3.4 Other controls findings

We have reported the significant themes and issues we found in our work. These are areas of fundamental importance that require improvement for good public financial administration. We have made recommendations we consider necessary or desirable to address these matters.

It is the responsibility of government and public sector management to decide where to devote resources and what processes are most important to ensure legislative compliance, achieve their objectives and services and manage risks.

I have not further qualified the controls opinion for these other controls findings. This is because I am required to form a view of controls for the overall public sector. Overall, our work showed that agencies reasonably maintained their priority financial responsibilities in 2021-22. The other issues we have reported were not pervasive or individually as significant to the controls opinion as the two matters referred to in the qualification, and so I did not further modify my overall opinion.

4 Access to Cabinet records

At the time of this Report we had requested, but not received, a number of Cabinet documents to fulfil my legislative obligations to form opinions. The outstanding requests include documents from both the former and the current SA Government.

I understand that DPC is reviewing the existing policy that allow investigative agencies to request access to Cabinet submissions where necessary.

I am not aware of an anticipated date for this review to be finalised.

4.1 Why the Auditor-General seeks to access privileged information

I am professionally bound to ensure I meet specific requirements before issuing an opinion. I must obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. What is sufficient is a matter of judgement and risk for the auditor. In the absence of information that is key to transaction decisions, the potential exists for a scope limitation in an audit because of the inaccessibility of required evidence. Cabinet is, by convention, the pre-eminent executive body of the State. By convention or administrative arrangements, such as Treasurer's Instructions, Cabinet makes decisions authorising financial transactions.

Accordingly, giving an audit opinion on whether a transaction has been conducted properly and in accordance with law occasionally necessitates accessing evidence about what Cabinet authorised and the information that informed its decision.

4.2 Authorised access to Cabinet records

Over the period 2017 to 2020, I reported to Parliament about changed access arrangements to Cabinet submissions. Prior to September 2016, when the then government introduced a new policy restricting access to Cabinet documents, confidential access to Cabinet submissions was available to the Auditor-General by request, a practice that had operated for decades. After September 2016, we had significant problems accessing documentation from government agencies related to Cabinet submissions. Since March 2019 we have worked under a policy on the disclosure of Cabinet documents adopted by the previous government.

The current policy is set out in Premier and Cabinet Circular PC047 *Disclosure of Cabinet documents to investigative agencies*. PC047 provides access to Cabinet documents of the current government to the Auditor-General as follows:

- 3.1. *Where the Auditor-General certifies that access to a Cabinet submission (including the attachments to a Cabinet submission) of the current government is required for the proper exercise of the Auditor-General's statutory functions, the Auditor-General may request the submission in writing from the Chief Executive of DPC.*

- 3.2. *Upon receiving a request under section 3.1, the Chief Executive of DPC will provide access to the Cabinet submission, subject to the approval of the Premier.*
- 3.3. *Notwithstanding the provisions of this circular, the Auditor-General is not permitted access to the Cabinet Office or costing comments attached to a Cabinet submission.*
- 3.4. *Access to a Cabinet submission (including any attachments) is provided to the Auditor-General subject to the following conditions:*
 - 3.4.1 *The Auditor-General must ensure that the document is stored securely and is distributed only to members of the Auditor-General's staff who require access to the document in order to assist the Auditor-General in the exercise of the Auditor-General's statutory functions*
 - 3.4.2 *In publishing a public report, the Auditor-General may only make reference in the report to a decision of Cabinet where such a reference is necessary for the proper exercise of the Auditor-General's statutory functions, and*
 - 3.4.3 *A reference to a Cabinet decision in a public report must be made in such a way as to not disclose any other information regarding the deliberations of Cabinet, including quoting from the document.*
- 3.5. *This section also applies to Cabinet documents of a former government of the same political persuasion as the current government.*

At the time of this Report we understand that the SA Government plans to review, and potentially change, this policy. We are not aware of a specific date by which this is likely to occur.

Since immediately before the March 2022 State election, we have made several requests for Cabinet submissions and decisions under PC047.

In response to those requests we have received only limited information to date. We received evidence of SA Government approval for some items we requested. In these cases the information related to decisions of the former government and, we understand, approval from the former government was sought to release that information.

We have not received any information in relation to requests for documentation of the current government and have also not received further information requested that related to decisions of the former government.

4.3 Cabinet confidentiality

Cabinet confidentiality is associated with the concept of collective responsibility and confidentiality. By convention, members of Cabinet are collectively responsible for the decisions made by Cabinet. Ministers are expected to fully and publicly support Cabinet decisions. Ministers and affected government officers are expected not to make public comment on matters considered by Cabinet.

Audit practice has been, and will continue to be, to maintain confidentiality to the extent that is consistent with fulfilling the Auditor-General's statutory functions.

4.4 Access powers in some other jurisdictions

Given the responsibilities of the Auditor-General to Parliament, I have previously reported about access arrangements in the Commonwealth and Victoria.

In those jurisdictions, the audit legislation provisions for information gathering powers specifically provide for accessing information that is subject to either legal professional privilege, any other privilege or Cabinet confidentiality. The provisions are subject to certain tests and limitations, but not a general government discretion about providing access.

The Commonwealth *Auditor-General Act 1997*, for example, provides that the power to obtain information is not limited by any rule of law relating to legal professional privilege, any other privilege, or the public interest in relation to disclosing information or producing documents.

The Victorian *Audit Act 1994* sets out the Auditor-General's information gathering powers and duties. The provisions include that a person may only comply with a request by the Auditor-General to provide information or a document that is subject to Cabinet confidentiality if the request is made for any of the prescribed audit purposes.

In a much broader sense of openness, I also note that Queensland's June 2022 Coaldrake Report⁴ recommended that Cabinet submissions (and their attachments), agendas and decisions papers be proactively released and published online within 30 business days of such decisions.

This is discussed further in section 5.3.

⁴ Prof Peter Coaldrake AO 2022, *Review of culture and accountability in the Queensland public sector: Final Report*, 28 June.

5 Auditor-General's Department functions

5.1 Funding the Auditor-General

5.1.1 An increase in the Auditor-General's Department budget

In this section I explain my Department's current budget circumstances in some detail, to be as open as I can to inform the Parliament about these fundamental matters for the independent statutory audit function.

The budget process for the Auditor-General's Department is the same as for other agencies, and negotiation is required to occur through existing budget practices for consideration and approval by the SA Government.

Public audit requirements are set by the Parliament, principally in the PFAA. The Auditor-General holds a statutory public office and is independent of both the Executive Government and the Parliament. All completed audit work is reported directly to the Parliament as part of the State's integrity and accountability framework. Our ability to meet Parliament's requirements is constrained by the resources made available for audit services. The government of the day, not the Parliament, decides the available budget for the Auditor-General, along with other government departments.

For many years, the budget allocated to my Department has been sufficient for the services we have delivered. Now, as circumstances have changed, I consider the budget is insufficient.

As a public officer, independent of the Executive Government, reporting directly to Parliament to the mandate it has set, I consider it is appropriate that I provide information about the progress of this matter to the Parliament. I have also argued in section 5.2 that, with respect, it is time the budget process for the Auditor-General was reconsidered.

5.1.2 The Auditor-General's Department 2022-23 budget

In my 2020-21 Annual Report I notified the Parliament about my intention to seek an increase in resourcing in the next budget cycle. This increase is to ensure we continue to meet our statutory and professional audit obligations. It also will ensure we are able to meet the standard and level of independent public audit reporting to our Parliament that is being achieved across Australia.

After the March 2022 State election, the new government quickly prepared and introduced its 2022-23 budget. The budget process was focused on delivering the new government's agenda. Agencies such as mine did not have the opportunity to submit any budget requests in the process.

The 2022-23 State Budget imposed a budget cut on us, as was applied to many other agencies, as an efficiency dividend to fund the SA Government's priorities within its fiscal goals. The budget cut applied to my Department was the first I am aware of ever being

imposed. It is important to note that since June 2015, while I have been Auditor-General, we have not sought a permanent increase to our budget. We have received annual standard indexation adjustments to our budget and have operated within that limit.

5.1.3 Advice to the SA Government of a budget request

On 3 June 2022, I wrote to the Under Treasurer setting out the basis of a request, as I reported last year, to increase the ongoing budget for my Department. I also requested that the applied efficiency dividend be removed.

On 1 August 2022, I received a response from the Treasurer stating that chief executives have the flexibility to deliver operating efficiencies in a manner that best suits the needs of their agency to achieve their share of the across-government savings task. The Treasurer also confirmed, as noted in the budget, that the SA Government was carefully considering additional expenditure requirements and encouraging agencies to reprioritise resources to highest needs wherever possible.

The Treasurer advised me that should I wish to seek additional funding for the purposes set out in my letter, I should submit the request in a future budget process, either the 2022-23 mid-year budget review or 2023-24 State Budget.

I have submitted a request in the 2022-23 mid-year budget review process.

5.1.4 What the Auditor-General's Department needs

We have established that, in addition to removing the efficiency dividend applied to my Department's budget for the four years of the 2022-23 budget, we require an ongoing increase in the Auditor-General's annual funding budget of \$1.569 million to fund 10 new positions and related operating costs. This would enable us to address the currently identified gaps and needs for our annual statutory and professional audit responsibilities. Based on our 2022-23 budget, this would mean increasing funding from \$18.516 million to \$20.385 million annually. We anticipate that recruiting and engaging the required resources would need to be done over more than one year, with the full increase being required thereafter based on current circumstances and professional and statutory obligations.

5.1.5 The Auditor-General's responsibilities

Auditing is an international profession covering the private and public sectors. Audit practice continually adapts to respond to changing private and public expectations and environments, technology factors and other events. To ensure we can provide the best service to the Parliament and meet changing professional standards, we have actively and continuously worked through all aspects of how we deliver our statutory and legislative obligations over the last six years to prioritise resources to our highest needs.

The PFAA establishes the Auditor-General's statutory responsibilities. Australian Auditing Standards issued by the Auditing and Assurance Standards Board establish an auditor's professional responsibilities in audit, review, assurance and related service engagements.

There are four essential annual obligations for the Auditor-General to report to the Parliament that are funded under our annual budget sub-program 'Prescribed Audits and Examinations':

- **Financial statements** – Audit the public accounts and the accounts of each public authority (about 160 financial audits) to issue independent audit reports for each audit annually.
- **Financial controls** – Audit the controls exercised by the Treasurer and public authorities for the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities to assess whether they are sufficient to provide reasonable assurance that the financial transactions of the Treasurer and public authorities have been conducted properly and in accordance with law. This work informs the annual controls opinion required in the Annual Report.
- **Performance audits** – When conducting an audit, the Auditor-General may examine the efficiency, economy and effectiveness with which a public authority uses its resources. Performance audits are a key and frequent public audit product across Australian and international jurisdictions. Performance audits tend to be bespoke engagements.
- **Local government** – Audit, review or examine publicly funded bodies and projects and local government indemnity schemes. There are 68 separate local government councils within scope of this requirement. The Auditor-General is not the auditor of any council. To meet this requirement within limited available resources, we seek to perform work at one or two councils annually on one or two priority topics. These also tend to be bespoke engagements. We share audit outcomes with all councils.

Additionally, the Auditor-General must perform other non-discretionary statutory obligations as they arise for passenger transport service contracts, the Adelaide Oval and at the request of the Treasurer or ICAC.

Necessary expertise, resources and practices to support and enable the proper performance and delivery of these audit responsibilities relevant to this submission are:

- information technology audit capability
- data analytics capacity
- reporting and communication capacity for publishing all audit reports in both a digital and printed format
- quality and standards support
- administrative capacity to run the Department.

Like others, we are currently competing for resources and skills, within public sector rules. There is a national competitive market, especially for people experienced in commerce, data analytics and information technology, with high demand across industries and public sectors reflecting the expectations of benefits from investing in these areas.

5.1.6 Identified audit service gaps

The updating of our audit methodologies and techniques we have performed over the last six years is concluding.

We have confirmed that most of our resources must remain allocated to our financial and controls audit work. Most of this work is performed by employed staff. Over many years of experience we have established that directly employing staff for audits is the best practice for delivering the statutory audit responsibilities in this State. Some audits are conducted by contracted audit firms under the supervision of our management. This provides a degree of flexibility and supports our highly valued professional relationships.

The demands on the auditors doing this work are considerable and prone to being heightened by a range of factors, including agency activities and staff turnover. We have renewed our audit methodologies to ensure that they remain at the current professional standard. With ongoing changes in methods of public service delivery (such as the growth of outsourcing over recent years and emerging areas for new reporting like climate-related risks), we see the resources now allocated to our financial and controls audit work are the very minimum we need to meet our annual and professional responsibilities efficiently and effectively.

We also historically operate lean corporate support service that include ICT, human resources, finance, business services and quality and standards.

We continue to assess how emerging issues influence our work and the demands on our audit teams.

The gaps we have focused on now that affect the way our functions are performed and the priority we are able to give to matters for Parliament, are:

- performance and local government audits – eight more auditors required for this work
- data analytics and communications – two additional positions required.

Performance and local government audits – We have identified the need to add resources to produce these audits at the frequency and standard our Parliament should receive. Performance auditing is a well-established practice across all Australian and most international public audit practices. In Australia, between 8 and 25 reports were delivered by public audit office performance audit programs in 2020-21. We have averaged five performance and local government audits over the past seven years. We recently delivered our report on access to mental health services.⁵ We intend to increase this type of audit to align with other jurisdictions.

I believe we should be producing 11 performance audit reports annually across both public and local government sectors. This will bring us in line proportionately to what other audit offices are committing to, particularly performance audit activities. Our funding request will settle the immediate resourcing need we identified for these audit functions and enable us to operate at the standard we see across other Australian jurisdictions.

⁵ Auditor-General's Report 6 of 2022 *Access to mental health services*.

Data analytics – This area has emerged in recent years as a key and growing element of audit practices, including all public audit offices in Australia. We expect it will greatly enhance audit evidence gathering and analytical opportunities, and significantly improve the way audit outcomes are communicated to the Parliament and agencies. For example, amendments to the PFAA now enable the publication of data online in support of tabled Parliamentary reports. We have been developing capacity and capability needed to do this over the last six years.

We, as does our entire profession, expect additional benefits to arise from data analytics, as well as enhancing how we achieve our current statutory and professional obligations. These include more and better insights from audits for the benefit of agencies and the Parliament, better and more readily understood audit reporting including data dashboards and graphics, and ultimately improved value for audit investments through greater transparency and potential for improvement in government processes and related services.

Communications – We have achieved our current level of reporting using existing resources and without the specific expertise this function requires. Our plan is to increase the frequency of our reporting because matters of public interest, performance audits and local government are all significant elements of our independent reporting for the Parliament. The way people communicate, share, receive and absorb information has changed transformationally since the PFAA was passed in 1987. It expected only a printed, tabled annual report to Parliament. We have prepared a new communications strategy that identifies how we can better relate in this information competitive environment with the Parliament and the public about our work for the Parliament. We aim to release a new website in 2022-23 to support our communications goals. We need to recruit expertise to enable these goals.

5.1.7 What we have achieved in the past six years within our budget

Over the course of our two most recent three-year strategic plans, we identified the priority areas and functions we needed and then either refreshed our existing practices or introduced new ones. We first tested every area of activity to ensure that we most effectively dedicated our available budget funding to the identified priority areas, as is expected of any public sector activity. We then assessed whether we had sufficient budget resources to maintain the annual level of service. We made no requests for additional funding to support these actions.

We have revised virtually all aspects of how the Department operates. We have created new functions (performance and local government audits, data analytics) and are generating multiple new reports to the Parliament within our existing resource base. Over the last six years we have reviewed, updated or introduced methodologies and techniques for:

- financial audits
- the annual controls opinion
- IT general controls audits
- data analytics
- performance audit and local government sector reviews
- how we report our audit work to the Parliament.

As a result, we have been highly successful in moving resources over this time (\$1.431 million/ 8.1 FTEs) within our existing budget to increase our performance audit activities in both the public and local government sectors and build our data analytics capability.

Since May 2015, we have delivered 96 reports to the Parliament. With my Annual Reports comprising multiple parts, this makes over 120 individual documents published and delivered to the Parliament.

In 2018 we began publishing the financial statements of all public sector agencies on our website, providing, for the first time, ready access to all audited financial statements in one location. This was enabled after we requested an amendment to the PFAA.

We have tabled:

- an enhanced Annual Report and produced an update to the Annual Report and, from this year, another agency report, meaning we report on every audit we perform, something that had not previously occurred, and at the earliest time we can
- 20 performance audits
- 15 local government reports
- 16 information technology reports
- 12 non-discretionary statutory audits as required for Adelaide Oval.

Over that period, we have absorbed the impact of changing obligations arising from the growth of the government sector and the changing nature of service delivery, especially the growth in outsourcing through complex private contracting arrangements. We have also absorbed the impact of changes to Australian accounting standards and the professional auditing standards with which we are obligated to comply. We have provided significant support to agencies in implementing accounting standard changes.

5.1.8 Budget history since 2015

Since June 2015, and prior to the 2022-23 State Budget, my Department has not requested an ongoing budget increase. Until this budget, we have not been asked to find budget savings in the time I have been Auditor-General.

We sought and received one-off specific funding, provided over two years, in the 2019-20 State Budget (\$143,000) and 2020-21 State Budget (\$195,000) to supplement the cost of undertaking statutory passenger transport audits. This was used to partly fund our statutory obligation to audit and report under section 39(3f) of the *Passenger Transport Act 1994* on the probity of the processes leading to contracts being awarded for passenger services. I have reported previously about the impact on our discretionary audit services of the passenger services contract obligations.⁶ I remain of the view that the threshold for this requirement should be markedly increased to be relative to other major government contracts.

⁶ Auditor-General's Report 4 of 2021 *Passenger transport service contracts: Heavy rail – February 2021* and Report 12 of 2021 *Annual report for the year ended 30 June 2021, Part A: Executive summary*, p 20.

In the 2022-23 State Budget my Department is required to achieve efficiency dividend savings as follows:

- 2022-23 Budget – \$300,000
- 2023-24 Budget – \$317,000
- 2024-25 Budget – \$338,000
- 2025-26 Budget – \$537,000.

The amount of these savings no doubt looks insignificant to the Parliament in the scheme of the State Budget. My Department has, however, by virtue of the changes we have made over the past six years, already reprioritised our resources to the highest needs.

We have identified a need for additional funding. Consequently, being required to work with less funding compounds a now existing and identified funding shortage. That funding shortage was identified after honouring the expectation that we make the best possible use of public money allocated and making the changes described by reallocating \$1.431 million, nearly 8% of our current budget.

As stated, we will pursue our budget request with the SA Government.

5.2 Budget arrangements and independence of the Auditor-General

5.2.1 Recommendation: sufficiency of funding for the Auditor-General be independently scrutinised

The Auditor-General's budget arrangements should, at least periodically, be reviewed by a relevant Parliamentary committee to ensure the Auditor-General is sufficiently funded to deliver the independent statutory responsibilities set by the Parliament in legislation.

5.2.2 The principle of independence of the Auditor-General

Parliament decides the responsibilities of the Auditor-General. They are principally prescribed in the PFAA. Other legislation also establishes other obligations for the Auditor-General. These are statutory audits, such as those required for the Adelaide Oval and passenger transport service contracts.

It is fundamental that an Auditor-General is independent of the government and has the ability to act without direction or undue influence.

The PFAA makes various provisions that support the principle of independence. Key among them is that it is a matter for the Auditor-General to decide how the audit responsibilities are performed. Section 24(6) of the PFAA provides:

24(6) The Auditor-General is not subject to the direction of any person as to—

- (a) the manner in which functions are carried out or powers are exercised by the Auditor-General under this Act; or*

- (b) *the priority that he or she gives to a particular matter in carrying out functions under this Act.*

Notably, the PFAA provides that the Auditor-General must conduct an audit, review or examination under section 32(1), if requested to do so by the Treasurer or the ICAC. The legislation does not specify how those obligations are to be conducted.

5.2.3 Budget arrangements create risk for the independence of the Auditor-General

The SA Government is responsible for prudently and responsibly managing the State's public finances. The annual budget process is the primary means for setting and managing this responsibility. The SA Government decides its priorities and fiscal targets and departmental budgets are set to deliver the priorities within the fiscal parameters.

The budget process for the Auditor-General's Department is the same as for other agencies. Budgets are settled through existing DTF budget practices for consideration and approval by the SA Government.

Our ability to meet Parliament's requirements is constrained, as it is for all agencies, by the resources made available for our audit services. The government of the day, not the Parliament, decides the available budget for the Auditor-General along with other government departments.

There is, however, a fundamental difference between the Auditor-General and other departments. The other departments must deliver the government's priorities and are funded accordingly.

The Auditor-General is not responsible to a minister of the Executive Government or for delivering government priorities. Rather, the Auditor-General is responsible to the Parliament to independently scrutinise, audit and report to the Parliament about how the Executive Government manage the public finances and how the Auditor-General has delivered Parliament's requirements.

5.2.4 Estimates Committee practices do not provide for a direct voice from the Auditor-General

The annual Estimates Committees are the Parliament's process for scrutinising the annual budget. The practice in recent years is for questions to be directed to the responsible Minister. The Minister responds and takes, as necessary, advice from advising public servants. Advisors rarely respond directly to questions.

The Auditor-General is administratively attached to the Premier for the purposes of the estimates. Consistent with practice, questions about the Auditor-General's budget are directed to the Premier, the nominated minister, who responds after seeking clarification as desired from the Auditor-General.

As Auditor-General, I have not directly answered a question about my Department's budget since the September 2018 Estimates Committees. In my view, the Auditor-General, as an independent officer, should directly answer any question about the Auditor-General's actions and budget.

As I have explained in this Report, my view is that the Auditor-General's budget is now insufficient.

5.2.5 The current budget undermines the Auditor-General's independence

As stated, for the last six years we have been reviewing all aspects of how we deliver our responsibilities. This work is nearing completion. We have now determined that the budget is insufficient. The timing of our seeking additional, ongoing budget capacity for my Department has coincided with the election of a new government. The government is operating in a challenging environment, as I have acknowledged in this Report.

The 2022-23 State Budget imposed a budget cut on us, as was applied to many other agencies, as an efficiency dividend to fund the SA Government's priorities within its fiscal goals. We are advised that we are required to deliver operating efficiencies as best suits the needs of the Department 'to achieve our share of the across government savings task'.

This requirement highlights that the independence of the Auditor-General, set out in section 24(6) of the PFAA, is inherently undermined where our funding is solely decided within the SA Government's budget priorities and fiscal goals.

We demonstrated in section 5.1 that we are extremely prudent with public money. We have identified and made large internal savings and redistributions over the past six years. We seek to demonstrate an exemplar state of care with public money. We consequently operate on tight budgets for our various activities. Our risk is accentuated when the broader public sector, within which we operate, generally has more flexibility to create and value individual positions. It is compounded in a skills shortage environment.

The requirement to achieve a saving to contribute to the SA Government's 2022-23 fiscal strategy, directly affects:

- the manner in which functions are carried out or powers are exercised by the Auditor-General under the PFAA
- the priority the Auditor-General gives to a particular matter in carrying out functions under the PFAA.

5.2.6 The current budget arrangements for the Auditor-General need reconsideration to ensure independence is maintained

The Auditor-General's services are funded by public money. As noted, the SA Government is responsible for managing the public finances. The annual budget process is a proven means to establish and communicate the SA Government's annual financial goals practically and effectively. The funding arrangements for the Auditor-General's Department do need to fit reasonably within the process and the State's financial capacity.

The current arrangements for funding for my Department have operated without serious issues for many years. For the past six years, this was largely due to our commitment to reforms and, since 2020, the interruptions of COVID-19. The 2022-23 State Budget has highlighted, however, an inherent problem with the current arrangements that is readily exposed when tested. This is because the Auditor-General is independent of government with a role and functions that differs from other government agencies.

Funding arrangements for integrity bodies were discussed in two other States recently – in a New South Wales Auditor-General’s report in October 2020⁷ and in Queensland’s Coaldrake report. One of the key findings in New South Wales was that the role of the Executive Government in deciding annual funding for the integrity agencies presents threats to their independence. The Coaldrake report included a recommendation about setting budgets to enhance integrity body independence. It is discussed briefly in the next section.

In my opinion, the budget arrangements for the Auditor-General require reconsideration by the Parliament to ensure the Auditor-General’s independence.

A reasonable change might be designed around periodic independent scrutiny of the services provided and the budget. Alternatively, it may be that the budget setting process should be fundamentally changed. I would be pleased to relate with Parliament about this.

5.3 Queensland Coaldrake report

In June 2022, the final report on the review of culture and accountability in the Queensland public sector by reviewer Professor Peter Coaldrake AO was released. Among the review’s recommendations were some concerning the independence of the position of the Auditor-General, the release of Cabinet submissions and enhancing the independence of integrity bodies.

The review’s terms of reference stated that the aim of the review was to ensure the Queensland Government has a culture and accountability framework that:

- is contemporary, fit for purpose and future focused
- is effective in supporting an ethical public sector culture that is underpinned by robust systems, including complaints mechanisms and training
- maintains the public’s trust in the decisions of the Queensland Government.

The terms of reference stated that to achieve this aim when making recommendations the review was to have regard to the:

⁷ Auditor-General for New South Wales 2020, *The effectiveness of the financial arrangements and management practices in four integrity agencies*, 20 October. It highlights threats to the independence of the integrity agencies that may arise from the involvement of the Executive Government in the decision-making about funding. The report argues that these risks are not mitigated sufficiently under the current financial arrangements.

- culture of the public sector in ensuring ethical decision-making and impartial advice to the Executive Government
- nature of the interactions and interdependencies between integrity bodies, the Queensland public sector and the Executive Government
- legislation underpinning the existing ethics and integrity framework
- adequacy of systems to prevent ethical, accountability and integrity issues arising
- adequacy of ethics training and communication and relevant policies
- timeliness of processes to resolve ethical and integrity complaints.

Among the 14 summary recommendations made in the report were some that I highlight below, as they relate directly to Auditor-General responsibilities for Parliament's attention.

The independence of the position of the Auditor-General be strengthened, extending its scope and accordingly its status as an Officer of the Parliament

The discussion in the review picked up a range of matters considered about the independence of the Auditor-General in Queensland.

The context for the Auditor-General being accorded status as an Officer of the Parliament was acknowledged as essentially symbolic. It is, however, one of many aspects that clarify and strengthen the independence of this office. I have gained the impression from my experience with the Estimates Committee over the years, that there can be some uncertainty about the Auditor-General's independence from the Premier of the day (see section 5.2.4). Being established as an Officer of the Parliament is one improvement that can clarify any uncertainty and reinforce that the Auditor-General is independent of the Executive Government.

Cabinet submissions (and their attachments), agendas and decision papers be proactively released and published online within 30 business days of such decisions

Access to Cabinet submissions is a sensitive subject for governments. The reasons given for confidentiality are well understood. I have already discussed access for the Auditor-General in section 4.

In this State, the SA Government enables approved public access to Cabinet documents, subject to some exemptions, that are over 10-years old.

The discussion in the Coaldrake report focuses on releasing not Cabinet's deliberations, but documents developed to assist the Cabinet in its considerations. It also acknowledges that release would be subject to several reasonable exceptions, which should be outlined in policy.

The Coaldrake report promotes this recommendation on the basis that it:

is a commonsense proposition that citizens are likely to have more trust in their governments, if they know that decisions that use taxpayers' funds, and that may affect their lives quite directly, are made in the open, and are subject to scrutiny.

It further observes:

The need for cabinet to maintain confidentiality around its deliberations, particularly in their developmental stages, is well understood and respected. However, it can mitigate against the openness that the Government espouses, and which is so necessary to maintaining public trust in the quality and impartiality of decision-making.

Integrity bodies' independence be enhanced by the involvement of parliamentary committees in setting their budgets and contributing to key appointments

The Coaldrake report discusses all the Queensland integrity bodies, including the Auditor-General. In the discussion about funding integrity agencies, it reports 'the Audit Office is required to submit its budget to DPC, which is then passed on to Treasury'. I have discussed funding for the South Australian Auditor-General in section 5.2, noting that our budget arrangements are aligned with all other agencies and approved by the Executive Government.

The full recommendation is:

The independence of integrity bodies in Queensland be enhanced by aligning responsibility for financial arrangements and management practices with the Speaker of Parliament and the appropriate parliamentary committee, rather than the executive government.

6 Controls opinion findings

6.1 Contract management

Outsourcing to the private sector is used to provide a wide range of public services. It is used at such significant levels that contract management needs to be demonstrated at a high level of competency consistently throughout each year for the life of these contracts. This is to ensure value is received for the expenditure made and to manage the inherent responsibility of government for public services.

6.1.1 Characteristics of outsourcing

Outsourcing public services to the private sector generally changes the nature of public expenditure from direct employer and procurer of related goods and services, to paying the private provider in line with contractual arrangements. Contracts specify services required, standards of service, performance indicators and provisions for achieving outcomes.

Large service contracts inevitably are significant, complex, multi-part documents that set out the responsibilities and rights of the contracting parties.

Managing these contracts is a significant public sector responsibility.

6.1.2 Responsibility cannot be delegated by outsourcing

Compounding the generally complex nature of significant outsourcing arrangements is that government remains responsible for delivering public services, no matter how that occurs. Governments globally have found many times that responsibility cannot be delegated, and various contracting arrangement issues have arisen over the years.

While entering contracts will entitle the government to all the rights established by contractual arrangements, when issues arise the government of the day will still be obliged to maintain services while resolving them.

6.1.3 Audit observations on outsourcing in this Report

In the last few years, the outsourcing of major SA Government services has occurred in infrastructure and transport, correctional services, public housing and health.

This year I qualified my annual controls opinion for a matter arising from the Frontier outsourcing (see section 3.1). Our audits have also highlighted a range of other issues concerning contract management. Agencies collectively need to improve their contract management practices and be able to demonstrate that the appropriate proficiency for managing this public expenditure is achieved and consistently applied.

Part B provides a summary of the contract management matters we raised. Part C reports our findings for individual agencies. Progress with two specific outsourcing arrangements is discussed below. The facilities management is a new contract and our comments relate to the transition process. The transport arrangements are referred to because the new government has committed to unwinding these recently contracted arrangements.

6.1.4 Across Government Facilities Management Arrangements (AGFMA)

On 6 July 2021, the SA Government entered a contract with Ventia for the provision of the AGFMA services. The contract commenced on 1 December 2021. With all options (including GST), it has an estimated total value of \$4.2 billion over 11 years and seven months (with an initial term of five years and seven months and three optional extensions of two years each).

From July to November 2021 the existing AGFMA was in place, with the new provider facilitating the transition to the new arrangements. Ventia commenced operations on 1 December 2021 as the facilities management service provider of the AGFMA.

It was reasonable to expect that for a major contract like the AGFMA, there would be a period of time needed to settle the new arrangements. Accordingly, our 2021-22 audit program focused on aspects of the procurement and understanding the new arrangements, including elements of governance and contract management.

We found that since transition commenced, issues have been experienced including:

- general systems and process issues
- issues with inaccurate allocation of work orders, including multiple subcontractors arriving on site, or in some instances non-local contractors being engaged
- increased administrative workload for subcontractors
- technical issues with system access to receive and complete work orders, including long delays in processing invoices and payments
- difficulty accessing the help desk and delays in resolving issues
- technical issues with the visibility of preventative maintenance in the system and the allocation of work orders.

Many improvements have been implemented by Ventia since 1 December 2021. Despite this, we note that many critical issues remain and service to agencies require improvement. Considerable work is still needed to ensure an optimised AGFMA is achieved for all users.

Details of our audit are provided in the section of Part C of this Report titled 'Department for Infrastructure and Transport'.

6.1.5 Train and tram services arrangements to transition back to public operations

Public train and light rail (tram) services are currently provided by private operators under contracts that commenced in September 2020 and March 2020, following lengthy and detailed procurement processes.

The new SA Government, then in Opposition, publicly stated at the time rail services were outsourced, its intention to reverse any contracts should it be elected to govern. The SA Government has confirmed its intention to deliver its election commitment to transition the contracts for the operation of train and tram services and return these public transport services into the public hands. The 2022-23 Budget Measures Statement provided an operating initiative titled 'Ending trains and trams privatisation'.

Public bus services were also mentioned in the budget initiative. They have been continuously outsourced since 2000.

The following sections recap the recent contract outcomes for trains and trams.

6.1.5.1 Train services

On 18 September 2020, following a procurement process run by DIT, the Rail Commissioner executed a contract, the Outsourced Rail Operations Agreement (OROA), with Keolis Downer for heavy rail passenger transport services.

The contract for heavy rail passenger transport services is for eight years (through to 4 February 2029) with a value estimated by DIT of \$1.374 billion inclusive of GST. There is an option for the Minister to extend for a further four years at a further value estimated by DIT of \$764 million inclusive of GST. The contract value is therefore estimated to be \$2.138 billion, inclusive of GST, over its 12-year term.

Keolis Downer started providing the services from 31 January 2021. Under terms and conditions set out in the OROA, the SA Government has retained ownership of the rail system infrastructure and assets, and responsibility for setting and receiving fares and setting the requirements for service delivery. Keolis Downer is required to perform all work necessary to maintain the rail assets to the SA Government's specified standards, and to operate trains and deliver services to the schedule and performance standards determined by the SA Government.

We reported on this procurement in Auditor-General's Report 9 of 2021 *Probity of the processes for the heavy rail service contract*.

6.1.5.2 Tram services

On 10 March 2020, the then Minister for Transport, Infrastructure and Local Government awarded separate service contracts for tram and bus services in six discrete service or contract areas. Tram and bus services were included in the North South contract area contracted to Torrens Connect Pty Ltd. This was the first time light rail was outsourced.

The SA Government effectively outsourced the operation of its bus fleet and light rail but retained ownership of those assets. Contractually, it retains responsibility for setting and receiving fares and determining routes, timetables and service levels.

The initial term of the contract for the North South tram and bus services is eight years (through to 30 June 2028), with an option for the Minister to extend for a further two years to 30 June 2030. The value of the contract was not disclosed.

Private operators started providing these passenger transport services from 5 July 2020.

We reported on this procurement in Auditor-General's Report 10 of 2020 *Passenger transport service contracts: Bus and light rail*.

6.2 Workforce management – some priority matters

The public sector spends in excess of \$10 billion annually in payments to employees. Office of the Commissioner for Public Sector Employment (OCPSE) data indicates that this is for a headcount of around 113,000 people (less on an FTE basis) spread across a multitude of individual government agencies.

From 2018-19, our approach to reviewing controls over public sector workforce expenditure started to focus more on workforce planning, performance management, hiring processes and screening checks and less on covering payment processing for individual agencies. We see these areas as being of critical importance to public administration because of the following characteristics:

- **Workforce planning** – supports agencies in achieving their objectives while helping to plan for future business needs. It helps mitigate the increased costs associated with temporary staffing solutions.
- **Performance management processes** – help to ensure employees know their expected performance standards and whether they are achieving them. Actively managing performance supports agencies in achieving their objectives.
- **Hiring processes including employment screening and monitoring checks** – ensure agencies comply with relevant legislation, lessening the risks to staff and the public.

This year we again identified areas for improvement in these areas. They are of significance for a range of reasons.

One of the most prominent, debated and widely occurring matters, as we adapt to COVID-19, is the skills shortages seemingly affecting most areas of activity, locally and nationally. Workforce planning cannot always guarantee optimal outcomes in resource management. It can, however, be of critical importance for both short and long-term service delivery when done well over time. The OCPSE published 'Working it out – A Workforce Planning Guide' to help agencies build their workforce planning capability so they are better positioned to meet their strategic and business plans.

Workforce planning is likely to be a priority in a challenging skills market. We found that differing maturity levels in workforce planning continue to exist at most of the agencies we reviewed.

We found that performance reviews across the public sector were progressing, although with delays associated with the challenge of adapting to COVID-19 resulting in large numbers of outstanding reviews. Agencies generally responded that they would continue to remind staff of the importance of these reviews.

Screening processes for employees and new starters are an essential aspect of managing staff. We found, in the key areas of employment screening, instances in some agencies where employees did not hold valid clearance checks, such as working with children clearances, but were working with vulnerable cohorts.

Part B provides a summary of the workforce management matters we raised. Part C reports our findings for individual agencies.

6.3 Infrastructure project and asset management

The public sector uses and is responsible for an enormous stock of assets that are critical to the ongoing and safe delivery of public services. Billions of dollars are spent each year investing in new assets and maintaining existing ones. We included land and other fixed assets valued at around \$74 billion in our 2021-22 audit.

We put concerted effort into reviewing aspects of public asset management each year. Our work includes focus on how well assets are planned for, acquired and maintained. We found many areas where improvement is required. We also found that positive steps were being taken to address some of the issues we have previously raised.

Sound asset management is a critical aspect of long-term financial sustainability. Full knowledge of the type, performance, cost and age of assets is needed to make proper and fully informed decisions about asset renewal, maintenance and replacement. This increases the likelihood that government assets will effectively support the delivery of key public services, the State's development and the needs of the public.

Parts B and C of this Report summarise the work we have done in this critical area of our responsibility to Parliament. Our observations for two specific areas are discussed in the following sections.

6.3.1 Asset management findings: essential purpose and high value assets

Our audit of asset management at agencies that manage large infrastructure portfolios found a range of areas where improvement is required, as well as identifying some good practices. This section discusses some key matters for asset-holding agencies.

Road assets

The highest valued asset is the State's road network.

DIT manages 23,000 kilometres of roads. They are valued at \$24 billion as at 30 June 2022. DIT has four road maintenance contracts with private providers for a total value of up to \$5.1 billion (GST inclusive) over a potential contract period of 13 years. Routine services under these contracts commenced in November 2020. While we noted that DIT had made progress to improve its controls in 2021-22, there were still significant areas where controls were not yet implemented. They included monitoring contract compliance, tracking ordered services and KPI verification.

This year we also asked DIT about road network assets that are overdue for maintenance and rehabilitation work – its maintenance backlog.

DIT provided us with unaudited information estimating for the sealed road network (which is approximately 13,000 km) that:

- 1,520 km of regional sealed roads were estimated to be in backlog in 2020, with this forecast to grow to 2,330 km in backlog by 2025 if only minimum safety work was performed. The rough order of magnitude (ROM) cost over four years of holding the backlog to 2020 levels was estimated at \$520 million, while the ROM cost over four years of eliminating the backlog was estimated at \$1.5 billion
- 30 km of metropolitan sealed roads were estimated to be in backlog in 2020, with this forecast to grow to 100 km in backlog by 2025 if only minimum safety work was performed. The ROM cost over four years of holding the backlog to 2020 levels was estimated at \$190 million, while the ROM cost over four years of eliminating the backlog was estimated at \$255 million.

DIT also manages approximately 10,000 km of unsealed roads, of which 500 km was estimated to be in backlog with an estimated ROM cost of \$50 million.

Housing, health and water assets

The South Australian Housing Trust (SAHT) owns more than 40,000 properties valued at \$11.2 billion. Its asset management practices continue to improve. In July 2020 the SAHT Board approved the Strategic Asset Management Framework 2020–2030. In December 2020, the Board approved an interim asset management strategy to guide the SAHT's capital programs over the next five years. The SAHT completed its assessment of the condition of its housing stock in 2020-21. It intends to use this condition data to inform its future maintenance and asset management plans. The SAHT contracts multi-trade contractors to deliver maintenance programs for its properties. The current contracts end on 31 December 2022.

SA Health's assets are valued at nearly \$6 billion and comprise all of the State's public hospitals and related property. We found local health networks (LHNs) that did not have completed strategic asset management plans and supporting asset management plans in place.

We also found LHNs that were yet to sign revised memorandums of administrative arrangements (MOAAs) for the AGFMA between the LHN and DIT. The MOAA describes the roles and responsibilities of parties involved in delivering the AGFMA. Some LHNs had not yet accepted the new terms in the MOAA.

The South Australian Water Corporation (SA Water) operates 20 dams, 11 weirs and 11 aqueducts, including two dams that are owned by the SA Government and operated by SA Water. SA Water follows guidelines developed by the Australian National Committee on Large Dams (ANCOLD) when managing these assets. We noted that SA Water's asset management plan for dams and weirs does not provide guidance for setting maximum time frames for ensuring that the societal risk to life safety is reduced to within a tolerable limit. The plan identifies six dams that plot, as of September 2018, above the ANCOLD limit of tolerability. SA Water advised us that it will set a dam upgrade program objective in the plan over a 10-year period based on the greatest risk reduction achievable across its dam portfolio, in line with organisational capacity. It will review this objective every four years, prior to its submission to the economic regulator.

6.3.2 Infrastructure program: risks with high value and complexity

The 2022-23 State Budget shows that additions to infrastructure are projected to total \$18.6 billion over the next four years. This is about 50% more than the previous four years. The general risks to the investment program are acknowledged in the 2022-23 State Budget, which states:

Project estimates include prudent allowances for cost escalations. Large capital programs increase the risk of additional costs. The currently high demand for infrastructure related labour and materials also increases the risks of cost escalations for capital programs.⁸

The risks identified potentially compound the already high inherent risks in major projects. We have conducted focused performance audits and reported to Parliament on some of the State's high-risk major projects including the new Royal Adelaide Hospital, Adelaide Festival Plaza, the Darlington Upgrade Project and the Flinders Link Project.

Our audits have consistently identified key elements of major projects that were not effectively managed and deficiencies in important processes and functions. In our view, these are areas where it is possible, even likely, that major projects would have been delivered with more success, less cost and more quickly, had they been better managed.

The following are some of the matters we have reported in the past. We highlight them again because it is evident that they are critical to optimising outcomes for complex, high-risk and costly projects.

⁸ 2022-23 Budget Paper 3 *Budget Statement*, p. 89.

Planning – not applying planning, evaluation, approval and procurement frameworks, not completing required financial evaluation and business cases, funding requirements and budget impacts not being adequately assessed before commencing the request for proposal process.

Governance – key governance arrangements and structures not being established or implemented timely, and not being clearly defined and documented, limited oversight of key project elements by governance committees, frequent changes in responsibilities, not having terms of reference, the absence of transparency and documentation to support the basis of key decisions.

Financial analysis – key commercial terms lacking analysis, whole-of-life costs for equipment not being reported and therefore not being monitored, the absence of robust benefits realisation processes, the need to improve budget and finance reports.

Risk management – planning, reporting and monitoring needing improvement to better understand the nature, consequences and status of strategic risks and the strategies implemented to mitigate them.

Procurement – inadequate procurement planning risk assessments and management plans, the absence of evidence-based analysis and documentation to support key decisions made during the procurement process, including the reasons for using a direct negotiation approach, awarding the principal design and construct contract before fully understanding the implications of key project matters such as proposed service relocations, the scope, timing and cost of project modifications not being agreed with a provider and issuing a significant variation only a few days after awarding the principal design and construct contract.

Contract management – not having a contract management framework and contract management plans, a significant contract variation being issued without documented analysis supporting this decision.

Probity management – arrangements to manage probity not being implemented from the outset.

7 Cyber security and information technology project issues

Cyber security has consistently ranked in the highest risks to manage across government agency risk registers year after year. We now see constant unscrupulous activity by hackers, scammers and the like. Some is highly sophisticated, using advanced techniques and technology. The perpetrators seek to take advantage of any control weaknesses and to trick unsuspecting users into exposing data, spreading malware infections or giving access to restricted systems. It is a significant and constant challenge to IT staff and people generally. It creates pressing demands across the public sector where there are a vast range of systems and applications in use, some quite old.

We audit aspects of cyber security controls every year, and in most years we also audit aspects of large IT projects.

This year our approach to IT audit was a combination of:

- general testing across many agencies
- focused specialist reviews of information technology general controls (ITGC) at a sample of agencies
- a review of system authentication matters at a sample of agencies
- an update on the whole-of-government Managed Platform Services arrangement
- an update on the major South Australia Police (SAPOL) project, the Shield Program.

The following section draws attention to three particular matters arising from these reviews.

7.1 Information technology general controls

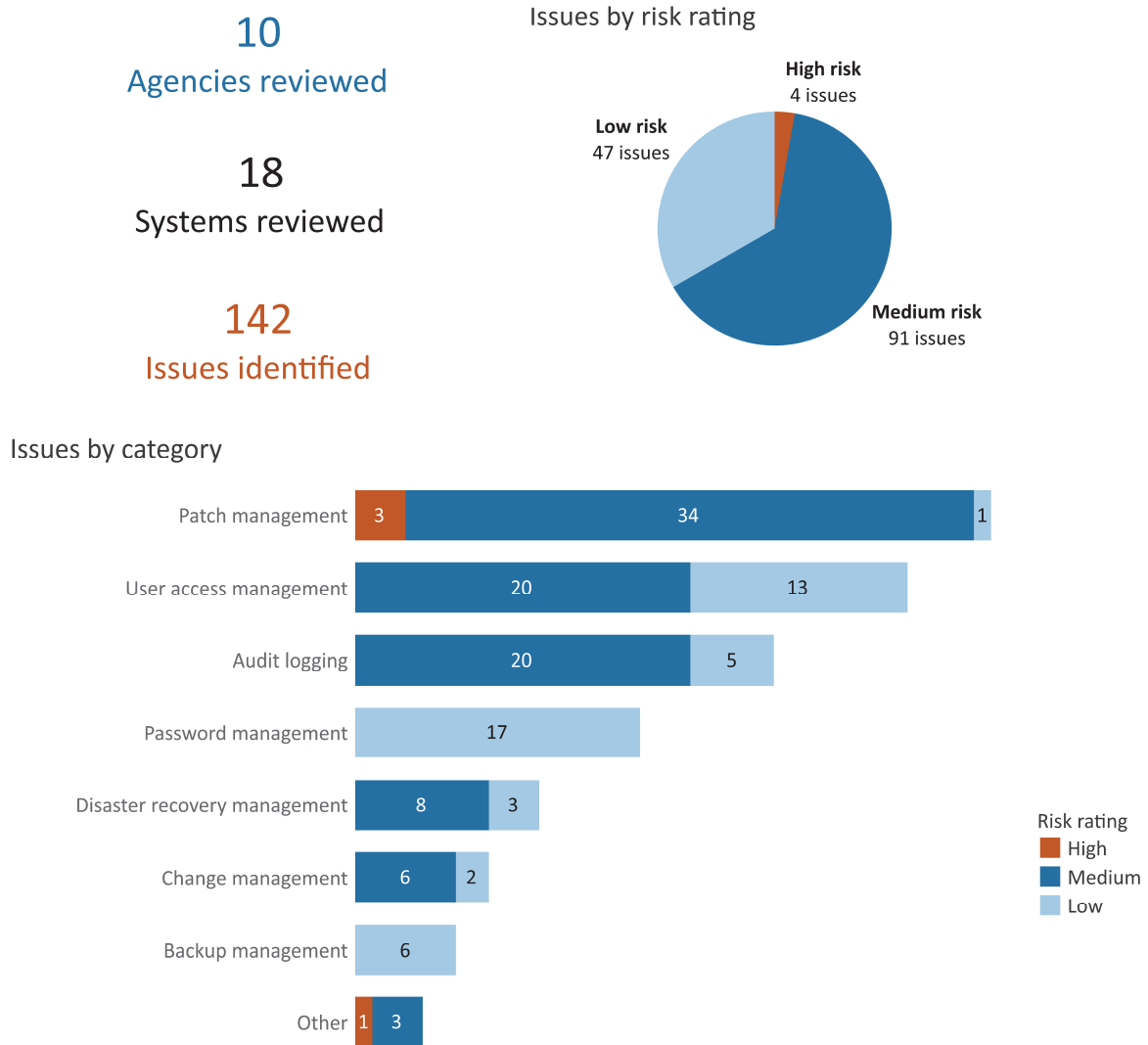
Each year we conduct selected ITGC testing over key agency financial systems.

ITGC testing involves assessing controls over password management, user access management, audit logging, change management, disaster recovery management, backup management and patch management. Our testing takes into consideration the SA Government's Cyber Security Framework and associated agency IT security guidelines.

In 2021-22 our specialised IT audit team performed ITGC testing in 10 agencies for 18 key agency financial systems. They also assessed the remediation of ITGC issues we raised in prior years.

Figure 7.1 summarises our findings on the key control areas that could be strengthened across the agency environments we reviewed.

Figure 7.1: Findings from our ITGC reviews



All agencies responded positively to our findings with details of their proposed remediation approach.

Further details of the results of our ITGC testing are provided in Part C of this Report under the relevant agencies.

7.2 Outcomes of our system authentication review

We reviewed the authentication controls applied across the SA Government. To do this, we selected a sample of seven agencies and reviewed the system authentication governance and controls they applied to their Active Directory domains and selected applications. We also performed a password cracking exercise to identify indicators of poor user password management behaviour.

Our review did not highlight any systemic or fundamental system authentication control issues for the seven agencies we tested. We did note that the strength of the authentication controls applied, including governance and password configuration settings, varied across

these agencies and there were recommended areas of improvement.

We found that improvement was needed to address:

- gaps in documented password policies
- weaknesses in authentication controls
- weaknesses in agency user passwords
- inadequate management of shared privileged accounts.

Our password cracking exercise was able to crack many passwords within a brief period of time. We considered these passwords to be weak, with many of them commonly used and expected by attackers when performing equivalent password cracking exercises.

We reported our findings from this work in Auditor-General's Report 7 of 2022 *Review of system authentication*.

7.3 Whole-of-government Managed Platform Services arrangement

7.3.1 Introduction

Agencies use third-party suppliers to manage components of their ICT infrastructure. This includes servers, hosting services and cloud services. Agencies can procure many of these services through whole-of-government contract arrangements.

The Managed Platform Services (MPS) arrangement was established by Procurement Services SA (PSSA), a branch of DTF. The aim was to consolidate and transition existing services from two previous arrangements, the former Distributed Computing Support Services (DCSS) contract and the Hosting Services Panel (HSP) contract, which were both reaching the end of their terms.

The new MPS arrangement was intended to provide agencies with better day-to-day management of their servers, hosting and cloud arrangements. It was the responsibility of individual agencies to select their required services and conduct the necessary activities to transition to the MPS contract.

In 2021-22 we performed a high-level review to determine the transition approach to and status of the MPS contract.

7.3.2 Estimated costs and savings

The total estimated value of the approved whole-of-government MPS agreement is \$301.5 million (GST inclusive) for a maximum six-year contract term. This includes an initial three-year term commencing on 1 December 2020, with an option for a further three-year extension if required. Required services could be selected through a catalogue process and incorporated several services procured from previous contracts.

Under the MPS arrangement, the pricing model established to support the initial acquisition plan included a number of cost variances that would need to be considered, including whether:

- State agency servers were held on-premises or located offsite, such as a cloud arrangement
- new service provider arrangement setup costs were required or an existing service provider could be used to lessen set-up costs
- the level of service costs attributed to the server fleet was still competitive and comprehensive.

PSSA has acknowledged that performing cost and savings comparisons against the previous service arrangements is difficult, given the complexity and diversity of the services offered.

PSSA confirmed that an annual review of the MPS arrangement contract terms and conditions is planned after the December 2022 anniversary of the contract. This will include identifying the actual agency expenditure across the panel services and suppliers. It will help to determine the anticipated savings that could be expected under the new MPS arrangement.

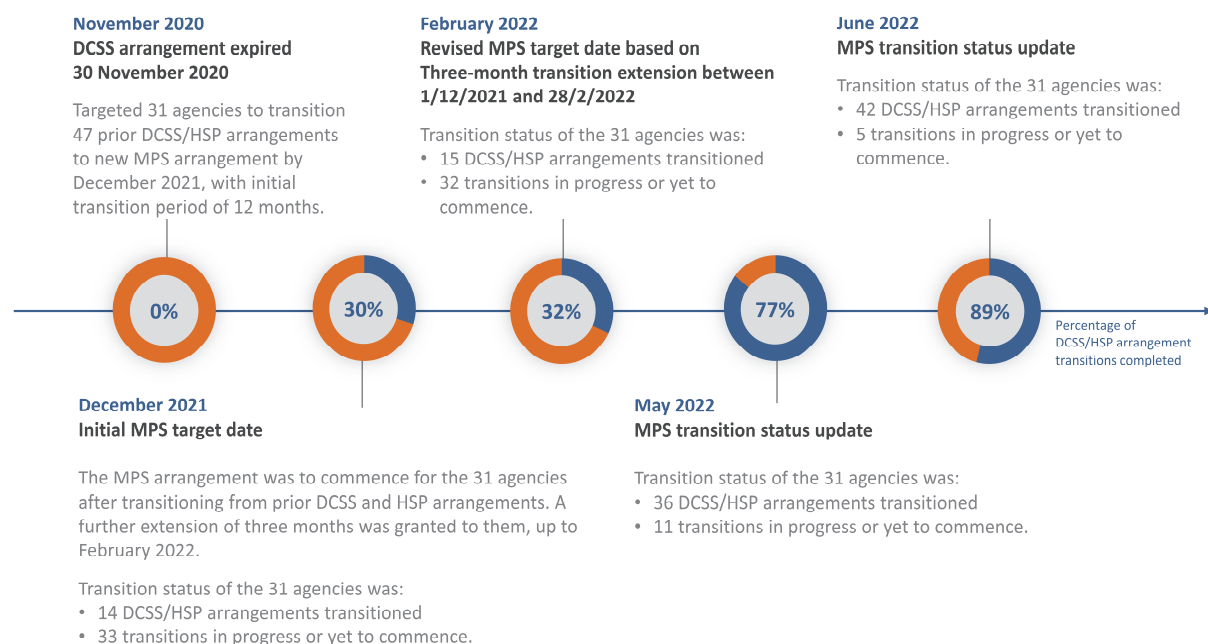
7.3.3 Transition status

Following the expiry of the old DCSS arrangement on 30 November 2020, agencies were expected to prepare for and conduct the migration of existing DCSS services to the new MPS arrangement over a 12-month transition period. Agencies with HSP services were expected to transition by October 2021. The MPS arrangement commenced in December 2020 and all transitions were to be completed by a target date of 1 December 2021.

We noted that this original target date was not met, and agencies have experienced delays in transitioning services from the previous DCSS and HSP arrangements to the new MPS arrangement.

Figure 7.2 outlines the transition progress of the in-scope agencies.

Figure 7.2: MPS arrangement transition progress up to 30 June 2022



7.3.4 Reason for transition delays

Some of the factors that contributed to the delay in agencies transitioning to the new MPS arrangement were:

- the slow engagement of agencies in commencing the assessment process in preparation for the migration of services
- some agency tender evaluations requiring increased clarification between the agency and service providers. This led to delays in the secondary procurement process and the signing of new customer agreements
- the DPC whole-of-government network conditions for connection⁹ between agencies and their preferred service providers took longer to define and establish than anticipated
- ongoing IT enterprise projects within larger agencies were still in progress. Consequently, some agencies sought approval from DPC for an exemption that would delay their transition
- the COVID-19 pandemic redirected agencies' efforts away from transition to more pressing concerns or affected the availability of resources due to illness.

These delays prevented the migration of agency services to the MPS arrangement from being completed in a timely manner.

Subsequent to our review, DTF advised us that a 'lessons learned' review was conducted in June 2022 to identify how future agency transition arrangements could be better planned and coordinated.

7.3.5 Recommendations

We recommended that PSSA conducts its proposed anniversary review of the new MPS arrangements. This could include a reassessment of the MPS arrangements contract to determine whether the term of the arrangement needs to be extended, given the transition delays experienced.

DTF should also actively assist agencies with their future contractual arrangements. This includes transition strategies and guidance to ensure key outcomes and time frames are achieved.

7.3.6 Department of Treasury and Finance's response

PSSA provided the following in response to our commentary and recommendations:

*DTF PSSA has reviewed and agrees in the main with the points made above.
DTF PSSA has a role in monitoring the transition-out process from old*

⁹ Network conditions for connection seek to establish the requirements and obligations that service providers are required to comply with when connecting service provider managed hardware to the State or agency network.

contracts into new contracts but is not resourced to fully manage the process on behalf of internal and external stakeholders. The transition process to the new MPS panel arrangement has been both protracted and difficult to monitor for the reasons noted in the report but primarily due to the COVID-19 impact to the initial timeframe. The impact of one of the two DCSS incumbents not being successful in winning like services on MPS also added to the complexity of the transition timeframes as they experienced their own resourcing issues but also benefited by securing additional revenue as the transition out period extended revenue beyond the original contract term.

Agencies were also slow to submit exemptions which may have offered an insight to the difficulties or challenges being faced and provided an opportunity for PSSA to actively assist in the management of the transition.

A number of lessons have been learnt throughout the transition process and as a result of the significant work undertaken in support of this audit/report.

- **Managed Transition in Process** – PSSA has recognised that greater engagement with the agencies and suppliers post contract commencement is essential for large services contracts. A more active role in managing rather than just monitoring the transition process will be beneficial to all stakeholders. In this regard, to assist agencies through the secondary procurement process for future service arrangement transitions, starting with the new Telecommunications Services procurement, DTF PSSA will actively manage the transition-out/in process, which will include but not be limited to:
 - where required, aggregating agencies into collective secondary procurements where there are synergies, ie small agencies with commodity requirements or agencies with similar regional and/or service requirements
 - scheduling calls of requests from the panel to be in a staggered and organised manner, enabling suppliers to respond with adequate time and assisting them to schedule and resource transitioning of agencies
 - scheduling physical migrations.
- **Transition** – When considering new procurements and their timeframes, consideration will be given to the length of time it takes for agencies to run their secondary procurement processes and for suppliers to start earning revenue. To accommodate the lengthy delays in the MPS transition, after the first MPS annual contract review is performed (post December 2022 anniversary) this review will consider and may recommend that that the MPS contract arrangement be extended, with supplier contracts varied to allow for a further three-year extension term (on top of the existing six-year term). If the recommendation is endorsed by the Executive Director, PSSA, approval would be sought from the Treasurer, including financial approval for any increase in the total contract value (if required).

8 Managing climate change risk

We are warned that climate change risk could lead to catastrophic economic and social consequences. Events are regularly reported globally that are consistent with these warnings and highlight the urgent need to act on the projected risks from global warming and climate change. We also see the actions that are taking place.

This section first discusses the most important element in this conversation – the evidence of and need for action being taken to respond to climate-related risks, including seeking to take advantage of opportunities. Critically, the most important actions are those that advance and develop a full and effective approach for oversight and action encompassing goal setting, capability, capacity, expertise and the systems, processes and controls needed.

We then summarise aspects of the growing accountability expectations on public and private entities commensurate with the affects and influences that climate change is projected to have on citizens.

8.1 Some climate change actions and further possibilities

The following are two examples where government’s unique position to regulate and use incentives can activate and drive the behaviours needed to respond to climate change.

In September 2022, the Australian Parliament passed the *Climate Change Act 2022*. This establishes Australia’s greenhouse gas emissions reduction targets in domestic law. The targets are a 43% reduction against 2005 levels by 2030 and net zero by 2050. The Act also requires transparency and accountability with respect to these targets. It requires the Minister to table an annual climate change statement in Parliament, setting out Australia’s progress towards meeting its greenhouse gas emissions reduction targets, relevant international developments and climate change policy.

In South Australia, the new SA Government has committed to constructing a hydrogen electrolyser facility, power station and storage facility, at an estimated cost of \$593 million. This is discussed in terms of the State’s clean energy future and jobs. It responds to an opportunity from climate change. The State Budget otherwise does not identify any new climate change-related initiatives.

The public sector effort and attention on climate change risk management should not be limited or constrained to the cornerstone features of government policies and budgets. There are many opportunities, when using public funds, to respond to the pervasive nature of climate-related risks.

Last year, Part D of my Annual Report *Managing climate change in South Australia*¹⁰ was dedicated to an overview of aspects of managing climate change in South Australia. We acknowledged many State agencies that are deeply involved in climate-related matters.

¹⁰ Auditor-General’s Report 12 of 2021 *Annual Report for the year ended 30 June 2021, Part D: Managing climate change in South Australia*.

Among them, the Department for Environment and Water is responsible to the Minister for Climate, Environment and Water. Its programs include leading the delivery of government climate change policy and programs, including coordinating cross-agency climate change strategies and initiatives.

We also made 11 recommendations aimed at helping the SA Government and the agencies responding to climate change risks. Two were about infrastructure and procurement. The annual spend from the public finances mainly comprises this spending. There are therefore significant opportunities and responsibilities to consider climate-related matters when using these resources.

Infrastructure – We recommended clearly evidencing, addressing and embedding infrastructure project considerations, such as those identified by Infrastructure SA, into decision-making, infrastructure business cases and solutions and project delivery. The 2022-23 State Budget total infrastructure program for the next four years, including the hydrogen spend, is \$18.6 billion.

Procurement – We recommended establishing clear climate-related responsibilities in procurement practices and referred to the PSSA’s Green Procurement Guideline. It promotes green procurement outcomes and encourages public authorities and suppliers to improve their practices. The 2022-23 State Budget projects total other operating expenses for the next four years at \$34.6 billion.

8.2 Climate risk management practice is a priority

Mature climate risk management practices across the public sector are needed to ensure the SA Government has the best understanding of the State’s exposure to the risks of economic and social consequences. This then helps inform establishing the most appropriate responses to these risks.

Mature practices will involve combinations of many elements, including setting expectations and goals, laws, rules and practices, experts, operatives, behaviours and systems. Comprehensive and timely reporting will assist those responsible for delivering climate risk management. It will also enable accountability to those interested in how well it progresses, namely affected South Australians.

In the absence of governance, practices, actions and systems, no useful reporting or accountability is possible. All of these elements are prerequisites.

8.3 Methodically establishing governance and climate change management and accountability practice

In Part D of my 2020-21 Annual Report, we reported on some governance and accountability developments that, in my view, should be adopted here. Global and national developments for governance and financial reporting were showing some of the standards of behaviour and actions becoming expected by the community, from entities in the position to actively contribute to responding to climate change risks.

We proposed that relevant standards be adopted in the South Australian public sector at the earliest opportunity. We recommended that the process begin as soon as possible, because it is reasonable to expect that reaching a mature level for climate risk management practice will take some time, perhaps years.

It will be a complex task. It involves providing, across the public sector, the education and training needed to develop the necessary understanding of climate change projections, exposures and impacts, and how to apply that knowledge. It will need to compete for time and resources against other government priorities. It will require a methodical approach to identify the significant investment, resources and lead-time to implement across government. Agencies and their risk and audit committees will need support and to support each other with this task.

8.4 Sustainability and climate-related reporting on global developments

In 2021-22 considerable further developments occurred in global financial reporting professions focused on sustainability and climate-related reporting.

The quick succession of these developments and the short timelines attaching to them show the implications for all who are accountable and responsible for managing climate risks and the urgency the standard issuers are giving to these matters. It will be vital that appropriate participation occurs in settling these standards.

Importantly, the international developments suggest that the Task Force on Climate-related Financial Disclosures (TCFD) guidelines, broadly discussed in Part D of my 2020-21 Annual Report, will figure prominently in reporting standards.

The following brief chronology summaries some key elements and emphasises the degree of activity in climate-related accountability.

3 November 2021: The International Financial Reporting Standards (IFRS) Foundation¹¹ established the International Sustainability Standards Board (ISSB) at the 2021 United Nations Climate Change Conference (COP26) to develop a global baseline of sustainability financial disclosures for capital markets. This is to help respond to international calls for high quality, transparent, reliable and comparable reporting by companies on climate and other environmental, social and governance matters.

November 2021: The FRC/AASB/AUASB jointly issued a Position Statement 'Extended External Reporting and Assurance'. It recognised the desire for authoritative guidance on extended external reporting in Australia, and a reporting regime that meets the needs of users of financial and non-financial reporting information and supports Australia's international competitiveness.

¹¹ The IFRS Foundation is a not-for-profit, public interest organisation established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards. Its standards are developed by two standard-setting boards, the International Accounting Standards Board and the ISSB.

December 2021: The AASB and AUASB released an article titled ‘Globally consistent reporting for sustainability-related information Australian perspectives’. It discusses the approach the AASB and AUASB may take in response to developments and an intent to consider the work of the ISSB and other leading international frameworks and initiatives.

March 2022: The AASB issued a Position Statement on extended external reporting. This gives direction to stakeholders prior to developing and adopting a framework for extended external reporting. It indicated that the AASB supports the voluntary adoption of the recommendations made by the TCFD.

31 March 2022: The ISSB launched its first proposed sustainability standards for consultation – IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. Comments closed on 29 July 2022.

14 April 2022: The AASB issued ED 321 *Request for Comment on Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information* and Draft IFRS S2 *Climate-related Disclosures*. Comments closed on 15 July 2022.

May 2022: The International Public Sector Accounting Standards Board (IPSASB)¹² released its Consultation Paper ‘Advancing Public Sector Sustainability Reporting’.

June 2022: The AASB released ‘Project insights: Developing sustainability-related financial reporting standards in Australia’. This provides a snapshot of the proposed Australian approach to developing sustainability-related financial reporting standards and to highlight some of the key elements of that proposed approach. The AASB seeks to:

- develop a separate, or independent, suite of standards that specifically addresses sustainability-related financial disclosures made as a part of general purpose financial reporting
- prioritise international alignment by using the work of the IFRS Foundation’s ISSB as a baseline, with modifications for Australian matters and requirements when necessary to meet the needs of Australian stakeholders.

8.5 ISSB – proposed sustainability standards for consultation – a private sector focus

On 31 March 2022, the ISSB launched a consultation on its first two proposed standards (exposure drafts). One sets out general sustainability-related disclosure requirements and the other specifies climate-related disclosure requirements.

The exposure drafts build on the recommendations of the TCFD and incorporate industry-based disclosure requirements derived from other standards.

¹² The IPSASB develops accounting standards and guidance for use by public sector entities. The structures and processes that support the operations of the IPSASB are facilitated by the International Federation of Accountants.

The ISSB proposed that the final requirements will form a comprehensive global baseline of sustainability disclosures designed to meet the information needs of investors in assessing enterprise value. The ISSB is working with other international organisations and jurisdictions to support the inclusion of the global baseline in jurisdictional requirements.

The ISSB standards illustrate the level of detail required to evaluate a company's sustainability and climate-related risks and opportunities.

8.5.1 ISSB climate-related disclosures exposure draft

The climate-related disclosures exposure draft applies to the disclosure of significant climate-related risks and opportunities arising from:

- physical risks from climate change
- risks associated with the transition to a lower-carbon economy.

The exposure draft requires a company to identify the sustainability and climate-related risks and opportunities it faces.

The purpose is to enable users of an entity's general purpose financial reporting:

- to assess the effects of significant climate-related risks and opportunities on the entity's enterprise value
- to understand how the entity's use of resources, and corresponding inputs, activities, outputs and outcomes, support the entity's response to and strategy for managing its significant climate-related risks and opportunities
- to evaluate the entity's ability to adapt its planning, business model and operations to significant climate-related risks and opportunities.

The exposure draft requires reporting entities to properly examine their susceptibility to sustainability and climate-related risks and opportunities by setting out specific criteria for a company to conduct such an examination. It would require disclosures about:

- **Governance** – governance processes, controls and procedures used to monitor and manage sustainability and climate-related risks and opportunities.
- **Strategy** – how sustainability and climate-related risks and opportunities may affect the entity's strategy. In particular, the effects of these risks and opportunities on the business model and value chain, financial position, financial performance and cash flow over the short, medium and long-term.
- **Risk management** – the processes by which sustainability and climate-related risks and opportunities are identified, managed and assessed.
- **Metrics and targets** – how the entity measures, monitors and manages its significant sustainability and climate-related risks and its performance. For climate-related risks this includes disclosing its greenhouse gas emissions and information related to the disclosure of emissions.

8.5.2 Consultation period closed

The consultation period for the two exposure drafts closed on 29 July 2022.

In August 2022, the ISSB reported it had received more than 600 responses to its draft climate disclosure standard.

8.6 IPSASB – proposed dedicated global reporting framework – a public sector focus

In May 2022, the IPSASB released its Consultation Paper on advancing public sector sustainability reporting. The IPSASB was responding to the growing demands from its stakeholders for global sustainability reporting guidance for the public sector, to contribute to the delivery of sustainable development and to address climate change.

The IPSASB proposes that it will:

- serve as the standard setter for global public sector specific sustainability guidance, drawing on its experience, processes and global relationships
- develop initial guidance focused on general disclosure requirements for sustainability-related information and climate-related disclosures
- approach guidance development at an accelerated pace, with a potential for releasing initial guidance by the end of 2023.

The exact nature of the sustainability reporting guidance needed for the public sector is unclear at this time, whether it is a framework, standards, guidelines or some mix of all, so the remainder of the document uses the generic term ‘sustainability reporting guidance’, to encompass all potential guidance forms.

8.6.1 Differences in public sector focus

The IPSASB noted that the public sector is uniquely positioned through its leadership and policy responsibilities, as well as the powers to regulate, and public spending to encourage private sector businesses and individual citizens to change their behaviours to achieve sustainability goals.

Consequently, the public sector’s broad range of accountability obligations to its stakeholders will result in a different focus in the sustainability-related information users want from a public sector entity compared with a major private sector company.

The proposed reporting includes performance targets and quantitative metrics for material sustainability factors, both cross-industry and industry-specific. The IPSASB considers that it is likely to receive greater focus in the public sector than in the private sector. This is due to the broader impact public sectors have on all sustainability issues by way of regulations, laws and other actions, and the importance of the public sector in achieving specific public policy objectives.

The IPSASB noted the critical differences between the public and private sectors as:

- the volume and significance of non-exchange transactions

- the importance of the approved budget
- the nature of public sector programs and longevity of the public sector
- the nature and purpose of assets and liabilities in the public sector
- the regulatory role of public sector entities
- the relationship to statistical reporting.

8.6.2 Consistency with the Task Force on Climate-related Financial Disclosures

The resulting proposed public sector-specific sustainability reporting framework would be consistent with the TCFD recommendations by enabling the reporting entity to disclose the governance, strategy and risk management arrangements it adopts to manage and monitor delivery of its defined targets/outcomes.

9 Other specific matters

9.1 Summerfield decision and claim liability provisions

On 11 March 2021 a decision was handed down by the Full Court of the Supreme Court of South Australia in the case of *Return to Work Corporation of South Australia v Summerfield* (Summerfield).

The Summerfield legal decision allows for the combining of injuries for whole person impairment (WPI) assessment purposes. This substantially differed from Return to Work SA's (RTWSA's) adopted position of how key aspects of WPI assessments were undertaken. RTWSA applied for special leave to appeal the Summerfield decision to the High Court of Australia. This was refused on 5 November 2021.

The *Return to Work (Scheme Sustainability) Amendment Act 2022* was proclaimed on 28 July 2022. It introduced provisions for combining injuries under the law, aligning with the Summerfield decision, and increased the threshold for accessing serious injury benefits for physical injury claims from 30% to 35%.

RTWSA's actuary considered the impacts of the Summerfield decision and the introduction of the legislated reforms on RTWSA's outstanding claims liability as at 30 June 2022. This resulted in a \$126 million increase in short-term claims and a \$631 million decrease in serious injury claims as result of the reforms introduced by the Amendment Act.

The Summerfield decision also affects agencies not included in RTWSA's scheme. A provision is reported to reflect unsettled workers compensation claims for most agencies. The provision is based on an actuarial assessment of the outstanding liability as at 30 June 2022, provided by a consulting actuary engaged through the OCPSE. The provision is for the estimated cost of ongoing payments to employees as required under current legislation. The changes to the legislative arrangements for workers compensation that came into effect from July 2022 will be reflected in the 2022-23 valuation, and will likely see a decrease in this element of the liability.

9.2 Observations on key government sector spending

9.2.1 General government capital expenditure in 2021-22

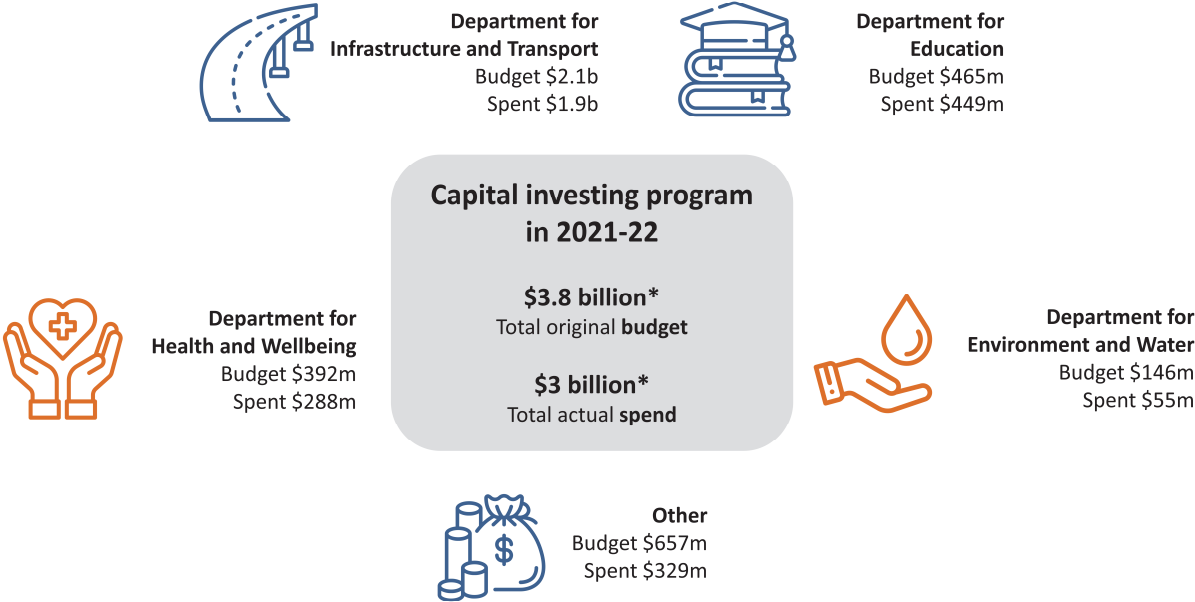
Each year the agencies we audit undertake significant construction projects. These projects are generally undertaken by agencies for which this is a core activity. The SA Government's infrastructure agency, DIT, is responsible for managing construction projects in the civil and building (commercial) construction sectors.

This section outlines the capital expenditure incurred in 2021-22 across the general government sector, where the expenditure occurred and the progress of some of the more significant major projects.

In 2021-22 the general government sector incurred \$3 billion of capital expenditure for its major projects and annual programs. These figures were provided by DTF at a point in time. Further minor adjustments were still being processed at the time of this Report.

The portfolios that make up most of this spend are identified in figure 9.1.

Figure 9.1: General government capital expenditure for 2021-22*



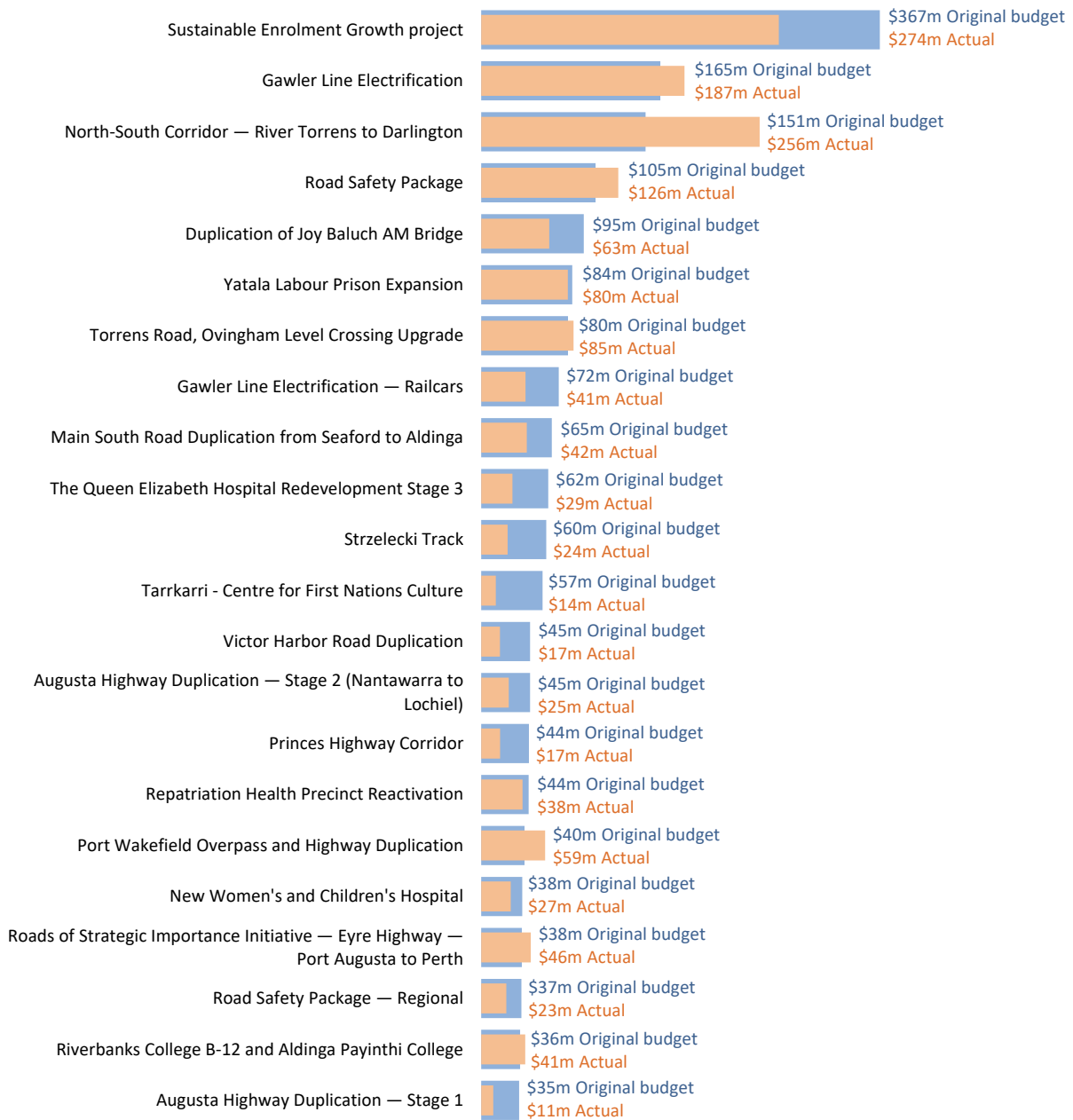
* Data provided by DTF and unaudited. This amount is the 2021-22 original budget less adjustments for capital slippage.

9.2.1.1 Significant general government major projects

Figure 9.2 shows the individual general government major projects that have incurred expenditure above \$35 million, or that have original budgeted expenditure for 2021-22 above \$35 million.

The budgeted figures are the original 2021-22 budget figures and do not include any revised amounts since the release of the 2022-23 State Budget in June 2021.

Figure 9.2: General government major projects spend for 2021-22



Source: Data provided by DTF and unaudited.

There are many reasons why there are variations between a project’s budget and actual spend. In instances where less is spent, the agencies, if appropriate, will seek carryovers of their budget to the following year. Where more than originally budgeted is spent, often it reflects changes to scope, costs or timing. An example of where more may be spent is where it is identified during the project that it is more efficient to undertake works concurrently, rather than in different stages.

Variations can be due to differences in the timing of expenditure and delays that are inherent in most capital works projects.

Some of the major projects shown in figure 9.2 and the reasons for the differences between their actual spend in 2021-22 and their budgeted spend are as follows:

- The Sustainable Enrolment Growth project spent \$274 million in 2021-22 on modernising schools and facilities, enabling the transition of Year 7 students to high school in 2022 and supporting sustainable enrolment growth. The \$93 million difference between the original budget and actuals is made up of numerous projects across many school sites.
- The North-South Corridor (River Torrens to Darlington) project spent \$256 million in 2021-22. This was \$104 million over budget. DIT advised us that this increased expenditure was due to earlier than anticipated finalisation of the acquisition of some properties required for the project.
- \$40.8 million was spent on the Gawler line electrification railcars, \$30.7 million less than originally budgeted. DIT advised us that the variations were due to delays as a result of COVID-19 and the supply of parts, including non-conformance issues identified in production, with critical components needing rectification.
- \$28.8 million was spent in 2021-22 on the Queen Elizabeth Hospital, \$32.9 million less than originally budgeted. CALHN advised us that the onsite works started later than anticipated due to delays in the tender process and the need to ensure appropriate budget management in an over-heated market.
- The Strzelecki Track project was delayed because of multiple rain events impacting the contractor's ability to gain access to the site. \$24.8 million was spent in 2021-22, \$35.6 million less than originally budgeted.
- \$13.5 million was spent in 2021-22 on Tarrkarri – Centre for First Nations Culture, \$43 million less than originally budgeted. DPC advised us that while early works had progressed in line with the program, the budget profile in 2021-22 included main works that are not yet scheduled to commence.

9.3 Public finances

The 2021-22 estimated net operating balance has deteriorated by \$336 million since the 2021-22 State Budget to a \$1.733 billion deficit, due to a range of factors including new expenditure initiatives to respond to COVID-19.

Total expenses are estimated to be higher mainly due to new operating expenditure initiatives for 2021-22 in the 2021-22 mid-year budget review (\$511 million) and 2022-23 State Budget (\$792 million), which primarily relate to the SA Government's COVID-19 response.

The estimated increase in total expenses is partly offset by upward revisions to Commonwealth grant revenue (\$684 million) and higher taxation revenue (\$556 million, most of which was conveyance duty collections).

I will deliver a separate report on the State finances and related matters in October 2022.

9.3.1 Treasurer's statements for 2021-22

The Treasurer's statements reflect the financial transactions of the Treasurer as shown in the

accounts and records of the Treasurer. The main public accounts are the Consolidated Account, special deposit accounts and deposit accounts established under the PFAA.

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

The Consolidated Account result for 2021-22 was a deficit of \$2.7 billion, \$2.6 billion lower than the budgeted deficit of \$5.3 billion. The lower deficit was mainly due to higher taxation revenue, higher Commonwealth general purpose receipts and higher recoveries. Overall receipts were \$1.995 billion higher than budget. Total payments were also lower than budget by \$600 million.

Total payments from the Consolidated Account of \$17.597 billion were within appropriation authority of \$18.727 billion (see Statement K of the Treasurer's statements).

The balance of funds on hand in special deposit accounts (\$8.68 billion) and deposit accounts (\$1.402 billion) collectively decreased by \$210 million.

The SA Government's indebtedness to the South Australian Government Financing Authority increased to \$23.328 billion in 2021-22 from \$20.987 billion. This was mainly due to the \$2.7 billion Consolidated Account deficit for 2021-22.

The Treasurer's statements are available on the Auditor-General's Department website (www.audit.sa.gov.au) and a summary of key items is provided below.

9.4 Summary of key items in the Treasurer's statements

The Consolidated Account outcome is summarised below.

9.4.1 Summary of the Consolidated Account for the year ended 30 June 2022

	Budget \$000	Actual \$000
Receipts		
Taxation	4,417,022	5,027,803
Commonwealth general purpose grants	6,711,044	7,120,261
Commonwealth specific purpose grants	221,005	222,009
Commonwealth National Partnership payments	188,064	208,521
Contributions from state undertakings	215,019	254,314
Fees and charges	562,181	627,532
Recoveries	208,115	886,672
Royalties	322,938	382,710
Other receipts	18,313	128,899
Total receipts	12,863,701	14,858,541

	Budget \$000	Actual \$000
Payments		
Appropriation Act	17,865,967	17,299,095
Specific appropriation authorised in various Acts	333,522	298,078
Total payments	18,199,489	17,597,173
Consolidated Account deficit	5,335,788	2,738,632

10 Local government

Each year, we perform audit work on aspects of local government. We are not the financial auditor for any of the State's 68 councils or their related bodies. We select areas to report on from across the sector based on applying criteria aimed at identifying matters of most relevance at a point in time.

The scope of the sector is evident from the 2020-21 financial data for the sector which reports:

- total assets of \$27.8 billion
- total operating income of \$2.5 billion
- total operating expenses of \$2.5 billion.

The limited resources we have for this responsibility means we usually aim to cover up to two topics at two councils to work on concurrently. Completing these reviews can cross over financial years.

Our most recent reports are:

- Report 11 of 2021 *Examination of management of the Community Wastewater Management Systems Program*
- Report 5 of 2022 *Management of kerbside waste services.*

10.1 The new designated authority to independently advise on council plans

Unlike public sector entities, all councils are statutorily required to develop and adopt strategic management plans for the management of their area. In conjunction with these plans, councils must develop and adopt:¹³

- a long-term financial plan for a period of at least 10 years
- an infrastructure and asset management plan about the management and development of infrastructure and major assets by the council for a period of at least 10 years.

Financial projections in a long-term financial plan adopted by a council must be consistent with those in the adopted infrastructure and asset management plan.

These plans are now subject to a regular cycle of independent scrutiny and comment.

On 30 April 2022, amendments to the *Local Government Act 1999* came into operation. They included establishing the Essential Services Commission of South Australia (ESCOSA) as a designated authority to provide advice to each of the State's 68 local councils under a schedule on a four-yearly rotational basis.

¹³ *Local Government Act 1999*, Chapter 8 – Administrative and financial accountability, Part 1 – Strategic management plans, s122 – Strategic management plans.

In line with an ESCOSA determination Councils must, once in every prescribed period (which must be not less than three years), provide information relating to their long-term financial plan and infrastructure and asset management plan to ESCOSA.

ESCOSA's advice will relate to aspects of a council's long-term financial plan and infrastructure and asset management plan.

ESCOSA cannot require councils to follow the advice it gives them. The scheme does require both ESCOSA and councils to publish the advice. If a council wishes to respond to the advice, it must publish that response in its annual business plan.

Appendix – Abbreviations used in this Report

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

AASB	Australian Accounting Standards Board
AGFMA	Across Government Facilities Management Arrangements
ANCOLD	Australian National Committee on Large Dams
AUASB	Auditing and Assurance Standards Board
CALHN	Central Adelaide Local Health Network Incorporated
COP26	2021 United Nations Climate Change Conference
DCSS	Distributed Computing Support Services
DIT	Department for Infrastructure and Transport
DPC	Department of the Premier and Cabinet
DTF	Department of Treasury and Finance
ESCOSA	Essential Services Commission of South Australia
FRC	Financial Reporting Council
FTE	Full-time equivalent
HSP	Hosting Services Panel
ICAC	Independent Commissioner Against Corruption
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Standards Board
ISSB	International Sustainability Standards Board
ITGC	Information technology general controls
LHN	Local health network
MOAA	Memorandum of administrative arrangement
MPS	Managed Platform Services
OCPSE	Office of the Commissioner for Public Sector Employment
OROA	Outsourced Rail Operations Agreement
ORSR	Office for Recreation, Sport and Racing
PC047	Premier and Cabinet Circular PC047 <i>Disclosure of Cabinet documents to investigate agencies</i>
PFAA	<i>Public Finance and Audit Act 1987</i>
PSSA	Procurement Services SA
RBA	Reserve Bank of Australia
ROM	Rough order of magnitude
RTWSA	Return to Work Corporation of South Australia
SAHT	South Australian Housing Trust
SAPOL	South Australia Police
SSSA	Shared Services SA
SA Water	South Australian Water Corporation
TCFD	Task Force on Climate-related Financial Disclosures
WPI	Whole person impairment

